# DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES

# CONSOLIDATED FINANCIAL STATEMENTS AND

# REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

# MARCH 31, 2017 AND 2016

For the convenience of readers and for information purpose only, the reviewers' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. These English financial statements were translated from the financial statements originally prepared in Chinese. This English translation is solely for the readers' convenience and these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language reviewers' report and financial statements shall prevail.

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REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of Davicom Semiconductor, Inc.

We have reviewed the accompanying consolidated balance sheets of Davicom Semiconductor, Inc. and its subsidiaries as of March 31 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Engagements to Review Financial Statements" in the Republic of China. Our review primarily consisted of inquiries of company personnel and the application of analytical procedures to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 4(3), we did not review the financial statements of certain insignificant consolidated subsidiaries, which statements reflect total assets of NT$311,476 thousand and NT$318,832 thousand, constituting 23.95% and 23.61% of the consolidated total assets, and total liabilities of NT$835 thousand and NT$98 thousand, constituting 1.11% and 0.12% of the consolidated total liabilities as of March 31 2017 and 2016, respectively, and total comprehensive (loss) income of (NT$3,508) thousand and NT$461 thousand, constituting (84.00%) and 2.06% of the consolidated total comprehensive (loss) income for the three months then ended, respectively. These amounts and the information disclosed in Note 13 were based solely on the unreviewed financial statements of these subsidiaries as of and for the three months ended March 31 2017 and 2016.

Based on our reviews, except for the effect of any adjustments that might have been considered to be necessary had the financial statements of certain insignificant consolidated subsidiaries and the information disclosed in Note 13 been reviewed by independent accountants, we are not aware of any



資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段333號27樓 / 27F, 333, Keelung Road, Sec. 1, Xinyi Dist., Taipei City 11012, Taiwan
T: +886 (2) 2729 6666, F:+ 886 (2) 2757 6371, www.pwc.com/tw

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material modifications that should be made to the consolidated financial statements referred to in the first paragraph for them to be in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard No. 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission of the Republic of China.

Se-Kai Lin

Chun-Yuan Hsiao

For and on behalf of PricewaterhouseCoopers, Taiwan

May 9, 2017

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of March 31,2017 and 2016 are reviewed, not audited

| | Assets | Notes | March 31, 2017 AMOUNT | % | December 31, 2016 AMOUNT | % | March 31, 2016 AMOUNT | % |
|---|---|---|---|---|---|---|---|---|
| | **Current assets** | | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 916,229 | 71 | $ 914,769 | 70 | $ 922,330 | 68 |
| 1125 | Available-for-sale financial assets - current | 6(2) | 299 | - | 5,730 | 1 | 22,470 | 2 |
| 1150 | Accounts receivable, net - related parties | | - | - | 65 | - | - | - |
| 1170 | Accounts receivable, net | 6(3) | 41,414 | 3 | 42,363 | 3 | 48,970 | 4 |
| 1200 | Other receivables | | 380 | - | 535 | - | 522 | - |
| 130X | Inventories, net | 6(4) | 28,379 | 2 | 27,888 | 2 | 32,138 | 2 |
| 1410 | Prepayments | | 2,481 | - | 2,601 | - | 3,344 | - |
| 1470 | Other current assets | | 14 | - | 18 | - | 65 | - |
| 11XX | **Total Current Assets** | | 989,196 | 76 | 993,969 | 76 | 1,029,839 | 76 |
| | **Non-current assets** | | | | | | | |
| 1523 | Available-for-sale financial assets - noncurrent | 6(2) | 52,041 | 4 | 47,879 | 4 | 56,580 | 4 |
| 1543 | Financial assets carried at cost - noncurrent | | - | - | - | - | - | - |
| 1600 | Property, plant and equipment, net | 6(5) | 129,566 | 10 | 130,087 | 10 | 132,899 | 10 |
| 1760 | Investment property, net | 6(6) | 110,970 | 8 | 111,700 | 9 | 113,891 | 8 |
| 1780 | Intangible assets | | 151 | - | 68 | - | 111 | - |
| 1840 | Deferred income tax assets | | 11,092 | 1 | 9,954 | 1 | 9,166 | 1 |
| 1900 | Other non-current assets | 6(7) | 7,314 | 1 | 5,788 | - | 8,199 | 1 |
| 15XX | **Total Non-current assets** | | 311,134 | 24 | 305,476 | 24 | 320,846 | 24 |
| 1XXX | **Total assets** | | $ 1,300,330 | 100 | $ 1,299,445 | 100 | $ 1,350,685 | 100 |

(Continued)

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of March 31,2017 and 2016 are reviewed, not audited

| | Liabilities and Equity | Notes | March 31, 2017 AMOUNT | % | December 31, 2016 AMOUNT | % | March 31, 2016 AMOUNT | % |
|---|---|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | | | |
| 2150 | Accounts payable - related parties | | $ 7,105 | 1 | $ 5,939 | - | $ 5,218 | - |
| 2170 | Accrued expenses | | 6,647 | 1 | 6,490 | - | 5,840 | - |
| 2200 | Other payables | 6(8) | 32,167 | 2 | 35,218 | 3 | 37,582 | 3 |
| 2230 | Current income tax liabilities | 6(18) | 11,456 | 1 | 7,624 | 1 | 8,463 | 1 |
| 2300 | Other current liabilities | | 1,479 | - | 472 | - | 1,307 | - |
| 21XX | **Current Liabilities** | | 58,854 | 5 | 55,743 | 4 | 58,410 | 4 |
| | **Non-current liabilities** | | | | | | | |
| 2570 | Deferred income tax liabilities | | 1,174 | - | 3,636 | - | 2,681 | - |
| 2600 | Other non-current liabilities | 6(9) | 15,504 | 1 | 19,444 | 2 | 18,900 | 2 |
| 25XX | **Non-current liabilities** | | 16,678 | 1 | 23,080 | 2 | 21,581 | 2 |
| 2XXX | **Total Liabilities** | | 75,532 | 6 | 78,823 | 6 | 79,991 | 6 |
| | **Equity attributable to owners of parent** | | | | | | | |
| | **Share capital** | 6(12) | | | | | | |
| 3110 | Common stock | | 832,551 | 64 | 832,551 | 64 | 832,551 | 62 |
| | **Capital surplus** | 6(13) | | | | | | |
| 3200 | Capital surplus | | 259,876 | 20 | 259,876 | 20 | 283,187 | 21 |
| | **Retained earnings** | 6(14) | | | | | | |
| 3310 | Legal reserve | | 58,312 | 4 | 58,312 | 5 | 50,132 | 4 |
| 3350 | Undistributed earnings | 6(18) | 77,130 | 6 | 71,340 | 5 | 99,989 | 7 |
| | **Other equity interest** | | | | | | | |
| 3400 | Other equity interest | | ( 3,552) | - | ( 2,087) | - | 4,831 | - |
| 31XX | **Equity attributable to owners of the parent** | | 1,224,317 | 94 | 1,219,992 | 94 | 1,270,690 | 94 |
| 36XX | **Non-controlling interest** | | 481 | - | 630 | - | 4 | - |
| 3XXX | **Total equity** | | 1,224,798 | 94 | 1,220,622 | 94 | 1,270,694 | 94 |
| | **Significant contingent liabilities and unrecognised contract commitments** | 9 | | | | | | |
| 3X2X | **Total liabilities and equity** | | $ 1,300,330 | 100 | $ 1,299,445 | 100 | $ 1,350,685 | 100 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated May 9, 2017.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)
(Unaudited)

| | Items | Notes | Three months ended March 31 2017 AMOUNT | 2017 % | 2016 AMOUNT | 2016 % |
|---|---|---|---|---|---|---|
| 4000 | **Sales revenue** | | $ 71,590 | 100 | $ 80,758 | 100 |
| 5000 | **Operating costs** | 6(4)(16)(17) | ( 21,758) | ( 30) | ( 23,968) | ( 30) |
| 5900 | **Net operating margin** | | 49,832 | 70 | 56,790 | 70 |
| | **Operating expenses** | 6(16)(17) and 7 | | | | |
| 6100 | Selling expenses | | ( 7,904) | ( 11) | ( 8,224) | ( 10) |
| 6200 | General & administrative expenses | | ( 11,028) | ( 15) | ( 10,868) | ( 13) |
| 6300 | Research and development expenses | | ( 18,286) | ( 26) | ( 18,560) | ( 23) |
| 6000 | **Total Operating Expenses** | | ( 37,218) | ( 52) | ( 37,652) | ( 46) |
| 6900 | **Operating income** | | 12,614 | 18 | 19,138 | 24 |
| | **Non-operating income and expenses** | | | | | |
| 7010 | Other income | 6(6) | 5,623 | 8 | 5,812 | 7 |
| 7020 | Other gains and losses | 6(15) | ( 12,691) | ( 18) | ( 4,648) | ( 6) |
| 7050 | Finance costs | | ( 8) | - | ( 9) | - |
| 7000 | **Total non-operating income and expenses** | | ( 7,076) | ( 10) | 1,155 | 1 |
| 7900 | **Income from continuing operations before income tax** | | 5,538 | 8 | 20,293 | 25 |
| 7950 | Income tax expense | 6(18) | 103 | - | ( 2,106) | ( 2) |
| 8000 | **Profit for the year from continuing operations** | | 5,641 | 8 | 18,187 | 23 |
| 8200 | **Profit for the period** | | $ 5,641 | 8 | $ 18,187 | 23 |
| | **Components of other comprehensive income that will be reclassified to profit or loss** | | | | | |
| 8361 | Financial statement translation differences of foreign operations | | ($ 5,732) | ( 8) | ($ 1,455) | ( 2) |
| 8362 | Unrealized gain on valuation of available-for-sale financial assets | 6(2) | 4,602 | 6 | 5,897 | 7 |
| 8399 | Income tax relating to the components of other comprehensive income | 6(18) | ( 335) | - | ( 206) | - |
| 8360 | **Components of other comprehensive income that will be reclassified to profit or loss** | | ( 1,465) | ( 2) | 4,236 | 5 |
| 8500 | **Total comprehensive income for the period** | | $ 4,176 | 6 | $ 22,423 | 28 |
| | **Profit (loss), attributable to:** | | | | | |
| 8610 | Owners of parent | | $ 5,790 | 8 | $ 18,187 | 23 |
| 8620 | Non-controlling interest | | ( 149) | - | - | - |
| | | | $ 5,641 | 8 | $ 18,187 | 23 |
| | **Comprehensive income attributable to:** | | | | | |
| 8710 | Owners of parent | | $ 4,325 | 6 | $ 22,423 | 28 |
| 8720 | Non-controlling interests | | ( 149) | - | - | - |
| | | | $ 4,176 | 6 | $ 22,423 | 28 |
| | **Basic earnings per share** | 6(19) | | | | |
| 9750 | **Net income** | | $ | 0.07 | $ | 0.22 |
| | **Diluted earnings per share** | 6(19) | | | | |
| 9850 | **Net income** | | $ | 0.07 | $ | 0.22 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated May 9, 2017.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)
(Unaudited)

| | Equity attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Capital Surplus | | | Retained Earnings | | | Other equity interest | | | | |
| | Notes | Common stock | Additional paid-in capital | Employees' stock options | Others | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences from translation of foreign operations | Unrealized gain or loss on available-for-sale financial assets | Total | Non-controlling interest | Total equity |
| Three months ended March 31, 2016 | | | | | | | | | | | | | |
| Balance at January 1, 2016 | | $ 832,551 | $ 244,473 | $ 38,714 | $ - | $ 50,132 | $ - | $ 81,802 | $ 7,197 | ($ 6,602 ) | $ 1,248,267 | $ 4 | $ 1,248,271 |
| Profit for the period | | - | - | - | - | - | - | 18,187 | - | - | 18,187 | - | 18,187 |
| Other comprehensive income (loss) for the period | | - | - | - | - | - | - | - | ( 1,455 ) | 5,691 | 4,236 | - | 4,236 |
| Balance at March 31, 2016 | | $ 832,551 | $ 244,473 | $ 38,714 | $ - | $ 50,132 | $ - | $ 99,989 | $ 5,742 | ($ 911 ) | $ 1,270,690 | $ 4 | $ 1,270,694 |
| Three months ended March 31, 2017 | | | | | | | | | | | | | |
| Balance at January 1, 2017 | | $ 832,551 | $ 221,162 | $ - | $ 38,714 | $ 58,312 | $ - | $ 71,340 | $ 2,542 | ($ 4,629 ) | $ 1,219,992 | $ 630 | $ 1,220,622 |
| Profit (loss) for the period | | - | - | - | - | - | - | 5,790 | - | - | 5,790 | ( 149 ) | 5,641 |
| Other comprehensive income (loss) for the period | | - | - | - | - | - | - | - | ( 5,732 ) | 4,267 | ( 1,465 ) | - | ( 1,465 ) |
| Balance at March 31, 2017 | | $ 832,551 | $ 221,162 | $ - | $ 38,714 | $ 58,312 | $ - | $ 77,130 | ($ 3,190 ) | ($ 362 ) | $ 1,224,317 | $ 481 | $ 1,224,798 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated May 9, 2017.

DAVICOM SEMICONDUCTOR INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(Unaudited)

| | Notes | Three months ended March 31 2017 | 2016 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | $ 5,538 | $ 20,293 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation (including investment property) | 6(5)(6)(16) | 1,792 | 1,691 |
| Amortisation | 6(16) | 848 | 1,248 |
| Interest income | | ( 369 ) | ( 476 ) |
| Gain on disposal of available-for-sale financial assets | 6(15) | ( 726 ) | ( 2,318 ) |
| Gain on disposal of property, plant and equipment | 6(15) | - | ( 48 ) |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Notes receivable | | 65 | - |
| Accounts receivable | | 949 | 3,783 |
| Other receivables | | ( 18 ) | ( 334 ) |
| Inventories | | ( 491 ) | ( 2,003 ) |
| Prepayments | | 120 | 1,035 |
| Other current assets | | 4 | ( 52 ) |
| Changes in operating liabilities | | | |
| Accounts payable - related parties | | 1,166 | ( 3,220 ) |
| Accrued expenses | | 157 | 1,392 |
| Other payables | | ( 3,051 ) | ( 1,555 ) |
| Net defined benefit liabilities | | ( 3,940 ) | ( 7,407 ) |
| Other current liabilities | | 1,007 | 165 |
| Cash inflow generated from operations | | 3,051 | 12,194 |
| Interest received | | 542 | 502 |
| Income taxes paid | | - | ( 18 ) |
| Net cash flows from operating activities | | 3,593 | 12,678 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of available-for-sale financial assets | | 6,597 | 16,972 |
| Acquisition of property, plant and equipment | 6(6) | ( 541 ) | ( 2,325 ) |
| Proceeds from disposal of property, plant and equipment | 6(5) | - | 48 |
| Increase in intangible assets | | ( 124 ) | ( 123 ) |
| Decrease in refundable deposit | | 30 | - |
| Increase in other assets | | ( 2,363 ) | - |
| Net cash flows from investing activities | | 3,599 | 14,572 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | ( 5,732 ) | ( 1,455 ) |
| Net increase in cash and cash equivalents | | 1,460 | 25,795 |
| Cash and cash equivalents at beginning of period | | 914,769 | 896,535 |
| Cash and cash equivalents at end of period | | $ 916,229 | $ 922,330 |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated May 9, 2017.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)
(UNAUDITED)

1. HISTORY AND ORGANIZATION

Davicom Semiconductor, Inc. (collectively referred herein as the "Company") was incorporated as a corporation under provisions of the Company Act of the Republic of China (R.O.C.). The Company and subsidiaries (collectively referred herein as the "Group") are primarily engaged in the research, development, production, manufacturing and sales of communications network ICs.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on May 9, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows：

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|---|
| Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28) | January 1, 2016 |
| Accounting for acquisition of interests in joint operations (amendments to IFRS 11) | January 1, 2016 |
| IFRS 14,'Regulatory deferral accounts' | January 1, 2016 |
| Disclosure initiative (amendments to IAS 1) | January 1, 2016 |
| Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38) | January 1, 2016 |
| Agriculture: bearer plants (amendments to IAS 16 and IAS 41) | January 1, 2016 |
| Defined benefit plans: employee contributions (amendments to IAS 19R) | July 1, 2014 |
| Equity method in separate financial statements (amendments to IAS 27) | January 1, 2016 |
| Recoverable amount disclosures for non-financial assets (amendments to IAS 36) | January 1, 2014 |

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|---|
| Novation of derivatives and continuation of hedge accounting (amendments to IAS 39) | January 1, 2014 |
| IFRIC 21, 'Levies' | January 1, 2014 |
| Improvements to IFRSs 2010-2012 | July 1, 2014 |
| Improvements to IFRSs 2011-2013 | July 1, 2014 |
| Improvements to IFRSs 2012-2014 | January 1, 2016 |

The above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

None.

(3) IFRS issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|---|
| Classification and measurement of share-based payment transactions (amendments to IFRS 2) | January 1, 2018 |
| Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4) | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28) | To be determined by International Accounting Standards Board |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15) | January 1, 2018 |
| IFRS 16, 'Leases' | January 1, 2019 |
| Disclosure initiative (amendments to IAS 7) | January 1, 2017 |
| Recognition of deferred tax assets for unrealised losses (amendments to IAS 12) | January 1, 2017 |
| Transfers of investment property (amendments to IAS 40) | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|---|
| Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction Contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

A. The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IAS 34, 'Interim Financial Reporting' endorsed by the FSC.

B. The consolidated financial statements should be read together with the consolidated financial statements for the year ended December 31, 2016.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Available-for-sale financial assets measured at fair value.

(b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs" ) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

| | | | Ownership (%) | | | |
|---|---|---|---|---|---|---|
| Name of investor | Name of subsidiary | Main business activities | March 31, 2017 | December 31, 2016 | March 31, 2016 | Description |
| Davicom Semiconductor, Inc. | Medicom Corp. | Manufacturing and designing of IC | 99.36 | 99.36 | 99.36 | - |
| Davicom Semiconductor, Inc. | Davicom Investment Inc. | General investment | 100.00 | 100.00 | 100.00 | - |
| Davicom Semiconductor, Inc. | TSCC Inc. | Reinvestment business | 100.00 | 100.00 | 100.00 | - |
| Davicom Semiconductor, Inc. | Aidialink Corp. | Wireless communication machinery and equipment manufacturing industry. | 51.06 | 51.06 | - | Note 2 |
| TSCC Inc. | JUBILINK LIMITED | Reinvestment business | 100.00 | 100.00 | 100.00 | - |
| TSCC Inc. | DAVICOM IC (SuZHou) Co.LTD | Manufacturing and designing of IC | 100.00 | 100.00 | 100.00 | Note 1 |

Note 1: The principal operations have not commenced. The subsidiary is engaged in sales and agent services.

Note 2: On October 12, 2016, Davicom Semiconductor, Inc subscribed for 51.06% of the shares of Aidialink Corp.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions on fund remittance from subsidiaries to the parent company: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

(a) The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognised in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. 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 presented in ‘financial assets measured at cost’.

(8) Receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired 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 or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(c) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(d) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assess that there has been objective evidence of impairment and an impairment loss has occurred, accounting treatment for impairment is as follows:

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from financial asset expire.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity that are not recognised in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Computer communications equipment | 2 ~ 6 years |
| Transportation equipment | 5 years |
| Other equipment | 3 ~ 4 years |

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Investment property is depreciated on a straight-line basis over its estimated useful life of 50 years.

(15) Operating leases (lessee/lessor)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Employee benefit

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employees' compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(20) Employee share-based-payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(21) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(22) Share capital

A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(23) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(24) Revenue recognition

The Group manufactures and sells communications network ICs. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(25) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Evaluation of accounts receivable

When there is objective evidence showing signs of impairment, the Group considers future cash flow estimates. The amount of the impairment loss is measured by the difference between the carrying amount of the asset and the estimated future cash flow at the original effective interest rate of the financial asset. If the actual cash flow is less than expected, there may be significant impairment losses.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Cash on hand | $ 78 | $ 76 | $ 65 |
| Checking accounts and demand deposits | 379,881 | 345,193 | 403,459 |
| Time deposits | 536,270 | 569,500 | 518,806 |
| | $ 916,229 | $ 914,769 | $ 922,330 |

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

(2) Available-for-sale financial assets

| Items | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Current items: | | | |
| Listed stocks | $ 299 | $ 6,171 | $ 25,449 |
| Valuation adjustment | - | ( 441) | ( 2,979) |
| Total | $ 299 | $ 5,730 | $ 22,470 |
| Non-current items: | | | |
| Unlisted stocks | $ 39,761 | $ 39,761 | $ 39,761 |
| Emerging stocks | 18,908 | 18,908 | 20,682 |
| Subtotal | 58,669 | 58,669 | 60,443 |
| Valuation adjustment | ( 1,628) | ( 5,790) | 637 |
| Accumulated impairment | ( 5,000) | ( 5,000) | ( 4,500) |
| Total | $ 52,041 | $ 47,879 | $ 56,580 |

A. The Group recognised $4,267 and $5,691 in other comprehensive income for fair value change and reclassified $0 and $44 from equity to profit or loss for the three months ended March 31, 2017 and 2016, respectively.

B. The Group assessed and recognised impairment loss of $500 on equity investment, MTECH Corporation, for the year ended December 31, 2016.

C. As of March 31, 2017, December 31, 2016, March 31, 2016, the Group has no available-for-sale financial assets pledged to others.

(3) Accounts receivable

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Accounts receivable | $ 41,414 | $ 42,363 | $ 48,970 |

A. As of March 31, 2017, December 31, 2016 and March 31, 2016, the Group has no impairment loss on accounts receivable.

B. For the information of the credit quality of financial assets that are neither past due nor impaired and the ageing analysis of accounts receivable that were past due but not impaired, please refer to Note 12(2) C.

(4) Inventories

| | March 31, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Work in process | $ 22,985 | ($ 12,652) | $ 10,333 |
| Finished goods | 27,916 | ( 9,870) | 18,046 |
| | $ 50,901 | ($ 22,522) | $ 28,379 |

| | December 31, 2016 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Work in process | $ 26,447 | ($ 13,037) | $ 13,410 |
| Finished goods | 23,963 | ( 9,485) | 14,478 |
| | $ 50,410 | ($ 22,522) | $ 27,888 |

| | March 31, 2016 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Work in process | $ 25,865 | ($ 13,780) | $ 12,085 |
| Finished goods | 28,795 | ( 8,742) | 20,053 |
| | $ 54,660 | ($ 22,522) | $ 32,138 |

The cost of inventories recognised as expenses for the period:

| | Three months ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Cost of goods sold | $ 21,758 | $ 23,968 |

(5) Property, plant and equipment

| | Buildings | Computer communications | Transportation equipment | Others | Total |
|---|---|---|---|---|---|
| At January 1, 2017 | | | | | |
| Cost | $ 169,884 | $ 1,016 | $ 2,325 | $ 909 | $ 174,134 |
| Accumulated depreciation | ( 42,448) | ( 790) | ( 323) | ( 486) | ( 44,047) |
| | $ 127,436 | $ 226 | $ 2,002 | $ 423 | $ 130,087 |
| 2017 | | | | | |
| Opening net book amount as at January 1 | $ 127,436 | $ 226 | $ 2,002 | $ 423 | $ 130,087 |
| Additions | 150 | 391 | - | - | 541 |
| Depreciation charge | ( 839) | ( 70) | ( 97) | ( 56) | ( 1,062) |
| Closing net book amount as at March 31 | $ 126,747 | $ 547 | $ 1,905 | $ 367 | $ 129,566 |
| At March 31, 2017 | | | | | |
| Cost | $ 170,034 | $ 1,672 | $ 2,325 | $ 909 | $ 174,940 |
| Accumulated depreciation | ( 43,287) | ( 1,125) | ( 420) | ( 542) | ( 45,374) |
| | $ 126,747 | $ 547 | $ 1,905 | $ 367 | $ 129,566 |

| | Buildings | Computer communications | Transportation equipment | Others | Total |
|---|---|---|---|---|---|
| At January 1, 2016 | | | | | |
| Cost | $ 169,883 | $ 1,486 | $ 1,090 | $ 850 | $ 173,309 |
| Accumulated depreciation | ( 39,116) | ( 1,139) | ( 1,090) | ( 429) | ( 41,774) |
| | $ 130,767 | $ 347 | $ - | $ 421 | $ 131,535 |
| 2016 | | | | | |
| Opening net book amount as at January 1 | $ 130,767 | $ 347 | $ - | $ 421 | $ 131,535 |
| Additions | - | - | 2,325 | - | 2,325 |
| Depreciation charge | ( 833) | ( 60) | ( 15) | ( 53) | ( 961) |
| Closing net book amount as at March 31 | $ 129,934 | $ 287 | $ 2,310 | $ 368 | $ 132,899 |
| At March 31, 2016 | | | | | |
| Cost | $ 169,883 | $ 1,486 | $ 2,325 | $ 850 | $ 174,544 |
| Accumulated depreciation | ( 39,949) | ( 1,199) | ( 15) | ( 482) | ( 41,645) |
| | $ 129,934 | $ 287 | $ 2,310 | $ 368 | $ 132,899 |

(6) Investment property

Buildings

| | Three months ended March 31, 2017 | | Three months ended March 31, 2016 | |
|---|---|---|---|---|
| At January 1 | | | | |
| Cost | $ | 148,907 | $ | 148,907 |
| Accumulated depreciation | ( | 37,207) | ( | 34,286) |
| | $ | 111,700 | $ | 114,621 |
| Opening net book amount as at January 1 | $ | 111,700 | $ | 114,621 |
| Depreciation charge | ( | 730) | ( | 730) |
| Closing net book amount as at March 31 | $ | 110,970 | $ | 113,891 |
| At at March 31 | | | | |
| Cost | $ | 148,907 | $ | 148,907 |
| Accumulated depreciation | ( | 37,937) | ( | 35,016) |
| | $ | 110,970 | $ | 113,891 |

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

| | Three months ended March 31, 2017 | | Three months ended March 31, 2016 | |
|---|---|---|---|---|
| Rental income from investment property | $ | 5,205 | $ | 5,240 |
| Direct operating expenses arising from the investment property that generated rental income during the period | ($ | 1,199) | ($ | 1,265) |

B. The fair value of the investment property held by the Group as at March 31, 2017, December 31, 2016 and March 31, 2016 was $179,714, $179,714 and $179,362, respectively, which was valued by independent valuers on December 31, 2016 and 2015. Valuations were made using the cost approach and income approach in a weight ratio of 50% for each approach which is categorised within Level 3 in the fair value hierarchy. Key assumptions are as follows:

| | Overall capital interest rate | Earning power of real property assets | Ratio of salvage value |
|---|---|---|---|
| Cost approach | 1.44% | 15.00% | 5.00% |
| | Growth rate | Capitalisation rate | Discount rate |
| Income approach | 1.30% | 6.00% | 5.11% |

(7) Other non-current assets

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Overdue receivables | $ 9,702 | $ 9,702 | $ 9,702 |
| Deferred charges | 7,240 | 5,685 | 8,130 |
| Guarantee deposits paid | 74 | 103 | 69 |
| Less: Allowance for uncollectible accounts | ( 9,702) | ( 9,702) | ( 9,702) |
| | $ 7,314 | $ 5,788 | $ 8,199 |

(8) Other payables

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Wages and bonus payable | $ 21,425 | $ 25,060 | $ 25,950 |
| Processing fees payable | 3,998 | 4,117 | 4,136 |
| Others | 6,744 | 6,041 | 7,496 |
| | $ 32,167 | $ 35,218 | $ 37,582 |

(9) Other non-current liabilities

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Net defined benefit liability | $ 12,574 | $ 16,514 | $ 15,970 |
| Guarantee deposits received | 2,930 | 2,930 | 2,930 |
| | $ 15,504 | $ 19,444 | $ 18,900 |

(10) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) For the aforementioned pension plan, the Group recognised pension costs of $70 and $72 for the three months ended March 31, 2017 and 2016, respectively.

(c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to $278.

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company's sub-subsidiary, DAVICOM IC (SuZHou) Co. LTD, has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under defined contribution pension plans of the Group for the three months ended March 31, 2017 and 2016 were $1,240 and $1,265, respectively.

(11) Share-based payment

A. For the three months ended March 31, 2017 and 2016, the Group's share-based payment arrangements were as follows:

| Type of arrangement | Grant date | Quantity granted | Contract period | Vesting conditions |
|---|---|---|---|---|
| Employee stock options | 2008.06.26 | 5,108 (share in thousands) | 8 years | 2~4 years' service |
| Treasury stock transferred to employees | 2014.10.08 | 27 (share in thousands) | - | Vested immediately |

B. Details of the share-based payment arrangements are as follows:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | No. of options (share in thousands) | Weighted-average exercise price (in dollars) | No. of options (share in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | - | $ - | 2,162 | $ 23.60 |
| Options forfeited | - | - | - | - |
| Options outstanding at March 31 | - | - | 2,162 | 23.60 |
| Options exercisable at March 31 | - | - | 2,162 | - |

C. The weighted-average stock price of stock options at exercise dates for the three months ended March 31, 2016 was $25.08.

D. As of March 31, 2016, the exercise price of stock options outstanding was $23.6; the weighted-average remaining contractual period was 0.25 year.

E. The fair value of stock options granted after January 1, 2008, is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

| Type of arrangement | Grant date | Stock price | Exercise price | Expected price volatility | Expected option life | Expected dividends | Risk-free interest rate | Fair value per unit |
|---|---|---|---|---|---|---|---|---|
| Employee stock options | June 26, 2008 | $36.50 | $ 36.5 | 54.63 | 4.37 years | - | 2.61% | $ 16.95 |

(12) Share capital

As of March 31, 2017, the Company's authorized capital was $1,200,000, consisting of 120,000 thousand shares of ordinary stock (including 18,000 thousand shares reserved for employee stock options and 400 thousand shares reserved for convertible bonds issued by the Company), and the paid-in capital was $832,551 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. The ordinary shares of the Company were 83,255,089 shares at the beginning and the end of the period.

(13) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(14) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings shall first be used to pay all taxes and offset prior years' operating losses and 10% of the remaining amount shall be set aside as legal reserve, then set aside or reverse special reserve in accordance with related regulations. The appropriation of the remainder along with the earnings in prior years shall be proposed by the Board of Directors and resolved by the stockholders' meeting. The Company shall appropriate all the current distributable earnings, taking into consideration the Company's financials, business and operations. Dividends to shareholders can be distributed in the form of cash or shares and cash dividends to shareholders shall account for at least 30% of the total dividends to shareholders.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. The appropriation of 2015 earnings was resolved by the shareholders on June 6, 2016. Details are as follows:

| | Year ended December 31, 2015 | |
|---|---|---|
| | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 8,180 | |
| Cash dividends | 73,264 | $ 0.88 |

On June 6, 2016, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to $23,311. The abovementioned appropriation of earnings of 2015 was in agreement with those amounts proposed by the Board of Directors on March 7, 2016.

E. The details of the appropriation of 2016 earnings was proposed by the Board of Directors on February 24, 2017. Details are as follows:

| | Year ended December 31, 2016 | |
|---|---|---|
| | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 7,134 | |
| Cash dividends | 64,106 | $ 0.77 |

On February 24, 2017, the Board of Directors proposed the Company to distribute cash of $27,474 from capital surplus. Abovementioned appropriation of earnings and distribution of cash from capital surplus has not been resolved by the shareholders.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(18).

(15) Other income and expenses – net

| | Three months ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net currency exchange losses | ($ 12,218) | ($ 5,748) |
| Other losses | ( 1,199) | ( 1,266) |
| Losses on disposal of investments | 726 | 2,318 |
| Gains on disposal of property, plant and equipment | - | 48 |
| | ($ 12,691) | ($ 4,648) |

(16) Expenses by nature

| | Three months ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Changes in finished goods and work-in-process inventory | ($ 496) | ($ 2,926) |
| Raw materials and supplies used | 9,648 | 13,833 |
| Employee benefit expense | 29,901 | 30,421 |
| Depreciation charges on property, plant and equipment | 1,062 | 961 |
| Amortisation charges | 848 | 1,248 |
| Product testing fees | 7,726 | 8,266 |
| Other costs and expenses | 10,287 | 9,817 |
| Operating costs and expenses | $ 58,976 | $ 61,620 |

(17) Employee benefit expense

| | Three months ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Wages and salaries | $ 25,719 | $ 26,023 |
| Labour and health insurance fees | 2,042 | 2,002 |
| Pension costs | 1,310 | 1,337 |
| Other personnel expenses | 830 | 1,059 |
| | $ 29,901 | $ 30,421 |

A. According to the Articles of Incorporation of the Company, a ratio of gain on current pre-tax profit before deduction of employees' compensation and directors' remuneration, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 8.5% for employees' compensation and shall not be higher than 2% for directors' remuneration.

A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. Directors' remuneration shall be distrubuted in cash. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive employees' compensation in the form of stock or cash are set by the Board of Directors.

B. For the three months ended March 31, 2017 and 2016, employees' compensation was accrued at $553 and $1,932, respectively; directors' and supervisors' remuneration was accrued at $114 and $454, respectively. The aforementioned amounts were recognised in salary expenses.

For the three months ended March 31, 2017, the employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 8.5% and 2% of distributable profit of current year as of the end of reporting period.

Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2016 financial statements.

Information about employees' bonus and directors' and supervisors' remuneration of the Company as approved by the meeting of Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

A. Income tax expense

(a) Components of income tax expense:

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| Current tax: | | |
| Current tax on profits for the period | $ 3,832 | $ 2,969 |
| Additional 10% income tax imposed on unappropriated earnings | - | - |
| Prior year income tax overestimation | - | - |
| Total current tax | 3,832 | 2,969 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | ( 3,935) | ( 863) |
| Income tax expense | ($ 103) | $ 2,106 |

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| Fair value gains/losses on available-for-sale financial assets | $ 335 | $ 206 |

B. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

C. Unappropriated retained earnings:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| After 1998 | $ 77,130 | $ 71,340 | $ 99,989 |

D. As of March 31, 2017, December 31, 2016 and March 31, 2016, the balance of the imputation tax credit account was $9,879, $9,879 and $11,552, respectively. The creditable tax rate was 14.12% for the year ended December 31, 2015 and is estimated to be 13.85% for the year ended December 31, 2016.

(19) Earnings per share

| | Three months ended March 31, 2017 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (share in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 5,790 | 83,255 | $ 0.07 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 5,790 | 83,255 | |
| Employees' bonus | - | 384 | |
| Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 5,790 | 83,639 | $ 0.07 |

| | Three months ended March 31, 2016 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (share in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 18,187 | 83,160 | $ 0.22 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 18,187 | 83,160 | |
| Employees' bonus | - | 83 | |
| Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 18,187 | 83,243 | $ 0.22 |

(20) Operating leases

Please refer to Note 9(2).

7. RELATED PARTY TRANSACTIONS

Key management compensation

| | Three months ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Salaries and other short-term employee benefits | $ 2,826 | $ 2,795 |

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Operating lease agreement

The Group entered into a 9-year non-cancellable operating lease agreement with Science Park Administration for lands and office. The lease agreement is renewable at the end of the lease period at market price.

The future aggregate minimum lease payments are as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Not later than one year | $ 1,892 | $ 2,154 | $ 1,892 |
| Later than one year but not more than five years | 7,095 | 8,614 | 7,568 |
| Later than five years | - | - | 1,419 |
| | $ 8,987 | $ 10,768 | $ 10,879 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, notes payable, accounts payable and other payables) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The

Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(b) Risk management is carried out by a treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The management provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | March 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Sensitivity analysis | | |
| | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | $ 5,847 | 30.33 | $ 177,340 | 1% | $ 1,773 | $ - |
| USD:RMB | 1,278 | 6.88 | 8,795 | 1% | 88 | - |
| RMB:NTD | 1,307 | 4.41 | 5,760 | 1% | 58 | - |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | 209 | 30.33 | 6,339 | 1% | 63 | $ - |

| | March 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Sensitivity analysis | | |
| | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | $ 4,734 | 32.25 | $ 152,672 | 1% | $ 1,527 | $ - |
| USD:RMB | 1,325 | 6.99 | 9,255 | 1% | 93 | - |
| HKD:NTD | 1,071 | 4.62 | 4,945 | 1% | 49 | - |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | 188 | 32.25 | 6,063 | 1% | 61 | $ - |

ii. The total exchange gain (loss), including realised and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2017 and 2016, amounted to ($12,218) and ($5,748), respectively.

Price risk

i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, for the three months ended March 31, 2017 and 2016, other components of equity would have increased/decreased by $523 and $791, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored. Thus, the probability of credit risk is remote.

ii. For the three months ended March 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

iii. The credit quality information of financial assets that are neither past due nor impaired is as follows:

| | March 31, 2017 | |
|---|---|---|
| | Group 1 | Group 2 |
| Accounts receivable | $ 2,893 | $ 33,072 |

| | December 31, 2016 | |
|---|---|---|
| | Group 1 | Group 2 |
| Accounts receivable | $ 1,655 | $ 32,944 |

| | March 31, 2016 | |
|---|---|---|
| | Group 1 | Group 2 |
| Accounts receivable | $ 1,351 | $ 34,881 |

Group 1: Credit limits granted to customers less than $1,000 according to existing customers' selling limits for the first half year and receipts of accounts receivable during the latest three months.

Group 2: Credit limit granted to customers exceeding $1,000 according to existing customers' selling limits for the first half year and receipts of accounts receivable during the latest three months.

iv. The ageing analysis of financial assets that were past due but not impaired is as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| Accounts receivable | | | |
| Up to 30 days | $ 4,120 | $ 6,895 | $ 8,207 |
| 31 to 90 days | 1,329 | 869 | 3,212 |
| 91 to 180 days | - | - | - |
| Over 181 days | - | - | 1,319 |
| | $ 5,449 | $ 7,764 | $ 12,738 |

The above ageing analysis was based on past due date.

(c) Liquidity risk

i. Cash flow forecasting is performed by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

ii. Surplus cash held by the operating entities over and above balance required for working capital management will be invested in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Non-derivative financial liabilities: March 31, 2017 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| Notes payable | $ 7,105 | $ - | $ - |
| Accounts payable | 6,647 | - | - |
| Other payables | 32,167 | - | - |
| Other financial liabilities (shown as other non-current liabilities) | 1,648 | 18 | 1,264 |

| Non-derivative financial liabilities: December 31, 2016 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| Notes payable | $ 5,939 | $ - | $ - |
| Accounts payable | 6,490 | - | - |
| Other payables | 35,218 | - | - |
| Other financial liabilities (shown as other non-current liabilities) | 1,648 | 18 | 1,264 |

| Non-derivative financial liabilities: March 31, 2016 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| Notes payable | $ 5,218 | $ - | $ - |
| Accounts payable | 5,840 | - | - |
| Other payables | 37,582 | - | - |
| Other financial liabilities (shown as other non-current liabilities) | 2,062 | 868 | - |

(3) Fair value information

A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(7).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks and emerging stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at March 31 2017, December 31, 2016 and March 31, 2016 is as follows:

| March 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value measurements | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | $ 25,025 | $ - | $ 27,315 | $ 52,340 |

| December 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value measurements | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | $ 28,266 | $ - | $ 25,343 | $ 53,609 |

| March 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value measurements | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | $ 51,942 | $ - | $ 27,108 | $ 79,050 |

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | Listed shares | Emerging stocks |
|---|---|---|
| Market quoted price | Closing price | Last transaction price |

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

(c) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group’s management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions

(d) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

E. For the three months ended March 31 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the three months ended March 31 2017 and 2016:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Non-derivative equity instrument | | Non-derivative equity instrument | |
| At January 1 | $ | 25,343 | $ | 25,893 |
| Gains and losses recognised in other comprehensive income (Note) | | 1,972 | | 1,215 |
| At March 31 | $ | 27,315 | $ | 27,108 |

Note: Recorded as unrealised valuation gain or loss of available-for-sale financial assets.

G. For the three months ended March 31 2017 and 2016, there was no transfer into or out from Level 3.

H. Finance department is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently updating inputs and making any other necessary adjustments to the fair value.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | Fair value at March 31 ,2017 | | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | | |
| Unlisted shares | $ | 27,315 | Net asset value | Not applicable | - | Not applicable |

| | Fair value at December 31, 2016 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 25,343 | Net asset value | Not applicable | - | Not applicable |

| | Fair value at March 31 ,2016 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 27,658 | Net asset value | Not applicable | - | Not applicable |

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of the Company’s paid-in capital: None.

E. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: None.

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: None.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 2.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 3.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry and is mainly engaged in distribution of communications Network ICs or related services. The Chief Operating Decision-Maker who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only on reportable operating segment.

(2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

| | Three months ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenue from external customers | $ 71,590 | $ 80,758 |
| Depreciation and amortisation (including investment property) | ( 2,640) | ( 2,939) |
| Income tax expense | 103 | ( 2,106) |
| Reportable segments income | 5,641 | 18,187 |
| Assets of reportable segments | 1,300,330 | 1,350,685 |
| Capital expenditure in non-current assets of reportable segments | 541 | 2,325 |
| Liabilities of reportable segments | 75,532 | 79,991 |

DAVICOM Semiconductor, Inc.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

March 31, 2017

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | As of March 31, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|
| Securities held by | Marketable securities （Note 1） | Relationship with the securities issuer （Note 2） | General ledger account | Number of shares | Book value （Note 3） | Ownership (%) | Fair value | Footnote （Note 4） |
| The Company | Unitech Capital Inc. | — | Available-for-sale financial assets - non-current | 1,000,000 | $ 27,315 | 2.00% | $ 27,315 | |
| The Company | Auden Techno Corp. | — | Available-for-sale financial assets - non-current | 1,210,000 | 16,819 | 2.96% | 16,819 | |
| The Company | Analog Integrations Corporation | — | Available-for-sale financial assets - current | 108,000 | 299 | 0.33% | 299 | |
| Davicom Investment Inc. | Global Mobile Corp. | — | Financial assets measured at cost | 892,458 | - | 0.32% | - | |
| Davicom Investment Inc. | MTECH Corporation | — | Available-for-sale financial assets - non-current | 200,000 | - | 1.21% | - | |
| Davicom Investment Inc. | Auden Techno Corp. | — | Available-for-sale financial assets - non-current | 654,000 | 7,907 | 1.60% | 8,561 | |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

DAVICOM Semiconductor, Inc.

Information on investees

March 31, 2017

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | Initial investment amount | | Shares held as at March 31, 2017 | | | Net profit (loss) of the investee for the three months ended March 31, 2017 | Investment income(loss) recognised by the Company for the three months ended March 31, 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Investee （Notes 1 and 2） | Location | Main business activities | Balance as at March 31, 2017 | Balance as at March 31, 2017 | Number of shares | Ownership (%) | Book value | （Note 2(2)） | （Note 2(3)） | Footnote |
| The Company | TSCC Inc. | Samoa | General investment | $ 143,224 | $ 143,224 | 4,400,000 | 100 | $ 100,244 | ($ 847) | ($ 847) | - |
| The Company | Davicom Investment Inc. | Taiwan | General investment | 222,000 | 222,000 | 21,200,000 | 100 | 209,039 | ( 2,353) | ( 2,353) | - |
| The Company | Medicom Corp. | Taiwan | Designing and manufacturing of IC | 30,393 | 30,393 | 496,811 | 99.36 | 379 | ( 4) | ( 4) | - |
| The Company | Aidialink Corp. | Taiwan | Wireless communication machinery and equipment manufacturing industry | 1,320 | 1,320 | 120,000 | 51.06 | 499 | ( 304) | ( 155) | - |
| TSCC Inc. | Jubilink Ltd. | British Virgin Islands | General investment | 82,725 | 82,725 | 22,775,207 | 100 | - | - | - | - |

DAVICOM Semiconductor, Inc.

Information on investments in Mainland China

March 31, 2017

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method （Note 1） | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the three months ended March 31, 2017 | | Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2017, | Net income of investee as of 31-Mar-17 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the three months ended 31-Mar-17 （Note 2） | Book value of investments in Mainland China as of March 31, 2017, | Accumulated amount of investment income remitted back to Taiwan as of 31-Mar-17 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | |
| DAVICOM IC (SuZHou) Co.LTD | | $ 75,825 | (2) | $ 75,825 | - | - | $ 75,825 | ($ 847) | 100 | ($ 847) | $ 40,273 | - | - |

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1)Directly invest in a company in Mainland China..

(2)Through investing in TSCC Inc., an existing company in the third area, which then invested in the investee in Mainland China.

(3)Others.

Note 2: Investment income (loss) was recognised based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2017 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| DAVICOM IC (SuZHou) Co.LTD | $ 75,825 | $ 95,540 | $ 734,879 |