

**DAVICOM SEMICONDUCTOR, INC. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
SEPTEMBER 30, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in 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 auditors' report and financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

***Introduction***

We have reviewed the accompanying consolidated balance sheets of DAVICOM Semiconductor, Inc. and its subsidiaries (the “Group”) as at September 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

***Scope of Review***

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Basis for Qualified Conclusion***

As explained in Note 4(3), the financial statements of certain insignificant consolidated subsidiaries were not reviewed by independent accountants. Those statements reflect total assets of NT\$318,048 thousand and NT\$314,782 thousand, constituting 26.16% and 25.15% of the consolidated total assets, and total liabilities of NT\$275 thousand and NT\$4,953 thousand, constituting 0.48% and 7.83% of the consolidated total liabilities as at September 30, 2018 and 2017, and total comprehensive income of NT\$1,701 thousand, NT\$(1,008) thousand, NT\$3,300 thousand and NT\$(5,448) thousand, constituting 16.05%, (4.88%), 9.94% and (11.8%) of the consolidated total comprehensive income for the three months and nine months then ended. These amounts were based solely on the unreviewed financial statements of these subsidiaries as of and for the nine months ended September 30, 2018 and 2017.



資誠

### ***Qualified Conclusion***

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2018 and 2017, and of its consolidated financial performance for the three months and nine months then ended and its consolidated cash flows for the nine months then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Se-Kai Lin

Chun-Yuan Hsiao

For and on behalf of PricewaterhouseCoopers, Taiwan

November 9, 2018

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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 balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

Assets		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 811,528	67	\$ 881,406	70	\$ 865,450	69
1110	Financial assets at fair value	6(2)						
	through profit or loss - current		30,000	2	-	-	-	-
1150	Notes receivable, net	6(3)	-	-	62	-	18	-
1170	Accounts receivable, net	6(3)	39,851	3	35,407	3	42,571	3
1200	Other receivables		6,693	1	290	-	1,880	-
130X	Inventories, net	6(4)	32,273	3	37,060	3	32,903	3
1410	Prepayments		1,629	-	2,963	-	1,394	-
1470	Other current assets		44	-	88	-	18	-
11XX	<b>Total Current Assets</b>		<u>922,018</u>	<u>76</u>	<u>957,276</u>	<u>76</u>	<u>944,234</u>	<u>75</u>
<b>Non-current assets</b>								
1510	Financial assets at fair value	6(2)						
	through profit or loss - noncurrent		49,615	4	-	-	-	-
1523	Available-for-sale financial assets - 12(4)							
	noncurrent		-	-	56,348	4	53,299	4
1600	Property, plant and equipment, net	6(5)	123,792	10	126,720	10	127,564	10
1760	Investment property, net	6(6)	106,590	9	108,780	9	109,510	9
1780	Intangible assets		199	-	124	-	171	-
1840	Deferred income tax assets		7,688	1	9,603	1	9,740	1
1900	Other non-current assets	6(7)	5,814	-	6,888	-	7,057	1
15XX	<b>Total Non-current assets</b>		<u>293,698</u>	<u>24</u>	<u>308,463</u>	<u>24</u>	<u>307,341</u>	<u>25</u>
1XXX	<b>Total assets</b>		<u>\$ 1,215,716</u>	<u>100</u>	<u>\$ 1,265,739</u>	<u>100</u>	<u>\$ 1,251,575</u>	<u>100</u>

(Continued)

**DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

Liabilities and Equity		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>								
2150	Notes payable		\$ 5,241	-	\$ 7,306	1	\$ 7,820	1
2170	Accounts payable		6,751	1	8,461	1	8,061	1
2200	Other payables	6(8)	25,969	2	28,590	2	29,638	2
2230	Current income tax liabilities	6(21)	-	-	674	-	-	-
2300	Other current liabilities		548	-	2,439	-	963	-
21XX	<b>Current Liabilities</b>		<u>38,509</u>	<u>3</u>	<u>47,470</u>	<u>4</u>	<u>46,482</u>	<u>4</u>
<b>Non-current liabilities</b>								
2570	Deferred income tax liabilities		681	-	663	-	1,174	-
2600	Other non-current liabilities	6(9)	17,631	2	17,508	1	15,630	1
25XX	<b>Non-current liabilities</b>		<u>18,312</u>	<u>2</u>	<u>18,171</u>	<u>1</u>	<u>16,804</u>	<u>1</u>
2XXX	<b>Total Liabilities</b>		<u>56,821</u>	<u>5</u>	<u>65,641</u>	<u>5</u>	<u>63,286</u>	<u>5</u>
<b>Equity attributable to owners of parent</b>								
<b>Share capital</b> <span style="float: right;">6(12)</span>								
3110	Common stock		846,551	70	846,551	67	832,551	67
3140	Advance receipts for share capital		-	-	-	-	13,070	1
<b>Capital surplus</b> <span style="float: right;">6(13)</span>								
3200	Capital surplus		219,776	17	250,252	20	250,252	19
<b>Retained earnings</b> <span style="float: right;">6(14)</span>								
3310	Legal reserve		70,549	6	65,446	5	65,446	5
3350	Undistributed earnings	6(21)	32,003	3	51,033	4	44,226	4
<b>Other equity interest</b>								
3400	Other equity interest		( 11,072)	( 1)	( 13,367)	( 1)	( 17,417)	( 1)
31XX	<b>Equity attributable to owners of the parent</b>		<u>1,157,807</u>	<u>95</u>	<u>1,199,915</u>	<u>95</u>	<u>1,188,128</u>	<u>95</u>
36XX	<b>Non-controlling interest</b>		<u>1,088</u>	<u>-</u>	<u>183</u>	<u>-</u>	<u>161</u>	<u>-</u>
3XXX	<b>Total equity</b>		<u>1,158,895</u>	<u>95</u>	<u>1,200,098</u>	<u>95</u>	<u>1,188,289</u>	<u>95</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 1,215,716</u>	<u>100</u>	<u>\$ 1,265,739</u>	<u>100</u>	<u>\$ 1,251,575</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.

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

Items	Notes	Three months ended September 30				Nine months ended September 30				
		2018		2017		2018		2017		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	
4000	<b>Sales revenue</b>	6(15)	\$ 67,748	100	\$ 80,380	100	\$ 200,667	100	\$ 236,119	100
5000	<b>Operating costs</b>	6(4)(19)(20)	( 21,746)	( 32)	( 24,729)	( 31)	( 68,460)	( 34)	( 73,706)	( 31)
5900	<b>Net operating margin</b>		46,002	68	55,651	69	132,207	66	162,413	69
	<b>Operating expenses</b>	6(19)(20) and 7								
6100	Selling expenses		( 7,884)	( 12)	( 8,308)	( 10)	( 24,188)	( 12)	( 26,082)	( 11)
6200	General and administrative expenses		( 11,067)	( 16)	( 12,450)	( 16)	( 33,811)	( 17)	( 35,380)	( 15)
6300	Research and development expenses		( 20,099)	( 30)	( 19,656)	( 24)	( 62,093)	( 31)	( 56,530)	( 24)
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	6(3) and 12(2)	( 500)	( 1)	-	-	( 500)	-	-	-
6000	<b>Total Operating Expenses</b>		( 39,550)	( 59)	( 40,414)	( 50)	( 120,592)	( 60)	( 117,992)	( 50)
6900	<b>Operating income</b>		6,452	9	15,237	19	11,615	6	44,421	19
	<b>Non-operating income and expenses</b>									
7010	Other income	6(6)(16)	8,021	12	8,162	10	20,162	10	19,823	8
7020	Other gains and losses	6(17)	( 2,189)	( 3)	( 2,564)	( 3)	4,470	2	( 15,061)	( 6)
7050	Finance costs	6(18)	( 7)	-	( 8)	-	( 23)	-	( 23)	-
7000	<b>Total non-operating income and expenses</b>		5,825	9	5,590	7	24,609	12	4,739	2
7900	<b>Income from continuing operations before income tax</b>		12,277	18	20,827	26	36,224	18	49,160	21
7950	Income tax expense	6(21)	( 541)	-	( 2,662)	( 3)	( 3,837)	( 2)	( 5,503)	( 2)
8000	<b>Profit for the period from continuing operations</b>		11,736	18	18,165	23	32,387	16	43,657	19
8200	<b>Profit for the period</b>		\$ 11,736	18	\$ 18,165	23	\$ 32,387	16	\$ 43,657	19

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

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2018		2017		2018		2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
8349									
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		\$ -	-	\$ -	-	\$ 305	-	\$ -	-
8310									
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>		-	-	-	-	305	-	-	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>									
8361									
Financial statement translation differences of foreign operations		( 1,140)	( 2)	242	-	500	1	( 4,606)	( 2)
8362									
Unrealized gain on valuation of available-for-sale financial assets		-	-	2,865	4	-	-	8,327	4
8399									
Income tax relating to the components of other comprehensive income		-	-	( 606)	( 1)	-	-	( 1,201)	( 1)
8360									
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>		( 1,140)	( 2)	2,501	3	500	1	2,520	1
8500									
<b>Total comprehensive income for the period</b>		\$ 10,596	16	\$ 20,666	26	\$ 33,192	17	\$ 46,177	20
<b>Profit (loss), attributable to:</b>									
8610									
Owners of parent		\$ 11,740	18	\$ 18,283	23	\$ 32,092	16	\$ 44,126	19
8620									
Non-controlling interest		( 4)	-	( 118)	-	295	-	( 469)	-
		\$ 11,736	18	\$ 18,165	23	\$ 32,387	16	\$ 43,657	19
<b>Comprehensive income attributable to:</b>									
8710									
Owners of parent		\$ 10,600	16	\$ 20,784	26	\$ 32,897	17	\$ 46,646	20
8720									
Non-controlling interests		( 4)	-	( 118)	-	295	-	( 469)	-
		\$ 10,596	16	\$ 20,666	26	\$ 33,192	17	\$ 46,177	20
<b>Basic earnings per share</b>	6(22)								
9750									
<b>Net income</b>		\$ 0.14		\$ 0.22		\$ 0.38		\$ 0.53	
<b>Diluted earnings per share</b>	6(22)								
9850									
<b>Net income</b>		\$ 0.14		\$ 0.22		\$ 0.38		\$ 0.53	

The accompanying notes are an integral part of these consolidated financial statements.

**DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)  
(UNAUDITED)

	Equity attributable to owners of the parent												
	Share Capital		Capital Surplus			Retained Earnings		Other equity interest					
	Notes	Common stock	Advance receipts for share capital	Additional paid-in capital	Others	Legal reserve	Undistributed earnings	Exchange differences from translation of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Unearned compensation for restricted employee share of stock	Total	Non- controlling interest	Total equity
<b>Nine months ended September 30, 2017</b>													
		\$ 832,551	\$ -	\$ 221,162	\$ 38,714	\$ 58,312	\$ 71,340	\$ 2,542	(\$ 4,629)	\$ -	\$ 1,219,992	\$ 630	\$ 1,220,622
		-	-	-	-	-	44,126	-	-	-	44,126	( 469 )	43,657
		-	-	-	-	-	-	( 4,606 )	7,126	-	2,520	-	2,520
		-	-	-	-	-	44,126	( 4,606 )	7,126	-	46,646	( 469 )	46,177
		-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	7,134	( 7,134 )	-	-	-	-	-	-
		-	-	-	-	-	( 64,106 )	-	-	-	( 64,106 )	-	( 64,106 )
	6(14)	-	-	( 27,474 )	-	-	-	-	-	-	( 27,474 )	-	( 27,474 )
	6(12)	-	13,070	-	-	-	-	-	-	-	13,070	-	13,070
	6(11)(12)	-	-	-	17,850	-	-	-	-	( 17,850 )	-	-	-
		<u>\$ 832,551</u>	<u>\$ 13,070</u>	<u>\$ 193,688</u>	<u>\$ 56,564</u>	<u>\$ 65,446</u>	<u>\$ 44,226</u>	<u>(\$ 2,064)</u>	<u>\$ 2,497</u>	<u>(\$ 17,850)</u>	<u>\$ 1,188,128</u>	<u>\$ 161</u>	<u>\$ 1,188,289</u>
<b>Nine months ended September 30, 2018</b>													
		\$ 846,551	\$ -	\$ 193,688	\$ 56,564	\$ 65,446	\$ 51,033	(\$ 2,945)	\$ 5,122	(\$ 15,544)	\$ 1,199,915	\$ 183	\$ 1,200,098
	12(4)	-	-	-	-	-	-	-	( 5,122 )	-	( 5,122 )	-	( 5,122 )
		<u>846,551</u>	<u>-</u>	<u>193,688</u>	<u>56,564</u>	<u>65,446</u>	<u>51,033</u>	<u>( 2,945 )</u>	<u>-</u>	<u>( 15,544 )</u>	<u>1,194,793</u>	<u>183</u>	<u>1,194,976</u>
		-	-	-	-	-	32,092	-	-	-	32,092	295	32,387
		-	-	-	-	-	305	500	-	-	805	-	805
		-	-	-	-	-	32,397	500	-	-	32,897	295	33,192
		-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	( 610 )	-	-	-	( 610 )	-	( 610 )
		-	-	-	-	-	-	-	-	-	-	610	610
		-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	5,103	( 5,103 )	-	-	-	-	-	-
		-	-	-	-	-	( 45,714 )	-	-	-	( 45,714 )	-	( 45,714 )
	6(14)	-	-	( 30,476 )	-	-	-	-	-	-	( 30,476 )	-	( 30,476 )
	6(11)(12)	-	-	-	-	-	-	-	-	6,917	6,917	-	6,917
		<u>\$ 846,551</u>	<u>\$ -</u>	<u>\$ 163,212</u>	<u>\$ 56,564</u>	<u>\$ 70,549</u>	<u>\$ 32,003</u>	<u>(\$ 2,445)</u>	<u>\$ -</u>	<u>(\$ 8,627)</u>	<u>\$ 1,157,807</u>	<u>\$ 1,088</u>	<u>\$ 1,158,895</u>

The accompanying notes are an integral part of these consolidated financial statements.



DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of New Taiwan dollars,)

(Unaudited)

	Notes	Nine months ended September 30	
		2018	2017
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 36,224	\$ 49,160
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation (including investment property)	6(5)(6)	5,344	5,408
Amortisation	6(19)	2,255	2,676
Impairment on expected credit loss	6(3) and 12(2)	500	-
Cost of restricted stocks to employees	6(11)	6,917	-
Interest income	6(16)	( 2,299 )	( 1,926 )
Interest expense	6(18)	23	23
Gain on disposal of available-for-sale financial assets	6(16)	-	( 2,023 )
Net profit on financial assets at fair value through profit or loss	6(2)(17)	( 679 )	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss- current		( 30,000 )	-
Notes receivable		62	-
Accounts receivable		( 4,944 )	( 161 )
Other receivables		( 428 )	( 1,355 )
Inventories		4,787	( 5,015 )
Prepayments		1,334	1,207
Other current assets		44	-
Financial assets at fair value through profit or loss- noncurrent		2,290	-
Changes in operating liabilities			
Notes payable		( 2,065 )	1,881
Accounts payable		( 1,710 )	1,571
Other payables		( 2,621 )	( 5,580 )
Net defined benefit liabilities		123	( 3,814 )
Other current liabilities		( 1,891 )	491
Cash inflow generated from operations		13,266	42,543
Interest received		2,217	1,936
Interest paid		( 23 )	( 23 )
Income tax paid		( 2,273 )	( 16,576 )
Net cash flows from operating activities		<u>13,187</u>	<u>27,880</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Proceeds from disposal of available-for-sale financial assets		-	10,660
Acquisition of property, plant and equipment	6(5)	( 226 )	( 695 )
Increase in intangible assets		( 212 )	( 232 )
Decrease in refundable deposits		-	( 23 )
Increase in other assets		( 1,044 )	( 3,793 )
Net cash flows (used in) from investing activities		<u>( 1,482 )</u>	<u>5,917</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Payments of cash dividends	6(14)	( 76,190 )	( 91,580 )
Advance receipts for capital stock	6(12)	-	13,070
Net cash flows used in financing activities		<u>( 76,190 )</u>	<u>( 78,510 )</u>
Effect of foreign exchange rate changes on cash and cash equivalents		( 5,393 )	( 4,606 )
Net decrease in cash and cash equivalents		( 69,878 )	( 49,319 )
Cash and cash equivalents at beginning of period		881,406	914,769
Cash and cash equivalents at end of period		<u>\$ 811,528</u>	<u>\$ 865,450</u>

The accompanying notes are an integral part of these consolidated financial statements.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(UNAUDITED)

1. HISTORY AND ORGANISATION

Davicom Semiconductor, Inc. (the “Company”) was incorporated as a corporation under provisions of the Company Act of the Republic of China (R.O.C.). The Company and its 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 November 9, 2018.

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 2018 are as follows :

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

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.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

(3) IFRSs 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 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative- Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

#### 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

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 the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

##### (2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
- (a) Financial assets at fair value through other comprehensive income / 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 IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the nine months ended September 30, 2017 were not restated. The financial statements for the nine months ended September 30, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5)

for details for significant accounting policies and details of significant accounts.

(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:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Description
			September 30, 2018	December 31, 2017	September 30, 2017	
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.	88.50	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 April 2, 2018, Davicom Semiconductor, Inc. increased its capital ownership of Aidialink Corp. Davicom Semiconductor, Inc. now holds 88.50% of all shares after the issuance of common stock by cash.

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 the Group's 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) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The Group initially measures accounts and notes receivable at fair value and subsequently recognises the amortised interest income over the period of circulation using the effective interest method and the impairment loss. A gain or loss is recognised in profit or loss.

(9) Impairment of financial assets

The Group assesses at each balance sheet date including accounts receivable or contract assets that have a significant financing, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that



do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(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 ~ 4 years
Transportation equipment	5 years
Other equipment	2 ~ 6 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 1 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

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial and subsequently amortises the interest expense in profit or loss over the period of circulation using the effective interest method.

(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

- A. 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.
- B. Restricted stocks:
  - (a) Restricted stocks issued to employees 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.

- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
- (c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – others'.

(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 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.
- F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- G. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(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, and 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

- A. The Group manufactures and sells communications network ICs. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. When the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- B. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated sales discounts and allowances. No element of financing is deemed present as the sales are made with a credit term of 30 to 120 days, which is consistent with market practice.

C. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(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

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand	\$ 75	\$ 150	\$ 175
Checking accounts and demand deposits	322,244	466,487	421,788
Time deposits	<u>489,209</u>	<u>414,769</u>	<u>443,487</u>
	<u>\$ 811,528</u>	<u>\$ 881,406</u>	<u>\$ 865,450</u>

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) Financial assets at fair value through profit or loss

<u>Items</u>	<u>September 30, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Money management instruments	\$ 30,000
	<u>\$ 30,000</u>
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Unlisted stocks	\$ 34,761
Emerging stocks	16,440
Subtotal	51,201
Valuation adjustment	( 1,586)
	<u>\$ 49,615</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	<u>Three months ended September 30, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	(\$ 2,639)
Equity instruments	(\$ 2,639)
	<u>(\$ 2,639)</u>
	<u>Nine months ended September 30, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	\$ 679
Equity instruments	\$ 679
	<u>\$ 679</u>

B. As of September 30, 2018, December 31, 2017 and September 30, 2017, the Group has no financial assets at fair value through profit or loss pledged to others.



C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

D. Information on financial assets at fair value through profit or loss as of December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Notes receivable	\$ -	\$ 62	\$ 18
Accounts receivable	\$ 40,351	\$ 35,407	\$ 42,571
Less: Allowance for uncollectible accounts	( 500)	-	-
	<u>\$ 39,851</u>	<u>\$ 35,407</u>	<u>\$ 42,571</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 40,322	\$ -	\$ 33,301	\$ 62	\$ 40,759	\$ 18
Up to 30 days	29	-	2,106	-	1,812	-
31 to 90 days	-	-	-	-	-	-
	<u>\$ 40,351</u>	<u>\$ -</u>	<u>\$ 35,407</u>	<u>\$ 62</u>	<u>\$ 42,571</u>	<u>\$ 18</u>

The above ageing analysis was based on past due date.

B. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

	<u>September 30, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Work in process	\$ 21,792	(\$ 10,143)	\$ 11,649
Finished goods	24,452	( 3,828)	20,624
	<u>\$ 46,244</u>	<u>(\$ 13,971)</u>	<u>\$ 32,273</u>
	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Work in process	\$ 27,395	(\$ 12,069)	\$ 15,326
Finished goods	31,687	( 9,953)	21,734
	<u>\$ 59,082</u>	<u>(\$ 22,022)</u>	<u>\$ 37,060</u>

	September 30, 2017		
	Cost	Allowance for valuation loss	Book value
Work in process	\$ 22,418	(\$ 12,451)	\$ 9,967
Finished goods	33,007	( 10,071)	22,936
	<u>\$ 55,425</u>	<u>(\$ 22,522)</u>	<u>\$ 32,903</u>

The cost of inventories recognised as expenses for the period:

	Three months ended September 30	
	2018	2017
Cost of goods sold	\$ 21,746	\$ 24,729
Gain on reversal of decline in market value	-	-
Inventory retirement losses	-	-
Cost of goods sold	<u>\$ 21,746</u>	<u>\$ 24,729</u>

  

	Nine months ended September 30	
	2018	2017
Cost of goods sold	\$ 76,511	\$ 73,706
Gain on reversal of decline in market value	( 600)	-
Inventory retirement losses	( 7,451)	-
Cost of goods sold	<u>\$ 68,460</u>	<u>\$ 73,706</u>

(5) Property, plant and equipment

	Buildings	Computer communications equipment	Transportation equipment	Others	Total
<u>At January 1, 2018</u>					
Cost	\$ 170,034	\$ 931	\$ 2,325	\$ 811	\$ 174,101
Accumulated depreciation	( 45,842)	( 412)	( 710)	( 417)	( 47,381)
	<u>\$ 124,192</u>	<u>\$ 519</u>	<u>\$ 1,615</u>	<u>\$ 394</u>	<u>\$ 126,720</u>
<u>2018</u>					
Opening net book amount as at January 1	\$ 124,192	\$ 519	\$ 1,615	\$ 394	\$ 126,720
Additions	-	77	-	149	226
Depreciation charge	( 2,555)	( 165)	( 291)	( 143)	( 3,154)
Closing net book amount as at September 30	<u>\$ 121,637</u>	<u>\$ 431</u>	<u>\$ 1,324</u>	<u>\$ 400</u>	<u>\$ 123,792</u>
<u>At September 30, 2018</u>					
Cost	\$ 170,034	\$ 1,008	\$ 2,325	\$ 960	\$ 174,327
Accumulated depreciation	( 48,397)	( 577)	( 1,001)	( 560)	( 50,535)
	<u>\$ 121,637</u>	<u>\$ 431</u>	<u>\$ 1,324</u>	<u>\$ 400</u>	<u>\$ 123,792</u>

	<u>Buildings</u>	Computer communications equipment	Transportation equipment	Others	Total
<u>At January 1, 2017</u>					
Cost	\$ 169,884	\$ 1,016	\$ 2,325	\$ 909	\$ 174,134
Accumulated depreciation	( 42,448)	( 790)	( 323)	( 486)	( 44,047)
	<u>\$ 127,436</u>	<u>\$ 226</u>	<u>\$ 2,002</u>	<u>\$ 423</u>	<u>\$ 130,087</u>
<u>2017</u>					
Opening net book amount as at January 1	\$ 127,436	\$ 226	\$ 2,002	\$ 423	\$ 130,087
Additions	150	391	-	154	695
Depreciation charge	( 2,542)	( 230)	( 291)	( 155)	( 3,218)
Closing net book amount as at September 30	<u>\$ 125,044</u>	<u>\$ 387</u>	<u>\$ 1,711</u>	<u>\$ 422</u>	<u>\$ 127,564</u>
<u>At September 30, 2017</u>					
Cost	\$ 170,034	\$ 1,672	\$ 2,325	\$ 1,063	\$ 175,094
Accumulated depreciation	( 44,990)	( 1,285)	( 614)	( 641)	( 47,530)
	<u>\$ 125,044</u>	<u>\$ 387</u>	<u>\$ 1,711</u>	<u>\$ 422</u>	<u>\$ 127,564</u>

(6) Investment property

Buildings

	<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
<u>At January 1</u>		
Cost	\$ 148,907	\$ 148,907
Accumulated depreciation	( 40,127)	( 37,207)
	<u>\$ 108,780</u>	<u>\$ 111,700</u>
Opening net book amount as at January 1	\$ 108,780	\$ 111,700
Depreciation charge	( 2,190)	( 2,190)
Closing net book amount as at September 30	<u>\$ 106,590</u>	<u>\$ 109,510</u>
<u>At September 30</u>		
Cost	\$ 148,907	\$ 148,907
Accumulated depreciation	( 42,317)	( 39,397)
	<u>\$ 106,590</u>	<u>\$ 109,510</u>

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

	<u>Three months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Rental income from investment property	\$ <u>5,489</u>	\$ <u>5,427</u>
Direct operating expenses arising from the investment property that generated rental income during the period	(\$ <u>1,205</u> )	(\$ <u>1,193</u> )

	<u>Nine months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Rental income from investment property	\$ <u>16,488</u>	\$ <u>16,055</u>
Direct operating expenses arising from the investment property that generated rental income during the period	(\$ <u>3,616</u> )	(\$ <u>3,585</u> )

- B. The fair value of the investment property held by the Group as at September 30, 2018, December 31, 2017 and September 30, 2017 was \$151,401, \$151,401 and \$179,714, respectively, which was valued by independent valuers on December 31, 2017 and 2016. 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:

	<u>Overall capital interest rate</u>	<u>Ratio of salvage value Capitalisation rate</u>
Cost approach	1.835%	5.00%
Income approach		8.20%

(7) Other non-current assets

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Overdue receivables	\$ 4,308	\$ 9,702	\$ 9,702
Deferred charges	5,734	6,808	6,977
Guarantee deposits paid	80	80	80
Less: Allowance for loss	( <u>4,308</u> )	( <u>9,702</u> )	( <u>9,702</u> )
	<u>\$ 5,814</u>	<u>\$ 6,888</u>	<u>\$ 7,057</u>

(8) Other payables

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Wages and bonus payable	\$ 19,309	\$ 20,634	\$ 16,497
Processing fees payable	2,253	2,484	2,614
Others	4,407	5,472	10,527
	<u>\$ 25,969</u>	<u>\$ 28,590</u>	<u>\$ 29,638</u>

(9) Other non-current liabilities

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Net defined benefit liability	\$ 14,701	\$ 14,578	\$ 12,700
Guarantee deposits received	2,930	2,930	2,930
	<u>\$ 17,631</u>	<u>\$ 17,508</u>	<u>\$ 15,630</u>

(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 \$47, \$69, \$141 and \$209 for the three months and nine months ended September 30, 2018 and 2017, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$184.
- 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 and nine months ended September 30, 2018 and 2017, were \$1,157, \$1,198, \$3,500 and \$3,631, respectively.

(11) Share-based payment

A. For the nine months ended September 30, 2018 and 2017, the Group's share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Restricted stock to employee	2017.09.29	1,400 (share in thousands)	3 years	1~3 years' service

B. The Board of Directors at their meeting on May 26, 2017 adopted a resolution to issue employee restricted ordinary shares for 2,000 thousand shares and granted 1,400 thousand shares on September 29, 2017. The record date for the capital increase through issuance of employee restricted ordinary shares was set on October 2, 2017 and the subscription price is \$10 (in dollars) per share. From the day of grant, percentage of vesting are 20%, 30%, and 50%, respectively, in sequence from 1 to 3 years.

C. For the three months and nine months ended September 30, 2018, the compensation fees arising from restricted stocks to employees is \$2,306 and \$6,917, respectively.

(12) Share capital

A. As of September 30, 2018, 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 \$846,551 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 84,655,089 shares at the beginning and the end of the period.

B. The Board of Directors at their meeting on May 26, 2017 adopted a resolution to issue employee restricted ordinary shares for 2,000 thousand shares with the effective date set on August 8, 2017, granted 1,400 thousand shares on September 29, 2017 and the subscription price is \$10 (in dollars) per share. The record date for capital increase of employee restricted ordinary shares was set on October 2, 2017. As at September 30, 2018, the receipts for share capital was \$14,000 and the capital surplus and others were \$17,850 and \$8,627, respectively.

(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 capitalized 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. On May 28, 2018 and May 26, 2017, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to \$30,476 and \$27,474, respectively.

(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 at 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 2017 and 2016 earnings was resolved by the shareholders on May 28, 2018 and May 26, 2017, respectively. Details are as follows:

	<u>Year ended December 31, 2017</u>		<u>Year ended December 31, 2016</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve	\$ 5,103		\$ 7,134	
Cash dividends	45,714	\$ 0.54	64,106	\$ 0.77

On May 28, 2018 and May 26, 2017, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to \$30,476 and \$27,474, respectively. The abovementioned appropriation of earnings of 2017 and 2016 was in agreement with those amounts proposed by the Board of Directors on February 22, 2018 and February 24, 2017.

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

(15) Operating revenue

	<u>Three months ended September 30, 2018</u>
Revenue from contracts with customers	\$ <u>67,748</u>
	<u>Nine months ended September 30, 2018</u>
Revenue from contracts with customers	\$ <u>200,667</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue at a point in time in the following geographical regions:

	<u>Three months ended September 30, 2018</u>
China	\$ 45,062
Taiwan	10,135
USA	1,885
Others	<u>10,666</u>
Total	<u>\$ 67,748</u>
	<u>Nine months ended September 30, 2018</u>
China	\$ 119,350
Taiwan	33,941
USA	3,581
Others	<u>43,795</u>
Total	<u>\$ 200,667</u>

B. Related disclosures for the three months and nine months ended September 30, 2017 operating revenue are provided in Note 12(5) A.



(16) Other income

	Three months ended September 30	
	2018	2017
Interest income :		
Interest income from bank deposits	\$ 1,327	\$ 993
Other interest income	7	7
Rent income	5,489	5,427
Dividend income	1,006	1,622
Other income, others	192	113
	<u>\$ 8,021</u>	<u>\$ 8,162</u>

	Nine months ended September 30	
	2018	2017
Interest income :		
Interest income from bank deposits	\$ 2,277	\$ 1,904
Other interest income	22	22
Rent income	16,488	16,055
Dividend income	1,006	1,622
Other income, others	369	220
	<u>\$ 20,162</u>	<u>\$ 19,823</u>

(17) Other income and expenses – net

	Three months ended September 30	
	2018	2017
Gains on disposal of investment	\$ -	\$ 3
Net currency exchange gains (losses)	1,655	( 1,374)
Net losses on financial assets at fair value through profit or loss	( 2,639)	-
Other losses	( 1,205)	( 1,193)
	<u>(\$ 2,189)</u>	<u>(\$ 2,564)</u>

	Nine months ended September 30	
	2018	2017
Gains on disposal of investment	\$ -	\$ 2,023
Net currency exchange gains (losses)	7,431	(13,499)
Net profit on financial assets at fair value through profit or loss	679	-
Other losses	( 3,640)	( 3,585)
	<u>\$ 4,470</u>	<u>(\$ 15,061)</u>

(18) Finance costs

	Three months ended September 30	
	2018	2017
Interest expense	\$ 7	\$ 8

  

	Nine months ended September 30	
	2018	2017
Interest expense	\$ 23	\$ 23

(19) Expenses by nature

	Three months ended September 30	
	2018	2017
Changes in finished goods, work-in-process and raw materials inventory	\$ 10,068	\$ 10,767
Employee benefit expense	31,223	29,929
Depreciation charges on property, plant and equipment	1,042	1,066
Amortisation charges	597	926
Product testing fees	6,643	8,811
Other costs and expenses	11,723	13,644
Operating costs and expenses	\$ 61,296	\$ 65,143

  

	Nine months ended September 30	
	2018	2017
Changes in finished goods, work-in-process and raw materials inventory	\$ 35,370	\$ 33,026
Employee benefit expense	95,212	90,434
Depreciation charges on property, plant and equipment	3,154	3,218
Amortisation charges	2,255	2,676
Product testing fees	18,797	25,678
Other costs and expenses	34,264	36,666
Operating costs and expenses	\$ 189,052	\$ 191,698

(20) Employee benefit expense

	Three months ended September 30	
	2018	2017
Wages and salaries	\$ 27,253	\$ 25,838
Labour and health insurance fees	1,982	1,980
Pension costs	1,204	1,267
Other personnel expenses	784	844
	<u>\$ 31,223</u>	<u>\$ 29,929</u>

	Nine months ended September 30	
	2018	2017
Wages and salaries	\$ 83,260	\$ 78,117
Labour and health insurance fees	5,936	5,938
Pension costs	3,641	3,840
Other personnel expenses	2,375	2,539
	<u>\$ 95,212</u>	<u>\$ 90,434</u>

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 distributed 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 and nine months ended September 30, 2018 and 2017, employees' compensation was accrued at \$1,166, \$2,036, \$3,412 and \$4,826, respectively; directors' and supervisors' remuneration was accrued at \$275, \$419, \$803 and \$993, respectively. The aforementioned amounts were recognised in salary expenses.

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 2017 as resolved by the meeting of the Board of Directors were in agreement with those amounts recognised in the

2017 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.

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Three months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profits for the period	\$ 1,411	\$ 2,594
Total current tax	<u>1,411</u>	<u>2,594</u>
Deferred tax:		
Origination and reversal of temporary differences	( 870)	68
Income tax expense	<u>\$ 541</u>	<u>\$ 2,662</u>

	<u>Nine months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profits for the period	\$ 1,402	\$ 8,926
Additional income tax imposed on unappropriated earnings	216	10
Prior year income tax (over)underestimation	( 19)	16
Total current tax	<u>1,599</u>	<u>8,952</u>
Deferred tax:		
Origination and reversal of temporary differences	3,546	( 3,449)
Impact of change in tax rate	( 1,308)	-
Income tax expense	<u>\$ 3,837</u>	<u>\$ 5,503</u>

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

	<u>Three months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Fair value gains/losses on available-for-sale financial assets	\$ -	\$ 606
Total	<u>\$ -</u>	<u>\$ 606</u>

	Nine months ended September 30	
	2018	2017
Impact of change in tax rate	\$ 270	\$ -
Fair value gains/losses on available-for-sale financial assets	-	1,201
Total	<u>\$ 270</u>	<u>\$ 1,201</u>

B. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(22) Earnings per share

	Three months ended September 30, 2018		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 11,740</u>	84,655	<u>\$ 0.14</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 11,740	84,655	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	91	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 11,740</u>	<u>84,746</u>	<u>\$ 0.14</u>

Three months ended September 30, 2017

	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 18,283	83,255	\$ 0.22
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 18,283	83,255	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	103	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 18,283	83,358	\$ 0.22

Nine months ended September 30, 2018

	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 32,092	84,655	\$ 0.38
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 32,092	84,655	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	352	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 32,092	85,007	\$ 0.38

	Nine months ended September 30, 2017		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 44,126	83,255	\$ 0.53
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 44,126	83,255	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	363	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 44,126	83,618	\$ 0.53

(23) Operating leases

Please refer to Note 9(2) for details of operating leases.

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Three months ended September 30	
	2018	2017
Salaries and other short-term employee benefits	\$ 3,157	\$ 3,489
	Nine months ended September 30	
	2018	2017
Salaries and other short-term employee benefits	\$ 10,245	\$ 10,194

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 20-year non-cancellable operating lease agreement with the Science Park Administration for land 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:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not later than one year	\$ 2,152	\$ 2,152	\$ 1,892
Later than one year but not more than five years	5,381	6,457	6,149
Later than five years	-	-	-
	<u>\$ 7,533</u>	<u>\$ 8,609</u>	<u>\$ 8,041</u>

## 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. Financial instruments by category

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Financial assets</u>			
Financial assets measured at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	<u>\$ 79,615</u>	<u>\$ -</u>	<u>\$ -</u>
Available-for-sale financial assets			
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ 56,348</u>	<u>\$ 53,299</u>
<u>Financial assets at amortized cost and receivables</u>			
Cash and cash equivalents	\$ 811,528	\$ 881,406	\$ 865,450
Notes receivable	-	62	18
Accounts receivable	39,851	35,407	42,571
Other accounts receivable	6,693	290	1,880
Guarantee deposits paid	<u>80</u>	<u>80</u>	<u>-</u>
	<u>\$ 858,152</u>	<u>\$ 917,245</u>	<u>\$ 909,919</u>
<u>Financial liabilities</u>			
<u>Financial liabilities at amortized cost</u>			
Notes payable	\$ 5,241	\$ 7,306	\$ 7,820
Accounts payable	6,751	8,461	8,061
Other accounts payable	25,969	28,590	29,638
Guarantee deposits received	<u>2,930</u>	<u>2,930</u>	<u>2,930</u>
	<u>\$ 40,891</u>	<u>\$ 47,287</u>	<u>\$ 48,449</u>

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.
- (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:

September 30, 2018						
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		Effect on other comprehensive income
				Degree of variation	Effect on profit or loss	
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 10,857	30.53	\$ 331,464	1%	\$ 3,315	\$ -
USD:RMB	1,173	6.88	8,070	1%	81	-
RMB:NTD	1,829	4.44	8,121	1%	81	-
HKD:NTD	2,324	3.90	9,064	1%	91	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	\$ 221	30.53	\$ 6,747	1%	\$ 67	\$ -
December 31, 2017						
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		Effect on other comprehensive income
				Degree of variation	Effect on profit or loss	
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 8,155	29.76	\$ 242,693	1%	\$ 2,427	\$ -
USD:RMB	1,231	6.52	8,026	1%	80	-
RMB:NTD	1,709	4.57	7,810	1%	78	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	\$ 244	29.76	\$ 7,261	1%	\$ 73	\$ -

September 30, 2017

	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		Effect on other comprehensive income
				Degree of variation	Effect on profit or loss	
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 7,806	30.26	\$ 236,210	1%	\$ 2,362	\$ -
USD:RMB	1,231	6.65	8,186	1%	82	-
RMB:NTD	3,565	4.55	16,221	1%	162	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	\$ 266	30.26	\$ 8,049	1%	\$ 80	\$ -

- ii. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three months and nine months ended September 30, 2018 and 2017, amounted to \$1,655, (\$1,374), \$7,431 and (\$13,499), respectively.

#### Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. 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 shares issued by the domestic companies. 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 nine months ended September 30, 2018 and 2017, other components of equity would have increased/decreased by \$796 and \$533, respectively.

#### (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. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independent rated parties with a minimum rating are accepted. 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 rating in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored.

- iii. The Group adopts assumptions under IFRS 9, the default occurs when the contract payments are past due over 365 days.
- iv. The Group classifies customers' accounts receivable in accordance with credit rating of customer. The Group applies the simplified approach to estimate expected credit loss under the provision matrix basis.
- v. The Group used the forecast ability of Taiwan Institute of Economic Research report to adjust historical and timely information to assess the default possibility of accounts receivable. On September 30, 2018, the provision matrix is as follows:

September 30, 2018	Group A	Group B	Total
Expected loss rate	0.03%	5.82%~100%	
Total book value	\$ 26,475	\$ 13,876	\$ 40,351
Loss allowance	\$ 8	\$ 492	\$ 500

- vi. Movement in relation to the group applying the simplified approach to provide loss allowance for accounts receivable is as follows:

	Nine months ended September 30, 2018
At January 1_IAS 39	\$ -
Adjustments under new standards	-
At January 1_IFRS 9	-
Provision for impairment	500
Reversal of impairment loss	-
At September 30	\$ 500

According to the above method, the allowance loss on the account as of September 30, 2018 should be \$500, which is not significantly different from the amount of allowance loss on the current account. For the three months and nine months ended September 30, 2018, the impairments loss arising from customers' contracts are both \$0.

(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.

<u>Non-derivative financial liabilities:</u>	Less	Between	Between
September 30, 2018	<u>than 1 year</u>	<u>1 and 2 years</u>	<u>2 and 5 years</u>
Notes payable	\$ 5,241	\$ -	\$ -
Accounts payable	6,751	-	-
Other payables	25,969	-	-
Other financial liabilities	2,062	868	-
(shown as other non-current liabilities)			

<u>Non-derivative financial liabilities:</u>	Less	Between	Between
December 31, 2017	<u>than 1 year</u>	<u>1 and 2 years</u>	<u>2 and 5 years</u>
Notes payable	\$ 7,306	\$ -	\$ -
Accounts payable	8,461	-	-
Other payables	28,590	-	-
Other financial liabilities	18	2,092	820
(shown as other non-current liabilities)			

<u>Non-derivative financial liabilities:</u>	Less	Between	Between
September 30, 2017	<u>than 1 year</u>	<u>1 and 2 years</u>	<u>2 and 5 years</u>
Notes payable	\$ 7,820	\$ -	\$ -
Accounts payable	8,061	-	-
Other payables	29,638	-	-
Other financial liabilities	886	2,044	-
(shown as other non-current liabilities)			

(3) Fair value information

A. 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.

B. Fair value information of investment property at cost is provided in Note 6(6).

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 are as follows:

(a) The related information of natures of the assets and liabilities is as follows:

September 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 48,555</u>	<u>\$ -</u>	<u>\$ 31,060</u>	<u>\$ 79,615</u>
December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 21,443</u>	<u>\$ -</u>	<u>\$ 34,905</u>	<u>\$ 56,348</u>
September 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 20,891</u>	<u>\$ -</u>	<u>\$ 32,408</u>	<u>\$ 53,299</u>

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

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

- |                     | <u>Listed shares</u> | <u>Emerging stocks</u> |
|---------------------|----------------------|------------------------|
| Market quoted price | Closing price        | Last transaction price |
- ii. 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 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).
- iii. 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.
- iv. 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.

D. For the nine months ended September 30, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the nine months ended September 30, 2018 and 2017:

	<u>Nine months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
	<u>Non-derivative equity instrument</u>	<u>Non-derivative equity instrument</u>
At January 1	\$ 34,905	\$ 25,343
Gains and losses recognised in other comprehensive income		
Recorded as non-operating income and expenses	( 3,845)	-
Gains and losses recognised in other comprehensive income	-	7,065
At September 30	<u>\$ 31,060</u>	<u>\$ 32,408</u>

F. For the nine months ended September 30, 2018 and 2017, there was no transfer into or out from Level 3.

G. 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.

H. 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 September 30, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 31,060	Net asset value	Not applicable	-	Not applicable
	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 34,905	Net asset value	Not applicable	-	Not applicable
	Fair value at September 30, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 32,408	Net asset value	Not applicable	-	Not applicable

(4) Effects on initial application of IFRS 9, 'Leases' and information on application of IAS 39 in 2017

A. Summaries of significant accounting policies adopted in 2017:

(a) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and the derecognised using trade date accounting.
- iii. They 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 or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost.'

(b) Receivables

Accounts receivable are 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. They 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 immaterial.

(c) Impairment of financial assets

i. 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.

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

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

(ii) The disappearance of an active market for that financial asset due to financial difficulties;

(iii) Information about significant changes with an evidence 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;

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

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortized 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 amortized 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.

(ii) Financial assets 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.

(iii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) 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'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through 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 reserved by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Available-for-sale-equity			Effects	
	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income- equity	Total	Retained	
				earnings	Other equity
IAS 39	\$ -	\$ 56,348	\$ 56,348	\$ -	\$ -
Transferred into and measured at fair value through profit or loss	51,226 (	56,348) (	5,122)	5,122 (	5,122)
Fair value adjustment	-	-	-	(5,122)	-
IFRS 9	\$ 51,226	\$ -	\$ 51,226	\$ -	\$ (5,122)

Under IAS 39, the equity instruments, which were classified as available-for-sale, amounting to \$51,226, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" under IFRS 9.

C. The significant accounts as of December 31, 2017 and September 30, 2017, are as follows:

(a) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Non-current items:		
Listed stocks	\$ 39,761	\$ 39,761
Emerging stocks	<u>16,440</u>	<u>17,679</u>
Subtotal	56,201	57,440
Valuation adjustment	5,147	859
Accumulated impairment	( <u>5,000</u> )	( <u>5,000</u> )
Total	<u>\$ 56,348</u>	<u>\$ 53,299</u>

- i. The Group recognized \$2,259 and \$7,126 in other comprehensive income for fair value change and reclassified \$3 and \$2,023 from equity to profit or loss for the three months and nine months ended September 30, 2017.
- ii. The Group assessed and recognised impairment loss on equity investment, MTECH Corporation, for the year ended December 31, 2016.
- iii. As of December 31, 2017, the Group has no available-for-sale financial assets pledged to others.

D. Credit risk information for the year ended December 2017 are as follows:

- (a) 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 analysing 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 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 the Board of Directors. The utilisation of credit limits is regularly monitored.
- (b) For the year ended December 31, 2017, and nine months ended September 30, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality information of financial assets that was neither past due nor impaired is as follows:

	<u>December 31, 2017</u>	
	<u>Group 1</u>	<u>Group 2</u>
Accounts receivable	\$ <u>2,493</u>	\$ <u>30,808</u>
	<u>September 30, 2017</u>	
	<u>Group 1</u>	<u>Group 2</u>
Accounts receivable	\$ <u>2,084</u>	\$ <u>38,675</u>

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

(d) The ageing analysis of financial assets that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Accounts receivable</u>		
Up to 30 days	\$ 2,106	\$ 1,812
31 to 90 days	-	-
91 to 180 days	-	-
Over 181 days	-	-
	<u>\$ 2,106</u>	<u>\$ 1,812</u>

The above ageing analysis was based on past due date.

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

(a) Sales of goods

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, as 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.

(b) The revenue recognised by using above accounting policies for the three months and nine months ended September 30, 2017 are as follows:

	<u>Three months ended September 30, 2017</u>
Sales revenue	\$ <u>80,380</u>
	<u>Nine months ended September 30, 2017</u>
Sales revenue	\$ <u>236,119</u>

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

### 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 one reportable operating segment.

##### (2) Segment information

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

	Nine months ended September 30,	
	2018	2017
Revenue from external customers	\$ 200,667	\$ 236,119
Depreciation and amortisation (including investment property)	7,599	8,084
Income tax expense	( 3,837)	( 5,503)
Reportable segments income	32,387	43,657
Assets of reportable segments	1,215,716	1,251,575
Capital expenditure in non-current assets of reportable segments	438	927
Liabilities of reportable segments	56,821	63,286

##### (3) Reconciliation for segment income (loss)

The revenue from external customers, profit or loss, assets and liabilities reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the financial statements. Thus, reconciliation is not required.

DAVICOM Semiconductor, Inc.

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

September 30, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of September 30, 2018				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
The Company	Unitech Capital Inc.	—	Available-for-sale financial assets - non-current	1,000,000	\$ 31,060	2.00%	\$ 31,060	
The Company	Auden Techno Corp.	—	Available-for-sale financial assets - non-current	1,210,000	13,842	2.96%	13,842	
Davicom Investment Inc.	KGI Securities' Taiwan dollars Principal Guaranteed Note		Available-for-sale financial assets - current	-	30,000	-	30,000	
Davicom Investment Inc.	Global Mobile Corp.	—	Available-for-sale financial assets - non-current	892,458	-	0.32%	-	
Davicom Investment Inc.	MTECH Corporation	—	Available-for-sale financial assets - non-current	200,000	-	0.93%	-	
Davicom Investment Inc.	Auden Techno Corp.	—	Available-for-sale financial assets - non-current	412,000	4,713	1.01%	4,713	

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

September 30, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2018			Net profit (loss) of the investee for the nine months ended September 30, 2018 (Note 2(2))	Investment income(loss) recognised by the Company for the nine months ended September 30, 2018 (Note 2(3))	Footnote
				Balance as at September 30, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
The Company	TSCC Inc.	Samoa	General investment	\$ 143,224	\$ 143,224	4,400,000	100	\$ 98,139	\$ 646	\$ 646	-
The Company	Davicom Investment Inc.	Taiwan	General investment	222,000	222,000	21,200,000	100	209,841	1,540	1,540	-
The Company	Medicom Corp.	Taiwan	Designing and manufacturing of IC	17,004	17,004	496,811	99.36	349	(14)	(14)	-
The Company	Aidialink Corp.	Taiwan	Wireless communication machinery and equipment manufacturing industry	8,970	1,320	885,000	88.50	8,356	1,128	1,128	-
TSCC Inc.	Jubilink Ltd.	British Virgin Islands	General investment	82,725	82,725	22,775,207	100	-	-	-	-



DAVICOM Semiconductor, Inc.  
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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 remitted from Taiwan		Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2018	Net income of investee as of September 30, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the nine months ended September 30, 2018 (Note 2)	Book value of investments in Mainland China as of September 30, 2018	Accumulated	Footnote
				amount of remittance from Taiwan to Mainland China as of January 1, 2018	to Mainland China/ Amount remitted back to Taiwan for the nine months ended September 30, 2018							amount of investment income remitted back to Taiwan as of September 30, 2018	
DAVICOM IC (SuZHou) Co.LTD		\$ 76,313	(2)	\$ 76,313	-	-	\$ 76,313	(\$ 337)	100	(\$ 337)	\$ 36,147	-	-

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 September 30, 2018	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	\$ 76,313	\$ 96,154	\$ 695,337