2016

ANNUAL REPORT

D-Link®
Building Networks for People

Financial Highlights

▶▶ NT$ in thousands

	2016	2015
Net Sales	22,921,798	26,614,479
Gross Profit	6,016,963	6,433,117
Operating Income (Loss)	(-855,366)	-1,587,130
Income (Loss) Before Tax	(-789,374)	-2,092,000
Net Income (Loss)	(-909,666)	-1,825,737
FX Rate (USD to NTD)	32.323	31.899
Cash & Cash Equivalents	4,314,246	3,917,389
Total Assets	19,390,896	21,262,619
Long Term Loans	-	150,000
Shareholder's Equity	9,930,590	11045,559
Shares Outstanding **	635,365	646,019

** in thousands

Letter to Shareholders, Customers, Partners, and Employees

Chairman
JOHN HSUAN

CEO
DOUGLAS HSIAO

President
ANNY WEI

Dear Shareholders,

2016 was a challenging year for D-Link, with the overall global economy in turmoil. Britain's referendum resulted in the UK exiting the European Union, leaving the global economy in a state of shock. The U.S. market was worse than expected, and the recovery of the Eurozone and Japanese economy remains to be seen. Emerging market currencies continued to weaken due to the strength of the U.S. dollar. Furthermore, the networking equipment industry remained fiercely competitive, with retailers gradually being replaced by e-commerce channels. Faced with these difficulties, D-Link has remained committed to "innovation" and "execution". The management team has concentrated on improving the organizational structure and efficiency, and continues to focus on core markets and businesses, while readjusting their goals to turn loss into profit.

Looking at last year's financial performance, D-Link's global consolidated revenue was 22.9 billion NT (13.9 % less than the previous year), gross margin was 26.2% (2 percent higher than the previous year), operating loss was 860 million NT (730 million NT less than the previous year's 1.6 billion NT loss), net loss after tax was 950 million NT (920 million NT less than the previous year), and EPS was -1.5 NT. This was due to D-Link's organization restructuring and adjustments in partner selection.

D-Link was founded over 30 years ago. After last year's restructuring, in addition to our continuing to strive for excellence in the industry, we believe that our true value comes from the quality in our 170 + overseas offices in 60 + countries and the localization of our marketing channels. The creation of the "D-Link Partners Team" will help us to build our brand equity, integrating the high-quality products of our strategic partners, including commercial platforms and infrastructure. D-Link will provide even more complete, integrative solutions for global channels, demonstrating our competitiveness to the global market.

On the product side, D-Link has always focused on product innovation, adhering to its own brand as the developmental core. D-Link is aware of its role as an industry leader and role model, and we are actively aligning with international companies to support their ecosystems. D-Link's wireless cameras currently support IFTTT, Amazon Alexa, and Google Assistant. D-Link has also partnered with Microsoft to create "Super Wi-Fi" to upgrade global Wi-Fi coverage, and launched Omna 180 Cam HD, the first home security camera compatible with Apple HomeKit. Last year, D-Link was lauded by popular American IT magazine "PC Magazine" for having the best networking products of 2016. The AC5300 Ultra Wi-Fi Router (DIR-895L) received the Outstanding Technology Gold Award in the wireless router category, the HD Wi-Fi Camera (DCS-936L) received the Outstanding Technology Gold Award in the internet camera category, and the world's first 4T4R AC2600 Wi-Fi Range Extender (DAP-1860) received the Special Recommendation Award in the wireless router category. Winning these three technology awards simultaneously made D-Link notable for having the most nominated and winning networking products.

Looking toward 2017, the overall global economic outlook remains uncertain. D-Link plans to focus on its core goals: brand value and sustainable management. D-Link has adopted three strategies. The first strategy is for the company founders to pass on their legacy and passion for D-Link to the current management team and hone their professional management skills. The second strategy is to drive innovation and brand exposure simultaneously, while also investing in high-value products and solutions based on different market needs. The third strategy is to attract long-term, high-yield shareholders to stabilize our long-term sustainable development.

We would like to thank our shareholders for their trust and support. The management team and all D-Link employees will continue to uphold our business stability, spirit, and sustainable development. We will continue to meet our corporate social responsibilities and strive to achieve our performance goals. Lastly, we wish everyone all the best in health and in life.

Globalization through Localization

LOCAL MARKET UNDERSTANDING, INTERNATIONAL PRESENCE

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

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

Emerging Markets, Asia-Pacific Region

Due to the economic conditions and reduced spending on infrastructure, the overall market opportunities have shrunk, yet D-Link still held a formidable position both in the SMB and the consumer segment.

D-Link MEA ranked first or close to second in most of the markets in which we have a presence, with stiff competition from TP-Link and Linksys in the consumer segment. Both for the SMB segment and the consumer segment, we received numerous awards by reputable publishers. In 2016, one of our goals was to expand into the SMB and niche enterprise markets alongside our alliance vendors MOXA, GAJSHIELD and Z-COM. Another goal was to significantly increase our revenue in the Middle Eastern and African 4G/LTE market, which we managed to do successfully. D-Link MEA also expected to grow exponentially in the PoE switches market, which has borne fruit due to increased surveillance & IP telephony requirements in the region.

Our fast reaction to market changes, our strong relations with our partners, our marketing, pre-sales, sales and post-sales support, our local warehousing facility, and being close to the largest sea and airport in the region were our key advantages enabling us to reach our goals. In addition, our local technical support centers in Egypt, KSA, Morocco, Pakistan, Qatar, Oman, Cyprus, Bahrain, Kuwait, and Iraq and the support from our presales and logistics team have all contributed to D-Link MEA's success in 2016. D-Link MEA also made sure that sufficient technical trainings were provided to technical staff of resellers, distributors, merchandisers and system integrators.

There were many challenges D-Link MEA had to address and overcome. Due to the foreseen financial instabilities, banks have decreased their lending and credit exposure. Political instabilities caused by wars in the region, the dollar fluctuation, the dropping oil prices, the credit crunch due to banking rule changes were but a few of the impediments the company had to face head-on.

Generally, the recent years have been difficult for some countries, with ongoing wars, revolutions etc. In Egypt, Syria and Lebanon, it has become ever more difficult to provide credit, even though the companies may have had a long history with D-Link MEA in trade and business. With fluctuating currencies, the world economy has been feeling this impact, which consequently led companies to a more conservative budget approach in terms of IT spending.

D-Link MEA's main source of revenue came from sales of wireless devices for consumers and businesses, switches, structure cabling solutions, and 4G mobility products. New products from the 11AC, 4G, PoE switching and structured cabling portfolio sold particularly well due to the attractive price-performance ratio, especially the low-cost models of the "A" series of products. The 11AC products were high in demand due to the need to adapt to newer technologies and the requirement for faster networks. The 4G segment has been very successful due to the ever-increasing need to stay connected at all times. Due to new rules and regulations that made IP surveillance mandatory in schools, hotels, and hospitals, end-point devices like access points, IP cameras, and IP telephones were required. Our surveillance implementations also led to an increased need for structured cabling solutions and PoE switching devices. Our long-term relationships with our partners, adjustments in the pricing and time-to-market strategies when monitoring our competition and the necessary marketing activities - in particular promotions - helped D-Link MEA succeed.

Better sales often correlates with current, regional events, such as shopping festivals or exhibitions. In the UAE, for example, we have shopping festivals several times a year, and the most important ones drive higher sales due to the ongoing promotions being launched during that time. The festivals are namely DSF (January), Ramadan (mid of June to mid of July) and Dubai Summer Surprises (from mid of July to mid of August). During the year there are also consumer electronics events which allow customers to go home with great bargains. In the UAE, we have GITEX SHOPPER in Abu Dhabi during spring time and in Dubai during April and October. During these events most of the retail outlets in the shopping malls have some great offers going on. The major IT Fair, GITEX (in October, usually one week after the Autumn GITEX SHOPPER) also results in higher product sales, especially in the consumer segment.

D-Link MEA's partner programme, implemented in the year 2000, counts to the oldest and most accepted partner programmes in the region. To fully support our channel partner network across the Middle East & Africa, D-Link MEA has been holding regular training sessions at its premises and visited partners to conduct technical and sales-based trainings to refresh their expertise in the networking arena. In addition, D-Link has been helping channel partners with all marketing-related concerns, such as showroom branding, co-branded advertisements, etc. Some challenges that had to be conquered concerned the efforts to keep partners excited about products and technologies. At times, it has also been demanding to arrange trainings in compliance with their busy schedules, and bring them together under one roof regularly. With D-Link launching new products on an almost weekly basis, from time to time, it has also proven arduous to keep partners up-to-date with promoting the new products. Usually, it takes some time for them to gain trust in new technologies, which has led to prolonged response times from the time of the D-Link product launch to the partners actually ordering the products.

In 2016, D-Link MEA worked out a detailed plan to promote its business and consumer products through the various advertising channels. A combination of B2C and B2B actions has been set in place in order to reach the sales targets and enhance the brand awareness in the region. The different tools of D-Link MEA's annual marketing campaign included: exhibitions, electronic events, email marketing, B2C/B2B Print & online advertisements, partner trainings, sales promotions, PPC advertising: Google AdWords, social media (Facebook), retail narketing, partner incentive programs, partner events, public relations, marketing collateral & give-Away Items.

D-Link MEA won many significant projects in the region in 2016. We are highlighting four projects here.

1. Abu Dhabi Mall
2. Al Fateis Tower
3. Al Manara School (SMB Networking Implementation of the Year Award Winner)

CASE STUDY / **ABU DHABI MALL**

High Speed Network Solution for Top Ranked Shopping Mall in the UAE

BACKGROUND

Abu Dhabi Mall is one of the top-ranked shopping malls in the UAE. Located in the heart of the city, Abu Dhabi, it is truly comfortable and serves as a convenient family centre with more than 200 retail spaces.

CHALLENGE

Abu Dhabi Mall attracts millions of visitors a year and the increasing number of footfall demanded an agile ICT setup. It was the main reason why the mall management decided to build a high-speed 10G backbone with the latest industry-standard network infrastructure. They required the infrastructure to be ready for collaborative platforms, future-proof technologies and high-availability network architecture.

D-Link provided the complete network solution with a two-tier architecture from the core xStack DGS-3620 to the access xStack DES-3800 series. The xStack DGS-3620 series is equipped with robust features that fulfil the most demanding network's needs for voice and video streaming. The D-Link Safeguard Engine™ helps to prevent Denial-of-Service (DoS) attacks while the Access Control List (ACL) enhances network security.

As the DES-3800 series is a member of the D-Link xStack family of next-generation switches, it delivers high-performance, flexible expansion, robust security, multi-layer Quality of Service (QoS), Power over Ethernet features.

D-Link provided its Network Management software D-View 7 NMS which allows hierarchical administration to manage convergent networks in multiple locations. It is a web-based network management system designed to effectively manage device monitoring, configurations and troubleshooting. Users can access D-View 7 with their browser anytime and from anywhere, as long as they are connected to the Internet.

North America

Despite challenges in all business units due to aggressive competition, D-Link continued to secure its role as a market leader by introducing new products and closing new opportunities.

In 2016, North American customers continued to adopt Wi-Fi surveillance cameras to help protect the people and things they love. D-Link introduced a line of ultra-wide viewing 180-degree cameras for consumers and small businesses to easily monitor a room with wall-to-wall coverage. D-Link scored major wins in retail and e-tail with these ultra-wide viewing cameras and saw increased adoption of 11AC wireless routers and range extenders as homes increased the number of devices and streaming content.

D-Link's success with the DIR-890L/R Ultra Series router continued in 2016 with additional awards and accolades from media and customers. With the success of the Ultra Series Router, D-Link was able to secure placement at a club warehouse retailer. Additionally in 2016, D-Link's mydlink line of consumer IP cameras was placed at major national retailers, including Best Buy, Target and Walmart. In the summer of 2016, D-Link launched the highly successful HD Wi-Fi Camera (DCS-936L) across all major retailers and e-tailers. By Fall of 2016, it had become D-Link's top selling camera due to its excellent features and affordability.

There were numerous challenges in the market with aggressive pricing from new and existing competitors and a myriad of protocols and technologies that were competing in the Connected Home segment. D-Link is partnering with top technology companies like Apple, Qualcomm, Google and Amazon to deliver exceptional products and features at affordable prices to US consumers.

DUS was strong in the SME and SMB space with our focus and growth in switches, wireless products, and the Vigilance camera line. This was especially the case in the healthcare and education industries.

While D-Link switches struggled with recognition in the enterprise market, they continued to provide us our primary revenue. The switches delivered excellent performance and were priced aggressively to grow market share. POE switches are leading our sales into the security channel, which we will target next with our cameras and recording solutions. D-Link Vigilance cameras have been selling well in the IT channel, because more networking specialists are finding IP camera surveillance to be more valuable than analog systems.

However, serious competition from Chinese companies has impacted business in all segments. 2016 saw increased competition primarily in cameras and entry level switches. In light of this, we have made adjustments to our product line and pricing to allow our partners to compete with these new vendors. It is our expectation that 2017 will be a year of stabilization as we move into 2018. Focused sales have turned revenue upwards. We also believe the direct marketing channel is opening up as we align more aggressively with their market requirements.

In regards to the service provider business unit, D-Link U.S. 2016 highlights included record sales to satellite service providers and acquisition of their first cellular service provider as a customer, while also retaining sales to traditional service providers. Gateways, routers and home automation products were the main product areas.

CASE STUDY

D-Link Helps Pavlov Media Create Reliable Network Connections for Hundreds of Off-Campus Student Communities Nationwide

BACKGROUND

Pavlov Media is the nation's largest private provider of internet and video services to off-campus student housing. The company's team of more than 130 people continues to expand on a national fiber optic backbone that connects hundreds of multiple dwelling unit (MDU) communities and over 156,000 residents in more than 40 states, plus Canada. Over time, Pavlov Media has earned patents on new technology and spent years developing a new way to bring ultra-high-speed internet and cable television to hundreds of apartments, condos and student housing sites across the nation.

The Vision: Expand reliable network infrastructure nationwide to accommodate growth of multi-dwelling unit communities

Pavlov Media's entire business is built on operating the fastest, most reliable networks available to maximize resident experiences from coast to coast. So partnering with the right provider of networking gear is paramount to their continued growth and success. "The multi-dwelling unit market is one that demands value and reliability," said Mark Scifres, CEO of Pavlov Media. "Therefore, we choose our Ethernet equipment based on price, reliability and performance, and finally brand. Our Ethernet infrastructures need to last a minimum of 10 years, and we need hardware options for 10 Gigabit fiber distribution, IPv4/IPv6 and port security radius by MAC address authentication." Pavlov Media is also a network operator—competing with companies like Comcast and TimeWarner to operate and support its widespread expanse of private networks to ensure a quality customer experience. "Our service proposals have long sales cycles that require complex vendor coordination for network equipment models and designs that change over time," said Scifres. "This requires flexibility in both engineering and the supply chain." For all of these reasons, Pavlov continues to purchase and rely on networking gear from D-Link.

The Solution: Gigabit Smart managed switches that provide fast data transfer speeds, advanced security and a Command Line Interface (CLI) for improved manageability

Pavlov Media's relationship with D-Link started over a decade ago—and remains strong today. Right now, one of Pavlov Media's favorite D-Link products is the DGS-1510 Series—a Gigabit Stackable Smart Managed Switch that offers several critical features to meet Pavlov Media's strict criteria. The DGS-1510 switch is helping Pavlov Media keep up with its dramatic business growth and improve its business productivity and profitability. In addition to creating new networks, Pavlov Media also takes over a number of networks from other hardware vendors, and many features needed to make networks run well don't exist on that hardware. For example, many don't support Rogue DHCP prevention (plugging routers in backwards), which can cause serious network reliability issues for property owners and managers. According to Scifres, D-Link solutions offer this important feature, as well as Denial of Service (DoS) mitigation that's better than some of the legacy solutions from other vendors.

10 years after the credit crunch, consumer confidence finally began to pick up in early 2016 and the upturn was seen in most EU countries with economic growth finally returning. However with the United Kingdom's decision to leave (Brexit) the European Union, the whole European ICT market was thrown into turmoil, resulting in weaker consumer and corporate confidence for the second half of 2016.

According to EU reports, "In spite of the positive growth momentum, the economic recovery in the euro area remained incomplete. While private consumption revived, investment was still relatively weak, held back by modest sales expectations, ongoing deleveraging and uncertainty. Weak investment dampened demand in the near term but also affected potential growth by weighing down on the capital stock and productivity growth."

Through the year D-Link Europe continued its strategy of expanding and developing its European partner network, running specific campaigns designed to not only attract new partners but also enhance the capabilities of existing partners. These campaigns showed positive results, with increased partner revenue as well as a discernible increase in the number of partners joining the Value In Partnership+ (VIP+) programme. By continuing its strategy of ensuring that partners were conversant with D-Link products and technologies, D-Link Europe ensured that its value added partners were prepared for the new markets that were emerging. The VIP+ programme continues to be the focus for the company.

Based on the success of its previous years' strategy to establish itself as a leading player in the Smart Home Market, D-Link extended its focus to encompass the business segment and the wider IOT market. With its 30 year heritage in the network industry, targeting the burgeoning Smart Cities and Industry 4.0 sector, D-Link believes its extensive partner network will be instrumental in ensuring its success in these new sectors in 2018. The culmination of years of development resulting in the shipment of its portfolio of industrial and data centre switches will begin in 2018, and are designed to address the needs of these new markets. The emphasis on its traditional market sectors like corporate networking, video surveillance and wireless business will continue. By adding these additional products to its portfolio,

D-Link is convinced that they will provide major opportunities for its channels to continue to flourish, ensuring a long and profitable future.

CASE STUDY / **GOTTLIEB DAIMLER SCHOOL**

The 2000+ pupils of the Gottlieb-Daimler-Schule in Sindelfingen cannot believe how fast their wireless network is. Just before the autumn holidays, the school decided to update its wireless network, which pupils used for educational purposes with their own devices. As a matter of course, the school used child protection filters to control access to the Internet, but there they had no bandwidth control. With extensive use of tablets in the classroom (32 tablets per class) this put a strain on not only the network infrastructure but also the wireless network of the school. Thus the "Telefonanlage" renewal project was born, a complex project with exacting German design and details to prepare the school for current and future requirements. Neither quality nor quantity should be compromised but at the same time the budget and time constraints should be respected.

The project tender was won by Conetis GmbH, a D-Link VIP+ Partner using wired and wireless network components from D-Link because of the technical capabilities of the D-Link components as well as the price-performance ratio of the whole solution. Over the summer, the classrooms, halls and administration block in the school were completely rewired. Towards the end of the summer holidays, the installation of switches and wireless infrastructure began, and a total of 45 DWL-8610AP Access Points were installed. The Access Points were controlled by two DWC-2000 Wireless controllers configured to provide wireless redundancy. A new 10 Gigabit Ethernet D-Link Backbone made up of DGS-3420 and DXS-3200-32 was deployed to provide bandwidth and resiliency for VOIP and data traffic. After two weeks of commissioning tests, the wireless network was signed off on schedule and budget just before the start of the autumn term. "The project was very complex and it combined many requirements. With the components from D-Link and the expertise and cooperation of Conetis, we were able to succeeded." said Dirk Riebesell, project manager for GDS.

CASE STUDY/ **IMPACT HUB**

Impact Hub consists of a network of more than 10,000 entrepreneurs who work every day to find solutions to everyday problems, both big and small. Impact Hub has a presence in 70 cities worldwide. At Impact Hub in Stockholm there are more than 60 workstations, office equipment and facilities for start-ups to have meaningful meetings, share ideas and take inspiration from each other. Impact Hub users expect constant access to all of the tools they need to do their jobs, whether they are at their desk, in the common areas or in a conference room. In the past, Impact Hub had a number of different solutions for their wireless network, but none of these worked satisfactorily. The network was always too slow, had insufficient capacity and users were often thrown off the network. Impact Hub Stockholm's goal was simple- install a wireless solution that was easy to connect and manage, where everything must work 110 per cent since they did not have an in-house IT department. They turned to D-Link to try and address their needs.

D-Link's first step was to conduct a site survey, which revealed that Impact Hub's existing wireless network was using the same channel on the 2.4 GHz band as 12 other wireless networks in their building. The resulting interference caused most of the poor performance. Furthermore, D-Link identified that there were not enough access points in relation to the floor space in their premises for the number of users. D-Link delivered a wireless network based on the 802.11ac standard, which covered the office space of 478 square metres with five wireless access points. In addition to this, two switches and a central management system were installed based on the Wireless Gigabit Switch Controller, DWS-3160. The switch provided the central management functionality, which enabled the administrators to have total control over the whole network. They could manage all the wireless access points remotely and constantly see the status of the network as well as how many clients were connected.

Jesper Kjellerås, the founder of Impact Hub Stockholm, says that the new solution has been very well received and that the difference compared with before is huge. Wireless performance is much faster and people can now move around the premises with full coverage at all times. The 11ac network is stable, with no interference and no more occasional crashes. Benefits of the new wireless network solution are clear- 6.5 times faster wireless network , full coverage throughout the premises with no interference, possibility to handle more users and clients when needed, as well as the the possibility to offer guest login.

Consumer Solutions

D-Link's revolutionary innovations are raising the value of its products and securing its role as a trend leader in the cloud networking market.

For the past 30 years, D-Link has led the industry as a role model for other brands, focusing on innovation and quality. In addition to our wireless cameras currently supporting IFTTT Amazon Alexa, and Google Assistant, we have worked alongside Microsoft to create "Super Wi-Fi" to enhance wireless network coverage around the world. Furthermore, D-Link officially launched the new Omna™ 180 Cam HD (DSH-C310) at CES 2017. The Omna 180 Cam HD was the first camera to support the Apple HomeKit platform, providing consumers with a smarter way to monitor their homes.

In recent years, the IP camera market has grown in advanced countries, due to increased lens resolutions and reasonable prices. Handheld smart devices and various cloud application services prospered. Furthermore, the market demand remained high because security monitoring needs and awareness increased, along with other factors. Additionally, the overall household market penetration remained low, implying substantial growth potential in the future. In the enterprise market, the safety control equipment segment met high price competition. However, thanks to the integration of cloud applications and increasingly widespread 4G LTE in developing countries, it is estimated that home care and remote surveillance will continue to grow exponentially for the next few years. With the integration of cloud applications and increasingly widespread 4G LTE in developing countries, it is estimated that development will continue to grow exponentially for the next few years. Digital cameras and IoT sensors may become the next wave of universally accepted household appliances. Although current sales performance is poor, there is great potential for exponential growth.

D-Link's security monitoring solution integrates existing Switch, Storage, Software, and Service, with Surveillance as its core, to provide a comprehensive service for customers. When purchasing IP surveillance equipment, customers face complications with product selection, complex terminology, technical difficulties, and other third-party factors. During product set up, they often encounter conflicts with existing network infrastructure and sometimes have to spend time dealing with compatibility and system integration issues. D-Link's security monitoring solution is a complete solution, making it more convenient and simpler in terms of product selection, procurement, and utilization. This saves time and cost and eliminates compatibility issues.

D-Link's cutting edge 4G LTE mobile cloud solutions support mobile operators and other industry professionals in providing unparalleled internet experiences to consumers. Service is more effective, sharing files and information is faster, and high-quality multimedia files have high-capacity, ultra-fast transmission and more powerful mobility. The innovative integration of 4G LTE and D-Link's cloud service will allow for high-quality mobile internet freedom and entertainment from anywhere, at any time.

Digital home appliances, including voice, music, photo, video, sensor, and other multimedia applications, offer home entertainment and other smart home needs such as security monitoring and safety for the family. These products include IP cameras, network storage equipment, smart plugs, sensors, gateways, and others. Cloud application solutions and other general networking equipment on the market only fulfill basic networking needs. However, the D-Link cloud integrates all networking devices.

The revolutionary cloud series was launched at the end of 2011, integrating cloud with the mydlink platform and transforming networking products into an upgraded realm of application services. The D-Link cloud was a giant step forward, allowing D-Link to be at the forefront of the networking cloud industry. Through the mydlink Cloud, users can enjoy features such as notifications, monitoring, control, access, and sharing. The mydlink platform enables users to control and monitor their smart home remotely and watch over their loved ones. D-Link's mydlink Smart Home platform, cloud, and products have currently accumulated 3 million users, and D-Link plans to utilize this basis to provide customers with the best application services. Being able to satisfy the diverse needs of every person on an everyday basis, D-Link's mydlink Cloud is truly innovative.

D-Link's value-added cloud service that leads the market and other innovative, forward-looking products make D-Link stand apart. Complete product lines and comprehensive networking solutions are irreplaceable core strengths. With the world's broadest distribution, D-Link also has the advantages of real-time localization services and customization. New IP cameras and 11ac technology have gradually taken the lead in the global market for digital cameras, helping D-Link to become consumers' number one brand. D-Link strives to combine its cloud and networking products with first class companies such as Apple and Google so that more Connected Home products are provided to consumers.

Business Solutions

While the industry experienced significant changes in 2016, D-Link kept to its traditions, continuously monitoring these changes and providing cost effective solutions to help customers build up a highly efficient, reliable network to support their business.

For the data center market, we launched the 5000 series data center switches with ultra-high 10G/25G/40G/100G speed and very low latency. This series complies with Open Network Install Environment (ONIE) architecture, providing the flexibility of selecting the total solution, brite-box, or white-box business model for customers. With this open architecture, data center owners can plan their software investment according to their business growth. The 5000 series also provides a robust, redundant hardware design, which guarantees that customer service won't be impacted by any single point failure.

With the rising data center application, the cost of 10G Ethernet was controlled significantly, allowing Enterprises and SMBs to migrate their access network from Gigabit to 10Gigabit at an affordable price. D-Link 10G Smart DXS-1100 and DXS-1210 series remove all overdesigned components for the data center switch while keeping the same performance to help customers upgrade their access network at a limited cost.

Most customers chose D-Link switches because of our quick reactions to problems, as well as the functions that our switches offer. As competitors released more and more products to ODM partners for cost saving, D-Link decided to enlarge our switch software investment and raise the ratio of self-development products. With higher control of the switch software, D-Link could provide even better service quality and user experience for our customers.

As a market leader in the IP surveillance market, D-Link continues to improve our products and lead the market toward a more user-friendly and cost-effective direction. We enable a special surveillance mode in most of our smart switch families, which helps customer to install and trouble shoot surveillance networks more easily. With this new implementation, customers can receive a truly robust IP surveillance service by controlling their IP surveillance equipment and network. Moving forward, D-Link plans to launch new IP cameras with H.265 codec. It not only would reduce the loading of the current data network, but would make the future 4K/8K resolution possible, benefiting those mission critical applications such as city surveillance.

To strengthen our Wi-Fi hot spot solution, the new 802.11ac outdoor AP DWL-8710 provided higher speed and more reliable Wi-Fi signal for open areas. On the other hand, D-Link also continued to improve our "Bring Your Own Device" (BYOD) solution by introducing the new DUA-2000 access policy server. By centralizing the management of all devices and user accounts, D-Link helped businesses scale up their BYOD initiatives.

More and more SMBs or chain stores are looking for an outsourcing network service so that they can put their IT investment in their core applications. With the great success in the largest ISP in Japan, D-Link continuously expanded our business cloud solution, including more switch and IP camera products, allowing SMB customers to release more loading to the contractors.

D-Link has served business enterprises for decades. We have always believed in the value of helping people solve their problems and building an affordable network. D-Link's value-added products designed to meet the ever-evolving needs of businesses worldwide, extend across all domains of the business networking infrastructure, and secure our position as a state-of-the art, end-to-end solution provider.

Service **Provider Solutions**

Business continued to decline for the service provider segment in 2016, but D-Link is hopeful for improvement in 2017.

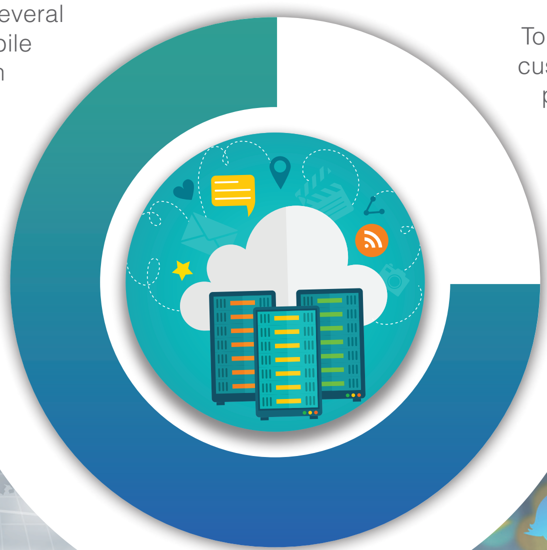
Various factors contributed to weak performance in the service provider segment in 2016. Our main customers in Russia did not execute many infrastructure projects in the first half of 2016. They started to initiate projects in the second half of 2016, and we believe business will improve even more in 2017, but it would take years for us to return to our previous revenue. Shipments were affected for our main customers in Europe due to security issues. The situation improved later-one of our 2 main customers began shipping VDSL products in 4Q, 2016.

In Brazil, the unstable political situation and unanticipated merging and reorganization of telecommunication companies in the country hurt the service providers' business. Due to price competition and inflation, we were forced to forgo a few projects in order to sustain our business. However, the growth of the mobile segment in 2017 is expected to be positive with several new fixed LTE products and mobile LTE products that are due to launch globally in 2Q of 2017. Another new product line targeting IoT (Internet of Things) will also be launching in 2017.

Despite the poor business in the service provider segment, we still invested a lot of R&D resources to support our main customers and uphold our agreement to deliver highly customized products for each region. These included the Middle-East, South East Asia, India, Pakistan and Israel.

Looking toward 2017, we expect to have substantial growth from the VDSL market segment, because several projects are kicking off between the end of 2016 and the first half of 2017. This would mark the 1st time that VDSL revenue would be higher than our legacy product – ADSL. Additionally, after one year of heavy investments, the DOCSIS3.1 router is expected to ship starting in the second half of 2017. This will help fuel revenue growth and gain some market share for the cable segment. Several tier-1 service providers also noticed our in-house whole home coverage solution, which will provide better, cost-effective Wi-Fi in homes. Field trials will begin in 3Q, 2017.

To further support the numerous customizations required by service providers, SPBU built several R&D centers in 2015 in Russia, Taiwan and China. These experienced R&D teams grew stronger in 2016 and will help provide proficient, innovative, and cost-effective support to our customers.



Product **Design & Distribution**

D-Link's design philosophy focuses on developing innovative network devices aimed to enhance everyone's digital lifestyle. Our pioneering concepts for technology and design have redefined the market in order to meet the functional and aesthetic needs of today's most demanding customers. Thanks to our award-winning product designs and powerful distribution networks, we've succeeded globally in providing user-friendly, stylish solutions to the consumer, service provider, and business segments.

To meet the demands of the booming Smart Home industry, our innovative home surveillance products are designed to deliver high-quality, easy-to-use features that allow consumers to feel safer at home. Our HD 180-Degree Wi-Fi Cameras DCS-960L, DCS-2530L, and DCS-8200LH that were launched in 2016 feature sound and motion detection, night vision, and local recording so that consumers can control, monitor, and protect their home and loved ones.

Our new line of EXO Routers were also launched in 2016 to supplement the existing Ultra Performance Series. Designed to deliver ease of use, high-performance, and head-turning aesthetics, the AC1900 Wi-Fi Router (DIR-879) and AC1750 Wi-Fi Router (DIR-869) deliver whole-home coverage for Smart Homes with many connected devices. Rather than keeping their routers hidden, consumers can proudly display their EXO routers due to its exceptional and stylish design.

In the business sphere, D-Link designs products that meet the needs of small to medium-sized enterprises with an emphasis on ease of use. D-Link's unified wireless solutions provide superior wireless coverage and reliability, thereby increasing business productivity and cost efficiency. D-Link smart switches offer increased security and scalability with the simplicity of unmanaged switches and the power of managed switches. In every vertical, from education and hospitality to medical, D-Link's integrated surveillance solutions also offer unbeatable flexibility for businesses.

While D-Link's product designs are essential to its success, it is also crucial for these products to be distributed to the right customers. Our reputation as a global brand allows us to promote and distribute our products to trusted distributors. Strategic partnerships and supply chain control create synergies, which allow D-Link to speed up product availability. Highly efficient, coordinated teamwork helps us deliver innovative products in timeframes that competitors cannot match.

D-Link's mission is "Building Networks for People", and our brand proposition is to provide customers with an unmatched networking experience through superior product design and distribution. In this way, we are truly helping to bring our technology closer to our customers.

Corporate **Social Responsibility**

In everything we do, we strive to protect the natural environment, create a safe and sustainable work environment, and give back to local communities.

As global leaders in the networking industry, D-Link understands that we have a responsibility to our customers, staff, other stakeholders and society at large, as well as to the natural environment around us. Because of our global influence, our impacts- economic, environmental, and social—are extensive.

Maintaining the beauty of the environment is our duty. Over the years, as part of fulfilling our role as a global citizen, we have continually incorporated environmental protection measures in our routine operations. Our action plan includes reducing paper usage through more electronic-based operations, reducing waste generation by not providing trash bins at each cubicle, performing trash sorting and recycling, conserving water by replacing all our taps with water-saving models, conserving electricity by replacing lighting in public and underground parking areas with energy-saving LED lights, stopping the operation of some elevators during off-peak hours, and placing drinking fountains on standby during holiday periods. We have also reduced the use of disposable items by providing reusable utensils in the staff canteen, as well as provided a discount of NT$10 for using personal cups at the cafe, and other similar practices, with the aim of conserving and re-using Earth's limited resources. In 2016, the company was not fined or issued with any orders for improvement by the local environmental protection authorities.

D-Link's quality products are made of safe and non-toxic raw materials without lead, mercury, cadmium or any other hazardous substances. Currently, we have audited and analyzed the raw materials of tens of thousands of components and have recorded the data cumulatively in an in-house system. We exclude the use of toxic substances from each of our product units. Currently, all raw materials containing lead and mercury have been phased out. We comply with the EU RoHS hazardous substances specifications.

D-Link has always been researching smarter ways of making lightweight product packaging and developed new technologies to use raw materials effectively. With global resources being a finite source, we are committed to conservation and accounting for every minute detail of raw materials usage. In recent years, our efforts have paid off by effectively reducing the consumption of raw materials. At the same time, we have also reduced the use of consumable supplies and cut transportation costs, creating great economic benefits. We have launched a series of packaging reduction programs to effectively reduce the volume and weight of packaging materials in order to scale down the carbon footprint of international shipping.

In 2016, we again invested heavily in our employees, cultivating and training them through an excellent working environment and a variety of training programs that attract and retain excellent talents. We are committed to creating safe and secure workplaces and working environments. We respect diversity and gender equality. For senior and highly-experienced employees who have contributed tirelessly to the Company, we provide them with preferential retirement plans in compliance with the relevant laws and regulations. D-Link is aware of the nursing and childcare needs of our female employees. We aim to provide conducive childcare facilities and work environments to help our employees find the proper balance between body and mind, work and family. D-Link also promotes healthy and positive capital-labor communication.

In 1994, D-Link set up the D-Link Charitable Foundation to provide social assistance, care and feedback for those who are in need. The foundation invests in social welfare activities, such as child and youth welfare, welfare for the elderly, disability assistance, women's welfare, and medical welfare. In 2015, the D-Link Charitable Foundation was assessed by the Department of Social Welfare, Taipei City Government to be the top charity fund provider. To increase the degree of involvement among our employees, we also started the Care Club, and welcome all employees to join in caring for and helping those in need.

D-Link set up the "Starlight Classroom" in remote areas and within disadvantaged communities to provide care and giving at a local level. We provide subsidized meals and after-school tuition for children from first grade to ninth grade in Keelung, Hualien, Taitung, and other areas. We also provide talent and skill development courses, such as computer skills, painting, kendo, cooking, etc. We hope to support both knowledge and character development in children by expanding their scope for learning and by providing a diverse curriculum.

Corporate **Headquarters & Board Members**

John Hsuan
Chairman

Douglas Hsiao
Vice Chairman

BOARD OF DIRECTORS

Yun-Wei Investment Co. Ltd. / Hsuan,Min Chin	Director
Lee,Chung Wang	Director
Jo-Kong Investment Ltd. / Chen, Jui-Hsu	Director
Hsiao, Fan	Director
Tai, Chung Hou	Director
Alpha Networks Inc. / Lin,Yu Chin	Director
Lin, Shih Kuo	Director
Chung, Shyang-Fong	Independent Director
Fong, Chung-Perng	Independent Director
Jie-Shiun Investment Co. Ltd. /:Zou, Feng Yun	Supervisoor

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THE INFORMATION ON THIS PAGE IS CORRECT AS OF AUGUST 2017

Stock code:2332

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

D-LINK CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

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

Representation Letter

The entities that are required to be included in the combined financial statements of D-LINK CORPORATION as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as those included in the consolidated financial statements prepared in conformity with International Accounting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, D-LINK CORPORATION and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

D-LINK CORPORATION

By

Yun-Wei Investment Co. Ltd   Hsuan, Min-Chih

Taipei, Taiwan, R.O.C
March 14, 2017

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Independent Auditors' Report

To the Board of Directors of D-LINK CORPORATION:

Opinion

We have audited the consolidated financial statements of D-LINK CORPORATION and its subsidiaries ("the Consolidated Company"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 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"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Other Matter

We did not audit the financial statements of D-Link International Pte. Ltd., a subsidiary of the Consolidated Company. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for D-Link International Pte. Ltd., is based solely on the report of another auditor. The financial statements of D-Link International Pte. Ltd. reflect the total assets constituting 5% of the consolidated total assets as of December 31, 2016 and 2015, respectively, and the total revenues constituting 10% and 8% of the consolidated total revenues for the years ended December 31, 2016 and 2015, respectively. Furthermore, we did not audit the financial statements of Bothhand Enterprise Inc., an investment accounted for using the equity method. Those statements were audited by another auditor, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Bothhand Enterprise Inc., is based solely on the report of another auditor. The investment amounted to $126,655 thousand and $201,402 thousand, constituting 1% of the consolidated total assets as of December 31, 2016 and 2015, respectively, and the related share of profit of associate accounted for using the equity method amounted to $33,093 thousand and $39,160 thousand, constituting -4% and -2% of the consolidated total loss before tax for the years ended December 31, 2016 and 2015, respectively.

D-LINK CORPORATION has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unqualified opinion.

Key Audit Matters

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

1. Valuation of inventories

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

   Key Audit Matter Explanation:

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

   How the matter was addressed in our audit:

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

2. Valuation of allowance for doubtful account

   Please refer to Note 4(h) for accounting policy of allowance for doubtful account, Note 5(a) for accounting estimations and assumption uncertainty of impairment assessment of account receivables, and Note 6(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. Therefore, the valuation of allowance for doubtful account involves a subjective judgment of the management, and thus, needs significant attention in our audit.

   How the matter was addressed in our audit:

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

3. Revenue recognition

Please refer to Note 4(r) for accounting policy of revenue recognition and Note 6(s) 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 the annual sales trend 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 the Consolidated Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Consolidated Company’s financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Gau, Wey-Chuan and Chou, Pao-Lian.

KPMG

Taipei, Taiwan (Republic of China)
March 14, 2017

Notes to Readers

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

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

December 31, 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

Code	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 4,314,246	22	3,917,389	19
1110	Financial assets at fair value through profit or loss — Current (note 6(b) and (m))	35,660	-	71,076	-
1150	Notes receivable, net (note 6(c))	33,671	-	22,499	-
1170	Accounts receivable, net (note 6(c))	4,630,069	24	4,951,986	23
1180	Accounts receivable due from related parties, net (note 7)	161	-	96	-
1200	Other receivables (notes 6(c) and 7)	131,835	1	164,630	2
1220	Current tax assets	85,962	-	71,746	-
130X	Inventories (note 6(d))	3,096,816	16	4,555,857	21
1470	Other current assets (note 8)	700,563	4	695,058	2
		13,028,983	67	14,450,337	67
	Non-current assets:				
1523	Available-for-sale financial assets — Non-current (note 6(b))	377,642	2	417,005	2
1543	Financial assets carried at cost (note 6(b))	7,088	-	31,820	-
1550	Investments accounted for using equity method (note 6(e))	3,118,050	16	3,166,304	15
1600	Property, plant and equipment (note 6(h))	1,271,706	7	1,275,788	6
1760	Investment property, net (note 6(i))	40,858	-	41,254	-
1780	Intangible assets (note 6(f) and (j))	672,010	3	715,789	3
1840	Deferred tax assets (note 6(p))	568,575	3	747,678	5
1900	Other non-current assets (note 8)	305,984	2	416,644	2
		6,361,913	33	6,812,282	33
	Total assets	$ 19,390,896	100	21,262,619	100

Code	Liabilities and equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current liabilities:				
2100	Short-term loans (note 6(k))	$ 1,279,500	7	1,447,930	7
2120	Financial liabilities at fair value through profit or loss — Current (notes 6(b) and (m))	93,639	-	48,954	-
2150	Notes payable	1,770	-	1,833	-
2170	Accounts payable	2,034,685	10	2,395,516	11
2180	Accounts payable to related parties (note 7)	1,830,568	9	2,138,150	10
2200	Other payables (note 7)	1,937,213	10	2,077,306	10
2230	Current tax liabilities	190,011	1	117,305	1
2250	Provisions (note 6(l))	301,748	2	290,663	1
2300	Other current liabilities	159,237	1	100,656	-
2320	Current portion of long-term liabilities (note 6(k) and (m))	1,294,993	7	-	-
		9,123,364	47	8,618,313	40
	Non-current liabilities:				
2500	Financial liabilities at fair value through profit or loss — Non-current (note 6(b) and (m))	-	-	1,904	-
2530	Bonds payable (note 6(m))	-	-	1,125,913	5
2540	Long-term loans (note 6(k))	-	-	150,000	1
2570	Deferred tax liabilities (note 6(p)	12,526	-	207,675	1
2600	Other non-current liabilities (note 6(o) and 7)	324,416	2	113,255	1
		336,942	2	1,598,747	8
	Total liabilities	9,460,306	49	10,217,060	48
	Equity attributable to owners of parent: (note 6(q))				
	Share capital:				
3110	Ordinary shares	6,519,961	33	6,769,961	31
3200	Capital surplus	1,736,948	9	1,969,201	9
	Retained earnings:				
3310	Legal reserve	2,296,499	12	2,296,499	11
3320	Special reserve	678,133	3	553,968	3
3350	Unappropriated earnings	(866,691)	(4)	358,455	2
		2,107,941	11	3,208,922	16
3400	Other equity interest	(768,699)	(4)	(678,132)	(3)
3500	Treasury stocks	(96,855)	-	(636,895)	(3)
36XX	Non-controlling interests	431,294	2	412,502	2
	Total equity	9,930,590	51	11,045,559	52
	Total liabilities and equity	$ 19,390,896	100	21,262,619	100

See accompanying notes to consolidated financial statements.

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

D-LINK CORPORATION

Consolidated statements of comprehensive income

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan Dollars)

		2016		2015	
		Amount	%	Amount	%
4000	**Net operating revenues (notes 6(s) and 7)**	$ 22,921,798	100	26,614,479	100
5000	**Operating costs (note 6(d) and 7)**	16,904,835	74	20,181,362	76
	Gross profit from operations	6,016,963	26	6,433,117	24
	Operating expenses:(note 6(c), (n) and (o))				
6100	Selling expenses	4,224,098	18	5,219,599	20
6200	Administrative expenses	1,410,954	6	1,388,840	5
6300	Research and development expenses	1,237,276	5	1,411,808	5
		6,872,328	29	8,020,247	30
	Operating loss	(855,365)	(3)	(1,587,130)	(6)
	Non-operating income and expenses:				
7010	Other income (notes 6(n), (u) and 7)	55,999	-	44,691	-
7020	Other gains and losses (note 6(b), (m), (v) and (y))	(124,035)	(1)	(476,978)	(2)
7050	Finance costs (notes 6(m) and (w))	(118,810)	-	(46,823)	-
7060	Share of profit (loss) of associates accounted for using equity method (note 6(e))	252,837	1	(25,760)	-
		65,991	-	(504,870)	(2)
	Loss before income tax	(789,374)	(3)	(2,092,000)	(8)
7950	**Less: Income tax expense and benefit (note 6(p))**	120,292	1	(266,263)	(1)
	Net Loss	(909,666)	(4)	(1,825,737)	(7)
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified subsequently to profit or loss**				
8311	Remeasurement of defined benefit obligation	(12,207)	-	(6,700)	-
8320	Share of other comprehensive (income) loss of associate	1,781	-	(4,582)	-
8349	Income tax benefit (expense) related to items that will not be reclassified subsequently	-	-	-	-
	Total items that will not be reclassified subsequently to profit or loss	(10,426)	-	(11,282)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences arising on translation of foreign operations	(30,627)	-	(440,364)	(2)
8362	Changes in fair value of available-for-sale financial assets	35,242	-	196,606	1
8370	Share of other comprehensive (income) loss of associates	(116,395)	-	44,253	-
8399	Income tax expense related to items that may be reclassified subsequently	1,956	-	74,780	-
	Total items that may be reclassified subsequently to profit or loss	(109,824)	-	(124,725)	(1)
8300	**Other comprehensive income (loss) for the year, net of income tax**	(120,250)	-	(136,007)	(1)
	Total comprehensive income (loss)	**$ (1,029,916)**	**(4)**	**(1,961,744)**	**(8)**
	Net income (loss) attributable to:				
	Owners of the parent	$ (953,572)	(4)	(1,870,831)	(7)
	Non-controlling interests	43,906	-	45,094	-
		$ (909,666)	**(4)**	**(1,825,737)**	**(7)**
	Total comprehensive income (loss) attributable to:				
	Owners of the parent	$ (1,054,565)	(4)	(2,006,278)	(8)
	Non-controlling interests	24,649	-	44,534	-
		$ (1,029,916)	**(4)**	**(1,961,744)**	**(8)**
	Basic earnings per share (New Taiwan dollars)	**$**	**(1.50)**		**(2.90)**
	Diluted earnings per share (New Taiwan dollars)	**$**	**(1.50)**		**(2.90)**

See accompanying notes to consolidated financial statements.

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

D-LINK CORPORATION

Consolidated statement of changes in equity

For the years ended December 31, 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Share capital		Retained earnings			Total other equity interest					
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earning (Accumulated loss)	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2015	$ 6,477,557	2,122,523	2,290,345	651,810	2,323,994	(261,174)	(292,793)	(483,774)	12,828,488	373,144	13,201,632
Profit (loss)	-	-	-	-	(1,870,831)	-	-	-	(1,870,831)	45,094	(1,825,737)
Other comprehensive income (loss)	-	-	-	-	(11,282)	(410,156)	285,991	-	(135,447)	(560)	(136,007)
Total comprehensive income (loss)	-	-	-	-	(1,882,113)	(410,156)	285,991	-	(2,006,278)	44,534	(1,961,744)
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	6,154	-	(6,154)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(97,842)	97,842	-	-	-	-	-	-
Stock dividends of ordinary share	310,474	(155,237)	-	-	(155,237)	-	-	-	-	-	-
Other changes:											
Changes in equity of associates accounted for using equity method	-	6,529	-	-	(9,257)	-	-	-	(2,728)	-	(2,728)
Purchase of treasury shares	-	-	-	-	-	-	-	(186,425)	(186,425)	-	(186,425)
Retirement of treasury shares	(18,070)	(4,614)	-	-	(10,620)	-	-	33,304	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(5,176)	(5,176)
Balance at December 31, 2015	6,769,961	1,969,201	2,296,499	553,968	358,455	(671,330)	(6,802)	(636,895)	10,633,057	412,502	11,045,559
Profit (loss)	-	-	-	-	(953,572)	-	-	-	(953,572)	43,906	(909,666)
Other comprehensive income (loss)	-	-	-	-	(10,426)	(127,473)	36,906	-	(100,993)	(19,257)	(120,250)
Total comprehensive income (loss)	-	-	-	-	(963,998)	(127,473)	36,906	-	(1,054,565)	24,649	(1,029,916)
Appropriation and distribution of retained earnings:											
Special reserve appropriated	-	-	-	124,165	(124,165)	-	-	-	-	-	-
Cash dividends of ordinary share	-	(189,841)	-	-	-	-	-	-	(189,841)	-	(189,841)
Other changes:											
Changes in equity of associates and joint ventures accounted for using equity method	-	(586)	-	-	(343)	-	-	-	(929)	-	(929)
Treasury shares sold to employees	-	22,004	-	-	-	-	-	89,570	111,574	-	111,574
Retirement of treasury shares	(250,000)	(63,830)	-	-	(136,640)	-	-	450,470	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(5,857)	(5,857)
Balance at December 31, 2016	$ 6,519,961	1,736,948	2,296,499	678,133	(866,691)	(798,803)	30,104	(96,855)	9,499,296	431,294	9,930,590

See accompanying notes to consolidated financial statements.

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

D-LINK CORPORATION

Consolidated statement of cash flows

For the years ended December 31, 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

		2016	2015
Cash flows from operating activities			
Loss before tax	$	(789,374)	(2,092,000)
Adjustments for :			
Adjustments to reconcile profit (loss)			
Depreciation expense		144,532	164,082
Amortization expense		51,058	46,064
Provision for bad debt expense		31,415	67,587
Net gain on financial assets or liabilities at fair value through profit or loss		47,148	(9,843)
Interest expense		118,810	46,823
Interest income		(41,220)	(40,770)
Dividend income		(12,321)	(1,481)
Compensation cost of share-based payment transaction		21,946	-
Share of profit of associates accounted for using equity method		(252,837)	25,760
Gain on disposal of investments		(71,997)	(110,890)
Impairment loss		79,414	306,323
Others		(66,640)	298,833
Total adjustments to reconcile profit (loss)		49,308	792,488
Changes in operating assets and liabilities:			
Changes in operating assets			
Decrease (increase) in financial assets at fair value through profit or loss		33,089	(28,097)
Decrease (increase) in notes receivable		(11,172)	49,234
Decrease in accounts receivable		284,516	1,559,692
Decrease (increase) in accounts receivable due from related parties		(65)	99
Decrease (increase) in other receivable		34,353	(166,248)
Decrease in inventories		1,560,080	1,805,171
Decrease (increase) in other current assets		(5,695)	347,695
Decrease (increase) in other non-current assets		129,501	(150,443)
Total changes in operating assets		2,024,607	3,417,103
Changes in operating liabilities:			
Increase (decrease) in notes payable		(63)	48
Decrease in accounts payable		(360,831)	(524,930)
Decrease in accounts payable to related parties		(307,582)	(962,990)
Increase (decrease) in other payable		(217,671)	26,191
Decrease in provisions		(29,451)	(20,220)
Increase (decrease) in other current liabilities		58,581	(93,482)
Increase (decrease) in other non-current liabilities		200,471	(25,061)
Total changes in operating liabilities		(656,546)	(1,600,444)
Total changes in operating assets and liabilities		1,368,061	1,816,659
Total adjustments		1,417,369	2,609,147
Cash inflow generated from operations		627,995	517,147
Interest received		41,220	40,770
Dividends received		118,957	235,442
Interest paid		(21,677)	(36,374)
Income taxes paid		(75,892)	(133,269)
Net cash flows generated by operating activities		690,603	623,716
Cash flows from investing activities:			
Proceeds from capital reduction of financial assets carried at cost and investments accounted for using equity method		21,093	224,046
Acquisition of investments accounted for using equity method		-	(18,313)
Disposal of investments accounted for using equity method		129,194	190,126
Proceeds from disposal of subsidiaries		-	(11,918)
Acquisition of property, plant and equipment		(120,645)	(163,363)
Increase in refundable deposits		(18,896)	(246)
Acquisition of intangible assets		(20,573)	(68,702)
Others		22,725	17,571
Net cash flows generated by investing activities		12,898	169,201
Cash flows from financing activities:			
Decrease in short-term loans		(168,430)	(1,000,618)
Proceeds from issuing exchangeable bonds		-	1,194,865
Repayment of convertible bonds payable		-	(114,300)
Proceeds from long-term debt		-	150,000
Repayments of long-term debt		-	(97,000)
Increase (decrease) in guarantee deposits received		(1,517)	11,250
Cash dividends paid		(195,698)	(6,433)
Payments to acquire treasury shares		-	(186,425)
Treasury shares sold to employees		89,628	-
Net cash flows used in financing activities		(276,017)	(48,661)
Effect of exchange rate changes on cash and cash equivalents		(30,627)	(440,364)
Net increase in cash and cash equivalents		396,857	303,892
Cash and cash equivalents at beginning of year		3,917,389	3,613,497
Cash and cash equivalents at end of year	$	4,314,246	3,917,389

See accompanying notes to consolidated financial statements.

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

1. Company history

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

2. Authorization date and process of Financial statements

The accompanying consolidated financial statements were approved and authorized for release by the Board of Directors on March 14, 2017.

3. New standards and interpretations adopted

(a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

(Continued)

The Consolidated Company assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Consolidated Company should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Consolidated Company's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
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 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

(Continued)

The Consolidated Company is still currently determining the potential impact of the standards listed below:

Issuance Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

Issuance Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
December 8, 2016	Annual Improvements to IFRS Standards 2014-2016 Cycle: • IFRS 1 "First-time Adoption of International Financial Reporting Standards" • IFRS 12 "Disclosure of Interests in Other Entities" • IAS 28 "Investments in Associates and Joint Ventures"	• Outdated exemptions for first-time adopters of IFRS are removed. • The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. • A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. • A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.
December 8, 2016	IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration.

(Continued)

Issuance Dates	Standards or Interpretations	Content of amendment
December 8, 2016	Amendments to IAS 40 Investment Property	The amendments specify that a transfer into, or out of, investment property would be made only when there has been a change in use of a property, supported by evidence that a change in use has occurred. The amendments also clarify that the list of circumstances that provide evidence of a change in use set out in paragraph 57 (a)-(d) of IAS 40 contains examples and is not an exhaustive list.

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

4. Significant accounting policies

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

(a) Statement of Compliance

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

(b) Basis of Preparation

(1) Basis of Measurement

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

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

(ii) Available-for-sale financial assets are measured at fair value;

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

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

(2) Functional and presentation currency

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

(Continued)

(c) Basis of consolidation

(1) Principle of preparation of the consolidated financial statements

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

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

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

(2) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2016	Shareholding December 31, 2015	Note
The Company	D-Link Holding Company Ltd. (D-Link Holding)	Holding 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)	Holding company	100.00 %	100.00 %	
The Company and D-Link Holding	D-Link Sudamerica S.A. (D-Link Sudamerica)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Holding	D-Link Brazil LTDA (D-Link Brazil)	Marketing and after-sales service	100.00 %	100.00 %	
The Company	D-Link Latin America Company Ltd. (D-Link L.A.)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Sudamerica	D-Link Mexicana S.A de C.V (D-Link Mexicana)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Holding	D-Link Systems, Inc. (D-Link Systems)	Marketing and after-sales service	97.76 %	97.76 %	
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)	Holding 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 %	Incorporated in April 2015.

(Continued)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2016	Shareholding December 31, 2015	Note
The Company	Yeo-Chia Investment Ltd. (YEOCHIA)	Professional investment company	100.00 %	100.00 %	
The Company	Yeo-Mao Investment Inc. (YEOMAO)	Professional investment company	100.00 %	100.00 %	
The Company	Yeo-Tai Investment Inc. (YEOTAI)	Professional 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))	Holding company	100.00 %	100.00 %	
D-Link Holding	D-Link Holding Mauritius Inc. (D-Link Mauritius)	Holding company	100.00 %	100.00 %	
D-Link Holding	OOO D-Link Russia (D-Link Russia)	After-sales service	100.00 %	100.00 %	
D-Link Holding	D-Link Hong Kong Ltd. (D-Link Hong Kong)	Holding company	100.00 %	100.00 %	
D-Link Investment and D-Link Holding	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)	Holding 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 %	
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)	Holding company	100.00 %	100.00 %	
D-Link Europe	D-Link France SARL (D-Link France)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link AB	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Iberia SL (D-Link Iberia)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Mediterraneo SRL (D-Link Mediterraneo)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link (Netherlands) BV (D-Link Netherlands)	Marketing and after-sales service	100.00 %	100.00 %	
The Company and D-Link Europe	D-Link (Deutschland) GmbH (D-Link Deutschland)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Polska Sp. Z.o.o. (D-Link Polska)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link (Magyarorszag) kft (D-Link Magyarorszag)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link s.r.o	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Europe	D-Link Adria d.o.o	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Shiang-Hai (Cayman)	D-Link (Shiang-hai) Co., Ltd (DCN)	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Shiang-Hai (Cayman)	Netpro Trading (Shiang-hai) Co., Ltd (DWZ)	Marketing and after-sales service	100.00 %	100.00 %	

(Continued)

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2016	Shareholding December 31, 2015	Note
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 and D-Link L.A.	D-Link de Costa Rica S.A.	Marketing and after-sales service	-	100.00 %	Closed in December 2016.
D-Link Sudamerica	D-Link Paraguay S.A.	Marketing and after-sales service	-	-	Closed in July 2015.
D-Link Sudamerica	D-Link de Colombia S.A.S	Marketing and after-sales service	100.00 %	100.00 %	
D-Link Sudamerica	D-Link Guatemala S.A.	Marketing and after-sales service	99.00 %	99.00 %	
D-Link Sudamerica	D-Link Argentina S.A.	Marketing and after-sales service	100.00 %	100.00 %	

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

(d) Business combination

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

(e) Foreign currency

(1) Foreign currency transaction

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

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

(2) Foreign operations

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

(Continued)

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

An entity shall classify an asset as current when:

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

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

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

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

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

An entity shall classify a liability as current when:

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

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

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

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

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

(g) Cash and cash equivalents

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

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

(h) Financial Instruments

Financial assets and financial liabilities are initially recognized when the Consolidated Company becomes a party to the contractual provisions of the instruments.

(1) Financial assets

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

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

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

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

(ii) Available-for sale financial assets

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

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

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

(iii) Receivables

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

(iv) Impairment of financial assets

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

(Continued)

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

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

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

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

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

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

(v) Derecognition of financial assets

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

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

(2) Financial liabilities and equity instruments

(i) Convertible corporate bonds

Convertible bonds issued by the Company create both a financial liability and options to convert to equity for holders are recorded as hybrid financial instruments. At the time of issuance, the original cost of issuance is allocated to both the liability and equity component of the convertible bond. The liability component of the convertible bond is determined by the fair value of similar liabilities which are unrelated to the equity component-stock option. Any change in fair value of the equity component of the convertible bonds is not recognized. The interest on the convertible bond is calculated by using the effective interest method and is amortized over the contract term and recorded as current expense. The embedded derivative financial liabilities are measured at fair value, and any changes are reflected in current profit or loss. When the bondholders request conversion, the Company will adjust the liability component first and recognize it as net income or loss after valuing at the fair value. The Company shall account for common stock as the sum of the carrying amount of the liability component and equity component at the redemption date.

The embedded call and sell options of the convertible corporate bonds shall be recorded under financial assets (liabilities) at fair value through profit or loss with their net amount. Then, at the balance date, they will be assessed at the current fair value, and the differences shall be recorded under valuation gain (loss) on financial instruments. At the end of agree-upon sell back period, the fair value of the sell options shall be all transferred to capital surplus if the market price of the convertible common stock is higher than the agreed sell back price. In contrast, the fair value of the sell options shall be all transferred to profit in the current period.

If the holders of the bonds are able to execute the sell options in the following year, the corporate bond payable shall be classified as current liabilities. If the execution period ends and the options are not executed, the corporate bond payable shall be classified as non-current liabilities.

(ii) 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.

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

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

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

(iv) 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.

(v) Derecognition of financial liabilities

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

(vi) Offsetting of financial assets and liabilities

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

(3) Derivative financial instruments

The Consolidated Company holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in non-operating income and expense, and are included in other gains and losses. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and the host contract is measured as at fair value through 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.

(Continued)

(j) Investment in associates

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

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

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

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

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

(k) Investment property

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

(l) Property, plant and equipment

(1) Recognition and measurement

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

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

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

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

(2) Reclassification to investment property

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

(3) Subsequent cost

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

(4) Depreciation

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

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

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

(i) Buildings and improvements: 5~56 years

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

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

(m) Leases

(1) Lessor

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

(2) Lessee

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

(n) Intangible assets

(1) Goodwill

(i) Recognition

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

(ii) Subsequent measurement

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

(2) Other intangible asset

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

(3) Subsequent expenditure

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

(4) Amortization

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

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

(i) Computer software: 1~8 years

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

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

(o) Impairment – non-derivative financial assets

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

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

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

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

(p) Provisions

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

(1) Warranties

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

(2) Allowances for sales returns

Allowances for sales returns are estimated based on historical experiences. Such provisions are deducted from sales in the year the products are sold.

(3) Pending legal proceedings

Pending legal proceedings 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.

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.

(Continued)

(r) Revenue

(1) Goods sold

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

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

(2) Services

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

(s) Employee benefits

(1) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by the employees. YEOCHIA, YEOMAO, YEOTAI, DHD and other holding companies do not have employees on the payroll, and therefore, do not have a pension plan. DEU and other subsidiaries adopt pension plans in accordance with the local authorities. DCN 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, while DEU and other subsidiaries recognized pension expenses based on the contributions in that year.

(2) Defined benefit plans

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

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

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

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

(3) Short-term employee benefits

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

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

(t) Share-based payment

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

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

(u) Income Taxes

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

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

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:

(Continued)

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

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

(3) Initial recognition goodwill.

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

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

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

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

   (i) the same taxable entity; or

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

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

(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 shareholders' meeting. The effect on net income per common share from the increase in stock from the transfer of unappropriated earnings, capital surplus, and employee profit sharing is computed retroactively.

(Continued)

(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.

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

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

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

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

(a) Impairment of Account receivable

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

6. Explanation of significant accounts

(a) Cash and Cash Equivalents

		December 31, 2016	December 31, 2015
Cash on hand	$	9,829	12,203
Checking and saving accounts		3,610,048	3,041,916
Cash equivalents		694,369	863,270
	$	4,314,246	3,917,389

(Continued)

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

(b) Financial Assets and Liabilities

(1) Details as follows

		December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss – current			
Beneficiary certificates – mutual funds	$	19,029	49,978
Foreign currency option contracts		121	76
Cross currency swaps		5,154	7,291
Forward foreign exchange contracts		10,521	12,176
Convertible corporate bonds		835	1,555
	$	35,660	71,076
Financial liabilities at fair value through profit or loss – current			
Foreign currency option contracts	$	10	948
Cross currency swaps		2,137	619
Forward foreign exchange contracts		13,390	4,997
Convertible corporate bonds		78,102	42,390
	$	93,639	48,954
Financial liabilities at fair value through profit or loss – non-current			
Convertible corporate bonds	$	-	1,904
Available-for-sale financial assets – non-current:			
Cameo Communication, Inc. (CAMEO)	$	283,913	276,001
IC Plus Corp. (ICPC)		52,246	78,934
Abocom Systems, Inc. (ASI)		10,975	25,539
Z-Com, Inc. (Z-Com)		30,508	36,531
	$	377,642	417,005
Financial assets carried at cost – non-current:			
QuieTek Corporation (QUIETEK)	$	-	19,374
ID Branding Fund Inc.		250	5,000
YouXiang Electronic Technology (Beijing) Co., Ltd.		6,521	7,129
Venture Power Group Limited (Venture Power)		317	317
	$	7,088	31,820

(i) The Consolidated Company holds Available-for-sale financial assets. Because of continuing decrease in price from the invested companies, the Consolidated Company recognized an impairment loss amounting to $60,040 thousand and $230,541 thousand in 2016 and 2015, respectively.

(ii) The Consolidated Company holds financial assets carried at cost. Because of continuing losses from the invested companies, the Consolidated Company recognized the impairment loss amounting to $19,374 thousand and $55,497 thousand in 2016 and 2015, respectively.

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

(iv) As of December 31, 2016 and 2015, no financial assets are pledged as collateral.

(2) Sensitivity analysis – equity market price risk:

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

	2016		2015	
Security price at reporting date	**After-tax other comprehensive income (loss)**	**After-tax profit (loss)**	**After-tax other comprehensive income (loss)**	**After-tax profit (loss)**
Increase 3%	$ 11,329	400	11,814	1,049
Decrease 3%	$ (8,517)	(2,812)	(2,768)	(8,558)

(3) Non-hedging derivative financial instruments

Derivative financial instruments are used to hedge certain foreign exchange and interest risk in which the Consolidated Company is exposed to arising from its operating, financing and investing activities. As of December 31, 2016 and 2015, transactions that do not qualify for hedging accounting are presented as held-for-treading financial assets were as follows:

(i) Derivative financial assets

	December 31, 2016			December 31, 2015		
	Contract amount (thousand)	**Currency**	**Maturity date**	**Contract amount (thousand)**	**Currency**	**Maturity date**
Cross currency swaps:						
USD	$ -	-	-	2,000	USD	2016.01
USD	-	-	-	5,000	USD	2016.03
EUR	1,500	EUR	2017.01	3,000	EUR	2016.02
CAD	-	-	-	928	CAD	2016.01
CNH	41,647	CNH	2017.01	72,151	CNH	2016.01
JPY	500,000	JPY	2017.06	-	-	-
JPY	660,000	JPY	2017.12	-	-	-
JPY	170,000	JPY	2017.01 ~20.17.02	-	-	-

	December 31, 2016 Contract amount (thousand)	Currency	Maturity date	December 31, 2015 Contract amount (thousand)	Currency	Maturity date
Forward foreign exchange contracts:						
AUD	-	-	-	1,000	AUD	2016.02
CAD	-	-	-	1,000	CAD	2016.01
EUR	4,000	EUR	2017.01 ~2017.02	500	EUR	2016.01
CNH	51,845	CNH	2017.01	25,865	CNH	2016.01
BRL	-	-	-	34,800	BRL	2016.01
KRW	2,389,700	KRW	2017.01	2,930,000	KRW	2016.01
RUB	186,250	RUB	2017.01	-		
JPY	225,000	JPY	2017.01 ~2017.02	-		
USD	2,500	USD	2017.01	-		
Foreign currency option contracts:						
Call options (sell)	-	-	-	1,000	USD	2016.01
Call options (sell)	1,800	EUR	2017.01 ~2017.02	1,500	EUR	2016.01
Put options (buy)	900	EUR	2017.01 ~2017.02	-		

(ii) Derivative financial liabilities

	December 31, 2016 Contract amount (thousand)	Currency	Maturity date	December 31, 2015 Contract amount (thousand)	Currency	Maturity date
Cross currency swaps:						
EUR	$ 2,000	EUR	2017.01	1,000	EUR	2016.01
USD	2,000	USD	2017.01	-	-	-
AUD	-	-	-	1,000	AUD	2016.01
CNH	3,136	CNH	2017.01	6,593	CNH	2016.01
CAD	-	-	-	362	CAD	2016.01
JPY	10,000	JPY	2017.01	-	-	-
Forward foreign exchange contract:						
EUR	1,000	EUR	2017.02	3,500	EUR	2016.01
CNH	-	-	2016.02	6,601	CNH	2016.02
BRL	43,692	BRL	2017.01	8,010	BRL	2016.01
USD	4,500	USD	2017.01 ~2017.02	3,500	USD	2016.01
Foreign currency option contracts:						
Call options (sell)	-	-	-	15,190	BRL	2016.01
Call options (sell)	6,790	CNH	2017.02	13,000	CNH	2016.01

(Continued)

(c) Notes and accounts receivable and other receivables

		December 31, 2016	December 31, 2015
Notes receivable for operating activities	$	33,671	22,499
Accounts receivable		5,205,442	5,546,948
Other receivables		133,149	167,495
		5,372,262	5,736,942
Less: allowance for doubtful accounts		(195,931)	(231,089)
allowance for returns and discounts		(380,756)	(366,738)
	$	4,795,575	5,139,115

The Consolidated Company's aging analysis of notes, accounts receivable and other receivables that are due but not impaired as of December 31, 2016 and 2015, were as follows:

		December 31, 2016	December 31, 2015
Overdue 30 days or less	$	165,620	228,300
Overdue 31~120 days		62,906	102,341
Overdue 121~360 days		7	-
Overdue for more than one year		174	-
	$	228,707	330,641

The movements in the allowance on notes, accounts receivable and other receivables in December 31, 2016 and 2015 were as follows:

		Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2016	$	-	231,089	231,089
Impairment loss recognized		-	31,415	31,415
Write-offs		-	(62,145)	(62,145)
Others		-	(4,428)	(4,428)
Balance at December 31, 2016	$	-	195,931	195,931
Balance at January 1, 2015	$	-	179,427	179,427
Impairment loss recognized		-	67,587	67,587
Write offs		-	(12,111)	(12,111)
Others		-	(3,814)	(3,814)
Balance at December 31, 2015	$	-	231,089	231,089

(Continued)

(d) Inventories

	December 31, 2016	December 31, 2015
Finished goods	$ 3,096,816	4,555,857

The operating cost comprises of cost of goods sold, write-down (reversal gain) of inventories to net realizable value, warranty costs and other loss (gain). For the year ended December 31, 2016 and 2015, the cost of goods delivered were $16,327,823 thousand and $19,207,893 thousand, respectively. Write-down of inventories to net realizable value is recorded as cost of goods sold and decreased by $122,970 thousand and increased by $298,656 thousand in 2016 and 2015, respectively. In 2016 and 2015, the warranty expenses, inventory losses from obsolescence and others amounted to $699,982 thousand and $674,813 thousand, respectively.

As of December 31, 2016 and 2015, no inventories were pledged as collateral.

(e) Investments accounted for the using equity methods

Investments accounted for the using equity methods were as follows:

	December 31, 2016	December 31, 2015
Associates	$ 3,118,050	3,166,304

(1) Associates

Name of Associate	Name of relationship with the Consolidated Company	Principal place of business/ Registered Country	Ownership interest/Voting rights held December 31, 2016	Ownership interest/Voting rights held December 31, 2015
ALPHA	The major business are research, developments, design, manufacturing and selling broadband products, wireless products, computer networks system equipment and its components.	Taiwan	35.23 %	35.24 %

(Continued)

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

		December 31, 2016	December 31, 2015
Current assets	$	11,398,704	10,768,686
Non-current assets		2,877,620	3,545,228
Current liabilities		5,312,386	4,783,492
Non-current liabilities		445,282	1,119,334
Net assets	$	**8,518,656**	**8,411,088**
Net assets attributable to investee's shareholders	$	**8,518,656**	**8,411,088**

		2016	2015
Operating revenue	$	**21,830,730**	**22,995,238**
Net income (loss)	$	608,039	(340,108)
Other comprehensive income (loss)		(283,341)	140,937
Total comprehensive income (loss)	$	**324,698**	**(199,171)**
Total comprehensive income (loss) attributable to investee's shareholders	$	**324,699**	**(199,171)**

		2016	2015
The Consolidated Company's share in associate's net assets at beginning of year	$	2,962,884	3,497,147
Comprehensive income attributable to the Consolidated Company		114,766	(58,978)
Changes in equity of associates using equity method		(343)	(4,164)
Dividends received during the year		(76,514)	(204,036)
Less: disposal		-	(97,055)
exchange of exchangeable bond		(425)	-
capital reduction		-	(170,030)
The Consolidated Company's share in associate's net assets at end of year		3,000,368	2,962,884
Less: unrealized gains or losses		(167,503)	(183,574)
Add: goodwill		116,580	116,580
Carrying amounts of investments accounted for using equity method	$	**2,949,445**	**2,895,890**

(Continued)

		December 31, 2016	December 31, 2015
Carrying amounts of interests of immaterial associates	$	168,605	270,414

		2016	2015
Attributable to the Consolidated Company			
Profit (loss) from continuing operations	$	22,510	33,534
Other comprehensive income (loss), net of tax		(14,342)	(7,526)
Total comprehensive income	$	8,168	26,008

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

		December 31, 2016	December 31, 2015
ALPHA	$	2,998,891	2,616,763
BOTHHAND		214,558	327,909
	$	3,213,449	2,944,672

(2) Pledges

As of December 31, 2016 and 2015, no investment accounted for using equity methods is pledged as collateral.

(f) Disposal of subsidiary

In November 2015, the Consolidated Company disposed all shares of Fiti, with the selling price of 10,000 thousand. Therefore, the gain on disposal of investment amounted to 49,030 thousand due to the reversing credit balance of investments accounted for using equity method amounted to 39,030 thousand.

(g) Subsidiaries have material non-controlling interests

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

		Ownership interests held by NCI	
Name of subsidiary	Principal place of business/ Registered country	December 31, 2016	December 31, 2015
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.

(Continued)

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

		December 31, 2016	December 31, 2015
Current assets	$	1,227,443	1,244,493
Non-current assets		587,668	606,310
Current liabilities		630,995	705,813
Non-current liabilities		4,077	266
Net assets	$	**1,180,039**	**1,144,724**
Net assets attributable to non-controlling interests	$	**392,492**	**370,861**

		2016	2015
Operating revenues	$	**3,480,171**	**3,427,709**
Net income	$	93,499	93,724
Other comprehensive income		-	-
Total comprehensive income	$	**93,499**	**93,724**
Net income attributable to the non-controlling interests	$	**45,796**	**45,906**
Total comprehensive income attributable to the non-controlling interests	$	**45,796**	**45,906**
Cash used in generated by operating activities	$	(3,892)	(20,919)
Cash flows (used in) generated by investing activities		(130)	1,439
Cash flows (used in) by financing activities		13	(14,950)
Net decrease in cash and cash equivalents	$	**(4,009)**	**(34,430)**
Cash dividends paid to non-controlling	$	**5,857**	**6,433**

(h) Property, plant and equipment

The cost, depreciation and impairment loss of the property, plant and equipment of the Consolidated Company in 2016 and 2015 were as follows:

	2016						
	Balance as of January 1, 2016	**Increase**	**Decrease**	**Transfer**	**Reclassification**	**Others**	**Balance as of December 31, 2016**
Cost:							
Land	$ 573,221	538	-	-	-	2,542	576,301
Buildings	840,036	850	-	-	89,851	14,149	944,886
Others	1,495,363	97,429	75,632	(2,632)	-	(15,304)	1,499,224
Equipment to be inspected and construction in process	87,894	21,828	-	-	(89,851)	3,881	23,752
	2,996,514	120,645	75,632	(2,632)	-	5,268	3,044,163
Accumulated depreciation:							
Buildings	455,653	20,960	-	-	-	(721)	475,892
Others	1,257,073	123,176	71,357	(2,437)	-	(17,890)	1,288,565
	1,712,726	144,136	71,357	(2,437)	-	(18,611)	1,764,457
Accumulated impairment:							
Buildings	8,000	-	-	-	-	-	8,000
	$ 1,275,788	**(23,491)**	**4,275**	**(195)**	**-**	**23,879**	**1,271,706**

	2015						
	Balance as of January 1, 2015	**Increase**	**Decrease**	**Transfer**	**Reclassification**	**Others**	**Balance as of December 31, 2015**
Cost:							
Land	$ 576,716	-	-	-	-	(3,495)	573,221
Buildings	791,689	585	711	-	59,057	(10,584)	840,036
Others	1,577,638	105,165	87,241	(58,552)	1,362	(43,009)	1,495,363
Equipment to be inspected and construction in process	104,511	57,613	-	-	(60,419)	(13,811)	87,894
	3,050,554	163,363	87,952	(58,552)	-	(70,899)	2,996,514
Accumulated depreciation:							
Buildings	436,681	19,523	560	-	(531)	540	455,653
Others	1,270,945	144,162	71,100	(52,996)	531	(34,469)	1,257,073
	1,707,626	163,685	71,660	(52,996)	-	(33,929)	1,712,726
Accumulated impairment:							
Buildings	8,000	-	-	-	-	-	8,000
	$ 1,334,928	**(322)**	**16,292**	**(5,556)**	**-**	**(36,970)**	**1,275,788**

As of December 31, 2016 and 2015, no property, plant and equipment were pledged as collateral.

(i) Investment property

	2016				
	Balance as of January 1, 2016	Increase	Decrease	Transfer	Balance as of December 31, 2016
Cost:					
Land	$ 30,000	-	-	-	30,000
Buildings	22,196	-	-	-	22,196
	52,196	-	-	-	52,196
Accumulated Depreciation:					
Buildings	9,942	396	-	-	10,338
Accumulated impairment:					
Buildings	1,000	-	-	-	1,000
	$ **41,254**	**(396)**	**-**	**-**	**40,858**

	2015				
	Balance as of January 1, 2015	Increase	Decrease	Transfer	Balance as of December 31, 2015
Cost:					
Land	$ 30,000	-	-	-	30,000
Buildings	22,196	-	-	-	22,196
	52,196	-	-	-	52,196
Accumulated Depreciation:					
Buildings	9,545	397	-	-	9,942
Accumulated impairment:					
Buildings	1,000	-	-	-	1,000
	$ **41,651**	**(397)**	**-**	**-**	**41,254**

	December 31, 2016	December 31, 2015
Book value	$ **40,858**	**41,254**
Fair value	$ **50,083**	**52,949**

Investment properties are commercial properties that are leased to third parties. The lease contract includes an initial non-cancellable period of 3 years. Subsequent renewals are negotiated with the lessee and no contingent rents are charged. For further information (including the rental income and direct operating expenses), please refers to note 6(u). Besides, direct operating expense related to investment property was $138 thousand and $136 thousand in 2016 and 2015, respectively.

The fair value of investment property as of December 31, 2016 and 2015, was based on the comparable deal information with similar location and category or appraisal report, respectively.

As of December 31, 2016 and 2015, no investment property was pledged as collateral.

(j) Intangible assets

	2016						
	Balance as of January 1, 2016	Increase	Decrease	Transfer	Amortization	Others	Balance as of December 31, 2016
Goodwill	$ 341,143	-	-	-	-	(9,133)	332,010
Trademark	158,416	-	-	-	-	(3,612)	154,804
Patents	31,177	-	-	-	(2,692)	-	28,485
Computer software cost	160,490	15,193	-	-	(38,000)	-	137,683
Other intangible assets	24,563	5,380	(195)	195	(10,366)	(549)	19,028
	$ 715,789	20,573	(195)	195	(51,058)	(13,294)	672,010

	2015						
	Balance as of January 1, 2015	Increase	Decrease	Transfer	Amortization	Others	Balance as of December 31, 2015
Goodwill	$ 339,223	-	(20,285)	-	-	22,205	341,143
Trademark	152,188	-	-	-	-	6,228	158,416
Patents	33,868	-	-	-	(2,691)	-	31,177
Computer software cost	145,472	45,233	(48)	-	(30,167)	-	160,490
Other intangible assets	10,068	23,469	(34)	5,514	(13,206)	(1,248)	24,563
	$ 680,819	68,702	(20,367)	5,514	(46,064)	27,185	715,789

(k) Long-term and short-term loans

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

(1) Short-term Loans

	Currency	Interest rate	Maturity year	December 31, 2016	December 31, 2015
Unsecured bank loans	TWD	0.93~1.37	2017	$ 1,279,500	1,282,600
Unsecured bank loans	USD	1.212	2016	-	165,330
Total				$ 1,279,500	1,447,930
Unused credit facilities				$ 4,000,315	4,695,296

(Continued)

(2) Long-term Loans

	Currency	Interest rate	Maturity year	December 31, 2016	December 31, 2015
Industrial Bank of Taiwan	TWD	1.37	2017	$ 150,000	150,000
Less: Due within one year	TWD	1.37	2017	(150,000)	-
Total				$ -	150,000
Unused credit facilities				$ 1,084,680	600,000

(l) Provisions - current

2016	Balance as of January 1, 2016	Increase	Used	Reversed	Effect of exchange	Balance as of December 31, 2016
Warranties	$ 164,781	30,768	(28,805)	(4,324)	(1,274)	161,146
Sales return and allowances	46,524	1,773	(646)	-	(753)	46,898
Legal proceedings	79,358	16,143	-	-	(1,797)	93,704
	$ 290,663	48,684	(29,451)	(4,324)	(3,824)	301,748

2015	Balance as of January 1, 2015	Increase	Used	Reversed	Effect of exchange	Balance as of December 31, 2015
Warranties	$ 193,967	10,120	(19,473)	(10,974)	(8,859)	164,781
Sales return and allowances	47,976	-	(747)	-	(705)	46,524
Legal proceedings	76,238	-	-	-	3,120	79,358
	$ 318,181	10,120	(20,220)	(10,974)	(6,444)	290,663

(m) Bonds payable

(1) Exchangeable corporate bonds

	December 31, 2016	December 31, 2015
Exchangeable bonds	$ 1,200,000	1,200,000
Less: Discount and unamortized issuance cost	(54,507)	(74,087)
Accumulated exchanged bonds	(500)	-
Balance of exchangeable bonds	$ 1,144,993	1,125,913
Embedded derivatives:		
Call options, included in financial assets at fair value through profit or loss	$ 835	1,555
Put options and conversion options, included in financial liabilities at fair value through profit or loss	$ 78,102	44,294

(Continued)

	2016	2015
Embedded derivative-gains (losses) measured at fair value, included in other gains and losses	$ (34,583)	(36,600)
Interest expense	$ 19,555	10,386

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

(i) Total issuance amount:

Total principal amount of the bonds is $1.2 billion dollars. The par value of the bonds is one hundred thousand dollars, and they are issued at 100% of the par value. The total number of exchangeable bonds issued were 12,000 thousand units. As of December 31, 2016, the bondholders have already exchanged 5 units.

(ii) Duration:

June 17, 2015 to June 17, 2020.

(iii) Coupon rate for the bonds is zero.

(iv) Payment term

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

(v) Exchange period:

The exchangeable bonds may be exchanged into common shares of Alpha Network Inc. on or after July 18, 2015, and prior to June 17, 2020. For the year ended December 31, 2016, the bondholders exchanged 5 units amounting to $500 thousand for 22 thousand of ALPHA'S common shares at $22.31 per share and the Company recognized the profit amounting to $105 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 the issuance date was $22, which also was adjusted to $20.64 per share based on the ex dividend date on June 30, 2015 because of the distribution of cash dividends in 2015. On August 3, 2015, the exchange price was adjusted to $22.93 per share based on ALPHA's capital reduction and cash distribution date. The exchange price was adjusted to $22.31 per share based on the ex dividend date on July 5, 2016 because of the distribution of cash dividends in 2016.

(Continued)

(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, 2015. Upon request, the Company shall redeem the bonds for cash within five trading days after the redemption date. Since bondholders can exercise the put option within one year, the Company classifies all embedded financial liability and exchange corporate bond as current liabilities under financial liabilities through profit or loss and current portion of long-term liabilities.

(2) Convertible corporate bonds

	December 31, 2016	December 31, 2015
Equity components:		
Expiry of conversion options, included in capital surplus—others	$ 81,454	81,454

	2016	2015
Interest expense	$ -	63

On January 12, 2010, the Company issued unsecured convertible corporate bonds of $2,000,000 thousand. The coupon rate is zero, and the bonds will mature after 5 years. The bonds started to trade on January 13, 2010.

The unsecured convertible corporate bonds has matured on January 12, 2015 (5 years after the issuance date) and ceased to trade on January 13, 2015. As of January 12, 2015, the bondholders did not exercise the conversion options, and therefore, the Company repaid the bonds for cash at face value amounting to $114,300 thousand based on article 6 of the conversion terms issued by the Company. As of the report date, the payment has already been paid.

The issue terms for the unsecured convertible corporate bonds were as follows:

(i) Total issuance amount

The upper limit of the total principal amount of the bonds is two billion dollars. The par value of the bonds is one hundred thousand dollars, and they are issued at 100% of par.

(ii) Duration

January 12, 2010, to January 12, 2015.

(iii) Coupon rate for the bonds is zero.

(iv) Conversion period

The convertible corporate bonds may be converted into common shares of the Company on or after February 13, 2010, and prior to January 2, 2015.

(v) Conversion price and adjustment

The conversion 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 January 5, 2010, multiplied by 111.66% of the conversion premium rate. The conversion price is calculated based on the closing price (after considering the effect of ex-rights or ex-dividend) of the shares. The conversion price on the issuance date was $37.5. Also, it was adjusted to $28.5 per share based on the ex-dividend date on September 30, 2014 because of the distribution of cash dividends in 2014.

(vi) Early redemption option

From February 13, 2010 (1 month after the issuance date) to December 3, 2014 (forty days before the maturity date), if (i) the closing price of the Company's common shares on the TSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, or (ii) at least 90% of the principal amount of the bonds originally outstanding has been redeemed, repurchased or converted, the Company may redeem all bonds for cash at face value.

(vii) Put options

Bondholders may exercise the put option and request the Company to redeem the bonds at 100% of par value two years after issuance with a redemption date of January 12, 2012. Upon request, the Company shall redeem the bonds for cash within five trading days after the redemption date.

(n) Operating leases

(1) Leases – Lessee

Non-cancellable operating lease rentals were payable as follows:

		December 31, 2016	December 31, 2015
Within one year	$	204,090	248,937
One to five years		436,998	446,946
Over five years		208,401	96,177
	$	**849,489**	**792,060**

The operating leases recognized in profit or loss in 2016 and 2015 amounting to $287,132 thousand and $306,323 thousand, respectively.

(Continued)

(2) Leases – Lessor

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

Rental income general from investment property in 2016 and 2015 were amounting to $2,458 thousand and $2,440 thousand, respectively.

(o) Employee benefits

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

	December 31, 2016	December 31, 2015
Present value of benefit obligations	$ 118,847	117,590
Fair value of plan assets	(97,164)	(106,699)
Deficit in the plan	$ 21,683	10,891

Based on the Company's pension plan, each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is forty-five months of salary. Payments of retirement benefits are based on the years of service and the average salaries for six months before the employee's retirement.

(i) Composition of plan

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to $98,810 thousand at the date of reporting date. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

(ii) Movements in the present value of the defined benefit obligations in 2016 and 2015 were as follows:

	2016	2015
Defined benefit obligation at January 1	$ 117,590	146,108
Current service cost and interest	3,239	4,548
Remeasurement of the net defined benefit liabilities		
—Actuarial loss changes in the financial assumptions	9,325	2,215
—Actuarial gains and losses changes in experience adjustments	1,604	5,396
Benefits paid by the plan	(12,911)	(40,677)
Defined benefit obligation at December 31	$ 118,847	117,590

(Continued)

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

The movements in the present value of the plan assets in 2016 and 2015 were as follows:

		2016	2015
Fair value of plan assets at January 1	$	106,699	117,007
Interest revenue		2,013	2,329
Remeasurement of the net defined benefit liabilities			
—Actuarial return on plan assets (excluding interest)		(1,278)	911
Contributions made		2,641	2,985
Benefits paid by the plan		(12,911)	(16,533)
Fair value of plan assets at December 31	$	**97,164**	**106,699**

(iv) Expenses recognized in profit or loss

The Company's expenses recognized in profit or loss for 2016 and 2015 were as follow:

		2016	2015
Current service cost	$	1,043	1,662
Net interest on the net defined benefit obligation		183	557
	$	**1,226**	**2,219**

		2016	2015
Operating cost	$	143	69
Selling expenses		458	1,089
Administrative expenses		254	464
Research and development expenses		371	597
	$	**1,226**	**2,219**

The Company's paid retirement expenses for the years ended December 31, 2016 and 2015 were $0 thousand and $24,114 thousand.

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

The Company's actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

		2016	2015
Balance on January 1	$	40,759	34,059
Recognized		12,207	6,700
Balance on December 31	$	**52,966**	**40,759**

(vi) Actuarial assumptions

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

	2016.12.31	2015.12.31
Discount rate	1.375 %	1.875 %
Future salary increases	3.000 %	3.000 %

The Company shall pay the expected contributions of $2,193 thousand to the plan for the next annual reporting period.

The weighted average duration of defined benefit obligation is 17.76 years and 17.65 years in 2016 and 2015, respectively.

(vii) Sensitivity analysis

The impact on present value due to the changes in the actuarial assumptions in 2016 and 2015 was as follows:

	Effective of defined benefit liabilities	
	Increase	Decrease
December 31, 2016		
Discount rate (0.25% change)	$ (4,534)	4,744
Future salary increase (0.25% change)	4,600	(4,407)
December 31, 2015		
Discount rate (0.25% change)	(4,360)	4,546
Future salary increase (0.25% change)	4,426	(4,268)

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

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

(2) Defined contribution plans

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

The amount of the Company's pension expenses under defined contribution pension plan in 2016 and 2015 were as follows:

	2016	2015
Operating cost	$ 10,784	11,989
Operating expense	$ 135,553	169,511

(p) Income Taxes

Income tax expenses for the years ended December 31, 2016 and 2015 were summarized as follows:

	2016	2015
Current income tax expense	$ 134,382	86,089
Deferred tax income	(14,090)	(352,352)
	$ 120,292	(266,263)

The amount of income tax recognized in other comprehensive income was as follows:

	2016	2015
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	$ (1,956)	(74,780)

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

	2016	2015
Loss before income tax	$ (789,374)	(2,092,000)
Income tax using the Company's domestic tax rate	$ (134,193)	(355,640)
Effect of tax rate in foreign jurisdiction	94,248	(63,789)
Non-taxable income	(50,805)	(7,470)
Unrecognized temporary differences	245,675	152,992
Reporting differences on prior years and others	(34,633)	7,644
	$ 120,292	(266,263)

D-LINK CORPORATION AND SUBSIDIARIES

Notes to the consolidated financial statements

(1) Unrecognized deferred income tax assets

The unrecognized deferred income tax assets were as follows:

	December 31, 2016	December 31, 2015
Unrealized expenses	$ 156,990	87,556
Provisions	11,252	10,404
Impairment	22,031	22,031
Operating loss carry forward	711,218	572,442
Write-down of inventories to net realizable value	54,955	59,353
Others	132,967	62,877
	$ 1,089,413	814,663

(2) Recognized deferred tax assets and liabilities

The movements in the amount of deferred tax assets and liabilities for the years 2016 and 2015 were as follows:

	Intra-group transactions	Investments under the equity method	Others	Total
Deferred income tax liabilities:				
Balance at January 1, 2016	$ -	200,088	7,587	207,675
Recognized in profit or loss	-	(193,291)	(1,858)	(195,149)
Balance at December 31, 2016	$ -	6,797	5,729	12,526
Balance at January 1, 2015	$ 170	586,349	5,763	592,282
Recognized in profit or loss	(170)	(386,261)	1,824	(384,607)
Balance at December 31, 2015	$ -	200,088	7,587	207,675

	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, 2016	$ 181,998	157,613	136,367	85,146	34,224	92,132	60,198	747,678
Recognized in income statement	(38,478)	-	(101,482)	7,996	5,486	(47,768)	(6,813)	(181,059)
Foreign currency translation reserve	-	1,956	-	-	-	-	-	1,956
Balance at December 31, 2016	$ 143,520	159,569	34,885	93,142	39,710	44,364	53,385	568,575
Balance at January 1, 2015	$ 260,241	82,833	120,936	86,189	37,482	50,911	66,561	705,153
Recognized in income statement	(78,243)	-	15,431	(1,043)	(3,258)	41,221	(6,363)	(32,255)
Foreign currency translation reserve	-	74,780	-	-	-	-	-	74,780
Balance at December 31, 2015	$ 181,998	157,613	136,367	85,146	34,224	92,132	60,198	747,678

(Continued)

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 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, 2016, the Consolidated Company's unused loss carry forward available to offset future taxable income and the year of expiry were as follows:

Consolidated entity	Year of loss	Year of expiry	Unused amount
The Company	2016	2026	260,014
YEOCHIA	2014	2024	4,204
YEOCHIA	2016	2026	6,716
YEOMAO	2014	2024	2,125
YEOTAI	2008	2018	3,410
YEOTAI	2010	2020	15,071
YEOTAI	2011	2021	2,039
YEOTAI	2014	2024	2,813
YEOTAI	2016	2026	1,330
D-Link Europe	2003 and 2015~2016	Unlimited	315,381
D-Link Brazil	2014~2016	Unlimited	961,520
D-Link Trade	2015	2025	80,361
DCN	2012~2015	2017~2020	729,504
D-Link Mexicana	2014~2015	2024~2025	106,792
D-Link Systems	2015~2016	2035~2036	38,891
D-Link International	2015~2016	Unlimited	662,333
D-Link Korea	2011~2016	2021~2026	74,832
			$ 3,267,336

The income tax returns of the Company, YEOMAO, YEOCHIA and YEOTAI have been examined by ROC income tax authorities through 2014.

Information on the integrated tax system of the Company was summarized as follows:

	December 31, 2016	December 31, 2015
Unappropriated retained earning after January 1, 1998	$ (866,691)	358,455
Imputation credit account balance	$ 369,807	418,547

The unappropriated retained earnings as mentioned above includes comparative information of each period which are in accordance with Regulation Governing the Preparation of Financial Reports by Securities Issuers and IFRS endorsed by the FSC.

(Continued)

	2016 (estimated)	2015 (actual)
Creditable ratio for earnings distribution to resident stockholders	- %	44.51%

The abovementioned, information was prepared in accordance with the information letter No. 10204562810 announced by Ministry of Finance of R.O.C. on October 17, 2013.

(q) Share capital and other equity

(1) Common stock

As of December 31, 2016 and 2015, 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, 2016 and 2015, the issued capital amounted to $6,519,961 and $6,769,961 thousand. The par value of the Company's common stock is $10 New Taiwan dollars per share.

(2) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2016	December 31, 2015
Common stock in excess of par value	$ 1,474,837	1,728,508
Treasury stock	22,004	-
Share of changes in equities of associates accounted for under the equity method	7,470	8,056
Expiry of share-based payment transactions	129,459	129,459
Expiry of redeemed options of convertible corporate bonds	81,454	81,454
Changes the Company's ownership interests in subsidiaries	21,724	21,724
Total	$ 1,736,948	1,969,201

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

The Company's shareholders' meetings held on June 17, 2016 and June 12, 2015 resolved to distribute cash amounting to $189,841 thousand (NT$0.3 per share), and stock amounting to $155,237 thousand (NT$0.25 per share) with capital surplus.

(3) Retained earnings

In accordance with the Company's articles of incorporation, if there are earnings at year-end, 10 percent should be set aside as legal reserve and special earnings reserve or reversal in accordance with the Securities and Exchange Act after the payment of income tax and offsetting accumulated losses from prior years. The remaining portion will be combined with earnings from prior years, and the board of directors can propose methods of distribution to be approved by the shareholders' meeting. Dividends distributed to shareholders should not be less than 30 percent of the distributable earnings for the current year.

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

(i) Legal reserve

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

(ii) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory commission on 6 April, 2012, a special reserve equivalent to the net debit balance of shareholders' equity shall be made from the current after-tax net income and the prior unappropriated earnings pursuant to existing regulations promulgated by SFB. The Company shall not distribute the special reserve equivalent to the net debit balance of shareholders' equity from the prior fiscal years made from the prior unappropriated earnings. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses. The Company's shareholders meetings on June 17, 2016, and June 12, 2015 approved to make the legal reserve amounting $124,165 thousand and reverse $97,842 thousand, respectively.

(iii) Earning distribution

The Company's shareholders meeting resolved to distribute the earnings in 2014, via stock dividends, to the shareholders amounting to $155,237 thousand (NT$0.25 per share).

The above distribution in 2014 earnings was approved by the board of directors, and the amount was consistent with recorded expense. For information related to earning distribution, please refer to the website of the Market Observation Post System.

(Continued)

(4) Treasury stock

Under Article 28-2 of the Securities and Exchange Act, the Company's board of directors passed a resolution on August 13, 2015, January 14, 2013, June 22, and October 30, 2012 to buy back its shares from the open market and to transfer the shares to its employees. The board of directors' meeting on June 22, 2012 resolved to buy back 1,807 thousand shares of treasury stocks amounting to $33,692 thousand. The Company cancelled the treasury shares without having to transfer to its employees within three years on August 14, 2015. The cancellation process was completed on November 27, 2015. The board of directors' meetings held on October 30, 2012 and January 14, 2013 resolved to buy back 10,000 thousand and 15,000 thousand, respectively, of treasury stocks amounting to $173,037 thousand and $277,433 thousand, respectively. On March 24, 2016, the Company cancelled the treasury stocks without having to transfer them to its employees within three years. The cancellation process was completed on April 7, 2016.

The board of directors meeting on August 8, 2016 resolved to transfer 9,221 thousand of the treasury stocks, bought in 2015, to its employees, with a subscription price NT$9.72 per share, amounting to $89,628 thousand. In 2016, the Company recognized a compensation cost amounting to $21,946 thousand, and wrote off treasury stocks and capital Surplus—treasury shares transaction amounting to $89,570 thousand and $22,004 thousand, respectively.

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

	2016		2015	
	Shares (in thousands)	**Amount**	**Shares (in thousands)**	**Amount**
Beginning balance	44,192	$ 636,895	26,807	483,774
Increased	-	-	19,192	186,425
Decreased	(34,221)	(540,040)	(1,807)	(33,304)
Ending balance	9,971	$ 96,855	44,192	636,895

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, 2016 Independent Auditors' Report. The ceiling on total number of shares of the repurchase is 55,229 thousand shares and the ceiling on total monetary amount of the repurchase is $2,802,620 thousand.

(5) Other equity

		Foreign exchange differences arising from foreign operations	Unrealized gains and losses on available-for-sale financial assets
Balance at January 1, 2016	$	(671,330)	(6,802)
Foreign exchange differences (net of taxes):			
The Consolidated Company		(9,437)	-
Associates		(118,036)	-
Unrealized gains and losses from available-for-sale financial assets			
The Consolidated Company		-	35,242
Associates		-	1,664
Balance at December 31, 2016	$	(798,803)	30,104
Balance at January 1, 2015	$	(261,174)	(292,793)
Foreign exchange differences (net of taxes):			
The Consolidated Company		(365,003)	-
Associates		(45,153)	-
Unrealized gains and losses from available-for-sale financial assets			
The Consolidated Company		-	196,606
Associates		-	89,385
Balance at December 31, 2015	$	(671,330)	(6,802)

(6) Non-controlling interests

		2016	2015
Balance at the beginning of the period	$	412,502	373,144
Net income attributable to non-controlling interest:			
Net income		43,906	45,094
Exchange differences on translation of foreign operations		(19,257)	(560)
Cash dividends distributed by subsidiaries		(5,857)	(6,433)
Disposal of subsidiaries		-	1,257
Balance at the end of the period	$	431,294	412,502

(r) Earnings per share

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

(1) Basic earnings per ordinary share

	2016	2015
Profit (loss) attributable to owners of the parent	$ **(953,572)**	**(1,870,831)**
Outstanding at the ordinary share at 1 January	632,804	620,948
Weight-average share of stock dividend	-	31,048
Weighted-average share of treasury stock	2,561	(5,977)
Weighted-average ordinary shares outstanding at 31 December	**635,365**	**646,019**
Basic earnings (loss) per ordinary share (New Taiwan dollars)	$ **(1.50)**	**(2.90)**

(2) Diluted earnings per share

	2016	2015
Loss attributable to owners of the parent	$ **(953,572)**	**(1,870,831)**

	2016	2015
Weighted-average ordinary shares outstanding (basic)	635,365	646,019
Employee's bonus that may issue by stocks but have not authorized by the shareholders' meeting	-	52
Weighted-average number of shares' outstanding at December 31 (diluted)	**635,365**	**646,071**
Diluted earnings (loss) per share (New Taiwan dollars)	$ **(1.50)**	**(2.90)**

In calculating the effects of all dilutive potential ordinary shares, the average market value is based on the quoted market price during the outstanding periods.

(s) Revenue

	2016	2015
Goods sold	$ 22,813,029	26,513,515
Services	108,769	100,964
	$ **22,921,798**	**26,614,479**

(t) 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.

(Continued)

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, 2016 and 2015, and thus, the Company was not required to accrue any remuneration to its employees, directors and supervisors.

(u) Other income

		2016	2015
Interest revenue	$	41,220	40,770
Rental revenue		2,458	2,440
Dividends revenue		12,321	1,481
	$	**55,999**	**44,691**

(v) Other gains and losses

		2016	2015
Valuation gains (losses) from financial assets and liabilities	$	(47,148)	8,036
Gain on disposal of investments		71,997	110,890
Foreign currency exchange losses		(34,385)	(310,826)
Impairment loss on financial assets		(79,414)	(306,323)
Others		(35,085)	21,245
	$	**(124,035)**	**(476,978)**

(w) Financial costs

		2016	2015
Interest expense	$	**118,810**	**46,823**

(x) Items that were reclassified to other comprehensive income

Details of the reclassification adjustments of other comprehensive income in 2016 and 2015 were summarized as follow:

		2016	2015
Exchange differences on translation of foreign operations			
Change in foreign currency exchange from the Consolidated Company	$	(11,370)	(439,804)
Change in foreign currency exchange from non-controlling interests		(19,257)	(560)
Change in exchange differences on translation of foreign operation recognized in other comprehensive income	$	**(30,627)**	**(440,364)**
Unrealized gains (losses) on available-for-sale financial assets			
Change in fair value from the Consolidated Company	$	488	(93,028)
Reclassification adjustments		34,754	289,634
Change in fair value recognized in other comprehensive income	$	**35,242**	**196,606**
Share of other comprehensive income accounted for using equity method			
Change in foreign currency exchange from associates	$	(115,143)	(38,732)
Change in fair value from associates		1,672	86,803
Reclassification adjustments		(2,924)	(3,818)
Share of other comprehensive income from associates	$	**(116,395)**	**44,253**

(y) Financial instrument

(1) Category of financial instrument

(i) Financial Assets

		December 31, 2016	December 31, 2015
Cash and cash equivalents	$	4,314,246	3,917,389
Financial assets at fair value through profit or loss —current		35,660	71,076
Available-for-sale financial assets —Non-current		377,642	417,005
Financial assets carried at cost		7,088	31,820
Notes receivable, accounts receivable and other receivables (including related parties)		4,795,736	5,139,211
Other current asset—other financial assets		274,652	181,863
	$	**9,805,024**	**9,758,364**

(Continued)

(ii) Financial liabilities

	December 31, 2016	December 31, 2015
Short-term loans	$ 1,279,500	1,447,930
Financial liabilities at fair value through profit or loss —current	93,639	48,954
Notes payable, accounts payable and other payables (including related parties)	5,804,236	6,612,805
Current portion of long-term liabilities	1,294,993	-
Financial liabilities at fair value through profit or loss —non-current	-	1,904
Bonds payable	-	1,125,913
Long-term loans	-	150,000
	$ 8,472,368	9,387,506

(2) Credit risk

Exposure to credit risk:

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2016 and 2015, the maximum amount exposed to credit risk amounted to $9,805,024 thousand, and $9,758,364 thousand, respectively.

(3) Liquidity risk

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

	Book value	Contractual cash flows	Within six months	6-12 months	1-2 years	2-5 years	Over five years
December 31, 2016							
Non-derivative financial liabilities							
Short-term loans	$ 1,279,500	1,280,167	1,280,167	-	-	-	-
Notes payable	1,770	1,770	1,770	-	-	-	-
Accounts payable	2,034,685	2,034,685	2,019,104	-	15,581	-	-
Accounts payable to related parties	1,830,568	1,830,568	1,830,568	-	-	-	-
Other payables	1,937,213	1,937,213	1,643,678	-	293,535	-	-
Long-term loans maturing within one year	1,294,993	1,467,060	1,467,060	-	-	-	-
Derivative financial liabilities							
Embedded exchangeable corporate bonds	78,102	78,102	78,102				
Outflow	2,137	151,281	151,281	-	-	-	-
Inflow	-	149,640	149,640	-	-	-	-
Foreign exchange swap contracts used for hedging:							
Outflow	13,390	612,961	612,961	-	-	-	-
Inflow	-	599,304	599,304	-	-	-	-
Option contracts used for hedging:							
Outflow	10	31,627	31,627	-	-	-	-
Inflow	-	32,312	32,312	-	-	-	-
	$ 8,472,368	10,206,690	9,897,574	-	309,116	-	-

	Book value	Contractual cash flows	Within six months	6-12 months	1-2 years	2-5 years	Over five years
December 31, 2015							
Non-derivative financial liabilities							
Short-term loans	$ 1,447,930	1,448,911	1,448,911	-	-	-	-
Notes payable	1,833	1,833	1,833	-	-	-	-
Accounts payable	2,395,516	2,395,516	2,375,235	20,281	-	-	-
Accounts payable to related parties	2,138,150	2,138,150	2,138,150	-	-	-	-
Other payables	2,077,306	2,077,306	2,077,306	-	-	-	-
Bonds payable	1,125,913	1,125,913	-	-	1,125,913	-	-
Long-term loans	150,000	155,505	1,146	1,039	2,061	151,259	-
Derivative financial liabilities							
Embedded exchangeable corporate bonds	44,294	44,294	42,390	-	1,904	-	-
Foreign exchange swap contracts used for hedging:							
Outflow	619	102,230	102,230	-	-	-	-
Inflow	-	101,422	101,422	-	-	-	-
Forward exchange contracts used for hedging:							
Outflow	4,997	344,660	344,660	-	-	-	-
Inflow	-	338,411	338,411	-	-	-	-
Option contracts used for hedging:							
Outflow	948	194,827	194,827	-	-	-	-
Inflow	-	198,396	198,396	-	-	-	-
	$ 9,387,506	10,667,374	9,364,917	21,320	1,129,878	151,259	-

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

(4) Currency risk

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

	2016			2015		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets (note):						
Monetary items:						
CLP	$ 234,434	0.05	11,248	841,850	0.05	39,354
JPY	1,113,704	0.28	308,830	1,169,581	0.28	321,752
CAD	8,377	23.95	200,588	12,392	23.90	296,204
USD	236,971	32.31	7,656,697	258,986	33.07	8,563,630
MXN	291	1.56	455	14,360	1.92	27,595
BRL	52,465	9.91	520,154	75,600	8.47	640,181
AUD	8,604	23.31	200,586	5,345	24.08	128,699
			$ 8,898,558			10,017,415

(Continued)

		2016			2015		
		Foreign currency	**Exchange rate**	**TWD**	**Foreign currency**	**Exchange rate**	**TWD**
Non-monetary items:							
USD	$	1,053	32.31	34,013	1,950	33.07	64,476
Long-term investment under equity method:							
USD	$	-	-	-	258	33.07	8,542
Financial liabilities (note):							
Monetary items:							
JPY	$	1,331,837	0.28	369,318	78,155	0.28	21,501
CAD		4,369	23.95	104,614	4,734	23.90	113,162
BRL		24,341	9.91	241,328	33,496	8.47	283,642
USD		189,051	32.31	6,108,668	214,424	33.07	7,090,143
CLP		302,962	0.05	14,535	475,438	0.05	22,225
AUD		3,499	23.31	81,572	2,568	24.08	61,833
MXN		923	1.56	1,443	6,229	1.92	11,971
				$ 6,921,478			7,604,477
Non-monetary items:							
USD	$	430	32.31	13,896	198	33.07	6,564

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

Because the Consolidated Company's entities have various functional currencies, it will not be possible for the information of the foreign currency exchange gains and losses of the monetary financial assets and liabilities to be disclosed individually; the said monetary financial assets and liabilities may have a significant impact on the consolidated financial statements of the Consolidated Company. The total foreign exchange losses, including realized and unrealized, were $34,385 thousand and $310,826 thousand for the years ended December 31, 2016 and 2015, respectively.

(ii) Sensitivity analysis

The Consolidated Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, account and other receivables, loans, and account and other payables that are denominated in foreign currency. A 1.5% of appreciation (depreciation) of each consolidated components currency, other than the functional currency, against the functional currency as of December 31, 2016 and 2015 would have decreased or increased the net loss after tax by $5,088 thousand and $3,247 thousand, respectively, assuming all other variables were held constant.

(5) Interest rate analysis

The interest rate risk exposure of financial assets and liabilities are disclosed in the note of liquidity risk management. The Company had no liabilities at floating rate.

(Continued)

(6) Assets/liabilities measured at fair value

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

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

	December 31, 2016			
Assets and liabilities	**Total**	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on recurring basis				
Non-derivative assets and liabilities				
Assets:				
Available-for-sale financial assets	$ 377,642	377,642	-	-
Derivative assets and liabilities				
Assets:				
Financial liabilities at fair value through profit or loss － current	35,660	19,029	16,631	-
Liabilities:				
Financial liabilities at fair value through profit or loss － current	93,639	-	93,639	-

	December 31, 2015			
Assets and liabilities	**Total**	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on recurring basis				
Non-derivative assets and liabilities				
Assets:				
Available-for-sale financial assets	$ 417,005	417,005	-	-
Derivative assets and liabilities				
Financial liabilities at fair value through profit or loss－current	71,076	49,978	21,098	-
Liabilities:				
Financial assets at fair value through profit or loss － current	48,954	-	48,954	-
Financial liabilities at fair value through profit or loss － non-current	1,904	-	1,904	-

(ii) Valuation techniques

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

(iii) Transfer from Level 1 to Level 2

As of December 31, 2016 and 2015, there were no transfers between level 1 and level 2 of the fair value hierarchy.

(7) Assets/liabilities not measured at fair value

(i) Information of fair value

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

	December 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Non-financial assets:				
Investment property	$ 40,858	50,083	41,254	52,949

Assets and liabilities	December 31, 2016 Total	Level 1	Level 2	Level 3
Non-financial assets:				
Investment property	$ 50,083	-	-	50,083

Assets and liabilities	December 31, 2015 Total	Level 1	Level 2	Level 3
Non-financial assets:				
Investment property	$ 52,949	-	-	52,949

(ii) Valuation techniques

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

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

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

c) The fair value of financial assets at cost which cannot be reliably measured and whose fair value cannot be estimated as there is no quoted price in the market.

(z) Financial risk management

(1) Overview

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

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

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

(2) Structure of risk management

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

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

The Board of Directors and Supervisors 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 Supervisors.

(3) Credit risk

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

(i) Accounts receivable

The credit risk exposure of the Consolidated Company arises from the operations and financial conditions of each customer and the demographics of the Consolidated Company's customer base, including the default risk of the industry and country in which customers operate in. However, the Consolidated Company operates worldwide, and thus, risk is diversified. As of December 31, 2016, and 2015, revenue from each foreign customer does not exceed 5% of the Consolidated Company's revenue and therefore, there is no concentration of credit risk.

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

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

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

(ii) Investment on securities and derivative financial instruments

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

(iii) Guarantees

Pursuant to the Consolidated Company's policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2016, and 2015, the Consolidated Company has not provided any guarantees to a third party.

(4) Liquidity risk

Liquidity risk is the risk that the Consolidated Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Consolidated Company's approach to manage liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Company's reputation. The Consolidated Company aims to maintain the level of its cash and short term bank facilities at an amount in excess of expected cash flows on financial liabilities over the succeeding 60 days. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Consolidated Company has unused short term bank facilities for $5,084,995 thousands as of December 31, 2016.

(Continued)

(5) Market risk

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

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

(i) Currency risk

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

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

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

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

(ii) Interest rate risk

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

(iii) Other price risk

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

(aa) 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, 2016	December 31, 2015
Total liabilities	$	9,460,306	10,217,060
Less: cash and cash equivalents		(4,314,246)	(3,917,389)
Net debt	$	**5,146,060**	**6,299,671**
Total equity	$	**9,930,590**	**11,045,559**
Debt to equity ratio		51.82 %	57.03 %

As of December 31, 2016, the methods of the Consolidated Company's capital management remained unchanged.

7. Related-party transactions

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Consolidated Company.

(b) Significant related party transactions

(1) Sales

		2016	2015
Associates	$	353	241
Other related-parties		-	21
	$	**353**	**262**

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

(2) Purchases

		2016	2015
Associates	$	5,092,251	6,524,421
Other related-parties		2,009,858	2,171,267
	$	**7,102,109**	**8,695,688**

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

(3) Accounts receivable due from related parties

The accounts receivable due from related parties were as follows:

Account	Related party categories		December 31, 2016	December 31, 2015
Accounts receivable	Associates	$	161	74
Accounts receivable	Other related-parties		-	22
Other receivables	Associates		6,933	13,478
Other current assets	Other related-parties		-	185
		$	**7,094**	**13,759**

In 2016 and 2015, other gains and losses from rent and others were $10,916 thousand and $2,572 thousand, respectively.

(4) Accounts payable to related parties

The accounts payable to related parties were as follow:

Account	Related party categories		December 31, 2016	December 31, 2015
Accounts payable	Associates	$	1,254,625	1,564,920
Accounts payable	Other related-parties		575,943	573,230
Other payables	Associates		35,450	48,679
Other payables	Other related-parties		5,096	28,408
		$	**1,871,114**	**2,215,237**

(5) Services purchased from related parties

The services purchased from related-parties were as follows:

		2016	2015
Associates	$	120,484	75,974
Other related-parties		16,783	23,528
	$	**137,267**	**99,502**

(6) Property transaction

(i) Property, plant and equipment acquired

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

	2016	2015
Associates	$ 15,636	26,038
Other related-parties	8,306	11,264
	$ 23,942	37,302

(ii) Intangible assets acquired

Related party categories	2016	2015
Associates	$ -	42,413

(iii) 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 $3,525 thousand was recognized under other non-current liabilities; and the realized profits of $17,210 thousand was recognized under other gains and losses.

The details of the abovementioned transactions were summarized as follows:

Account	Related party categories	2016	2015
Other non-current liabilities	Associates	$ 3,525	4,207

Account	Related party categories	2016	2015
Gains and Losses	Associates	$ 682	682

(c) Key management personnel compensation

Key management personnel compensation comprised:

	2016	2015
Short-term employee benefits	$ 63,028	85,788
Post-employee benefits	1,879	28,422
Share-based payments	3,669	-
	$ 68,576	114,210

8. Pledged assets

The carrying values of pledged assests were as follows:

Pledged assets	Pledged to secure	December 31, 2016	December 31, 2015
Other current assets and other non-current assets	Rental deposits, performance bond and time deposits	$ 74,597	55,946

9. Commitments and contingencies

(a) Northpeak Wireless, LLC filed a lawsuit against the Company's subsidiary, D-Link Systems, in October 2008, 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 its defense with product suppliers. Based on its evaluation, the Company does not believe the litigation will have any significant impact on its current operations.

(b) Ericsson, Inc. and Telefonaktiebolaget LM Ericsson filed a lawsuit against the Company and its subsidiary, D-Link Systems, on September 14, 2010, alleging that some of the D-Link Systems' products infringed its patents. The Company has retained its attorneys in the US and is currently building its defense with product suppliers. Based on its evaluation, the Company does not believe the litigation will have any significant impact on its current operations.

(c) Chrimar Systems Inc. filed a lawsuit against the Company's subsidiary, D-Link Systems, in July 2015, alleging that some of the D-Link Systems' products infringed its patents. D-Link Systems has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Company does not believe the litigation will have any significant impact on its current operations.

(d) Anza Technology, Inc. filed a lawsuit against the Company's subsidiary, D-Link Systems on May 26, 2016, alleging that some of D-Link Systems' products infringed its patents. D-Link Systems has retained its attorneys in the US and is currently building defense with product suppliers. Based on its evaluation, the Company does not believe the litigation will have any significant impact on its current operations.

(e) 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.

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

10. Losses due to major disasters: None.

11. Subsequent events

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

(Continued)

12. Other information

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

Account	2016			2015		
	Cost of goods sold	Operating expense	Total	Cost of goods sold	Operating expense	Total
Employee expenses						
Salaries	110,508	2,853,605	2,964,113	119,950	3,279,434	3,399,384
Labor and health insurance	2,276	140,856	143,132	3,828	181,561	185,389
Pension	10,927	136,636	147,563	12,058	171,661	183,719
Others	13,467	355,659	369,126	12,829	409,483	422,312
Depreciation	1,567	142,965	144,532	3,736	160,346	164,082
Amortization	604	50,454	51,058	497	45,567	46,064

13. Segment information

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

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

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

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

	2016				
	Americas	Europe	Emerging markets and others	Adjustments and eliminations	Total
Revenue:					
Third-party customers	$ 4,718,990	4,747,596	13,455,212	-	22,921,798
Inter-company	21,326	6,791	5,850,307	(5,878,424)	-
Total revenue	$ 4,740,316	4,754,387	19,305,519	(5,878,424)	22,921,798
Reportable segment profit (loss)	$ (622,957)	(116,494)	(1,361,374)	1,311,451	(789,374)

			2015		
	Americas	**Europe**	**Emerging markets and others**	**Adjustments and eliminations**	**Total**
Revenue:					
Third-party customers	$ 7,702,934	5,528,828	13,417,186	(34,469)	26,614,479
Inter-company	15,582	1,318	7,689,759	(7,706,659)	-
Total revenue	$ 7,718,516	5,530,146	21,106,945	(7,741,128)	26,614,479
Reportable segment profit (loss)	$ (893,842)	(103,112)	(3,643,742)	2,548,696	(2,092,000)

	Americas	**Europe**	**Emerging markets and others**	**Adjustments and eliminations**	**Total**
Reportable segment assets:					
December 31, 2016	$ 3,995,119	1,772,647	28,911,599	(15,288,469)	19,390,896
December 31, 2015	$ 4,858,267	1,917,393	30,321,309	(15,834,350)	21,262,619

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

Total reportable segment revenues after deducting the intergroup revenues were $5,878,424 thousand and $7,741,128 thousand in 2016 and 2015, respectively.

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

(b) Information on the products and services

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

Products and services	**2016**	**2015**
Switch	$ 7,252,333	7,077,202
Wireless	8,204,129	9,754,623
Broadband	2,314,978	4,034,228
Digital Home	2,401,343	3,298,201
Network interface card and others	2,640,246	2,349,261
Service revenue	108,769	100,964
Total	$ 22,921,798	26,614,479

(c) Geographic information

Country		2016	2015
Revenue from external customers:			
United States	$	2,211,822	4,176,823
Europe		4,747,596	5,528,828
Other countries		15,962,380	16,908,828
	$	**22,921,798**	**26,614,479**
Non-current assets			
Taiwan	$	1,057,575	1,095,431
India		468,373	485,508
Other countries		764,610	868,536
Total	$	**2,290,558**	**2,449,475**

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

(d) Major customers

There were no individual customers representing greater than 10% of consolidated revenue in 2016 and 2015.