D-Link

People, Places and Enterprise,
We are the connection

ANNUAL REPORT 2018

D-Link®

Letter to Shareholders

Respected shareholders,

In a global trade environment of trade wars, the year 2018 has witnessed D-Link coping with increased uncertainties, cautious and conservative investment and consumer demand as well as the downward trend of overall global economic growth. Additionally, D-Link faced fierce competition in the Netcom equipment industry, which not only involved existing Netcom equipment vendors, but also online service providers who joined the competition. In recent years, mobile-device-enabled life style and Internet of Things have changed the existing habits of consumers who use electronic products. In such a difficult competitive environment, D-Link was still able to maintain a certain percentage of market share. Confronted with the above challenges, the management team of D-Link persisted in upholding the values of "innovation", "action" and "heritage", pro-actively carried out product adjustments, and did their best to create profit for shareholders.

A review of last year's financial performance shows that the global consolidated revenue for the year 2018 was NT$19.38 billion, an increase of 0.3% over the previous year; the gross profit margin was 28.9%, an increase of 2% from the previous year's gross profit margin of 26.9%; the operating profit was NT$250 million, an increase of NT$710 million from the previous year's operating loss of NT$460 million; net profit after tax was NT$110 million, an increase of 300 million in net profit after tax net loss of NT$190 million of the previous year, and the EPS was NT$0.16.

D-Link has been established for more than 30 years. Its development has always been centered around product breakthroughs and innovations, and it has always insisted on its own brand. In terms of design, it has always placed users at the core while taking the lead in the industry and actively integrating into the international industrial ecosystem. The DIR-882 AC2600 MU-MIMO wireless router series launched in 2017 was praised by SmallNetBuilder as the best cost-effective product and was selected as the best 11AC wireless router in 2018 by international media authority CNET. Earlier this year, at the CES 2019 Las Vegas Consumer Electronics Show, the revolutionary product DWR-2010 5G Mobile Communications Broadband Enhanced Router was released. DWR-2010 was also recognized as a CES Innovation Awards Honoree and was presented at the annual CES Unveiled Media Event with participation of more than 1,500 of the world's top media, exhibitors and technology experts. This product provides 2.4GHz and 5GHz wireless dual-band networking capabilities through 802.11ac/n wireless network technology. Its goal is to significantly increase user's Internet speed to 10 times the current LTE standard. It enables users' network connection to transmit data and stream media at Gbps speed and uses multi-Gigabit communication to quickly connect various wired devices. Its D-Link Wi-Fi Mesh technology makes it easy to add other devices to create a wide range of mesh networks. It also supports Zigbee, Z-Wave and Bluetooth Low Energy (BLE), allowing users to easily connect to a variety of IoT and smart home devices. It provides customization options for service providers as well, making it ideal for deployment with various network configurations. It can also assist suppliers with easy remote management. D-Link released the latest switch series and wireless Access Points at MWC2019, providing enterprise users with cloud technology upgrade solutions, network automation, setup and customization functions that can all be used together with Nuclias cloud network solutions. DBS-2000 Series Cloud Switch and the new Nuclias wireless APs DBA-2520P and DBA-2820P are managed through Nuclias Cloud to provide centralized management and reporting, zero-touch deployment, and wireless firmware upgrade function and more.

> **D-Link products have been repeatedly recognized by industry experts for their innovative strength in R&D, design, quality and marketing.**

The year 2019 is still overshadowed by the threat of trade wars. Though the US economy seems to be growing steadily, the economic growth momentum of China and Europe has slowed down. In such an adverse business environment, internally, D-Link will continue to integrate mydlink services and hardware devices to provide consumers with a stable home network environment and a more comfortable and convenient modern living experience. In addition, for corporate users, D-Link will continue to optimize Nuclias cloud technology upgrade solutions to allow managed service providers and business owners to remotely set up and monitor their network infrastructure anytime, anywhere, and help business owners and IT professionals gain immediate insights; externally, resources will be allocated according to product upgrade needs and market differentiation goals and strategy to improve overall product competitiveness and the company's operating performance.

We want to thank all shareholders for their long-term trust and support. The management team and all employees of D-Link will continue to be committed to steady operation and sustainable development, to fulfill our corporate social responsibility and work hard to achieve performance goals. Finally, best wishes to all shareholders. ■

Sincerely,

Lori Hu

Lori Hu

D-Link Chairman

"

DWR-2010 was recognized as a CES Innovation Awards Honoree and was presented at the annual CES Unveiled Media Event with participation of more than 1,500 of the world's top media, exhibitors and technology experts.

— Lori, D-Link Chairman

Our award-winning DWR-2010 5G Router lets users enjoy wireless speeds of up to 3 Gbps anywhere, even where conventional network access is unavailable.

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Financial Highlights

	2018	2017
Net Sales	19,383,203	19,316,079
Gross Profit	5,601,988	5,198,754
Operating Loss	248,971	-457,690
Net Loss before Tax	297,397	-125,228
Net Loss	145,453	-172,082
FX Rate (USD to NTD)	**30.158**	**30.459**
Cash & Cash Equivalents	4,424,864	3,705,869
Total Assets	17,606,823	17,204,362
Long Term Loans	—	—
Shareholder's Equity	9,616,932	9,407,770
Shares Outstanding**	650,680	644,305
FX Rate (USD to NTD)	**30.733**	**29.848**

****NT$ in thousands**

Globalization through Localization

Over 120 local sales offices in 50 countries.
20 regional warehouses in 15 countries.
Over 37 RMA repair centers around the globe.

Unity : a strategy for success executed on a global scale. D-Link is the worldwide leader and an award-winning designer, developer, and 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 in-country 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 solutions, each local business—regardless of its location around the world—effectively penetrates the market. The Company's innovative products provide solutions for home and businesses, each built with standards-based reliability. D-Link has become a trusted international brand that connects people to their lives, to their work, and to each other. ■

120 /

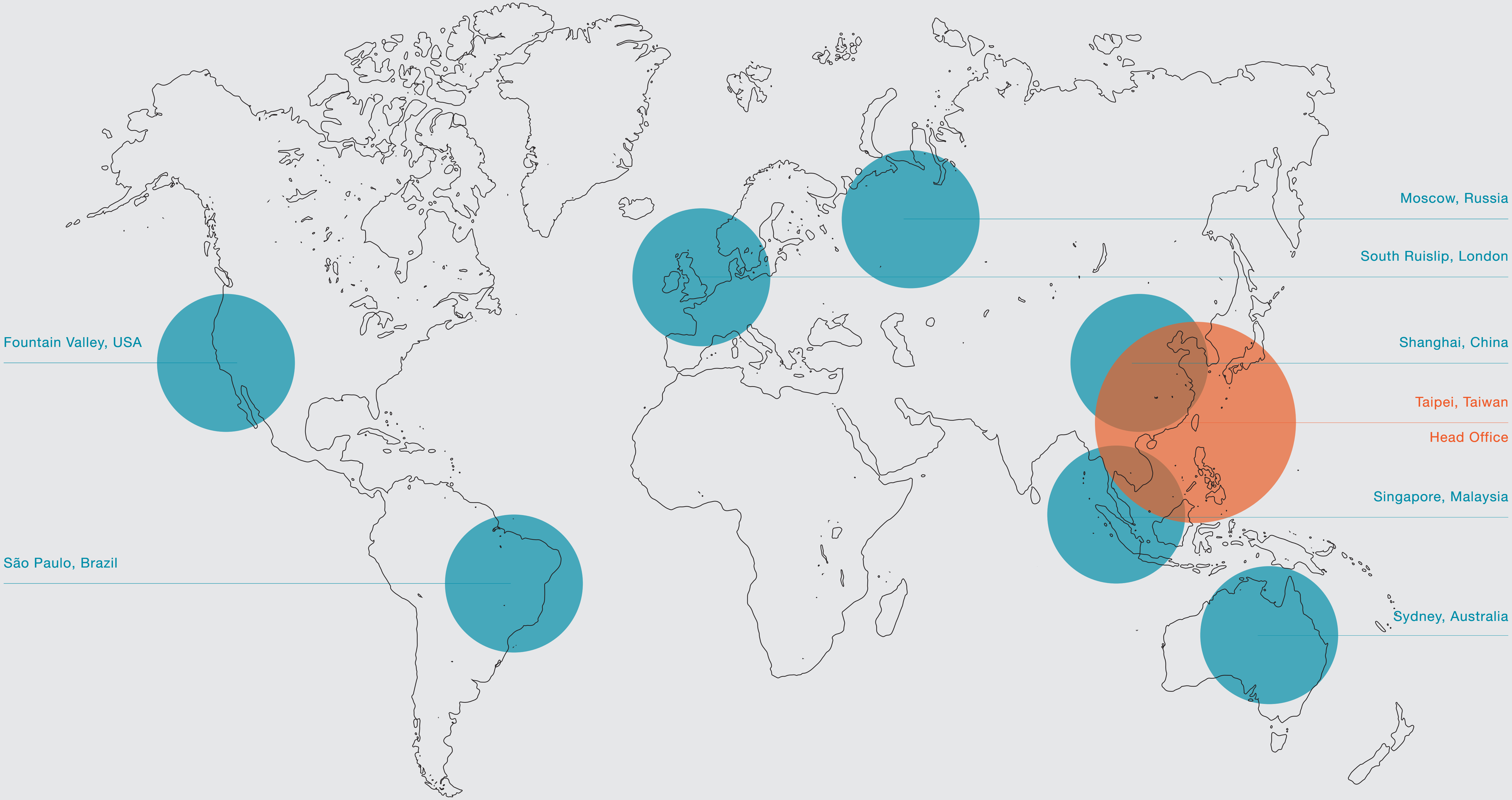
Local Sales Office

20 /

Regional Warehouses

37 /

RMA Repair Centers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South East Asia Region

D-Link DRS remains one of the top networking players in the Southeast Asia region, with strong presence in Singapore, Malaysia, Thailand, Indonesia, Philippines, Vietnam, Brunei, Cambodia, Myanmar and Laos.

The region has been challenging for the business due to diversified needs and expectations from the different markets in each country and the aggression from major and other China networking brands.

However, DRS managed to grow and expand our businesses into each country through strategic partnership with telcos, distributors, resellers and in-depth channel and marketing strategy to ensure our brand awareness and products are in the mind of the end users.

Moving forward, our key focus is to drive the SMB segment deeper into each market to achieve growth in all vertical industries with our partners and increase the brand and product awareness via online strategy. We will also continue to maintain the market share for our consumer segment in the retail, telco and online business segment.

Our winning strategy in this region involves our team's fast reaction and sensitivity to market changes, strong relationship with our partners and customers, local presence in term of sales, pre-sales and technical support to ensure timely support and more in-depth reach to local market demand. The region has also expanded its team as part of the strategy to cover more states and provinces and reach out to our customers with project support, technical training and certification, equipping them with updated market and technical knowledge as well as buying their mindshare on D-Link.

The region has set up a D-Link Academy, offering courses such as D-Link Certified Network Design Associate (DCNA), D-Link Certified Network Professional (DCNP) and D-Link Certified Network Engineer into (DCNE) to our system integrators and partners to create awareness on our total solutions and provide relevant knowledge to enhance their confidence while proposing D-Link solutions in the project tenders. We have also revamped the partner portal site to equip our partners with programs, training, knowledge, information and tools to sell more.

DRS has been engaging with our partners, channels and consumers actively with extensive field marketing efforts such as showroom branding, retail display, co-branding advertisement, event and online stores within the region. We aim to create constant awareness and excitement on our new products and solutions to stand out among the branding competition in the market. Direct technical support from DRS on major projects and key partners is also one of our strength in the market where most of the competitors are not able to provide such service.

Our continuity of effort in creating more awareness for the D-Link brand and, generating demands and leads include engaging partners in training, exhibition, email marketing, sales promotion, online/social media advertisement, retail marketing, incentive programs and production of marketing collaterals.

DRS faces plenty of external and internal challenges that impact the growth of the business such as the high fluctuation of currency exchange rate, macro environment issues (eg regulation changes), product quality issue, project support (eg firmware customization) and long lead time in stocks. The ease of parallel online purchase and shipment of networking products to the region from China is yet another challenge for DRS to handle for the years to come.

Despite the challenges, DRS has won several major projects with a few highlighted below:

1. Interlink Telecom (Thailand)
2. Amazon (Singapore)
3. Singapore Polive Coastal Guard (Singapore)
4. Urban Redevelopment Authority (Singapore)

National Sailing Centre: Total Surveillance Solution

Background

The National Sailing Centre (NSC) is located at the south-eastern tip of Singapore along the East Coast Park and officially opened by the Prime Minister Goh Chok Tong in 1999.

Occupying 2.4 hectares of land, the National Sailing Centre is equipped with a large berthing area for boasts, an administration block, a multi-purpose sports hall, a cafeteria, a dormitory and an auditorium.

With its strategic position that makes full use off the south-west and north-east winds for year-round sailing, the National Sailing Centre has hosted many international and regional events.

Challenge

The management of NSC want a reliable and cost-effective surveillance solution to monitor:

1. Traffic flow and parking at car park
2. Main entrance to NSC
3. Entrance to dormitory

For the surveillance solution to work seamlessly and able to record whatever that has been captured by all the surveillance cameras, NSC also require network cables and switch that can supply both the power and the data to the surveillance cameras.

Technical Challenges

As surveillance monitoring sites were outdoor, the technical team went down for an actual site survey to understand the ideal location of surveillance placement and how all the surveillance cameras could transfer the data smoothly back to the video recorder with no power downtime.

The technical team proposed a total surveillance solution for the requested monitoring sites, together with D-Link's network cables, RJ45 connectors, PoE switch, PoE network video recorders and surveillance cameras. On top of that, the team decided to provide a complimentary initial setup in support of the sport in Singapore. Excellent technical support and reasonable cost were the other factors that won D-Link this project.

D-Link Business Solutions

The products below help to create the total surveillance solution:

1. Full HD Outdoor Vandal-Proof Dome Security Camera – 4 units of DCS-4602EV
2. Full HD Outdoor PoE Mini Bullet Security Camera – 5 units of DCS-4703E
3. 16 –Channel PoE Network Video Recorer – 1 unit of DNR-2020-04P
4. Gigabit PoE Unmanagved Switch – 2 units of DGS-1008P
5. Cat5E UTP Cable and 50 X Cat 5E RJ45 Modular UTP Connectors

DCS-4703E

Vigilance Full HD Outdoor PoE Mini Bullet Camera

India

Government initiatives such as the National Optical Fibre Network, the Digital India Program, Smart City, and broadband penetration in tier II and tier III cities and rural India have all led to rapid growth in the size of the IT market. All these along with the focus on cashless transactions, e-commerce boom, and Internet of Things (IoT) have created tremendous opportunities for the networking segment. We believe that our understanding of high performance networking technology, our strategy, and brand legacy positions us well to capitalize on the industry's growth.

Market Position & Opportunities

India is the world's fastest growing major economy with a projected growth rate of 7.8% in 2019. The outlook for medium term remains positive according to a recent IMF report. The IT industry in which we operate contributes 7.7% to the country's GDP. Today, it is fueling the growth of start-ups and this sector is attracting nearly 37% of the total private equity and venture investments in the country.

According to IDC's latest Asia/Pacific Quarterly Ethernet Switch Tracker, the Q4 2017 Ethernet Switch market in India stood at $118.7 million (By vendor revenue) with a de-growth of 9.5% Y-o-Y due to reduced spending across organizations. D-Link dominated the switching segment with 48% market share (in terms of port shipment) during Q4 2017. The top five verticals in Q4 2017 were professional services, banking, telecom, government and education. Various digital initiatives by the government would trigger additional investments in the coming quarters.

Additionally, the WLAN market in India stood at $42.1 million (by vendor revenue) in Q4 2017 and a Y-o-Y decline of 8.9%. D-Link continues to be the leader in Q4 2017 in the WLAN market with a 39% market share (in terms of unit shipment). For enterprises, government, education and professional services remained the top verticals. Going forward the various smart city initiatives by the government to deploy Wi-Fi solutions will have a positive impact on the WLAN market.

D-Link continues to hold significant market share in consumer wireless & switching segment. Our unmanaged & smart managed switches are one of the most preferred amongst SMBs. Most of the other categories in which we operate has also shown an upward growth. D-Link India continued with its dominance in Structured Cabling segment displaying respectable growth in revenues. Our unified wireless networking solutions enabled small and medium sized businesses to create highly mobile and productive work environments at a low total cost of ownership. Further during the year 2017, we ventured into CCTV surveillance & 2018 saw D-Link achieve significant success in this segment. Our step into the Analog Security CCTV market place was a major stepping stone which has garnered good growth for us, and we are highly optimistic about this product segment in the coming years.

In the consumer space D-Link India continued to lead with innovation. Some of our introductions during the year like COVR whole home Wi-Fi mesh system, home security cameras, our range of AC routers, and IoT products etc. were widely accepted by consumers. Government initiatives like Digital India and Smart city have also opened new avenues. As an enabler of connectivity solution, D-Link is working with partner/ system integrators at various level with both active & passive networking solution on the Smart city project.

D-Link continues to hold significant market share in the consumer wireless and switching segment. Our unmaaged & smart managed switches are one of the most preferred amongst SMBs.

The Digital India campaign has specifically led to a boost in the ICT segment, as government is working towards laying the foundation for a strong IT infrastructure that can efficiently support its vision of a digitized economy. Infrastructure projects led by government such as hotspots in the popular tourist spots, railway stations, expressways and city surveillance has resulted in significant business opportunities in the Wireless & Surveillance domain. We at D-Link are thrilled at the plethora of opportunities being presented and are all set to support the present government's endeavor of Building Digital India.

CY2018 saw D-Link redefine its Enterprise marketing strategy. Key appointments at leadership position, introduction of new products & solutions for SMB/ Large enterprises, the pan India system integrator program and renewed focus on enterprise support were some of the drivers of D-Link Enterprise business. Going forward D-Link is determined to enhance its position as a premium networking brand amongst SMB & Enterprises.

Reaching Out To Our Customers

We ensure that our products and services are accessible throughout the country. We go to the market through multiple channels and our customer base ranges from large corporations to SMBs and SOHOs to individual homes. Our distribution and service network is fully geared, as we have invested much time and energy to ensure that they are equipped with relevant training and a thorough understanding of our products and their capabilities by imparting relevant training to them. D-Link India's existing distribution structure consists of a healthy mix of National distributors, Business distributors & Channel partners. At present D-Link has 4 National Distributors, 80+ Business Distributors, and over 15000+ resellers reaching out to customers present across the length & breadth of the country.

D-Link is committed towards delivering high quality, efficient, reliable networking and connectivity solutions. To attain this goal, D-Link India has invested in state of-the-art support infrastructure for both consumers & enterprises. The reliable service infrastructure encompasses 10 service centres in Tier 1 cities, 50+ partner service centres in Tier 2/ Tier 3 cities and logistic support in 500+ cities. D-Link also has in-house call-centre providing L1, L2 and L3 support.

Accepting Social Responsibility

As a responsible corporate entity, D-Link (India) Ltd., acts to achieve a progressive change in the society. For this reason social welfare and Corporate Social Responsibility (CSR) are an integral part of the company's value system. D-Link India focuses on initiatives for encouraging community involvement and sustainable development. D-Link (India) Ltd., is an active member of Self4Society (a CSR platform recently launched by our Hon. Prime Minster of India) promoting employees from IT sector to volunteer in social endeavours to build a New India. D-Link is among the top three organizations with 7400+ hours of service logged by its employees.

Future Direction

With over two decades of spectacular growth in India D-Link continues to be recognized as a Prominent End-to-End Networking Solution Provider. D-Link India looks forward to an exciting future, continuing to develop world-class networking solutions in years to come. ■

COVR-1203, the mesh solution that blankets your entire home in stable, consistent, and truly seamless Wi-Fi. Wi-Fi that fits everyone's needs.

Deployment of 10G Switching Solution for Government Police Force Premises

Background

The Central Reserve Police Force is India's largest Central Armed Police Force. It functions under the authority of the Ministry of Home Affairs of the Government of India. The CRPF's primary role lies in assisting the State/Union Territories in police operations to maintain law and order and counter insurgency. The Central Reserve Police Force came into existence as Crown Representative's Police on 27th July 1939. It became the Central Reserve Police Force on enactment of the CRPF Act on 28th December 1949. It has completed 79 years of glorious history. The Force has grown into a big organization with 246 Bns, (including 208 executive Bns, 6 Mahila Bns, 15 RAF Bns, 10 CoBRA Bns, 5 Signal Bns and 1 Special Duty Group, 1 Parliament Duty Group), 43 Group Centres, 20 Training Institutions, 3 CWS, 7 AWS, 3 SWS, 4 Composite Hospitals of 100 bed and 17 Composite Hospitals of 50 bed.

Challenge

To re-vamp the complete infrastructure from 10/100 to 1G copper solution with 10G Copper and fiber Uplinks in 240 locations of CRPF premises along with redundant power supply , L3 Routing for interVLAN communication, Loop protection, Security features, Management features, QOS, IPV6 Ready and 6 kV surge protection on all Ethernet access ports are the key requirements in the project.

Solution

D-LINK provided the DGS-3130-30TS switch for this application.L3 Stackable Managed Switches are designed especially for connecting end-users in a secure enterprise or metro Ethernet access network. These switches support multicast and enhanced security, QOS , ERPS, and are IPv6 ready, making making them an ideal Gigabit access layer solution. The switch has six built-in 10G stacking/uplink ports providing high physical stacking bandwidth (up to 9 switches with 80G bandwidth) and flexibility with a variety of port combinations.

The switches are also equipped with a USB 2.0 slot to provide flexible storage for configuration files, boot images, and system logs. Meanwhile, the RJ-45 console interface and management port enable out-of-band Web UI and CLI access. The dedicated management port - separate from the data ports – allows for improved security and continues to function even during periods of network congestion, equipment malfunction, or even attacks on the network.

DGS-3130 Series features built-in high-capacity 6 kV surge protection on all Ethernet access ports and requires no external surge protection devices. Embedded 6 kV surge protection prevents cabling surges and lightning strikes from damaging the device – especially important in regions with unstable power systems infrastructure. This improves network reliability, reduces the downtime of critical services, and saves on potential repair costs.

Result

D-Link's 10G switching solution is feature rich and robust, delivering increased productivity, best in class performance, improved customer infrastructure reliability and redundancy.

DGS-3130-30TS


DGS-3130 Series
Gigabit Layer 3 Stackable
Managed Switches

North America

Although D-Link struggled in the enterprise space, we succeeded in the mobile broadband industry and made big strides in retail as a leader in the Wi-Fi camera segment.

Consumer

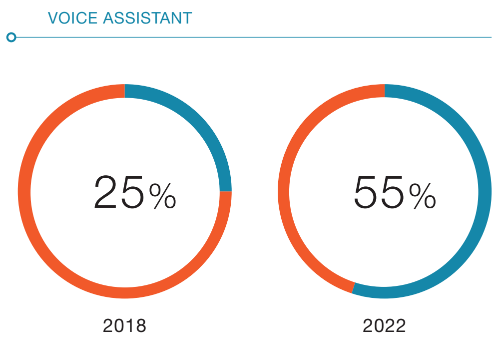
In 2018 DUS retail made big strides in proving itself to be the Wi-Fi camera segment leader. With the spring refresh in both Walmart and Best Buy, on shelf presence was not only maintained, but both retailers assorted up with an additional SKU on shelf. The compelling story of cloud recording and smart skills (Google, Alexa and IFTTT), helped drive the story of D-Link innovation and value. On the wireless networking side, the launch of COVR C1200 series was a major step with D-Link stepping into the lifestyle Mesh arena to showcase and build the COVR series as a Mesh sub brand. Revving up core routers (DIR-842, DIR-867) to 802.11ac Wave 2 helped showcase our commitment to keep abreast of technology changes. Our story was strong and helped us shore our existing relationships with our existing partners and helped bring on new major partners like AAFES (Army Air Force Exchange).

In terms of Etail, D-Link started off the year as an irrelevant player in the market trending lower than many lower tier networking competitors (Trendnet, Tenda). However, D-Link gained significant ground in the router category in the last quarter of 2018. There was a renewed focus on improving product reviews and targeted marketing and promotional campaigns to gain back market share from our competitors. As a result, Etail partner relationships were strengthened, opening up new avenues of opportunities previously unavailable to D-Link.

Top selling products included the AC2600 Wifi Router (DIR-882-US), 8-Port Gigabit Switch (DGS-108), and 8-Port POE Smart Switch (DGS-1100-08P). These products were well reviewed, provided the right value, and met customer demand. Our AC2600 was "Amazon's Choice" for all AC2600 routers. Although results were strong, they were tempered a bit due to competitors quickly adjusting their product strategies introducing new low and high end products to fill their product portfolios.

In 2018 we saw wide adoption of mesh networking in the market. This caused the average sales price to drop significantly and competitors to release many products and product combinations into the market as they attempted to find the right market fit. We expect 2019 to bring even more competition into the mesh market as Amazon has acquired Eero, many new startups continue to pop up, and tier 1 manufacturers release new products. There will be a big focus on AX/WiFi 6 and 5G in the second half of the year. Etail partners are already planning educational content and transition plans for partners with available routers. We see this as a huge opportunity to re-focus on high-ASP/high-margin products during this technology shift. Smart home is no longer in the early adopter phase and becoming a normal fixture in many US households. 25% of households in the US now have a voice assistant and that number is projected to grow to 55% by 2022. Supporting smart home devices will continue to become part of everyday life increasing the need for D-Link's core offerings.

Top selling products included the AC2600 Wi-Fi Router (DIR-882-US), 8-Port Gigabit Switch (DGS-108), and 8-Port PoE Smart Switch (DGS-1100-08P). These products were well-received, provided the right value, and met customer demand.



Business

D-Link struggled in the enterprise/SMB space, because we sometimes miss out on high-end product opportunities when we don't have comparable product offerings versus our competitors. Our low-end product offerings are also often beat by competitors in terms of price. Of the customers who we were engaged with or on the edge with D-Link, their feedback was that we are a solid alternative to the big players (Cisco, HP, Netgear) but not as cost effective as the low cost manufacturers (TP-Link,Ubiquiti).

Surveillance Mode Switching and Stand-alone AP's (for small unit count deployments) were very successful in the Security Channel. Lack of VMS and Camera partnerships limited the reach of our switches, and infrastructure challenges and internal online competition (D-Link being sold on Amazon.com) presented numerous slowdowns in our expected growth within the space. Websmart and L2+ L3 switching continued to be the core of our success in the VAR/Enterprise space. Switch sales benefited from features that differentiate D-Link from the pack and raise general market awareness of our products and past successful projects. DWM-311/LTE products were in high demand from all channels. Continued innovation of features (TR-069, Dual SIM) and additional products with additional carriers were common barriers to additional sales. Proper market positioning in the VAR channel was the key to success, as the main competition (Sierra and Cradlepoint) were typically overpriced compared to D-Link's solutions and opened a very wide door for us to compete directly with them.

In 2018, we focused on solution selling and project-based opportunities. We cast a wide net into multiple potential markets to return limited success/results due to not having the best or correct products or not having ecosystem partnerships to allow complete solution selling. Moving into 2019, we are focused on developing joint manufacturer selling partnerships (Aiphone, Arecont, AtlasISD, Aribtech/Velasea), driving Cloud AP/Switch solutions, and focusing on meaningful target markets (Pro AV, MDU, Managed Service Providers) while expanding relationships with embedded integrators like Avnet and Arrow.

Service Provider

2018 was a successful year for D-Link in the Mobile Broadband industry, and in order to continue our success, 5G will be the key to enhancing our product portfolio. D-Link continued to provide solutions to Verizon, AT&T with a DSL router and Wi-Fi USB adapter. D-Link continued its strategic partnership with US Cellular to launch a next generation LTE broadband router for home and small business installations where cable and DSL solutions were not available. D-Link also launched an outdoor CPE for home and small businesses with challenging network signals.

We succeeded in selling LTE broadband routers, LTE Outdoor CPEs and LTE M2M modems along with switches and accessories to our customers by positioning ourselves with the right products and providing great support to our customers in a timely manner.

Still, we faced challenges with the growth of the fixed wireless market. 5G is here and competition is increasing. In order to continue our success, D-Link needs to focus on delivering good products quickly to market.

How a Wi-Fi Camera from D-Link Provided In-Game Replays for a Professional Hockey Team

Inventive thinking, a full HD 180-degree Wi-Fi camera, and dedicated access points from D-Link created an engaging, on-the-ice viewpoint for fans.

Background

The Greenville Swamp Rabbits play professional ice hockey at the Bon Secours Wellness Arena in downtown Greenville, SC. Previously known as the Road Warriors, the team rebranded as the Swamp Rabbits in 2015 and compete in the South Division of the ECHL's Eastern Conference.

The Vision //
Provide fans with the unique experience of seeing

The ECHL is a professional developmental hockey league with teams located throughout the United States. Although many of the teams are affiliated with NHL clubs, they often lack the funding and equipment that their parent clubs have.

This was the challenge the Swamp Rabbits faced when they wanted to provide a unique experience for their fans—a view from inside the net of each goal scored. They needed an outside-the-box solution that met their needs while fitting their budget.

Swamp Rabbits representative, James Kalinowski, reached out to a SYNNEX associate to explain the situation and discuss possible options. With that information in mind, the associate then turned to Jeff Taylor, D-Link Channel Distribution Account Manager, for solutions that could help the Swamp Rabbits provide their fans with an exhilirating, in-game experience.

The Solution //
Install a Wi-Fi camera with a 180-degree viewing angle inside the goal

Taylor provided Kalinowski and the Bon Secours Wellness Arena with a Full HD 180-Degree Wi-Fi Cameras (DCS-2630L). The camera's wide viewing angle was perfect for providing a one-of-a-kind perspective on all scoring plays.

Since the Wi-Fi camera was not originally designed for hockey rinks, the Swamp Rabbits built a protective box for the camera and mounted it inside the goal. D-Link DAP-3362 access points were installed on the backside of the boards behind the goal to provide a strong wireless connection and a dedicated VLAN to relay the video feed from the camera up to the control room. There, the media team converted the video for playing on the rink's overhead display—much to the fans' enjoyment.

The Result //
More D-Link cameras, please.

The Swamp Rabbits plan to expand the capabilities of this system and add cameras to both goals plus one in the opposing team's penalty box. Ultimately, this will give fans the chance to see the game at the arena in ways they haven't before, further enhancing the in-game experience for everyone.

DAP-3662

DCS-2630L


AC2600 EXO
MU-MIMO Wi-Fi Router
DIR-882
D-Link

Europe

The EU saw moderate economic growth in 2018 with a noticeable slowdown in the latter half of the year. Leading indicators suggest that the EU economy is expected to continue to grow over the next 2 years, albeit at a much slower rate.

The extraordinary impulse from the rebound in global growth and trade enjoyed by the European economy in 2017 has already worn off, as the outlook for global growth is weakening and trade tensions have risen. With the UK's imminent departure from the European Union, the economic outlook for the EU looks unclear.

D-Link Europe aggressively expanded its industrial Ethernet portfolio in 2018, adding a host of unmanaged and managed ruggedised switches with various port configurations, PoE support and specialised certifications. By doing so, D-Link looks to further consolidate its position in the growing sector of Industrial IoT and with Industry 4.0 adoption continuing to be a key objective across Eurozone countries, from manufacturing and agriculture, to infrastructure and smart cities. Further evidence to support this comes from smart city IoT projects which are becoming fundamental for city redevelopments.

2018 also saw the European launch of Nuclias, D-Link's new cloud-based network management solution, designed to enable managed service providers and business owners to rapidly deploy, remotely configure and monitor wired and wireless network across multiple sites. Built on the success of our industry-leading mydlink cloud platform, with close to 6 million subscribers, we are looking to launch an exciting lineup of high-performance access points and managed switches in 2019.

Throughout 2018, D-Link Europe continued to refresh and expand its mydlink range, with the addition of new cameras, sensors and smart power plugs to capitalise on the continuing growth in popularity of voice-controlled smart speakers. By adding enhanced functionality such as cloud based video recording to the cloud automation of the mydlink platform. 2018 also saw the introduction of our first Wire-Free Camera, targeting consumer and business applications. By adding these additional strategic products to its portfolio, D-Link is convinced that they will provide major opportunities for its channel partners to continue to flourish in 2019.

D-Link Europe continued to focus on developing its partner network with the introduction of a new Value In Partnership+ (VIP+) Partner level. This new level has enabled D-Link Europe to directly incentivise and grow small and dormant partner revenue by over 20% over the year. This was achieved by running specific campaigns designed to not only attract new partners but also enhance the capabilities of existing ones. The VIP+ programme continues to be the focus of the company. ■

Pegaso University

Pegaso University is chosen by over 70,000 students annually, because of its diverse and flexible courses which enable anyone to study wherever and whenever they want, in any one of their 70 locations throughout Italy.

Headquartered in Naples, the University had grown very quickly over the last few years, and the original HQ located in the city centre proved too small to cope with the pace of their growth and they had to build a new Head Quarter located in a new 22 floor, 6.600 square feet building.

Pegaso University is the Italian leader in online and part-time university courses, and the network infrastructure for them is critical to their current and future success.

Key to their success has been the ability to connect the students with the optimum interactive tools, for local and remote tuition.

With 70 remote sites across Italy, Pegaso has to ensure that they are connected to HQ via the Internet to share and stream content and documentation from their central repository to the local sites as well as performing remote online examinations.

Pegaso was looking for a reliable partner with the ability to offer a complete networking solution, for both wired and wireless networks, in their new building. The requirement was the capability to integrate and incorporate a large number of home automation devices installed throughout the building to control heating and cooling systems, access control, video surveillance, video content distribution, home automation control for curtains, lights and windows, all over IP.

High availability/redundancy for the network was one of the key factors that the University was looking for. For the project, D-Link Mediterraneo proposed a new network, which comprised entirely of switches and wireless access points centrally managed by a Network Management System.

D-Link Mediterraneo built a redundant high-speed network with four D-Link DXS-3600 series 10GE Managed Switches for the network core and seventy DGS-3420-52P configured in local stacks, on each of the 22 floors of the building. A redundant fiber ring connected the core with the distribution network creating a complete high availability network with impressive bandwidth management.

The 6,600 square meters building was also fully covered by Wi-Fi provided by sixty DWL-6610AP smoke detector form-factor access points, that integrated perfectly with the modern structure of the University and guaranteed fast roaming functionality for their VoIP connectivity. All the APs were centrally managed by two DWC-2000 Wireless Controllers configured for high availability to guarantee, simple Wireless Network updates and central configuration.

The whole system was centrally managed by D-Link's D-View 7, Centralized Network Management System capable to control, configure and manage the devices from one unique console platform.

The network is under constant evolution, and Pegaso University is always looking at ways to improve upon the already high bandwidth capacity with devices with even greater performances. Thanks to this goal and their collaboration with D-Link they have been able to achieve this strategic goal.

Sint Bavo

D-Link and its partner, Cebeo, successfully assisted a high school in the centre of Gent, Belgium, to improve its Wi-Fi network for staff, students and visitors. "Sint-Bavo", is one of the oldest schools in Gent, which educates over 200 boys and girls. Sint-Bavo decided they needed help planning and implementing a complete replacement of their ageing wired and wireless network infrastructure.

As with many educational institutions, the greatest challenge facing Sint Bavo was connecting their existing network to the different peripherals and teaching aids used in a modern classroom environment whilst providing controlled internet connectivity to the 220 boys and girls boarding at the school. The previous network (wired and wireless) was unable to cope with the demands of modern communication applications like Facetime and Netflix.

Sint Bavo selected Cebeo to help improve the network, and after careful consideration they chose D-Link to provide the products they needed for the project. In order to successfully address Sint Bavo's current and future needs, Cebeo upgraded the switching and fibre links between the different buildings on their campus to 10Gb links and installed a new Wi-Fi network utilising D-Link's DWC-2000 Wireless Controller to provide a centrally managed and configured Wi-Fi network. Switching some of the DWL-6610AP access points with the DWL-7610AP (Triband AP) access points, they were able to overcome their previous networks issues with the loading time at the beginning of each lesson due to the heavy simultaneous demand of 25 portable devices wanting to access online resources. The solution directly addressed Sint Bavo's requirement to control and limit student access to the wireless network during specified hours by stopping the Wi-Fi signal from being available after 22.00.

Sint Bavo has been so pleased with the introduction of their wireless network, that they are now looking to expand their D-Link network into the next phase of their school's improvements plans. They are happy that D-Link products give them the reliability that they require, at the price that makes it accessible to them.

nuclias

Nuclias is an end-to-end solution. Whether you have a small chain of coffee shops, a bustling hotel, or even a college campus to cover, Nuclias offers the enterprise-grade hardware, software, and reliability you need to provide a seamless connected experience indoors and outdoors.

Consumer Solution

Since the advent of the mydlink™ service in 2017, D-Link has presented a plethora of surveillance solutions with easy setup, good quality and great prices. D-Link has planned for a resurgence of smart plugs and sensors to once again complete our own eco-system in the later part of 2018.

We have a water sensor with app support in stores at the end of 2018. This water sensor marks the first of many IoT devices to come. Quite a few outdoor/indoor IoT products are being planned to provide users a full spectrum of great experiences. Combining the new generation of surveillance and IoT products, the mydlink service has kept D-Link at the forefront of the networking cloud industry. Through the mydlink Cloud, users can enjoy features such as notifications, monitoring, control, access, and sharing. The mydlink platform enables users to control and monitor their smart home remotely and watch over their loved ones. D-Link's mydlink Smart Home platform, cloud, and products have currently accumulated 5 million users, and D-Link plans to utilize this basis to provide customers with the best application services. Being able to satisfy the diverse needs of every person on an everyday basis, D-Link's mydlink Cloud is truly innovative.

"D-Link's pursuit of customer satisfaction is never-ending. We continue to introduce new technologies into our consumer olutions in order to give our customers the best experiences possible."

As technology progresses, hardware has benefited from integrated solutions whereas previously a task must be handled by a single chip or component. Bluetooth and Wi-Fi had to be handled by different components, but now it is common to see a single chip handling Bluetooth and Wi-Fi, and even a third protocol like Zigbee (albeit lightweight). D-Link has stayed on the forefront of technology by incorporating the latest technology into our products. Artificial intelligence is one of the most exciting technological breakthroughs in the recent years. AI can achieve significant improvement over traditional methods in many applications, such as image/video detection and recognition, pattern recognition, speech recognition and intention indication, etc. These applications generally were impeded by technological limitations. Plagued by low rate of success and high implementation cost, these applications used to suffer from insufficient degrees of accuracy to be practical. However, with AI as a new paradigm in problem-solving, these limitations can be circumvented. Furthermore, the overall decreasing cost of computing power and storage due to more advanced hardware and software has further cultivated the explosive growth of AI in every field. At D-Link, we already have invested a great amount of resources into meeting the market's demands. In-house AI development for the cloud can enhance our mydlink™ service with cloud AI functions. By enabling AI on the cloud, every product (besides some very old legacy products that cannot support these functions due to hardware limitations) supported by mydlink™ service can enjoy these features.

Edge computing is another trend that will bring about new changes in how we make products. AI in the cloud will produce a large amount of data traffic between edge devices and the cloud. This in turn means greater cost for adopting AI in the cloud. The advancements in hardware allow edge/client devices at the end of a service chain to do much more computation. By delegating most of the time-sensitive computing onto the edge devices, only the very mission-critical information needs to be sent to the cloud. This helps with reducing traffic cost and generally gives a more real-time experience. A camera with edge AI capability has been planned for the later part of 2018 and should bear fruit in 2019.

D-Link's pursuit of customer satisfaction is never-ending. We continue to introduce new technologies into our consumer solutions in order to give our customers the best experiences possible. For the past few decades, D-Link has not forgotten to devote itself to new technology innovation. Today's generation of users require enhanced networking lifestyles beyond just internet connectivity. Internet safety, especially, has become a necessity for the whole family with the rise of IoT. Everything from connected thermostats and baby monitors, to gaming systems and smart devices- anything that connects to the Internet is a potential gateway for attack.

**The Future is Here.
Better Wi-Fi is no longer enough.**

D-Link's EXO routers come with built-in McAfee protection so that users can protect their family's online privacy against the growing onslaught of sophisticated cyberthreats, 24/7. EXO routers and extenders help users combat cyberthreats with McAfee protection — a powerful cloud-based machine learning-enabled network defense for their home. They work with the Google Assistant and Amazon Alexa and incorporate breakthrough Wi-Fi Mesh technology- perfect for controlling user's Wi-Fi with voice commands and making the mesh work for users on their terms automatically. Network security backed by McAfee gives us automatic, end-to-end protection for every connected device on the home network. It's the smart way to stay ahead of the bad guys 24/7 with comprehensive network protection whether at home or on the go. With the power of McAfee protection in the palm of our hand, user can now protect home network in real-time. With cloud-based machine learning, device fingerprinting, and a ton of other advanced security features, our family stays connected and protected. Get a ton of advanced features that turbocharge user's whole home network with Wi-Fi Mesh. With Mix and Match functionality, Auto Healing, Auto Channeling, Auto Configuration, Auto Optimization, and a Network Assistant Map, users can finally achieve a truly seamless network at home that scales to their needs. Mesh Wi-Fi works for users who need continuous connectivity around each corner of the house. EXO Smart Mesh Wi-Fi Routers pack a powerful dual-core processer to handle buffer-free video streaming and lightning-fast gaming with ease. And with a range of wireless speeds from AC1300 to AC3000 Mbps, there's an EXO router to fit any home networking need, at any budget.

EXO Smart Mesh Wi-Fi Routers' integrated Internet test lets users measure the true speed of their Router-to-ISP connection with the D-Link Wi-Fi app. Firmware upgrades can be a pain, but with EXO Smart Mesh Wi-Fi Routers, they are completely automated. With EXO's dual image functionality, a recovery image is saved as a backup before an upgrade. EXO routers keep users updated with the best protection and latest features for compatibility with the Google Assistant and Alexa. Moreover, with the D-Link Wi-Fi app's intuitive interface and step-by- step instructions, setting up the EXO is a breeze. D-Link gives consumers a glimpse of a truly connected future powered by our smart connectivity solutions. The EXO range is perfect for smart home owners who demand more than just a Wi-Fi signal. ■

D-Link

D-LINK SMART MESH WI-FI ROUTERS CONNECT YOU TO A BRAVE NEW WORLD IN HOME NETWORKING

UNLEASH YOUR MESH WITH WI-FI MESH

Get a ton of advanced features that turbocharge your whole home network with Wi-Fi Mesh. With Mix and Match functionality, Auto Healing, Auto Channeling, Auto Configuration, Auto Optimization, and a Network Assistant Map, you'll finally achieve a truly seamless network at home that scales to your needs. It's mesh Wi-Fi that works for you. On your Terms. Automatically.

mydlink

Smart Full HD Wi-Fi Camera

DCS-8330LH

Business Solution

Big data/image analysis and video streaming applications continue changing people's lifestyles and pushing network technology forward. D-Link, as a professional business networking provider, focused on building higher performance, mobility and secured solutions to our customers.

For the kernel of enterprises and internet data centers (IDC), D-Link's core switches with Multi-chassis Link Aggregation (MLAG) function provided up to 12.8Tbps low latency switching capacity to the core networking. With powerful core switching, enterprises were able to migrate their services with high-quality videos or images to penetrate users. D-Link also implemented open architecture into our switches which comply with the Open Network Install Environment (ONIE) standard. By choosing the network software they preferred, enterprises improved the OPEX of network management or even migrated to highly flexible Software Defined Network (SDN). For aggregation switches, D-Link also introduced next generation Multi-Gigabit or 10 Gigabit series to mitigate the bottleneck of the access network.

With the huge progress of image analysis technology in recent years, surveillance is now everywhere in human society. D-Link industrial switches provided a robust and reliable backbone that helped customers extend their service coverage to every corner of the world. Some D-Link industrial switches are designed for even more critical environments such as factory, rolling stock, vehicle or oil/gas equipment, helping our customers get the benefits of industry 4.0.

Most SMBs are facing challenges with lack of IT resources, support, time, budget and customers. However, D-Link proved to be successful with its project with Japan's largest telecom. D-Link has launched Nuclias Cloud, which was designed for Managed Service Providers (MSPs) and SMBs. By using Zero-touch deployment, admin do not need to unbox for individual setup for cloud-managed access points. Admin can simply set up and configure thousands of devices in multiple locations within a few minutes. Nuclias Cloud also provides automated email alerts, reports, and a single pane-of-glass dashboard for monitoring.

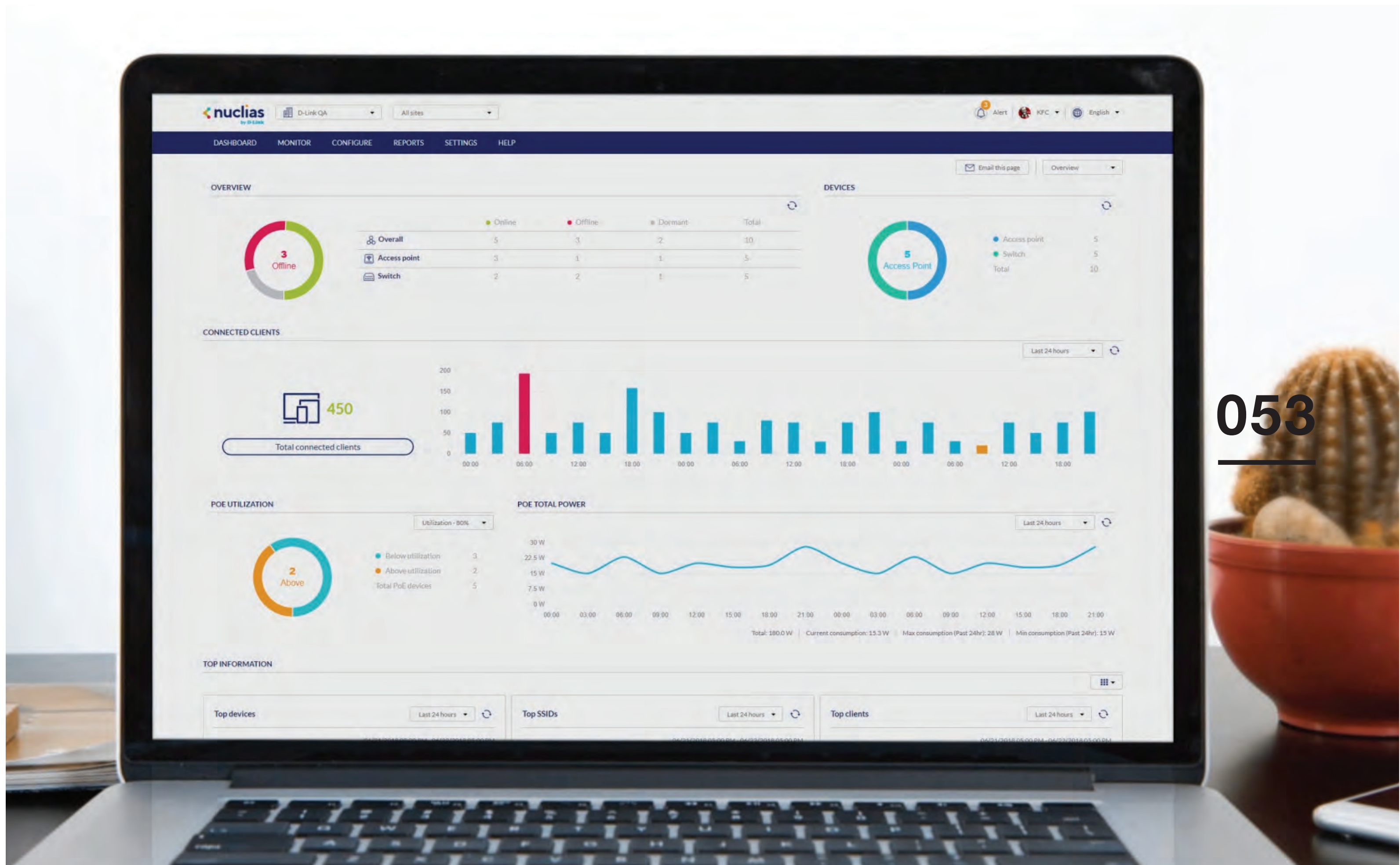
To give business customers faster and more reliable WIFI network, D-Link introduced new 802.11ac wave 2, tri-band, and 4x4 MU MIMO access points. With the cutting-edge smart antenna technology, D-Link Smart Antenna provides an optimal wireless communication transmission experience with a revolutionary adaptive antenna technology that can vastly improve performance and reduce effects of interference. The reception stability of wireless clients is also ensured and optimized.

With more and more cloud applications adopted, enterprises need not only higher bandwidth to the internet but also more secured connections. The D-Link next generation firewalls and security gateways introduce the world's best deep packet inspection technology and a constantly updated IP reputation scanning and scoring service. These allow our customers to proactively block all potential threats from the internet.

D-Link has served business enterprises for decades. We keep investing in new technologies and platforms to give our customers better solutions for their problems and better service to help them develop their business.

We always focus on what customers really need, and we keep adapting to match customer expectation. We believe in the value of helping people solve their problems and building an affordable network. D-Link's value-added products extend across all areas of the business networking infrastructure, designed to meet the ever-evolving needs of businesses worldwide, and designating us as a state of the art, end-to-end solution provider. ■

▼ A complete Cloud-managed solution for Small-to-Medium Businesses (SMBs) designed to make ownership and administration of a network as simple & painless as possible.



Get future-ready data center infrastructures with D-Link 5000 Series Data Center Switches. They form a flexible, long-term solution for managing and expanding data center infrastructures. With high port density, routing, and ultra-low latency, the 5000 Series is perfect for deployment as Top-of-Rack (ToR) or leaf-spine switches in data center applications.

Service Provider

D-Link's mobile solutions were introduced and showcased at Mobile World Congress 2018 in Barcelona. Categorized into 7 different solution applications, these solutions promised to bring seamless connectivity to consumers, smart cities, businesses, and service providers.

Edge as a Service
D-Link's new Edge as a Service solution provide enterprises with their own private LTE network. Sensitive data from Industrial Internet of Things (IIoT) devices are processed locally rather than through the MNO network, allowing for a network that is more secure and has shorter latency. Our low-power base stations bring unlimited scalability and can handle more intense networking demands. Whether indoor or outdoor, the Edge as a Service Solution provides cost-effective coverage and capacity.

Connected Transportation
D-Link's VPN routers, portable Wi-Fi devices, and in-vehicle hotspots provide on-the-go connectivity whenever and wherever you need. By working with in-vehicle network cameras and GPS trackers to monitor and report driver and passenger behavior, D-Link VPN Routers enable smarter, safer journeys.

Smart Parking
As more cities struggle with traffic congestion and parking issues, D-Link delivers customized solutions to improve cities' parking conditions by providing secure and remote connectivity for surveillance. D-Link's new LTE VPN Router works with NVRs and other analytics tools to provide central management, data acquisition, and data dissemination.

Smart Retail
D-Link's Smart Retail solutions enable retail businesses to not only auto detect threats to protect staff, customers, and inventory but also maximize business. Consisting of smart cameras with numerous beneficial features, these solutions help retailers sell better and profit faster. Facial recognition allows retailers to recognize their best customers and provide better service, and hot spot analysis helps retailers determine what store display area and products are most popular. Businesses can also automatically keep track of visitors and guests and make sense of numbers with the business analytics software.

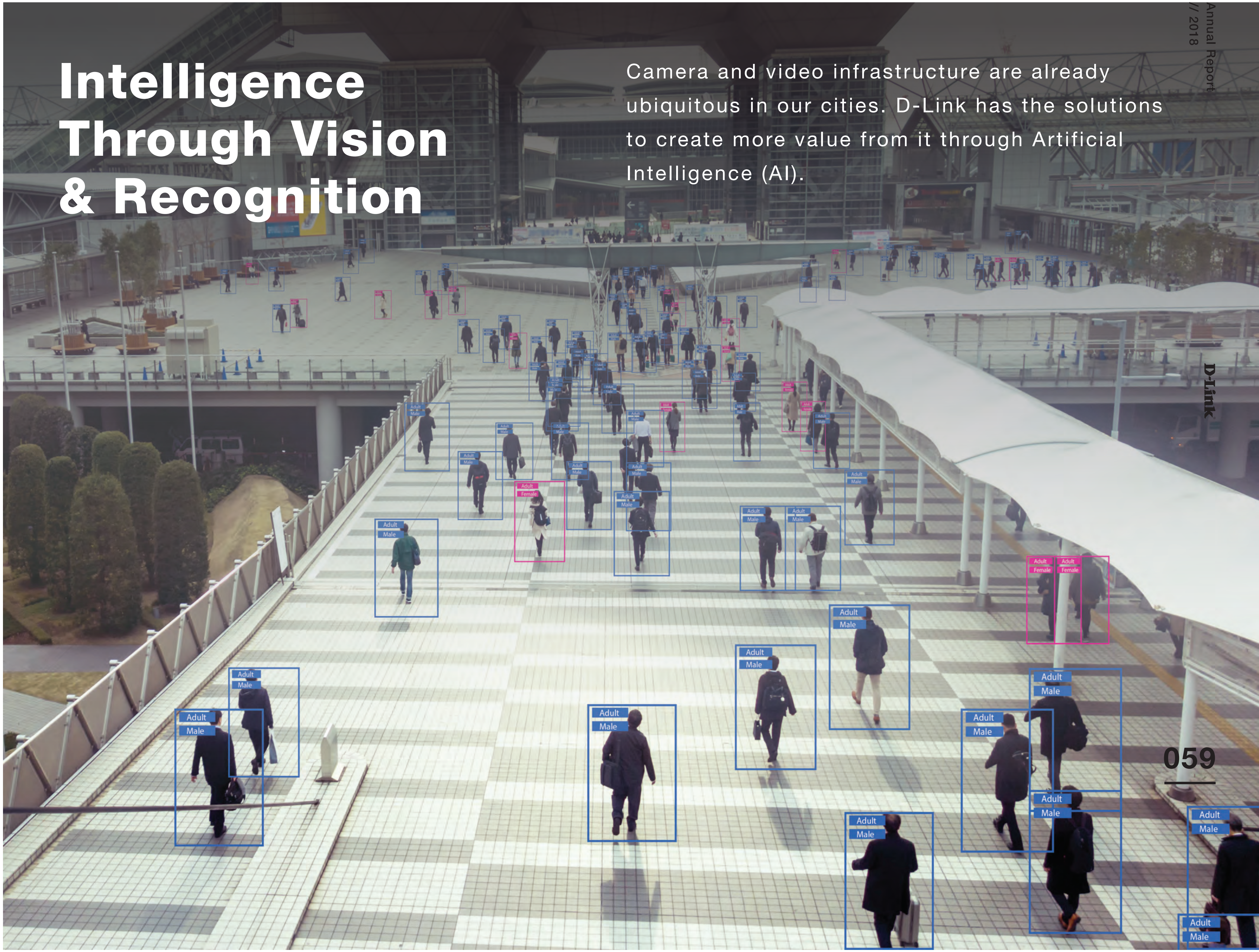
BLE IoT Solution
The BLE IoT Solution incorporates an industry-leading, ultra-secure, next-generation IoT platform that spans edge-device connectivity, seamless mobile hubs, multi-cloud integration, and automated development and deployment. Designed to work with a 3rd party cloud, D-Link's BLE IoT solution consists of a new connected home gateway, water sensor, and smart plug. With the support of a 3rd party security chipset, the devices have a secure connection to the 3rd party cloud. The hub allows users to conveniently manage Bluetooth-enabled smart home devices. 24/7 reliability is provided with 4G/LTE connectivity and a backup battery. A built-in siren provides on-site alerts based on preset conditions, and the smart devices can also be scheduled to turn on and off when certain events are triggered.

Fixed Mobile Convergence (FMC)
With an increasing demand for faster bandwidths, D-Link's robust hybrid IAD combines 4G LTE with fixed line broadband to deliver a faster, more reliable Internet. The solution offers a failsafe Internet connection even when broadband or LTE connections fail.

Connectivity & Surveillance
High-speed network communications and surveillance systems are critical to developing modern smart cities. Everyday life is safer and more convenient with D-Link's customized smart city solutions. D-Link's LTE hotspots and bridges allow communities to easily access information and entertainment, and D-Link's surveillance cameras with smooth video streaming keep an eye on things. ■

Intelligence Through Vision & Recognition

Camera and video infrastructure are already ubiquitous in our cities. D-Link has the solutions to create more value from it through Artificial Intelligence (AI).



Board Members

Lori Hu
D-Link Chairman

John Lee
D-Link Vice Chairman

DIRECTORS	DIRECTORS	INDEPENDENT DIRECTORS
Lori Hu	Gao Ju Investment Co. Ltd.	Fred Fong
John Lee	–	Shyang Fong Chung
Howard Kao	Yun-Wei Investment Co., Ltd.	Freda Chen
Yu Chin Lin	Alpha Networks Inc.	
Steve Lin	–	
Chih Hao Chien	Chien Chin Investment Co. Ltd.	

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Stock code:2332

D-LINK CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017
(With Independent Auditors' Report Thereon)

The independent auditors' report and the accompanying 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 independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

Representation Letter

The entities that are required to be included in the combined financial statements of D-LINK CORPORATION as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as those included in the consolidated financial statements prepared in conformity with International Accounting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, D-LINK CORPORATION and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

D-LINK CORPORATION

By

Gao Ju Investment Co., Ltd. Hu, Xue

Taipei, Taiwan, R.O.C
March 18, 2019

Independent Auditors' Report

To the Board of Directors of D-LINK CORPORATION:

Opinion

We have audited the consolidated financial statements of D-LINK CORPORATION and its subsidiaries ("the Consolidated Company"), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (" IFRSs"), International Accounting Standards (" IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Consolidated Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of another auditor, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Other Matter

We did not audit the financial statements of D-Link International Pte. Ltd., a subsidiary of the Consolidated Company. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for D-Link International Pte. Ltd., is based solely on the report of another auditor. The financial statements of D-Link International Pte. Ltd. reflect the total assets constituting 5% of the consolidated total assets as of December 31, 2018 and 2017, respectively, and the total revenues constituting 8% and 9% of the consolidated total revenues for the years ended December 31, 2018 and 2017, respectively. Furthermore, we did not audit the financial statements of Bothhand Enterprise Inc., an investment accounted for using the equity method. Those statements were audited by another auditor, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Bothhand Enterprise Inc., is based solely on the report of another auditor. The investment amounted to $103,309 thousand, constituting 1% of the consolidated total assets as of December 31, 2017, and the related share of profit of associate accounted for using the equity method amounted to $21,783 thousand, constituting (17)% of the consolidated total loss before tax for the years ended December 31, 2017.

D-LINK CORPORATION has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Valuation of inventories

   Please refer to Note 4(i) for accounting policy of inventory, Note 5(b) for accounting estimations and assumption uncertainty of inventory valuation, and Note 6(e) for the write-down of inventories to net realizable value.

   Key Audit Matter Explanation:

   Most inventories of the Consolidated Company are internet solution products, which are measured at the lower of cost or net realizable value. As a result of competitive and rapidly changing environment where the Consolidated Company is located in, its internet solution products may become out-of-date and can no longer meet the market demand resulting in a fluctuation on the prices of these products. The estimation of the net realizable value involves a subjective judgment of the Consolidated Company's management, which may result in a risk on inventory cost to exceed its net realizable value.

   How the matter was addressed in our audit:

   For valuation of inventories, we observed the physical count of inventories at year end to inspect the condition of inventories; reviewed the inventory aging reports and analyzed the inventory turnovers and changes in its aging inventory for each period to assess the reasonableness of the Consolidated Company's inventory provision rate. For the net realizable value basis adopted by the Consolidated Company's management, we checked the sale prices on the invoices, and analyzed the selling expense rate to evaluate the reasonableness. Furthermore, we reviewed the subsequent sales performance to assess the appropriateness of the Consolidated Company management's estimation on inventory provision. We also assessed the appropriateness of the Consolidated Company's relevant disclosure of inventories.

2. Valuation of allowance for doubtful account

   Please refer to Note 4(h) for accounting policy of allowance for doubtful account, Note 5(a) for accounting estimations and assumption uncertainty of impairment assessment of account receivables, and Note 6(d) for the analysis of account receivables and aging analysis.

   Key Audit Matter Explanation:

   The Consolidated Company evaluates the recoverability of its account receivables based on credit rating and aging analysis and uses the forward looking expected loss model. Therefore, the valuation of allowance for doubtful account involves a subjective judgment of the management, and thus, needs significant attention in our audit.

   How the matter was addressed in our audit:

   We tested the effectiveness of the Consolidated Company's controls surrounding the receivable collection and reviewed their records, then sent letters of confirmation to the counterparties of the Consolidated Company. In order to assess the reasonableness of the Consolidated Company's valuation of allowance for doubtful account, we evaluated the management's assumption used for valuation as well as analyzed and compared the change in credit rating and aging analysis of the Consolidated Company's counterparties. We evaluated the assumption of the expected credit loss accounts receivable made by management and the previous year's collection situation to assess whether there is any significant abnormality in the expected credit losses of the accounts receivable. Furthermore, for overdue account receivables that are material to the account balance, we reviewed the cause and assessed the reasonableness for their overdue in order to evaluate the appropriateness of the valuation of allowance for doubtful account. We also assessed the appropriateness of the Consolidated Company's relevant disclosure of account receivables.

3. Revenue recognition

   Please refer to Note 4(r) for accounting policy of revenue recognition and Note 6(t) for sales details of the consolidated financial statements.

   Key Audit Matter Explanation:

   The Consolidated Company sells internet related products and services, and aims to offer high-quality internet solution proposals to global consumers and enterprises. Revenue is the key performance indicator to evaluate the Consolidated Company's performance, and thus, needs significant attention in our audit.

   How the matter was addressed in our audit:

   We tested the effectiveness of the Consolidated Company' s controls surrounding revenue recognition; reviewed sales contracts and relevant sales documents to evaluate whether the timing and the amount of revenue recognition are consistent with the sales contracts; analyzed and compared the changes in sales to major customers to assess the reasonableness of revenue recognition.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Consolidated Company' s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the Audit Committee) are responsible for overseeing the Consolidated Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chou, Pao-Lian and Hsieh, Cho-Ha.

KPMG

Taipei, Taiwan (Republic of China)
March 18, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying 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 independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 4,424,864	25	3,705,869	22
1110	Financial assets at fair value through profit or loss — current (notes 6(b) and (n))	8,548	-	5,235	-
1135	Derivative financial instruments used for hedging — current (note 6(c))	-	-	1,109	-
1150	Notes receivable, net (note 6(d))	29,541	-	33,546	-
1170	Accounts receivable, net (note 6(d))	4,249,038	24	4,164,910	24
1180	Accounts receivable due from related parties, net (note 7)	217	-	478	-
1200	Other receivables (notes 6(d) and 7)	91,417	-	92,198	1
1220	Current tax assets	33,096	-	39,410	-
130X	Inventories (note 6(e))	3,111,559	18	3,190,391	19
1470	Other current assets (notes 7 and 8)	381,409	2	351,298	2
		12,329,689	69	11,584,444	68
	Non-current assets:				
1517	Financial assets at fair value through other comprehensive income — non-current (note 6(b))	482,011	3	-	-
1523	Available-for-sale financial assets — non-current (note 6(b))	-	-	468,934	3
1543	Financial assets carried at cost — non-current (note 6(b))	-	-	6,712	-
1550	Investments accounted for using equity method (note 6(f))	2,208,160	13	2,409,839	14
1600	Property, plant and equipment (note 6(h))	1,101,557	6	1,212,232	7
1760	Investment property, net (note 6 (i))	40,065	-	40,462	-
1780	Intangible assets (note 6(j))	622,270	4	603,109	4
1840	Deferred tax assets (note 6(q))	533,467	3	590,943	2
1900	Other non-current assets (note 8)	289,604	2	287,687	2
		5,277,134	31	5,619,918	32
	Total assets	$ 17,606,823	100	17,204,362	100

		December 31, 2018		December 31, 2017	
	Liabilities and equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2100	Short-term loans (note 6(k))	$ 950,000	5	1,250,000	7
2120	Financial liabilities at fair value through profit or loss — current (notes 6(b) and (n))	28,929	-	91,974	1
2130	Contract liabilities — current (note 6(t))	138,989	1	-	-
2150	Notes payable	395	-	642	-
2170	Accounts payable	2,212,938	13	1,857,824	11
2180	Accounts payable to related parties (note 7)	1,308,330	7	1,495,734	9
2200	Other payables (note 7)	1,692,891	10	1,827,208	11
2230	Current tax liabilities	78,860	1	54,320	-
2250	Provisions — current (note 6(l))	204,548	1	283,745	2
2300	Other current liabilities (note 6(n))	439,869	3	545,371	3
2365	Refund liability — current (note 6(m))	607,595	3	-	-
		7,663,344	44	7,406,818	44
	Non-current liabilities:				
2570	Deferred tax liabilities (note 6(q))	5,968	-	14,990	-
2600	Other non-current liabilities (note 6(q) and 7)	320,579	2	374,784	2
		326,547	2	389,774	2
	Total liabilities	7,989,891	46	7,796,592	46
	Equity attributable to owners of parent: (note 6(r))				
3110	Ordinary share capital	6,519,961	37	6,519,961	38
3200	Capital surplus	1,669,905	9	1,588,696	9
	Retained earnings:				
3310	Legal reserve	2,107,941	12	2,107,941	12
3350	Unappropriated retained earnings (Accumulated deficit)	216,200	1	(203,814)	(1)
		2,324,141	13	1,904,127	11
3400	Other equity interest	(1,314,520)	(7)	(992,808)	(6)
3500	Treasury stocks	-	-	(17,912)	-
36XX	Non-controlling interests (note 6(g) and (r))	417,445	2	405,706	2
	Total equity	9,616,932	54	9,407,770	54
	Total liabilities and equity	$ 17,606,823	100	17,204,362	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated statements of comprehensive income

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

		2018 Amount	%	2017 Amount	%
4000	**Net operating revenues (notes 6(t) and 7)**	$ 19,383,203	100	19,316,079	100
5000	**Operating costs (notes 6(e), (p) and 7)**	13,781,215	71	14,117,325	73
	Gross profit from operations	5,601,988	29	5,198,754	27
	Operating expenses:(notes 6(d), (i), (o), (p), (r) and (u))				
6100	Selling expenses	3,308,581	17	3,744,474	19
6200	Administrative expenses	1,006,670	5	1,012,262	5
6300	Research and development expenses	1,008,798	5	899,708	5
6450	Expected credit loss	28,968	-	-	-
		5,353,017	27	5,656,444	29
	Operating gain (loss)	248,971	2	(457,690)	(2)
	Non-operating income and expenses:				
7010	Other income (notes 6(o), (v) and 7)	45,965	-	76,221	-
7020	Other gains and losses (note 6(b), (n), (w), (z) and 7)	41,828	-	74,692	-
7050	Finance costs (notes 6(n) and (x))	(24,114)	-	(22,394)	-
7060	Share of profit (loss) of associates accounted for using equity method (note 6(f))	(15,253)	-	203,943	1
		48,426	-	332,462	1
	Profit (loss) before income tax	297,397	2	(125,228)	(1)
7950	**Less: Income tax expense (note 6(q))**	151,944	1	46,854	-
	Net Income (loss)	145,453	1	(172,082)	(1)
8300	**Other comprehensive income:**				
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**				
8311	Gains (losses) on remeasurements of defined benefit plans	(3,751)	-	(217)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	1,042	-	-	-
8320	Share of other comprehensive income of associates accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(68,625)	-	8,607	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		(71,334)	-	8,390	-
8360	**Other components of other comprehensive income that will not be reclassified to profit or loss (note6(y))**				
8361	Exchange differences on translation	(42,179)	(1)	(384,536)	(2)
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	124,127	1
8363	Gains (losses) on effective portion of cash flow hedges	(1,109)	-	1,109	-
8370	Share of other comprehensive income of associates accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	15,745	-	(37,017)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss(note6(q))	(16,892)	-	62,999	-
	Components of other comprehensive income that will be reclassified to profit or loss	(44,435)	(1)	(233,318)	(1)
8300	**Other comprehensive loss, net**	(115,769)	(1)	(224,928)	(1)
	Total comprehensive income (loss)	$ 29,684	-	(397,010)	(2)
	Net income (loss), attributable to:				
	Owners of parent	$ 106,374	1	(193,451)	(1)
	Non-controlling interests	39,079	-	21,369	-
		$ 145,453	1	(172,082)	(1)
	Comprehensive income (loss) attributable to:				
	Owners of parent	$ 13,962	-	(409,170)	(2)
	Non-controlling interests	15,722	-	12,160	-
		$ 29,684	-	(397,010)	(2)
	Basic earnings per share (New Taiwan dollars)(note 6(r))	$	0.16		(0.30)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated statement of changes in equity

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent													
			Retained earnings			Total other equity interest								
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (Accumulated deficits)	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Others	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2017	$ 6,519,961	1,736,948	2,296,499	678,133	(866,691)	(798,803)	-	30,104	-	-	(96,855)	9,499,296	431,294	9,930,590
Loss	-	-	-	-	(193,451)	-	-	-	-	-	-	(193,451)	21,369	(172,082)
Other comprehensive income (loss)	-	-	-	-	8,390	(303,578)	-	122,760	1,109	(44,400)	-	(215,719)	(9,209)	(224,928)
Total comprehensive income (loss)	-	-	-	-	(185,061)	(303,578)	-	122,760	1,109	(44,400)	-	(409,170)	12,160	(397,010)
Appropriation and distribution of retained earnings:														
Special reserve used to offset accumulated deficits	-	-	-	(678,133)	678,133	-	-	-	-	-	-	-	-	-
Legal reserve used to offset accumulated deficits	-	-	(188,558)	-	188,558	-	-	-	-	-	-	-	-	-
Other changes in capital surplus:														
Changes in equity of associates accounted for using equity method	-	712	-	-	(18,753)	-	-	-	-	-	-	(18,041)	-	(18,041)
Cash dividends from capital surplus	-	(192,607)	-	-	-	-	-	-	-	-	-	(192,607)	-	(192,607)
Changes in ownership interests in subsidiaries	-	33,596	-	-	-	-	-	-	-	-	-	33,596	(33,596)	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(4,152)	(4,152)
Treasury shares sold to employees	-	10,047	-	-	-	-	-	-	-	-	78,943	88,990	-	88,990
Balance at December 31, 2017	6,519,961	1,588,696	2,107,941	-	(203,814)	(1,102,381)	-	152,864	1,109	(44,400)	(17,912)	9,002,064	405,706	9,407,770
Effects of retrospective application	-	-	-	-	226,054	-	(73,190)	(152,864)	-	-	-	-	-	-
Equity at beginning of period after adjustments	6,519,961	1,588,696	2,107,941	-	22,240	(1,102,381)	(73,190)	-	1,109	(44,400)	(17,912)	9,002,064	405,706	9,407,770
Profit	-	-	-	-	106,374	-	-	-	-	-	-	106,374	39,079	145,453
Other comprehensive income (loss)	-	-	-	-	(4,601)	(49,230)	(66,734)	-	(1,109)	29,262	-	(92,412)	(23,357)	(115,769)
Total comprehensive income (loss)	-	-	-	-	101,773	(49,230)	(66,734)	-	(1,109)	29,262	-	13,962	15,722	29,684
Other changes in capital surplus:														
Changes in equity of associates accounted for using equity method	-	73,950	-	-	84,340	-	-	-	-	-	-	158,290	-	158,290
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(3,983)	(3,983)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	7,847	-	(7,847)	-	-	-	-	-	-	-
Treasury shares sold to employees	-	7,259	-	-	-	-	-	-	-	-	17,912	25,171	-	25,171
Balance at December 31, 2018	$ 6,519,961	1,669,905	2,107,941	-	216,200	(1,151,611)	(147,771)	-	-	(15,138)	-	9,199,487	417,445	9,616,932

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated statement of cash flows

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit (loss) before tax	$ 297,397	(125,228)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	113,941	137,202
Amortization expense	45,284	45,373
Expected credit loss/provision for bad debt expense	28,968	70,830
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(62,735)	146,185
Interest expense	24,114	22,394
Interest income	(42,323)	(45,581)
Dividend income	(1,713)	(28,190)
Compensation cost of share-based payment transaction	7,247	9,996
Share of loss (profit) of associates accounted for using equity method	15,253	(203,943)
Gain on disposal of investments	(77,934)	(264,607)
Impairment loss on financial assets	-	148
Reversal of impairment loss on non financial assets	(8,000)	-
Other	(15,146)	(202,657)
Total adjustments to reconcile profit (loss)	26,956	(312,850)
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	2,752	19,625
Decrease in notes receivable	4,005	125
Decrease in accounts receivable	279,687	408,064
Decrease (increase) in accounts receivable due from related parties	261	(317)
Decrease in other receivable	781	40,229
Decrease in inventories	135,950	144,641
Decrease (increase) in other current assets	(30,675)	350,538
Decrease in other operating assets	25,572	20,945
Total changes in operating assets	418,333	983,850
Increase in contract liabilities	45,738	-
Decrease in notes payable	(247)	(1,128)
Increase (decrease) in accounts payable	355,114	(176,861)
Decrease in accounts payable to related parties	(187,404)	(334,834)
Decrease in other payable	(86,918)	(110,005)
Decrease in provisions	(19,232)	(27,841)
Increase in refund liabilities	90,970	-
Increase (decrease) in other current liabilities	6,690	(12,292)
Increase (decrease) in other non-current liabilities	(39,517)	36,407
Total changes in operating liabilities	165,194	(626,554)
Total changes in operating assets and liabilities	583,527	357,296
Total adjustments	610,483	44,446
Cash inflow (outflow) generated from operations	907,880	(80,782)
Interest received	42,323	45,581
Dividends received	135,577	172,010
Interest paid	(17,580)	(10,237)
Income taxes paid	(89,528)	(92,898)
Net cash flows from operating activities	978,672	33,674
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	31,640	-
Proceeds from capital reduction of financial assets carried at cost	-	250
Proceeds from disposal of available-for-sale financial assets	-	67,232
Proceeds from disposal of investments accounted for using equity method	173,501	56,174
Acquisition of property, plant and equipment	(63,462)	(95,572)
Proceeds from disposal of property, plant and equipment	34,814	2,985
Increase in refundable deposits	(27,709)	(2,569)
Acquisition of intangible assets	(62,568)	(6,052)
Other investing activities	784	(1,352)
Net cash flows from investing activities	87,000	21,096
Cash flows from (used in) financing activities:		
Decrease in short-term loans	(300,000)	(179,500)
Increase (decrease) in guarantee deposits received	(18,439)	13,744
Cash dividends paid	-	(192,607)
Treasury shares sold to employees	17,924	78,994
Change in non-controlling interests	(3,983)	(4,152)
Net cash flows used in financing activities	(304,498)	(283,521)
Effect of exchange rate changes on cash and cash equivalents	(42,179)	(379,626)
Net increase (decrease) in cash and cash equivalents	718,995	(608,377)
Cash and cash equivalents at beginning of year	3,705,869	4,314,246
Cash and cash equivalents at end of year	$ 4,424,864	3,705,869

See accompanying notes to consolidated financial statements.

(Amounts expressed in thousands of New Taiwan Dollars, unless otherwise noted)

1. Company history

D-Link Corporation ("the Company") was incorporated on June 20, 1987 under the approval of Ministry of Economic Affair, Republic of China ("ROC"). The address of its registered office is No.289, Xinhu 3rd Rd., Neihu Dist., Taipei City 114, Taiwan. The main operating activities of the Company and its subsidiaries (collectively referred as the "Consolidated Company") include the research, development, and sale of local area computer network systems, wireless local area computer networks ("LANs"), and spare parts for integrated circuits.

2. Authorization date and process of Financial statements

The accompanying consolidated financial statements were approved and authorized for release by the Board of Directors on March 18, 2019.

3. New standards and interpretations adopted:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Consolidated Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(Continued)

(i) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Consolidated Company applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Consolidated Company recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Consolidated Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The Consolidated Company uses the practical expedient for all contract modifications that occur before January I, 2018, which means, it reflects the aggregate effect on all modifications that occur before January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

For certain contracts that permit a customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Consolidated Company is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

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2) Impact on financial statements

The following impacts of adopting IFRS15 on the Consolidated Company's consolidated financial statements:

A. Prior to the adoption of International Financial Reporting Standard No. 15, estimated sales returns and discounts will be recognized as sales return and allowances (classified as provisions) or net receivable deductions, after the adoption of International Financial Reporting Standard No. 15, it is recognized as refund liabilities. As of January 1, 2018 the Consolidated Company has reclassified provisions, net receivable deductions and other payables to refund liabilities amounting to of $66,501 thousand, $396,191 thousand and $53,933 thousand, totaling to $516,625 thousand.

B. Prior to the adoption of International Financial Reporting Standard No. 15, advanced payments are classified as other current liabilities, after the adoption of International Financial Reporting Standard No. 15, it is recognized as contract liabilities. As of January 1, 2018, the Consolidated Company has reclassified other current liabilities to contract liabilities amounting to $93,251 thousand.

The adoption of the standard has an impact on the cash flow adjustment of the business activities of the Consolidated Company, but does not affect the net cash flow of the overall business activities.

(ii) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 " Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Consolidated Company adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Consolidated Company's approach was to include the impairment of trade receivables in operating expenses. Additionally, the Consolidated Company adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS

(Continued)

9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Consolidated Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(h).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ' incurred loss' model in IAS 39 with the ' expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(h).

3) Hedge accounting

The Consolidated Company has elected to adopt the new general hedge accounting model in IFRS 9, which requires the Consolidated Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Consolidated Company uses forward foreign exchange contracts to hedge the variability in its cash flows arising from the changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. The Consolidated Company designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

Under IAS 39, the change in fair value of the forward element of the forward exchange contracts (' forward points') was recognized immediately in profit or loss. However, under IFRS 9, the forward points are separately accounted for as a cost of hedging; they are recognized in OCI and accumulated in a cost of hedging reserve as a separate component within equity.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as reclassification adjustment in the same period as the hedged expected cash flows affected the profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the inventory item when it is recognized. The same approaches also apply under IFRS 9 to the amounts accumulated in the costs of hedging reserve.

(Continued)

For an explanation of how the Consolidated Company applies hedge accounting under IFRS 9, please see note 4(h).

4) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

·The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

—The determination of the business model within which a financial asset is held.

— The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

—The designation of certain investments in equity instruments not held for trading as at FVOCI.

·If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Consolidated Company assumed that the credit risk on its asset will not increase significantly since its initial recognition.

·Changes to hedge accounting policies have been applied prospectively except for the cost of hedging approach for forward points, which has been applied retrospectively to hedging relationships that existed on or after January 1 2017.

· All hedging relationships designated under IAS 39 on December 31 2017 met the criteria for hedge accounting under IFRS 9 on January 1, 2018, and are therefore, regarded as continuing hedging relationships.

5) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Consolidated Company's financial assets as of January 1, 2018.

	IAS39			IFRS9	
	Measurement categories		**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Financial Assets					
Cash and equivalents	Loans and receivables (note1)	$	3,705,869	Amortized cost	3,705,869
Noted and accounts receivables (including related parties and other receivable)	Loans and receivables (note1)		4,291,132	Amortized cost	4,291,132

(Continued)

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Derivative instruments	Held-for-trading	5,235	Mandatorily at FVTPL	5,235
	Fair value – hedging instrument	1,109	Fair value – hedging instrument	1,109
Equity instruments	Available-for-sale (note 2)	468,934	FVOCI	468,934
	Financial assets carried at cost (note 2)	6,712	FVOCI	6,712
Guarantee deposits paid	Loans and receivables (note 1)	69,262	Amortized cost	69,262

Note1: Cash and equivalents, noted and accounts receivables (include related parties and other receivables) and guarantee deposits paid that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

Note2: These equity securities (including available-for-sale financial assets measured at cost) represent investments that the Consolidated Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Consolidated Company has designated these investments at the date of initial application as measured at FVOCI.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	$ 5,235	-	-	5,235	-	-
Fair value through other comprehensive income						
Beginning balance of available for sale to FVOCI	$ 475,646	-	-	475,646	226,054	(226,054)
Fair value-hedging instrument						
Beginning balance of hedging instrument (IAS 39)	$ 1,109	-	-		-	-
Amortized cost						
Beginning balance of cash and cash equivalents, trade and other receivables, and guarantee deposits paid)	8,066,263	-	-		-	-

The Consolidated Company resulting in a decrease of $226,054 thousand in the other equity interest as well as the increase of $226,054 thousand in retained earnings on January 1, 2018.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Consolidated Company present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(ac).

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Consolidated Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16"Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Consolidated Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or

- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Consolidated Company plans to apply the practical expedient to exempt the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Consolidated Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Consolidated Company plans to initially apply IFRS 16 using the modified retrospective approach and no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Consolidated Company chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Consolidated Company is not required to make any adjustments for leases where the Consolidated Company is the intermediate lessor in a sub-lease.

3) So far, the most significant impact identified is that the Consolidated Company will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Consolidated Company estimated that the right-of-use assets and the lease liabilities to increase by \$649,951 thousand and \$659,221 thousand respectively, as well as the other current assets and other payables to decrease by \$5,052 thousand and \$14,322 thousand on January 1, 2019. Besides, The Consolidated Company does not expect the adoption of IFRS 16 to have any impact on

(Continued)

its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Consolidated Company is not required to make any adjustments for leases where the Consolidated Company is the intermediate lessor in a sub-lease.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

Those which may be relevant to the Consolidated Company are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 31, 2018	Amendments to IAS 1 and IAS 8 “Definition of Material”	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The Consolidated Company is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Consolidated Company completes its evaluation.

4. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with the " Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereinafter referred to as "the Regulations") and IFRSs endorsed by the FSC.

(b) Basis of Preparation

(1) Basis of Measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on the historical cost basis:

(i) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;

(ii) Fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value;

(iii) Equity-settled share-based payment are measured at fair value;

(iv) The defined benefit liability is recognized as the present value of the defined benefit obligation, less the net value of pension plan assets;

(2) Functional and presentation currency

The functional currency of the Consolidated Company is determined based on the primary economic environment in which its entities operate. The consolidated financial statements are presented in New Taiwan Dollar, which is the Consolidated Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(1) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprised of the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances, income and expenses should be eliminated in full in preparing the consolidated financial statements.

Changes in the Consolidated Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(2) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2018	Shareholding December 31, 2017	Note
The Company	D-Link Holding Company Ltd. (D-Link Holding)	Investment company	100.00 %	100.00 %	
The Company	D-Link Canada Inc. (D-Link Canada)	Marketing and after-sales service	100.00 %	100.00 %	

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2018	Shareholding December 31, 2017	Note
The Company	D-Link Japan K.K. (D-Link Japan)	Marketing and after-sales service	100.00 %	100.00 %	
The Company	D-Link Investment Pte. Ltd. (D-Link Investment)	Investment company	100.00 %	100.00 %	
The Company and D-Link Holding	D-Link Sudamerica S.A. (D-Link Sudamerica)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Holding	D-Link Brazil LTDA (D-Link Brazil)	Marketing and after-sales service	100.00 %	100.00 %	
The Company	D-Link Latin America Company Ltd. (D-Link L.A.)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Sudamerica	D-Link Mexicana S.A de C.V (D-Link Mexicana)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Holding	D-Link Systems, Inc. (D-Link Systems)	Marketing and after-sales service	100.00 %	97.76 %	Non-controlling interest decrease in July 2017
The Company and D-Link Holding	D-Link International Pte. Ltd. (D-Link International)	Marketing, purchase and after sales service	100.00 %	100.00 %	
The Company and D-Link International	D-Link Australia Pty Ltd. (D-Link Australia)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link International	D-Link Middle East FZCO (D-Link ME)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link International	D-Link Korea Limited (D-Link Korea)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link International	D-Link Trade M (D-Link Moldova)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link International	D-Link Russia Investment Co., Ltd (D-Link Russia Investment)	Investment Company	100.00 %	100.00 %	
D-Link International	D-Link Malaysia SDN. BHD (D-Link Malaysia)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link International	D-Link Service Lithuania, UAB (D-Link Lithuania)	Marketing and after-sales service	100.00 %	- %	Incorporated in December 2017
The Company	Yeo-Chia Investment Ltd. (YEOCHIA)	Investment company	100.00 %	100.00 %	
The Company	Yeo-Mao Investment Inc. (YEOMAO)	Investment company	100.00 %	100.00 %	
The Company	Yeo-Tai Investment Inc. (YEOTAI)	Investment company	100.00 %	100.00 %	
D-Link Holding	D-Link (Europe) Ltd. (D-Link Europe)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Holding	D-Link Shiang-Hai (Cayman) Inc. (D-Link Shiang-Hai (Cayman))	Investment company	100.00 %	100.00 %	
D-Link Holding	D-Link Holding Mauritius Inc. (D-Link Mauritius)	Investment company	100.00 %	100.00 %	
D-Link Holding	OOO D-Link Russia (D-Link Russia)	After-sales service	100.00 %	100.00 %	
D-Link Holding	D-Link Hong Kong Ltd. (D-Link Hong Kong)	Holding company	100.00 %	100.00 %	
D-Link Investment	OOO D-Link Trade (D-Link Trade)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Holding	Success Stone Overseas Corp. (Success Stone)	Investment company	100.00 %	100.00 %	

(Continued)

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2018	Shareholding December 31, 2017	Note
D-Link Holding	Wishfi Pte. Ltd. (Wishfi)	Research and development, marketing and after-sales service	100.00 %	100.00 %	
D-Link Mauritius	D-Link India Ltd. (D-Link India)	Marketing and after-sales service	51.02 %	51.02 %	
D-Link Mauritius and D-Link India	TeamF1 Networks Private Limited (TeamF1 India)	Research and development	100.00 %	100.00 %	
D-Link Europe	D-Link (Holdings) Ltd. and its subsidiary D-Link (UK) Ltd. (D-Link UK)	Investment company and marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link France SARL (D-Link France)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link AB	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Iberia SL (D-Link Iberia)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Mediterraneo SRL (D-Link Mediterraneo)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link (Netherlands) BV (D-Link Netherlands)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Europe	D-Link (Deutschland) GmbH (D-Link Deutschland)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Polska Sp. Z.o.o. (D-Link Polska)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link (Magyarorszag) kft (D-Link Magyarorszag)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link s.r.o	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Adria d.o.o	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Shiang-Hai (Cayman)	D-Link (Shiang-hai) Co., Ltd (DCN)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Shiang-Hai (Cayman)	Netpro Trading (Shiang-hai) Co., Ltd (DWZ)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Sudamerica and D-Link L.A.	D-Link del Ecuador S.A.	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Sudamerica and D-Link L.A.	D-Link Peru S.A.	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Sudamerica	D-Link de Colombia S.A.S	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Sudamerica	D-Link Guatemala S.A.	Marketing and after-sales service	99.00 %	99.00 %	
D-Link Sudamerica	D-Link Argentina S.A.	Marketing and after-sales service	100.00 %	100.00 %	

(3) List of subsidiaries which are not included in the consolidated financial statement: None.

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(d) Business combination

The Consolidated Company measures the goodwill by evaluating the fair value of the consideration at the acquisition date by deducting the assumed identifiable assets and liabilities. Acquisition-related costs should be recognized as expenses in the periods in which the costs are incurred except those costs that issue debt or equity securities.

(e) Foreign currency

(1) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Consolidated Company entities at exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction. Foreign currency differences are recognized in profit or loss, except for fair value through other comprehensive income (available-for-sale financial asset) which are recognized in other comprehensive income.

(2) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Consolidated Company' s functional currency at exchange rates at the reporting date. Income and expenses of foreign operations are translated to the Consolidated Company' s functional currency at average exchange rate for the period. Foreign currency differences are recognized in other comprehensive income.

(f) Classification of current and non-current assets and liabilities

An entity shall classify an asset as current when:

(1) It is expected to be realized or intends to sell or consume it in its normal operating cycle;

(2) It holds the asset primarily for the purpose of trading;

(3) It is expected to be realized within twelve months after the reporting date; or

(4) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

(1) It expects to settle the liability in its normal operating cycle;

(2) It holds the liability primarily for the purpose of trading;

(3) The liability is due to be settled within twelve months after the reporting date; or

(4) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in it is settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and all highly liquid investments subject to insignificant risk of changes in value.

A time deposit is qualified as a cash equivalent when it is held for the purpose of short-term cash commitments rather than for investment or other purposes.

(h) Financial Instruments

(1) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Consolidated Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

(i) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL：

· it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

· its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(ii) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL：

· it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(Continued)

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Consolidated Company may irrevocably elect to present subsequent changes in the investment' s fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Consolidated Company' s right to receive payment is established, which in the case of quoted securities is normally the ex dividend date.

(iii) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and beneficiary certification. On initial recognition, the Consolidated Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

(iv) Business model assessment

The Consolidated Company makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes：

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management' s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Consolidated Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Consolidated Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

(v) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial assets on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Consolidated Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Consolidated Company considers：

- contingent events that would change the amount or timing of cash flows；
- terms that may adjust the contractual coupon rate, including variable rate features；
- prepayment and extension features；and
- terms that limit the Consolidated Company' s claim to cash flows from specified assets (e.g. non-recourse features).

(vi) Impairment of financial assets

The Consolidated Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

The Consolidated Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring during the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Consolidated Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Consolidated Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Consolidated Company's historical experience and informed credit assessment as well as forward-looking information.

The Consolidated Company assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Consolidated Company considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Consolidated Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Consolidated Company in accordance with the contract and the cash flows that the Consolidated Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Consolidated Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;

(Continued)

- a breach of contract such as a default or being more than 365 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Consolidated Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Consolidated Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Consolidated Company's procedures for recovery of amounts due.

(vii) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Consolidated Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety, the Consolidated Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

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(2) Financial assets (policy applicable before January 1, 2018)

The Consolidated Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, accounts receivables, available-for-sale financial assets and financial assets at cost value.

(i) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the short term.

This type of financial asset is measured at fair value at the time of initial recognition, and the attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in non-operating income and expense, and are included in other profit and loss. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

(ii) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses and dividend income are recognized in other comprehensive income and accumulated under unrealized gains (losses) on available-for-sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to non-operating income and expense, and is included in other profit and loss. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Consolidated Company receive dividend payment, which is normally the ex-dividend date and such dividend income is recognized as other income.

(iii) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise notes receivables, account receivables and other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables.

(iv) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Consolidated Company on terms that the Consolidated Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

Receivables are assessed by internal credit rating system whether the objective evidence of impairment exists individually for financial assets. If the Consolidated Company determines that the objective evidence of impairment exists for an individually assessed financial asset, then that will be individually assessed for impairment. If the Consolidated Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it should include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The initial recognition of impairment losses on available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries are recognized as non-operating income and expenses in other gains and losses.

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(v) Derecognition of financial assets

The Consolidated Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Consolidated Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity -unrealized gains or losses from available-for-sale financial assets is recognized in non-operating income and expense, and included in other gains and losses.

(3) Financial liabilities

(i) Exchangeable bonds

Exchangeable bonds issued by the Company are recorded as embedded derivative and host contract, respectively. The derivatives are classified into financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss.

(ii) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. A financial liability is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term.

At the initial recognition, financial liabilities are measured at fair value through profit or loss and transaction costs are recognized as profit or loss as incurred. Subsequent to initial recognition, financial liabilities are measured at fair value, and changes therein are recognized as non-operating income and expenses in other gains and losses.

(iii) Other financial liabilities

Financial liabilities that are not classified as held-for-trading or measured at fair value through profit or loss, which comprise loans and account payable, and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in non-operating income and expense, and is included in other gains and losses.

(iv) Derecognition of financial liabilities

The Consolidated Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in non-operating income and expense, and is included in other gains and losses.

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(4) Derivative financial instruments and hedge accounting

The Consolidated Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

The Consolidated Company assigned parts of hedge instruments(derivate financial instruments) to hedge its cash flow.

At initial designated hedging relationships, the Consolidated Company documents the risk management objectives and strategy for undertaking the hedge. The Consolidated Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged items and hedging instrument are expected to offset each other.

The Consolidated Company shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

Cash flow hedges

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in "other equity – effective portion of cash flow hedge gain (loss)". Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and recognized in non-operating income and expense, and are included in other gains and losses.

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting caption with the hedged item recognized in the consolidated statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a non financial asset or liability, the amount accumulated in "other equity —gains (losses) on hedging instruments" and retained in other comprehensive income is reclassified as the initial cost of the non financial asset or liability. In addition, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in future periods, it shall immediately reclassify the amount in profit or loss.

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When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedge reserve (and costs of hedging) remains in equity until the hedged future cash flows are no longer expected to occur. Otherwise, that amount would be adjusted within the carrying amount of the non-financial item. For other cash flow hedges, the amount is reclassified to profit or loss in the same period or in the periods as the hedged expected future cash flows affect the profit or loss. However, if the hedged future cash flows are no longer expected to occur, the amount shall immediately be reclassified from cash flow reserve (and the cost of hedging reserve) to profit or loss.

(5) Offsetting of financial assets and liabilities

The Consolidated Company presents financial assets and liabilities on a net basis when the Consolidated Company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(i) Inventories

The cost of inventories shall comprise all costs of purchase and other costs incurred in bring the inventories to their present location and condition. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis. Cost is determined using the weighted-average method. Net realizable value is based on the estimated selling price of inventories; less, all further costs to completion and all relevant marketing and selling costs. Related expenses/losses and incomes of inventory are included in the cost of sales.

(j) Investment in associates

Associates are those entities in which the Consolidated Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Consolidated Company holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Consolidated Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Consolidated Company from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Consolidated Company and an associate are eliminated to the extent of the Consolidated Company's interest in the associate.

If an associate issues new shares and the Consolidated Company does not acquire new shares in proportion to its original ownership percentage but still have significant effect, the change in the equity shall be used to adjust the capital surplus or retained earnings, and investments are accounted for using equity method. If it resulted in a decrease in the ownership interest, except for the adjustments mentioned above, the related amount previously recognized in other comprehensive income in relation to the associate will be reclassified proportionately on the same basis as if the Consolidated Company had directly disposed of the related assets or liabilities.

(k) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently the depreciation expense of investment property is determined based on the depreciable amount, where the depreciation methods useful lives and its residual value are in consistent with the standards in property, plant and equipment.

(l) Property, plant and equipment

(1) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Properties in the course of construction are carried at cost, less, any recognized impairment loss. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment by the method used by the accounts of the same category when completed and ready for intended use.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless, the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(2) Reclassification to investment property

The property is reclassified to investment property at its carrying amount when there is a change in use.

(3) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Consolidated Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(4) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and is estimated using the straight-line method over its useful life and is assessed based on the components that are significant. If the useful life of a component differs from that of others, the depreciable amount should be disclosed individually. The depreciable amount is recognized in profit and loss.

Land has an unlimited useful life, and therefore, is not depreciated.

(Continued)

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

(i) Buildings and improvements: 5~60 years

(ii) Transportation, office equipment and others: 2~9 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(m) Leases

(1) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term.

(2) Lessee

Leases are classified as operating leases if it doesn't transfer substantially all the risks and rewards incidental to ownership. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the lease term.

(n) Intangible assets

(1) Goodwill

(i) Recognition

Goodwill arises from acquisition of subsidiaries is included in intangible assets.

(ii) Subsequent measurement

Goodwill is carried at cost less accumulated impairment losses. As regards to the investments accounted for using equity method, the carrying value of goodwill consists of the carrying value of its investment. The impairment loss is attributed to parts of investments accounted for using equity method other than goodwill or other assets.

(2) Other intangible asset

Other intangible assets are carried at cost, less, accumulated amortization and accumulated impairment losses.

(3) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(4) Amortization

The amortized amount is the cost of an asset, less, its residual value.

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Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

(i) Computer software: 1~8 years

(ii) Patents: Amortization is recognized using the term of patent contract. The estimated lives are 11~16 years

(iii) Other intangible asset: 3 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(o) Impairment – non-derivative financial assets

The Consolidated Company assesses the goodwill and intangible assets with infinite useful lives at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of each asset or cash-generating unit shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with infinite useful lives are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(p) Provisions

A provision is recognized if, as a result of a past event, the Consolidated Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(1) Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(2) Pending legal proceedings

Pending legal proceedings are estimated at the expected legal cost based on historical experiences.

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(q) Treasury stocks

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under Capital Reserve – Treasury Share Transactions; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, Capital Reserve – Share Premiums and Share Capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; Losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

(r) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Consolidated Company expects to be entitled in exchange for transferring goods or services to a customer. The Consolidated Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer.

The main operating activities of the Consolidated Company is research, development, and sales of LANs and spare part for integrated circuits. The Consolidated Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer' s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Consolidated Company has objective evidence that all criteria for acceptance have been satisfied.

The Consolidated Company grants its customers the right to return the product. Therefore, the Consolidated Company reduces revenue by the amount of expected returns and recognizes a refund liability. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. At each reporting date, the Consolidated Company reassesses the estimated amount of expected returns.

The Consolidated Company often offers volume discounts to its customers. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The Consolidated Company offers a standard warranty for the consumer electronics sold to provide assurance that the product complies with agreed-upon specifications and has recognized warranty provisions for this obligation; please refer to note 4(p).

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A receivable is recognized when the goods are delivered as this is the point in time that the Consolidated Company has a right to an amount of consideration that is unconditional.

A contract liability is a Consolidated Company's obligation to transfer goods to a customer for which the Consolidated Company has received consideration.

(s) Revenue (policy applicable before January 1, 2017)

(1) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value with consideration of net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement or be transferred to the customers which occurs principally at the time when the goods are delivered.

(2) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(t) Employee benefits

(1) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by the employees. YEOCHIA, YEOMAO, YEOTAI, D-Link Holding and other holding companies do not have employees on the payroll, and therefore, do not have a pension plan. D-Link Europe and other subsidiaries adopt pension plans in accordance with the local authorities that recognized pension expenses based on the contributions in that year. D-Link Shanghai contribute retirement annuity funds based on the statutory rate on employees payroll and the pension expenses are recognized in profit or loss for the year.

(2) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date (market yields of high-quality corporate bonds) on bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

(Continued)

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income and transferred to the retained earnings.

(3) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Consolidated Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(u) Share-based payment

The fair value of share-based payment awards granted to employees on the grant-date is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

If the modification of the equity instruments granted the reduced total fair value of the share-based payment arrangements, the Consolidated Company shall be accounted for the services received as if that modification had not occurred.

(v) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses recognized directly in other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

(Continued)

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred taxes shall not be recognized for the following exceptions:

(1) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transactions.

(2) Temporary differences arising from investments in subsidiaries and it' s probable that the temporary differences will not reverse in the foreseeable future.

(3) Initial recognition goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

(1) The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(2) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

   (i) the same taxable entity; or

   (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset should be recognized for the carry forward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period and shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

(w) Earnings per share

The Consolidated Company discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible notes, employee stock options, and employee bonus settled using shares that have yet to be approved by the Board of Directors meeting. 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.

(Continued)

(x) Operating segments

An operating segment is a component of the Consolidated Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Consolidated Company). The operating results of all operating segments are regularly reviewed by the Consolidated Company' s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment has its financial information.

5. Significant accounting judgments, estimations, assumptions, and sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Impairment of Account receivable

(1) The loss allowance of trade receivable (applicable from January 1, 2018)

The Consolidated Company has estimated the loss allowance of trade receivable that is based on the risk of a default occurring and the rate of expected credit loss. The Consolidated Company has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs. Refer to Note 6(d) for further description of the impairment of account receivable.

(2) The loss allowance of trade receivable (applicable before January 1, 2018)

When there is objective evidence of impairment loss, the Consolidated Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured based on analysis of clients' default record, current position and account receivable aging. If actual future cash inflow is less than expected, significant impairment loss may occur. Refer to Note 6(d) for further description of the impairment of account receivable.

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Consolidated Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

(Continued)

6. Explanation of significant accounts

(a) Cash and Cash Equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 4,399	5,141
Checking and saving accounts	2,346,161	2,130,502
Cash equivalents	2,074,304	1,570,226
	$ 4,424,864	3,705,869

Please refer to 6(z) for the interest risks in financial assets and liabilities and their sensitivity analysis.

A time deposit is qualified as a cash equivalent when it has a maturity of three months or less from the date of acquisition and it is held for the purpose of short-term cash commitments. Otherwise, they are classified as other financial assets.

(b) Financial Assets and Liabilities

(1) Details as follows

Financial assets and liabilities at fair value through profit or loss:

	December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss - current		
Cross currency swaps	$ 6,189	-
Forward foreign exchange contracts	2,359	-
Financial assets at fair value through profit or loss – current		
Cross currency swaps	-	2,433
Forward foreign exchange contracts	-	2,188
Exchangeable corporate bonds	-	614
	$ 8,548	5,235
Financial liabilities at fair value through profit or loss – current		
Cross currency swaps	$ 3,617	8,550
Forward foreign exchange contracts	5,996	9,026
Exchangeable corporate bonds	19,316	74,398
	$ 28,929	91,974

(Continued)

	December 31, 2018	December 31, 2017
Financial assets at fair value through other comprehensive income – non-current		
Cameo Communication, Inc. (CAMEO)	$ 389,101	-
IC Plus Corp. (ICPC)	16,046	-
Z-Com, Inc. (Z-Com)	33,632	-
YouXiang Electronic Technology (Beijing) Co., Ltd. (YouXiang)	4,160	-
Kaimei Electronic Corp. (Kaimei)	38,786	-
Venture Power Group Limited (Venture Power)	286	-
	$ 482,011	-
Available-for-sale financial assets – non-current		
Cameo Communication, Inc. (CAMEO)	$ -	368,622
IC Plus Corp. (ICPC)	-	46,283
Z-Com, Inc. (Z-Com)	-	54,029
	$ -	468,934
Financial assets carried at cost – non-current		
YouXiang Electronic Technology (Beijing) Co., Ltd. (YouXiang)	$ -	6,395
Venture Power Group Limited (Venture Power)	-	317
	$ -	6,712

(i) The Consolidated Company holds Available-for-sale financial assets. Because of continuing decrease in price from the invested companies, the Consolidated Company recognized an impairment loss amounting to $148 thousand in 2017.

(ii) For disclosures on credit, currency and interest rate risks in financial instruments please refer to note 6(z).

(iii) As of December 31, 2018 and 2017, no financial assets are pledged as collateral.

(2) Sensitivity analysis – equity market price risk:

If the security price changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

	2018		2017	
Security price at reporting date	**After-tax other comprehensive income (loss)**	**After-tax profit (loss)**	**After-tax other comprehensive income (loss)**	**After-tax profit (loss)**
Increase 3%	$ 14,460	-	14,068	-
Decrease 3%	$ (14,460)	-	(14,068)	-

(3) Non-hedging derivative financial instruments

Derivative financial instruments are used to hedge certain foreign exchange and interest risk in which the Consolidated Company is exposed to arising from its operating, financing and investing activities. As of December 31, 2018 and 2017, transactions that do not qualify for hedging accounting are presented as held-for-treading financial assets were as follows:

(i) Derivative financial assets

	December 31, 2018			December 31, 2017		
	Contract amount (thousand)	Currency	Maturity date	Contract amount (thousand)	Currency	Maturity date
Cross currency swaps:						
GBP	$ -		-	500	GBP	2018.02
RUB	-		-	254,224	RUB	2018.01
JPY	1,000,000	JPY	2019.12	-	-	-
Forward foreign exchange contracts:						
AUD (sell)	2,000	AUD	2019.01	500	AUD	2018.03
CAD (sell)	2,500	CAD	2019.02	500	CAD	2018.03
EUR (sell)	2,000	EUR	2019.02	-	-	-
BRL (sell)	-	-	-	14,722	BRL	2018.01
JPY (sell)	-	-	-	80,000	JPY	2018.01
GBP (sell)	-	-	-	2,000	GBP	2018.06

(ii) Derivative financial liabilities

	December 31, 2018			December 31, 2017		
	Contract amount (thousand)	Currency	Maturity date	Contract amount (thousand)	Currency	Maturity date
Cross currency swaps:						
USD	$ 2,000	USD	2019.03	3,000	USD	2018.06
CNH	100,681	CNH	2019.01~ 2019.02	80,729	CNH	2018.01
JPY	-	-		800,000	JPY	2018.12
GBP	-	-	-	1,350	GBP	2018.01~ 2018.02
AUD	-	-	-	700	AUD	2018.01
CAD	-	-	-	1,000	CAD	2018.01

	December 31, 2018			December 31, 2017		
	Contract amount (thousand)	Currency	Maturity date	Contract amount (thousand)	Currency	Maturity date
Forward foreign exchange contracts:						
EUR (sell)	4,500	EUR	2019.01~ 2019.02	11,000	EUR	2018.01~ 2018.02
BRL (sell)	13,711	BRL	2019.01	9,975	BRL	2018.01
USD (buy)	4,000	USD	2019.01~ 2019.02	3,431	USD	2018.01
AUD (sell)	800	AUD	2019.03	1,000	AUD	2018.01
GBP (sell)	-	-	2018.01 ~2018.02	1,800	GBP	2018.01~ 2018.02
KRW (sell)	2,249,400	KRW	2019.01~ 2019.02	2,155,000	KRW	2018.01~ 2018.02
JPY (sell)	570,000	JPY	2019.01~ 2019.04	50,000	JPY	2018.03
CAD (sell)	800	CAD	2019.01	1,000	CAD	2018.01

(c)Derivative financial instruments used for hedging

	December 31, 2018	December 31, 2017
Cash flow hedge:		
Derivative financial assets used for hedging:		
Forward exchange contracts	$ -	1,109

The Consolidated Company's strategy is to use forward exchange contracts to hedge its estimated foreign currency exposure in respect of forecasted sales and purchases. When the actual sales and purchase occurs, the amount accumulated in gain (loss) on the effective portion of cash flow hedge under other equity interest will be reclassified to profit or loss in the same period. The unexpired forward exchange contracts held by the Consolidated Company were as follows:

	December 31, 2018		
	Contract amount (in thousands)	Currency	Maturity period
Forward exchange purchased	$ -	-	-

	December 31, 2017		
	Contract amount (in thousands)	Currency	Maturity period
Forward exchange purchased	$ 241,750	GBP to USD	2018.1.26~2018.5.30

For cash flow hedge, the reconciliation of each component of equity, plaease refer to note 6(y).

(d) Notes and accounts receivable and other receivables

		December 31, 2018	December 31, 2017
Notes receivable for operating activities	$	29,541	33,546
Accounts receivable		4,500,167	4,780,656
Other receivables		91,417	92,198
		4,621,125	4,906,400
Less: allowance for doubtful accounts		(251,129)	(219,555)
allowance for returns and discounts		-	(396,191)
	$	4,369,996	4,290,654

The Consolidated Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all notes and accounts receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of December 31, 2018 was determined as follows:

		Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$	3,369,330	0.97%	32,568
90 days or less past due		970,121	0.67%	6,519
91 to 180 days past due		46,667	51.92%	24,230
181 to 270 days past due		27,604	82.81%	22,860
271 to 360 days past due		60,571	58.11%	35,196
More than 360 days past due		146,832	88.37%	129,756
	$	4,621,125		251,129

As of December 31, 2017, the Consolidated Company applies the incurred loss model to consider the loss allowance provision of notes and trade receivable, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

		December 31, 2017
Overdue 30 days	$	449,331
Overdue 31 to 120 days		55,079
	$	504,410

The movement in the allowance for notes and accounts receivable and other receivables were as follows:

		2017	
	2018	Individually assessed impairment	Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	$ 219,555	-	195,931
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	219,555		
Impairment losses recognized	28,968	-	70,830
Amounts written off	(802)	-	(32,879)
Others	3,408	-	(14,327)
Balance on December 31, 2018 and 2017	$ 251,129	-	219,555

(e) Inventories

	December 31, 2018	December 31, 2017
Finished goods	$ 3,111,559	3,190,391

The operating cost comprises of cost of goods sold, write-down (reversal gain) of inventories to net realizable value, warranty costs and other loss (gain). For the year ended December 31, 2018 and 2017, the cost of goods delivered were $13,324,047 thousand and $13,737,442 thousand, respectively. Write-down of inventories to net realizable value is recorded as cost of goods sold and decreased by $47,505 thousand and $100,314 thousand in 2018 and 2017, respectively. In 2018 and 2017, the warranty expenses, inventory losses from obsolescence and others amounted to $504,673 thousand and $480,197 thousand, respectively.

As of December 31, 2018 and 2017, no inventories were pledged as collateral.

(f) Investments accounted for the using equity methods

Investments accounted for the using equity methods were as follows:

	December 31, 2018	December 31, 2017
Associates	$ 2,208,160	2,409,839

(Continued)

(1) Associates

Name of Associate	Name of relationship with the Consolidated Company	Principal place of business/ Registered Country	Ownership interest/ Voting rights held December 31, 2018	Ownership interest/ Voting rights held December 31, 2017
Alpha	The major business are research, developments, design, manufacturing and selling broadband products, wireless products, computer networks system equipment and its components.	Taiwan	21.47 %	26.48 %

(i) The financial information of Alpha was summarized as follows:

	December 31, 2018	December 31, 2017
Current assets	$ 12,517,041	11,166,240
Non-current assets	2,433,592	2,558,385
Current liabilities	4,194,712	4,638,014
Non-current liabilities	362,170	391,651
Net assets	$ 10,393,751	8,694,960
Net assets attributable to investee's shareholders	$ 10,393,751	8,694,960

	2018	2017
Operating revenue	$ 15,608,222	19,057,109
Net income (loss)	$ (88,009)	547,190
Other comprehensive income (loss)	(76,053)	51,010
Total comprehensive income (loss)	$ (164,062)	598,200
Total comprehensive income (loss) attributable to investee's shareholders	$ (164,062)	598,200

(Continued)

		2018	2017
The Consolidated Company's share in associate's net assets at beginning of year	$	2,301,212	3,000,368
Comprehensive income attributable to the Consolidated Company		(100,955)	141,736
Changes in equity of associates using equity method		164,440	(18,565)
Dividends received during the year		(116,718)	(122,336)
Less: exchange of exchangeable bond		(17,553)	(699,991)
The Consolidated Company's share in associate's net assets at end of year		2,230,426	2,301,212
Less: unrealized gains or losses		(138,846)	(149,741)
Add: goodwill		116,580	116,580
Carrying amounts of investments accounted for using equity method	$	**2,208,160**	**2,268,051**

		December 31, 2018	December 31, 2017
Carrying amounts of interests of immaterial associates	$	-	**141,788**

		2018	2017
Attributable to the Consolidated Company			
Profit (loss) from continuing operations	$	(1,191)	18,312
Other comprehensive income (loss), net of tax		1,239	(2,706)
Total comprehensive income	$	**48**	**15,606**

(ii) The market value of publicly listed or OTC investees of the Consolidated Company accounted for under using the equity method were as follows:

		December 31, 2018	December 31, 2017
Alpha	$	1,931,683	2,799,606
Bothhand		-	227,746
	$	**1,931,683**	**3,027,352**

(2) Pledges

As of December 31, 2018 and 2017, no investment accounted for using equity methods is pledged as collateral.

(3) Bothhand Enterprise Inc.(Bothhand) — the Consolidated Company' s investee company accounted for using equity method, has announced its intention to become a 100% subsidiary of Kaimei Electronic Corp., Ltd(Kaimei) via share conversion in June, 2018. The reference date of the share exchange was November 29, 2018. The share conversion case was passed by the shareholders' meeting in August, 2018. After the conversion, the Consolidated Company lost its significant influence on Kaimei and transferred the investment company from investment accounted for using the equity to the financial assets at fair value through other comprehensive income, and recognized disposal profit amounting to $2,797 thousand.

(4) The Consolidated Company has disposed its affiliated companies accounted for using equity method — Bothhand and Vxis Technology Corp. , the disposition price is amounted to $157,352 thousand and $16,149 thousand, respectively, and has separately recognized disposal profit of $99,278 thousand and loss of $9,174 thousand, respectively.The Consolidated Company was dissenting shareholder of Bothhand and requested Bothhand to buy back shares, based on Business Mergers and Acquisition Act . The purchase price was applied to the court for a ruling. The Consolidated Company had deposited the shares and can not withdraw according to Business Mergers and Acquisitions Act. Accordingly, the Consolidated Company complied with derecongition rule and recognized disposal profit amounting to $99,278 thousand. The affiliated company accounted for using equity method — Bothhand was disposed in 2017, disposal price was $56,174 and investment disposal profit was recognized as $34,711 thousand.

(g) Subsidiaries have material non-controlling interests

Non-controlling interests of subsidiary that are material to the Consolidated Company were as follows:

Name of subsidiary	Principal place of business/ Registered country	Ownership interests held by NCI December 31, 2018	December 31, 2017
D-Link India	India	48.98 %	48.98 %

The following summarizes the financial information for D-Link India prepared in accordance with the IFRS (modified for the fair value adjustments on acquisition) and the differences in the Consolidated Company's accounting policies. The information incurred prior to the inter-company eliminations with other companies in the Consolidated Company.

The financial information of D-Link India was summarized as follows:

		December 31, 2018	December 31, 2017
Current assets	$	1,293,612	1,364,394
Non-current assets		589,714	584,213
Current liabilities		667,986	763,726
Non-current liabilities		2,850	6,741
Net assets	$	1,212,490	1,178,140
Net assets attributable to non-controlling interests	$	417,445	405,706

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the consolidated financial statements

		2018	2017
Operating revenues	$	3,070,681	2,849,526
Net income	$	79,785	49,347
Other comprehensive income		-	-
Total comprehensive income	$	79,785	49,347
Net income attributable to the non-controlling interests	$	39,079	24,170
Total comprehensive income attributable to the non-controlling interests	$	15,722	14,961
Cash used in generated by operating activities	$	(18,760)	(76,469)
Cash flows (used in) generated by investing activities		(17)	(984)
Cash flows (used in) by financing activities		49,428	466
Net increase (decrease) in cash and cash equivalents	$	30,651	(76,987)
Cash dividends paid to non-controlling	$	3,983	4,000

(h) Property, plant and equipment

	2018						
	Balance as of January 1, 2018	Increase	Decrease	Transfer	Reclassification	Others	Balance as of December 31, 2018
Cost:							
Land	$ 575,828	-	(27,477)	-	688	(2,529)	546,510
Buildings	953,999	1,597	(16,963)	-	383	(27,189)	911,827
Others	1,429,033	60,552	(143,335)	-	2,538	(4,732)	1,344,056
Equipment to be inspected and construction in process	2,470	1,313	-	-	(3,609)	(174)	-
	2,961,330	63,462	(187,775)	-	-	(34,624)	2,802,393
Accumulated depreciation:							
Buildings	495,889	21,773	(8,336)	-	-	(2,225)	507,101
Others	1,245,209	91,771	(139,200)	-	-	(4,045)	1,193,735
	1,741,098	113,544	(147,536)	-	-	(6,270)	1,700,836
Accumulated impairment:							
Buildings	8,000	-	(8,000)	-	-	-	-
	$ 1,212,232	(50,082)	(32,239)	-	-	(28,354)	1,101,557

	2017						
	Balance as of January 1, 2017	Increase	Decrease	Transfer	Reclassification	Others	Balance as of December 31, 2017
Cost:							
Land	$ 576,301	-	-	-	-	(473)	575,828
Buildings	944,886	2,508	-	-	22,329	(15,724)	953,999
Others	1,499,224	90,024	(157,396)	-	611	(3,430)	1,429,033
Equipment to be inspected and construction in process	23,752	3,040	-	-	(22,940)	(1,382)	2,470
	3,044,163	95,572	(157,396)	-	-	(21,009)	2,961,330
Accumulated depreciation:							
Buildings	475,892	23,878	-	-	-	(3,881)	495,889
Others	1,288,565	112,928	(151,047)	(86)	-	(5,151)	1,245,209
	1,764,457	136,806	(151,047)	(86)	-	(9,032)	1,741,098
Accumulated impairment:							
Buildings	8,000	-	-	-	-	-	8,000
	$ 1,271,706	(41,234)	(6,349)	86	-	(11,977)	1,212,232

As of December 31, 2018 and 2017, no property, plant and equipment were pledged as collateral.

(i) Investment property

	2018				
	Balance as of January 1, 2018	Increase	Decrease	Transfer	Balance as of December 31, 2018
Cost:					
Land	$ 30,000	-	-	-	30,000
Buildings	22,196	-	-	-	22,196
	52,196	-	-	-	52,196
Accumulated Depreciation:					
Buildings	10,734	397	-	-	11,131
Accumulated impairment:					
Buildings	1,000	-	-	-	1,000
	$ 40,462	(397)	-	-	40,065

	2017				
	Balance as of January 1, 2017	Iucrease	Decrease	Transfer	Balance as of December 31, 2017
Cost:					
Land	$ 30,000	-	-	-	30,000
Buildings	22,196	-	-	-	22,196
	52,196	-	-	-	52,196
Accumulated Depreciation:					
Buildings	10,338	396	-	-	10,734
Accumulated impairment:					
Buildings	1,000	-	-	-	1,000
	$ 40,858	(396)	-	-	40,462

	December 31, 2018	December 31, 2017
Book value	$ 40,065	40,462
Fair value	$ 51,555	42,573

Investment properties are commercial properties that are leased to third parties. The lease contract includes an initial non-cancellable period of 3 years. Subsequent renewals are negotiated with the lessee and no contingent rents are charged. For further information (including the rental income and direct operating expenses), please refers to note 6(v). Besides, direct operating expense related to investment property was $310 thousand and $315 thousand in 2018 and 2017, respectively.

The fair value of investment property as of December 31, 2018 and 2017, was based on the comparable deal information with similar location and category or appraisal report, respectively.

As of December 31, 2018 and 2017, no investment property was pledged as collateral.

(j) Intangible assets

	2018						
	Balance as of January 1, 2018	Increase	Decrease	Transfer	Amortization	Others	Balance as of December 31, 2018
Goodwill	$ 313,698	-	-	-	-	(1,922)	311,776
Trademark	142,999	-	-	-	-	4,240	147,239
Patents	25,794	-	-	-	(2,691)	-	23,103
Computer software cost	104,273	18,065	-	(2,821)	(30,894)	-	88,623
Other intangible assets	16,345	44,503	-	2,821	(11,699)	(441)	51,529
	$ 603,109	62,568	-	-	(45,284)	1,877	622,270

(Continued)

	2017						
	Balance as of January 1, 2017	Increase	Decrease	Transfer	Amortization	Others	Balance as of December 31, 2017
Goodwill	$ 332,010	-	-	-	-	(18,312)	313,698
Trademark	154,804	-	-	-	-	(11,805)	142,999
Patents	28,485	-	-	-	(2,691)	-	25,794
Computer software cost	137,683	1,704	-	-	(35,114)	-	104,273
Other intangible assets	19,028	4,348	-	(86)	(7,568)	623	16,345
	$ 672,010	6,052	-	(86)	(45,373)	(29,494)	603,109

(k) Long-term and short-term loans

The details requirements and terms of the long-term and short-term loans of the Consolidated Company were as follows:

(1) Short-term Loans

	Currency	Interest rate	Maturity year	December 31, 2018	December 31, 2017
Unsecured bank loans	TWD	0.93~1.19	2018~2019	$ 950,000	1,250,000
Unused credit facilities				$ 3,477,986	2,587,866

(2) Long-term Loans

As of December 31, 2018 and 2017, the Consolidated Company did not have long-term loans. The unused credit facilities was $500,000 thousand and $1,197,720 thousand, respectively.

(l) Provisions - current

	2018						
	Balance as of January 1, 2018	Reclassification	Increase	Used	Reversed	Effect of exchange	Balance as of December 31, 2018
Warranties	$ 159,040	-	18,296	(19,232)	(11,490)	(1,995)	144,619
Sales return and allowances	66,501	(66,501)	-	-	-	-	-
Legal proceedings	58,204	-	-	-	-	1,725	59,929
	$ 283,745	(66,501)	18,296	(19,232)	(11,490)	(270)	204,548

	2017					
	Balance as of January 1, 2017	Increase	Used	Reversed	Effect of exchange	Balance as of December 31, 2017
Warranties	$ 161,146	25,859	(26,705)	(813)	(447)	159,040
Sales return and allowances	46,898	23,050	(1,136)	-	(2,311)	66,501
Legal proceedings	93,704	9,101	-	(37,913)	(6,688)	58,204
	$ 301,748	58,010	(27,841)	(38,726)	(9,446)	283,745

(Continued)

(m) Refund liabilities

	December 31, 2018
Refund liabilities	$ 607,595

The Consolidated Company has adopted the of International Financial Reporting Standard No. 15 from January 1, 2018, estimated sales returns and discounts will be recognized as sales return and discounts allowances, and has been reclassified from provisions or net receivable deductions and other payables to refund liabilities.

(n) Bonds payable

(1) Exchangeable corporate bonds

	December 31, 2018	December 31, 2017
Exchangeable bonds	$ 1,200,000	1,200,000
Less: Discount and unamortized issuance cost	(4,781)	(11,874)
Accumulated exchanged bonds	(809,200)	(789,700)
Balance of exchangeable bonds	$ 386,019	398,426
Embedded derivatives:		
Call options, included in financial assets at fair value through profit or loss	$ -	614
Conversion options, included in financial liabilities at fair value through profit or loss	$ 19,316	74,398

	2018	2017
Embedded derivative-loss (gains) measured at fair value, included in other gains and losses	$ (50,765)	132,825
Interest expense	$ 6,534	12,157

The issue terms for the unsecured exchangeable bonds were as follows:

(i) Total issuance amount:

Total principal amount of the bonds is $1.2 billion dollars. The par value of the bonds is one hundred thousand dollars, and they are issued at 100% of the par value. The total number of exchangeable bonds issued were 12,000 thousand units. As of December 31, 2018, the bondholders have already exchanged 8,092 units.

(ii) Duration:

June 17, 2015 to June 17, 2020.

(iii) Coupon rate for the bonds is zero.

(iv) Payment term

Except for the share exchange with Alpha's common shares by the bondholders based on article 10, or the put option exercised by the bondholders based on article 18, or the early redemption done by the Company based on article 17, or the buy back from the security company and retired by the Company, the Company will repay the principal and interest payable refund (with interest payable refund of 1.26% of the par value, and yield rate of 0.25%) upon maturity.

(v) Exchange period:

The exchangeable bonds may be exchanged into common shares of Alpha Network Inc. on or after July 18, 2015, and prior to June 17, 2020. For the year ended December 31, 2018, the bondholders exchanged 195 units amounting to $19,500 thousand for 912 thousand of Alpha's common shares at $21.37 per share and the Company recognized the profit amounting to $4,554 thousand. For the year ended December 31, 2017, the bondholders exchanged 7,892 units amounting to $789,200 thousand for 35,374 thousand of Alpha's common shares at $22.31 per share and the Company recognized the profit amounting to $195,040 thousand.

(vi) Exchange price:

The exchange price is calculated by using the simple average closing price of the Company's common shares based on either one, three or five consecutive business days before the effective date of June 9, 2015, multiplied by 105.26%. The exchange price is calculated based on the closing price (after considering the effect of ex rights or ex dividend) of Alpha's shares. The exchange price on issuance date was $22. Since September 5, 2017, the conversion price was adjusted from $22.31 to $21.37. Since July 29, 2018 the conversion price was adjusted from $21.37 to $20.38.

(vii) Early redemption option:

From July 18, 2015 (1 month after the issuance date) to May 8, 2020 (forty days before the maturity date), if (i) the closing price of Alpha's common shares on the TSE for a period of 30 consecutive trading days before redemption has reached at least 30% of the exchange price in effect on each such trading day, or wherein, (ii) at least 90% of the principal amount of the bonds originally outstanding has been redeemed, repurchased or exchanged, the Company may redeem all bonds for cash at face value.

(viii) Put options:

Bondholders may exercise the put option and request the Company to redeem the bonds at 100% of the par value, plus, interest payable refund two years after the issuance with a redemption date of June 17, 2017. The Company will send a "Bondholder's Notice of Exercise of the Right to Sell" to the bondholders by registered mail 30 days before the selling back date, and instructs the counter trading center to announce that the holders of the exchange bauds have sold back. Exercising the right, the bondholder may notify the stock agency of the Company in writing within 30 days after the movement, request the Company to add the interest declutched by the denomination of the bond, and redeem the exchange bonds held by it in cash. Upon request, the Company shall redeem the bonds for

(Continued)

cash within five trading days after the redemption date. The maturity of request that the Company redeem the bonds have been already reached. There are no Bondholder to exercise the put option till the redemption date of June 17, 2017.

(o) Operating leases

(1) Leases – Lessee

Non-cancellable operating lease rentals were payable as follows:

		December 31, 2018	December 31, 2017
Within one year	$	206,255	213,682
One to five years		375,837	420,794
Over five years		176,257	190,682
	$	758,349	825,158

The operating leases recognized in profit or loss in 2018 and 2017 amounting to $228,777 thousand and $255,937 thousand, respectively.

(2) Leases – Lessor

For information on investment property leased under operating leases, please refer to note 6(i).

Rental income general from investment property in 2018 and 2017 were amounting to $1,929 thousand and $2,450 thousand, respectively.

(p) Employee benefits

(1) The reconciliation of the present value of the defined benefit obligations and fair value of plan assets were as follows:

		December 31, 2018	December 31, 2017
Present value of benefit obligations	$	118,396	115,408
Fair value of plan assets		(96,088)	(95,081)
Deficit in the plan	$	22,308	20,327

Based on the Company's pension plan, 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 forty-five months of salary. Payments of retirement benefits are based on the years of service and the average salaries for six months before the employee's retirement.

(i) Composition of plan

The Company's allocates 2% of each employee's monthly wage to the labor pension personal account at Bank of Taiwan in accordance with the provisions of Labor Pension Act, whereby, the labor pension personal account will make pension payment in advance.

The Company' s Bank of Taiwan labor pension reserve account balance amounted to $94,954 thousand at the date of reporting date. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

(ii) Movements in the present value of the defined benefit obligations in 2018 and 2017 were as follows:

		2018	2017
Defined benefit obligation at January 1	$	115,408	118,847
Current service cost and interest		2,912	2,523
Remeasurement of the net defined benefit liabilities			
—Actuarial (gains) and losses changes in the financial assumptions		4,136	(4,403)
—Actuarial gains and losses changes in experience adjustments		2,013	4,260
Benefits paid by the plan		(6,073)	(5,819)
Defined benefit obligation at December 31	$	**118,396**	**115,408**

(iii) Movements in the fair value of the plan assets

The movements in the present value of the plan assets in 2018 and 2017 were as follows:

		2018	2017
Fair value of plan assets at January 1	$	95,081	97,164
Interest revenue		1,562	1,338
Remeasurement of the net defined benefit liabilities			
—Actuarial return on plan assets (excluding interest)		2,398	(360)
Contributions made		3,120	2,758
Benefits paid by the plan		(6,073)	(5,819)
Fair value of plan assets at December 31	$	**96,088**	**95,081**

(iv) Expenses recognized in profit or loss

The Company's expenses recognized in profit or loss for 2018 and 2017 were as follow:

		2018	2017
Current service cost	$	1,037	902
Net interest on the net defined benefit obligation		313	283
	$	**1,350**	**1,185**

(Continued)

		2018	2017
Operating cost	$	21	16
Selling expenses		603	515
Administrative expenses		409	323
Research and development expenses		317	331
	$	1,350	1,185

(v) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

		2018	2017
Balance on January 1	$	53,183	52,966
Recognized		3,751	217
Balance on December 31	$	56,934	53,183

(vi) Actuarial assumptions

The following were the actuarial assumptions at the year end reporting date:

	2018.12.31	2017.12.31
Discount rate	1.375 %	1.375 %
Future salary increases	3.000 %	3.000 %

The Company shall pay the expected contributions of $3,000 thousand to the plan for the next annual reporting period.

The weighted average duration of defined benefit obligation is 16.38 years and 17.14 years in 2018 and 2017, respectively.

(vii) Sensitivity analysis

The impact on present value due to the changes in the actuarial assumptions in 2018 and 2017 was as follows:

		Effective of defined benefit liabilities	
		Increase	Decrease
December 31, 2018			
Discount rate (0.25% change)	$	(4,136)	4,314
Future salary increase (0.25% change)		4,170	(4,031)
December 31, 2017			
Discount rate (0.25% change)		(4,214)	4,403
Future salary increase (0.25% change)		4,278	(4,107)

(Continued)

The analysis of the impact of sensitivity is based on the situation that other assumptions remain constant. In actual situation, many changes in assumption might be linked. The way the Company used to calculate sensitively analysis is as same as the one used in calculating the net pension obligation.

The assumptions used to prepare sensitively analysis in this period are as same as the previous financial statements.

(2) Defined contribution plans

The Company set aside 6% of the contribution rate of the employee's monthly wages to the labor pension personal account of the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. The Company set aside a fixed amount to the Bureau of the Labor Insurance without the payment of additional legal or constructive obligations.

The amount of the Company's pension expenses under defined contribution pension plan in 2018 and 2017 were as follows:

		2018	2017
Operating cost	$	9,086	10,265
Operating expense	$	132,584	121,078

(q) Income Taxes

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. The Consolidated Company has already recognized the effect of deferred income tax movement in profit or loss.

Income tax expenses for the years ended December 31, 2018 and 2017 were summarized as follows:

		2018	2017
Current income tax expense	$	120,382	3,759
Deferred tax expense			
Temporary differences occurred and reversal		31,562	43,095
Income tax expenses	$	151,944	46,854

The amount of income tax expense (profit) recognized in other comprehensive income was as follows:

		2018	2017
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	$	16,892	(62,999)

(Continued)

Reconciliation of income tax expense and profit before tax was as follows:

	2018	2017
Profit (loss) before income tax	$ 297,397	(125,228)
Income tax using the Company's domestic tax rate	59,479	(21,289)
Effect of tax rate in foreign jurisdiction	(56,539)	(3,910)
Non-taxable income	(31,313)	(68,731)
Effect of income taxes movement	(18,060)	-
Unrecognized temporary differences	158,547	98,940
Reporting differences on prior year and others	39,830	41,844
	$ 151,944	46,854

(1) Unrecognized deferred income tax assets

The unrecognized deferred income tax assets were as follows:

	December 31, 2018	December 31, 2017
Unrealized expenses	$ 179,724	179,389
Provisions	13,358	11,642
Impairment	24,318	22,031
Operating loss carry forward	1,072,623	1,123,633
Write-down of inventories to net realizable value	53,199	62,011
Others	63,659	69,095
	$ 1,406,881	1,467,801

(2) Recognized deferred tax assets and liabilities

The movements in the amount of deferred tax assets and liabilities for the years 2018 and 2017 were as follows:

	Intra-group transactions	Foreign currency translation reserve	Unrealized expenses	Write down of inventory	Bad debts	Loss carry forward	Others	Total
Deferred income tax assets:								
Balance at January 1, 2018	$ 133,544	222,568	54,094	44,732	2,631	55,656	77,718	590,943
Recognized in income statement	(33,067)	-	(3,574)	(6,698)	(738)	(5,244)	8,737	(40,584)
Foreign currency translation reserve	-	(16,892)	-	-	-	-	-	(16,892)
Balance at December 31, 2018	$ 100,477	205,676	50,520	38,034	1,893	50,412	86,455	533,467
Balance at January 1, 2017	$ 143,520	159,569	34,885	93,142	39,710	44,364	53,385	568,575
Recognized in income statement	(9,976)	-	19,209	(48,410)	(37,079)	11,292	24,333	(40,631)
Foreign currency translation reserve	-	62,999	-	-	-	-	-	62,999
Balance at December 31, 2017	$ 133,544	222,568	54,094	44,732	2,631	55,656	77,718	590,943

	Investments under the equity method	Others	Total
Deferred income tax liabilities:			
Balance at January 1, 2018	$ 4,618	10,372	14,990
Recognized in profit or loss	(4,618)	(4,404)	(9,022)
Balance at December 31, 2018	$ -	5,968	5,968
Balance at January 1, 2017	$ 6,797	5,729	12,526
Recognized in profit or loss	(2,179)	4,643	2,464
Balance at December 31, 2017	$ 4,618	10,372	14,990

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, net loss of the Company, YEOCHIA, YEOMAO and YEOTAI as assessed by the tax authorities can be carried forward for ten consecutive years to reduce future taxable income. As of December 31, 2018, the Consolidated Company's unused loss carry forward available to offset future taxable income and the year of expiry were as follows:

Consolidated entity	Year of loss	Year of expiry	Unused amount
The Company	2016	2026	33,775
The Company	2017	2027	1,765,547
YEOCHIA	2014	2024	4,760
YEOTAI	2010	2020	15,071
YEOTAI	2011	2021	2,039
YEOTAI	2014	2024	2,813
YEOTAI	2016	2026	1,330
YEOTAI	2018	2028	129
D-Link Europe	2003 and 2015~2016	Unlimited	42,669
D-Link Brazil	2014~2018	Unlimited	1,060,173
D-Link Trade	2015	2025	63,668
D-Link Shiang-Hai	2014~2015 and 2018	2019~2020 and 2023	580,699
D-Link Mexicana	2014~2015 and 2017	2024~2025 and 2027	102,786
D-Link Systems	2017	2037	59,053
D-Link International	2015~2017	Unlimited	1,324,122
D-Link Korea	2011~2016 and 2018	2021~2026 and 2028	72,563
			$ 5,131,197

The income tax returns of the Company, YEOCHIA, YEOTAI and YEOMAO have been examined through 2016.

(r) Share capital and other equity

(1) Common stock

As of December 31, 2018 and 2017, the authorized capital amounted to $8,800,000 thousand (including $750,000 thousand authorized for the issuance of the employee stock options). As of December 31, 2018 and 2017, the issued capital amounted to 6,519,961 thousand. The par value of the Company's common stock is $10 New Taiwan dollars per share. The number of share is 651,996 thousand shares.

(2) Capital surplus

The balances of capital surplus were as follows:

		December 31, 2018	December 31, 2017
Common stock in excess of par value	$	1,282,230	1,282,230
Treasury stock		39,310	32,051
Share of changes in equities of associates accounted for under the equity method		82,132	8,182
Expiry of share-based payment transactions		129,459	129,459
Expiry of redeemed options of convertible corporate bonds		81,454	81,454
Changes the Company's ownership interests in subsidiaries		55,320	55,320
Total	$	1,669,905	1,588,696

According to the ROC Company Act, the reserve may be used to offset a deficit, or distribute as cash or stocks by the original ownership percentage if there is no accumulated deficit. Capital surplus included the income was derived from the issuance of new shares at a premium and income from the endowments received by the company. According to the current Securities and Futures Bureau regulations, capitalization of capital surplus cannot exceed a rate of ten percent.

The Company's shareholders' meetings held on April 28, 2017 resolved to distribute cash amounting to $192,607 thousand (NT$0.3 per share), with capital surplus.

(3) Retained earnings

(i) Legal reserve

According to the ROC Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of authorized common stock. When the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash based on the resolution of the shareholders' meeting if there is no accumulated deficit.

(ii) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory commission on 6 April, 2012, a special reserve equivalent to the net debit balance of shareholders' equity shall be made from the current after-tax net income and the prior unappropriated earnings pursuant to existing regulations promulgated by SFB. The Company shall not distribute the special reserve equivalent to the net debit balance of shareholders' equity from the prior fiscal years made from the prior unappropriated earnings. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

(iii) Earning distribution

In accordance with the Company's articles of incorporation, if there are earnings at year-end, 10 percent should be set aside as legal reserve and special earnings reserve or reversal in accordance with the Securities and Exchange Act after the payment of income tax and offsetting accumulated losses from prior years. 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.

The Company has no earnings to distribute in 2017 and 2016 due to the annual deficit.The Company's shareholders meeting resolved to decide appropriation of profit or loss on June 22, 2018 and April 28, 2017. Also, the Company shareholders meeting, decide to cover the deficits with the amount $678,133 thousand of special reserve and the amounts $188,558 thousand of legal reserve.

(iv) Dividend policy

The Company has carried out its Residual Dividend Policy to align with the (i) whole market (ii) industrial growth characteristics (iii) long term financial plan (iv) talent acquisition, and (v) pursuing business development. After deducting the balance from the items mentioned above, the Board of Directors shall adopt a proposal for the residual balance and the previous year' s earnings to be submitted for approval during the shareholders' meeting. The total amount of dividends to be distributed to the shareholders shall be no less than 30% of the distributable earnings for the current year. According to the budget plan for its capital, the Company shall distribute stock dividends to retain the required funds; and any remainder, which should not be less than 10% of the total dividends, can be distributed by cash.

(4) Treasury stock

Under Article 28-2 of the Securities and Exchange Act, the Company's board of directors passed a resolution to buy back its shares from the open market and to transfer the shares to its employees. The relevant information as below:

Board of directors resolution date	Buy back shares (in thousand)	Amount	Capital reduction baseline date	Treasury stock retired shares (in thousand)	Transfer date	Treasury stock transfer to employees
October 30, 2012	10,000 $	173,037	March 24, 2016	10,000	-	-
January 14, 2013	15,000	277,433	March 24, 2016	15,000	-	-
August 13, 2015	19,192	186,425	-	-	September 21, 2016	9,221
August 13, 2015	19,192	186,425	-	-	September 19, 2017	8,127
August 13, 2015	19,192	186,425	-	-	September 17, 2018	1,844

The board of directors meeting on August 8, 2016 resolved to transfer 1,844 thousand, 8,127 thousand and 9,221 thousand of the treasury stocks, bought in 2015, to its employees, with a subscription price NT$9.72 per share, amounting to $17,924 thousand, $78,994 thousand and $89,628 thousand, respectively. In 2016, the Company recognized a compensation cost amounting to $21,946 thousand, and wrote off treasury stocks and capital Surplus – treasury shares transaction amounting to $89,578 thousand, and $22,004 thousand, respectively. And in 2017, the Company recognize a compensation cost amounting $9,996 thousand, and wrote off treasury stocks and Capital Surplus – treasury shares transaction amounting to $78,943 thousand and $10,047 thousand, respectively. And in 2018, the Company recognized the compensation cost amounting to $7,247 thousand, and wrote off treasury stocks and Capital Surplus – treasury shares transaction amounting to $17,912 thousand and $7,259 thousand, respectively.

	2018		2017	
	Shares (in thousands)	Amount	Shares (in thousands)	Amount
Beginning balance	1,844 $	17,912	9,971	96,855
Decreased	(1,844)	(17,912)	(8,127)	(78,943)
Ending balance	-	$ -	1,844	17,912

Based on the Securities and Exchange Act, the number of repurchased shares should not exceed 10% of the Company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par, and paid-in capital.

Shares of treasury stocks that bought back shall be transferred to employees in 3 years since the repurchase date or they shall be otherwise retired as if the Company has never issued. The Company excluded special reserve and appropriated earnings agreed by the board of directors before the approval of repurchase treasury stock to calculate the ceiling of the repurchase based on the June 30, 2018 Independent Auditors' Report. The ceiling on total number of shares of the repurchase is 65,199 thousand shares and the ceiling on total monetary amount of the repurchase is $3,637,761 thousand.

In addition, the Company should not pledge its treasury shares nor exercise voting rights before transferring to employees.

(5) Other equity

		Foreign exchange differences arising from foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains and losses on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedge	Others
Balance at January 1, 2018	$	(1,102,381)	-	152,864	1,109	(44,400)
Effects of retrospective application:		-	(73,190)	(152,864)	-	-
Balance at January 1, 2018 after adjustments		(1,102,381)	(73,190)	-	1,109	(44,400)
Foreign exchange differences (net of taxes):		-	-	-	-	-
The Consolidated Company		(35,714)	-	-	-	-
Associates		(13,516)	-	-	-	-
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income:		-	-	-	-	-
The Consolidated Company		-	1,042	-	-	-
The Consolidated Company-disposal		-	(7,847)	-	-	-
Associates		-	(67,776)	-	-	-
Gain (losses) on effective portion of cash flow hedge:						
The Consolidated Company		-	-	-	(1,109)	-
Other:		-	-	-	-	-
Associates		-	-	-	-	29,262
Balance at December 31, 2018	$	(1,151,611)	(147,771)	-	-	(15,138)
Balance at January 1, 2017	$	(798,803)	-	30,104	-	-
Foreign exchange differences (net of taxes):						
The Consolidated Company		(312,328)	-	-	-	-
Associates		8,750	-	-	-	-
Unrealized gains and losses from available-for-sale financial assets						
The Consolidated Company		-	-	124,127	1,109	-
Associates		-	-	(1,367)	-	(44,400)
Balance at December 31, 2017	$	(1,102,381)	-	152,864	1,109	(44,400)

(Continued)

(6) Non-controlling interests

		2018	2017
Balance at the beginning of the period	$	405,706	431,294
Net income attributable to non-controlling interest:			
Net income		39,079	21,369
Exchange differences on translation of foreign operations		(23,357)	(9,209)
Cash dividends distributed by subsidiaries		(3,983)	(4,000)
Change in ownership interests in subsidiaries		-	(33,596)
Change in Non-controlling interests		-	(152)
Balance at the end of the period	$	417,445	405,706

(s) Earnings per share

The calculation of basic earnings per share of the Consolidated Company were as follows:

Basic earnings per ordinary share

		2018	2017
Profit (loss) attributable to owners of the parent	$	106,374	(193,451)
Outstanding at the ordinary share at 1 January	$	650,152	642,025
Weighted-average share of treasury stock		528	2,280
Weighted-average ordinary shares outstanding at 31 December		650,680	644,305
Basic earnings (loss) per ordinary share (New Taiwan dollars)	$	0.16	(0.30)

(t) Revenue from contracts with customers

(1) Consolidate Company revenue from contract revenue

Major product / Service lines		**2018**
Network communication products		19,257,469
Services		125,734
	$	19,383,203

Primary geographical markets		**2018**
United States	$	1,302,499
Europe		5,492,355
Others		12,588,349
	$	19,383,203

(2) The details of revenue for the year ended December 31, 2017 was as follows:

		2017
Goods sold	$	19,187,887
Services		128,192
	$	19,316,079

(3) Contract liabilities

(i) The Consolidated Company recognized contract revenue retated contract liabilities:

		December 31, 2018
Contract — current (sales)	$	138,989

(ii) The Conslidated Company recognized $45,147 thousand in sales from beginning contract liabilities during 2018.

(u) Remuneration to employees, directors and supervisors

The Company's articles of incorporation require that earnings shall first be offset against any deficit, then a minimum of 1% to a maximum of 15% will be distributed as employee remuneration, and a maximum of 1% will be allocated as directors' and supervisors' remuneration. The earnings shall be considered as the annual income before tax and remuneration to employees, directors and supervisors. The resolution for earnings distribution shall be decided by two-third of the voting rights exercised by the directors present at the board of directors' meeting who represent a majority of the directors. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the year ended December 31, 2018, the Company estimated its employee remuneration amounting to $1,196 thousand, and directors' remuneration amounting to $1,196 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of each period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's articles.

The Company had an annual loss in the year ended December 31, 2017, and thus, the Company was not required to accrue any remuneration to its employees and directors. For information related to earning distribution, please refer to the website of the Market Observation Post System.

(v) Other income

		2018	2017
Interest revenue	$	42,323	45,581
Rental revenue		1,929	2,450
Dividends revenue		1,713	28,190
	$	45,965	76,221

(w) Other gains and losses

		2018	2017
Valuation gains (losses) from financial assets and liabilities	$	62,735	(146,185)
Gain on disposal of investments		77,934	264,607
Foreign currency exchange gains (losses)		(69,802)	5,413
Reversal of (impairment loss) on financial assets		8,000	(148)
Others		(37,039)	(48,995)
	$	41,828	74,692

(x) Financial costs

		2018	2017
Borrowing interest expense	$	17,580	10,237
Discount bonds payable interest expense		6,534	12,157
	$	24,114	22,394

(y) Items that were reclassified to other comprehensive income

Details of the reclassification adjustments of other comprehensive income in 2018 and 2017 were summarized as follow:

		2018	2017
Exchange differences on translation of foreign operations			
Change in foreign currency exchange from the Consolidated Company	$	(18,822)	(370,417)
Change in foreign currency exchange from non-controlling interests		(23,357)	(9,209)
Reclassification adjustments		-	(4,910)
Change in exchange differences on translation of foreign operation recognized in other comprehensive income	$	(42,179)	(384,536)
Unrealized gains (losses) on available-for-sale financial assets			
Change in fair value from the Consolidated Company	$	-	152,292
Reclassification adjustments		-	(28,165)
Change in fair value recognized in other comprehensive income	$	-	124,127

(Continued)

Share of other comprehensive income accounted for using equity method		
Change in foreign currency exchange from associates	$ (13,575)	(8,480)
Change in fair value from associates	-	(20)
Reclassification adjustments	7,563	15,883
Change in other comprehensive income from associates	21,757	(44,400)
Share of other comprehensive income from associates	$ **15,745**	**(37,017)**
Gains (losses) on effective portion of cash flow hedge		
Reclassification adjustments	(1,109)	1,109
Change from the consolidated Company	$ **(1,109)**	**1,109**

(z) Financial instrument

(1) Category of financial instrument

(i) Financial Assets

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 4,424,864	3,705,869
Financial assets at fair value through profit or loss — current	8,548	5,235
Derivative financial instruments used for hedging — current	-	1,109
Financial assets at fair value through other comprehensive income — non-current	482,011	-
Available-for-sale financial assets — non-current	-	468,934
Financial assets carried at cost	-	6,712
Notes receivable, accounts receivable and other accounts receivable (including related parties)	4,370,213	4,291,132
Refundable deposits	96,971	69,262
	$ **9,382,607**	**8,548,253**

(Continued)

(ii) Financial liabilities

		December 31, 2018	December 31, 2017
Short-term loans	$	950,000	1,250,000
Financial liabilities at fair value through profit or loss —current		28,929	91,974
Notes payable, accounts payable and other payables (including related parties)		5,214,554	5,181,408
Bonds payable		386,019	398,426
	$	6,579,502	6,921,808

(2) Credit risk

Exposure to credit risk:

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2018 and 2017, the maximum amount exposed to credit risk amounted to \$9,382,607 thousand, and \$8,548,253 thousand, respectively.

(3) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	Book value	Contractual cash flows	Within six months	6-12 months	1-2 years	2-5 years	Over five years
December 31, 2018							
Non-derivative financial liabilities							
Short-term loans	$ 950,000	951,984	951,984	-	-	-	-
Notes payable	395	395	395	-	-	-	-
Accounts payable	2,212,938	2,212,938	2,212,938	-	-	-	-
Accounts payable to related parties	1,308,330	1,308,330	1,308,330	-	-	-	-
Other payables	1,692,891	1,692,891	1,692,891	-	-	-	-
Bonds payable	386,019	386,019	386,019	-	-	-	-
Derivative financial liabilities							
Embedded exchangeable corporate bonds	19,316	19,316	19,316				
Foreign exchange swap contracts							
Outflow	3,617	511,987	511,987	-	-	-	-
Inflow	-	508,057	508,057	-	-	-	-
Forward exchange contracts							
Outflow	5,996	650,243	650,243	-	-	-	-
Inflow	-	508,057	508,057	-	-	-	-
	$ 6,579,502	8,750,217	8,750,217	-	-	-	-

(Continued)

	Book value	Contractual cash flows	Within six months	6-12 months	1-2 years	2-5 years	Over five years
December 31, 2017							
Non-derivative financial liabilities							
Short-term loans	$ 1,250,000	1,252,139	1,252,139	-	-	-	-
Notes payable	642	642	642	-	-	-	-
Accounts payable	1,857,824	1,857,824	1,857,824	-	-	-	-
Accounts payable to related parties	1,495,734	1,495,734	1,495,734	-	-	-	-
Other payables	1,827,208	1,827,208	1,827,208	-	-	-	-
Bonds payable	398,426	398,426	398,426	-	-	-	-
Derivative financial liabilities							
Embedded exchangeable corporate bonds	74,398	74,398	74,398	-	-	-	-
Foreign exchange swap contracts used for hedging:							
Outflow	8,550	764,801	552,081	212,720	-	-	-
Inflow	-	758,320	546,400	211,920	-	-	-
Forward exchange contracts used for hedging:							
Outflow	9,026	787,027	787,027	-	-	-	-
Inflow	-	771,137	771,137	-	-	-	-
	$ 6,921,808	9,987,656	9,563,016	424,640	-	-	-

The Consolidated Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amount.

(4) Currency risk

(i) The Consolidated Company's significant exposure to foreign currency risk was as follows:

	2018			2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets (note):						
Monetary items:						
CLP	$ 64,940	0.04	2,873	65,113	0.05	3,159
JPY	1,699,258	0.28	476,302	1,054,040	0.26	279,215
CAD	15,971	22.53	359,896	15,014	23.72	356,179
USD	265,707	30.73	8,165,876	235,356	29.85	7,024,878
MXN	595	1.56	931	577	1.51	872
BRL	30,487	7.93	241,809	44,053	9.02	397,490
AUD	5,873	21.66	127,202	5,770	23.28	134,322
			$ 9,374,889			8,196,115
Non-monetary items:						
USD	212	30.73	6,519	369	29.85	11,017
JPY	22,081	0.28	6,189	-	-	-
			$ 12,708			11,017

	2018			2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial liabilities (note):						
Monetary items:						
JPY	1,321,428	0.28	370,396	948,375	0.26	251,229
CAD	4,071	22.53	91,749	4,312	23.72	102,284
BRL	23,341	7.93	185,128	26,781	9.02	241,642
USD	178,425	30.73	5,483,543	174,759	29.85	5,216,184
CLP	266,107	0.04	11,771	248,605	0.05	12,061
AUD	1,129	21.66	24,460	2,537	23.28	59,069
MXN	178	1.56	278	195	1.51	295
			$ 6,167,325			5,882,764
Non-monetary items:						
USD	313	30.73	9,613	534	29.85	15,927

Note: Disclosure in the consolidated financial statements of the financial assets and liabilities in foreign currency is limited to information on subsidiaries directly held by the Company.

Because the Consolidated Company's entities have various functional currencies, it will not be possible for the information of the foreign currency exchange gains and losses of the monetary financial assets and liabilities to be disclosed individually; the said monetary financial assets and liabilities may have a significant impact on the consolidated financial statements of the Consolidated Company. The total foreign exchange gains and losses, including realized and unrealized, were losses $69,802 thousand and gains $5,413 thousand for the years ended December 31, 2018 and 2017, respectively.

(ii) Sensitivity analysis

The Consolidated Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, account and other receivables, loans, and account and other payables that are denominated in foreign currency. A 1.5% of appreciation (depreciation) of each consolidated components currency, other than the functional currency, against the functional currency as of December 31, 2018 and 2017 would have decreased or increased the net loss after tax by $6,395 thousand and $8,651 thousand, respectively, assuming all other variables were held constant.

(5) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.5% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased / decreased by 0.5% basis points, the Consolidated Company's net income would have increased / decreased by $49 thousand and $51 thousand for 2018 and 2017 with all other variable factors remaining constant.

(6) Assets/liabilities measured at fair value

(i) The information of levels in the fair value hierarchy

The Consolidated Company measures the financial instruments at fair value based on a recurring basis. The level of fair values was as follows:

		December 31, 2018			
Assets and liabilities		**Total**	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on recurring basis					
Non-derivative assets and liabilities					
Assets:					
Financial assets at fair value through other comprehensive income	$	482,011	482,011	-	-
Derivative assets and liabilities					
Assets:					
Financial assets at fair value through profit or loss － current		8,548	-	8,548	-
Liabilities:					
Financial liabilities at fair value through profit or loss － current		28,929	-	28,929	-

		December 31, 2017			
Assets and liabilities		**Total**	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on recurring basis					
Non-derivative assets and liabilities					
Assets:					
Available-for-sale financial assets	$	468,934	468,934	-	-
Derivative assets and liabilities					
Financial assets at fair value through profit or loss－current		5,235	-	5,235	-
Derivative financial instruments used for hedge－current		1,109	-	1,109	-
Liabilities:					
Financial liabilities at fair value through profit or loss － current		91,974	-	91,974	-

(ii) Valuation techniques

The Consolidated Company measures the fair value of financial instruments that are traded in active markets by a quoted price. The market price of stock exchange is based on the listed equity instruments. For other financial instruments like forward currency option contracts, cross currency swaps and foreign currency option contracts, the Company measures the fair value of its financial assets and liabilities using the observable inputs and the valuation technique from the perspective of market participants.

(iii) Transfer from Level 1 to Level 2

As of December 31, 2018 and 2017, there were no transfers between level 1 and level 2 of the fair value hierarchy.

(7) Assets/liabilities not measured at fair value

(i) Information of fair value

Except for those listed in the table below, the carrying amounts of the Consolidated Company' s financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable/payable and other receivables/payables.) approximate their fair values.

	December 31, 2018		December 31, 2017	
	Book value	**Fair value**	**Book value**	**Fair value**
Non-financial assets:				
Investment property	$ 40,065	51,555	40,462	42,573

	December 31, 2018			
Assets and liabilities	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-financial assets:				
Investment property	$ 51,555	-	-	51,555

	December 31, 2017			
Assets and liabilities	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-financial assets:				
Investment property	$ 42,573	-	-	42,573

(ii) Valuation techniques

The assumptions used by the Consolidated Company to determine the fair value are as follows:

a) The carrying amount of cash and cash equivalents and other financial instruments that approximate their fair value due to their short maturities.

b) The fair value of investment property that is based on the comparable deal information with similar location.

(aa) Financial risk management

(1) Overview

The Consolidated Company is exposed to the following risks rising from financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

This note expressed the information on risk exposure and objectives, policies and process of risk measurement and management of the Consolidated Company. For detailed information, please refer to the related notes of each risk in interim consolidated financial statements.

(2) Structure of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has given the department directors a task to establish and dominate regulations of risk management to effectively ensure operations of risk management. The personnel change in department directors should be reported to the Board of Directors.

The Consolidated Company use internal control systems, risk management procedures, and regulations of risk management as the basis of various business risk management standards. The Consolidated Company's risk management policies are established to identify and analyze the risks faced by the Consolidated Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Company's activities. The Consolidated Company, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors and Audit Committee oversees how management monitors compliance with the Consolidated Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated Company. The Board of Directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors and Audit Committee.

(3) Credit risk

Credit risk is the risk of financial loss to the Consolidated Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Company's receivables from customers, investment securities and hedge derivatives.

(i) Accounts receivable

The credit risk exposure of the Consolidated Company arises from the operations and financial conditions of each customer and the demographics of the Consolidated Company's customer base, including the default risk of the industry and country in which customers operate in. However, the Consolidated Company operates worldwide, and thus, risk is diversified. As of December 31, 2018, and 2017, revenue from each foreign customer does not exceed 5% of the Consolidated Company's revenue and therefore, there is no concentration of credit risk.

The Consolidated Company has completed in setting the credit risk management policies, and has established Institutional Credit Review Committee and Credit Risk Management Department, which are responsible for managing credit policies and client's credit risk. Based on the global risk management, credit rating and analysis are required to customers on credit in advance and granted credit limits. For customers who made their payments other than cash, regular reviews on credit limits are required to ensure the creditworthiness of customers.

Allowance for bad debt is set based on the lifetime expected credit loss of each customer. In order to mitigate the risk of default, the Consolidated Company has purchased guarantees, with appropriate insured amount for customers in high risk countries. High risks customers without insurance should make their payments in advance or provide sufficient credit guarantees. In addition, when the creditworthiness of customers worsens, they should be placed on a restricted customer list. The credit rating for these customers should be downgraded and the transactions on sales credit should be restricted.

The Consolidated Company has set the allowance for bad debt account to reflect the possible losses on account and other receivables. The allowance for bad debt account consists of specific losses relating to individually significant exposure from customers with financial difficulties or operating conflicts. The allowance for bad debt account is based on historical collection record of similar financial assets or the possibility of breaching the contracts.

(ii) Investment on securities and derivative financial instruments

The credit risk exposure bank deposits, fixed income investments and derivative financial instrument are measured and monitored by the Consolidated Company' s finance department. As the Consolidated Company will select financial institutions with good credit ratings as its counterparties and diversify its investment in different financial institutions, and do not expect to have any default risks and significant concentration of credit risk.

(iii) Guarantees

Pursuant to the Consolidated Company' s policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2018, and 2017, the Consolidated Company has not provided any guarantees to a third party.

(4) Liquidity risk

Liquidity risk is the risk that the Consolidated Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Consolidated Company's approach to manage liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Company's reputation. The Consolidated Company aims to maintain the level of its cash and short term bank facilities at an amount in excess of expected cash flows on financial liabilities over the succeeding 60 days. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Consolidated Company has unused short term bank facilities for $3,977,986 thousands as of December 31, 2018.

(Continued)

(5) Market risk

Market risk is the risk that changes in market prices, such as changes in foreign exchange rates, interest rates or equity prices that affects the Consolidated Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to minimize the influence on change in market price or control within expectable scope.

The Consolidated Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines of risk management.

(i) Currency risk

The Consolidated Company is exposed to currency risk on sales, purchases and loans that are denominated in currencies other than its respective functional currencies. The functional currencies of the Consolidated Company are primarily denominated in New Taiwan Dollars (TWD) and US Dollars (USD) and include denominated in Euro (EUR), Chinese Yuan (CNY), Japanese Yen (JPY) and Brazilian Real (BRL) of other countries in which the subsidiaries registered. Purchases are mainly denominated in USD while sales are denominated in USD, EUR, CNY, TWD, British Pounds (GBP), Australian Dollar (AUD), Canadian Dollar (CAD), JPY, South Korean Won (KRW), Russian Ruble (RUB), Indian Rupee (INR), BRL, Mexican Peso (MXN) and other currencies.

At any point in time, the Consolidated Company hedges its currency risk based on its actual and forecast sales over the following six months. The Consolidated Company also uses nature hedges on assets and liabilities denominated in foreign currencies and maintained the hedge ratio at 50% and above. The Consolidated Company uses forward exchange contracts and foreign-exchange options, with a maturity of less than one year from the reporting date, to hedge its currency risks.

Generally, the currencies of loans in the Consolidated Company are denominated in its functional currencies and are incorporated in net exposure on loan requirement denominated in foreign currencies as mentioned above to ensure the net exposure is maintained at acceptable level.

Transactions in derivative financial instruments adopt economic hedge to prevent currency risk from financial assets and liabilities denominated in foreign currencies. The gains and losses of hedged items are expected to offset gains or losses that arise from the fluctuations in exchange rates. The valuation gains and losses on financial assets consist of transactions that do not qualify as hedging accounting.

(ii) Interest rate risk

The Consolidated Company's bank loans are at fixed rate. Therefore, the change in market interest rate will not affect the cash flow of the future interest payment of the Consolidated Company, hence, there is no significant interest rate risk.

(iii) Other price risk

The Consolidated Company holds both money market funds and bond funds, where their prices are affected by changes in mutual funds. The abovementioned mutual funds are widely used as fixed income investments in domestic, with large market scale, stable market prices, and high liquidity. The Consolidated Company is held for the purpose of short-term capital allocation with a period of approximately 3 months. The finance department will monitor the changes in market and dispose the investments, if necessary.

(ab) Capital management

The Consolidated Company's fundamental management objective is to maintain a strong capital base. Capital consists of ordinary shares, capital surplus, retained earnings and other equities. The Board of Directors monitors the capital structure regularly and selects the optimal capital structure by considering the capital scale, overall operating environment, operating characteristics of the industry in order to support future development of the business. The current aim for debt-to-equity ratio is set within 100%. As of the reporting date, the debt-to-equity ratio is considered appropriate.

Debt-to-equity ratio:

	December 31, 2018	December 31, 2017
Total liabilities	$ 7,989,891	7,796,592
Less: cash and cash equivalents	(4,424,864)	(3,705,869)
Net debt	$ 3,565,027	4,090,723
Total equity	$ 9,616,932	9,407,770
Debt to equity ratio	37.07 %	43.48 %

As of December 31, 2018, the methods of the Consolidated Company's capital management remained unchanged.

(ac) Investing and financing activities not affecting current cash flow

(1) For conversion of exchangeable bonds to ordinary shares, please refer to notes 6(n).

(2) Reconciliation of liabilities arising from financing activities were as follows:

			Non-cash changes			
	January 1, 2018	Cash flows	Acquisition	Foreign exchange movement	Fair value changes	December 31, 2018
Short-term borrowings	$ 1,250,000	(300,000)	-	-	-	950,000
Bonds payable	398,426	-	(18,941)	-	6,534	386,019
Others	71,017	(18,439)	-	-	-	52,578
Total liabilities from financing activities	$ 1,719,443	(318,439)	(18,941)	-	6,534	1,388,597

(Continued)

7. Related-party transactions

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statement:

Name of related party	Relationship with the Consolidated Company
Alpha Networks, Inc.	An associate
Dongguam Mingrui	An associate
D-Link Asia Investment Pte Ltd.	An associate
Bothhand Enterprise Inc.	An associate (had transfer to KAIMEI in November, 2018, not an associate)
Miiicasa Holding	An associate
Miiicasa Taiwan Inc.	An associate
Cameo Communication, Inc.	A corporate director of individual

(b) Significant related party transactions

(1) Sales

	2018	2017
Associates	$ 683	438
Others	-	45
	$ 683	483

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

	2018	2017
Associates：		
Alpha	$ 3,136,043	4,553,404
Others	622	4,253
Other related-parties：		
Cameo	1,710,744	1,728,435
	$ 4,847,409	6,286,092

The payment term of related parties was 30-90 days. There were no significant differences in purchasing terms between related parties and third-party suppliers.

(3) Accounts receivable due from related parties

Related party categories	Account	December 31, 2018	December 31, 2017
Associates－Alpha	Other receivables	$ 4,452	5,707
Associates－Alpha	Accounts receivable	217	289
Associates－Others	Other receivables	69	-
Associates－Others	Accounts receivable	-	189
Other related parties－Others	Other current assets	-	12
		$ 4,738	6,197

(4) Accounts payable to related parties

Related party categories	Account	December 31, 2018	December 31, 2017
Associates－Alpha	Accounts payable	$ 848,370	1,129,719
Associates－Alpha	Other payables	20,404	27,776
Associates－Others	Accounts payable	70	188
Associates－Others	Other payables	-	68
Other related-parties－Cameo	Accounts payable	459,890	365,827
Other related-parties－Cameo	Other payables	8,787	3,718
		$ 1,337,521	1,527,296

(5) Services purchased from related parties

The services purchased from related-parties were as follows:

	2018	2017
Associates：		
Alpha	$ 25,916	53,963
Others	476	5,099
Other related-parties：		
Cameo	12,807	15,370
	$ 39,199	74,432

(6) Property transaction

(i) Property, plant and equipment acquired

The acquisition of property, plant and equipment from the related parties were as follows:

	2018	2017
Associates：		
Alpha	$ 5,432	19,667
Other related-parties：		
Cameo	9,572	9,748
	$ 15,004	29,415

(Continued)

(ii) The Consolidated Company sold its patents which are in the process of application to MiiiCasa Holding for $20,735 thousand (USD$700 thousand) in March 2012. The unrealized profits due to the abovementioned transactions amounting to $2,160 thousand was recognized under other non-current liabilities; and the realized profits of $18,575 thousand was recognized under other gains and losses.

The details of the abovementioned transactions were summarized as follows:

Account	Related party categories	2018	2017
Other non-current liabilities	Associates	$ 2,160	2,843

Account	Related party categories	2018	2017
Gains and Losses	Associates	$ 683	682

3.Other gains and losses

Account	Related party categories	December 31, 2017	January 1, 2017
Other gains and losses	Associates－Bothhand	$ 1,483	1,505
Other gains and losses	Associates－Alpha	2,486	2,488
Other gains and losses	Other related parties— Cameo	80	26,419
		$ 4,049	30,412

(d) Key management personnel compensation

Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	$ 65,341	60,343
Post-employee benefits	1,569	1,627
Share-based payments	939	1,807
	$ 67,849	63,777

8. Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2018	December 31, 2017
Other current assets and other non-current assets	Rental deposits, performance bond and time deposits	$ 105,443	78,518

9. Commitments and contingencies

(a) The US Federal Trade Commission (FTC) filed a lawsuit against the Company and its subsidiary, D-Link Systems in January 2017, alleging that the Routers and IP Cameras sold by D-Link Systems in the US could possibly have security loopholes. However, D-Link Systems believes that the said matter was falsely claimed by FTC and has retained its attorneys in US. Therefore, based on its evaluation, the Company believes that it has a fairly good chance to prevail.

(b) XR Communications, LLC and dba Vivato Technologies filed a lawsuit against the Company's subsidiary, D-Link Systems, in April 2017, alleging that some of the D-Link Systems' products infringed its patents. D-Link Systems has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Company does not believe the litigation will have any significant impact on its current operations.

(c) The local tax authorities of India have investigated the previous years' tariff settlement report of the Indian subsidiary in year 2018. The investigation is still in progress. The Consolidated Company has assessed and estimated the amount that may be paid.

(d) The Company's subsidiary, D-Link Brazil, had disputes regarding prior year's declaration of VAT and tax on industrialized products with the local tax authorities, and had filed administrative litigation and administrative remedy. D-Link Brazil had accrued possible tax, interest and penalty.

(e) The Company is currently under negotiations with a number of companies regarding the royalty on patents. In addition to the abovementioned lawsuits, there are other lawsuits that are in the negotiation process, and therefore the liabilities are unclear. The Company has accrued the possible expense, and therefore significant losses are unlikely. In addition, the Company's products are purchased from outside sources, 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.

(f) As of December 31, 2018 and 2017, the Consolidated Company's outstanding stand by letter of credit for purchasing inventories were $10,317 thousand and $45,655 thousand, respectively.

10. Losses due to major disasters: None.

11. Subsequent events: None.

(Continued)

12. Other information

The information on employee, depreciation, and amortization expenses, by function, was summarized as follows:

Account	2018 Cost of goods sold	2018 Operating expense	2018 Total	2017 Cost of goods sold	2017 Operating expense	2017 Total
Employee expenses						
Salaries	82,108	2,372,140	2,454,248	91,960	2,379,429	2,471,389
Labor and health insurance	2,425	127,462	129,887	1,900	121,992	123,892
Pension	9,107	133,913	143,020	10,281	122,247	132,528
Others	9,493	271,873	281,366	9,906	283,699	293,605
Depreciation	1,512	112,429	113,941	1,858	135,344	137,202
Amortization	374	44,910	45,284	460	44,913	45,373

13. Segment information

The Consolidated Company has three reportable segments that include the American markets, European markets, Emerging markets and others. Those reportable segments are primarily operated in research, development and selling of computer network and equipment and wireless communication products.

The Consolidated Company's reportable segments are strategic business units that offer geographical products and services.

(a) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Consolidated Company uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation.

2018	Americas	Europe	Emerging markets and others	Adjustments and eliminations	Total
Revenue:					
Third-party customers	$ 2,717,141	5,492,355	11,173,707	-	19,383,203
Inter-company	6,429	3,660	4,930,162	(4,940,251)	-
Total revenue	$ 2,723,570	5,496,015	16,103,869	(4,940,251)	19,383,203
Reportable segment profit (loss)	$ (28,477)	154,097	571,980	(400,203)	297,397

(Continued)

	2017				
	Americas	Europe	Emerging markets and others	Adjustments and eliminations	Total
Revenue:					
Third-party customers	$ 3,345,713	4,584,509	11,385,857	-	19,316,079
Inter-company	5,466	6,763	5,330,805	(5,343,034)	-
Total revenue	$ 3,351,179	4,591,272	16,716,662	(5,343,034)	19,316,079
Reportable segment profit (loss)	$ (302,263)	44,773	(343,624)	475,886	(125,228)

	Americas	Europe	Emerging markets and others	Adjustments and eliminations	Total
Reportable segment assets:					
December 31, 2018	$ 3,326,168	2,196,782	25,686,590	(13,602,717)	17,606,823
December 31, 2017	$ 3,302,560	2,198,964	25,913,442	(14,210,604)	17,204,362

The material reconciling items of the above reportable segment are as below:

Total reportable segment revenues after deducting the intergroup revenues were $4,940,251 thousand and $5,343,034 thousand in 2018 and 2017, respectively.

The Consolidated Company does not allocate tax expense to reportable segments. The operating segments' profit and loss is measured as income before income taxes. It evaluates performance on the basis of the reportable amount which is the same as that of the report used by the chief operating decision maker.

(b) Information on the products and services

Revenue from the external customers of the Consolidated Company was as follow:

Products and services	2018	2017
Network Communications product	$ 19,257,469	19,187,887
Service revenue	125,734	128,192
Total	$ 19,383,203	19,316,079

(c) Geographic information

Country		2018	2017
Revenue from external customers:			
United States	$	1,302,499	1,564,740
Europe		5,492,355	4,584,509
Other countries		12,588,349	13,166,830
	$	19,383,203	19,316,079
Non-current assets			
Taiwan	$	994,051	998,906
India		438,794	436,759
Other countries		620,651	707,825
Total	$	2,053,496	2,143,490

Non-current assets include property, plant and equipment, investment property, intangible assets, and other assets, but excluding financial instruments and deferred tax assets.

(d) Major customers

There were no individual customers representing greater than 10% of consolidated revenue in 2018 and 2017.