TWSE: 3094

DAVICOM Semiconductor, Inc.

2018 Annual Report

<u>Notice to readers</u>

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

Taiwan Stock Exchange Market Observation Post System: http://newmops.twse.com.tw
DAVICOM Annual Report is available at: http://www.davicom.com.tw

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Deputy Spokesperson
Name: Kuei-Feng Chiu
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Overseas Securities Exchange
None

Corporate Website
http://www. davicom.com.tw

Contents

Letter to shareholders

Dear Shareholders,

I would like to thank you for your continuing support throughout the year. DAVICOM has responded to the changing business climate by adopting an aggressive stance in strengthening our competitiveness. As of the end of December – 2018, our company generated net income of NT $42.85 million on consolidated revenue of NT $261 million. Our company has been continuously posting profits for 52 quarters.

The Company has three major product lines: ethernet chip, electronic paper driver chip and video decoder chip. Last year revenue didn't grow up as expected due to new products still wait for customers' final approval. We expect the new products will be in mass production this year. With the gradual development of the Internet of Thing (IoT) industry, where Ethernet network plays a key role in IoT architecture, our company's network chip products have been widely used in various areas including smart grid, smart home, healthcare, security, industrial control, etc. We have gained significant market share by applying electronic paper-driven chip to banking system such as financial cards and prepaid cards, electronic shelf labels, and other emerging markets. In addition, our company's video decoder chip has recently been applied to car rear-view system of German automotive industry, and also successfully designed in AVM platform of the main solution provider of the Korean car manufactures.

Looking forward to the year of 2019, in addition to the launch of GigaPhy and artificial intelligence AI chips, with the continued growth of IoT and development of related network platforms, we look forward to future opportunities in the communications industry. We also expect that the growing demand for energy-saving electronic paper, the Company's newly developed electronic paper driver chip will be introduced into mass production, which will enable the development of the electronic paper application market more widely. And surround view monitoring system of high-end vehicles will improve our company's financial performance in second half of the year.

In contrast, since the Sino-US trade war that has lasted over a year, it has caused China's high degree of vigilance against semiconductor technology and industry autonomy, and to increase the intensity of self-developed IC products, it will pose a certain degree of threat to Taiwanese manufacturers. In addition to paying close attention to the development of IC design companies that overlap with the company's products in China, Davicom will also focus on the development of high-precision and high-performance products to avoid competition from each other's prices.

Although the impact of the rise of nationalism on global trade is still difficult to quantify, in terms of the overall environment, the trend has gradually taken shape and cannot be underestimated. In addition, the potential threat of IC design industry in mainland China and the rapid changes of product applications, the market is full of opportunities and risks, the company will remain flexible in the strategy operation to seek the best business opportunities in the market. We will continue the spirit of pragmatic approach to governance. Our management team and all the employees are making strides in achieving our company’s goal – to create the most value for all shareholders – by implementing business plan, improving cost management and enhancing operating efficiency.

Develop high-performance, power-saving, industrial-grade, and diverse interfaces from key core technologies of Ethernet to meet the market requirements of IoT and Industry 4.0 for smart grid, home, medical, security monitoring, automotive, industrial control, etc. The market needs to expand the series of e-paper driver chips for financial smart cards and electronic shelf labels, and actively develop and integrate relevant platforms to provide customers with high-quality and competitive products to stabilize customer relationships and to provide customers with customer-oriented to reach a win-win goal. Davicom gains a deep understanding of market application trends for market opportunities, and work closely with supply chain partners to obtain full support for expecting higher return on investment for shareholders to thank all shareholders for their long-term support.

Last but not the least, we would like to thank you - our shareholders - for your continuous support and belief in our efforts.

We wish you all health and happiness
Sincerest regards,

Chairman	*President*	*Accounting Supervisor*
Ting Hao	*Nien-Tai Chen*	*Kuei-Feng Chiu*

II. Company Profile

2.1 Date of Incorporation: August 16, 1996

In 1989, United Microelectronics Corporation (UMC), one of the largest semiconductor manufacturers in Taiwan, set up the Communication Product Division to develop Networking products.

Founded in 1996 by UMC Communication team and American networking experts, DAVICOM Semiconductor Inc. has become one of the leading IC design companies in Taiwan by meeting challenges head on and achieving steady growth. As of today, DAVICOM has developed over 20 digital and analog products, and applied for 15 IPs.

DAVICOM aims to develop the most professional Communication and Networking ICs techniques. With mixed-signal IC design, fast and precise integration, and technical supports for software application systems, we provide customers with the best solutions of SoC chipsets in Local Area Network (LAN), Wide Area Network(WAN), Personal Computing(PC) and Internet areas.

At DAVICOM, our philosophy has always centered on our belief in “Integrity and Humanity”. Thus, we make every effort to meet our customers' expectations and maintain their trust with quality consistency, efficient delivery and cost effectiveness. We will continue to provide best service and support to help customers gain competitive advantages in business and win more orders.

2.2 Company History

Year	Milestones
Aug. 1996	Founded in Hsinchu Science Park with NT$130,000,000 capital.
Feb. 1997	Additional Cash Capital NT$60,000,000, Paid-up Capital increased to NT$190,000,000.
Jun. 1997	Launched 2 in 1 Internet Chip (DM9101F), 10/100M Base-TX PHY+MLT3 single chip Transceiver.
Sep. 1997	Additional Cash Capital NT$50,000,000, Paid-up Capital increased to NT$240,000,000.
Oct. 1997	DAVICOM was authorized by ISO 9001. (Issued by Lloyd’s Register Inspection Limited Taiwan

	Branch for and on behalf of Lloyd's Quality Assurance Limited)
Jul. 1998	Launched 3 in 1 Internet Chip (DM9102F), Bus MAC Controller and PHY/Transceiver.
Apr. 1999	Additional Cash Capital NT$160,000,000, Paid-up Capital increased to NT$400,000,000.
Jun. 1999	Launched 56K Modem Chip (DM560P).
Oct. 1999	Launched DM9801, 0.35μm 1 Mbps Home Networking PHY/Transceiver.
Dec. 1999	Securities and Futures Institute authorized public offering.
May 2000	Replenished earnings and employee bonuses NT$109,500,000 into Capital, Paid-up Capital increased to NT$509,500,000.
Jun. 2000	Launched DM9102A, Bus MAC Controller and PHY/Transceiver.
Jun. 2001	Replenished earnings and employee bonuses NT$21,880,000 into Capital, Paid-up Capital increased to NT$531,380,000.
Oct. 2001	Launched DM9000, NON-PCI Bus MAC Controller and PHY/Transceiver.
May 2002	Launched DM9331A, Fiber Ethernet media converter chip.
Jun. 2002	Fulfilled the requirements of Emerging listing.
Mar. 2003	Launched the world's smallest IrDA MODEM Module.
Jun. 2003	Developed 802.11b WLAN MAC Control Chip.
Jun. 2003	Developed 10/100M 0.25μm PHY Chip.
Aug. 2003	DM9700, 1.8/3.3V 0.18μm 10/100/1000M Base-TX Single chip Gigabit MAC and PHY transceiver.
Oct. 2003	DM9102C, 2.5/3.3V 0.25μm 10/100M Base-TX Integrated PCI, Single chip Bus Embedded System.
Oct. 2003	DAVICOM was authorized by ISO 9001: version 2000. (Issued by Lloyd's Register Inspection Limited Taiwan Branch for and on behalf of Lloyd's Quality Assurance Limited)
Dec. 2003	Launched DM562AP, Support MFP G3 33.6K color fax with T.31 command.
Mar. 2004	DAVICOM moved to the new building.
Apr. 2004	Additional Cash Capital NT$108,620,000, Paid-up Capital increased to NT$640,000,000.
May 2004	Obtained Technology Company Listed Recommendation from Industrial Development Bureau of Economic Affairs.
May 2004	Launched DM3003, USB 2.0 Card Reader Controller.
Jun. 2004	Developed DM8603, Gigabit Switch.
Jan. 2005	Provided environmentally friendly products: RoHS.
May 2005	Launched DM6588A-E5 2.5/3.3V 0.25μm.
Sep. 2005	Launched DM9000A-E7.
Mar. 2006	Launched an integrated program of DM9218 and IP-CAM.

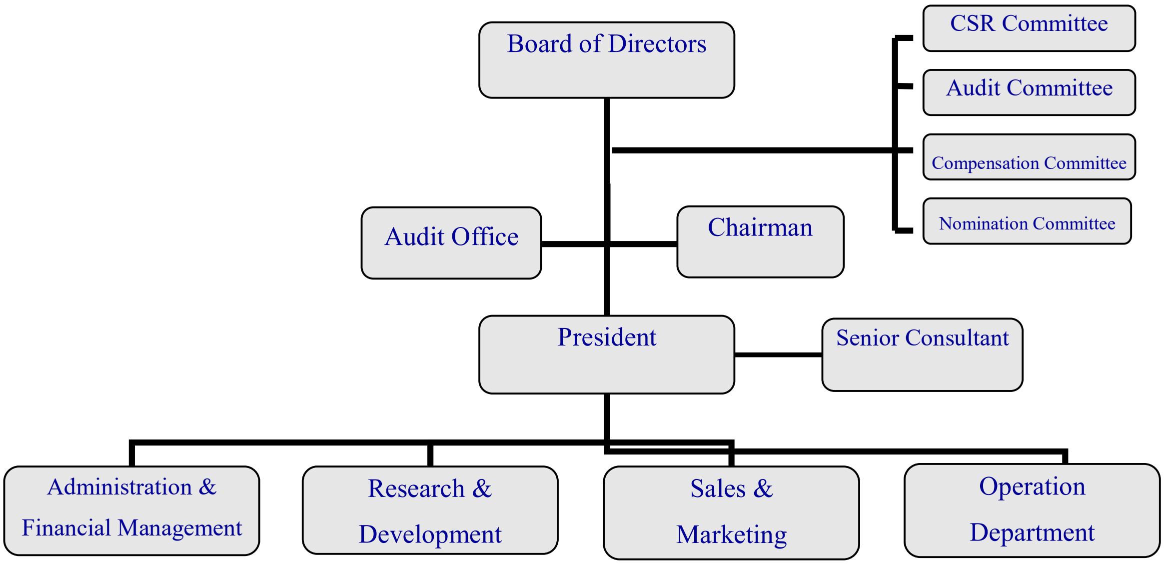
May 2006	Products obtained the certification of SONY SS-00259.
Jul. 2006	Launched DM9013.
Oct. 2006	Provided industry-standard products.
Nov. 2006	Launched DM6588A-E6 2.5/3.3V 0.25μm and Multi-function fax modem chip.
Jan. 2007	Launched DM9000B 0.18 μm.
Jan. 2007	Launched DM9161B 0.18 μm.
Apr. 2007	Obtained Technology Company Listed Recommendation from Industrial Development Bureau of Economic Affairs.
Jun. 2007	Distributed stock dividends from retained earnings and employee bonus NT$10,542,000 transferred into Capital, Paid-up Capital increased to NT$700,700,000.
Jun. 2007	Mass production of DM9003/ DM9103 and hit the market.
Aug. 2007	Additional Cash Capital NT$93,430,000, Paid-up Capital increased to NT$794,131,000.
Aug. 2007	Listed on Taiwan Stock Exchange (Code-3094) on August 6th.
Sep. 2007	Launched DM9102H 0.18 μm.
Sep. 2008	Launched the solution of IP2001 MPEG4 IP Camera.
Dec. 2008	Launched DM9016, Embedded Ethernet Switch Controller.
Feb. 2009	Launched DM9620, USB2.0 to Ethernet MAC Controller.
Jun. 2009	Launched DM9302.
Nov. 2009	DAVICOM was authorized by ISO 9001: version 2008. (Issued by Lloyd's Register Inspection Limited Taiwan Branch for and on behalf of Lloyd's Quality Assurance Limited)
Nov. 2009	Launched DM9621, Ethernet MAC Controller for USB Dongle.
Jan. 2010	Developed 802.3az Energy-saving technology.
Apr. 2010	Launched DM9161C.
May 2010	DM9620 & DM9621 certified by USB IF (ITD40001021).
Aug. 2010	Launched DM8606C.
Oct. 2010	Launched DM8603/DM8203.
Nov. 2010	DAVICOM won Gold Medal of 2010 Standard Chartered SMEs.
Nov. 2010	DM9620 & DM9621 certified by Microsoft drivers.
Dec. 2010	Developed IEEE1588 Precise time synchronization technology.
Mar. 2011	Developed DM8806.
Apr. 2011	Developed DM8603A.
Jul. 2011	Developed DM9633 USB3.0, to Ethernet MAC Controller.
Dec. 2011	Launched DM9162.
May 2012	Launched DM9620A/ DM9621A, USB to Ethernet MAC Controller.
Jul. 2012	Launched DM8806/ DM8806I.

Jul. 2012	Launched hearing aid software “HearingAmp” and was available on iTunes.
Nov. 2012	Launched Medical Care return pass system hardware, firmware and server platform.
Mar. 2013	Launched new IC product line: Video Decoder 1-Channel: DM5900/ DM5960/ DM5150/DM5160.
May 2013	Launched hearing aid software “HearingAmp V1.2” and was available on iTunes.
Jul. 2013	Launched new IC product line: Video Decoder 4-Channel: DM5865/ DM5866/ DM5885/DM5886.
Sep. 2013	Launched hearing aid software “HearingAmp V1.3” and is available on iTunes.
Nov. 2013	Launched Medical Care return pass system Apps.
Apr. 2014	Launched DM9163.
Jul. 2014	Purchased Teamtech Technology Corp EPD Driver and SoC IC product line.
Aug. 2014	Launched DM9051.
Sep. 2014	Launched hearing aid software “HearingAmp V1.4” and was available on iTunes.
Nov. 2014	Launched hearing aid software “HearingAmp V1.5” and is available on iTunes.
Sep. 2015	Developed tricolor e-paper driver with wireless energy harvesting chips.
Oct. 2015	Developed embedded portable hearing aid software “HearingPod V1.0”.
Nov. 2015	Developed voltage mode low-power high speed Ethernet transceiver chipsets.
Apr. 2016	Launched hearing aid software “HearingAmp V1.6” and was available on iTunes.
May. 2016	Developed a digital circuit with flexible operation capability to precisely control an analog circuit and can be applied to medical products.
Nov. 2016	Completed the foresighted hearing aid platform of HearingPod V1.1 smart device.
Dec. 2016	Launched hearing aid software “HearingAmp V1.7” and is available on iTunes.
Mar. 2017	Complete the smart device of advanced hearing-aid platform HearingPod V1.3
May 2017	Developing the cluster nodes communication system on shelf labels application ESL.
Jun. 2017	Complete in-audio hearing-aid platform HearingPod V1.3.
Dec. 2017	Developing the best waveform display mode based on environment temperature and RF power driven EPD IC.
Mar. 2018	Import 0.11u process on ethernet chip DM9111A.
Jul. 2018	Launched one-to-many node high-speed data exchange and power-saving transmission protocol for wireless communication for electronic paper price label system.
Oct. 2018	Develop Dot Matrix Type Electronic Paper Driver IC with Image Frame Decompression Algorithm.

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart



3.1.2 Department Functions

Department	Functions
President	Strategic planning, business planning authorization and supervision.
Audit Office	**Identifying** deficiencies in the internal control system, **assessing** the effectiveness and efficiency of operations, **providing** appropriate improvement suggestions to ensure the effectiveness of the internal control system as well as for continuous improvement.
Sales and Marketing	Responsible for **planning** corporate image, maintaining and enhancing external public relations, **and** corporate marketing activities worldwide, and analyzing industry data and trends, in charge of formulating and implementing corporate marketing **strategy**, product plans and customer service.
Research and Development	Responsible for research **design** and development of

	communication IC **products**, sample verification, and programs writing for system testing and IC driver.
Operations Department	Responsible for product manufacturing and production capacity allocation. Planning and execution of quality control systems, general affairs and other affairs.
Administration and Financial Management	Responsible for planning and execution of human resource management; **Maintaining** information systems; **Summarization** and supply of accounting information; **Management** and operation of finance and investment, annual budgeting, credit control, and stocks services.

3.1.3 Management Team

Title	Name	Experience	Education
Chairman	Ting Hao	Founder of DAVICOM Semiconductor, Inc.	**Doctor,** Business Management, Victoria University **Master**, EECS, UC Berkeley **Bachelor**, Electrical and Control Engineering, National Chiao Tung University
Senior Vice President	Wen-Hsien Chen	Former General Manager of Medicom Corporation	**Master**, Electrical Engineering, State University of New York
Chief Technology Officer	Cheng-Fang Chiu	Former Deputy Manager of UMC	**Master**, Computer Science, National Tsinghua University **Bachelor**, Information Engineering and Computer Science, Feng Chia University
Chief Financial Officer	Chun-Chun Yang	Former CFO of C-COM Ltd.	**Bachelor**, Cooperative Economics, Feng Chia University

3.2 Directors, Supervisors and Management Team

3.2.1 Directors and Supervisors

April 14, 2019

Title	Name	Gender	Nationality/ Country of Origin	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Ting Hao	Male	R.O.C.	May 21, 1999	June 06, 2016	3	1,310,000	1.57	1,602,000	1.89	0	0.00	0	0.00	**Doctor**, Business Management, Victoria University **Master**, EECS, UC Berkeley **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	-Independent director, United Integrated Services Co., Ltd.	-	-	-
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	Male	R.O.C.	June 12, 2006	June 06, 2016	3	3,545,475	4.26	3,982,475	4.7	0	0.00	0	0.00	President of Davicom Semiconductor, Inc. **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	-Board Director of Goodyears Investments Ltd.	-	-	-
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	Male	R.O.C.	June 10, 2013	June 06, 2016	3	1,480,652	1.78	1,480,652	1.78	0	0.00	0	0.00	Former Vice President of Medicom Corporation **Master**, Electronic engineering, National Chiao Tung University	-Director of the Company	-	-	-
Independent director	Wen-Hui Wan	Female	R.O.C.	March 30, 2007	June 06, 2016	3	32,258	0.04	32,258	0.04	0	0.00	0	0.00	CPA of AETAN CPAs **Bachelor**, Accounting, Tamkang University	-CPA of AETAN CPAs	-	-	-
Independent director	Ting-Hsin Li	Male	R.O.C.	June 25, 2010	June 06, 2016	3	0	0.00	0	0.00	40	0.00	0	0.00	Manager of Bastek technology co., Ltd. **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	NA	-	-	-
Independent director	Yung-Teng Lin	Male	R.O.C.	June 25, 2010	June 06, 2016	3	0	0.00	0	0.00	0	0.00	0	0.00	Chairman of Sinbao Technology Co., Ltd. **Doctor**, Business Management, Victoria University	NA	-	-	-

3.2.2 Major Shareholders of the Institutional Shareholders

April 14, 2019

Name of Institutional Shareholders	Major Shareholders
Goodyears Investments Ltd.	Ke-Chen Cheng
Tzay Hua Ltd.	Ke-Chen Cheng

3.2.3 Major Shareholders of the Company's Major Institutional Shareholders

April 14, 2019

Name of Institutional Shareholders	Major Shareholders
NA	NA

3.2.4 Professional Qualifications and Independence Analysis of Directors and Supervisors

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Ting Hao			✓				✓	✓	✓	✓	✓	✓	✓	1
Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)			✓				✓		✓	✓	✓	✓	✓	0
Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)			✓				✓	✓	✓	✓	✓	✓	✓	0
Wen-Hui Wan		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Ting-Hsin Li			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Yung-Teng Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.5 Profiles of Key Managers

April 14, 2019 / Unit: thousands shares

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	R.O.C.	Ting Hao	Male	Mar. 11, 2019	1,602,800	1.89	0	0.00	0	0.00	**Doctor**, Business Management, Victoria University **Master**, EECS, UC Berkeley **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	Independent director of United Integrated Services Co., Ltd.	NA	NA	NA
CFO	R.O.C.	Chun-Chun Yang	Male	Aug. 17, 2010	26,099	0.03	0	0.00	0	0.00	**Bachelor,** Cooperative Economics, Feng Chia University	Director of Medicom Co.	NA	NA	NA
CTO	R.O.C.	Cheng-Fang Chiu	Male	Aug. 10, 2016	50,508	0.06	1,671	0.00	0	0.00	**Master**, Computer Science, NTHU	NA	NA	NA	NA
Senior Vice President	R.O.C.	Wen-Hsien Chen	Male	Jul. 02, 2012	13,185	0.02	0	0.00	0	0.00	**Master**, Electrical Engineering, State University of New York	Chairman of Medicom Co.	NA	NA	NA

3.2.6 Remuneration of Directors, Supervisors, President, and Vice President

(1) Remuneration of Directors

Unit: NT$ thousands/ thousands shares

Unit: NT$ thousands / thousands shares

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay and Pensions (B)		Bonus to Directors (C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Profit Sharing- Employee Bonus (G)						
																The company		From All Consolidated Entities				
		The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	Cash	Stock	Cash	Stock	The company	From All Consolidated Entities	
Chairman	Ting Hao	0	0	0	0	160	160	11	11	0.45	0.45	3,932	3,932	0	0	166	0	166	0	11.34	11.34	NA
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	0	0	0	0	160	160	11	11	0.45	0.45	2,156	2,156	108	108	95	0	95	0	6.72	6.72	NA
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	0	0	0	0	160	160	11	11	0.45	0.45	1,806	1,806	95	95	125	0	125	0	5.84	5.84	NA
Independent director	Wen-Hui Wan	0	0	0	0	160	160	131	131	0.77	0.77	0	0	0	0	0	0	0	0	0.77	0.77	NA
Independent director	Ting-Hsin Li	0	0	0	0	160	160	131	131	0.77	0.77	0	0	0	0	0	0	0	0	0.77	0.77	NA
Independent director	Yung-Teng Lin	0	0	0	0	160	160	130	130	0.77	0.77	0	0	0	0	0	0	0	0	0.77	0.77	NA

<table>
<tr><th rowspan="3">Range of Remuneration</th><th colspan="4">Name of Directors</th></tr>
<tr><th colspan="2">Total of (A+B+C+D)</th><th colspan="2">Total of (A+B+C+D+E+F+G)</th></tr>
<tr><th>The company</th><th>From All Consolidated Entities</th><th>The company</th><th>From All Consolidated Entities</th></tr>
<tr><td>Under NT$ 2,000,000</td><td colspan="2">Ting Hao
Goodyears Investments Ltd.
(Representative: Nien-Tai Chen)
Tzay Hua Ltd.
(Representative: Cheng-Feng Chiu)
Wen-Hui Wan
Ting-Hsin Li
Yung-Teng Lin</td><td colspan="2">Wen-Hui Wan
Ting-Hsin Li
Yung-Teng Lin</td></tr>
<tr><td>NT$2,000,001 ~ NT$5,000,000</td><td colspan="2">-</td><td colspan="2">Ting Hao
Goodyears Investments Ltd.
(Representative: Nien-Tai Chen)
Tzay Hua Ltd.
(Representative person: Cheng-Feng Chiu)</td></tr>
<tr><td>NT$5,000,001 ~ NT$10,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$10,000,001 ~ NT$15,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
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<tr><td>NT$50,000,001 ~ NT$100,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Over NT$100,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>6</td><td>6</td><td>6</td><td>6</td></tr>
</table>

(2) Remuneration of Supervisors

Unit: NT$ thousands

Title	Name	Remuneration						Ratio of Total Remuneration (A+B+C) to Net Income (%)		Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Bonus to Supervisors (B)		Allowances (C)				
		The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Range of Remuneration	Name of Supervisors	
	Total of (A+B+C)	
	The company	From All Consolidated Entities
Under NT$ 2,000,000	NA	NA
NT$2,000,001 ~ NT$5,000,000	NA	NA
NT$5,000,001 ~ NT$10,000,000	NA	NA
NT$10,000,001 ~ NT$15,000,000	NA	NA
NT$15,000,001 ~ NT$30,000,000	NA	NA
NT$30,000,001 ~ NT$50,000,000	NA	NA
NT$50,000,001 ~ NT$100,000,000	NA	NA
Over NT$100,000,000	NA	NA
Total	NA	NA

(3) Remuneration of the President, and Vice President

Unit: NT$ thousands/ thousands shares

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary
		The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company		From All Consolidated Entities		The company	From All Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	Nien-Tai Chen	1,843	1,843	108	108	313	313	95	0	95	0	6.27	6.27	NA
Senior Vice President	Wen-Hsien Chen	1,758	1,758	108	108	441	441	63	0	63	0	6.27	6.27	NA
Vice President	Yu-Liang Lin	1,217	1,217	76	76	114	114	51	0	51	0	3.87	3.87	NA

Range of Remuneration	Name of President and Vice President	
	The company	From All Consolidated Entities
Under NT$ 2,000,000	Yu-Liang Lin	Yu-Liang Lin
NT$2,000,001 ~ NT$5,000,000	Nien-Tai Chen Wen-Hsien Chen	Nien-Tai Chen Wen-Hsien Chen
NT$5,000,001 ~ NT$10,000,000	-	-
NT$10,000,001 ~ NT$15,000,000	-	-
NT$15,000,001 ~ NT$30,000,000	-	-
NT$30,000,001 ~ NT$50,000,000	-	-
NT$50,000,001 ~ NT$100,000,000	-	-
Over NT$100,000,000	-	-
Total	3	3

Employee Compensation to Key Managers

Unit: NT$ thousands/ thousands shares

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Nien-Tai Chen	0	406	406	1.08
	CFO	Chun-Chun Yang				
	CTO	Cheng-Fang Chiu				
	Senior Vice President	Wen-Hsien Chen				
	Vice President	Yu-Liang Lin				

3.2.7 Comparison of Remuneration for Directors, President and Vice President in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

The ratio of total remuneration paid by the Company and from all consolidated entities for the two most recent fiscal years to directors, supervisors, president and vice president of the company, to the net income.

Year	Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	From All Consolidated Entities
2018	30.98%	30.73%
2017	26.42%	26.42%

3.3 Implementation of Corporate Governance

3.3.1 Operation of the Board

A total of seven (A) meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Chairman	Ting Hao	7	0	100%	
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	7	0	100%	
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	7	0	100%	
Independent director	Wen-Hui Wan	7	0	100%	
Independent director	Ting-Hsin Li	7	0	100%	
Independent director	Yung-Teng Lin	6	1	86%	

Other mentionable items:

1. If there are circumstances referred to in Article 14-3 of the Securities and Exchange Act and resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified: None
2. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None
3. Measures taken to strengthen the functionality of the board: The Board of Directors has established an Audit Committee and a Remuneration Committee to assist the board in carrying out its various duties. In 2016, the attendance rate of the board meetings was satisfied, the directors were fully devoted themselves in the board operation, and any resolution made in the board meetings that were important and crucial to our shareholders' equity was uploaded and disclosed in MOPS right away.

3.3.2 Operation of Audit Committee

A total of six (A) Audit Committee meetings were held in the previous period (from May 2017 till March 2018). The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Independent director	Wen-Hui Wan	6	0	100%	
Independent director	Ting-Hsin Li	6	0	100%	
Independent director	Yung-Teng Lin	6	0	100%	

Audit Committee Meeting Summary

Date	**Meeting Resolutions**
05/13/2019	1.Proposed the first quarter 2019 consolidated financial statement
03/11/2019	1. Adopted the 2019 business report and financial statements 2. Approved the 2018 management's reports on internal control 3. Approved the Procedure for Acquisition or Disposal of Assets
01/30/2019	1. Approved the 2019 CPA selection and appointment 2. Approved the 2019 CPA assessments of competence and independence for Se-Kai Lin and Chu-Yuan Xiao from PwC
11/19/2018	1. Proposed the third quarter 2018 consolidated financial statement 2. Approved the 2019 internal audit plan
08/09/2018	1. Proposed the second quarter 2018 consolidated financial statement 2. Approved to waive 600,000 unissued new shares of the 2017 employee restricted stock awards.
05/09/2018	1. Proposed the first quarter 2018 consolidated financial statement

Other mentionable items:

1. There were no circumstances referred to Article 14-5 of the Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors in 2017.
2. There were no independent directors' avoidance of motions in conflict of interest in 2017.
3. Communications between the independent directors and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.)
   (1) CPAs regularly discusses in writing with the independent directors of the Audit Committee each quarter, If necessary, a meeting will be held with independent directors to explain and discuss.
   (2) CPAs regularly report to Audit Committee on the Company's financial results.
   The communication between the independent directors and the CPAs also works well.

Independent Director and CPAs Meeting Summary

Date	Meeting Resolutions
05/13/2019	1. CPAs discussed in writing about the first quarter 2019 consolidated financial report, adjustment entry and audit report.
03/11/2019	1. CPAs discussed in writing about the fourth quarter 2018 individual and consolidated financial report, adjustment entry and audit report.
01/30/2019	1. Recent amendments to tax law, its impacts and the company's response policy 2. Draft opinion on key audit matters

11/09/2018	1.CPAs discussed in writing about the third quarter 2018 consolidated financial report and audit report
08/09/2018	1.CPAs discussed in writing about the second quarter 2018 consolidated financial report and audit report
05/11/2018	1. CPAs discussed in writing about the first quarter 2018 consolidated financial report and audit report

4.Communications between the Independent Directors and the Internal Audit Officer:

(1) Independent Directors have asked the Internal Audit Officer to submit audit reports and follow-up report quarterly in Board and Audit Committee meeting.
(2) Independent Directors have asked the Internal Audit Officer to report on the implementation status of the annual audit plan and improvement situation, if necessary, call a meeting for major fraud.

Independent Directors and the Internal Audit Officer Meeting Summary	
05/13/2019	1. Presented the first quarter 2018 audit report 2.Internal Audit Officer responded to questions from Independent Directors
03/11/2019	1. Internal Audit Officer presented 2018 internal management control system declarations to Independent Directors 2. Submitted the January-February 2019 internal audit reports and follow-up reports for review 3. The internal audit officer responded to questions from Independent Directors.
01/30/2019	1. Presented the fourth quarter 2018 audit report 2.Internal Audit Officer responded to questions from Independent Directors
11/09/2018	1. Internal Audit Officer presented the 2019 internal audit plan 2. Presented the third quarter 2018 audit report 3. Internal Audit Officer responded to questions from Independent Directors
08/09/2018	1. Presented the second quarter 2018 audit report 2. Internal Audit Officer responded to questions from Independent Directors
05/11/2018	1. Presented the first quarter 2018 audit report 2. Internal Audit Officer responded to questions from Independent Directors

3.3.3 Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		The Company has established the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies". The information has been disclosed on the Company's website and MOPS (Market Observation Post System).	No difference
2. Shareholding structure and shareholders' rights (1) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		(1)In addition to the existing hotline and email channels, the Company has established an internal operating procedure, and has designated appropriate departments, such as Investor Relations, Public Relations, Legal Department, to handle shareholders' suggestions, doubts, disputes and litigation.	No difference

Evaluation Item	Implementation Status[1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?			(2)The Transfer Agency Department is responsible for collecting the updated information of major shareholders and the list of ultimate owners of those shares. Rules are made to strictly regulate the activities of trading, endorsement and loans between the Company and its affiliates. In addition, the "Criteria of Internal Control Mechanism for a Public Company", outlined by the Financial Supervisory Commission when drafting the guidelines for the "Supervision and Governance of Subsidiaries", was followed in order to implement total risk control with respect to subsidiaries.	
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?			(3) To protect shareholders' rights and fairly treat shareholders, the Company has established the internal rules to forbid insiders trading on undisclosed information.	
(4) Does the company establish internal rules against insiders trading with undisclosed information?			(4)The Company has also strongly advocated these rules in order to prevent any violations.	

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members? (2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? (3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	✓		(1)Member diversification is considered by the Board members. Factors taken into account include, but are not limited to gender, age, cultures, educational background, race, professional experience, skills, knowledge and terms of service. The Board objectively chooses candidates to meet the goal of member diversification. (2)With a Remuneration Committee and an Audit Committee to assist the Board of Directors in executing its duties, DAVICOM has not established any other functional committee. (3)The Company has set up and reviews the performance evaluation and remuneration policy, standard, system and framework for board of directors on Aug. 10, 2016. The	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			evaluation results are divided into three levels: excellent, acceptable, and to be strengthened. The overall board evaluation results in 2018 were excellent.	
(4) Does the company regularly evaluate the independence of CPAs?			(4)The Audit Committee and the Board of Directors evaluate the independence, competence and professionalism of CPA at least once a year. Since June, 2015, CPA has been required to provide a "transitional independence statement" every year. The company has confirmed the company's visa and tax expenses. In addition to the expenses, there are no other financial interests and business relationships; the CPA's family members do not violate the requirements of independence and report to the Board of Directors. The Board of Directors of the Company also examined the CPA's personal resume (representing the past and current clients of the accountant) and the independence statement of each CPA (not in violation of the Professional Ethics Bulletin	

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			No. 10) for discussion by the Board of Directors when discussing the independence and appointment of the CPA. The Board of Directors has approved 2019 annual financial report on the independence assessment of CPA.	
4. Should the listed company established a department dedicated to corporate governance on a part-time basis, or assign the responsibility of monitoring corporate governance and related affairs to a person(including but not limited to providing directors and supervisors with the necessary materials for executing their business responsibility, handling of matters related ti the Board of Directors Meeting and the Shareholders' Meeting pursuant to the relevant laws and regulations, handling company registration status, and preparation of the meeting minutes of the Board of Directors Meeting and the Shareholders' Meeting etc.)?	✓		The Company's ADM and Stock department will be responsible for the affairs related to governance, while the governance staff will be managed concurrently y CFO. The primary duties and operations are as follows: 1. Provide directors and supervisors with necessary materials for executing the responsibilities of the business within their positions and the development of latest laws and regulations related to the business operations of the Company. 2. Handle matters related to the Board of Directors Meeting and the Shareholders' Meeting pursuant to relevant laws and regulations, and assist the company in adhering to relevant laws and decrees determined at the Board of Directors Meeting and The Shareholders'	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			Meeting. 3. Handling company registration and changes to registration status 4.Prepare meeting minutes for the Board of Directors Meeting and the Shareholders' Meeting. 5.Affairs related to investor relations.	
5. Has the Company established communication channel with interested parties (Including but not limited to shareholders, employees, customers and suppliers, etc.) and disclose key corporate social responsibility issue?	✓		The Company has established a communication channels, and been dedicated to handling relevant matters. The company website also created an interested party column to maintain communication channels with interested parties at any time through information delivered by telephone, fax, e-mail, etc. As for important corporate social responsibility issues that concern interested parties, the Company will handle matters and give appropriate feedback.	No difference
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		The Company designates Fubon Securities Co., Ltd. to deal with shareholder affairs.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
7. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance? (2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		(1)The Company has set up a Chinese/English website (http://www.davicom.com.tw) to disclose information regarding the Company's financials, business and corporate governance status. (2)The Company has assigned an appropriate person to handle information collection and disclosure. The Company also has established a spokesman system. Investor conference information is disclosed on the corporate website.	No difference
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the	✓		(1) DAVICOM discloses its financial statements and corporate governance information on its Chinese and English websites (http://www.davicom.com.tw). (2) The Company aims to provide free access to transparent information for employees, investors, suppliers and stakeholders. (3) DAVICOM directors are experts in their professional specialties. Director training records can also be found on	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?			the MOPS website. (4) The Company has already instituted internal control systems as required by law and has properly implemented the system. (5)The Company also conducts risk assessments on banks, customers, and suppliers in order to reduce credit risks. (6) The Company has purchased Directors and Officers liability insurance for its directors and supervisors.	
9. The improvement status for the result of Corporate Governance announced by Taiwan Stock Exchange. The Company has been ranked as a top 20% TPEX company in the fifth Corporate Governance Evaluation. In the future, we will continue to cooperate with all competent authorities in promoting and improving corporate governance evaluation to strengthen corporate governance.				

Circumstances of the company's individual directors in implementing the diversified policy for members of the Board of Directors.

Diversified Items / Name	Gender	Operational decision making	Accounting and finance	Operation management	Crisis Management	Industry knowledge	Global marketing insights	Leadership	Decision-making
Ting Hao	Male	✓	✓	✓	✓	✓	✓	✓	✓
Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	Male	✓	✓	✓	✓	✓	✓	✓	✓
Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	Male	✓		✓	✓	✓		✓	✓
Wen-Hui Wan	Female	✓	✓	✓	✓	✓	✓	✓	✓
Ting-Hsin Li	Male	✓		✓	✓	✓	✓	✓	✓
Yung-Teng Lin	Male	✓	✓	✓	✓	✓	✓	✓	✓

3.3.4 Composition, Responsibilities and Operations of the Compensation Committee

The Compensation Committee aims at establishing and regularly reviewing the performance evaluation procedure for directors, supervisors and managers. In addition, it establishes compensation policy, system, standard and structure and regularly reviews the compensation of directors, supervisors and managers.

(1) Professional Qualifications and Independence Analysis of Compensation Committee Members

Title	Criteria / Name	Meets One of the Following Professional Qualification Requirements, together with at Least Five Years' Work Experience: An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	Independence Criteria (Note): 1	2	3	4	5	6	7	8	Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks
Independent director	Ting-Hsin Li			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent director	Yung-Teng Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	Jen-Chih Huang	✓			✓	✓	✓	✓	✓	✓	✓	✓	1	

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.

4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

(2) Attendance of Members at Compensation Committee Meetings

There are three members in the Remuneration Committee. A total of three(A) Compensation Committee meetings were held in the previous period. The attendance record of the Compensation Committee members was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Convener	Ting-Hsin Li	5	0	100%	
Committee Member	Yung-Teng Lin	5	0	100%	
Committee Member	Jen-Chih Huang	5	0	100%	
Other mentionable items: 1. If the board of the directors declines to adopt or modifies a recommendation of the compensation committee, it should specify the date of the meeting, session, content of the proposal, resolution by the board of directors, and the Company's response to the compensation committee's opinion (eg., the compensation passed by the Board of Directors exceeds the recommendation of the compensation committee, the circumstances and cause for the difference shall be specified): None. 2. Resolutions of the compensation committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the proposal, all members' opinions and the response to members' opinion should be specified: The Company establishes good communicates and relationship with the compensation committee.					

Compensation Committee Meeting Summary	
Date	Meeting Resolutions
05/13/2019	1. Approved Chairman and General Manager compensation 2.Approved the 2018 managers Dragon Boat Festival bonus.
03/11/2019	1. Approved the 2018 Board of Director compensation and employee compensation 2. To amend the allowance for the directors, independent directors and functional members of the Company who attended the meeting and the execution of the business
01/30/2019	1. Approved the 2017 managers year-end bonus 2.Approved Mr. Chen Nei-Tai reserved the right of 2017 Restricted Stock Awards after the retirement.
11/09/2018	1. Approved Mr. Lin Yu-Liang reserved the right of 2017 Restricted Stock Awards after the retirement. 2. Approved to amend the proposal for issuance of 2017 Restricted Stock.
08/09/2018	1. Approved the 2018 managers compensation 2.Approved to waive 600,000 unissued new shares of the 2017 Restricted Stock Awards.

3.3.5 Key objectives of establishing a Nomination Committee:

The company's Nomination Committee was founded in August 10th, 2017 to assist the Board of Directors in developing and administering a fair and transparent procedure of setting policy on overall human resources strategy and remuneration of directors and senior management of the company. According to administrative rules, the Committee should consist of at least 3 members from the Board of Directors with more than half of members participating. The current committee includes two independent directors and one chairman. The Independent Director Ting-Hsin Li was nominated as chairman. The Nomination Committee is required to hold at least two meetings a year. More information about meeting summary and attendance rate can be found here: http://mops.twse.com.tw

(1) Number of Board members: 3

(2) Term of Office: 11/13/2017 – 6/5/2019. A total of two (A) Nomination Committee meetings were held in the previous period.

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Chairman	Ting-Hsin Li	2	0	100%	
Board Member	Ting Ho	2	0	100%	
Board Member	Yung-Teng Lin	2	0	100%	

Nomination Committee Meeting Summary

Date	Meeting Resolutions
03/11/2019	1. Approved the 2018 Board of Directors final evaluation with a full score and submitted the result to the board for confirmation. 2. Approved the qualification of the candidates director and independent director of the company.
08/09/2018	1.Approved the nomination of committee members need to have the diversified background and independence standards of professional knowledge, technology, experience and gender.

3.3.6Corporate Social Responsibility

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
1. Corporate Governance Implementation (1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?	✓		The Company has set up a "corporate social responsibility policy" in written. The company's implementation of corporate governance, environmental sustainability, social responsibility and information disclosure has been in accordance with corporate social responsibility policy principles.	No difference
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	✓		The Company carries out regular trainings sessions and propaganda on corporate social responsibility with its employees. For new employees, training on personnel rules, management systems, business ethics, morals, and all other CSR-related subjects are carried out on their first working day to clarify their due responsibilities and obligations.	No difference
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility	✓		The Company has formulated the code of "corporate social responsibility policy", which will compose the committees of corporate social responsibility department by inter-departmental staff. The Board will also authorize the senior management to deal with the situation and report the situation to the Board of Directors.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
policies and reporting to the board?				
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	✓		The Company has established a reward and disciplinary system based on the employee performance appraisal system which includes our corporate social responsibility policy as one of the most important criteria for evaluation.	No difference
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		The Company strives for perpetual operations and development. According to the statistics from year 2007 to 2018, we reduced about 75%-85% of the waste annually.	No difference
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		DAVICOM is an IC design company and all the products of DAVICOM are outsourcing manufacturing by companies that have received ISO 9001 and ISO 14001 certifications for environmental management systems. In line with ISO 9001 and ISO 14001's concept of continuous improvement, DAVICOM diligently carries out its responsibilities of pollution prevention, energy and resource conservation, waste reduction, accident prevention, and the establishment of a safe and comfortable work place.	No difference

Evaluation Item	Implementation Status [1]			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation [2]	
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	✓		<u>CO_2 Emission Reduction Goal</u> DAVICOM implements the greenhouse gas examination and makes continuous efforts to reduce CO2 creation and save energy including the reducing, reusing and recycling resources. Dedicated personnel are assigned to take responsibility for environmental management.	No difference
3. Preserving Public Welfare (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	✓		The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees. The Company establishes complaint mechanism and channels for employees. We adhere to “Complaint and Punishment of Sexual Harassment in the Workplace”, established complaint and punishment measures to handle gender equality in the workforce.	No difference
(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	✓		The Company offers an Employee Relations Hotline that provides a channel for employees to express their opinions regarding their work and the overall work environment. The employee relations team ensures all cases are handled with care under the supervision of the first-line managers.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
(3) Does the company provide a healthy and safe working environment and organize health and safety training for its employees on a regular basis?	✓		The Company aims to offer a safe and healthy working environment and promote a healthy lifestyle. The Company also regularly holds safety and health training sessions for employees.	No difference
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	✓		The Employee Welfare Committee was established to encourage employees to enjoy company benefits. Labor Management conferences are convened periodically to ensure labor harmony. If any significant impact on operating activities is expected, it will be announced early to employees.	No difference
(5) Does the company provide its employees with career development and training sessions?	✓		The Company offers a comprehensive career development training program, a challenging learning environment to develop employee's potential and continue to invest in the organization's capabilities.	No difference
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	✓		DAVICOM sells products directly to suppliers and has already established customer service management procedure to provide feedback on customer complaints.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	✓		The Company upholds the concept of integrity to their customers, providing customer-oriented technology, rigorous production, excellent quality and quality service.	No difference
(8) Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships	✓		Encourage suppliers to establish environmental, safety and hygiene standards in accordance with CSR, SA8000 or EICC. DAVICOM will take steps to avoid using conflict minerals in its products and request that all suppliers should investigate their source of Gold (Au), Tantalum (Ta), Tin (Sn), Tungsten (W) and other metallic materials. If necessary, DAVICOM will require suppliers to provide the survey information. DAVICOM will continue to monitor this issue of conflict minerals in order to address these mineral sourcing issues.	No difference
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	✓		Require suppliers to offer raw materials that are in line with EU RoHS/REACH environmental directives and provide material safety data sheet with high credibility test report periodically. If supplier acts against the standards of the Company, rights to terminate cooperation will be carried out.	No difference

Evaluation Item	Implementation Status[1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation[2]	
4. Enhancing Information Disclosure (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	✓		The Company discloses CSR information on its company website and on the TSE "MOPS".	No difference
5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: There have been no differences.				
6. Other important information to facilitate better understanding of the company's corporate social responsibility practices： (1) 2018 Industry-University Cooperation with National Chiao Tung University : Through the industry-university cooperation method, donate student scholarship, participate in the design of the motor (computer group) course, design and guide the Summer Camp course, and cultivate elite talents in the industry. (2) Passage Love Program – Guanshan Elementary School (Dream Home Experimental Primary School), Taitung County: From 2018 onwards, we will take the footsteps of social care to the hometown, and participate in the "Dawn Light Teaching" in the primary school with the local NGO volunteers, and pay attention to the resources from the enterprise for the "Sound Personality Development". Morning light teaching once a week already benefits 12,520 students. (3) Taiwan Science and Technology Public Welfare Association: Golf Talent Cultivation – Participate in the Taiwan Science and Technology Public Welfare Association's various ball talent training programs and hold the Science and Technology Hope Tour. By 2018, there are 23 champions in three years. The number of players who graduated from the tournament reached 27, and they will travel to the Asian Tour, the China-US Tour, and the				

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
Taiwan Tour to challenge the higher-intensity battlefield.				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: NA				

3.3.7 Ethical Corporate Management

Evaluation Item	Implementation Status[1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs (1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	✓		The Company's Ethical Corporate Management Best-Practice Principles is a guideline to provide high ethical standards for all employees. The principles are disclosed in the annual report and on the company website. The Board of Directors and the management place the greatest importance in adopting the highest standards of integrity and ethics in corporate management and employee work conduct.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?			Management team will promote how to prevent acts of dishonesty from time to time in the company's meetings, education and training, hoping to establish a consensus of all employees and follow the relevant laws and regulations to implement the integrity of management.	
(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?			In order to prevent any unethical conduct, all employees must disclose any matters that have or may have the appearance of undermining the Principle, such as any actual or potential conflict of interest.	

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
2. Fulfill operations integrity policy (1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts? (2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? (3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	✓		The Company holds annual business meetings, conveying our integrity requirements to all our business partners. In addition, an ethic-related clause is included in every business contract. If there is any breach of the clause, the Company may terminate the partnership at any time without any further obligation or compensation. Department of Management. When conflicts of interest occur, the employee may report directly to the head of the department or to the chairman of the board of directors.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis? (5) Does the company regularly hold internal and external educational trainings on operational integrity?			The Company has established accounting and internal control systems to ensure integrity in our operations. After being analyzed and reviewed by both internal auditors and CPAs, the Company will compile them into an audit report. Management team will promote how to prevent acts of dishonesty from time to time in the company's meetings or education and training, hoping to establish a consensus of all employees and follow the relevant laws and regulations to implement the integrity of management.	

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
3. Operation of the integrity channel (1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up? (2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases? (3) Does the company provide proper whistleblower protection?	✓		The Company established the Reporting Procedure and the reporting unethical behavior system. Employees can use this system to report unethical and improper behaviors, and the Company will designate senior management to handle the case. The Company has in place SOPs authorized by the Board which could be applied on any confidential investigations on such cases. The Company established precautions in order to protect whistleblowers.	No difference

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
4. Strengthening information disclosure (1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	✓		The Company's Ethical Corporate Management Best-Practice Principles and the results of our implementation have been posted on the Company's Chinese / English website and MOPS.	No difference
5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation. There have been no differences.				
6. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies). Have already been disclosed in above items.				

3.3.8 Corporate Governance Guidelines and Regulations

Please refer to the Company's website at http://www.davicom.com.tw

3.3.9 Other Important Information Regarding Corporate Governance: None

3.3.10 Status of the Internal Control System Implementation

1. Declaration of Internal Control

DAVICOM Semiconductor, Inc.

Statement of Declaration of Internal Control

Date: March 11th, 2019

DAVICOM Semiconductor, Inc. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2017, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the "Criteria for the Establishment of Internal Control Systems of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on March 11th 2019 with all Directors in session under unanimous consent.

DAVICOM Semiconductor, Inc.

Chairman: Ting Hao

President: Nien-Tai Chen

2. The Company was not required to commission an independent auditor to audit its internal control system in 2018.

3.3.11 Reprimands on the Company and its Staff

Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

3.3.12 Major Resolutions of Shareholders' Meeting and Board Meetings

1. Key solutions from the 2018 shareholders meeting

Meeting Resolutions	Implementation status
Approved the proposal for distribution of 2017 earnings	According to the resolution, the record date for share dividend was June 28, 2018. Each shareholder will be entitled to receive a cash dividend of NT$0.9 per share on July 17, 2018.

2. Key resolution from Board meeting

Date	Meeting Resolutions
05/13/2019	1. Proposed the first quarter 2019 consolidated financial statement 2. Approved Chairman and General Manager compensation 3. Approved the 2018 manager Dragon Boat Festival bonus 4. Approved the new replacement of Company Secretary – Yang Chun-Chun
04/26/2019	1. Review of more than 1% of the shareholders' proposal of 2019 annual shareholders meeting: None 2. Approved the qualification of the candidates director and independent director of the company 3. Approved the date, location and agenda for convening the shareholder's meeting.
03/11/2019	1. Approved the 2018 Board of Director compensation and employee compensation

	2. Adopted the 2018 Business Report and Financial Statements 3. Approved the proposal for distribution of 2018 earnings 4. Approved the proposal for cash distribution of 2018 additional paid in capital 5. Approved the 2018 Statement of Declaration of Internal Control 6. Approved the 2018 operation budge 7. Approved to amend the Procedure for Acquisition or Disposal of Assets 8. Approved to amend the allowance for the directors , independent directors and functional members of the Company who attend the meeting and the execution of the business. 9. Approved Mr. Ting Hao is Chairman and General Manager 10. Approved to elect 7 Directors (including 3 independent directors) of the Ninth Board 11. Approved to release Non-Competition Restriction on Newly-Elected Directors 12. Approved the date, location and agenda for convening the shareholder's meeting
01/30/2019	1. Approved the 2018 manager year-end bonus 2. Approved Mr. Chen Nei-Tai reserved the right of 2017 Restricted Stock Awards after the retirement 3. Approved the 2019 CPA appointment 4. Approved the 2019 CPA assessment of independence
12/11/2018	1. Resolved the first shares buyback program in 2018
11/09/2018	1. Proposed the third quarter 2018 consolidated financial statement 2. Approved the 2019 internal audit plan 3. Approved Mr. Lin Yu-Liang reserved the right of 2017 Restricted Stock Awards after the retirement. 4. Approved to amend the proposal for issuance of

	2017 Restricted Stock Awards("RSA") 5. Approved for acquisition 2 units of office nearby Tainan High Speed Railway Station Special Zone Approved to call the temporary board of directors will take measures to stabilize the stock market when necessary in response to SINO-US trade war
08/09/2018	1. Proposed the second quarter 2018 consolidated financial statement 2. Approved the 2018 manager compensation 3. Approved to waive 600,000 unissued new shares of 2017 Restricted Stock Awards
05/28/2018	1. Approved the record date for share dividend is on June 28, 2018. Each shareholder will be entitled to receive a cash dividend of NT$0.9 per share.
05/11/2018	1. Proposed the first quarter 2018 consolidated financial statement 2. Approved cash replenishment in capital of subsidiary – Aidialink 3. Approved renewal of 2018 directors and manager liability insurance 4. To report 2017 CSR status 5. To report internal audit status

3.3.13 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors

None

3.3.14 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D

None

3.4 Information Regarding the Company's Audit Fee and Independence

3.4.1 Audit Fee

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
PricewaterhouseCoopers(PWC)	Se-Kai, Lin	Jan. 01, 2018 ~ Dec. 31, 2018	
	Chun-Yuan, Hsiao		

Note: If the Company has changed CPA or Accounting Firm during the current fiscal year, the company shall report the information regarding the audit period covered by each CPA and the replacement reason.

Fee Range \ Fee Items		Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000,000		✓	
2	NT$2,000,001 ~ NT$4,000,000	✓		✓
3	NT$4,000,001 ~ NT$6,000,000			
4	NT$6,000,001 ~ NT$8,000,000			
5	NT$8,000,001 ~ NT$10,000,000			
6	Over NT$100,000,000			

Unit: NT$ thousands

Accounting Firm	Audit Fee	Non-audit Fee		
		System of Design	Company Registration	Human Resource
PWC	2,480	0	0	110

1) Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than one-fourth of total audit fee: None.
2) Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of previous year: Not applicable.
3) Audit fee reduced more than 15% year over year: None

3.5 Replacement of CPA

None

3.6 The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2018

None

3.7 Net Changes in Shareholding

(1) Net change in shareholding and net change in shares pledged by directors, supervisors, management and shareholders with 10% shareholding or more.

Unit: Shares

Title	Name	2017		As of Apr. 14, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and General Manager	Ting Hao	292,800	0	0	0
Director	Goodyears Investments Ltd.	0	0	0	0
Director	Tzay Hua Ltd.	0	0	0	0
Independent Director	Wen-Hui Wan	0	0	0	0
Independent Director	Ting-Hsin Li	0	0	0	0
Independent Director	Yung-Teng Lin	0	0	0	0
President	Nein-Tai Chen	25,000	0	0	0
CFO	Chun-Chun Yang	37,000	0	0	0
CTO	Cheng-Fang Chiu	10,000	0	0	0
Senior Vice President	Wen-Hsien Chen	10,000	0	0	0
Vice President	Yu-Liang Lin	12,000			

(2) Shares Trading or Pledge with Related Parties: None

3.8 Top 10 Shareholders Who are Related Parties to Each Other

None

3.9 Ownership of Shares in Affiliated Enterprises

As of Mar. 31, 2019

Unit: shares

	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
TSCC Inc.	4,400,000	100.00	-	-	4,400,000	100.00
Davicom Investment Inc.	21,200,000	100.00	-	-	21,200,000	100.00
Medicom Corp.	496,811	99.36	-	-	496,811	99.36
Aidialink Corp.	885,000	88.5	-	-	885,000	88.5

Note: Long-Term Investment Ownership under Equity Method.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

(1) Issued Shares

Unit: thousands shares/ NT$ thousands

Month/ Year	Issue Price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increased by Assets Other than Cash	Approval Document No.
08/1996	10	15,000	150,000	13,000	130,000	Share capital when established	None	Yuan-Shang-Tze No. 18363
02/1997	10	30,000	300,000	19,000	190,000	Cash Replenishment 60,000	None	Yuan-Shang-Tze No. 05937
09/1997	10	30,000	300,000	24,000	240,000	Cash Replenishment 50,000	None	Yuan-Shang-Tze No. 20851
04/1999	12.5	60,000	600,000	40,000	400,000	Cash Replenishment 160,000	None	Yuan-Shang-Tze No. 12659
06/2000	10	60,000	600,000	50,950	509,500	Replenishment of Earnings 109,500	None	Taiwan-Finance-Securities (I) No. 48804
07/2001	10	60,000	600,000	53,138	531,380	Replenishment of Earnings 21,880	None	Taiwan-Finance-Securities (I) No. 144747
08/2002	10	80,000	800,000	53,138	531,380	-	-	Yuan-Shang-Tze No. 19317
02/2004	15	80,000	800,000	64,000	640,000	Cash Replenishment 108,620	None	Yuan-Shang-Tze No. 13143
12/2006	9.6	80,000	800,000	64,585	645,850	Exercise of Employee Stock Options 5,850	None	Yuan-Shang-Tze No. 0950027059
04/2007	9.6	80,000	800,000	69,016	690,158	Exercise of Employee Stock Options 44,308	None	Yuan-Shang-Tze No. 0950027230
06/2007	10	80,000	800,000	70,070	700,700	Replenishment of Earnings 10,542	None	Yuan-Shang-Tze No. 0960015699
08/2007	56	90,000	900,000	79,413	794,130	Cash Replenishment 93,430	None	Yuan-Shang-Tze No. 60022848
12/2007	8.7	90,000	900,000	79,462	794,623	Exercise of Employee Stock Options 493	None	Yuan-Shang-Tze No. 970000349
01/2008	8.7	90,000	900,000	79,510	795,104	Exercise of Employee Stock Options 483	None	Yuan-Shang-Tze No. 970018560

08/2008	10	90,000	900,000	81,750	817,504	Replenishment of Earnings and Additional Paid In Capital 22,400	None	Yuan-Shang-Tze No. 970021404
10/2008	7.1 and 7.8	120,000	1,200,000	82,128	821,284	Exercise of Employee Stock Options 3,780	None	Yuan-Shang-Tze No. 970029806
12/2008	10	120,000	1,200,000	81,268	812,684	Cancellation of Treasury Stocks 8,600	None	Yuan-Shang-Tze No. 970037867
01/2009	7.1 and 7.8	120,000	1,200,000	81,337	813,374	Exercise of Employee Stock Options 690	None	Yuan-Shang-Tze No. 980000699
01/2009	10	120,000	1,200,000	79,337	793,374	Cancellation of Treasury Stocks 20,000	None	Yuan-Shang-Tze No. 980001875
04/2009	7.1 and 7.8	120,000	1,200,000	80,507	805,071	Exercise of Employee Stock Options 11,697	None	Yuan-Shang-Tze No. 980010044
07/2009	7.8	120,000	1,200,000	80,839	808,391	Exercise of Employee Stock Options 3,320	None	Yuan-Shang-Tze No. 980018733
12/2009	6.6 and 7.3	120,000	1,200,000	81,163	811,631	Exercise of Employee Stock Options 3,240	None	Yuan-Shang-Tze No. 980034868
03/2010	6.6 and 7.3	120,000	1,200,000	81,947	819,471	Exercise of Employee Stock Options 7,840	None	Yuan-Shang-Tze No. 990007831
07/2010	7.3 and 33.6	120,000	1,200,000	82,039	820,386	Exercise of Employee Stock Options 915	None	Yuan-Shang-Tze No. 990019884
09/2010	10	102,000	1,200,000	83,660	836,601	Replenishment of Additional Paid In Capital 16,215	None	Yuan-Shang-Tze No. 990027547
12/2010	6.0 and 32.1	120,000	1,200,000	84,085	840,851	Exercise of Employee Stock Options 4,250	None	Yuan-Shang-Tze No. 99036978
03/2011	10	120,000	1,200,000	82,587	825,871	Cancellation of Treasury Stocks 14,980	None	Yuan-Shang-Tze No. 1000006339
05/2011	6	120,000	1,200,000	83,323	833,236	Exercise of Employee Stock Options 7,365	None	Yuan-Shang-Tze No. 1000013183
09/2011	6	120,000	1,200,000	83,432	834,321	Exercise of Employee Stock Options 1,085	None	Yuan-Shang-Tze No. 1000026173

10/2011	10	120,000	1,200,000	85,099	850,986	Replenishment of Earnings and Additional Paid In Capital 16,665	None	Yuan-Shang-Tze No. 1000032771
03/2012	4.8	120,000	1,200,000	85,227	852,271	Exercise of Employee Stock Options 1,285	None	Yuan-Shang-Tze No. 1010008507
07/2012	4.8	120,000	1,200,000	85,259	852,591	Exercise of Employee Stock Options 320	None	Yuan-Shang-Tze No. 1010020767
12/2012	4.2	120,000	1,200,000	85,289	852,891	Exercise of Employee Stock Options 300	None	Yuan-Shang-Tze No. 1010039626
08/2014	25.9 and 24.8	120,000	1,200,000	85,452	854,521	Exercise of Employee Stock Options 163	None	Zhu- Shang -Tze No. 1030023720
11/2014	10	120,000	1,200,000	83,215	832,151	Cancellation of Treasury Stocks 2,237	None	Zhu- Shang -Tze No. 1030034128
03/2015	24.8	120,000	1,200,000	83,255	832,551	Exercise of Employee Stock Options 40	None	Zhu- Shang -Tze No. 104007422
10/2017	10.0	120,000	1,200,000	84,655	846551	Issue of Restricted Stock Awards 14000	None	Zhu- Shang -Tze No. 1060027458

(2) Type of Stock

As of Apr. 14, 2019; Unit: Share

Share Type	Authorized Capital				Remarks
	Outstanding Stocks	Treasury Stocks	Un-issued Stocks	Total Stocks	
Common Stocks in registered form	83,140,089	1,515,000	35,344,911	120,000,000	-

(3) Information for Shelf Registration

None

4.1.2 Status of Shareholders

As of Apr. 14, 2019

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions and Natural Persons	Individuals	Total
Number of Shareholders	0	0	48	41	25,253	25,362
Shareholding (shares)	0	0	8,397,291	1,537,294	74,720,504	84,655,089
Percentage	0	0	9.92%	1.82%	88.26%	100.00%

4.1.3 Shareholding Distribution Status

A. Common Shares

As of Apr. 14, 2019

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	13,542	360,579	0.426%
1,000 ~ 5,000	9,033	18,443,501	21.787%
5,001 ~ 10,000	1,546	12,080,824	14.271%
10,001 ~ 15,000	417	5,131,513	6.062%
15,001 ~ 20,000	270	4,496,543	5.843%
20,001 ~ 30,000	193	4,921,380	5.813%
30,001 ~ 40,000	103	3,790,250	4.382%
40,001 ~ 50,000	64	2,960,548	3.497%
50,001 ~ 100,000	103	7,142,046	8.437%
100,001 ~ 200,000	39	5,661,921	6.689%
200,001 ~ 400,000	23	6,389,709	7.548%
400,001 ~ 600,000	5	2,346,148	2.771%
600,001 ~ 800,000	0	0	0.000%
800,001 ~ 1,000,000	1	858,000	1.014%
1,000,001 ~ 2,000,000	4	5,720,652	6.750%
2,000,001 or over	1	3,975,475	4.704%
Total	23,562	84,655,089	100%

B. Preferred Shares

None

4.1.4 List of Major Shareholders

Unit: Share

Shareholder's Name	Shareholding	
	Shares	Percentage
Goodyears Investments Ltd.	3,982,475	4.70%
Ting Hao	1,602,800	1.89%
Teipei Fubon Bank Trust Account for buyback of DAVICOM stock	1,515,000	1.79%
Tzay Hua, Ltd.	1,480,652	1.75%
Teipei Fubon Bank Trust Account	1,122,200	1.33%
Yun-Ping Lin	858,000	1.01%
The Emerging Markets Core Equity Portfolio of DFA Investment Dimensions Group Inc.	497,888	0.59%
Michael Torng	485,898	0.57%
Chin-Chang Hsieh	466,000	0.55%
The Emerging Markets Small Cap DFA Investment Trust Co.	452,392	0.53%

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT$

Items	2017 (Distributed In 2018)	2018 (Distributed In 2019)	Jan. 1 ~ Mar. 31, 2019 (Note 4)
Market Price per Share			
Highest Market Price	28.65	28.00	21.00
Lowest Market Price	21.00	14.75	17.60
Average Market Price	23.30	21.1	19.55
Net Worth per Share			
Before Distribution	14.17	13.74	NA
After Distribution	13.81	Note 9	NA
Earnings per Share			
Weighted Average Shares (thousand shares)	83,605	84,580	NA
Diluted Earnings Per Share	0.63	0.44	NA
Adjusted Diluted Earnings Per Share	0.62	Note 5	NA
Dividends per Share			
Cash Dividends	0.54	Note 5	NA
Stock Dividends			
Dividends from Retained Earnings	0	Note 5	NA
Dividends from Capital Surplus	0.36	Note 5	NA
Accumulated Undistributed Dividends	0	Note 5	NA
Return on Investment			
Price / Earnings Ratio	36.98	47.95	NA
Price / Dividend Ratio	43.15	Note 5	NA
Cash Dividend Yield Rate	2.32%	Note 5	NA

Note 1: Price / Earnings Ratio = Average Market Price / Earnings per Share
Note 2: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
Note 3: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price
Note 4: Pending shareholders' approval in Annual General Shareholders' Meeting
Note 5: The 2018 earnings distribution has been approved by Board of Directors on Mar. 11, 2018. But, it hasn't been approved by the 2019 Annual Shareholders' Meeting so that the figures are not available to be presented.

4.1.6 Dividend Policy and Implementation Status

(1) Dividend Policy under the Articles of Incorporation

The dividend policy shall take factors into the following consideration factors such as the Company's current and future investment environment, needs for capital, domestic and overseas competition, capital budgeting plans, etc., demand for funds and come up with a proposal that strikes a balance among shareholders' benefits and the Company's long-term financial plans. Each year, the Board of Directors shall prepare a profit distribution proposal and report it at the shareholders' meeting. After considering financial, business and operational factors, the Company may distribute all distributable profits for the year; dividends to shareholders may be distributed in cash or stock, and the cash dividends shall not be lower than 30% of total dividends to shareholders.

(2) Under the Articles of Incorporation, the dividend ratio should not exceed 80% to 90% of total net profit of the year.

(3) Proposal to Distribute 2018 Profits
(Approved by the Board and subject to Shareholders' approval)
A total of NT$33,256,036 out of 2018 distributable profits will be distributed as cash dividends. Each shareholder will receive NT$0.4 per share which is 88.36% of distributable profits. Additional total of NT$33,256,036 out of Paid in Capital will be distributed as cash dividends. Each shareholder will receive NT$0.4 per share. Each shareholder will be entitled to receive a cash dividend of NT$0.8 per share.

4.1.7 Effect of 2018 Share Dividends to Operating Performance and EPS

Not applicable.

4.1.8 Employees' Compensation and Remuneration to Directors and Supervisors

(1) According to Section twenty eight in the Article of Incorporation, the company shall pay taxes, cover accumulated deficits and set 10% of its net earnings apart as earned surplus. It is proposed that the board of directors has the authorization to adjust retained earnings distribution and submit it to shareholders meeting for approval.

To encourage all the employees and management team, 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 attend 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, In addition, 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.

(2) In the event of any change in the number of outstanding shares resulting from executing employee stock options or converting treasury stock to its employees, the dividend ratio must be adjusted.

The Company's assessment of employees' compensation and directors' remuneration is based on the amount of experience in the past. In 2018, it is estimated 8.52% of pre-tax profit for employees' compensation and 2% of pre-tax profit for director's remuneration. If there is a difference between the actual distribution amount and the estimation, it shall be adjusted according to the accounting estimates and adjusted in the resolution of the shareholders' meeting resolution.

(3) Directors' remuneration is NT$959,563(2% of pre-tax profit) and the profit for total employees is NT$ 4,582,868(9.55% of pre-tax profit); both shall be paid in cash. The amounts are as same as those recognized in the 2017 financial statement.

(4) The Directors' remuneration of 2017 was NT$1,318,905 and total employees' compensation was NT$5,621,249; both were paid in cash. Both amounts as same as resolved by the Board of Directors.

4.1.9 Buyback of Company Stock

As of Apr. 14, 2019

Repurchase Times	The first time
Purpose of the share repurchase	To transfer to employees
Scheduled period for the repurchase	2018/12/12 - 2019/02/11
Repurchase price range	14.5 – 24
Number of shares repurchased	1,515,000 shares
Total monetary amount of the shares repurchased	NT$28,115,318
Cumulative number of won shares held	1,515,000 shares
Ratio of cumulative number of won shares held during the repurchase period of the total number of the Company's issued shares	1.79%

4.2 Status of Corporate Bonds

None

4.3 Status of Preferred Stocks

None

4.4 Status of GDR/ADR

None

4.5 Status of Employee Stock Options Plan

None

4.6 Status of New Employees Restricted Stock Issuance

Please refer to page 41- 42 of the Chinese version annual report.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions

None

4.8 Financing Plans and Implementation

None

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main Areas of Business Operations

(1) Design, research, develop, produce, manufacture and market the following products:

Product line of communication network integrated circuit	a) Modem Chipsets b) LAN Controller c) ISDN Modem Chipsets d) Cable Modem Chipsets e) ATM Transceiver and Controller f) Provide the above-mentioned products with technological consultation services.
Product line of video images integrated circuit	a) Video Decoder b) Provide technological consultation services for the product.
Product line of electronic paper display (EPD) driver integrated circuit	a) EPD Segment Driver IC b) EPD Segment Controller IC c) EPD Dot Matrix Driver Controller IC d) Provide the above-mentioned products with technological consultation services.
Product line of microcontroller integrated circuit	a) MCU IC b) Provide technological consultation services for the product.

(2) Import and export of the above-mentioned products

B. Revenue Distribution

As of Dec. 31, 2018

Major Divisions	(%) of Total Sales
LAN	90%
Other	10%

C. Products Currently Offered by DAVICOM

Product	Product Specifications
USB 1.1/2.0 to Ethernet	3.3V/1.8V ， 0.18µm IC design; up to USB2.0/480Mbps with high speed; design for ultra-low power in power saving mode
Multi-port Embedded 10/100M Ethernet Switch Controller	10M/100Mbps Fast Ethernet Switch Controller; Support QoS，VLAN, IGMP, STP/RSTP, MLD; Design for integrated two port physical layer/transceiver single-chip
Industrial Fast Ethernet Switch Controller	Support IEEE 1588 Precision Time Protocol (PTP), industrial-temperature (-40℃~ +85℃), and general Electrical Specifications sepc.
10/100M TX/FX copper/fiber Media Ethernet Converter	Three port 10M/100Mbps Fast Ethernet Switch Controller with TX/FX copper/fiber Media; Low Latency effect to improve media conversion efficiency.
Consumer 10/100M USB 2.0 Dongle	Integrated multi-port 10/100M USB 2.0 Dongle
Video Decoder with Safety Monitoring	1 channel Video Decoder / 4 channel (mixer) Video Decoder
Electronic paper display (EPD) Driver	Multi-segment Electronic paper display (EPD) Driver design for e-paper application spec.
MCU IC Microcontroller Chip for measuring health signal application	Embedded ROM/Flash, RAM, ADC, GPIO, UART/SPI/ISO7816, Low-Voltage Reset, ESD protection

D. New Products under Development

Product	Product Specifications
Communication Network Protocol acceleration Chip	Network protocol standard, 10/100M physical layer and low power
Ethernet Chip with Industrial Control Interface	SPI, I2C, 10/100, ESD
Multi-Segment and Dot-Matrix EPD Driver IC for E-paper Display	Compliant with most of E-paper providers
ESL System Total Solution	ESL Tag, Wireless AP, Server, API, etc.
Artificial Intelligence (AI) Image Sensor and Recognition IC	CMOS sensor, CPU, GPU and AI-based Image Recognition algorithum

5.1.2 Industry Overview

A. Macroeconomic Environment
B. Current Status and Future Development of DAVICOM
C. Relationship with Up-, Middle- and Downstream Companies
D. Product Trends and Competition

Please refer to page 44-45 of the Chinese version annual report.

5.1.3 Research and Development

Please refer to page 45 of the Chinese version annual report.

Research and Development Expenses

Expressed in thousands of NTD

Year	R & D Expenses	%
01/01/2019-03/31/2019	18,413	39
01/01/2018-12/31/2018	83,811	32

5.1.4 Long-term and Short-term Development Plans

A. Short-term Development Plans

a. Strengthen business management, reduce risk accounts, and actively develop the mainland market and the Asia-Pacific market.
b. Expand the sales scale and promote the new products.
c. Strategic Alliances and Mergers and Acquisitions.
d. Focus on quality management and provide customized service.

B. Long-term Development Plans

a. Participate actively in cooperating with global corporations.
b. Continue to work closely with the supply chain and further develop cost-effective solutions to ensure that product prices are competitive and increase market share.
c. Provide sound services and build up close relationship with customer to sustain more possibilities with capital markets and seek targets for further sales developments.

5.2 Market and Sales Overview

5.2.1 Market Analysis

A. Sales (Service) Region

As of Dec. 31, 2018
Unit: NT$ thousand

(Area) / (Division)	Export Sales		Domestic Sales
	China	Overseas	Taiwan
LAN	144,046	47,280	35,129
EPD	5,342	617	5,693
Video	9,333	620	1,020
WAN & Others	7,405	1,929	2,680
Total	166,125	50,446	44,523

B. Market Share of Major Product Categories

In recent years, the company has been committed to the niche market of embedded system chip. With a wide range of technical support and quality assurance, the products have won customers' trust, and the company's performance and its profit also increase remarkably.

C. Market Analysis of Major Product Categories

With low price, high bandwidth and user-friendly features, Ethernet has not only became the most widely used local area networking technology, but also been gradually evolving new capabilities to enter customer electronics field and become the most attractive Embedded System Networking Technology.

D. Favorable and Unfavorable Factors in the Long Term

(1) Favorable factors:
- have been in the embedded system network communications market for years
- strong strategic alliances and partners
- own solid communication core technology
- efficient and systematic logistic control of production

(2) Unfavorable factors:
- foreign competitors trying to use price-cutting to gain market share
- wireless based and SoC products will threaten the market of existing products

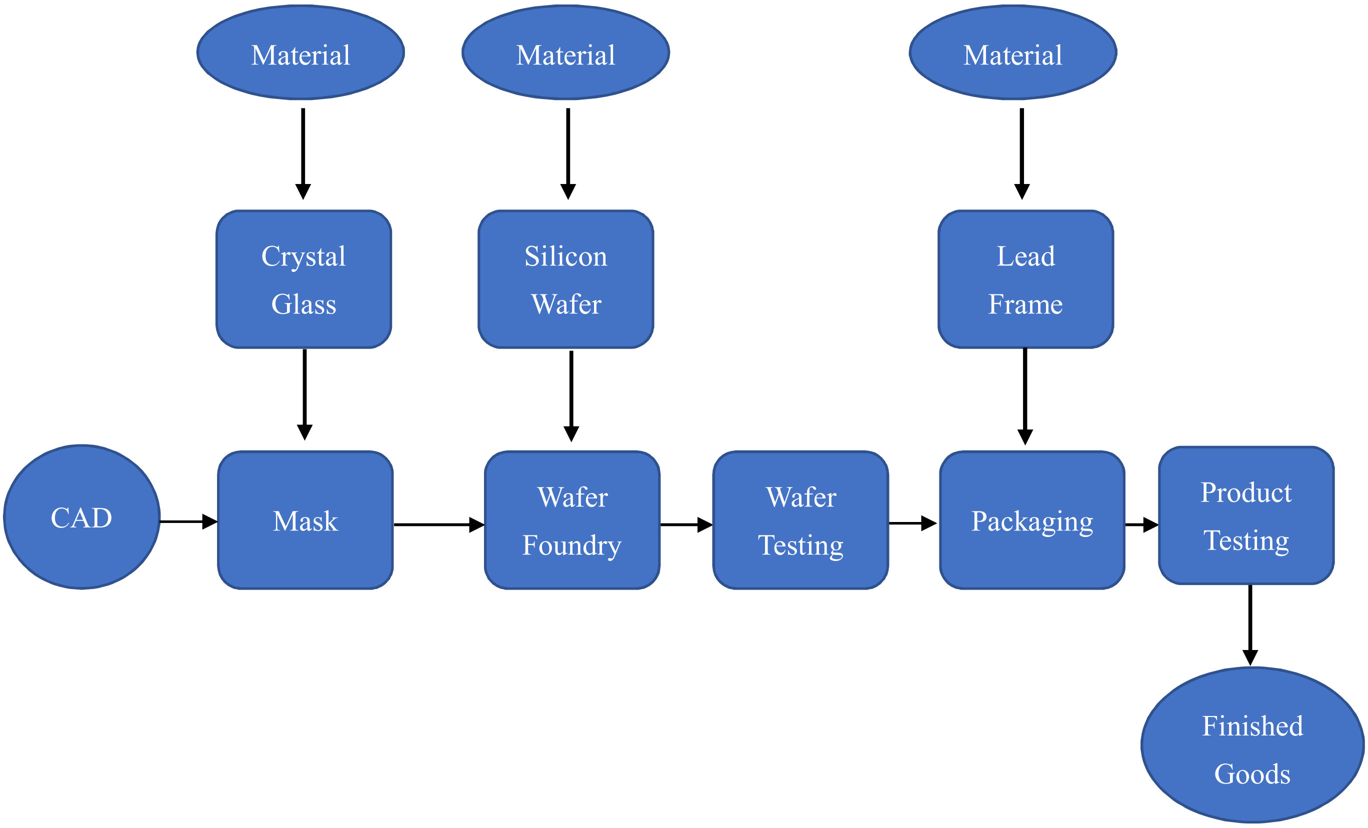
5.2.2 Production Procedures of Main Products

A. Major Products and Their Main Uses

Major Products	**Main Uses**
Local Area Network Chipsets (LAN)	Computer communications application on the network card, hubs and switches, as local network resources to transfer and share.
Wide Area Network Chipsets (WAN)	Computer communications on the application of the data machine, as a remote access for data and video transmission.
Video Decoder Chipsets	Closed-circuit television security monitoring system or DVR / NVR system applications, as the camera image signal decoding.
Electronic Paper Display (EPD)	Drive electronic paper, suitable for low-power applications and equipment, such as financial smart cards, electronic shelf labels, wearing equipment etc.
Microcontroller Unit (MCU):	Motor control, analogy digital signal, RFID, financial smart card, electronic shelf labels, wearable equipment etc.

B. Production Processes

The Group is a fabless IC design company.
We outsourced manufacturing to wafer foundries, packaging houses and testing companies.



5.2.3 Supply Status of Main Materials

Major Raw Materials	Wafer
Source of Supply	United Microelectronics Corporation (UMC)
Supply Situation	Long-term partnership
Procurement Strategy of DAVICOM	Focus on quality and the market trend. Our long-term partner United Microelectronics Corporation (UMC) has been able to maintain good quality and process capability, satisfying DAVICOM's requirements. DAVICOM negotiates pricing with suppliers according to the market supply and demand conditions. It also reviews the production and service quality periodically with its suppliers. DAVICOM not only continues to strengthen its cooperation with existing manufacturing partners, but also actively surveys and contacts other potential suppliers to ensure secured supply, high quality, and low cost procurement.

5.2.4 Major Suppliers and Clients

A. Major Suppliers in the Last Two Calendar Years

Unit: NT$ thousands

Item	2017				2018			
	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer
1	UMC	36,475	68.67	None	UMC	22,923	69.68	None
2	Macronix	4,282	8.06	None	Nuvoton Technology Corporation	3,323	10.10	None
3	Better Way	4,003	7.54	None	CSMC	2,191	6.66	None
4	Others	8,355	15.73	None	Others	4,459	13.65	None
	Net Total Supplies	53,115	100.00		Net Total Supplies	32,896	100.00	

Note: (1) Major suppliers refer to those commanding 10%-plus share of annual order volume.
(2) Due to the vertical integration of the market, our main raw material wafers are purchased from UMC.

B. Major Clients in the Last Two Calendar Years

Unit: NT$ thousands

Item	2017				2018			
	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer
1	QFTEK	64,632	21	None	Jhongtech	60,336	23	None
2	Jhongtech	61,534	20	None	QFTEK	49,456	19	None
3	A.X.W	46,682	15	None	A.X.W	35,094	13	None
4	Others	134,504	44	None	Others	116,209	45	None
	Net Total Sales	307,342	100		Net Total Sales	261,095	100	

5.2.5 Production in the Last Two Years

Unit: NT$ thousands/ thousand pieces

Year / Output / Major Products	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
LAN	-	8,314	85,593	-	6,160	65,611
EPD	-	2,069	10,538	-	1,687	9,410
Others	-	304	6,223	-	333	5,941
Total	-	10,687	102,354	-	8,180	80,962

Note: DAVICOM outsourced manufacturing to wafer foundries, packaging houses and testing companies.
There's no in-house production capacity.

5.2.6 Shipments and Sales in the Last Two Years

Unit: NT$ thousands/ thousand pieces

Year / Shipments and Sales / Major Products	2017				2018			
	Local		Export		Local		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
LAN	930	39,759	6,810	238,056	782	35,129	5,510	191,326
EPD	995	5,634	1,018	8,484	1,013	5,693	604	5,959
Others	66	3,500	208	11,909	79	3,023	3,084	19,965
Total	1,991	48,893	8,036	258,449	1,874	43,845	9,198	217,250

5.3 Human Resources

Year		2017	2018	As of Mar. 31, 2019
Number of Employees	Engineering	60	58	57
	Administration	20	19	18
	Total	80	77	75
Average Age		46.9	49.2	49.4
Average Years of Service		9.7	12.6	13.1
Education	Doctoral	1	1	1
	Master	33	28	27
	Bachelor’s Degree	43	45	45
	Senior High School	3	3	3

5.4 Environmental Protection Expenditure

The Group is a fabless IC design company and engaged with no production activities. The production, packaging and testing are outsourced to qualified subcontractors. There were no environmental penalties in the past years.

5.5 Labor Relations

Please refer to page 50 of the Chinese version annual report.

5.6 Important Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Land Lease	Hsinchu Science Park Administration	Apr. 01, 2002~ Dec. 31, 2021	DAVICOM's Headquarters	According to the contract

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Five-Year Financial Summary – Individual Balance Sheet – IFRS

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years				
		Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
Current assets		794,614	710,001	683,557	655,442	603,561
Property, Plant and Equipment		135,174	131,535	128,085	125,105	121,633
Intangible assets		157	2	68	125	152
Other assets		17,684	9,433	5,758	6,888	8,338
Total assets		1,340,297	1,336,466	1,297,684	1,263,760	1,206,834
Current liabilities	Before distribution	52,580	58,355	55,274	45,825	39,593
	After distribution	148,024	154,930	146,854	122,0155	Note
Non-current liabilities		23,139	29,844	22,418	18,020	17,889
Total liabilities	Before distribution	75,419	88,199	77,692	63,845	57,482
	After distribution	171,163	184,774	169,272	140,035	Note
Equity attributable to shareholders of the parent		1,264,878	1,248,267	1,219,992	1,199,915	1,149,352
Capital stock		832,151	832,551	832,551	846,551	846,551
Capital surplus		315,897	283,187	259,876	250,252	219,776
Retained earnings	Before distribution	112,738	131,934	129,652	116,479	108,378
	After distribution	50,296	58,670	65,546	70,765	Note
Other equity interest		4,092	595.00	(2,087)	(13,367)	(8,977)
Treasury stock		–	–	–	–	(16,376)
Total equity	Before distribution	1,264,878	1,248,267	1,219,992	1,199,915	1,149,352
	After distribution	1,169,134	1,151,692	1,128,412	1,123,725	Note

Note: Above financial data hasn’t been approved by 2019 Annual Shareholders’ Meeting.

6.1.2. Five-Year Financial Summary – Consolidated Balance Sheet – IFRS

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years					As of March 31, 2019
		Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	
Current assets		997,384	1,020,388	993,969	957,276	917,316	884,653
Property, Plant and Equipment		135,174	131,535	130,087	126,720	122,860	163,789
Intangible assets		157	2	68	124	153	225
Other assets		17,684	9,433	5,788	6,888	8,338	10,646
Total assets		1,340,401	1,336,791	1,299,445	1,265,739	1,209,347	1,265,977
Current liabilities	Before distribution	52,380	58,676	55,743	47,470	40,972	34,551
	After distribution	148,124	155,342	147,323	123,660	Note	Note
Non-current liabilities		23,139	29,844	23,080	18,171	17,942	81,666
Total liabilities	Before distribution	75,519	88,520	78,823	65,641	58,914	116,217
	After distribution	171,263	185,095	170,403	141,831	Note	Note
Equity attributable to shareholders of the parent		1,264,878	1,248,267	1,219,992	1,199,915	1,149,352	1,148,678
Capital stock		832,151	832,551	832,551	846,551	846,551	846,551
Capital surplus		315,897	283,197	259,876	250,252	219,776	219,776
Retained earnings	Before distribution	112,738	131,934	126,652	116,479	108,376	116,958
	After distribution	50,296	58,670	65,546	70,765	Note	Note
Other equity interest		4,092	595	(2,087)	(13,367)	(8,977)	(6,492)
Treasury stock		—	—	—	—	(16,376)	(28,115)
Non-controlling interest		4	4	4	183	1,801	1,802
Total equity	Before distribution	1,264,882	1,248,271	1,220,622	1,200,098	1,150,433	1,149,760
	After distribution	1,169,138	1,151,696	1,129,042	1,123,908	Note	Note

Note1: Above financial data hasn't been approved by 2019 Annual Shareholders' Meeting.

Note2: Above financial data has been audited by CPA.

6.1.3 Five-Year Financial Summary – Individual Statement of Comprehensive Income – IFRS

Unit: NT$ thousands

Year / Item	Financial Summary for The Last Five Years				
	2014	2015	2016	2017	2018
Operating revenue	$322,064	$328,546	$312,386	$305,296	$250,432
Gross profit	225,368	224,435	217,279	209,093	170,766
Income from operations	68,022	59,989	63,067	57,957	13,084
Non-operating income and expenses	28,336	38,044	18,958	1,048	29,352
Income before Income Tax	96,358	98,033	82,025	59,005	42,436
Net income from operations of continued segments	83,190	84,342	71,272	52,327	37,635
Net income	83,190	84,342	71,272	52,327	37,635
Other comprehensive income (income after tax)	87,382	78,141	68,300	55,197	39,405
Total comprehensive income	87,382	78,141	68,300	55,197	39,405
Net income attributable to shareholders of the parent	83,190	84,342	71,272	52,327	37,635
Net income attributable to non-controlling interest	–	–	–	–	–
Comprehensive income attributable to Shareholders of the parent	87,382	78,141	68,300	55,197	39,405
Comprehensive income attributable to non-controlling interest	–	–	–	–	–
Earnings per share	1.00	1.01	0.86	0.63	0.44

Note: Above financial data has been audited by CPA.

6.1.4. Five-Year Financial Summary – Consolidated Statement of Comprehensive Income – IFRS

Unit: NT$ thousands

Item \ Year	Financial Summary for The Last Five Years					As of March 31, 2019
	2014	2015	2016	2017	2018	
Operating revenue	$322,333	$328,897	$312,545	$307,342	$261,095	$47,382
Gross profit	225,637	224,663	217,374	210,072	173,796	30,518
Income from operations	64,258	56,314	58,340	53,338	9,980	(5,517)
Non-operating income and expenses	32,175	41,719	23,393	5,239	32,871	14,022
Income before Income Tax	96,433	98,033	81,733	58,577	42,851	8,505
Net income from operations of continued segments	83,189	84,342	70,886	51,880	37,923	8,581
Net income	83,189	84,342	70,886	51,880	37,923	8,581
Other comprehensive income (income after tax)	87,381	78,141	67,914	54,750	39,693	9,653
Total comprehensive income	87,381	78,141	67,914	54,750	39,693	9,653
Net income attributable to shareholders of the parent	83,190	84,342	70,886	51,880	37,923	8,581
Net income attributable to non-controlling interest	(1)	–	(386)	(447)	288	1
Comprehensive income attributable to Shareholders of the parent	87,382	78,141	68,300	55,197	39,405	9,652
Comprehensive income attributable to non-controlling interest	(1)	–	(386)	(447)	288	1
Earnings per share	1.00	1.01	0.86	0.63	0.44	0.10

Note: Above financial data has been audited by CPA.

6.1.5 Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2018	PWC	Se-Kai Lin, Chun-Yuan Hsiao	Unqualified Opinion
2017	PWC	Se-Kai-Lin, Chun-Yuan Hsiao	Unqualified Opinion
2016	PWC	Chin-Mu Hsiao, Chun-Yuan Hsiao	Unqualified Opinion
2015	PWC	Chin-Mu Hsiao, Chun-Yuan Hsiao	Modified Unqualified Opinion
2014	PWC	Se-Kai Lin, Chun-Yuan Hsiao	Modified Unqualified Opinion

6.2 Five-Year Financial Analysis

6.2.1 Five-Year Individual Financial Analysis - IFRS

Item	Year	Financial Analysis for the Last Five Years				
		2014	2015	2016	2017	2018
Financial structure (%)	Debt Ratio	5.63	6.60	5.99	5.05	4.76
	Ratio of long-term capital to property, plant and equipment	952.86	971.69	969.99	973.53	959.64
Solvency (%)	Current ratio	1.519.92	1.216.69	1.236.67	1,430.32	1,524.41
	Quick ratio	1.451.69	1.157.62	1.181.51	1,346.57	1,439.75
	Times interest earned (times)	1.634.19	1.691.22	2.344.54	1,967.83	1,369.90
6.13Operatig performance	Accounts receivable turnover (times)	6.04	5.62	5.45	6.28	5.28
	Average collection period	60.43	64.95	66.97	58.12	69.13
	Inventory turnover (times)	1.93	1.97	1.85	1.76	1.52
	Accounts payable turnover (times)	8.41	7.75	7.51	6.82	6.13
	Average days in sales	189.12	185.28	197.30	207.39	240.13
	Property, plant and equipment turnover (times)	2.33	2.46	2.41	2.41	2.03
	Total assets turnover (times)	0.24	0.25	0.24	0.24	0.2
Profitability	Return on total assets (%)	6.22	6.31	5.41	4.09	3.05
	Return on shareholders' equity (%)	6.58	6.71	5.78	4.32	3.20
	Pre-tax income to paid-in capital (%)	11.58	11.78	9.85	6.97	5.01
	Profit ratio (%)	25.83	25.67	22.82	17.14	15.03
	Earnings per share (NT$)	1.00	1.01	0.86	0.63	0.44
Cash flow	Cash flow ratio (%)	204.76	156.45	149.64	116.91	130.18
	Cash flow adequacy ratio (%)	131.91	113.15	119.7	94.46	76.92
	Cash reinvestment ratio (%)	1.22	(0.39)	(1.23)	(3.47)	(2.32)
Leverage	Operating leverage	2.6	3.01	2.87	2.82	8.34
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%) All the difference does not exceed 20%

6.2.2. Five-Year Consolidated Financial Analysis - IFRS

Item	Year	Financial Analysis for the Last Five Years 2014	2015	2016	2017	2018	As of March 31, 2019
Financial structure (%)	Debt Ratio	5.63	6.62	6.07	5.19	4.87	9.18
	Ratio of long-term capital to property, plant and equipment	952.86	971.69	955.57	961.24	950.10	751.18
Solvency (%)	Current ratio	1,904.13	1,739.02	1,783.13	2,016.59	2,238.89	2,560.43
	Quick ratio	1,835.96	1,680.20	1,728.43	1,932.28	2,151.99	2,453.42
	Interest earned ratio (times)	1,186.51	1,219.12	1,410.19	1,890.58	1,383.29	53.18
Operating performance	Accounts receivable turnover (times)	6.03	5.63	5.44	6.32	5.48	4.01
	Average collection period	60.53	64.83	67.10	57.75	66.61	91.09
	Inventory turnover (times)	1.93	1.97	1.85	1.78	1.63	1.41
	Accounts payable turnover (times)	8.41	7.76	7.52	6.90	6.47	6.48
	Average days in sales	189.12	185.28	197.29	205.05	223.92	259.61
	Property, plant and equipment turnover (times)	2.33	2.47	2.39	2.39	2.09	1.32
	Total assets turnover (times)	0.24	0.25	0.24	0.24	0.21	0.15
Profitability	Return on total assets (%)	6.22	6.30	5.38	4.05	3.07	0.7
	Return on shareholders' equity (%)	6.57	6.71	5.74	4.29	3.20	0.75
	Pre-tax income to paid-in capital (%)	11.59	11.78	9.82	6.92	5.06	1.00
	Profit ratio (%)	25.81	25.64	22.68	16.88	14.41	18.11
	Earnings per share (NT$)	1.00	1.01	151.10	0.63	0.44	0.10
Cash flow	Cash flow ratio (%)	203.52	159.08	118.49	94.35	131.72	(8.34)
	Cash flow adequacy ratio (%)	140.30	128.41	(1.11)	87.43	77.29	63.52
	Cash reinvestment ratio (%)	1.19	(0.21)	2.89	(4.29)	(2.10)	(0.27)
Leverage	Operating leverage	2.69	3.14	151.10	2.84	14.13	(7.06)
	Financial leverage	1.00	1.00	1.00	1.00	1.00	(0.97)

Analysis of financial ratio differences for the last two years.
(Not required if the difference does not exceed 20%)

All the difference does not exceed 20%

Glossary:

1. Financial structure Analysis:

(1). Debt ratio = Total liabilities / Total assets

(2). Long-term asset to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment

2. Solvency Analysis:

(1). Current ratio = Current assets / Current liabilities

(2). Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities

(3). Times interest earned ratio = Earnings before interest and taxes / Interest expenses

3. Operating performance Analysis:

(1). Average receivable turnover (times) = Net sales / Average trade receivables

(2). Days sales in account receivable = 365 / Average receivable turnover (times)

(3). Inventory turnover (times) = Cost of goods sold / Average inventory

(4). Average payable turnover (times) = Purchase / Average accounts payables

(5). Average days in sales = 365 / Inventory turnover (times)

(6). Property, plant and equipment turnover (time) = Net sales / Average property, plant and equipment

(7). Total assets turnover (times) = Net sales / Average assets

4. Profitability Analysis:

(1). Ratio of return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets]

(2). Ratio of return on shareholders' equity = Net income / Average shareholders' equity

(3). Profit ratio = Net income / Net sales

(4). Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average stock issued

5. Cash Flow:

(1). Cash flow ratio = Net cash provided by operating activities / Current Liabilities

(2). Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend

(3). Cash reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long term investments + other noncurrent assets + working capital)

6. Leverage:

(1). Operating leverage = (Net operating income – operating cost and expense) / Operating income

(2). Financial leverage = Operating income / (Operating income – interest expense)

6.3 Audit Committee's Review Report

DAVICOM Semiconductor Inc.

Audit Committee's Review Report

The Company's 2018 Financial Statements have been agreed by Audit Committee members of the Company and approved by the by the Board of Directors. The CPA firm of PricewaterhouseCoopers Taiwan was retained to audit the Company's Financial Statements and has issued an audit report relating to the Financial Statements.

The Board of Directors has prepared the Company's 2018 Business Report and proposal for allocation of profits. The 2018 Business Report and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of the Company. According to relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

To Davicom Semiconductor Inc. 2019 Annual Shareholders' Meeting

Independent Director: Wen-Hui Wan

Independent Director: Ting-Hsin Li

Independent Director: Yung-Tseng Lin

March 11, 2019

DAVICOM SEMICONDUCTOR , INC.

PARENT COMPANY ONLY 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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying parent company only balance sheets of DAVICOM Semiconductor, Inc. (the "Company") as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only 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 parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

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 Parent Company Only Financial Statements section of our report. We are independent of the Company 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The Company's key audit matters are as follows:

Evaluation of accounts receivable

Description

Please refer to Note 4(7) 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$39,994 thousand as at December 31, 2018.

The Company'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(10) 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$32,082 thousand and NT$13,971 thousand as at December 31, 2018, respectively.

The Company 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 Company 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.

<u>How our audit addressed the matter</u>

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 valuate 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

The share of profit or loss of related companies recognised under the equity method, which is recognised in the audit report of the other independent accountants, for the years ended December 31, 2018 and 2017, is NT$3,873 thousand and NT($2,343) thousand, respectively. The shares were NT$0 thousand and NT$7 thousand, respectively. As of December 31, 2018 and 2017, the balance of the investments using the equity method was NT$219,402 thousand and NT$209,711 thousand, respectively.

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

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", 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 parent company only financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company 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 Company's financial reporting process.

Independent accountant's responsibilities for the audit of the Parent Company Only financial statements

Our objectives are to obtain reasonable assurance about whether the individual 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 parent company only 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 parent company only 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the footnote disclosures, and whether the parent company only 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the Company'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 parent company only 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 parent company only 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 parent company only 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.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 524,498	44	$ 581,327	46
1150	Notes receivable, net	6(3)	64	-	62	-
1170	Accounts receivable, net	6(3)	39,994	3	35,407	3
1200	Other receivables		5,483	-	270	-
130X	Inventories, net	6(4)	32,082	3	37,029	3
1410	Prepayments		1,440	-	1,347	-
11XX	**Current Assets**		603,561	50	655,442	52
	Non-current assets					
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	41,958	3	-	-
1523	Available-for-sale financial assets - noncurrent	12(4)	-	-	50,901	4
1550	Investments accounted for under equity method	6(5)	317,811	26	307,067	24
1600	Property, plant and equipment	6(6)	121,633	10	125,105	10
1760	Investment property - net	6(7)	105,860	9	108,780	9
1780	Intangible assets		152	-	125	-
1840	Deferred income tax assets	6(22)	7,521	1	9,452	1
1900	Other non-current assets	6(8)	8,338	1	6,888	-
15XX	**Non-current assets**		603,273	50	608,318	48
1XXX	**Total assets**		$ 1,206,834	100	$ 1,263,760	100

(Continued)

DAVICOM SEMICONDUCTOR, INC.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current liabilities					
2150	Notes payable		$ 4,687	-	$ 7,306	1
2170	Accounts payable		5,557	1	8,461	1
2200	Other payables	6(9)	28,959	2	28,392	2
2230	Current income tax liabilities	6(22)	-	-	674	-
2310	Advance receipts		390	-	992	-
21XX	**Current Liabilities**		39,593	3	45,825	4
	Non-current liabilities					
2570	Deferred income tax liabilities	6(22)	572	-	512	-
2600	Other non-current liabilities	6(10)	17,317	2	17,508	1
25XX	**Non-current liabilities**		17,889	2	18,020	1
2XXX	**Total Liabilities**		57,482	5	63,845	5
	Equity					
	Share capital	6(13)				
3110	Common stock		846,551	70	846,551	67
	Capital surplus	6(14)				
3200	Capital surplus		219,776	18	250,252	20
	Retained earnings	6(15)				
3310	Legal reserve		70,549	6	65,446	5
3350	Undistributed earnings	6(22)	37,829	3	51,033	4
	Other equity interest					
3400	Other equity interest		(8,977)	(1)	(13,367)	(1)
	Treasury shares	6(13)				
3500	Treasury shares		(16,376)	(1)	-	-
3XXX	**Total equity**		1,149,352	95	1,199,915	95
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 1,206,834	100	$ 1,263,760	100

The accompanying notes are an integral part of these parent company only financial statements.

DAVICOM SEMICONDUCTOR , INC.
PARENT COMPANY ONLY STATEMENTS OF COMPREHESIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
			Year ended December 31			
4000	**Sales revenue**	6(16)	$ 250,432	100	$ 305,296	100
5000	**Operating costs**	6(4)(20)(21)	(79,666)	(32)	(96,203)	(32)
5900	**Net operating margin**		170,766	68	209,093	68
	Operating expenses	6(20)(21)				
6100	Selling expenses		(30,611)	(12)	(33,030)	(11)
6200	General and administrative expenses		(45,317)	(18)	(44,947)	(14)
6300	Research and development expenses		(80,553)	(32)	(73,159)	(24)
6450	Impairment on expected credit losses	6(3) and 12(2)	(1,201)	(1)	-	-
6000	**Total operating expenses**		(157,682)	(63)	(151,136)	(49)
6900	**Operating income**		13,084	5	57,957	19
	Non-operating income and expenses					
7010	Other income	6(7)(17)	27,960	11	24,661	8
7020	Other gains and losses	6(18)	(2,321)	(1)	(16,877)	(6)
7050	Finance costs	6(19)	(31)	-	(30)	-
7070	Share of profit (loss) of associates and joint ventures accounted for under equity method	6(5)	3,744	2	(6,706)	(2)
7000	**Total non-operating income and expenses**		29,352	12	1,048	-
7900	**Income from continuing operations before income tax**		42,436	17	59,005	19
7950	Income tax expense	6(22)	(4,801)	(2)	(6,678)	(2)
8000	**Profit for the year from continuing operations**		37,635	15	52,327	17
8200	**Profit for the year**		$ 37,635	15	$ 52,327	17
	Other comprehensive income, net					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	6(11)	$ 354	-	($ 1,680)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(22)	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		-	-	11,370	4
8380	Share of other comprehensive income ventures accounted for under equity method- items that will not be reclassified to profit or loss		-	-	7	-
8399	Income tax relating to the components of other comprehensive income	6(22)	-	-	(1,626)	(1)
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		1,182	1	4,264	1
8300	**Other comprehensive income for the year, net**		$ 1,770	1	$ 2,870	1
8500	**Total comprehensive income for the year**		$ 39,405	16	$ 55,197	18
	Basic earnings per share	6(23)				
9750	**Net income**		$ 0.44		$ 0.63	
	Diluted earnings per share	6(23)				
9850	**Net income**		$ 0.44		$ 0.62	

The accompanying notes are an integral part of these parent company only financial statements.

DAVICOM SEMICONDUCTOR, INC.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

		Share capital	Capital surplus		Retained earnings		Other equity interest				
	Notes	Common stock	Additional paid-in capital	Others	Legal reserve	Undistributed earnings	Exchange differences from translation of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Unearned compensation for restricted employee share of stock	Treasury shares	Total
Year 2017											
Balance at January 1, 2017		$ 832,551	$ 221,162	$ 38,714	$ 58,312	$ 71,340	$ 2,542	($ 4,629)	$ -	$ -	$1,219,992
Profit for the year		-	-	-	-	52,327	-	-	-	-	52,327
Other comprehensive income (loss) for the year		-	-	-	-	(1,394)	(5,487)	9,751	-	-	2,870
Total comprehensive income		-	-	-	-	50,933	(5,487)	9,751	-	-	55,197
Appropriation and distribution of 2016 earnings	6(15)										
Legal reserve		-	-	-	7,134	(7,134)	-	-	-	-	-
Cash dividends		-	-	-	-	(64,106)	-	-	-	-	(64,106)
Cash dividends distributed from capital surplus	6(14)	-	(27,474)	-	-	-	-	-	-	-	(27,474)
Issuance of restricted stocks to employees	6(12)(13)	14,000	-	17,850	-	-	-	-	(15,544)	-	16,306
Balance at December 31, 2017		$ 846,551	$ 193,688	$ 56,564	$ 65,446	$ 51,033	($ 2,945)	$ 5,122	($ 15,544)	$ -	$1,199,915
Year 2018											
Balance at January 1, 2018		$ 846,551	$ 193,688	$ 56,564	$ 65,446	$ 51,033	($ 2,945)	$ 5,122	($ 15,544)	$ -	$1,199,915
Efffects of retrospective application	12(4)	-	-	-	-	-	-	(5,122)	-	-	(5,122)
Balance at January 1 after adjustments		846,551	193,688	56,564	65,446	51,033	(2,945)	-	(15,544)	-	1,194,793
Profit for the year		-	-	-	-	37,635	-	-	-	-	37,635
Other comprehensive income for the year		-	-	-	-	588	1,182	-	-	-	1,770
Total comprehensive income		-	-	-	-	38,223	1,182	-	-	-	39,405
Differences between equity purchase price and carrying amount arising from actual acquisition of subsidiaries		-	-	-	-	(610)	-	-	-	-	(610)
Appropriation and distributed of 2017 earnings	6(15)										
Legal reserve		-	-	-	5,103	(5,103)	-	-	-	-	-
Cash dividends		-	-	-	-	(45,714)	-	-	-	-	(45,714)
Cash dividends distribution from capital surplus	6(14)	-	(30,476)	-	-	-	-	-	-	-	(30,476)
Restricted stocks to employees	6(12)(13)	-	3,570	(3,570)	-	-	-	-	8,330	-	8,330
Treasure share repurchase	6(13)	-	-	-	-	-	-	-	-	(16,376)	(16,376)
Balance at December 31, 2018		$ 846,551	$ 166,782	$ 52,994	$ 70,549	$ 37,829	($ 1,763)	$ -	($ 7,214)	($ 16,376)	$1,149,352

The accompanying notes are an integral part of these parent company only financial statements.

DAVICOM SEMICONDUCTOR, INC.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 42,436	$ 59,005
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation(including investment property)	6(6)(7)	6,725	6,807
Amortisation	6(20)	3,034	3,593
Impairment on expected credit losses	6(3) and 12(2)	1,201	-
Cost of restricted stocks to employees	6(12)(13)	8,330	2,306
Deferred charges transferred to research and experimental expenses		4,912	193
Interest income	6(17)	(1,716)	(1,654)
Interest expense	6(19)	31	31
Share of (profit)/loss of associates accounted for under equity method	6(5)	(3,744)	6,706
Gain on disposal of available-for-sale financial assets	6(18)	-	(636)
Net loss on financial assets at fair value through profit or loss	6(2)(18)	3,443	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(2)	3
Accounts receivable		(5,788)	6,956
Other receiviables		(196)	225
Inventories, net		4,947	(9,141)
Prepayments		(93)	1,252
Changes in operating liabilities			
Notes payable		(2,619)	1,367
Accounts payable		(2,904)	1,971
Other payables		567	(6,441)
Advance receipts		(602)	523
Net defined benefit liabilities		164	(3,616)
Cash inflow generated from operations		58,126	69,450
Interest received		1,599	1,632
Income tax paid		(8,182)	(17,509)
Net cash flows from operating activities		51,543	53,573

(Continued)

DAVICOM SEMICONDUCTOR, INC.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of available-for-sale financial assets		$ -	$ 6,806
Acquisition of investments accounted for under equity method	6(5)	(7,650)	-
Acquisition of property, plant and equipment	6(6)	(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 refundable deposits		-	(7)
Increase in intangible assets		(212)	(57)
Increase in other assets		(9,211)	(4,909)
Net cash flows (used in) from investing activities		(15,806)	926
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of cash dividends	6(15)	(76,190)	(91,580)
Advance receipts for capital stock	6(13)	-	14,000
Treasure stock repurchase		(16,376)	-
Net cash flows used in financing activities		(92,566)	(77,580)
Net decrease in cash and cash equivalents		(56,829)	(23,081)
Cash and cash equivalents at beginning of year		581,327	604,408
Cash and cash equivalents at end of year		$ 524,498	$ 581,327

The accompanying notes are an integral part of these parent company only financial statements.

DAVICOM SEMICONDUCTOR, INC.

NOTES TO THE PARENT COMPANY ONLY 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 on August, 1996, as a corporation limited by shares and opened in the same year. The Company is primarily engaged in the research, development, production, manufacturing and sales of communications network ICs. The Company's stock has been listed on the Taiwan Stock Exchange since August 6, 2007.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These 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:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 losses'	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
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 Company's financial condition and financial performance based on the Company'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:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 Company's financial condition and financial performance based on the Company'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 Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company 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 both be increased by $65,559.

(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 as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, the parent company only 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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company 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) Foreign currency translation

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

A. Foreign currency transactions and balances

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

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

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

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

B. Translation of foreign operations

(a) The operating results and financial position of all the company 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 Company 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.

(4) 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.

(5) 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.

(6) 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 amortised cost are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

D. The Company recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Accounts and notes receivable

A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The Company 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.

(8) Impairment of financial assets

The Company assesses at each balance sheet date including accounts receivable that have a significant financing, the Company 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 Company recognises the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

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

(10) 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.

(11) Investments accounted for using equity method / Subsidiaries and associates

A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company 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 Company obtains control of the subsidiaries and ceases when the Company loses control of the subsidiaries.

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

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 Company loses control of a subsidiary, the Company 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.

F. Accordance with the "Regulations Governing Auditing and Attestation of Financial Statementsby Certified Public Accountants", the profit and loss of the parent company only financial report and other comprehensive gains and losses should be the same as the current profit and loss and other comprehensive gains and losses in the financial report prepared on an individual basis, which is the share of the owner of the parent company. The parent company only financial report owner's equity should be included in the financial report prepared on an individual basis. The owners' equity attributable to the parent company is the same.

(12) <u>Property, plant and equipment</u>

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 Company 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
Other equipment	2 ~ 6 years

(13) 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.

(14) 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.

(15) 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.

(16) Impairment of non-financial assets

The Company 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.

(17) 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.

(18) Employee benefits

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 expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense 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 Company 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 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 Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(19) 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 Company 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 Company and the Company must refund their payments on the stocks, the Company 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’.

(20) 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.

(21) Share capital

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

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

(22) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved 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.

(23) 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.

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

The preparation of these parent company only 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 Company 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 Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company 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

	December 31, 2018	December 31, 2017
Cash on hand	$ 60	$ 74
Checking accounts and demand deposits	109,868	262,096
Time deposits	414,570	319,157
	$ 524,498	$ 581,327

A. The Company 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 Company 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	
Unlisted stocks	$ 34,761
Emerging stocks	12,239
Subtotal	47,000
Valuation adjustment	(5,042)
	$ 41,958

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	($ 3,443)
	($ 3,443)

B. As of December 31, 2018 and 2017, the Company 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	$ 64	$ 62
Accounts receivable	$ 41,195	$ 35,407
Less: Allowance for uncollectible accounts	(1,201)	-
	$ 39,994	$ 35,407

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	$ 34,497	$ 64	$ 33,301	$ 62
Up to 30 days	6,698	-	2,106	-
31 to 90 days	-	-	-	-
	$ 41,195	$ 64	$ 35,407	$ 62

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 progress	$ 22,039	($ 8,901)	$ 13,138
Finished goods	24,014	(5,070)	18,944
	$ 46,053	($ 13,971)	$ 32,082

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Work in progress	$ 27,395	($ 12,069)	$ 15,326
Finished goods	31,656	(9,953)	21,703
	$ 59,051	($ 22,022)	$ 37,029

The cost of the inventories recognised as expense for the period:

	Years ended December 31,	
	2018	2017
Cost of goods sold	$ 87,719	$ 96,749
Gain on reversal of decline in market value	(600)	(500)
Inventory retirement losses	(7,451)	-
Others	(2)	(46)
	$ 79,666	$ 96,203

(5) Investments accounted for using equity method

	December 31, 2018	December 31, 2017
Davicom Investment Inc.	$ 211,105	$ 209,522
TSCC Inc.	98,061	96,993
Medicom Corp.	348	363
Aidialink Corp.	8,297	189
	$ 317,811	$ 307,067

A. The investment gains (loss) recognised by the Company for the years ended December 31, 2018 and 2017 using the equity method are $3,744 and ($6,706), respectively, which were recognised based on the investees' financial statements audited by independent accountants in the same periods.

B. 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. For information relating to the subsidiaries of the Company, please refer to Note 4(3) of the 2018 consolidated financial statements of the Company.

(6) Property, plant and equipment

	Buildings	Computer communications equipment	Others	Total
At January 1, 2018				
Cost	$ 170,034	$ 931	$ 811	$ 171,776
Accumulated depreciation	(45,842)	(412)	(417)	(46,671)
	$ 124,192	$ 519	$ 394	$ 125,105
2018				
Opening net book amount as at January 1	$ 124,192	$ 519	$ 394	$ 125,105
Additions	-	127	206	333
Depreciation charge	(3,407)	(213)	(185)	(3,805)
Closing net book amount as at December 31	$ 120,785	$ 433	$ 415	$ 121,633
At December 31, 2018				
Cost	$ 170,034	$ 708	$ 735	$ 171,477
Accumulated depreciation	(49,249)	(275)	(320)	(49,844)
	$ 120,785	$ 433	$ 415	$ 121,633

	Buildings	Computer communications equipment	Others	Total
At January 1, 2017				
Cost	$ 169,884	$ 1,016	$ 909	$ 171,809
Accumulated depreciation	(42,448)	(790)	(486)	(43,724)
	$ 127,436	$ 226	$ 423	$ 128,085
2017				
Opening net book amount as at January 1	$ 127,436	$ 226	$ 423	$ 128,085
Additions	150	581	176	907
Depreciation charge	(3,394)	(288)	(205)	(3,887)
Closing net book amount as at December 31	$ 124,192	$ 519	$ 394	$ 125,105
At Deember 31, 2017				
Cost	$ 170,034	$ 931	$ 811	$ 171,776
Accumulated depreciation	(45,842)	(412)	(417)	(46,671)
	$ 124,192	$ 519	$ 394	$ 125,105

(7) Investment property

Building

	Years ended December 31, 2018	2017
At January 1, 2018		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(40,127)	(37,207)
	$ 108,780	$ 111,700
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	$ 105,860	$ 108,780
At December 31, 2018		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(43,047)	(40,127)
	$ 105,860	$ 108,780

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	$ 21,983	$ 21,522
Direct operating expenses arising from the investment property that generated rental income during the period	($ 4,823)	($ 4,779)

B. The fair value of the investment property held by the Company as at December 31, 2018 and 2017 were both $151,401 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%

	Capitalisation rate
Income approach	8.20%

(8) Other non-current assets

	December 31, 2018	December 31, 2017
Deferred charges	$ 8,258	$ 6,808
Overdue receivables	4,308	9,702
Guarantee deposits paid	80	80
Less: Allowance for loss	(4,308)	(9,702)
	$ 8,338	$ 6,888

(9) Others payables

	December 31, 2018	December 31, 2017
Wages and bonus payable	$ 19,148	$ 20,634
Processing fees payable	2,663	2,484
Others	7,148	5,274
	$ 28,959	$ 28,392

(10) Other non-current liabilities

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

(11) 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 qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

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

(c) Movements in net defined benefit liabilities are as follows:

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
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)
	(37,339)	20,412	(16,927)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(9)	(9)
Change in financial assumptions	(945)	-	(945)
Experience adjustments	(726)	-	(726)
	(1,671)	(9)	(1,680)
Pension fund contribution	-	4,029	4,029
Paid pension	1,016	(1,016)	-
Balance at December 31	($ 37,994)	$ 23,416	($ 14,578)

(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%
December 31, 2018				
Effect on present value of defined benefit obligation	($ 891)	$ 929	$ 816	($ 791)
December 31, 2017				
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 Company 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 pension costs under defined contribution pension plans of the company for the years ended December 31, 2018 and 2017, were $4,640 and $4,811, respectively.

(12) Share-based payment

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

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Restricted stocks to employees	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.

(13) 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.

Movements in the number of the Company's ordinary shares 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:

		December 31, 2018	
Name of company holding the shares	Reason for reacquisition	Number of shares (share in thousand)	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.

(14) 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 capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient. 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.

(15) 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(21).

(16) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	$ 250,432

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	$ 156,849
Taiwan	43,759
USA	4,982
Others	44,842
Total	$ 250,432

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

(17) Other income

	Years ended December 31, 2018	Years ended December 31, 2017
Interest income：		
Interest income from bank deposits	$ 1,374	$ 1,625
Other interest income	342	29
Rent income	21,983	21,522
Dividend income	3,834	1,210
Other income, others	427	275
	$ 27,960	$ 24,661

(18) Other gains and losses

	Years ended December 31, 2018	Years ended December 31, 2017
Net currency exchange gains (loss)	$ 5,944	($ 12,734)
Gains on disposal of investment	-	636
Net losses on financial asssets at fair value through profit or loss	(3,443)	-
Other losses	(4,822)	(4,779)
	($ 2,321)	($ 16,877)

(19) Finance costs

	Years ended December 31, 2018	Years ended December 31, 2017
Interest expense	$ 31	$ 30

(20) Expenses by nature

	Years ended December 31, 2018	Years ended December 31, 2017
Change in finished goods, work-in-process and raw materials inventory	$ 35,819	$ 42,551
Employee benefit expense	122,073	118,835
Depreciation charges on property, plant and equipment	25,024	33,285
Amortisation charges	3,034	3,593
Product testing fees	3,805	3,887
Other costs and expenses	47,593	45,188
Operating costs and expenses	$ 237,348	$ 247,339

(21) Employee benefit expense

	Years ended December 31,			
	2018		2017	
Wages and salaries	$	105,815	$	101,834
Labour and health insurance fees		7,874		7,870
Pension costs		4,828		5,224
Directors' remuneration		450		602
Other personnel expenses		3,106		3,305
	$	122,073	$	118,835

As of December 31, 2018 and 2017, the number of employees of the Company were both 82 and the number of directors who were not concurrently employees were both 3.

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.

(22) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31, 2018	Years ended December 31, 2017
Current tax:		
Current tax on profits for the year	$ 2,330	$ 10,614
Additional income tax imposed on unappropriated earnings	216	10
Prior year income tax (over) underestimation	(19)	16
Total current tax	2,527	10,640
Deferred tax:		
Origination and reversal of temporary differences	3,582	(3,962)
Impact of change in tax rate	(1,308)	-
Income tax expense	$ 4,801	($ 3,962)

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

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

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)	$ 8,506	$ 10,031
Effect from items disallowed by tax regulation	(922)	402
Effect from temporary difference	(815)	726
Effect from tax credits of investment	(956)	(4,536)
Additional tax on undistributed earnings	216	10
Prior year income tax (over) underestimation	(19)	16
Effect from changes in tax regulation	99	29
Other	(1,308)	-
Income tax expense	$ 4,801	$ 6,678

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 retirement 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	2,222	205	234	2,661
Subtotal	$ 9,452	($ 2,165)	$ 234	$ 7,521
Deferred tax liabilities:				
–Temporary differences:				
Currency temporary differences	($ 512)	($ 91)	$ -	($ 603)
Unrealised exchange gain	-	31	-	31
Subtotal	($ 512)	($ 60)	$ -	($ 572)
Total	$ 8,940	($ 2,225)	$ 234	$ 6,949

	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 retirement 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	3,518	44	(1,340)	2,222
Subtotal	$ 9,292	$ 1,500	($ 1,340)	$ 9,452
Deferred tax liabilities:				
–Temporary differences:				
Currency temporary differences	($ 512)	$ -	$ -	($ 512)
Unrealised exchange loss	(2,462)	2,462	-	-
Subtotal	($ 2,974)	$ 2,462	$ -	($ 512)
Total	$ 6,318	$ 3,962	($ 1,340)	$ 8,940

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.

(23) 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)	
Basic earnings per share				
Profit attributable to ordinary shareholders of the parent	$ 37,635	84,580	$ 0.44	
Diluted earnings per share				
Profit attributable to ordinary shareholders of the parent	37,635	84,580		
Assumed conversion of all dilutive potential ordinary shares				
Employees' bonus	-	434		
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 37,635	85,014	$ 0.44	

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 52,327	83,605	$ 0.63
Diluted earnings per share			
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	-	370	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 52,327	85,025	$ 0.62

(24) 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	$ 13,687	$ 13,721

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Operating lease agreement

The Company 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 then one year	$ 2,138	$ 2,152
Later than one year but not more than five years	5,346	6,457
	$ 7,484	$ 8,609

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHER

(1) Capital management

The Group's objectives when managing capital are to safeguard the Company'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 Company 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

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 41,958	$ -
Available-for-sale financial assets		
Available-for-sale financial assets	$ -	$ 50,901
Financial assets at amortised cost and receivables		
Cash and cash equivalents	$ 524,498	$ 581,327
Notes receivable	64	62
Accounts receivable	39,994	35,407
Other receivables	5,483	270
Guarantee deposits paid	80	80
	$ 570,119	$ 617,146
Financial liabilities		
Financial liabilities at amortised cost		
Notes payable	$ 4,687	$ 7,306
Accounts payable	5,557	8,461
Other accounts payable	28,959	28,392
Guarantee deposits received	2,930	2,930
	$ 42,133	$ 47,089

B. Financial risk management policies

(a) The Company’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 central treasury department (Group treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company’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 Company’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					
				Sensitivity analysis		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comperehersive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	$ 2,421	30.72	$ 74,361	1%	$ 744	$ -
RMB:NTD	1,770	4.47	7,912	1%	79	-
Investments accounted for using equity method						
USD:NTD	$ 3,193	30.72	$ 98,061	1%	$ -	$ 981
Financial liabilities						
Monetary items						
USD:NTD	$ 158	30.72	$ 4,853	1%	$ 49	$ -

	December 31, 2017					
				Sensitivity analysis		
	Foreign currency amount	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comperehersive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	$ 8,152	29.76	$ 242,604	1%	$ 2,426	$ -
RMB:NTD	1,709	4.57	7,810	1%	78	-
Investments accounted for using equity method						
USD:NTD	$ 3,259	29.76	$ 96,988	1%	$ -	$ 970
Financial liabilities						
Monetary items						
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 Company for the years ended December 31, 2018 and 2017, amounted to $5,944 and ($12,734), respectively.

Price risk

i. The Company'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 Company.

ii. The Company'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 $420 and $509, respectively.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company 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 Company 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 Company's credit policy, each local entity in the Company 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 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 utilisation of credit limits is regularly monitored.

iii. The Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

iv. The Company classifies customers' accounts receivable in accordance with credit rating of customer. The Company applies the simplified approach to estimate expected credit loss under the provision matrix basis.

v. The Company used the forecast ability of Taiwan Institute of Economic Research report report to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the provision matrix, loss rate methodology is as follows:

	Group A	Group B	Total
At December 31, 2018			
Expected loss rate	0.03%	4.86%~100%	
Total book value	$ 21,064	$ 20,131	$ 41,195
Loss allowance	$ 6	$ 1,195	$ 1,201

vi. Movement in relation to the Company 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	$ 1,201

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 Company treasury. Company treasury monitors rolling forecasts of the Company'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 Company's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
December 31, 2018			
Notes payable	$ 4,687	$ -	$ -
Accounts payable	5,557	-	-
Other payables	28,959	-	-
Other financial liabilities (shown as other non-current liabilities)	2,110	820	-

Non-derivative financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
December 31, 2017			
Notes payable	$ 7,306	$ -	$ -
Accounts payable	8,461	-	-
Other payables	28,392	-	-
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 Company'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(7).

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 nature of the assets and liabilities is as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ 14,870	$ -	$ 27,088	$ 41,958

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Equity securities	$ 15,996	$ -	$ 34,905	$ 50,901

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

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

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

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 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 Company'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 Company'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 Company 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 Company'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:

	Years ended December 31, 2018 Non-derivative equity instrument	Years ended December 31, 2017 Non-derivative equity instrument
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	$ 27,088	$ 34,905

F. For the years 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) <u>Effects on initial application of IFRS 9 ‘Leases’ and information on application of IAS 39 in 2017</u>

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 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 Company 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 Company 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 because of 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 Company 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 amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(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 reversed 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:

	Investments accounted for under equity method	Measured at fair value through profit or loss	Available-for-sale-equity: Measured at fair value through other comprehensive income-equity	Total	Effects: Retained earnings	Effects: Others equity
IAS 39	$ -	$ -	$ 50,901	$ 50,901	$ -	$ -
Transferred into and measured at fair value through profit or loss	-	50,901	(50,901)	-	3,901	(3,901)
Recognition of the impact of IFRS 9 on investment by equity method based on shareholding ratio	(1,221)	-	-	(1,221)	1,221	(1,221)
Fair value adjustment	-	(3,901)	-	(3,901)	(5,122)	-
IFRS 9	($ 1,221)	$ 47,000	$ -	$ 45,779	$ -	($ 5,122)

(a) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets, amounting to $50,901, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to $50,901, decreased other equity interest and increased retained earnings in the amounts of $3,901 and $3,901, respectively, and decreased retained earnings by $3,901 in accordance with fair value adjustment under IFRS 9.

(b) The Company recognises that the investment using the equity method is adjusted according to the IFRS 9 classification according to the shareholding ratio. Therefore, on January 1, 2018, the investment using the equity method is reduced by $1,221 In addition, decreased other equity interest and increased retained earnings in the amount of $1,221, and decreased retained earnings by $1,221, 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	$ 34,761
Emerging stocks	12,239
Subtotal	47,000
Valuation adjustment	3,901
Total	$ 50,901

i. The Company recognised $9,751 in other comprehensive income for fair value change and reclassified $636 from equity to profit or loss for the year ended December 31, 2017.

ii. The Company assessed and recognised impairment loss on equity investment, MTECH Corporation, for the year ended December 31, 2016.

iii. As of December 31, 2017, the Company 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 Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company 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:

	December 31, 2017
Accounts receivable	
Up to 30 days	$ 2,106
31 to 90 days	-
	$ 2,106

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 Company 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 Company's activities. Revenue arising from the sales of goods should be recognised when the Company 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:

	Year ended December 31, 2017
Sales revenue	$ 305,296

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

13. <u>SUPPLEMENTARY DISCLOSURES</u>

(1) <u>Significant transactions information</u>

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 $300 million or 20% of the Company’s paid-in capital: None.

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

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

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

H. Receivables from related parties reaching $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) <u>Information on investees</u>

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

(3) <u>Information on investments in Mainland China</u>

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. <u>SEGMENT INFORMATION</u>

Not application.

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.

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 valuate 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 AMOUNT	%	December 31, 2017 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

(Continued)

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

	Liabilities and Equity	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 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**		40,972	3	47,470	4
	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**		17,942	2	18,171	1
2XXX	**Total Liabilities**		58,914	5	65,641	5
	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**		1,149,352	95	1,199,915	95
36XX	**Non-controlling interest**		1,081	-	183	-
3XXX	**Total equity**		1,150,433	95	1,200,098	95
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 1,209,347	100	$ 1,265,739	100

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)

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
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

(Continued)

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

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
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**		$ 39,693	15	$ 54,750	18
	Profit (loss), attributable to:					
8610	Owners of parent		$ 37,635	14	$ 52,327	17
8620	Non-controlling interest		288	-	(447)	-
			$ 37,923	14	$ 51,880	17
	Comprehensive income attributable to:					
8710	Comprehensive income, attributable to owners of parent		$ 39,405	15	$ 55,197	18
8720	Non-controlling interests		288	-	(447)	-
			$ 39,693	15	$ 54,750	18
	Basic earnings per share	6(22)				
9750	**Net income**		$ 0.44		$ 0.63	
	Diluted earnings per share	6(22)				
9850	**Net income**		$ 0.44		$ 0.62	

Year ended December 31.

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						
	Notes	Common stock	Additional paid-in capital	Others	Legal reserve	Undistributed earnings	Exchange differences from translation of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Unearned compensation for restricted employee share of stock	Treasury shares	Total	Non-controlling interest	Total equity
Year 2017													
Balance at January 1, 2017		$ 832,551	$ 221,162	$38,714	$ 58,312	$ 71,340	$ 2,542	($ 4,629)	$ -	$ -	$ 1,219,992	$ 630	$ 1,220,622
Profit (loss) for the year		-	-	-	-	52,327	-	-	-	-	52,327	(447)	51,880
Other comprehensive income (loss) for the year		-	-	-	-	(1,394)	(5,487)	9,751	-	-	2,870	-	2,870
Total comprehensive income (loss)		-	-	-	-	50,933	(5,487)	9,751	-	-	55,197	(447)	54,750
Appropriation and distribution of 2016 earnings	6(14)												
Legal reserve		-	-	-	7,134	(7,134)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(64,106)	-	-	-	-	(64,106)	-	(64,106)
Cash dividends distributed from capital surplus	6(14)	-	(27,474)	-	-	-	-	-	-	-	(27,474)	-	(27,474)
Issuance of restricted stocks to employees	6(11)(12)	14,000	-	17,850	-	-	-	-	(15,544)	-	16,306	-	16,306
Balance at December 31, 2017		$ 846,551	$ 193,688	$56,564	$ 65,446	$ 51,033	($ 2,945)	$ 5,122	($ 15,544)	$ -	$ 1,199,915	$ 183	$ 1,200,098
Year 2018													
Balance at January 1, 2018		$ 846,551	$ 193,688	$56,564	$ 65,446	$ 51,033	($ 2,945)	$ 5,122	($ 15,544)	$ -	$ 1,199,915	$ 183	$ 1,200,098
Effects of retrospective application	12(4)	-	-	-	-	-	-	(5,122)	-	-	(5,122)	-	(5,122)
Balance at January 1 after adjustments		846,551	193,688	56,564	65,446	51,033	(2,945)	-	(15,544)	-	1,194,793	183	1,194,976
Profit for the year		-	-	-	-	37,635	-	-	-	-	37,635	288	37,923
Other comprehensive income for the period		-	-	-	-	588	1,182	-	-	-	1,770	-	1,770
Total comprehensive income		-	-	-	-	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)
Change of noncontrolling interests		-	-	-	-	-	-	-	-	-	-	610	610
Appropriation and distribution of 2017 earnings	6(14)												
Legal reserve		-	-	-	5,103	(5,103)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(45,714)	-	-	-	-	(45,714)	-	(45,714)
Cash dividends distributed from capital surplus	6(14)	-	(30,476)	-	-	-	-	-	-	-	(30,476)	-	(30,476)
Restricted stocks to employees	6(11)(12)	-	3,570	(3,570)	-	-	-	-	8,330	-	8,330	-	8,330
Treasure share repurchase	6(12)	-	-	-	-	-	-	-	-	(16,376)	(16,376)	-	(16,376)
Balance at December 31, 2018		$ 846,551	$ 166,782	$52,994	$ 70,549	$ 37,829	($ 1,763)	$ -	($ 7,214)	($ 16,376)	$ 1,149,352	$ 1,081	$ 1,150,433

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)

	Notes	Years ended December 31 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：

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
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:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
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:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
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 (%) Decemberber 31, 2018	December 31, 2017	Description
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

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

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

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

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

B. Translation of foreign operations

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

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

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

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

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group 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) <u>Cash equivalents</u>

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) <u>Financial assets at fair value through profit or loss</u>

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) <u>Accounts and notes receivable</u>

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) <u>Impairment of financial assets</u>

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

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

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)
	$ 47,247

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)
	($ 108)

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	$ 64	$ 62
Accounts receivable	$ 41,444	$ 35,407
Less: Allowance for uncollectible accounts	(1,201)	-
	$ 40,243	$ 35,407

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	-	-	-	-
	$ 41,444	$ 64	$ 35,407	$ 62

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
	$ 48,130	($ 13,971)	$ 34,159

	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
	$ 59,082	($ 22,022)	$ 37,060

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)
	$ 87,299	$ 97,270

(5) Property, plant and equipment

	Buildings	Computer communications equipment	Transportation equipment	Others	Total
At January 1, 2018					
Cost	$ 170,034	$ 931	$ 2,325	$ 811	$ 174,101
Accumulated depreciation	(45,842)	(412)	(710)	(417)	(47,381)
	$ 124,192	$ 519	$ 1,615	$ 394	$ 126,720
2018					
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	$ 120,785	$ 433	$ 1,227	$ 415	$ 122,860
At December 31, 2018					
Cost	$ 170,034	$ 708	$ 2,325	$ 735	$ 173,802
Accumulated depreciation	(49,249)	(275)	(1,098)	(320)	(50,942)
	$ 120,785	$ 433	$ 1,227	$ 415	$ 122,860

	Buildings	Computer communications equipment	Transportation equipment	Others	Total
At January 1, 2017					
Cost	$ 169,884	$ 1,016	$ 2,325	$ 909	$ 174,134
Accumulated depreciation	(42,448)	(790)	(323)	(486)	(44,047)
	$ 127,436	$ 226	$ 2,002	$ 423	$ 130,087
2017					
Opening net book amount as at January 1	$ 127,436	$ 226	$ 2,002	$ 423	$ 130,087
Additions	150	581	-	176	907
Depreciation charge	(3,394)	(288)	(387)	(205)	(4,274)
Closing net book amount as at December 31	$ 124,192	$ 519	$ 1,615	$ 394	$ 126,720
At December 31, 2017					
Cost	$ 170,034	$ 931	$ 2,325	$ 811	$ 174,101
Accumulated depreciation	(45,842)	(412)	(710)	(417)	(47,381)
	$ 124,192	$ 519	$ 1,615	$ 394	$ 126,720

(6) Investment property

Buildings

	Years ended December 31, 2018	Years ended December 31, 2017
At January 1		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(40,127)	(37,207)
	$ 108,780	$ 111,700
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	$ 105,860	$ 108,780
At December 31		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(43,047)	(40,127)
	$ 105,860	$ 108,780

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

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

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%
		Capitalisation rate
Income approach		8.20%

(7) Other non-current assets

	December 31, 2018	December 31, 2017
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)
	$ 8,338	$ 6,888

(8) Other payables

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

(9) Other non-current liabilities

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

(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:

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

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	($ 37,994)	$ 23,416	($ 14,578)
Current service cost	(100)	-	(100)
Interest (expense) income	(228)	140	(88)
	(38,322)	23,556	(14,766)
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)
	(447)	801	354
Pension fund contribution	-	25	25
Balance at December 31	($ 38,769)	$ 24,382	($ 14,387)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
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)
	(37,339)	20,412	(16,927)
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)
	(1,671)	(9)	(1,680)
Pension fund contribution	-	4,029	4,029
Paid pension	1,016	(1,016)	-
Balance at December 31	($ 37,994)	$ 23,416	($ 14,578)

(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%
December 31, 2018				
Effect on present value of defined benefit obligation	($ 891)	$ 929	$ 816	($ 791)
December 31, 2017				
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:

		December 31, 2018		
Name of company holding the shares	Reason for reacquisition	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	Years ended December 31, 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	Years ended December 31, 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
Interest expense	$ 31	$ 31

(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	$ 251,115	$ 254,004

(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
	$ 125,885	$ 122,489

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	Years ended December 31, 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	2,654	10,659
Deferred tax:		
Origination and reversal of temporary differences	3,582	(3,962)
Impact of change in tax rate	(1,308)	-
Income tax expense	$ 4,928	$ 6,697

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

	Years ended December 31, 2018	Years ended December 31, 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	$ 234	($ 1,340)

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31, 2018	Years ended December 31, 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	$ 4,928	$ 6,697

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
Subotal	$ 9,603	($ 2,264)	$ 234	$ 7,573
Deferred tax liabilities:				
－Temporary differences:				
Currency temporary differences	($ 512)	($ 90)		($ 602)
Unrealised exchange gain	(151)	128	-	(23)
Subotal	($ 663)	$ 38	$ -	($ 625)
Total	$ 8,940	($ 2,226)	$ 234	$ 6,948

	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
Subotal	$ 9,954	$ 989	($ 1,340)	$ 9,603
Deferred tax liabilities:				
－Temporary differences:				
Currency temporary differences	($ 512)	$ -	$ -	($ 512)
Unrealised exchange gain	(3,124)	2,973	-	(151)
Subotal	($ 3,636)	$ 2,973	$ -	($ 663)
Total	$ 6,318	$ 3,962	($ 1,340)	$ 8,940

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)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 37,635	84,580	$ 0.44
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 37,635	84,580	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	434	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 37,635	85,014	$ 0.44

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 52,327	83,605	$ 0.63
Diluted earnings per share			
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	-	370	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 52,327	85,025	$ 0.62

(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	Years ended December 31, 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	-	-
	$ 7,484	$ 8,609

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

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 47,247	$ -
Available-for-sale financial assets		
Available-for-sale financial assets	$ -	$ 56,348
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
	$ 881,748	$ 917,245
Financial liabilities		
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
	$ 43,438	$ 47,287

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					
				Sensitivity analysis		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	$ 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	-
Financial liabilities						
Monetary items						
USD:NTD	$ 158	30.72	$ 4,854	1%	$ 49	$ -

	December 31, 2017					
				Sensitivity analysis		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	$ 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	-
Financial liabilities						
Monetary items						
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:

December 31, 2018	Group A	Group B	Total
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	$ 1,201

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 impairments 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.

Non-derivative financial liabilities: December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Notes payable	$ 4,687	$ -	$ -
Accounts payable	6,515	-	-
Other payables	29,306	-	-
Other financial liabilities (shown as other non-current liabilities)	2,110	820	-

Non-derivative financial liabilities:		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	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ 20,159	$ -	$ 27,088	$ 47,247

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Equity securities	$ 21,443	$ -	$ 34,905	$ 56,348

(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:

	Listed shares	Emerging stocks
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:

	Years ended December 31,	
	2018	2017
	Non-derivative equity instrument	Non-derivative equity instrument
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	$ 27,088	$ 34,905

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	$ 51,226	$ -	$ 51,226	$ -	$ (5,122)

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:

	December 31, 2017
Accounts receivable	
Up to 30 days	$ 2,106
31 to 90 days	-
91 to 180 days	-
Over 181 days	-
	$ 2,106

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:

	Year ended December 31, 2017
Sales revenue	$ 307,342

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 segment~~s~~ 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
	$	261,095	$	307,342

(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	-
	$ 261,095	$ 237,211	$ 307,342	$ 242,512

(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
	$ 144,886	55	$ 172,839	56