



TWSE: 3094

DAVICOM Semiconductor, Inc.

2019 Annual General Shareholders' Meeting Handbook

Meeting Time: 9:00 a.m. on Wednesday, 12th Jun, 2019

Venue: 3F., No.6, Li-Hsin Rd.6, Science Park, Hsinchu, Taiwan (Auditorium)

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DAVICOM Semiconductor, Inc.

2019 Annual General Shareholders' Meeting Procedure

- 1. Call Meeting to Order**
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DAVICOM Semiconductor, Inc.

2019 Annual General Shareholders' Meeting Agenda

Time: 9:00 a.m., Jun 12, 2019 (Wednesday)

Place: 3F., No.6, Li-Hsin Rd.6, Science Park, Hsinchu, Taiwan (Auditorium)

Agenda:

1. Call Meeting to Order

2. Chairman's Address

3. Report Items

- (1) To report the business of 2018 and operating plan of 2019
- (2) Audit Committee's review report of 2018
- (3) To report 2018 employees' bonus and directors' compensation
- (4) To report the proposal for issuance of 2018 Restricted Stock Awards ("RSA")
- (5) To report Implementation Status of the Company's Share Buyback

4. Approval and Discussion Items

- (1) To accept 2018 Business Report and Financial Statements
- (2) To approve the proposal for distribution of 2018 Profits
- (3) To approve the proposal for cash distribution of 2018 additional paid in capital
- (4) To amend the Procedures for Acquisition or Disposal of Assets
- (5) To amend the proposal for issuance of 2017 Restricted Stock Awards ("RSA")

5. Election Matters : To Elect 7 Directors (including 3 independent directors) of the Ninth Board.

6. Other Matters : To release Non-Competition Restriction on Newly-Elected Directors

7. Motions

8. Adjournment

Report Items

1. To report the business of 2018 and operating plan of 2019

Explanatory Notes: Please refer to the Chinese version on Page 7-8.

2. Audit Committee's review report of 2018

Explanatory Notes: Please refer to the Chinese version on Page 9.

3. To report 2018 employees' bonus and directors' compensation

Explanatory Notes:

(1) The pre-tax profits of 2018 is NT\$47,978,170 and according to the Company's Articles of Incorporation, the Board has adopted a proposal for distribution of 2018 profit as follows: directors' compensation is NT\$959,563 and the profit to employees is NT\$ 4,582,868; both shall be paid in cash.

(2) The implementation of the distribution will be conducted after being approved by the shareholders' meeting.

4. To report the proposal for issuance of 2017 Restricted Stock Awards ("RSA")

Explanatory Notes:

Based on the resolution of shareholders meeting on 2017/05/26, the Company will issue total 2,000,000 shares of restricted employee shares. The Company has reported to Financial Supervisory Commission R.O.C. (Financial-Supervisory-Securities Document No.1060029187) and this proposal has been approved since 2017/08/08. As the date of publication, 1,400,000 restricted employee shares were issued. The other 600,000 are not issued by Board's resolutions.

5. To report Implementation Status of the Company's Share Buyback

Explanatory Notes:

The Company purchased 1,515,000 shares common stock from Dec. 12, 2018 to Feb. 11, 2019. Total monetary amount of shares buyback was NT\$28,127,052. The ratio is 1.79% of cumulative number of own shares held during the buyback period to the total number of the Company's issued shares.

Approval and Discussion Item

Proposal 1

Proposed by the Board of Directors

Subject: **To accept 2018 Business Report and Financial Statements**

Explanatory Notes:

- (1) DAVICOM's 2018 Business Report, Financial Statements, including Balance Sheets, Statement of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows, were audited by independent auditors, Mr. Lin Se-Kai, and Mrs. Hsiao Chun-Yuan, of PricewaterhouseCoopers, Taiwan.
- (2) 2018 Business Report, Independent Auditors' Report, and the aforementioned Financial Statements are attached hereto as Attachments. Please refer to the Chinese version on Page 7-8 and Page 10-30.

Proposal 2

Proposed by the Board of Directors

Subject: **To approve the proposal for distribution of 2018 earnings**

Explanatory Notes:

- (1) 2018 net profit after tax is NT\$ 37,635,199. To make up the actuarial loss of the pension and to allocate 10% of the statutory surplus reserve, the proposed dividend to shareholders is NT\$32,256,036. Each shareholder will be entitled to receive a cash dividend of NT\$0.4 per share.
- (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. It is proposed to fully authorize the Chairman of Board of Directors of DAVICOM to adjust the dividend ratio and to proceed on the relevant matters.
- (3) Upon the approval of the Annual Meeting of Shareholders, it

is proposed that the Board of Directors be authorized to resolve the ex-dividend date and other relevant issues.

- (4) Please refer to the 2018 Annual Profit Distribution Table.
Please refer to attachment 5

Proposal 3

Proposed by the Board of Directors

Subject: **To approve the proposal for additional cash distribution of 2018 from its reserved surplus earnings.**

Explanatory Notes:

- (1) Based on the profit allocation proposal, the Company intends to declare cash dividends in the amount of NT\$33,256,036 at NT\$0.4 per share from its distributable reserved surplus earnings for the year 2018.
- (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. It is proposed to fully authorize the Chairman of Board of Directors of DAVICOM to adjust the dividend ratio and to proceed on the relevant matters.
- (3) Upon the approval of the Annual Meeting of Shareholders, it is proposed that the Board of Directors be authorized to resolve the ex-dividend date and other relevant issues.

Proposal 4

Proposed by the Board of Directors

Subject: **To amend the Procedures for Acquisition or Disposal of Assets**

Explanatory Notes: According to Financial Supervisory Commission R.O.C. (Financial-Supervisory-Securities Document No.1070341072) and this proposal has been approved since 2019/01/01, the Company hereby to amend the Procedures for Acquisition or Disposal of Assets. Please refer to the Chinese version on page 32.

Proposal 5

Proposed by the Board of Directors

Subject: **To amend the Proposal for Issuance of 2017 Restricted Stock Awards.**(“RSA”)

Explanatory Notes: Please refer to the Chinese version on page 32 for comparison table for Amendment to the Proposal for Issuance of 2017 Restricted Stock Awards (“RSA”).

Election Matters

Proposed by the Board of Directors

Subject: To Elect 7 Directors (including 3 independent directors) of the Ninth Board.

Explanatory Notes:

- (1) The term of current Board of Directors (including independent directors) will be ended on June 5, 2019 and will be fully re-elected in accordance with the law in the shareholders' meeting on June 12, 2019.
- (2) 7 directors including 3 independent directors of the Ninth Board will be elected in the shareholders' meeting. The term of the new board of directors will started from June 12, 2019 to June 11, 2022. The nominated candidates were approved by the Board of Directors in accordance with the Article 192-1 of the Company Act. More details information of nominated candidates, please refer to attachment 6.

Other Matters

Proposed by the Board of Directors

Subject: To release Non-Competition Restriction on Newly-Elected Directors of the Ninth Board.

Explanatory Notes: To release Non-Competition Restriction on Newly-Elected Directors of the Ninth Board.

Motions

Adjournment

Attachment 1

Business Report

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
Ting Hao

President
Nien-Tai Chen

Accounting Supervisor
Kuei-Feng Chiu

Attachment 2

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.

DAVICOM Semiconductor Inc.

Independent Director : Wen-Hui Wan

Independent Director : Ting-Hsin Li

Independent Director : Yung-Teng Lin

March 11, 2019

Attachment 3

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.

How our audit addressed the matter

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

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

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.

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
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		December 31, 2017		
		AMOUNT	%	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		<u>603,561</u>	<u>50</u>	<u>655,442</u>	<u>52</u>
Non-current assets						
1510	Financial assets at fair value	6(2)				
	through profit or loss - noncurrent		41,958	3	-	-
1523	Available-for-sale financial assets	12(4)				
	- noncurrent		-	-	50,901	4
1550	Investments accounted for under	6(5)				
	equity method		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		<u>603,273</u>	<u>50</u>	<u>608,318</u>	<u>48</u>
1XXX	Total assets		<u>\$ 1,206,834</u>	<u>100</u>	<u>\$ 1,263,760</u>	<u>100</u>

(Continued)

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

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
Current liabilities					
2150	Notes payable	\$ 4,687	-	\$ 7,306	1
2170	Accounts payable	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	<u>39,593</u>	<u>3</u>	<u>45,825</u>	<u>4</u>
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	<u>17,889</u>	<u>2</u>	<u>18,020</u>	<u>1</u>
2XXX	Total Liabilities	<u>57,482</u>	<u>5</u>	<u>63,845</u>	<u>5</u>
Equity					
Share capital					
3110	Common stock	6(13) 846,551	70	846,551	67
Capital surplus					
3200	Capital surplus	6(14) 219,776	18	250,252	20
Retained earnings					
3310	Legal reserve	6(15) 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					
3500	Treasury shares	6(13) (16,376)	(1)	-	-
3XXX	Total equity	<u>1,149,352</u>	<u>95</u>	<u>1,199,915</u>	<u>95</u>
Significant contingent liabilities and unrecognised contract commitments					
3X2X	Total liabilities and equity	<u>\$ 1,206,834</u>	<u>100</u>	<u>\$ 1,263,760</u>	<u>100</u>

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

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

Items	Notes	Year ended December 31				
		2018		2017		
		AMOUNT	%	AMOUNT	%	
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)

	Notes	Share capital	Capital surplus		Retained earnings		Other equity interest			Treasury shares	Total
		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		
<u>Year 2017</u>											
Balance at January 1, 2017		\$ 832,551	\$ 221,162	\$ 38,714	\$ 58,312	\$ 71,340	\$ 2,542	(\$ 4,629)	\$ -	\$ -	\$ 1,219,9
Profit for the year		-	-	-	-	52,327	-	-	-	-	52,3
Other comprehensive income (loss) for the year		-	-	-	-	(1,394)	(5,487)	9,751	-	-	2,8
Total comprehensive income		-	-	-	-	50,933	(5,487)	9,751	-	-	55,1
Appropriation and distribution of 2016 earnings	6(15)										
Legal reserve		-	-	-	7,134	(7,134)	-	-	-	-	-
Cash dividends		-	-	-	-	(64,106)	-	-	-	-	(64,1
Cash dividends distributed from capital surplus	6(14)	-	(27,474)	-	-	-	-	-	-	-	(27,4
Issuance of restricted stocks to employees	6(12)(13)	14,000	-	17,850	-	-	-	-	(15,544)	-	16,3
Balance at December 31, 2017		\$ 846,551	\$ 193,688	\$ 56,564	\$ 65,446	\$ 51,033	(\$ 2,945)	\$ 5,122	(\$ 15,544)	\$ -	\$ 1,199,9
<u>Year 2018</u>											
Balance at January 1, 2018		\$ 846,551	\$ 193,688	\$ 56,564	\$ 65,446	\$ 51,033	(\$ 2,945)	\$ 5,122	(\$ 15,544)	\$ -	\$ 1,199,9
Effects of retrospective application	12(4)	-	-	-	-	-	-	(5,122)	-	-	(5,1
Balance at January 1 after adjustments		846,551	193,688	56,564	65,446	51,033	(2,945)	-	(15,544)	-	1,194,7
Profit for the year		-	-	-	-	37,635	-	-	-	-	37,6
Other comprehensive income for the year		-	-	-	-	588	1,182	-	-	-	1,7
Total comprehensive income		-	-	-	-	38,223	1,182	-	-	-	39,4
Differences between equity purchase price and carrying amount arising from actual acquisition of subsidiaries		-	-	-	-	(610)	-	-	-	-	(6
Appropriation and distributed of 2017 earnings	6(15)										
Legal reserve		-	-	-	5,103	(5,103)	-	-	-	-	-
Cash dividends		-	-	-	-	(45,714)	-	-	-	-	(45,7
Cash dividends distribution from capital surplus	6(14)	-	(30,476)	-	-	-	-	-	-	-	(30,4
Restricted stocks to employees	6(12)(13)	-	3,570	(3,570)	-	-	-	-	8,330	-	8,3
Treasure share repurchase	6(13)	-	-	-	-	-	-	-	-	(16,376)	(16,3
Balance at December 31, 2018		\$ 846,551	\$ 166,782	\$ 52,994	\$ 70,549	\$ 37,829	(\$ 1,763)	\$ -	(\$ 7,214)	(\$ 16,376)	\$ 1,149,3

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
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
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 receivables		(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		<u>51,543</u>	<u>53,573</u>

(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
1. CASH FLOWS FROM INVESTING ACTIVITIES			
13. <u>Proceeds from disposal of available-for-sale financial assets</u>	45	5,733,000	6,806,000
25. <u>Acquisition of investments accounted for under equity method</u>	57, 6(5)	7,650,000	5,000,000
37. <u>Acquisition of property, plant and equipment</u>	32, 6(6)	2,333,000	7,907,000
49. <u>Acquisition of financial assets at fair value through profit or loss</u>		26,373,000	3,000,000
61. <u>Proceeds from disposal of financial assets at fair value through profit or loss</u>		27,973,000	7,000,000
73. <u>Increase in refundable deposits</u>	45	3,000,000	7,000,000
85. <u>Increase in intangible assets</u>	57	212,000	5,500,000
97. <u>Increase in other assets</u>	32	9,211,000	4,909,000
109. <u>Net cash flows (used in) from investing activities</u>	101	15,806,000	9,926,000
121. CASH FLOWS FROM FINANCING ACTIVITIES	223	2,526,000	2,903,000
133. <u>Payments of cash dividends</u>	45, 6(15)	6,190,000	11,580,000
145. <u>Advance receipts for capital stock</u>	47, 6(13)	9,000,000	14,000,000
157. <u>Treasure stock repurchase</u>	89	16,376,000	5,657,000
169. <u>Net cash flows used in financing activities</u>	101	2,566,000	7,580,000
181. <u>Net decrease in cash and cash equivalents</u>	33	56,829,000	78,081,000
193. <u>Cash and cash equivalents at beginning of year</u>	45	581,327,000	604,408,000
205. <u>Cash and cash equivalents at end of year</u>	47	524,498,000	581,327,000

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

**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:

3. 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.
4. 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:

5. 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.
6. 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.
7. 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.
8. 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.
9. 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:

6. 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.
7. 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.
8. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
9. 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.
10. 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.
11. 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
For and on behalf of PricewaterhouseCoopers, Taiwan
March 11, 2019

Chun-Yuan Hsiao

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 835,857	69	\$ 881,406	70
1150	Notes receivable, net	6(3)	64	-	62	-
1170	Accounts receivable, net	6(3)	40,243	3	35,407	3
1200	Other receivables		5,504	1	290	-
130X	Inventories, net	6(4)	34,159	3	37,060	3
1410	Prepayments		1,443	-	2,963	-
1470	Other current assets		46	-	88	-
11XX	Total Current Assets		<u>917,316</u>	<u>76</u>	<u>957,276</u>	<u>76</u>
Non-current assets						
1510	Financial assets at fair value	6(2)				
	through profit or loss - noncurrent		47,247	4	-	-
1523	Available-for-sale financial assets	12(4)				
	- noncurrent		-	-	56,348	4
1600	Property, plant and equipment,	6(5)				
	net		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		<u>292,031</u>	<u>24</u>	<u>308,463</u>	<u>24</u>
1XXX	Total assets		<u>\$ 1,209,347</u>	<u>100</u>	<u>\$ 1,265,739</u>	<u>100</u>

(Continued)

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

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

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

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

		Year ended December 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
4000	Sales revenue	\$ 261,095	100	\$ 307,342	100
5000	Operating costs	(87,299)	(33)	(97,270)	(32)
5900	Net operating margin	173,796	67	210,072	68
	Operating expenses				
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	(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	29,485	11	25,928	9
7020	Other gains and losses	3,417	1	(20,658)	(7)
7050	Finance costs	(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	(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)

Year ended December 31

	Items	Notes	2018		2017	
			AMOUNT	%	AMOUNT	%
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	6(10)	\$ 354	-	(\$ 1,680)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	234	-	286	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>588</u>	<u>-</u>	<u>(1,394)</u>	<u>-</u>
	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		<u>1,182</u>	<u>1</u>	<u>4,264</u>	<u>1</u>
8500	Total comprehensive income for the year		<u>\$ 39,693</u>	<u>15</u>	<u>\$ 54,750</u>	<u>18</u>
	Profit (loss), attributable to:					
8610	Owners of parent		\$ 37,635	14	\$ 52,327	17
8620	Non-controlling interest		288	-	(447)	-
	Comprehensive income attributable to:		<u>\$ 37,923</u>	<u>14</u>	<u>\$ 51,880</u>	<u>17</u>
8710	Comprehensive income, attributable to owners of parent		\$ 39,405	15	\$ 55,197	18
8720	Non-controlling interests		288	-	(447)	-
			<u>\$ 39,693</u>	<u>15</u>	<u>\$ 54,750</u>	<u>18</u>
	Basic earnings per share	6(22)				
9750	Net income		<u>\$</u>	<u>0.44</u>	<u>\$</u>	<u>0.63</u>
	Diluted earnings per share	6(22)				
9850	Net income		<u>\$</u>	<u>0.44</u>	<u>\$</u>	<u>0.62</u>

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)

	Notes	Equity attributable to owners of the parent											
		Share Capital	Capital Surplus		Retained Earnings		Other equity interest					Non-controlling interest	Total equity
		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	\$ 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	-	2,476
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	\$ 1,200,103
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	\$ 1,200,103
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	-	1,182
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	\$ 1,150,436

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.

Attachment 5

DAVICOM
ANNUAL PROFIT DISTRIBUTION TABLE
Year 2019

Items	Total (NTD)
Beginning unappropriated retained earnings	\$ 216,283
<i>Add:</i> retained earnings---Actuarial present value of promised retirement benefits	588,894
<i>Add:</i> net profit after tax of 2018	37,635,199
<i>Less:</i> retained earnings---Difference between equity purchase price and carrying amount arising from actual acquisition of subsidiaries	(609,952)
Distributable net profit	37,830,424
<i>Less:</i>	
10% legal reserve	(3,844,038)
Distributable items:	
Dividend to shareholders--- NT\$0.4 per share	(33,256,036)
Unappropriated retained earnings	\$ 730,350

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

Attachment 6

The nominated candidates of Directors and Independent Directors

Type	Name	Education	Experiences	Current occupation	Current Shareholding
Director	Ting Hao	Doctor , Business Management, Victoria University Master , EECS, UC Berkeley Bachelor , Electrical and Control Engineering, National Chiao Tung University	Chairman of DAVICOM Semiconductor, Inc.	Chairman of DAVICOM Semiconductor, Inc.	1,602,800
Director	Goodyears Investments Ltd.		Director of DAVICOM Semiconductor, Inc.	Director of DAVICOM Semiconductor, Inc.	3,982,475
Director	Tzay Hua Ltd.		Director of DAVICOM Semiconductor, Inc.	Director of DAVICOM Semiconductor, Inc.	1,480,652
Director	Lin, Yun-Ping	Executive Master of Business Administration (EMBA), National Chung Hsing University	Owner of Sane Way Enterprises Co.. Ltd. Owner of Crown Star International Investment Co., Ltd.	Owner of Sane Way Enterprises Co.. Ltd. Owner of Crown Star International Investment Co., Ltd.	858,000
Independent Director	Ueng, Chang-Yue	Ph.D. of Statistics, Colorado State University, USA Master of Business Administration, National Taiwan University	Controller Sonavox Electronic Co., Ltd. VP & CFO, Finance and Administration Center Ichia Technologies, Inc.	Controller Sonavox Electronic Co., Ltd.	150,000
Independent Director	Hwang, Jen-Jyh	Ph.D, Dept. of Mechanical Engineering, The Pennsylvania State University, USA Master of Engineering,	Associate Professor, National Sun-Yatsen University(Retired 2008)	Adjunct Associate Professor, Natl. Sun-Yatsen Univ., Since 2008	0

		Dept. of Power Mechanical Engineering, National Tsing-Hua University, Taiwan, ROC			
Independent Director	Wei, Niang-Shou	Executive Master of Business Administration (EMBA), National Tsing Hua University	Director of Production and Operations Center Shanghai Fanfeng Vacuum Machinery Co., Ltd.		2,000

Appendix 1

Current shareholding of Directors and Independent Directors

Record Date: April 14, 2019

Title	Name	Current shareholding	Shareholding ratio
Chairman	Ting Hao	1,602,800	1.89%
Director	Goodyears Investments Ltd.	3,982,475	4.70%
Director	Tzay Hua Ltd.	1,480,652	1.75%
Independent Director	Wen-Hui Wan	32,258	0.04%
Independent Director	Ting-Hsin Li	0	0.00%
Independent Director	Yung-Teng Lin	0	0.00%
Total Shares of Directors Hold		7,065,927	8.35%
Total Shares of Directors Required		6,772,047	8.00%

DAVICOM Total Issued Shares: 84,655,089 shares