

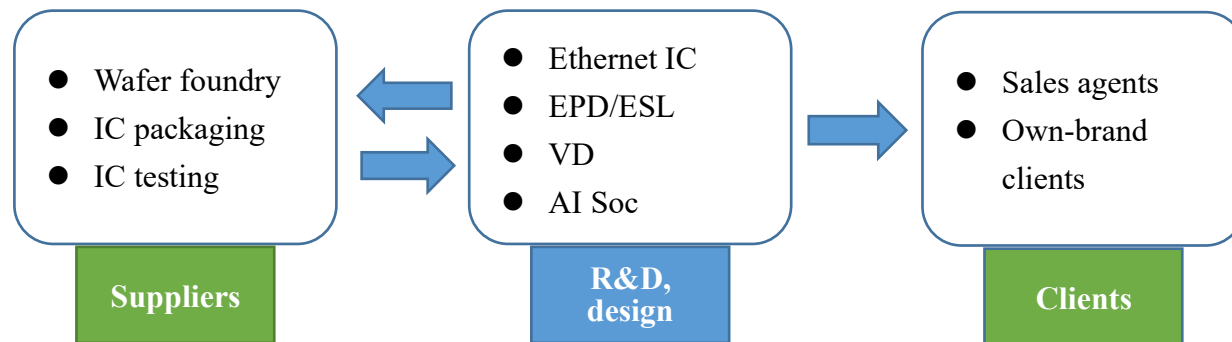
## CHAPTER 4

### **Enhance Cooperation among Value Chains**

- 4.1 Innovation R&D and Services
- 4.2 Responsible Production and Consumption
- 4.3 Client Relationship Management
- 4.4 Sustainable Suppliers

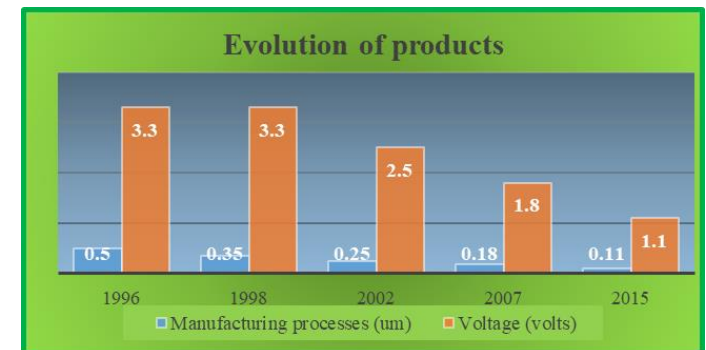
## 4. Enhance Cooperation among Value Chains

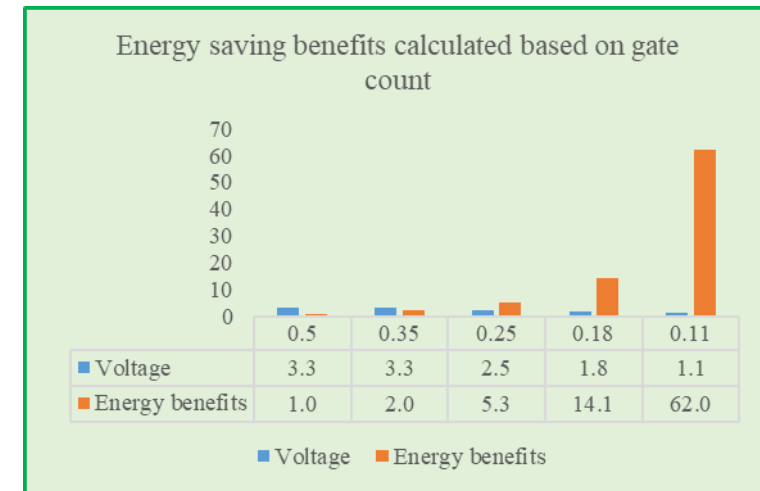
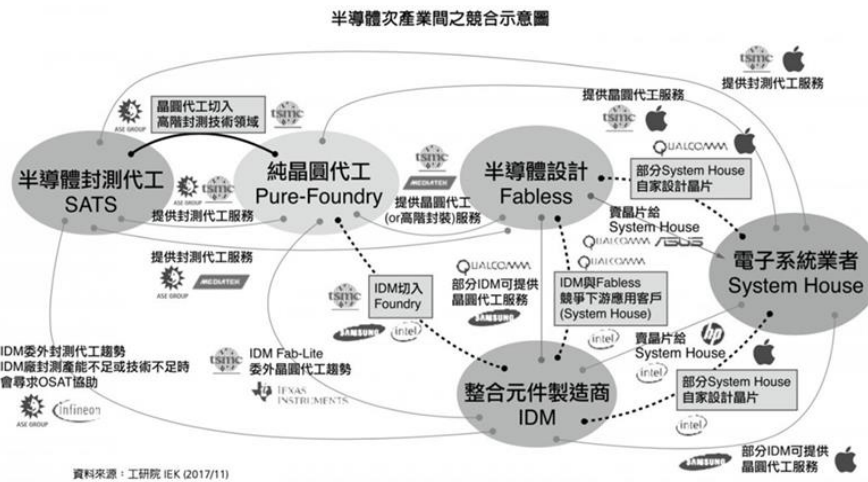
DAVICOM Semiconductor is a small-size IC design house and aims to develop durable and top-quality products. Through conforming to EICC (Electronic Industry Citizenship Coalition) Code of Conduct, we have cooperated with upstream and downstream partners. Our business covers four main product lines: Ethernet ICs, EPD (E-Paper Display) driver ICs, Video Decoder ICs, and AI SoC. We focus on niche-market products and have cooperated with suppliers and clients (B2B for both) to jointly set up green supply chains. They are our important partners for jointly creating sustainability value.



### 4.1 Innovation R&D and Services

Davicom have made efforts to develop energy-saving products and keep carrying on innovation R&D through following international market trends. We focus on R&D of four main product lines: Ethernet ICs, EPD (E-Paper Display) driver ICs, Video Decoder ICs, AI SoC, and continue innovation and technological improvement to enhance functions, reduce weight and dimensions, save energy and reduce carbon emissions, add AI functions for products. Because of diversity of market demand, semiconductor manufacturing processes are improving and wafer sizes are decreasing. Davicom continued to investment in R&D including R&D manpower and we set an energy-saving target of reduction in power consumption by 20% in 2017. In recent years, we have focused on developing factory production line tracking systems and warehouse logistics based on UHF RFID as the core technology. We aim to create more energy-efficient, environmentally friendly, and diversified IoT systems to meet our client s' varied demands. By helping clients develop diversified intelligent AIoT systems, we seek to seize market opportunities.



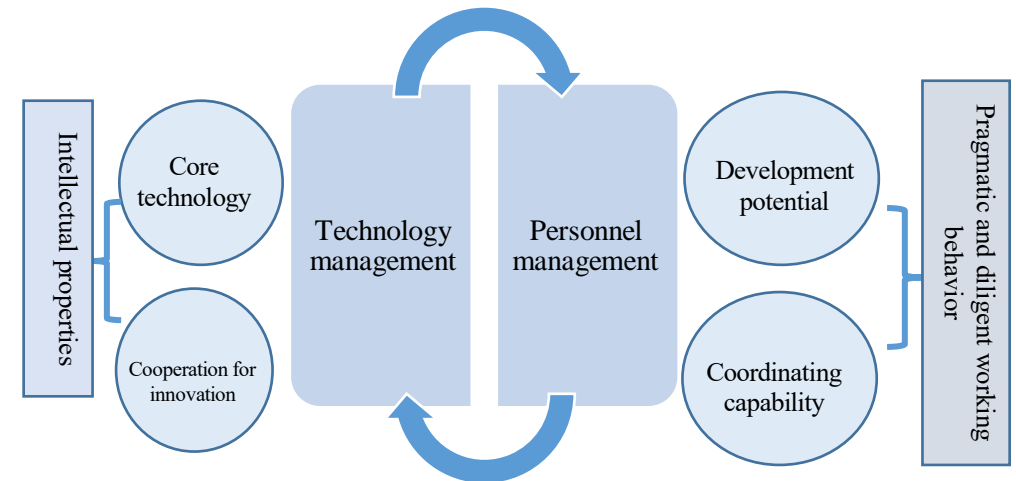


### ▲ Interrelations of our products in the secondary semiconductor industry

#### Management framework for innovation R&D

In terms of technology management, we introduce new technologies through merger and acquisition, technological transfers, industry university cooperation for application to design and development of new products, and combine introduced technologies with our core technologies to design next products. Introduction of technologies is an engineering feat, for it enables us to keep expanding product lines, improving quality of products and hiking production efficiency to meet clients' needs.

### ▲ Energy saving for new products is the primary goal for innovation R&D



**For human resource management**, we encourage employees to materialize various types of innovation in their work through internal performance evaluation and an incentive mechanism. Especially for transferring technologies from other companies, we lay emphasis on engineers' development potential and inter-person coordinating capability to facilitate technological transfers and cooperation on the corresponding items. Employee management and development is a basis for our success and, especially in environment characterized by rapid development, to maintain high-level innovation and strong competitiveness is an important strategy to realize long-term development.

#### Technologies and R&D

Year	R&D expense	Proportions
2022	74.524 million	24%
2023	66.024 million	27%

We develop and produce high-speed Ethernet ICs and ICs used in consumer communication devices, following are our various products:

Embedded system with high speed ethernet network IC - 10/100/1000 M SPI 、USB bus, PCI bus, MAC+PHY single chip
Embedded system with high speed ethernet network and switch IC - 10/100M multi-port smart switch IC
E-Paper Display driver ICs and SoC
MCU chips
Video Decoder Chips
UHF RFID Factory production line warehousing and logistics tracking system

## 4.2 Responsible Production and Consumption

In Davicom, we have learned that responsible production and consumption can create social and environmental values. Our production processes strictly comply with international standards regarding environment, law, wellness and safety as well as the international regulations concerned. We will give importance to promoting green management to keep reducing energy consumption, carbon emissions, emissions of pollutants in a bid to decrease the negative influence of production and consumption on environment. We will also endeavor to develop durable products and deliver them using green logistics processes as well as encourage consumers to adopt energy-saving and waste-minimizing actions. We hold the strong belief that responsible production and consumption can lead to better future for the world.

### Quality management

Davicom' s production process: R&D, design → layout → masks → wafer foundry → IC packaging → IC testing → products. As wafer foundry, IC packaging and IC testing are outsourced, we carefully select suppliers for these processes and cooperate with them to maintain healthy ecological environment for the Earth.

In our history, there have been no cases of violation of environmental protection regulations, and our environmental management system has won clients' high trust. Since 2006, our products have obtained Sony Green Partner environmental quality certification for many times, with wafer manufacturing company UMC, IC packager Siliconware Precision Industries (SPIL) being Sony's green partners. (For Davicom code number FC008920; UMC code numbers FC007537, FC007538, FC007532, FC007533, FC007534, FC007535, FC007536, FC007539; SPIL code number FC005118) There have been historically no cases of violation of environmental

protection regulations, and our environmental management system has won clients' high trust.



For our products, we provide clients with self-declaration of conformity indicating compliance with the corresponding environmental protection regulations and management procedures.

Preface	Our self-declaration of conformity for product management
1	Sony SS00259 (management rules under substance environmental management for components and materials)
2	Sony PQ-2029 (document of management procedures for environmental quality)
3	EU RoHS (2011/65/EU, Restriction of Hazardous Substances in Electrical and Electronic Equipment, RoHS Directive)
4	EU REACH (EC 1907/2006) SVHC (Substance of Very High Concern)
5	PFOS (2006/122/EC, directive to restrict use of PFOS)
6	DMF (2009/251/EC, directive to restrict use of DMF)
7	Halogen (IEC 61249-2-21, directive to restrict use of halogen, only chlorine and bromine)

Failure to comply with regulations regarding information on products and services and required complete indication of such information: no cases in our history.

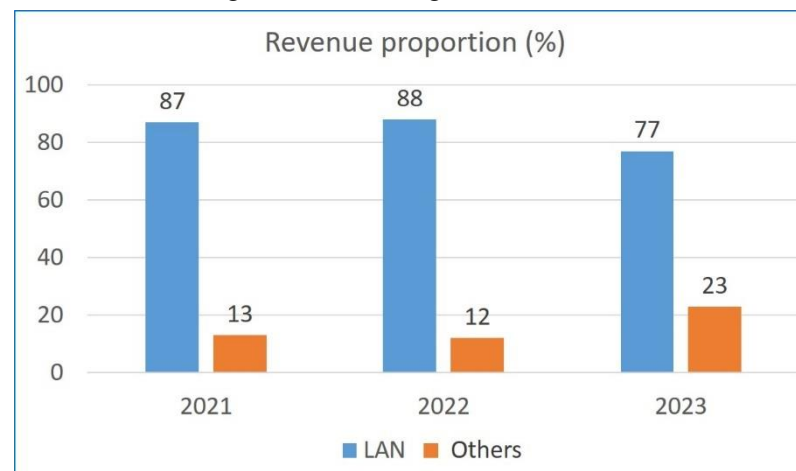
Year	2019	2020	2021	2022	2023
Frequency of regulation violation	0	0	0	0	0

## ■ Operational Strategy Emphasizing Lean and Agile Approaches

Lean production strategy differs from agile production strategy. Lean production focuses on minimizing waste and hiking production efficiency, while agile production stresses quick response to market demand and accordingly quick adjustment in production. Through adopting lean production strategy in combination with agile one, our high-efficiency and flexible production mode can turn out high-quality products.

During COVID-19 pandemic, realization of lean and agile production strategies necessitated adoption of series responsive measures. For lean production, we closely track suppliers' production capacities, hike our production efficiency, strengthen inventory management and production scheduling, avoid waste and impact of COVID-19 pandemic on operating cost. For agile production, we sense quick changes in market demand and thereby actively adjust production lines to respond to new demand as well as enhance supply chain management to ensure stability of IC supply. Through these measures, we were able to maintain high-efficiency production and stable sales during COVID-19 pandemic.

In 2023, while the chip market generally adopted a destocking strategy, Davicom timely introduced a factory production line and warehouse logistics tracking system based on UHF RFID, securing a market advantage.

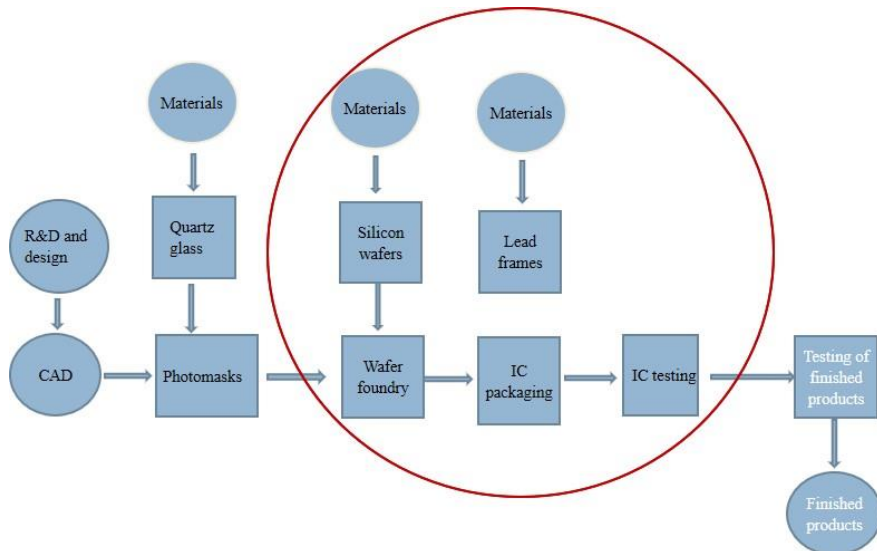




### 4.3 Client Relationship Management

As we are committed to sharing benefits with clients, we provide products and services for clients along with forming partner alliances, boosting joint innovation and offering professional solutions for win-win. We will keep paying attention to clients' needs and cooperate with clients to create better future.

In order to avoid unnecessary competition, we focus on niche markets in China, Japan, South Korea, Europe and North America. In order to maximize benefit from allocating resources and more efficiently obtain orders from target clients, we have arranged sales agents in these niche markets and set up online technological service platforms at our headquarters in Taiwan to meet needs from clients in these markets via information technology.



▲ The marked portions are our outsourced manufacturing processes

Note: Main clients please refer to our 2023 Annual Report

#### ■ Benefit-sharing business model

As sales agents are main partners for our operation, we collaborate with them via sharing of benefits to respond to needs from and provide online services for diverse clients. For example: IoV (Internet of vehicles), smart power grids, electronic labels and other system products as well as technological services.



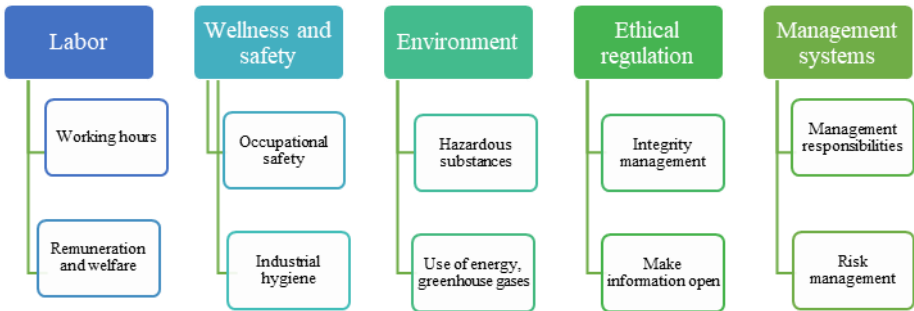
#### ■ Protect client privacy

Since B2B is our operational model, protection of clients' business secrets to maintain industrial ethics and competition order is a serious problem. We have adopted two systems to efficiently manage clients' privacy. As for employees, they are required to abide by professional ethics not to leak clients' methods, technologies, manufacturing processes, formulae, software programs, designs or other information that can be applied to operation, production or marketing. In addition, we have set up a reliable information security system and recorded content of services provided for clients in detail.

#### ■ Handling of client complaints

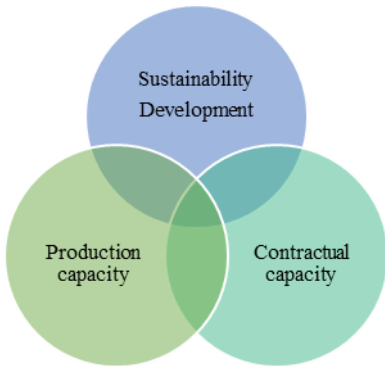
We immediately respond to clients' complaints through carefully listening to their problems, analyzing these problems and offering solutions as well as improving the products and services concerned to prevent same problems from happening again. Besides, we have set up an efficient client service system and a problem-solving mechanism to protect clients' interests and hike their satisfaction.

4.4 Sustainable Suppliers



4.4.1 Carefully select partners

According to EICC (predecessor of Responsible Business Alliance, RBA) Code of Conduct, we have formulated a supplier sustainability management policy, a systematic management policy intended to check whether suppliers meet regulatory standards in labor, wellness and safety, environment, ethics and management system in a bid to realize our corporate social responsibility. We hope to cooperate with upstream semiconductor suppliers, via their influencing effects, to set up a sustainability industry characterized by emphasis on environmental protection, social responsibility and sincere management as well as promote mutually trusting and benefiting partnership between us and our suppliers.



As an IC design house, our social and environmental influence is limited. We give importance to suppliers’ ethical responsibility, performance in environmental protection and labor policy and check their efforts in UN Sustainable Development Goals, a criterion for us to select long-term partners.

As regards environment, we ask suppliers of wafer foundry, IC packaging and IC testing services to have ISO 14001 and ISO 14064 certification and ensure that all materials for use comply with Sony’s management rules under substance environmental management for components and materials ( SONY SS00259 ) and EU ROHS Directive.

Note: Conflict minerals refer to minerals mined under conditions of armed clash and human rights violation, especially tin, gold, tantalum and tungsten produced in Democratic Republic of Congo and its neighboring countries. Mining of conflict minerals is through exploiting local workers who are forced to undertake inhumane mining under bad working environment, with country rulers using profits from conflict minerals in wars and looting resources. Continued civil wars in these countries have aggravated poverty and worsened public security, with violence against women, forced recruitment of child labor by anti-government army, employment of children for mining being common.

We will continue supplier management as well as keep examining raw material supply processes and material control mechanisms to prevent conflict metals from infiltrating our production process. We will comply with EICC regulation to provide safe working environment and respect employees’ interests, a bid to be responsible for environment and realize our corporate social responsibility.



#### Surveys of and maintaining conformity to environmental protection

We will continue supplier management to secure raw material supply processes and material control mechanisms so as to prevent conflict metals from infiltrating our production process. We will comply with EICC regulation to provide safe working environment and respect employees' interests, a bid to be responsible for environment and realize our corporate social responsibility.

#### Labor, safety and health, maintenance of ethical regulation

We inspect suppliers' open information to see if they comply with EICC standards and human rights guiding principles. We cooperate with suppliers to formulate regulations regarding green environmental protection, safety and health, hike employee welfare and reduce environmental hazards to realize integrity management and risk control, with annual reports of results displaying our social responsibility of endeavoring to upgrade sustainability supply chain.

#### 4.4.2 Supplier management

Management goals	Targets of auditing	Content of evaluation	Expected fruition
Maintain long-term and stable relations with excellent suppliers	Wafer foundry service providers: 50 or more wafers/month	•Contractual capacity  •Sustainable development : Environment : ISO14000 (including ISO14001, ISO14062, ISO14063, ISO14064),no use of conflict minerals.	100% attainment, the same as in 2023
	IC packaging service providers: one million or more ICs per month	IC testing service providers: one million or more ICs per month or equivalent of 50 or more wafers per month	DAVICOM Semiconductor ISO 9001 Execution results of documents

### Supplier Risk Description

Industry Category	Corporate Governance	Raw Materials/Climate Change	Technology/Labor
Wafer Manufacturing	Allocation of capacity across different processes	Insufficient supply of raw wafers	Discontinuation of low-end processes
Packaging	Allocation of capacity across different packaging types	Shortage of lead frames or substrates	Discontinuation of outdated packaging lines
Testing	Insufficient available testing platforms	Power outages affecting deliveries	Discontinuation of outdated testing equipment

### Main suppliers

Name	Item	Proportion of annual procurement (%)		Note
		2022	2023	
A	Wafers	81.29	50.86	Due to vertical integration in semiconductor market, we procure main silicon wafers from UMC.
C	Wafers	-	5.7	
G	IC packaging and testing	-	17.44	
H	IC packaging and testing	16.08	24.98	
I	IC packaging and testing	1.21	-	
Others	IC packaging and testing	1.42	1.02	

### Supplier auditing and evaluation

	Auditing	Evaluation
Suppliers	Wafer foundry service provider: UMC IC packaging and testing: H, I	Wafer foundry service provider: UMC IC packaging and testing: H, I
Fruition	100% meets requirements	All belong to excellent suppliers

Note: we audit and evaluate suppliers through reviewing documents submitted by them and checking their factories and facilities.

