

**D-LINK CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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, 2019 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 Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "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.

Company name: D-LINK CORPORATION
Chairman: Gao Ju Investment Co., Ltd. Hu, Xue
Date: March 18, 2020

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, which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, and the consolidated statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, 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 D-LINK CORPORATION and its subsidiaries as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 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 of the consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2018 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 D-LINK CORPORATION and its subsidiaries 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 report 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 D-LINK CORPORATION. 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 at December 31, 2019 and 2018, respectively, and the total revenues constituting 8% of the consolidated total revenues for the years ended December 31, 2019 and 2018, respectively.

D-LINK CORPORATION has prepared its parent company only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion with other matters paragraph.

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.

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 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 and evaluate the reasonableness. Furthermore, we assessed 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(c) 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 and the previous year's collection situation to assess whether there is any significant abnormality in the expected credit losses of the accounts receivable. 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 IFRSs, IASs, interpretation as well as related guidance endorsed 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 D-LINK CORPORATION and its subsidiaries' 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 D-LINK CORPORATION and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing D-LINK CORPORATION and its subsidiaries' 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 D-LINK CORPORATION and its subsidiaries' 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 D-LINK CORPORATION and its subsidiaries' 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 D-LINK CORPORATION and its subsidiaries 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 group 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.

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, 2020

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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' audit 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' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018		December 31, 2019		December 31, 2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Current assets:								
1100 Cash and cash equivalents (note 6(a))	\$ 3,141,284	20	4,424,864	25	2100			
1110 Financial assets at fair value through profit or loss -- current (notes 6(b))	70,549	-	8,548	-	2120			
1150 Notes receivable, net (note 6(c))	8,802	-	29,541	-				
1170 Accounts receivable, net (note 6(c))	3,575,633	23	4,249,038	24	2130			
1180 Accounts receivable due from related parties, net (note 7)	217	-	217	-	2150			
1197 Finance lease payment receivable (note 6(d))	30,595	-	-	-	2170			
1200 Other receivables (notes 6(c) and 7)	61,806	-	91,417	-	2180			
1220 Current tax assets	40,144	-	33,096	-	2200			
130X Inventories (note 6(e))	2,836,939	18	3,111,559	18	2230			
1470 Other current assets (notes 7 and 8)	395,518	3	381,409	2	2250			
	<u>10,161,487</u>	<u>64</u>	<u>12,329,689</u>	<u>69</u>				
Non-current assets:								
1517 Financial assets at fair value through other comprehensive income non-current (note 6(b))	440,095	3	482,011	3	2365			
1550 Investments accounted for using equity method (note 6(f))	2,029,686	13	2,208,160	13				
1600 Property, plant and equipment (note 6(h))	1,081,754	7	1,101,557	6	2570			
1755 Right-of-use assets (note 6(i))	554,077	4	-	-	2580			
1760 Investment property, net (note 6(j))	39,669	-	40,065	-	2600			
1780 Intangible assets (note 6(k))	586,308	4	622,270	4				
1840 Deferred tax assets (note 6(s))	634,247	4	533,467	3				
1900 Other non-current assets (note 8)	183,687	1	289,604	2				
	<u>5,549,523</u>	<u>36</u>	<u>5,277,134</u>	<u>31</u>				
Total assets	<u>\$ 15,711,010</u>	<u>100</u>	<u>17,606,823</u>	<u>100</u>				
Liabilities and Equity								
Current liabilities:								
Short-term loans (note 6(l))					2100			
Financial liabilities at fair value through profit or loss -- current (notes 6(b) and (p))	86,330	1			2120			
Contract liabilities -- current (note 6(v))	117,443	1			2130			
Notes payable	577	-			2150			
Accounts payable	1,985,581	13	2,212,938	13	2170			
Accounts payable to related parties (note 7)	926,767	6	1,308,330	7	2180			
Other payables (note 7)	1,471,000	9	1,692,891	10	2200			
Current tax liabilities	41,155	-	78,860	1	2230			
Provisions -- current (note 6(n))	207,735	1	204,548	1	2250			
Current lease liabilities (note 6(m))	162,888	1			2280			
Other current liabilities (note 6(p))	352,814	2	439,869	3	2300			
Refund liability -- current (note 6(o))	585,189	4	607,595	3	2365			
	<u>5,937,479</u>	<u>38</u>	<u>7,663,344</u>	<u>44</u>				
Non-Current liabilities:								
Deferred tax liabilities (note 6(s))	168,696	1	5,968	-	2570			
Non-current lease liabilities (note 6(m))	441,586	3			2580			
Other non-current liabilities (notes 6(r) and 7)	237,210	2	320,579	2	2600			
	<u>847,492</u>	<u>6</u>	<u>326,547</u>	<u>2</u>				
Total liabilities	<u>6,784,971</u>	<u>44</u>	<u>7,989,891</u>	<u>46</u>				
Equity attributable to owners of parent: (note 6(t))								
Ordinary shares	6,519,961	41	6,519,961	37	3110			
Capital surplus	1,598,807	10	1,669,905	9	3200			
Retained earnings:								
Legal reserve	2,033,379	13	2,107,941	12	3310			
Special reserve	205,562	1	-	-	3320			
Unappropriated retained earnings (Accumulated deficit)	(499,008)	(3)	216,200	1	3350			
	<u>1,759,933</u>	<u>11</u>	<u>2,324,141</u>	<u>13</u>				
	<u>(1,405,287)</u>	<u>(9)</u>	<u>(1,314,520)</u>	<u>(7)</u>				
Total equity attributable to owners of parent:	<u>8,473,414</u>	<u>53</u>	<u>9,199,487</u>	<u>52</u>				
Non-controlling interests (notes 6(g) and (t))	452,625	3	417,445	2	36XX			
	<u>8,926,039</u>	<u>56</u>	<u>9,616,932</u>	<u>54</u>				
Total equity	<u>15,711,010</u>	<u>100</u>	<u>17,606,823</u>	<u>100</u>				
Total liabilities and equity	<u>\$ 15,711,010</u>	<u>100</u>	<u>17,606,823</u>	<u>100</u>				

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
D-LINK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

	2019		2018	
	Amount	%	Amount	%
4000 Net operating revenues (notes 6(r) and 7)	\$ 16,996,048	100	19,383,203	100
5000 Operating costs (notes 6(e), (r) and 7)	<u>12,256,516</u>	<u>72</u>	<u>13,781,215</u>	<u>71</u>
Gross profit (loss) from operations	<u>4,739,532</u>	<u>28</u>	<u>5,601,988</u>	<u>29</u>
Operating expenses: (notes 6(c), (h), (i), (j), (m), (q), (r) and (w))				
6100 Selling expenses	3,168,206	19	3,308,581	17
6200 Administrative expenses	934,954	5	1,006,670	5
6300 Research and development expenses	1,064,731	6	1,008,798	5
6450 Expected credit loss (gain) (note 6(c))	<u>(43,603)</u>	<u>-</u>	<u>28,968</u>	<u>-</u>
	<u>5,124,288</u>	<u>30</u>	<u>5,353,017</u>	<u>27</u>
Net operating income (loss)	<u>(384,756)</u>	<u>(2)</u>	<u>248,971</u>	<u>2</u>
Non-operating income and expenses:				
7010 Other income (notes 6(q), (x) and 7)	48,642	-	45,965	-
7020 Other gains and losses (note 6(p), (x) and 7)	23,678	-	41,828	-
7050 Finance costs (notes 6(m), (p) and (x))	(40,440)	-	(24,114)	-
7060 Share of profit (loss) of associates accounted for using equity method (note 6(f))	<u>63,323</u>	<u>-</u>	<u>(15,253)</u>	<u>-</u>
Total non-operating income and expenses	<u>95,203</u>	<u>-</u>	<u>48,426</u>	<u>-</u>
Profit (loss) before tax	(289,553)	(2)	297,397	2
7950 Less: Income tax expenses (note 6(s))	<u>152,188</u>	<u>1</u>	<u>151,944</u>	<u>1</u>
Profit (loss)	<u>(441,741)</u>	<u>(3)</u>	<u>145,453</u>	<u>1</u>
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	5,070	-	(3,751)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(11,305)	-	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	2,019	-	(68,625)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(4,216)</u>	<u>-</u>	<u>(71,334)</u>	<u>-</u>
8360 Components of other comprehensive income (loss) that will be reclassified to profit or loss (notes 6(t) and (y))				
8361 Exchange differences on translation	(86,804)	-	(42,179)	(1)
8368 Gains (losses) on hedging instrument	-	-	(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	(10,826)	-	15,745	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(s))	<u>4,016</u>	<u>-</u>	<u>(16,892)</u>	<u>-</u>
	<u>(93,614)</u>	<u>-</u>	<u>(44,435)</u>	<u>(1)</u>
8300 Other comprehensive loss, net	<u>(97,830)</u>	<u>-</u>	<u>(115,769)</u>	<u>(1)</u>
Total comprehensive income	<u>\$ (539,571)</u>	<u>(3)</u>	<u>29,684</u>	<u>-</u>
Net income (loss), attributable to:				
Owners of parent	\$ (508,327)	(3)	106,374	1
Non-controlling interests	<u>66,586</u>	<u>-</u>	<u>39,079</u>	<u>-</u>
	<u>\$ (441,741)</u>	<u>(3)</u>	<u>145,453</u>	<u>1</u>
Comprehensive income attributable to:				
Owners of parent	\$ (585,979)	(3)	13,962	-
Non-controlling interests	<u>46,408</u>	<u>-</u>	<u>15,722</u>	<u>-</u>
	<u>\$ (539,571)</u>	<u>(3)</u>	<u>29,684</u>	<u>-</u>
Basic earnings per share (New Taiwan dollars) (note 6(u))	<u>\$ (0.78)</u>		<u>0.16</u>	
Diluted earnings per share (New Taiwan dollars) (note 6(u))	<u>\$ (0.78)</u>		<u>0.16</u>	

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 Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Total equity	
	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
Balance at January 1, 2018	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
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
Profit	-	-	-	-	106,374	-	-	-	-	-	-	106,374
Other comprehensive income	-	-	-	-	(4,601)	(49,230)	(66,734)	-	(1,109)	29,262	-	(92,412)
Total comprehensive income	-	-	-	-	101,773	(49,230)	(66,734)	-	(1,109)	29,262	-	(63,039)
Other changes in capital surplus:	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates accounted for using equity method	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	73,950	-	-	84,340	-	-	-	-	-	-	158,290
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(3,983)
Treasury shares sold to employees	-	-	-	-	7,847	-	(7,847)	-	-	-	-	-
Balance at December 31, 2018	6,519,961	1,669,905	2,107,941	-	216,200	(1,151,611)	(147,771)	-	-	(15,138)	17,912	9,199,487
Effects of retrospective application (accounted for using equity method)	-	-	-	-	(3,796)	-	-	-	-	-	-	(3,796)
Equity at beginning of period after adjustments	6,519,961	1,669,905	2,107,941	-	212,404	(1,151,611)	(147,771)	-	-	(15,138)	-	9,195,691
Profit (loss)	-	-	-	-	(508,327)	-	-	-	-	-	-	(508,327)
Other comprehensive income	-	-	-	-	1,205	(85,090)	(5,421)	-	-	11,654	-	(88,252)
Total comprehensive income	-	-	-	-	(507,122)	(85,090)	(5,421)	-	-	11,654	-	(580,889)
Appropriation and distribution of retained earnings:	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve appropriated	-	-	10,638	-	(10,638)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	205,562	(205,562)	-	-	-	-	-	-	-
Other changes in capital surplus:	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates accounted for using equity method	-	(5,898)	-	-	-	-	-	-	-	-	-	(5,898)
Cash dividends from legal reserve	-	-	(65,200)	-	-	-	-	-	-	-	-	(65,200)
Cash dividends from capital surplus	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	(65,200)	-	-	-	-	-	-	-	-	-	(65,200)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(11,228)
Balance at December 31, 2019	6,519,961	1,598,807	2,053,379	205,562	(499,088)	(1,236,701)	(165,102)	-	-	(3,484)	-	8,473,414
												452,625
												8,926,039

See accompanying notes to consolidated financial statements.

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

D-LINK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from (used in) operating activities:		
Profit (loss) before tax	\$ (289,553)	297,397
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	271,684	113,941
Amortization expense	56,085	45,284
Expected credit loss (gain)	(43,603)	28,968
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	82,774	(62,735)
Interest expense	40,440	24,114
Interest income	(41,921)	(42,323)
Dividend income	(4,909)	(1,713)
Compensation cost of share-based payment transaction	-	7,247
Share of loss (profit) of associates accounted for using equity method	(63,323)	15,253
Gain on disposal of investments	(36,016)	(77,934)
Reversal of impairment loss on non financial assets	-	(8,000)
Other	(67,363)	(15,146)
Total adjustments to reconcile profit (loss)	193,848	26,956
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	(64,871)	2,752
Decrease in notes receivable	20,739	4,005
Decrease in accounts receivable	710,810	279,687
Decrease in accounts receivable due from related parties	-	261
Decrease in other receivable	29,611	781
Decrease in inventories	372,202	135,950
Increase in other current assets	(19,938)	(30,675)
Decrease in other non-current assets	11,770	25,572
Total changes in operating assets	1,060,323	418,333
Increase (decrease) in contract liabilities	(21,546)	45,738
Increase (decrease) in notes payable	182	(247)
Increase (decrease) in accounts payable	(227,357)	355,114
Decrease in accounts payable to related parties	(381,563)	(187,404)
Decrease in other payable	(235,112)	(86,918)
Decrease in provisions	(36,402)	(19,232)
Increase in refund liabilities	46,417	90,970
Increase in other current liabilities	4,024	6,690
Decrease in other non-current liabilities	(51,063)	(39,517)
Total changes in operating liabilities	(902,420)	165,194
Total changes in operating assets and liabilities	157,903	583,527
Total adjustments	351,751	610,483
Cash inflow generated from operations	62,198	907,880
Interest received	41,921	42,323
Dividends received	121,671	135,577
Interest paid	(48,552)	(17,580)
Income taxes paid	(130,977)	(89,528)
Net cash flows from operating activities	46,261	978,672
Cash flows from investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	28,833	31,640
Proceeds from disposal of investments accounted for using equity method	28,968	173,501
Acquisition of property, plant and equipment	(72,356)	(63,462)
Proceeds from disposal of property, plant and equipment	2,398	34,814
Decrease (increase) in refundable deposits	50,368	(27,709)
Acquisition of intangible assets	(26,929)	(62,568)
Other investing activities	777	784
Net cash flows from investing activities	12,059	87,000
Cash flows used in financing activities:		
Decrease in short-term loans	(950,000)	(300,000)
Increase (decrease) in guarantee deposits received	16,543	(18,439)
Payment of lease liabilities	(180,011)	-
Cash dividends paid	(130,400)	-
Treasury shares sold to employees	-	17,924
Change in non-controlling interests	(11,228)	(3,983)
Net cash flows used in financing activities	(1,255,096)	(304,498)
Effect of exchange rate changes on cash and cash equivalents	(86,804)	(42,179)
Net increase (decrease) in cash and cash equivalents	(1,283,580)	718,995
Cash and cash equivalents at beginning of period	4,424,864	3,705,869
Cash and cash equivalents at end of period	\$ 3,141,284	4,424,864

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
D-LINK CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

D-LINK CORPORATION (the “Company”) was incorporated on June 20, 1987 under the approval of Ministry of Economic Affairs, Republic of China (“ROC”). The address of its registered office is No.289, Xinhua 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) Approval date and procedures of the consolidated financial statements:

The accompanying consolidated financial statements were approved and authorized for release by the Board of Directors on March 18, 2020.

(3) New standards, amendments 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, 2019.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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.

The Consolidated Company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Definition of a lease

Previously, the Consolidated Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Consolidated Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(m).

On transition to IFRS 16, the Consolidated Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Consolidated Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Consolidated Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Consolidated Company. Under IFRS 16, the Consolidated Company recognizes right-of-use assets and lease liabilities for most leases on-balance sheet.

The Consolidated Company decided to apply recognition exemptions to short-term leases of office building and leases of office equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Consolidated Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Consolidated Company applied this approach to all other lease.

In addition, the Consolidated Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) As a lessor

The Consolidated Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Consolidated Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Consolidated Company is required to assess the classification of a sub-lease by reference to the right-of-use asset, not the underlying asset. On transition, the Consolidated Company reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Consolidated Company concluded that the sub-lease is a finance lease under IFRS 16.

4) Impacts on financial statements

On transition to IFRS 16, the Consolidated Company recognised additional \$653,784 thousand of right-of-use assets, \$79,836 thousand of finance lease payment receivable and \$742,889 thousand of lease liabilities, and recognized deduction \$5,052 thousand of other current assets and \$14,321 thousand of other payables. In addition, the impact of adoption from investment accounted for using equity method on January 1, 2019, the Consolidated Company derecognised additional \$3,796 thousand of retained earnings. When measuring lease liabilities, the Consolidated Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.26%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Consolidated Company's consolidated financial statements	\$ 758,349
Recognition exemption for:	
short-term leases	(26,413)
contracts reassessed as service agreements	(15,049)
Extension and termination options reasonably certain to be exercised	<u>60,386</u>
	<u>\$ 777,273</u>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 742,889
Finance lease liabilities recognized as at December 31, 2018	<u>-</u>
Lease liabilities recognized at January 1, 2019	<u>\$ 742,889</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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 significant changes are as follows:

Amendments to IFRS 3 “Definition of a Business”

This amendment is a narrow-scope to improve the definition of a business and will likely result in more acquisitions being accounted for as asset acquisitions. This amendment is applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. The Consolidated Company do not anticipate that the application of this Standard will have a material impact on the Consolidated Company’s consolidated financial statements, but may have an impact on the assessment and accounting for future acquisitions.

(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 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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>

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

(4) Summary of 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

(i) Basis of Measurement

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

- 1) Financial instruments (including derivative financial instruments) at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) Equity-settled share-based payment are measured at fair value;
- 4) The defined benefit liabilities are measured at fair value of the plan assets less the present value of the defined benefit obligation.

(ii) 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

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Consolidated Company. The Consolidated Company 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements. The Consolidated Company attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Consolidated Company prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. 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. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Consolidated Company will attribute it to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2019	December 31, 2018	
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 %	
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 %	

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2019	December 31, 2018	
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 %	100.00 %	
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 %	100.00 %	
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)	Investment company	-	100.00 %	Dissolution in November 2019
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 %	
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 %	

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2019	December 31, 2018	
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 (Magyarország) kft (D-Link Magyarország)	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 %	Reorganization
D-Link Shiang-Hai (Cayman)	D-Link (Shiang-Hai) Co., Ltd (D-Link Shiang-Hai)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Shiang-Hai (Cayman)	Netpro Trading (Shiang-hai) Co., Ltd	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Mediterraneo	D-Link Adria d.o.o	Marketing and after-sales service	100.00 %	-	Reorganization
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 %	
D-Link ME	D Link NETWORK	Marketing and after-sales service	100.00 %	-	Incorporated in December 2019

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

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Consolidated Company entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- an investment in equity securities designated as at fair value through other comprehensive income;
- qualifying cash flow hedges to the extent that the hedges are effective.

(ii) 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 asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized or intends to sell or consume it in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting date; or
- (iv) The Consolidated Company 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 its settlement by the issue of equity instruments do not affect its classification.

(g) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are shortterm, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting shortterm cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(h) Financial Instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Consolidated Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI)—equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Consolidated Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) 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:

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) 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
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Consolidated Company, therefore, those receivables are measured at FVOCI. However, they are included in the 'trade receivables' line item.

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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends 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 are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Consolidated Company's right to receive payment is established.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) 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 certificate. Trade receivables that the Consolidated Company intends to sell immediately or in the near term are measured at FVTPL; however, they are included in the 'trade receivables' line item. 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.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) 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)

6) Impairment of financial assets

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

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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 90 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 debtor 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;
- 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 charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Consolidated Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

7) Derecognition of financial assets

The Consolidated Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Consolidated Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Consolidated Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Consolidated Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) 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.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) Derecognition of financial liabilities

The Consolidated Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Consolidated Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Consolidated Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments and hedge accounting

The Consolidated Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under 'other equity— gains (losses) on hedging instruments', limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Furthermore, if the Consolidated Company expects that some or all of the loss accumulated in other equity will not be recovered in the future, that amount is immediately reclassified to profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. The discontinuation is accounted for prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in other equity remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in other equity are immediately reclassified to profit or loss.

(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.

Gains and losses resulting from transactions between the Consolidated Company and an associate are recognized only to the extent of unrelated Consolidated Company's interests in the associate.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, 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 at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Consolidated Company.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings and improvements: 5~60 years
- 2) 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.

(iv) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owneroccupied to investment property.

(m) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Consolidated Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Consolidated Company assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Consolidated Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Consolidated Company has the right to direct the use of the asset throughout the period of use only if either:
 - the Consolidated Company has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the Consolidated Company has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the Consolidated Company designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) As a lessee

The Consolidated Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Consolidated Company's incremental borrowing rate. Generally, the Consolidated Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying assets, or
- there is a change of its assessment on whether it will exercise a extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Consolidated Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Consolidated Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Consolidated Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office building that have a lease term of 12 months or less and leases of low-value assets, including office equipment. The Consolidated Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Consolidated Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Consolidated Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Consolidated Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Consolidated Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Consolidated Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Consolidated Company applies IFRS15 to allocate the consideration in the contract.

The lessor recognizes a finance lease receivable at an amount equal to its net investment in the lease. Initial direct costs, such as lessors to negotiate and arrange a lease, are included in the measurement of the net investment. The lessor recognizes the interest income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Consolidated Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as rental income'.

Applicable before January 1, 2019

(i) Lessor

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

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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

(i) Goodwill

1) Recognition

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

2) 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.

(ii) Other intangible asset

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

(iii) 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.

(iv) Amortization

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

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:

1) Computer software: 1~8 years

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

3) 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Impairment – non-derivative financial assets

At each reporting date, the Consolidated Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable 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.

(i) Warranties

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

(ii) Litigation and royalties

Litigation and royalties are estimated at the expected legal cost based on historical experiences.

(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.

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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).

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.

In case of fixed-price contracts, the customers the fixed amount based on a payment schedule. If the services rendered by the Consolidated Company exceed the payment, a contract asset is recognized.

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

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Employee benefits

(i) 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. Subsidiaries in China 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.

(ii) Defined benefit plans

The Consolidated Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Consolidated Company, the recognized asset is limited to 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings. The Consolidated Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Consolidated Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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.

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized in profit or loss.

(u) Income Taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

The Consolidated Company has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Consolidated Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) 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.

Deferred tax assets are 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 profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(v) 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.

(w) 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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Significant accounting assumptions and judgments, and major 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

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(c) 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.

(6) Explanation of significant accounts:

(a) Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 3,211	4,399
Checking and saving accounts	2,342,204	2,346,161
Cash equivalents	<u>795,869</u>	<u>2,074,304</u>
	<u>\$ 3,141,284</u>	<u>4,424,864</u>

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 current assets.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial Assets and Liabilities

(i) Details as follows

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss - current		
Beneficiary certificates – mutual funds	\$ 67,618	-
Cross currency swaps	2,474	6,189
Forward foreign exchange contracts	<u>457</u>	<u>2,359</u>
Financial assets at fair value through profit or loss – current	<u>\$ 70,549</u>	<u>8,548</u>
Financial liabilities at fair value through profit or loss – current		
Cross currency swaps	\$ 12,802	3,617
Forward foreign exchange contracts	8,148	5,996
Exchangeable corporate bonds embeded derivative	<u>65,380</u>	<u>19,316</u>
	<u>\$ 86,330</u>	<u>28,929</u>
Financial assets at fair value through other comprehensive income – non-current		
Cameo Communication, Inc. (CAMEO)	\$ 359,778	389,101
IC Plus Corp. (ICPC)	-	16,046
Z-Com, Inc. (Z-Com)	40,483	33,632
YouXiang Electronic Technology (Beijing) Co., Ltd. (YouXiang)	2,245	4,160
Kaimei Electronic Corp. (Kaimei)	37,274	38,786
Venture Power Group Limited (Venture Power)	<u>315</u>	<u>286</u>
	<u>\$ 440,095</u>	<u>482,011</u>

- 1) Kaimei — the Consolidated Company's investee company accounted for as financial asset at fair value through other comprehensive income, has announced to become a 100% subsidiary of Teapo Electronic Corp. (Teapo) via share conversion in March 2019, with September 30, 2019 as the reference date of the share exchange, and the date of completion of the related procedures, based on the resolution made during the shareholders' meeting in June 2019. The Consolidated Company recognized its retained earning amounted to \$168 thousand. In October 2019, Teapo changed its name to Kaimei.

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) For disclosures on credit, currency and interest rate risks in financial instruments please refer to note 6(z).
- 3) As of December 31, 2019 and 2018, no financial assets are pledged as collateral.

(ii) 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:

Security price at reporting date	2019		2018	
	After-tax other comprehensive income (loss)	After-tax profit (loss)	After-tax other comprehensive income (loss)	After-tax profit (loss)
Increase 3%	\$ <u>13,184</u>	<u>1,582</u>	<u>14,460</u>	<u>-</u>
Decrease 3%	\$ <u>(13,184)</u>	<u>(1,582)</u>	<u>(14,460)</u>	<u>-</u>

(iii) (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, 2019 and 2018, transactions that do not qualify for hedging accounting are presented as held-for-trading financial assets were as follows:

1) Derivative financial assets

	December 31, 2019			December 31, 2018		
	Contract amount (thousand)	Currency	Maturity date	Contract amount (thousand)	Currency	Maturity date
Cross currency swaps:						
JPY	\$ 1,800,000	JPY	2020.7 ~2020.12	1,000,000	JPY	2019.12
RUB	192,014	RUB	2020.01 ~2020.02	-	-	-
Forward foreign exchange contracts:						
AUD (sell)	-	-	-	2,000	AUD	2019.01
CAD (sell)	-	-	-	2,500	CAD	2019.02
EUR (sell)	-	-	-	2,000	EUR	2019.02
JPY (sell)	220,000	JPY	2020.01 ~2020.02	-	-	-
USD (buy)	2,500	USD	2020.01	-	-	-

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Derivative financial liabilities

	December 31, 2019			December 31, 2018		
	Contract amount (thousand)	Currency	Maturity date	Contract amount (thousand)	Currency	Maturity date
Cross currency swaps:						
USD	\$ 22,900	USD	2020.01 ~2020.03	2,000	USD	2019.03
CNH	95,880	CNH	2020.01 ~2020.02	100,681	CNH	2019.01 ~2019.02
EUR	12,000	EUR	2020.01 ~2020.02	-	-	-
GBP	1,100	GBP	2020.01 ~2020.02	-	-	-
Forward foreign exchange contracts:						
EUR (sell)	7,000	EUR	2020.01 ~2020.02	4,500	EUR	2019.01 ~2019.02
BRL (sell)	12,001	BRL	2020.01 ~2020.02	13,711	BRL	2019.01
USD (buy)	-	-	-	4,000	USD	2019.01 ~2019.02
AUD (sell)	2,500	AUD	2020.01 ~2020.02	800	AUD	2019.03
KRW (sell)	2,322,550	KRW	2020.01 ~2020.02	2,249,400	KRW	2019.01 ~2019.02
JPY (sell)	110,000	JPY	2020.04 ~2020.05	570,000	JPY	2019.01 ~2019.04
CAD (sell)	2,200	CAD	2020.01 ~2020.02	800	CAD	2019.01
CNH (sell)	14,193	CNH	2020.01	-	-	-
Exchangeable corporate bonds embeded derivative:						
NTD	299,600	NTD	2020.06	390,800	NTD	2020.06

(c) Notes and accounts receivable and other receivables

	December 31, 2019	December 31, 2018
Notes receivable for operating activities	\$ 8,802	29,541
Accounts receivable	3,773,354	4,500,167
Other receivables	<u>61,806</u>	<u>91,417</u>
	3,843,962	4,621,125
Less: allowance for doubtful accounts	<u>(197,721)</u>	<u>(251,129)</u>
	<u>\$ 3,646,241</u>	<u>4,369,996</u>

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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. 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 2019 and 2018 was determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 3,028,837	0.95%	28,825
90 days or less past due	613,971	0.49%	2,994
91 to 180 days past due	20,956	5.46%	1,143
181 to 270 days past due	3,145	43.05%	1,354
271 to 360 days past due	255	83.80%	214
More than 360 days past due	<u>176,798</u>	92.30%	<u>163,191</u>
	<u><u>\$ 3,843,962</u></u>		<u><u>197,721</u></u>

	December 31, 2019		
	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	<u>146,832</u>	88.37%	<u>129,756</u>
	<u><u>\$ 4,621,125</u></u>		<u><u>251,129</u></u>

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

	2019	2018
Balance at January 1, 2019 and 2018	\$ 251,129	219,555
Impairment loss recognized	-	28,968
Expected credit loss reversed	(43,603)	-
Amounts written off	(16,003)	(802)
Others	<u>6,198</u>	<u>3,408</u>
Balance at December 31, 2019 and 2018	<u><u>\$ 197,721</u></u>	<u><u>251,129</u></u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Finance lease payment receivable

The Consolidated Company leased out its office building and warehouse. It classified the sublease as a finance lease because the sub-lease is for the whole of the remaining term of the head lease.

A maturity analysis of lease payments, which reflects the undiscounted lease payments to be received after the reporting date, is as follows:

	December 31, 2019
Less than one year (Total lease payments receivable)	\$ <u>30,595</u>

(e) Inventories

	December 31, 2019	December 31, 2018
Finished goods	\$ <u>2,836,939</u>	<u>3,111,559</u>

The operating cost comprises of cost of goods sold, write-down loss (reversal gain) of inventories to net realizable value, warranty costs and other loss (gain). For the year ended December 31, 2019 and 2018, the cost of goods delivered were \$12,198,070 thousand and \$13,324,047 thousand, respectively. Write-down of inventories to net realizable value is recorded as cost of goods sold and decreased by \$89,649 thousand and \$47,505 thousand in 2019 and 2018, respectively. In 2019 and 2018, the warranty expenses, inventory losses from obsolescence and others amounted to \$148,095 thousand and \$504,673 thousand, respectively.

As of December 31, 2019 and 2018, no inventories were pledged as collateral.

(f) Investments accounted for using equity methods

Investments accounted for using equity methods were as follows:

	December 31, 2019	December 31, 2018
Associates	\$ <u>2,029,686</u>	<u>2,208,160</u>

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Associates

Name of Associate	Name of relationship with the Consolidated Company	Principal place of business/ Registered Country	Ownership interest/ Voting rights held	
			December 31, 2019	December 31, 2018
Alpha Networks, Inc.(Alpha)	The major business are research, developments, design, manufacturing and selling broadband products, wireless products, computer networks system equipment and its components.	Taiwan	20.43 %	21.47 %

1) The financial information of Alpha was summarized as follows:

	December 31, 2019	December 31, 2018
Current assets	\$ 19,148,501	12,517,041
Non-current assets	5,851,867	2,433,592
Current liabilities	9,584,608	4,194,712
Non-current liabilities	<u>1,368,466</u>	<u>362,170</u>
Net assets	<u>\$ 14,047,294</u>	<u>10,393,751</u>
Net assets attributable to investee's shareholders	<u>\$ 14,047,294</u>	<u>10,393,751</u>
	2019	2018
Operating revenue	<u>\$ 15,825,808</u>	<u>15,608,222</u>
Net income (loss)	\$ 238,903	(88,009)
Other comprehensive loss	<u>(122,759)</u>	<u>(76,053)</u>
Total comprehensive income (loss)	<u>\$ 116,144</u>	<u>(164,062)</u>
Total comprehensive income (loss) attributable to investee's shareholders	<u>\$ 116,144</u>	<u>(164,062)</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2019	2018
The Consolidated Company's share in associate's net assets at beginning of year	\$ 2,230,426	2,301,212
Comprehensive income attributable to the Consolidated Company	37,247	(100,955)
Changes in equity of associates using equity method	(6,361)	164,440
Dividends received during the year	(116,762)	(116,718)
Less: exchange of exchangeable bond and sell of shares	<u>(120,107)</u>	<u>(17,553)</u>
The Consolidated Company's share in associate's net assets at end of year	2,024,443	2,230,426
Less: unrealized gains or losses	(111,337)	(138,846)
Add: goodwill	<u>116,580</u>	<u>116,580</u>
Carrying amounts of investments accounted for using equity method	<u><u>\$ 2,029,686</u></u>	<u><u>2,208,160</u></u>
	December 31, 2019	December 31, 2018
Carrying amounts of interests of immaterial associates	<u><u>\$ -</u></u>	<u><u>-</u></u>
	2019	2018
Attributable to the Consolidated Company		
Loss from continuing operations	\$ -	(1,191)
Other comprehensive income, net of tax	<u>-</u>	<u>1,239</u>
	<u><u>\$ -</u></u>	<u><u>48</u></u>

- 2) The market value of public listed or OTC investees of the Consolidated Company accounted for using equity method were as follows:

	December 31, 2019	December 31, 2018
Alpha	<u><u>\$ 2,610,572</u></u>	<u><u>1,931,683</u></u>

- (ii) Pledges

As of December 31, 2019 and 2018, no investment accounted for using equity methods is pledged as collateral.

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iii) 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 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 equity method to the financial assets at fair value through other comprehensive income, and recognized disposal profit amounted to \$2,797 thousand.
- (iv) 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, which cannot be withdrawn according to Business Mergers and Acquisitions Act. Accordingly, the Consolidated Company complied with the derecognition rule, and the recognized disposal profit amounted to \$99,278 thousand. The purchase price was decided judicially by the court in January 2020 and the Consolidated Company did not make any further appeal to the court.
- (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, 2019	December 31, 2018
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, 2019	December 31, 2018
Current assets	\$ 1,361,790	1,293,612
Non-current assets	577,480	589,714
Current liabilities	642,433	667,986
Non-current liabilities	<u>19,872</u>	<u>2,850</u>
Net assets	<u>\$ 1,276,965</u>	<u>1,212,490</u>
Net assets attributable to non-controlling interests	<u>\$ 452,625</u>	<u>417,445</u>

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2019	2018
Operating revenues	\$ <u>3,283,520</u>	<u>3,070,681</u>
Net income	\$ 135,945	79,786
Other comprehensive income	(41,196)	(47,687)
Total comprehensive income	\$ <u>94,749</u>	<u>32,099</u>
Net income attributable to non-controlling interests	\$ <u>66,586</u>	<u>39,079</u>
Total comprehensive income attributable to non-controlling interests	\$ <u>46,408</u>	<u>15,722</u>
Cash flows from (used in) operating activities	\$ 43,252	(18,760)
Cash flows used in investing activities	(1,412)	(17)
Cash flows from financing activities	409	49,428
Net increase in cash and cash equivalents	\$ <u>42,249</u>	<u>30,651</u>
Cash dividends paid to non-controlling	\$ <u>11,228</u>	<u>3,983</u>

(h) Property, plant and equipment

	2019				Balance as of December 31, 2019
	Balance as of January 1, 2019	Increase	Decrease	Others	
Cost:					
Land	\$ 546,510	-	-	1,495	548,005
Buildings	911,827	411	-	8,698	920,936
Others	<u>1,344,056</u>	<u>71,945</u>	<u>(18,587)</u>	<u>(11,095)</u>	<u>1,386,319</u>
	<u>2,802,393</u>	<u>72,356</u>	<u>(18,587)</u>	<u>(902)</u>	<u>2,855,260</u>
Accumulated depreciation:					
Buildings	507,101	21,241	-	(422)	527,920
Others	<u>1,193,735</u>	<u>79,868</u>	<u>(16,033)</u>	<u>(11,984)</u>	<u>1,245,586</u>
	<u>1,700,836</u>	<u>101,109</u>	<u>(16,033)</u>	<u>(12,406)</u>	<u>1,773,506</u>
	<u>\$ 1,101,557</u>	<u>(28,753)</u>	<u>(2,554)</u>	<u>11,504</u>	<u>1,081,754</u>

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018					Balance as of December 31, 2018
	Balance as of January 1, 2018	Increase	Decrease	Reclassification	Others	
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	<u>2,470</u>	<u>1,313</u>	<u>-</u>	<u>(3,609)</u>	<u>(174)</u>	<u>-</u>
	<u>2,961,330</u>	<u>63,462</u>	<u>(187,775)</u>	<u>-</u>	<u>(34,624)</u>	<u>2,802,393</u>
Accumulated depreciation:						
Buildings	495,889	21,773	(8,336)	-	(2,225)	507,101
Others	<u>1,245,209</u>	<u>91,771</u>	<u>(139,200)</u>	<u>-</u>	<u>(4,045)</u>	<u>1,193,735</u>
	<u>1,741,098</u>	<u>113,544</u>	<u>(147,536)</u>	<u>-</u>	<u>(6,270)</u>	<u>1,700,836</u>
Accumulated impairment:						
Buildings	<u>8,000</u>	<u>-</u>	<u>(8,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,212,232</u>	<u>(50,082)</u>	<u>(32,239)</u>	<u>-</u>	<u>(28,354)</u>	<u>1,101,557</u>

As of December 31, 2019 and 2018, no property, plant and equipment were pledged as collateral.

(i) Right-of-use assets

The Consolidated Company leases many assets including buildings, office equipment and transportation equipment. Information about leases is presented below:

	Buildings	Office equipment	Transportation equipment	Total
Cost:				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	<u>607,648</u>	<u>5,869</u>	<u>40,267</u>	<u>653,784</u>
Balance as of 2019 after adjustments	607,648	5,869	40,267	653,784
Increase	75,350	548	14,939	90,837
Decrease	(9,071)	-	(3,905)	(12,976)
Others	<u>(18,307)</u>	<u>(211)</u>	<u>(1,965)</u>	<u>(20,483)</u>
Balance at December 31, 2019	<u>\$ 655,620</u>	<u>6,206</u>	<u>49,336</u>	<u>711,162</u>
Accumulated Depreciation:				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	-	-	-	-
Balance as of 2019 after adjustments	-	-	-	-
Increase	148,012	2,485	19,682	170,179
Decrease	(4,966)	-	(3,905)	(8,871)
Others	<u>(3,763)</u>	<u>(64)</u>	<u>(396)</u>	<u>(4,223)</u>
Balance at December 31, 2019	<u>\$ 139,283</u>	<u>2,421</u>	<u>15,381</u>	<u>157,085</u>
Carrying amount:				
Balance at December 31, 2019	<u>\$ 516,337</u>	<u>3,785</u>	<u>33,955</u>	<u>554,077</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
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The Consolidated Company leases offices and warehouses under an operating lease, please refer to note 6(q).

(j) Investment property

	2019				Balance at December 31, 2019
	Balance at January 1, 2019	Increase	Decrease	Transfer	
Cost:					
Land	\$ 30,000	-	-	-	30,000
Buildings	<u>22,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,196</u>
	<u>52,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,196</u>
Accumulated Depreciation:					
Buildings	<u>11,131</u>	<u>396</u>	<u>-</u>	<u>-</u>	<u>11,527</u>
Accumulated impairment:					
Buildings	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
	<u>\$ 40,065</u>	<u>(396)</u>	<u>-</u>	<u>-</u>	<u>39,669</u>
	2018				Balance at December 31, 2018
	Balance at January 1, 2018	Increase	Decrease	Transfer	
Cost:					
Land	\$ 30,000	-	-	-	30,000
Buildings	<u>22,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,196</u>
	<u>52,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,196</u>
Accumulated Depreciation:					
Buildings	<u>10,734</u>	<u>397</u>	<u>-</u>	<u>-</u>	<u>11,131</u>
Accumulated impairment:					
Buildings	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
	<u>\$ 40,462</u>	<u>(397)</u>	<u>-</u>	<u>-</u>	<u>40,065</u>
				December 31, 2019	December 31, 2018
Book value				<u>\$ 39,669</u>	<u>40,065</u>
Fair value				<u>\$ 46,993</u>	<u>51,555</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
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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 refer to note 6(x). Besides, direct operating expense related to investment property was \$306 thousand and \$310 thousand in 2019 and 2018, respectively.

The fair value of investment property as of December 31, 2019 and 2018 was based on the comparable deal information with similar location and category or appraisal report, respectively.

As of December 31, 2019 and 2018, no investment property was pledged as collateral.

(k) Intangible assets

	2019						Balance as of
	Balance as of January 1, 2019	Increase	Decrease	Transfer	Amortization	Others	December 31, 2019
Goodwill	\$ 311,776	-	-	-	-	(3,299)	308,477
Trademark	147,239	-	-	-	-	(3,004)	144,235
Patents	23,103	-	-	-	(2,692)	-	20,411
Computer software costs	88,623	16,079	-	-	(32,035)	-	72,667
Other intangible assets	51,529	10,850	-	-	(21,358)	(503)	40,518
	<u>\$ 622,270</u>	<u>26,929</u>	<u>-</u>	<u>-</u>	<u>(56,085)</u>	<u>(6,806)</u>	<u>586,308</u>
	2018						Balance as of
	Balance as of January 1, 2018	Increase	Decrease	Transfer	Amortization	Others	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 costs	104,273	18,065	-	(2,821)	(30,894)	-	88,623
Other intangible assets	16,345	44,503	-	2,821	(11,699)	(441)	51,529
	<u>\$ 603,109</u>	<u>62,568</u>	<u>-</u>	<u>-</u>	<u>(45,284)</u>	<u>1,877</u>	<u>622,270</u>

(l) 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:

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Short-term Loans

	Currency	Interest rate	Maturity year	December 31, 2019	December 31, 2018
Unsecured bank loans	TWD	0.95~1.01	2019	\$ <u>-</u>	<u>950,000</u>
Unused credit facilities				\$ <u>4,326,671</u>	<u>3,477,986</u>

(ii) Long-term Loans

As of December 31, 2019 and 2018, the Consolidated Company did not have long-term loans. As of December 31, 2019 and 2018, the unused credit facilities amounted to \$500,000 thousand.

(m) Lease liabilities

The amounts of lease liabilities for the Consolidated Company were as follows:

	December 31, 2019
Current	\$ <u>162,888</u>
Non-current	\$ <u>441,586</u>

The amounts recognized in profit or loss were as follows:

	2019
Interests on lease liabilities	\$ <u>21,402</u>
Expenses relating to short-term leases	\$ <u>67,013</u>

The amounts recognized in the statement of cash flows for the Consolidated Company was as follows:

	2019
Total cash outflow for leases	\$ <u>268,426</u>

(i) Real estate leases

As of December 31, 2019, the Consolidated Company leases buildings for its office space. The leases of office space typically run for 1 to 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

(ii) Other leases

The Consolidated Company also leases office equipment with contract terms of one to three years. In some cases, the Consolidated Company has options to purchase the assets at the end of the contract term; in other cases, the Consolidated Company guarantees the residual value of the leased assets at the end of the contract term. Parts of these leases are short-term or leases of low-value items and the Consolidated Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Provisions — current

	2019						Balance at December 31, 2019
	Balance at January 1, 2019	Reclassification	Increase	Used	Reversed	Effect of exchange	
Warranties	\$ 144,619	-	11,202	(30,561)	-	(2,604)	122,656
Legal proceedings and royalties	<u>59,929</u>	<u>33,169</u>	<u>-</u>	<u>(5,841)</u>	<u>-</u>	<u>(2,178)</u>	<u>85,079</u>
	<u>\$ 204,548</u>	<u>33,169</u>	<u>11,202</u>	<u>(36,402)</u>	<u>-</u>	<u>(4,782)</u>	<u>207,735</u>
	2018						
	Balance at January 1, 2018	Reclassification	Increase	Used	Reversed	Effect of exchange	Balance at 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 and royalties	<u>58,204</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,725</u>	<u>59,929</u>
	<u>\$ 283,745</u>	<u>(66,501)</u>	<u>18,296</u>	<u>(19,232)</u>	<u>(11,490)</u>	<u>(270)</u>	<u>204,548</u>

(o) Refund liabilities

	December 31, 2019	December 31, 2018
Refund liabilities	<u>\$ 585,189</u>	<u>607,595</u>

Due to the application of IFRS 15, the provision of sale return and allowance were reclassified from provision, allowance of accounts receivables and other payable to refund liabilities.

(p) Bonds payable

Exchangeable corporate bonds

	December 31, 2019	December 31, 2018
Exchangeable bonds	\$ 1,200,000	1,200,000
Less: Discount and unamortized issuance cost	1,403	(4,781)
Accumulated exchanged bonds	<u>(900,400)</u>	<u>(809,200)</u>
Balance of exchangeable bonds	<u>\$ 301,003</u>	<u>386,019</u>
Embedded derivatives:		
Conversion options, included in financial liabilities at fair value through profit or loss	<u>\$ 65,380</u>	<u>19,316</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
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	2019	2018
Embedded derivative-loss (gains) measured at fair value, included in other gains and losses	\$ <u>65,527</u>	<u>(50,765)</u>
Interest expense	\$ <u>6,062</u>	<u>6,534</u>

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 thousand units. As of December 31, 2019, the bondholders have already exchanged 9,004 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 on or after July 18, 2015, and prior to June 17, 2020. For the year ended December 31, 2019, the bondholders exchanged 912 units amounted to \$91,200 thousand for 4,711 thousand of Alpha's common shares at \$19.36 per share and the Company recognized the profit amounted to 24,171 thousand. For the year ended December 31, 2018, the bondholders exchanged 195 units amounted to \$19,500 thousand for 912 thousand of Alpha's common shares at \$21.37 per share and the Company recognized the profit amounted to \$4,554 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. Since July 28, 2019 the conversion price was adjusted from \$20.38 to \$19.36.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 bonds 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 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.

(q) Operating leases

(i) Leases – Lessee

Non-cancellable operating lease rentals were payable as follows:

	December 31, 2018
Within one year	\$ 206,255
One to five years	375,837
Over five years	<u>176,257</u>
	<u>\$ 758,349</u>

The operating leases recognized in profit or loss in 2018 amounting to \$228,777 thousand.

(ii) Leases – Lessor

	December 31, 2019
Within one year	<u>\$ 353</u>

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Rental income general from investment property in 2019 and 2018 were amounted to \$1,812 thousand and \$1,929 thousand, respectively.

(r) Employee benefits

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

	December 31, 2019	December 31, 2018
Present value of benefit obligations	\$ 104,051	118,396
Fair value of plan assets	<u>(87,839)</u>	<u>(96,088)</u>
Deficit in the plan	<u>\$ 16,212</u>	<u>22,308</u>

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.

1) 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 \$87,873 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.

- 2) Movements in the present value of the defined benefit obligations in 2019 and 2018 were as follows:

	2019	2018
Defined benefit obligation at January 1	\$ 118,396	115,408
Current service costs and interests	2,641	2,912
Remeasurement of the net defined benefit liabilities		
– Actuarial losses from changes in the financial assumptions	3,659	4,136
– Actuarial (gains) losses from changes in experience adjustments	(5,684)	2,013
Benefits paid by the plan	<u>(14,961)</u>	<u>(6,073)</u>
Defined benefit obligation at December 31	<u>\$ 104,051</u>	<u>118,396</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movements in the fair value of the plan assets

The movements in the present value of the plan assets in 2019 and 2018 were as follows:

	2019	2018
Fair value of plan assets at January 1	\$ 96,088	95,081
Interest income	1,341	1,562
Remeasurement of the net defined benefit liabilities		
— Actuarial return on plan assets (excluding interests)	3,045	2,398
Contributions made	2,326	3,120
Benefits paid by the plan	<u>(14,961)</u>	<u>(6,073)</u>
Fair value of plan assets at December 31	<u>\$ 87,839</u>	<u>96,088</u>

4) Expenses recognized in profit or loss

The Company's expenses recognized in profit or loss for 2019 and 2018 were as follow:

	2019	2018
Current service costs	\$ 1,014	1,037
Net interest on the net defined benefit obligation	<u>286</u>	<u>313</u>
	<u>\$ 1,300</u>	<u>1,350</u>
	2019	2018
Operating costs	\$ 20	21
Selling expenses	669	603
Administrative expenses	260	409
Research and development expenses	<u>351</u>	<u>317</u>
	<u>\$ 1,300</u>	<u>1,350</u>

5) Actuarial gains or losses recognized in other comprehensive income

The Company's actuarial gains or losses recognized in other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Balance on January 1	\$ 56,934	53,183
Recognized	<u>(5,070)</u>	<u>3,751</u>
Balance on December 31	<u>\$ 51,864</u>	<u>56,934</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Actuarial assumptions

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

	2019.12.31	2018.12.31
Discount rate	1.125 %	1.375 %
Future salary increases	3.000 %	3.000 %

The Company shall pay the expected contributions of \$1,891 thousand to the plan for the next annual reporting period.

The weighted average duration of defined benefit obligation is 16.32 years and 16.38 years in 2019 and 2018, respectively.

7) Sensitivity analysis

The impact on present value due to the changes in the actuarial assumptions in 2019 and 2018 was as follows:

	Effective of defined benefit liabilities	
	Increase	Decrease
December 31, 2019		
Discount rate (0.25% change)	\$ (3,659)	3,822
Future salary increase (0.25% change)	3,684	(3,549)
December 31, 2018		
Discount rate (0.25% change)	(4,136)	4,314
Future salary increase (0.25% change)	4,170	(4,031)

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 the same as the previous financial statements.

(ii) 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.

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amount of the Company's pension expenses under defined contribution pension plan in 2019 and 2018 were as follows:

	2019	2018
Operating costs	\$ <u>8,220</u>	<u>9,086</u>
Operating expenses	\$ <u>124,844</u>	<u>132,584</u>

(s) Income Taxes

Income tax expenses for the years ended 2019 and 2018 were summarized as follows:

	2019	2018
Current income tax expense	\$ 86,224	120,382
Deferred tax expense		
Temporary differences occurred and reversal	<u>65,964</u>	<u>31,562</u>
Income tax expenses	\$ <u>152,188</u>	<u>151,944</u>

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

	2019	2018
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	\$ <u>(4,016)</u>	<u>16,892</u>

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

	2019	2018
Profit (loss) before income tax	\$ <u>(289,553)</u>	<u>297,397</u>
Income tax using the Company's domestic tax rate	(57,910)	59,479
Effect of tax rate in foreign jurisdiction	25,430	(56,539)
Share of profit of associates accounted for using equity method	202,049	-
Non-taxable income	(13,162)	(31,313)
Effect of income taxes movement	-	(18,060)
Unrecognized temporary differences	(86,127)	158,547
Reporting differences on prior year and others	<u>81,908</u>	<u>39,830</u>
	\$ <u>152,188</u>	<u>151,944</u>

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Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities

(i) Unrecognized deferred income tax assets

The unrecognized deferred income tax assets were as follows:

	December 31, 2019	December 31, 2018
Deductible temporary differences		
Unrealized expenses	\$ 137,816	179,724
Provisions	13,157	13,358
Impairment	24,318	24,318
Write-down of inventories to net realizable value	73,952	53,199
Others	<u>54,976</u>	<u>63,659</u>
	<u>304,219</u>	<u>334,258</u>
Operating loss carry forward	<u>1,027,689</u>	<u>1,072,623</u>
	<u>\$ 1,331,908</u>	<u>1,406,881</u>

(ii) Recognized deferred tax assets and liabilities

The movements in the amount of deferred tax assets and liabilities for the years 2019 and 2018 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, 2019	\$ 100,477	205,676	50,520	38,034	1,893	50,412	86,455	533,467
Recognized in income statement	(4,432)	-	(20,638)	(1,711)	425	141,591	(18,471)	96,764
Foreign currency translation reserve	-	4,016	-	-	-	-	-	4,016
Balance at December 31, 2019	<u>\$ 96,045</u>	<u>209,692</u>	<u>29,882</u>	<u>36,323</u>	<u>2,318</u>	<u>192,003</u>	<u>67,984</u>	<u>634,247</u>
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	<u>\$ 100,477</u>	<u>205,676</u>	<u>50,520</u>	<u>38,034</u>	<u>1,893</u>	<u>50,412</u>	<u>86,455</u>	<u>533,467</u>

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Investments under equity method	Others	Total
Deferred income tax liabilities:			
Balance at January 1, 2019	\$ -	5,968	5,968
Recognized in profit or loss	<u>143,177</u>	<u>19,551</u>	<u>162,728</u>
Balance at December 31, 2019	<u>\$ 143,177</u>	<u>25,519</u>	<u>168,696</u>
Balance at January 1, 2018	\$ 4,618	10,372	14,990
Recognized in profit or loss	<u>(4,618)</u>	<u>(4,404)</u>	<u>(9,022)</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>5,968</u>	<u>5,968</u>

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, 2019, 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	2017	2027	1,750,767
The Company	2019	2029	210,411
YEOCHIA	2014	2024	2,777
YEOTAI	2010	2020	15,071
YEOTAI	2011	2021	2,039
YEOTAI	2014	2024	2,813
YEOTAI	2016	2026	1,330
YEOTAI	2019	2029	5,947
D-Link Europe	2003 and 2015~2016	Unlimited	38,478
D-Link Brazil	2014~2019	Unlimited	1,099,086
D-Link Trade	2015	Unlimited	65,016
D-Link Shiang-Hai	2014~2015 and 2017~2018	2019~2020 and 2022~2023	625,237
D-Link Mexicana	2014~2015 and 2017~2019	2024~2025 and 2027~2029	122,382
D-Link Systems	2017~2018	2037~2038	190,219
D-Link International	2017~2019	Unlimited	1,861,730
D-Link Korea	2011~2019	2021~2029	<u>73,487</u>
			<u>\$ 6,066,790</u>

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D-LINK CORPORATION AND SUBSIDIARIES
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The income tax returns of the Company, YEOCHIA, YEOTAI and YEOMAO have been examined through 2017.

(t) Share capital and other equity

(i) Common stock

As of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2019	December 31, 2018
Common stock in excess of par value	\$ 1,217,030	1,282,230
Treasury stock	39,310	39,310
Changes in equities of associates accounted for using equity method	76,234	82,132
Expiry of share-based payment transactions	129,459	129,459
Expiry of redeemed options of convertible corporate bonds	81,454	81,454
Changes in equities of the Company's ownership interests in subsidiaries	<u>55,320</u>	<u>55,320</u>
Total	<u>\$ 1,598,807</u>	<u>1,669,905</u>

In 2018, 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.

(iii) Retained earnings

1) Legal reserve

In 2018, 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. In accordance with Ruling No. 10802432410 issued by the Ministry of Economic Affairs on January 9, 2020, the amount of retained earnings allotted to legal reserve shall be calculated based on "net earnings after income taxes, plus any other amount recognized in undistributed retained earnings" since the earnings distribution in 2019. 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.

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

In June 21, 2019, the Company decide to distributed dividend to shareholders with the amount \$65,200 thousand of legal revserve.

2) 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.

3) 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.

The Company has no earnings to distribute in 2018 due to the accumulated deficit. The Company's shareholders meeting resolved to distribute the cash dividends amounted to \$65,200 thousand (\$0.1 per share) of legal reserve and \$65,200 thousand (\$0.1 per share) of capital surplus, on June 21, 2019.

The Company is loss in 2017. There were no distributable earnings. The Company's shareholders meeting resolved appropriation of profit or loss on June 22, 2018.

4) 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.

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) 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	-
August 13, 2015	19,192	186,425	-	-	September 19, 2017	-
August 13, 2015	19,192	186,425	-	-	September 17, 2018	-

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. And in 2018, the Company recognized the compensation cost amounting to \$7,247 thousand, \$9,996 thousand and \$21,946 thousand, and wrote off treasury stocks \$17,912 thousand, \$78,943 thousand and \$89,570 thousand, and recognized Capital Surplus – treasury shares transaction amounting to \$7,259 thousand, \$10,047 thousand and \$22,004 thousand, respectively.

	2019		2018	
	Shares (in thousands)	Amount	Shares (in thousands)	Amount
Beginning balance	-	\$ -	1,844	17,912
Decreased	-	-	(1,844)	(17,912)
Ending balance (Beginning balance)	-	\$ -	-	-

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 September 30, 2019 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 \$2,961,614 thousand.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
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In addition, the Company should not pledge its treasury shares nor exercise voting rights before transferring to employees.

(v) Other equity

	Foreign exchange differences arising from foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Others
Balance at January 1, 2019	\$ (1,151,611)	(147,771)	(15,138)
The Consolidated Company	(62,610)	(11,305)	-
Associates	(22,480)	5,884	11,654
The Consolidated Company-disposal	-	(11,910)	-
Balance at December 31, 2019	<u>\$ (1,236,701)</u>	<u>(165,102)</u>	<u>(3,484)</u>

	Foreign exchange differences arising from foreign operations	Unrealized gains (losses) from 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 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)
The Consolidated Company	(35,714)	1,042	-	(1,109)	-
Associates	(13,516)	(67,776)	-	-	29,262
The Consolidated Company-disposal	-	(7,847)	-	-	-
Balance at December 31, 2018	<u>\$ (1,151,611)</u>	<u>(147,771)</u>	<u>-</u>	<u>-</u>	<u>(15,138)</u>

(vi) Non-controlling interests

	2019	2018
Balance at the beginning of the period	\$ 417,445	405,706
Net income attributable to non-controlling interest:		
Net income	66,586	39,079
Exchange differences on translation of foreign operations	(20,178)	(23,357)
Cash dividends distributed by subsidiaries	(11,228)	(3,983)
Balance at the end of the period	<u>\$ 452,625</u>	<u>417,445</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Earnings per share

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

(i) Basic earnings per share

	2019	2018
Profit (loss) attributable to owners of the parent	\$ <u>(508,327)</u>	<u>106,374</u>
Ordinary shares outstanding at 1 January	\$ 651,996	650,152
Weighted-average number of shares of treasury stock	<u>-</u>	<u>528</u>
Weighted-average number of ordinary shares outstanding at 31 December	<u>651,996</u>	<u>650,680</u>
Basic earnings (loss) per share	\$ <u>(0.78)</u>	<u>0.16</u>

(ii) Diluted earnings per share

	2019	2018
Profit (loss) attributable to owners of the parent	\$ <u>(508,327)</u>	<u>106,374</u>
Weighted-average number of ordinary shares outstanding	\$ 651,996	650,680
Employees' bonuses have not yet been resolved by the shareholders' meeting	<u>44</u>	<u>99</u>
Weighted average number of ordinary shares (diluted) at December 31	<u>652,040</u>	<u>650,779</u>
Diluted earnings (loss) per share	\$ <u>(0.78)</u>	<u>0.16</u>

For calculation of the dilutive effect of the stock option, the average market value is assessed based on the quoted market price where the Company's option is outstanding.

(v) Revenue from contracts with customers

(i) Consolidate Company revenue from contract revenue

Major product / Service lines	2019	2018
Network communication products	\$ 16,847,803	19,257,469
Services	<u>148,245</u>	<u>125,734</u>
	<u>\$ 16,996,048</u>	<u>19,383,203</u>
Primary geographical markets	2019	2018
Europe	\$ 3,382,293	5,492,355
Others	<u>13,613,755</u>	<u>13,890,848</u>
	<u>\$ 16,996,048</u>	<u>19,383,203</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Contract liabilities

- 1) The Consolidated Company recognized contract revenue related to contract liabilities:

	December 31, 2019	December 31, 2018
Contract Liabilities — current (sales)	\$ 117,443	138,989

- 2) The Consolidated Company recognized \$90,034 thousand and \$45,147 thousand in sales from beginning contract liabilities during 2019 and 2018.

(w) 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.

The Company had an annual loss in the year ended December 31, 2019, and thus, the Company was not required to accrue any remuneration to its employees and directors.

For the year ended 2018, the remunerations to employees and directors amounted to \$1,196 thousand and \$1,196 thousand, respectively, were paid in cash, based on the resolution made during the Board of Directors' meeting on March 18, 2019, which had been proposed in the shareholder's meeting in 2019. The information is available on the Market Observation Post System website. The information is available on the Market Observation Post System website.

(x) Other income and losses

(i) Other income

	2019	2018
Interest income	\$ 41,921	42,323
Rental income	1,812	1,929
Dividend income	4,909	1,713
Total	\$ 48,642	45,965

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Other gains and losses

	<u>2019</u>	<u>2018</u>
Gain on disposals of investments	\$ 36,016	77,934
Foreign currency exchange gains (losses)	43,243	(69,802)
Reversal of impairment	-	8,000
Valuation gains (losses) from financial assets and liabilities	(82,774)	62,735
Others	<u>27,193</u>	<u>(37,039)</u>
	<u>\$ 23,678</u>	<u>41,828</u>

(iii) Financial costs

	<u>2019</u>	<u>2018</u>
Interest expense	\$ (19,038)	(24,114)
Lease liability interests	<u>(21,402)</u>	<u>-</u>
Net financial costs	<u>\$ (40,440)</u>	<u>(24,114)</u>

(y) Items that were reclassified to other comprehensive income

Details of the reclassification adjustments of other comprehensive income in 2019 and 2018 were summarized as follow:

	<u>2019</u>	<u>2018</u>
Exchange differences on translation of foreign operations		
Change in foreign currency exchange from the Consolidated Company	\$ (66,626)	(18,822)
Change in foreign currency exchange from non-controlling interests	<u>(20,178)</u>	<u>(23,357)</u>
Change in exchange differences on translation of foreign operation recognized in other comprehensive income	<u>\$ (86,804)</u>	<u>(42,179)</u>
Share of other comprehensive income accounted for using equity method		
Change in foreign currency exchange from associates	\$ (24,092)	(13,575)
Reclassification adjustments	1,965	7,563
Change in other comprehensive income from associates	<u>11,301</u>	<u>21,757</u>
Share of other comprehensive income from associates	<u>\$ (10,826)</u>	<u>15,745</u>
Gains (losses) on effective portion of cash flow hedge		
Reclassification adjustments	<u>-</u>	<u>(1,109)</u>
Change from the consolidated Company	<u>\$ -</u>	<u>(1,109)</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(z) Financial instruments

(i) Category of financial instruments

1) Financial Assets

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 3,141,284	4,424,864
Financial assets at fair value through profit or loss — current	70,549	8,548
Notes receivable, accounts receivable and other accounts receivable (including related parties)	3,646,458	4,370,213
Financial lease payment receivable	30,595	-
Financial assets at fair value through other comprehensive income — non-current	440,095	482,011
Refundable deposits and other current assets	<u>106,815</u>	<u>96,971</u>
	<u>\$ 7,435,796</u>	<u>9,382,607</u>

2) Financial liabilities

	December 31, 2019	December 31, 2018
Short-term loans	\$ -	950,000
Financial liabilities at fair value through profit or loss — current	86,330	28,929
Notes payable, accounts payable and other payables (including related parties)	4,383,925	5,214,554
Bonds payable	301,003	386,019
Guarantee deposits received	69,121	52,578
Lease liability (current and non-current)	<u>604,474</u>	<u>-</u>
	<u>\$ 5,444,853</u>	<u>6,632,080</u>

(ii) Credit risk

Exposure to credit risk:

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2019 and 2018, the maximum amount exposed to credit risk amounted to \$7,435,796 thousand, and \$9,382,607 thousand, respectively.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) 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, 2019							
Non-derivative financial liabilities							
Notes payable	\$ 577	577	577	-	-	-	-
Accounts payable	1,985,581	1,985,581	1,985,581	-	-	-	-
Accounts payable to related parties	926,767	926,767	926,767	-	-	-	-
Other payables	1,471,000	1,471,000	1,471,000	-	-	-	-
Bonds payable	301,003	301,003	301,003	-	-	-	-
Lease liability	604,474	658,979	101,824	77,868	118,975	225,808	134,504
Guarantee deposits received	69,121	69,121	69,121	-	-	-	-
Derivative financial liabilities							
Embedded exchangeable corporate bonds							
Foreign exchange swap contracts	65,380	65,380	65,380	-	-	-	-
Outflow	12,802	1,557,422	1,557,422	-	-	-	-
Inflow	-	1,546,745	1,546,745	-	-	-	-
Forward exchange contracts	8,148	582,041	582,041	-	-	-	-
Outflow	-	574,257	574,257	-	-	-	-
Inflow	-	-	-	-	-	-	-
	<u>\$ 5,444,853</u>	<u>9,738,873</u>	<u>9,181,718</u>	<u>77,868</u>	<u>118,975</u>	<u>225,808</u>	<u>134,504</u>
	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	-	-	-	-
Guarantee deposits received	52,578	52,578	52,578	-	-	-	-
Derivative financial liabilities							
Embedded exchangeable corporate bonds							
Foreign exchange swap contracts:	19,316	19,316	19,316	-	-	-	-
Outflow	3,617	511,987	511,987	-	-	-	-
Inflow	-	508,057	508,057	-	-	-	-
Forward exchange contracts:	5,996	650,243	650,243	-	-	-	-
Outflow	-	508,057	508,057	-	-	-	-
Inflow	-	-	-	-	-	-	-
	<u>\$ 6,632,080</u>	<u>8,802,795</u>	<u>8,802,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(iv) Currency risk

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

		2019			2018	
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets (note):						
Monetary items:						
CLP	\$	56,967	0.04	2,303	64,940	0.04
JPY		741,389	0.28	205,365	1,699,258	0.28
CAD		14,450	23.18	334,982	15,971	22.53
USD		188,140	30.11	5,664,128	265,707	30.73
MXN		2,222	1.60	3,545	595	1.56
BRL		15,523	7.47	115,942	30,487	7.93
AUD		4,870	21.11	102,811	5,873	21.66
				<u>\$ 6,429,076</u>		<u>9,374,889</u>
Derivative financial instruments:						
USD	\$	2,338	30.11	70,398	212	30.73
JPY		6,253	0.28	1,731	22,081	0.28
RUB		2,015	0.49	980	-	-
				<u>\$ 73,109</u>		<u>12,708</u>
Financial liabilities (note):						
Monetary items:						
JPY	\$	1,899,117	0.28	526,055	1,321,428	0.28
CAD		1,496	23.18	34,685	4,071	22.53
BRL		22,868	7.47	170,802	23,341	7.93
USD		140,679	30.11	4,235,274	178,425	30.73
CLP		192,906	0.04	7,799	266,107	0.04
AUD		1,609	21.11	33,964	1,129	21.66
MXN		119	1.60	190	178	1.56
				<u>\$ 5,008,769</u>		<u>6,167,325</u>
Derivative financial instruments:						
EUR		235	33.75	7,941	-	-
GBP		13	39.92	538	-	-
CAD		24	23.18	545	-	-
JPY		601	0.28	167	-	-
KRW		12,196	0.03	328	-	-
BRL		331	7.47	2,473	-	-
USD		72	30.11	2,164	313	30.73
CNH		1,215	4.32	5,241	-	-
AUD		74	21.11	1,553	-	-
				<u>\$ 20,950</u>		<u>9,613</u>

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.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 total foreign exchange gains and losses, including realized and unrealized, were gains \$43,243 thousand and losses \$69,802 thousand for the years ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018 would have decreased or increased the net loss after tax by \$17,669 thousand and \$38,528 thousand, respectively, assuming all other variables were held constant.

(v) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Consolidated Company'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 Consolidated Company 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 \$0 thousand and \$49 thousand for 2019 and 2018 with all other variable factors remaining constant.

(vi) Assets and liabilities measured at fair value

1) 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:

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Notes to the Consolidated Financial Statements

					December 31, 2019			
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	\$ 440,095	437,535	-	2,560				
Derivative assets and liabilities								
Assets:								
Financial assets at fair value through profit or loss — current	70,549	-	70,549	-				
Liabilities:								
Financial liabilities at fair value through profit or loss — current	86,330	-	86,330	-				
					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	477,565	-	4,446				
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	-				
2) 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.

3) Transfer from Level 1 to Level 2

As of December 31, 2019 and 2018, there were no transfers between level 1 and level 2 of the fair value hierarchy.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Reconciliation of level 3 fair values

	Financial assets at fair value through other comprehensive income
Balance at January 1, 2019	\$ 4,446
Recognized in other comprehensive income	<u>(1,886)</u>
Balance at December 31, 2019	<u>\$ 2,560</u>
Balance at January 1, 2018	\$ 6,712
Recognized in other comprehensive income	<u>(2,266)</u>
Balance at December 31, 2018	<u>\$ 4,446</u>

For the years ended December 31, 2019 and 2018, total gains and losses that were included in unrealized gains and losses from financial assets at fair value through other comprehensive income were as follows:

	2019	2018
Total gains and losses recognized:		
In other comprehensive income, and presented in “unrealized gains and losses from financial assets at fair value through other comprehensive income”	\$ (1,886)	(2,266)

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Consolidated Company’s financial instruments that use Level 3 inputs to measure fair value include fair value through other comprehensive income – equity investments.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income-equity investments without an active market	Net Asset Value Method	Net Asset Value	Not applicable

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Assets and liabilities not measured at fair value

1) 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.

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Non-financial assets:				
Investment property	\$ <u>39,669</u>	<u>46,993</u>	<u>40,065</u>	<u>51,555</u>
December 31, 2019				
<u>Assets and liabilities</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Non-financial assets:				
Investment property	\$ 46,993	-	-	46,993
December 31, 2018				
<u>Assets and liabilities</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Non-financial assets:				
Investment property	\$ 51,555	-	-	51,555

2) 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

(i) Overview

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

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(ii) 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.

(iii) 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.

1) 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, 2019 and 2018, revenue from each foreign customer does not exceed 5% of the Consolidated Company's revenue and therefore, there is no concentration of credit risk.

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D-LINK CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 expected credit loss and historical collection record of similar financial assets or the possibility of breaching the contracts.

2) 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.

3) Guarantees

Pursuant to the Consolidated Company's policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2019 and 2018, the Consolidated Company has not provided any guarantees to a third party.

(iv) 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

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Consolidated Company has unused short term bank facilities for \$4,826,671 thousand as of December 31, 2019.

(v) 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.

1) 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.

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D-LINK CORPORATION AND SUBSIDIARIES
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2) 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.

3) 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, 2019	December 31, 2018
Total liabilities	\$ 6,784,971	7,989,891
Less: cash and cash equivalents	<u>(3,141,284)</u>	<u>(4,424,864)</u>
Net debt	<u>\$ 3,643,687</u>	<u>3,565,027</u>
Total equity	<u>\$ 8,926,039</u>	<u>9,616,932</u>
Debt to equity ratio	<u>40.82%</u>	<u>37.07%</u>

As of December 31, 2019, the methods of the Consolidated Company's capital management remained unchanged.

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

Information of non-cash-traded investing and financing activities for the years ended December 31, 2019 and 2018 were as follows:

- (i) Requirement of right-to-use assets through lease agreement, please refer to note 6(m).
- (ii) Exchangeable corporate bonds, please refer to note 6(p).

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D-LINK CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	January 1, 2019	Cash flows	Non-cash changes			December 31, 2019
			Acquisition	Fair value changes	Others	
Short-term loan	\$ 950,000	(950,000)	-	-	-	-
Bonds payable	386,019	-	(91,078)	6,062	-	301,003
Lease liabilities	742,889	(180,013)	-	-	41,598	604,474
Others	52,578	16,543	-	-	-	69,121
Total liabilities from financing activities	<u>\$ 2,131,486</u>	<u>(1,113,470)</u>	<u>(91,078)</u>	<u>6,062</u>	<u>41,598</u>	<u>974,598</u>

	January 1, 2018	Cash flows	Non-cash changes			December 31, 2018
			Acquisition	Foreign exchange movement	Fair value changes	
Short-term loan	\$ 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	<u>\$ 1,719,443</u>	<u>(318,439)</u>	<u>(18,941)</u>	<u>-</u>	<u>6,534</u>	<u>1,388,597</u>

(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
Cameo Communication, Inc.	A corporate director of individual

(b) Significant related party transactions

(i) Sales and service revenue

	2019	2018
Associates	<u>\$ 463</u>	<u>683</u>

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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.

(ii) Purchases

	2019	2018
Associates:		
Alpha	\$ 2,227,506	3,136,043
Others	85	622
Other related-parties:		
Cameo	<u>1,613,073</u>	<u>1,710,744</u>
	<u>\$ 3,840,664</u>	<u>4,847,409</u>

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.

(iii) Accounts receivable due from related parties

Account	Related party categories	December 31, 2019	December 31, 2018
Accounts receivable	Associates—Alpha	\$ 217	217
Other receivables	Associates—Alpha	847	4,452
Other receivables	Associates—Others	4	69
Other receivables	Other related parties—Cameo	<u>35</u>	<u>-</u>
		<u>\$ 1,103</u>	<u>4,738</u>

(iv) Accounts payable to related parties

Account	Related party categories	December 31, 2019	December 31, 2018
Accounts payable	Associates—Alpha	\$ 538,164	848,370
Accounts payable	Associates—Others	-	70
Accounts payable	Other related-parties—Cameo	388,603	459,890
Other payables	Associates—Others	11,919	20,404
Other payables	Other related-parties—Cameo	<u>20,011</u>	<u>8,787</u>
		<u>\$ 958,697</u>	<u>1,337,521</u>

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES
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(v) Services purchased from related parties

The services purchased from related-parties were as follows:

	2019	2018
Associates:		
Alpha	\$ 15,777	25,916
Others	472	476
Other related-parties:		
Cameo	<u>28,118</u>	<u>12,807</u>
	<u>\$ 44,367</u>	<u>39,199</u>

(vi) Property transaction

1) Property, plant and equipment acquired

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

	2019	2018
Associates:		
Alpha	\$ 6,261	5,432
Other related-parties:		
Cameo	<u>3,330</u>	<u>9,572</u>
	<u>\$ 9,591</u>	<u>15,004</u>

- 2) 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 \$0 thousand was recognized under other non-current liabilities; and the realized profits of \$20,735 thousand was recognized under other gains and losses.

The details of the abovementioned transactions were summarized as follows:

Account	Related party categories	2019	2018
Other non-current liabilities	Associates	<u>\$ -</u>	<u>2,160</u>
Account	Related party categories	2019	2018
Gains and Losses	Associates	<u>\$ 2,160</u>	<u>683</u>

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D-LINK CORPORATION AND SUBSIDIARIES
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(vii) Other gains and losses

Account	Related party categories	2019	2018
Other gains and losses	Associates—Bothhand	\$ -	1,483
Other gains and losses	Associates—Alpha	800	2,486
Other gains and losses	Other related parties—Cameo	-	80
		<u>\$ 800</u>	<u>4,049</u>

(c) Key management personnel compensation

Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	\$ 38,437	65,341
Post-employee benefits	1,745	1,569
Share-based payments	-	939
	<u>\$ 40,182</u>	<u>67,849</u>

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2019	December 31, 2018
Other current assets and other non-current assets	Rental deposits, performance bond and time deposits	<u>\$ 113,864</u>	<u>105,443</u>

(9) Commitments and contingencies:

- (a) 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 Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (b) The Company's subsidiary, D-Link India, had disputes regarding prior year's declaration of tariff settlement with the local tax authorities. The Consolidated Company has assessed and estimated the amount that may be paid.
- (c) 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.
- (d) American Patents, LLC filed a lawsuit against the Company in October 2019, alleging that some of the Company's products infringed its patents. The Company has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Consolidated Company believe the litigation will not have any significant impact on its current operations.

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D-LINK CORPORATION AND SUBSIDIARIES
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- (e) BE Labs, Inc. filed a lawsuit against the Company's subsidiary, D-Link Systems, in October 2019, 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 Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (f) Shenzhen Dunjun Technology Co.,Ltd. filed a lawsuit against the Company's subsidiary, D-Link Shiang-Hai, in October 2019, alleging that some of the D-Link Shiang-Hai's products infringed its patents. D-Link Shiang-Hai has retained its attorneys in the China and is currently building defense with product suppliers. Based on its evaluation, the Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (g) International License Exchange of America, LLC filed a lawsuit against the Company's subsidiary, in November 2019, 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 Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (h) Castlemorton Wireless LLC filed a lawsuit against the Company in January 2020, alleging that some of the Company' products infringed its patents. The Company has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (i) Parity Networks LLC filed a lawsuit against the Consolidated Company in February 2020, alleging that some of the Company' products infringed its patents. The Company has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (j) STC.UNM filed a lawsuit against the Company in February 2020, alleging that some of the Company' products infringed its patents. The Company has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Consolidated Company believe the litigation will not have any significant impact on its current operations.
- (k) 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 significant losses are unlikely.
- (l) As of December 31, 2019 and 2018, the Consolidated Company's outstanding stand by letter of credit for purchasing inventories were \$12,894 thousand and \$10,317 thousand, respectively.

(10) Losses Due to Major Disasters: None.

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(11) Subsequent Events:

Since early 2020, the coronavirus outbreak caused uncertainties in the operating environment of the Consolidated Company's suppliers in China, including the suppliers' production and delivery delays, and affected the Consolidated Company's operation. However, the relevant information is still unclear to have a reasonable estimation for operation and financial situation. The Consolidated Company will constantly monitor the development of the event and assess in time.

(12) Other information:

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

By item	By function	For the year ended December 31					
		2019			2018		
		Cost of Goods Sold	Operating Expense	Total	Cost of Goods Sold	Operating Expense	Total
Employee benefits							
Salaries		78,837	2,359,026	2,437,863	82,108	2,372,140	2,454,248
Labor and health insurance		2,637	137,171	139,808	2,425	127,462	129,887
Pension		8,240	126,124	134,364	9,107	133,913	143,020
Others		9,172	266,359	275,531	9,493	271,873	281,366
Depreciation		13,253	258,431	271,684	1,512	112,429	113,941
Amortization		71	56,014	56,085	374	44,910	45,284

(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 equipments 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.

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D-LINK CORPORATION AND SUBSIDIARIES
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	Americas	Europe	2019 Emerging markets and others	Adjustments and eliminations	Total
Revenue:					
Third-party customers	\$ 2,222,383	3,382,293	11,391,372	-	16,996,048
Inter-company	<u>11,132</u>	<u>3,486</u>	<u>3,394,959</u>	<u>(3,409,577)</u>	<u>-</u>
Total revenue	<u>\$ 2,233,515</u>	<u>3,385,779</u>	<u>14,786,331</u>	<u>(3,409,577)</u>	<u>16,996,048</u>
Reportable segment profit (loss)	<u>\$ (11,235)</u>	<u>43,683</u>	<u>(590,289)</u>	<u>268,288</u>	<u>(289,553)</u>
	Americas	Europe	2018 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	<u>6,429</u>	<u>3,660</u>	<u>4,930,162</u>	<u>(4,940,251)</u>	<u>-</u>
Total revenue	<u>\$ 2,723,570</u>	<u>5,496,015</u>	<u>16,103,869</u>	<u>(4,940,251)</u>	<u>19,383,203</u>
Reportable segment profit (loss)	<u>\$ (28,477)</u>	<u>154,097</u>	<u>571,980</u>	<u>(400,203)</u>	<u>297,397</u>
	Americas	Europe	Emerging markets and others	Adjustments and eliminations	Total
Reportable segment assets:					
December 31, 2019	<u>\$ 2,987,295</u>	<u>2,433,688</u>	<u>22,651,379</u>	<u>(12,361,352)</u>	<u>15,711,010</u>
December 31, 2018	<u>\$ 3,326,168</u>	<u>2,196,782</u>	<u>25,686,590</u>	<u>(13,602,717)</u>	<u>17,606,823</u>

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

Total reportable segment revenues after deducting the intergroup revenues were \$3,409,577 thousand and \$4,940,251 thousand in 2019 and 2018, 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 customer of the Consolidated Company, please refer to 6(v).

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(c) Geographic information

<u>Country</u>	2019	2018
Revenue from external customers:		
Non-current assets		
Taiwan	\$ 932,684	994,051
India	432,920	438,794
Other countries	<u>1,079,891</u>	<u>620,651</u>
Total	<u>\$ 2,445,495</u>	<u>2,053,496</u>

Non-current assets include property, plant and equipment, investment property, right-of-use assets, 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 2019 and 2018.