

**DAVICOM SEMICONDUCTOR, INC. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND
2017**

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.

DAVICOM Semiconductor, Inc.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2018, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. Also, if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Company name: DAVICOM SEMICONDUCTOR, INC.

Representative: HAO, TING

March 11, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying consolidated balance sheets of DAVICOM Semiconductor, Inc. and its subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other matter section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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The Group's key audit matters are as follows:

Evaluation of accounts receivable

Description

Please refer to Note 4(8) for accounting policies on accounts receivable recognition and accounts receivable valuation, Note 5 for uncertainty of accounting estimates and assumptions in relation to impairment of accounts receivable valuation, Note 6(3) for details of accounts receivable. The balance of accounts receivable amounted to NT\$40,243 thousand as at December 31, 2018.

The Group's accounts receivable arises from selling goods, and collecting in accordance with credit period which is determined by the Credit Quality Control Policy of individual customers' credit quality. Allowance for uncollectible accounts are based on expected credit losses during its existing period. For the purpose of measurement, underlying receivable should be grouped appropriately and the assumptions should be judged and analyzed. The aging of intervals, expected loss ratio and forward-looking information usually include subjective judgement, therefore, we determined the valuation of accounts receivable as one of the key areas of focus for this year's audit.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Checked and tested the assumptions of expected credit losses and assessed the reasonableness of the aging of intervals, including objective evidences used to determine the accuracy of periods and credit terms. Verified whether there are long overdue unrecoverable accounts receivable on the list to assess the adequacy of allowance for uncollectible accounts.
2. Checked and tested accounts receivable aging schedule which is classified based on customer types, based on subsequent collections, and discussed with management for its assessment of recoverability of past due receivables.

Evaluation of inventories

Description

Please refer to Note 4(11) for accounting policy on inventory valuation, Note 5 for uncertainty of accounting estimates and assumptions in relation to inventory valuation, Note 6(4) for details of inventory. The balance of inventory and allowance for inventory valuation losses amounted to NT\$34,159 thousand and NT\$13,971 thousand as at December 31, 2018, respectively.

The Group is engaged in research, development, production, manufacturing and sales of local area network chipset. Due to rapid changes in technology, the life cycle of products is short and easily affected by market prices, there is a higher risk of incurring inventory valuation losses or having obsolete

inventory. The Group measures inventory for normal sales at the lower of cost or net realisable value method. For inventory aging over certain period, individual inventory valuation losses and obsolete inventory, provision for loss is made through individual identification and measured at net realizable value. As a result of the significant amount, numerous items, and since identifying obsolete and damaged inventory usually involves management judgement, it also belongs to one of the audit scopes involving professional judgement. Therefore, we determined the estimate of inventory valuation losses as one of the key areas of focus for this year's audit.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding of the business, industry, products and inventory aging to assess the provision policy of allowance for inventory valuation losses, verifying whether the related accounting policies are consistent with the last period, and evaluating whether the provision policy is reasonable.
2. Obtained inventory aging report from management, analyse and compare the different reasons for loss due to market value decline and obsolete and slow-moving inventories to assess the appropriateness of loss for market value decline and obsolete and slow-moving inventory policy.
3. For summary statement that management uses to value loss for market value decline and obsolete and slow-moving inventories, confirming whether it agrees with the statement details generated from system, and verifying that obsolete and slow-moving inventories which were provided valuation losses, has been completely listed in the statement.
4. Tested book value of ending inventory, through selecting samples and obtaining invoices of last period to verify whether they were measured at the lower of cost or net realizable value method, and recalculating and valuating the reasonableness of changes in allowance for inventory valuation losses.
5. Participating and observing the year-end physical inventory count to verify the existence and completeness of inventory, and checking the condition of inventory to assess the appropriateness of allowance for inventory valuation losses of obsolete and slow-moving inventories.

Other matters

The report of the other independent accountants

We did not audit the financial statements of a wholly-owned consolidated subsidiary that are included in the financial statements. Total assets of the subsidiary amounted to NT\$221,908 thousand and NT\$211,680 thousand as at December 31, 2018 and 2017, constituting 18.35% and 16.72% of consolidated total assets respectively. Operating income of the subsidiary amounted to NT\$10,641 thousand and NT\$5,895 thousand, for the years ended December 31, 2018 and 2017, constituting 4.08% and 1.92% of consolidated total operating income, respectively. Those financial statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of DAVICOM Semiconductor, Inc. as at and for the years ended December 31, 2018 and 2017.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal controls as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group’s financial reporting process.

Independent accountant's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the footnote disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

Se-Kai Lin

Chun-Yuan Hsiao

For and on behalf of PricewaterhouseCoopers, Taiwan

March 11, 2019

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)

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 835,857	69	\$ 881,406	70
1150	Notes receivable, net	6(3)	64	-	62	-
1170	Accounts receivable, net	6(3)	40,243	3	35,407	3
1200	Other receivables		5,504	1	290	-
130X	Inventories, net	6(4)	34,159	3	37,060	3
1410	Prepayments		1,443	-	2,963	-
1470	Other current assets		46	-	88	-
11XX	Total Current Assets		917,316	76	957,276	76
Non-current assets						
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	47,247	4	-	-
1523	Available-for-sale financial assets - noncurrent	12(4)	-	-	56,348	4
1600	Property, plant and equipment, net	6(5)	122,860	10	126,720	10
1760	Investment property, net	6(6)	105,860	9	108,780	9
1780	Intangible assets		153	-	124	-
1840	Deferred income tax assets	6(21)	7,573	-	9,603	1
1900	Other non-current assets	6(7)	8,338	1	6,888	-
15XX	Total Non-current assets		292,031	24	308,463	24
1XXX	Total assets		\$ 1,209,347	100	\$ 1,265,739	100

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DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2150	Notes payable		\$ 4,687	-	\$ 7,306	1
2170	Accounts payable		6,515	1	8,461	1
2200	Other payables	6(8)	29,306	2	28,590	2
2230	Current income tax liabilities	6(21)	75	-	674	-
2300	Other current liabilities		389	-	2,439	-
21XX	Current Liabilities		<u>40,972</u>	<u>3</u>	<u>47,470</u>	<u>4</u>
Non-current liabilities						
2570	Deferred income tax liabilities	6(21)	625	-	663	-
2600	Other non-current liabilities	6(9)	17,317	2	17,508	1
25XX	Non-current liabilities		<u>17,942</u>	<u>2</u>	<u>18,171</u>	<u>1</u>
2XXX	Total Liabilities		<u>58,914</u>	<u>5</u>	<u>65,641</u>	<u>5</u>
Equity attributable to owners of parent						
Share capital		6(12)				
3110	Common stock		846,551	70	846,551	67
Capital surplus		6(13)				
3200	Capital surplus		219,776	18	250,252	20
Retained earnings		6(14)				
3310	Legal reserve		70,549	6	65,446	5
3350	Undistributed earnings	6(21)	37,829	3	51,033	4
Other equity interest						
3400	Other equity interest	(	8,977)	(1)	(13,367)	(1)
Treasury shares		6(12)				
3500	Treasury shares	(	16,376)	(1)	-	-
31XX	Equity attributable to owners of the parent		<u>1,149,352</u>	<u>95</u>	<u>1,199,915</u>	<u>95</u>
36XX	Non-controlling interest		<u>1,081</u>	<u>-</u>	<u>183</u>	<u>-</u>
3XXX	Total equity		<u>1,150,433</u>	<u>95</u>	<u>1,200,098</u>	<u>95</u>
Significant contingent liabilities and unrecognised contract commitments		9				
3X2X	Total liabilities and equity		<u>\$ 1,209,347</u>	<u>100</u>	<u>\$ 1,265,739</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)

				Year ended December 31	
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(15)	\$ 261,095	100	\$ 307,342	100
5000 Operating costs	6(4)(19)(20)	(87,299)	(33)	(97,270)	(32)
5900 Net operating margin		173,796	67	210,072	68
Operating expenses	6(19)(20) and 7				
6100 Selling expenses		(32,280)	(12)	(34,657)	(11)
6200 General and administrative expenses		(46,524)	(18)	(45,847)	(15)
6300 Research and development expenses		(83,811)	(32)	(76,230)	(25)
6450 Impairment on expected credit losses	6(3) and 12(2)	(1,201)	(1)	-	-
6000 Total Operating Expenses		(163,816)	(63)	(156,734)	(51)
6900 Operating income		9,980	4	53,338	17
Non-operating income and expenses					
7010 Other income	6(6)(16)	29,485	11	25,928	9
7020 Other gains and losses	6(17)	3,417	1	(20,658)	(7)
7050 Finance costs	6(18)	(31)	-	(31)	-
7000 Total non-operating income and expenses		32,871	12	5,239	2
7900 Income from continuing operations before income tax		42,851	16	58,577	19
7950 Income tax expense	6(21)	(4,928)	(2)	(6,697)	(2)
8000 Profit for the year from continuing operations		37,923	14	51,880	17
8200 Profit for the year		\$ 37,923	14	\$ 51,880	17

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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)

		Notes	Year ended December 31			
			2018		2017	
Items			AMOUNT	%	AMOUNT	%
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	6(10)	\$ 354	-	(\$ 1,680)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	234	-	286	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		588	-	(1,394)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statement translation differences of foreign operations		1,182	1	(5,487)	(2)
8362	Unrealized gain on valuation of available-for-sale financial assets		-	-	11,377	4
8399	Income tax relating to the components of other comprehensive income		-	-	(1,626)	(1)
8360	Components of other comprehensive income that will be reclassified to profit or loss		1,182	1	4,264	1
8500	Total comprehensive income for the year		<u>\$ 39,693</u>	<u>15</u>	<u>\$ 54,750</u>	<u>18</u>
	Profit (loss), attributable to:					
8610	Owners of parent		\$ 37,635	14	\$ 52,327	17
8620	Non-controlling interest		288	-	(447)	-
			<u>\$ 37,923</u>	<u>14</u>	<u>\$ 51,880</u>	<u>17</u>
	Comprehensive income attributable to:					
8710	Comprehensive income, attributable to owners of parent		\$ 39,405	15	\$ 55,197	18
8720	Non-controlling interests		288	-	(447)	-
			<u>\$ 39,693</u>	<u>15</u>	<u>\$ 54,750</u>	<u>18</u>
	Basic earnings per share	6(22)				
9750	Net income		<u>\$ 0.44</u>		<u>\$ 0.63</u>	
	Diluted earnings per share	6(22)				
9850	Net income		\$ 0.44		\$ 0.62	

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

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

		Equity attributable to owners of the parent											
		Share Capital	Capital Surplus		Retained Earnings		Other equity interest						
							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	Treasury shares	Total	Non-controlling interest	Total equity
Notes		Common stock	Additional paid-in capital	Others	Legal reserve	Undistributed earnings							
<u>Year 2017</u>													
		\$ 832,551	\$ 221,162	\$38,714	\$ 58,312	\$ 71,340	\$ 2,542	(\$ 4,629)	\$ -	\$ -	\$ 1,219,992	\$ 630	\$ 1,220,622
		-	-	-	-	52,327	-	-	-	-	52,327	(447)	51,880
		-	-	-	-	(1,394)	(5,487)	9,751	-	-	2,870	-	2,870
		-	-	-	-	50,933	(5,487)	9,751	-	-	55,197	(447)	54,750
Appropriation and distribution of 2016 earnings 6(14)													
		-	-	-	7,134	(7,134)	-	-	-	-	-	-	-
		-	-	-	-	(64,106)	-	-	-	-	(64,106)	-	(64,106)
		-	(27,474)	-	-	-	-	-	-	-	(27,474)	-	(27,474)
		14,000	-	17,850	-	-	-	-	(15,544)	-	16,306	-	16,306
		<u>\$ 846,551</u>	<u>\$ 193,688</u>	<u>\$56,564</u>	<u>\$ 65,446</u>	<u>\$ 51,033</u>	<u>(\$ 2,945)</u>	<u>\$ 5,122</u>	<u>(\$ 15,544)</u>	<u>\$ -</u>	<u>\$ 1,199,915</u>	<u>\$ 183</u>	<u>\$ 1,200,098</u>
<u>Year 2018</u>													
		\$ 846,551	\$ 193,688	\$56,564	\$ 65,446	\$ 51,033	(\$ 2,945)	\$ 5,122	(\$ 15,544)	\$ -	\$ 1,199,915	\$ 183	\$ 1,200,098
		-	-	-	-	-	-	(5,122)	-	-	(5,122)	-	(5,122)
		<u>846,551</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>-</u>	<u>1,194,793</u>	<u>183</u>	<u>1,194,976</u>
		-	-	-	-	37,635	-	-	-	-	37,635	288	37,923
		-	-	-	-	588	1,182	-	-	-	1,770	-	1,770
		-	-	-	-	38,223	1,182	-	-	-	39,405	288	39,693
Differences between equity purchase price and carrying amount arising from actual acquisition of subsidiaries													
		-	-	-	-	(610)	-	-	-	-	(610)	-	(610)
		-	-	-	-	-	-	-	-	-	-	610	610
Appropriation and distribution of 2017 earnings 6(14)													
		-	-	-	5,103	(5,103)	-	-	-	-	-	-	-
		-	-	-	-	(45,714)	-	-	-	-	(45,714)	-	(45,714)
		-	(30,476)	-	-	-	-	-	-	-	(30,476)	-	(30,476)
		-	3,570	(3,570)	-	-	-	-	8,330	-	8,330	-	8,330
		-	-	-	-	-	-	-	-	(16,376)	(16,376)	-	(16,376)
		<u>\$ 846,551</u>	<u>\$ 166,782</u>	<u>\$52,994</u>	<u>\$ 70,549</u>	<u>\$ 37,829</u>	<u>(\$ 1,763)</u>	<u>\$ -</u>	<u>(\$ 7,214)</u>	<u>(\$ 16,376)</u>	<u>\$ 1,149,352</u>	<u>\$ 1,081</u>	<u>\$ 1,150,433</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)

		Years ended December 31	
	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 42,851	\$ 58,577
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation (including investment property)	6(5)(6)	7,113	7,194
Amortisation	6(19)	3,034	3,592
Impairment on expected credit losses	6(3) and 12(2)	1,201	-
Deferred charges transferred to research and experimental expenses		4,911	108
Cost of restricted stocks to employees	6(11)	8,330	2,306
Interest income	6(16)	(2,950)	(2,509)
Interest expense	6(18)	31	31
Gain on disposal of available-for-sale financial assets	6(16)	-	(2,041)
Net loss on financial assets at fair value through profit or loss	6(2)(17)	108	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable	(	2)	3
Accounts receivable	(	6,037)	6,956
Financial assets at fair value through profit or loss-noncurrent		2,247	-
Other receivables	(	197)	(251)
Inventories		2,901	(9,172)
Prepayments		1,520	(362)
Other current assets		42	(70)
Changes in operating liabilities			
Notes payable	(	2,619)	1,367
Accounts payable	(	1,946)	1,971
Other payables		716	(6,628)
Net defined benefit liabilities		164	(3,616)
Other current liabilities	(	2,050)	1,967
Cash inflow generated from operations		59,368	59,423
Interest received		2,833	2,974
Income tax paid	(	8,233)	(17,609)
Net cash flows from operating activities		53,968	44,788
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of available-for-sale financial assets		-	10,672
Acquisition of property, plant and equipment	6(5)	(333)	(907)
Acquisition of financial assets at fair value through profit or loss	(	26,373)	-
Proceeds from disposal of financial assets at fair value through profit or loss		27,973	-
Increase in intangible assets	(	212)	(232)
Decrease in refundable deposits		-	23
Increase in other assets	(	9,212)	(4,647)
Net cash flows (used in) from investing activities	(	8,157)	4,909
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of cash dividends	6(14)	(76,190)	(91,580)
Advance receipts for capital stock	6(12)	-	14,000
Treasury stock repurchase	6(12)	(16,376)	-
Net cash flows used in financing activities	(	92,566)	(77,580)
Effect of foreign exchange rate changes on cash and cash equivalents		1,206	(5,480)
Net decrease in cash and cash equivalents	(	45,549)	(33,363)
Cash and cash equivalents at beginning of year		881,406	914,769
Cash and cash equivalents at end of year		\$ 835,857	\$ 881,406

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

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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 March 11, 2019.

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.

The Group expects to recognise the lease contract of lessees in line with IFRS16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$65,559 and \$65,559, respectively.

(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", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(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 year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 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 of 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
			December 31, 2018	December 31, 2017	
Davicom Semiconductor, Inc.	Medicom Corp.	Manufacturing and designing of IC	99.36	99.36	-
Davicom Semiconductor, Inc.	Davicom Investment Inc.	General investment	100.00	100.00	-
Davicom Semiconductor, Inc.	TSCC Inc.	Reinvestment business	100.00	100.00	-
Davicom Semiconductor, Inc.	Aidialink Corp.	Wireless communication machinery and equipment manufacturing industry.	88.50	51.06	Note 2
TSCC Inc.	JUBILINK LIMITED	Reinvestment business	100.00	100.00	-
TSCC Inc.	DAVICOM IC (SuZHou) Co.LTD	Manufacturing and designing of IC	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

- 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.
- 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 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 settle 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 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 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.

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.

(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 75 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>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand	\$ 89	\$ 150
Checking accounts and demand deposits	326,007	466,487
Time deposits	<u>509,761</u>	<u>414,769</u>
	<u>\$ 835,857</u>	<u>\$ 881,406</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

Items	December 31, 2018
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Listed stocks	\$ 222
Unlisted stocks	34,761
Emerging stocks	16,440
Subtotal	51,423
Valuation adjustment	(4,176)
	<u>\$ 47,247</u>

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

	Year ended December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss	
Equity instruments	(\$ 108)
	<u>(\$ 108)</u>

- B. As of December 31, 2018 and 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 is provided in Note 12(4).

(3) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	<u>\$ 64</u>	<u>\$ 62</u>
Accounts receivable	\$ 41,444	\$ 35,407
Less: Allowance for uncollectible accounts	(1,201)	-
	<u>\$ 40,243</u>	<u>\$ 35,407</u>

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

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 34,746	\$ 64	\$ 33,301	\$ 62
Up to 30 days	6,698	-	2,106	-
31 to 90 days	-	-	-	-
	<u>\$ 41,444</u>	<u>\$ 64</u>	<u>\$ 35,407</u>	<u>\$ 62</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

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Work in process	\$ 22,039	(\$ 8,901)	\$ 13,138
Finished goods	26,091	(5,070)	21,021
	<u>\$ 48,130</u>	<u>(\$ 13,971)</u>	<u>\$ 34,159</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
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>

The cost of inventories recognised as expenses for the period:

	Years ended December 31,	
	2018	2017
Cost of goods sold	\$ 95,352	\$ 97,816
Gain on reversal of decline in market value	(600)	(500)
Inventory retirement losses	(7,451)	-
Others	(2)	(46)
	<u>\$ 87,299</u>	<u>\$ 97,270</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	-	127	-	206	333
Depreciation charge	(3,407)	(213)	(388)	(185)	(4,193)
Closing net book amount as at December 31	<u>\$ 120,785</u>	<u>\$ 433</u>	<u>\$ 1,227</u>	<u>\$ 415</u>	<u>\$ 122,860</u>
<u>At December 31, 2018</u>					
Cost	\$ 170,034	\$ 708	\$ 2,325	\$ 735	\$ 173,802
Accumulated depreciation	(49,249)	(275)	(1,098)	(320)	(50,942)
	<u>\$ 120,785</u>	<u>\$ 433</u>	<u>\$ 1,227</u>	<u>\$ 415</u>	<u>\$ 122,860</u>
	Buildings	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	581	-	176	907
Depreciation charge	(3,394)	(288)	(387)	(205)	(4,274)
Closing net book amount as at December 31	<u>\$ 124,192</u>	<u>\$ 519</u>	<u>\$ 1,615</u>	<u>\$ 394</u>	<u>\$ 126,720</u>
<u>At December 31, 2017</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>

(6) Investment property

Buildings

	Years ended December 31,	
	2018	2017
At January 1		
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	(2,920)	(2,920)
Closing net book amount as at December 31	<u>\$ 105,860</u>	<u>\$ 108,780</u>
At December 31		
Cost	\$ 148,907	\$ 148,907
Accumulated depreciation	(43,047)	(40,127)
	<u>\$ 105,860</u>	<u>\$ 108,780</u>

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

	Years ended December 31,	
	2018	2017
Rental income from investment property	<u>\$ 21,983</u>	<u>\$ 21,522</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>(\$ 4,823)</u>	<u>(\$ 4,779)</u>

B. The fair value of the investment property held by the Group as at December 31, 2018 and 2017 was \$151,401 and \$151,401, respectively, which was valued by independent valuers on December 31, 2018 and 2017. Valuations were made using the cost approach and income approach in a weight ratio of 50% for each approach which is categorised within Level 3 in the fair value hierarchy. Key assumptions are as follows:

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

(7) Other non-current assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Deferred charges	\$ 8,258	\$ 6,808
Overdue receivables	4,120	9,702
Guarantee deposits paid	80	80
Less: Allowance for loss	(4,120)	(9,702)
	<u>\$ 8,338</u>	<u>\$ 6,888</u>

(8) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Wages and bonus payable	\$ 19,302	\$ 20,634
Processing fees payable	2,663	2,484
Others	7,341	5,472
	<u>\$ 29,306</u>	<u>\$ 28,590</u>

(9) Other non-current liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Net defined benefit liability	\$ 14,387	\$ 14,578
Guarantee deposits received	2,930	2,930
	<u>\$ 17,317</u>	<u>\$ 17,508</u>

(10) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, 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 Act. 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) The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations (\$	38,769)	(\$ 37,994)
Fair value of plan assets	<u>24,382</u>	<u>23,416</u>
Net defined benefit liability	<u>(\$ 14,387)</u>	<u>(\$ 14,578)</u>

(c) Movement in net defined benefit are as follows:

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2018</u>			
Balance at January 1	(\$ 37,994)	\$ 23,416	(\$ 14,578)
Current service cost	(100)	-	(100)
Interest (expense) income	(228)	140	(88)
	<u>(38,322)</u>	<u>23,556</u>	<u>(14,766)</u>
Remeasurements:			
Return on plan asset			
(excluding amounts included in interest income or expense)	-	801	801
Change in financial assumptions	183	-	183
Experience adjustments	(630)	-	(630)
	<u>(447)</u>	<u>801</u>	<u>354</u>
Pension fund contribution	-	25	25
Balance at December 31	<u>(\$ 38,769)</u>	<u>\$ 24,382</u>	<u>(\$ 14,387)</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	(\$ 36,704)	\$ 20,190	(\$ 16,514)
Current service cost	(99)	-	(99)
Interest (expense) income	(404)	222	(182)
Past service cost	(132)	-	(132)
	<u>(37,339)</u>	<u>20,412</u>	<u>(16,927)</u>
Remeasurements:			
Return on plan asset			
(excluding amounts included in interest income or expense)	-	(9)	(9)
Change in financial assumptions	(945)	-	(945)
Experience adjustments	(726)	-	(726)
	<u>(1,671)</u>	<u>(9)</u>	<u>(1,680)</u>
Pension fund contribution	-	4,029	4,029
Paid pension	<u>1,016</u>	<u>(1,016)</u>	<u>-</u>
Balance at December 31	<u>(\$ 37,994)</u>	<u>\$ 23,416</u>	<u>(\$ 14,578)</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2018	2017
Discount rate	0.70%	0.60%
Future salary increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.5%	Decrease 0.5%	Increase 0.5%	Decrease 0.5%
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	(\$ 891)	\$ 929	\$ 816	(\$ 791)
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 945)	\$ 989	\$ 875	(\$ 846)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to \$202.

(g) As of December 31, 2018, the weighted average duration of the retirement plan is 3.3 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	(\$ 24,050)
1-5 year(s)	(11,326)
Over 5 years	(3,393)
	(\$ 38,769)

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 years ended December 31, 2018 and 2017, were \$4,640 and \$4,811, respectively.

(11) Share-based payment

A. For the years ended December 31, 2018 and 2017, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
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 years ended December 31, 2018 and 2017, the compensation fees arising from restricted stocks to employees is \$8,330 and \$2,306, respectively.

(12) Share capital

A. As of December 31, 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.

Movement in the number of the Group's ordinary outstanding are as follows:

	2018 (share in thousands)	2017 (share in thousands)
At January 1	84,655	83,255
Issuance of restricted stocks to employees	-	1,400
At December 31	84,655	84,655

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 December 31, 2018, the receipts for share capital was \$14,000 and the capital surplus and others were \$17,850 and \$7,214, respectively.

C. Treasury shares

- (a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Name of company holding the shares	Reason for reacquisition	December 31, 2018	
		Number of shares (share in thousands)	Carrying amount
The Company	To be reissued to employees	900	\$ 16,376

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(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 Act 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. On March 11, 2019, the Board of Directors proposed the distribution of cash of \$33,256 from capital surplus.

(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:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
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, respectively.

- E. The details of the appropriation of 2018 earnings was proposed by the Board of Directors on March 11, 2019. Details are follows:

	Year ended December 31, 2018	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 3,844	
Cash dividends	33,256	\$ 0.40

On March 11, 2019, the Board of Directors proposed the distribution of cash of \$33,256 from capital surplus. Abovementioned appropriation of earnings and distribution of cash from capital surplus has not been resolved by the shareholders.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(20).

(15) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	\$ 261,095

A. Disaggregation of revenue from contracts with customers

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

	Year ended December 31, 2018
China	\$ 166,126
Taiwan	44,524
USA	5,004
Others	45,441
Total	\$ 261,095

B. Related disclosures for the year ended December 31, 2017 operating revenue are provided in Note 12(5) A.

(16) Other income

	Years ended December 31,	
	2018	2017
Interest income :		
Interest income from bank deposits	\$ 2,608	\$ 2,480
Other interest income	342	29
Rent income	21,983	21,522
Dividend income	4,089	1,622
Other income, others	463	275
	\$ 29,485	\$ 25,928

(17) Other gains and losses

	Years ended December 31,	
	2018	2017
Net currency exchange gains (losses)	\$ 8,372	(\$ 17,920)
Gains on disposal of investment	-	2,041
Net losses on financial assets at fair value through profit or loss	(108)	-
Other losses	(4,847)	(4,779)
	\$ 3,417	(\$ 20,658)

(18) Finance costs

Years ended December 31,	
2018	2017
<u>\$ 31</u>	<u>\$ 31</u>

(19) Expenses by nature

Years ended December 31,	
2018	2017
Changes in finished goods, work-in-process and raw materials inventory	\$ 43,453 \$ 43,617
Employee benefit expense	125,885 122,489
Depreciation charges on property, plant and equipment	4,193 4,274
Amortisation charges	3,034 3,592
Product testing fees	25,024 33,285
Other costs and expenses	49,526 46,747
Operating costs and expenses	<u>\$ 251,115</u> <u>\$ 254,004</u>

(20) Employee benefit expense

Years ended December 31,	
2018	2017
Wages and salaries	\$ 109,627 \$ 105,452
Labour and health insurance fees	7,874 7,870
Pension costs	4,828 5,224
Directors' remuneration	450 602
Other personnel expenses	3,106 3,341
	<u>\$ 125,885</u> <u>\$ 122,489</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 years ended December 31, 2018 and 2017, employees' compensation was accrued at \$4,583 and \$5,621, respectively; directors' and supervisors' remuneration was accrued at \$959 and \$1,319, 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. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$4,583 and \$959, respectively, and the employees' compensation will be distributed in the form of cash.

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:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the year	\$ 2,457	\$ 10,633
Additional income tax imposed on unappropriated earnings	216	10
Prior year income tax (over)underestimation	(19)	16
Total current tax	<u>2,654</u>	<u>10,659</u>
Deferred tax:		
Origination and reversal of temporary differences	3,582 (	3,962)
Impact of change in tax rate	(1,308)	-
Income tax expense	<u>\$ 4,928</u>	<u>\$ 6,697</u>

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

	Years ended December 31,	
	2018	2017
Impact of change in tax rate	\$ 99	\$ -
Fair value gains/losses on available-for-sale financial assets	-	(1,626)
Remeasurement of defined benefit obligations	135	286
Total	<u>\$ 234</u>	<u>(\$ 1,340)</u>

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate (note)	\$ 9,121	\$ 9,715
Effects from items disallowed by tax regulation	(1,231)	232
Effect from temporary difference	(864)	1,236
Effect from tax credits of investment	(956)	(4,561)
Additional tax on undistributed earnings	216	10
Prior year income tax (over) underestimation	(19)	16
Effect from changes in tax regulation	(1,308)	-
Other	(31)	49
Income tax expense	<u>\$ 4,928</u>	<u>\$ 6,697</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

Year ended December 31, 2018				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
— Temporary differences:				
Inventory retirements losses	\$ 692	\$ 122	\$ -	\$ 814
Loss for market value decline and obsolete and slow-moving inventories	3,829	(1,035)	-	2,794
Unrealised exchange loss	1,681	(1,681)	-	-
Unused compensated absences	1,028	224	-	1,252
Other	2,373	106	234	2,713
Subtotal	<u>\$ 9,603</u>	<u>(\$ 2,264)</u>	<u>\$ 234</u>	<u>\$ 7,573</u>
Deferred tax liabilities:				
— Temporary differences:				
Currency temporary differences	(\$ 512)	(\$ 90)		(\$ 602)
Unrealised exchange gain	(151)	128	-	(23)
Subtotal	<u>(\$ 663)</u>	<u>\$ 38</u>	<u>\$ -</u>	<u>(\$ 625)</u>
Total	<u>\$ 8,940</u>	<u>(\$ 2,226)</u>	<u>\$ 234</u>	<u>\$ 6,948</u>

Year ended December 31, 2017

	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
— Temporary differences:				
Inventory retirements losses	\$ 692	\$ -	\$ -	\$ 692
Loss for market value decline and obsolete and slow-moving inventories	3,829	-	-	3,829
Unrealised exchange loss	-	1,681	-	1,681
Unused compensated absences	1,253	(225)	-	1,028
Other	4,180	(467)	(1,340)	2,373
Subtotal	<u>\$ 9,954</u>	<u>\$ 989</u>	<u>(\$ 1,340)</u>	<u>\$ 9,603</u>
Deferred tax liabilities:				
— Temporary differences:				
Currency temporary differences	(\$ 512)	\$ -	\$ -	(\$ 512)
Unrealised exchange gain	(3,124)	2,973	-	(151)
Subtotal	<u>(\$ 3,636)</u>	<u>\$ 2,973</u>	<u>\$ -</u>	<u>(\$ 663)</u>
Total	<u>\$ 6,318</u>	<u>\$ 3,962</u>	<u>(\$ 1,340)</u>	<u>\$ 8,940</u>

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

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 37,635</u>	84,580	<u>\$ 0.44</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 37,635	84,580	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>434</u>	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 37,635</u>	<u>85,014</u>	<u>\$ 0.44</u>

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 52,327</u>	83,605	<u>\$ 0.63</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 52,327	83,605	
Assumed conversion of all dilutive potential ordinary shares			
Restricted stocks to employees	-	1,050	
Employees' bonus	<u>-</u>	<u>370</u>	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 52,327</u>	<u>85,025</u>	<u>\$ 0.62</u>

(23) Operating leases

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

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 13,781	\$ 13,721

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:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 2,138	\$ 2,152
Later than one year but not more than five years	5,346	6,457
Later than five years	-	-
	<u>\$ 7,484</u>	<u>\$ 8,609</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>December 31, 2018</u>	<u>December 31, 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>\$ 47,247</u>	<u>\$ -</u>
Available-for-sale financial assets		
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ 56,348</u>
Financial assets at amortized cost and receivables		
Cash and cash equivalents	\$ 835,857	\$ 881,406
Notes receivable	64	62
Accounts receivable	40,243	35,407
Other accounts receivable	5,504	290
Guarantee deposits paid	80	80
	<u>\$ 881,748</u>	<u>\$ 917,245</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost		
Notes payable	\$ 4,687	\$ 7,306
Accounts payable	6,515	8,461
Other accounts payable	29,306	28,590
Guarantee deposits received	2,930	2,930
	<u>\$ 43,438</u>	<u>\$ 47,287</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:

December 31, 2018										
	Foreign currency amount		Book value	Sensitivity analysis		Effect on other comprehensive income				
	(In thousands)	Exchange rate		(NTD)	Degree of variation		Effect on profit or loss			
(Foreign currency: functional currency)										
<u>Financial assets</u>										
<u>Monetary items</u>										
USD:NTD	\$	11,636	30.72	\$	357,458	1%	\$	3,575	\$	-
USD:RMB		1,126	6.87		7,736	1%		77		-
RMB:NTD		2,029	4.47		9,070	1%		91		-
HKD:NTD		2,324	3.92		9,110	1%		91		-
<u>Financial liabilities</u>										
<u>Monetary items</u>										
USD:NTD	\$	158	30.72	\$	4,854	1%	\$	49	\$	-

December 31, 2017										
	Foreign currency amount		Book value	Sensitivity analysis		Effect on other comprehensive income				
	(In thousands)	Exchange rate		(NTD)	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	\$	-

- 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 years ended December 31, 2018 and 2017, amounted to \$8,372 and (\$17,920), 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 years ended December 31, 2018 and 2017, other components of equity would have increased/decreased by \$472 and \$563, 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 90 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 December 31, 2018, the provision matrix is as follows:

	Group A	Group B	Total
December 31, 2018			
Expected loss rate	0.03%	4.86%~100%	
Total book value	\$ 21,313	\$ 20,131	\$ 41,444
Loss allowance	\$ 6	\$ 1,195	\$ 1,201

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

	Year ended December 31, 2018
At January 1_IAS 39	\$ -
Adjustments under new standards	-
At January 1_IFRS 9	-
Provision for impairment	1,201
Reversal of impairment loss	-
At December 31	<u>\$ 1,201</u>

According to the above method, the allowance loss on the account as of December 31, 2018 should be \$1,201, which is not significantly different from the amount of allowance loss on the current account. For the year ended December 31, 2018, there was no impairment loss arising from customers' contracts.

(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
December 31, 2018	<u>than 1 year</u>	<u>1 and 2 years</u>	<u>2 and 5 years</u>
Notes payable	\$ 4,687	\$ -	\$ -
Accounts payable	6,515	-	-
Other payables	29,306	-	-
Other financial liabilities	2,110	820	-
(shown as other non-current liabilities)			

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

(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:

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	<u>\$ 20,159</u>	<u>\$ -</u>	<u>\$ 27,088</u>	<u>\$ 47,247</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>

(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 years ended December 31, 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 years ended December 31, 2018 and 2017:

	<u>Years ended December 31,</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
Losses recognised in profit or loss		
Recorded as non-operating income and expenses	(7,817)	-
Gains recognised in other comprehensive income	-	9,562
At December 31	<u>\$ 27,088</u>	<u>\$ 34,905</u>

F. For the yaers ended December 31, 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 December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 27,088	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

(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	56,348	(56,348)	-	5,122	(5,122)
Fair value adjustment	(5,122)	-	(5,122)	(5,122)	-
IFRS 9	<u>\$ 51,226</u>	<u>\$ -</u>	<u>\$ 51,226</u>	<u>\$ -</u>	<u>\$ (5,122)</u>

Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets, amounting to \$56,348, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to \$56,348, decreased other equity interest and increased retained earnings in the amounts of \$5,122 and \$5,122, respectively, and decreased retained earnings by \$5,122 in accordance with fair value adjustment under IFRS 9.

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

(a) Available-for-sale financial assets

Items	December 31, 2017
Non-current items:	
Listed stocks	\$ 39,761
Emerging stocks	16,440
Subtotal	56,201
Valuation adjustment	5,147
Accumulated impairment	(5,000)
Total	\$ 56,348

- i. The Group recognized \$11,377 in other comprehensive income for fair value change and reclassified \$1,094 from equity to profit or loss for the year ended December 31, 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, 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:

	December 31, 2017	
	Group 1	Group 2
Accounts receivable	\$ 2,493	\$ 30,808

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>Accounts receivable</u>	
Up to 30 days	\$ 2,106
31 to 90 days	-
91 to 180 days	-
Over 181 days	-
	<u>\$ 2,106</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 year ended December 31, 2017 are as follows:

	<u>Year ended December 31, 2017</u>
Sales revenue	<u>\$ 307,342</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:

	Years ended December 31,	
	2018	2017
Revenue from external customers	\$ 261,095	\$ 307,342
Depreciation and amortisation (including investment property)	10,147	10,786
Income tax expense	4,928	6,697
Reportable segments income	37,923	51,880
Assets of reportable segments	1,209,347	1,265,739
Capital expenditure in non-current assets of reportable segments	545	907
Liabilities of reportable segments	58,914	65,641

(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 manner consistent with that financial statements. Thus, reconciliation is not required.

(4) Information on products and services

Details of revenue is as follows:

	Years ended December 31,	
	2018	2017
Sales revenue	\$ 260,395	\$ 306,847
Service revenue	700	495
	<u>\$ 261,095</u>	<u>\$ 307,342</u>

(5) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Years ended December 31,			
	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
China	\$ 166,127	\$ -	\$ 182,842	\$ -
Taiwan	44,524	237,211	50,380	242,512
USD	5,004	-	6,457	-
Others	45,440	-	67,663	-
	<u>\$ 261,095</u>	<u>\$ 237,211</u>	<u>\$ 307,342</u>	<u>\$ 242,512</u>

(6) Major customer information

For the years ended December 31, 2018 and 2017 details of the Group's sale revenue from customers accounted for more than 10% of sales amounts in consolidated income statements are as follows:

	Years ended December 31,			
	2018		2017	
	Revenue	%	Revenue	%
C	\$ 60,336	\$ 23	\$ 61,535	\$ 21
A	49,456	19	64,622	20
B	35,094	13	46,682	15
	<u>\$ 144,886</u>	<u>55</u>	<u>\$ 172,839</u>	<u>56</u>

DAVICOM Semiconductor, Inc.

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

December 31, 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 December 31, 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	\$ 27,088	2.00%	\$ 27,088	
The Company	Auden Techno Corp.	—	Available-for-sale financial assets - non-current	1,210,000	14,870	2.96%	14,870	
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	5,064	1.01%	5,064	
Davicom Investment Inc.	IC PLUS Corp.	—	Available-for-sale financial assets - non-current	30,000	225	0.04%	225	

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

December 31, 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 December 31, 2018			Net profit (loss)	Investment income(loss)	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	of the investee for the	recognised by the Company	
									year ended December 31, 2018 (Note 2(2))	for the year ended December 31, 2018 (Note 2(3))	
The Company	TSCC Inc.	Samoa	General investment	\$ 143,224	\$ 143,224	4,400,000	100	\$ 98,061	(\$ 114)	(\$ 114)	-
The Company	Davicom Investment Inc.	Taiwan	General investment	222,000	222,000	21,200,000	100	211,105	2,804	2,804	-
The Company	Medicom Corp.	Taiwan	Designing and manufacturing of IC	17,004	17,004	496,811	99.36	348	(15)	(15)	-
The Company	Aidialink Corp.	Taiwan	Wireless communication machinery and equipment manufacturing industry	8,970	1,320	885,000	88.50	8,297	1,356	1,069	-
TSCC Inc.	Jubilink Ltd.	British Virgin Islands	General investment	82,725	82,725	22,775,207	100	-	-	-	-

DAVICOM Semiconductor, Inc.
Information on investments in Mainland China
December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
		\$		\$	Remitted to Mainland China	Remitted back to Taiwan							
DAVICOM IC (SuZhou) Co.LTD		76,788	(2)	76,788	-	-	76,788	(\$ 1,074)	100	(\$ 1,074)	\$ 35,715	-	-

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 December 31, 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	\$ 76,788	\$ 96,752	\$ 690,260