TWSE: 3094

DAVICOM Semiconductor, Inc.

2019 Annual Report

Notice to readers

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

Printed on May 20, 2020

Contact Information

Spokesperson
Name: Chun-Chun Yang
Title: Chief Financial Officer
Tel: 886-3-579-8797
E-mail: james_yang@davicom.com.tw

Deputy Spokesperson
Name: Kuei-Feng Chiu
Title: Finance Manager
Tel: 886-3-579-8797
E-mail: addie_chiu@davicom.com.tw

Headquarters, Branches and Plant
Address: No.6, Li-Hsin Road 6, Hsinchu Science Park, Hsinchu, Taiwan
Tel: 886-3- 579-8797

Stock Transfer Agent
Fubon Securities Co., Ltd.
Address: 2F.-1, No.17, Xuchang St., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)
Tel: 886-2-2361-1300
Website: http:www.fbs.com

Auditors
PWC Accounting Firm
Auditors: Se-Kai Lin and Chun-Yuan Hsiao
Address: 27F., No.333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)
Tel.: 886-2-2729-6666
Website: http://www.pwc.com.tw

Overseas Securities Exchange
None

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

Contents

I. 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 – 2019, our company generated net income of NT $45.27 million on consolidated revenue of NT $242.53 million. Our company has been continuously posting profits for 56 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 which been applied to vehicles, financial payment systems, and industrial control still wait for customers' final approval. We expect the new products will be in mass production this year. In addition, bids of some end users were postponed which cause the revenue lower than expected. With the gradual development of the Internet of Things (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.

Looking forward to the year 2020, with the continued growth of IoT and the diversified application of AIoT, we look forward to future opportunities in the communications industry. Additionally, with the development of the 5G industry, Ethernet chips play an important role in increasing communication facilities. We expect that the growing demand for AIoT & 5G market will improve the company's business opportunities of the year.

In contrast, the continued Sino-US trade war and the outbreak of COVID-19 had lead to the global economic impact. Fortunately, the epidemic in China has been ebbing in March. Also, the China government has developed various infrastructures including electricity, telecommunications, and transportation to stimulate the economy, which has activated the China market. On the other hand, the European and American markets have been hit hard by the COVID-19, which has a certain degree of direct or indirect impact on this year's sales performance. Because of this, in addition to strengthening the Chia market planning and the promotion of new products this year, the company will actively develop new products to against the revenue loss that may stem from the European and American markets.

Although the impact of the COVID-19 epidemic and 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 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	*Ting Hao*	*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)

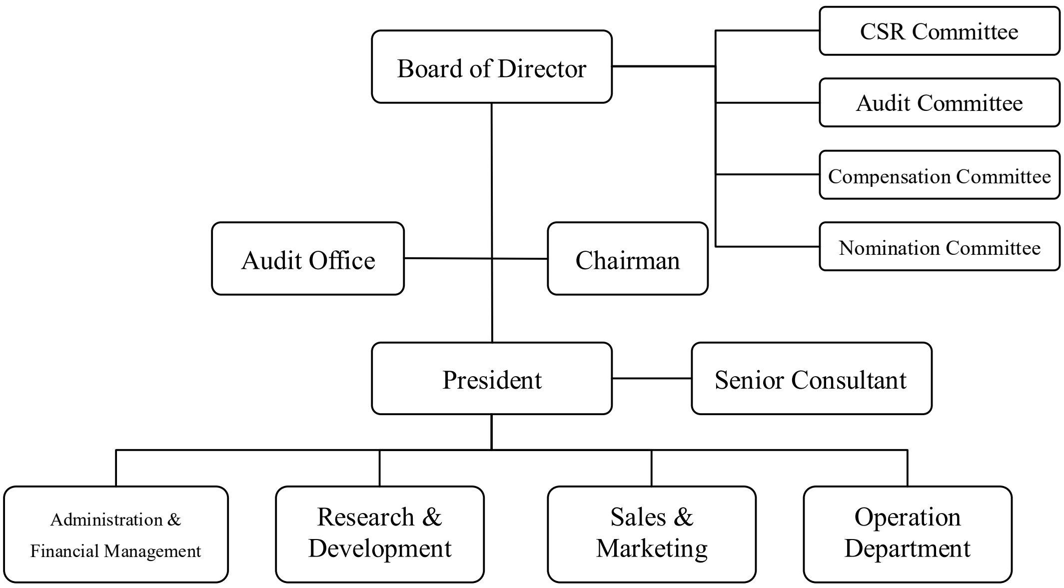
Nov. 2009	Launched DM9621, Ethernet MAC Controller for USB Dongle.
Jan. 2010	Developed 802.3az Energy-saving technology.
Apr. 2010	Launched DM9161C.
May 2010	DM9620 & DM9621 certified by USB IF (ITD40001021).
Aug. 2010	Launched DM8606C.
Oct. 2010	Launched DM8603/DM8203.
Nov. 2010	DAVICOM won Gold Medal 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 wsa 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 was 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.
Sep.2019	Launched build-in temperature sensor three colors EPD Segment driver IC
Oct.2019	Launched industry temperature 10/100/1000M Ethernet Giga-PHY transceiver
Nov.2019	Launched AI SoC With Integrated Image Recognition
Nov.2019	Launched MCU IC for TENS application

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 as President	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

(1) Directors Information

dApril 12, 2020

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			Note
							Shares	%	Shares		Shares	%	Shares	%			Title	Name	Relation	
Chairman	Ting Hao	Male	R.O.C.	May 21, 1999	June 12, 2019	3	1,602,800	1.89	1,719,500	2.03	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.	-	-	-	Chairman as President
Director	Goodyears Investments Ltd. (Representative person: Wen Chen Lin)	Female	R.O.C.	June 12, 2006	June 12, 2019	3	3,982,475	4.70	3,982,475	4.70	0	0.00	0	0.00	TSMC Senior Engineer Department of Information Management, Ming Chuan University	-	-	-	-	-
Director	Tzay Hua Ltd. (Representative person: Cheng Feng Chiu)	Male	R.O.C.	June 10, 2013	June 12, 2019	3	1,480,652	1.75	1,480,652	1.75	0	0.00	0	0.00	Former Vice President of Medicom Corporation Master, Electronic engineering, National Chiao Tung University	-Director of Advanced Development Division Dept.of Davicom -Director of the Medicom Corporation	-	-	-	-
Director	Yun-Ping Lin	Male	R.O.C.	June 12, 2019	June 12, 2019	3	858,000	1.01	900,000	1.06	0	0.00	0	0.00	Executive Master of Business Administration (EMBA), National Chung Hsing University	-Owner of Sane Way Enterprises Co.. Ltd. -Owner of Crown Star International Investment Co.,	-	-	-	-
Independent director	ChangYue Ueng	Male	R.O.C.	June 12, 2019	June 12, 2019	3	150,000	0.18	150,000	0.18	0	0.00	0	0.00	Controller Sonavox Electronics Co., Ltd. VP & CFO, Finance and Administration Center Ichia Technologies, Inc.. Ph.D. of Statistics, Colorado State University, USA	-	-	-	-	-
Independent irector	Jen Jyh Hwang	Male	R.O.C.	June 20, 2005	June 12, 2019	3	0	0.00	0	0.00	0	0.00	0	0.00	Associate Professor, National Sun-Yatsen University (Retired 2008) Ph.D,Dept. of Mechanical Engineering, The Pennsylvania State University, USA	-Independent director of JG Environment Tech.	-	-	-	-
Independent irector	Niang Shou Wei	Male	R.O.C.	June 12, 2019	June 12, 2019	3	2,000	0.00	2,000	0.00	0	0.00	0	0.00	Director of Production and Operations Center Shanghai Fanfeng Vacuum Machinery Co., Ltd. Executive Master of Business Administration (EMBA), National Tsing Hua University	-	-	-	-	-

Note: The explanation of the Chairman and the President of the company are the same person.

The board of directors approved Chairman Dr. Ting Hao concurrently act as the President of the Company due to the retirement of the former president Mr. Nien-Tai Chen. The board of directors consider it's is necessary that Chairman Dr. Ting Hao concurrently act as the President.

The measures adopted in response: The Company value the corporate governance. The Company has established the "Nomination Committee", "Audit Committee"," compensation committee" and CSR Committee. The Company has initiatively prepared the CSR report from 2015 which fully disclosed the Company's CSR execution status.There are three independent directors in seven directors. Two directors concurrently act as the employee or manager is reasonable.

(2) Major Shareholders of the Institutional Shareholders

April 12, 2020

Name of Institutional Shareholders	Major Shareholders
Goodyears Investments Ltd.	Ke-Chen Cheng (90.18%)
Tzay Hua Ltd.	Ke-Chen Cheng (61.72%)

(3) Major Shareholders of the Company's Major Institutional Shareholders

April 12, 2020

Name of Institutional Shareholders	Major Shareholders
NA	NA

(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			V				V	V	V	V	V	V	V	1
Goodyears Investments Ltd. (Representative person: Wen Chen Lin)			V				V	V	V	V	V	V	V	0
Tzay Hua Ltd. (Representative person:Cheng-Feng Chiu)			V				V	V	V	V	V	V	V	0
Yun-Ping Lin			V	V	V	V	V	V	V	V	V	V	V	0
Chang-Yue Ueng			V	V	V	V	V	V	V	V	V	V	V	0
Jen-Jyh Hwang	V		V	V	V	V	V	V	V	V	V	V	V	1
Niang-Shou Wei			V	V	V	V	V	V	V	V	V	V	V	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 affiliate.
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 one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholder.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.

5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.
6. Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company.
7. Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the company's chairman or CEO (or equivalent).
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.
9. Other than serving as a compensation committee member of the company, not a professional individual who, or 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, and the service provided is an "audit service" or a "non-audit service which total compensation within the recent two years exceeds NTD500,000".
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company.
11. Not been a person of any conditions defined in Article 30 of the Company Law.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Profiles of Key Managers

April 12, 2020 / Unit：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			Note
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
President	R.O.C.	Ting Hao	Male	Mar. 11, 2019	1,719,500	2.03	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	Chairman as President
CFO	R.O.C.	Chun-Chun Yang	Male	Aug. 17, 2010	93,099	0.11	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	75,508	0.09	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	38,185	0.05	0	0.00	0	0.00	**Master**, Electrical Engineering, State University of New York	Chairman of Medicom Co.	NA	NA	NA	

Note: The explanation of the Chairman and the President of the company are the same person.

The board of directors approved Chairman Dr. Ting Hao concurrently act as the President of the Company due to the retirement of the former president Mr. Nien-Tai Chen.

The board of directors consider it's is necessary that Chairman Dr. Ting Hao concurrently act as the President.

The measures adopted in response: The Company value the corporate governance. The Company has established the "Nomination Committee", "Audit Committee"," compensation committee" and CSR Committee. The Company has initiatively prepared the CSR report from 2015 which fully disclosed the Company's CSR execution status.

There are three independent directors in seven directors. Two directors concurrently act as the employee or manager is reasonable.

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

3.3.1 Remuneration of Directors

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	209	209	16	16	0.54	0.54	3,432	3,432	0	0	150	0	150	0	9.19	9.19	NA
Director	Goodyears Investments Ltd.(Representative person: Wen Chen Lin)	0	0	0	0	209	209	8	8	0.52	0.52	0	0	0	0	0	0	0	0	0.52	0.52	NA
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	0	0	0	0	209	209	16	16	0.54	0.54	1,901	1,901	0	0	79	0	79	0	5.32	5.32	NA
Director	Yun-Ping Lin	0	0	0	0	209	209	8	8	0.52	0.52	0	0	0	0	0	0	0	0	0.52	0.52	NA
Independent director	Chang-Yue Ueng	0	0	0	0	59	59	173	173	0.56	0.56	0	0	0	0	0	0	0	0	0.56	0.56	NA
Independent director	Jen-Jyh Hwang	0	0	0	0	59	59	173	173	0.56	0.56	0	0	0	0	0	0	0	0	0.56	0.56	NA
Independent director	Niang-Shou Wei	0	0	0	0	59	59	173	173	0.56	0.56	0	0	0	0	0	0	0	0	0.56	0.56	NA
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	0	0	0	0	0	0	8	8	0.02	0.02	392	392	0	0	3	0	3	0	1.02	1.02	NA
Independent director	Wen-Hui Wan	0	0	0	0	0	0	108	108	0.26	0.26	0	0	0	0	0	0	0	0	0.26	0.26	NA
Independent director	Ting-Hsin Li	0	0	0	0	0	0	108	108	0.26	0.26	0	0	0	0	0	0	0	0	0.26	0.26	NA
Independent director	Yung-Teng Lin	0	0	0	0	0	0	108	108	0.26	0.26	0	0	0	0	0	0	0	0	0.26	0.26	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$ 1,000,000</td><td colspan="2">Ting Hao
Goodyears Investments Ltd.
(Representative person: Wen Chen Lin)
Tzay Hua Ltd.
(Representative: Cheng-Feng Chiu)
Yun-Ping Lin
Ueng, Chang-Yue
Jen-Jyh Hwang
Niang-Shou Wei
Goodyears Investments Ltd.
(Representative person: Nien-Tai Chen)
Wen-Hui Wan
Ting-Hsin Li
Yung-Teng Lin</td><td colspan="2">Goodyears Investments Ltd.
(Representative person: Wen Chen Lin)
Yun-Ping Lin
Ueng, Chang-Yue
Jen-Jyh Hwang
Niang-Shou Wei
Goodyears Investments Ltd.
(Representative person: Nien-Tai Chen)
Wen-Hui Wan
Ting-Hsin Li
Yung-Teng Lin</td></tr>
<tr><td>NT$1,000,001 ~ NT$2,000,000</td><td colspan="2"></td><td colspan="2">-</td></tr>
<tr><td>NT$2,000,001 ~ NT$3,500,000</td><td></td><td></td><td colspan="2">Tzay Hua Ltd.
(Representative person: Cheng-Feng Chiu)</td></tr>
<tr><td>NT$3,500,001 ~ NT$5,000,000</td><td></td><td></td><td colspan="2">Ting Hao</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>
<tr><td>NT$15,000,001 ~ NT$30,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NT$30,000,001 ~ NT$50,000,000</td><td></td><td></td><td></td><td></td></tr>
<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>11</td><td>11</td><td>11</td><td>11</td></tr>
</table>

3.3.2 Remuneration of Supervisors：

The company established the Audit Committee on July,05,2010. No remuneration of supervisors.

3.3.3 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	Ting Hao	2,936	2,936	0	0	495	495	150	0	150	0	8.65	8.65	NA
Senior Vice President	Wen-Hsien Chen	1,758	1,758	108	108	419	419	36	0	36	0	5.61	5.61	NA

Range of Remuneration	Name of President and Vice President	
	The company	From All Consolidated Entities
Under NT$ 1,000,000		
NT$1,000,001 ~ NT$2,000,000		
NT$2,000,001 ~ NT$3,500,000	Ting Hao Wen-Hsien Chen	Ting Hao Wen-Hsien Chen
NT$3,500,001 ~ NT$5,000,000		
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	2	2

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	Ting Hao	0	363	363	0.88
	CFO	Chun-Chun Yang				
	CTO	Cheng-Fang Chiu				
	Senior Vice President	Wen-Hsien Chen				

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
2019	24.65%	24.63%
2018	30.98%	30.73%

3.4 Implementation of Corporate Governance

3.4.1 Operation of the Board

(1) A total of five (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	5	0	100%	
Director	Goodyears Investments Ltd. (Representative person: Wen Chen Lin)	5	0	100%	
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	5	0	100%	
Director	Yun-Ping Lin	5	0	100%	
Independent director	Ueng, Chang-Yue	5	0	100%	
Independent director	Jen-Jyh Hwang	5	0	100%	
Independent director	Niang-Shou Wei	5	0	100%	

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. The listed company should disclos the general evaluation cycles, evaluation periods, scope, content, and method of Self-Evaluation or Peer Evaluation of the Board of Directors. And disclose the evaluation status by filling the evaluation form.
4. 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 2019, 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.

(2) Implementation Status of Board Evaluations

Evaluation Cycles	Evaluation Periods	Scope of evaluation	Evaluation Method	Evaluation items
Once a year.	2019.01.01~ 2019.12.31	The scope of performance evaluations includes the Board of Directors, individual directors, and functional committees.	The evaluation method includes internal self-evaluation by the Board of Directors, self-assessment by directors.	Includes grasp of company targets and missions, understanding of the director's role and responsibilities, level of participation in company operations, internal relationship management and communication, director's specialty and continued development, and internal controls.

3.4.2 Operation of Audit Committee

(1) A total of five (A) Audit Committee meetings were held in the previous period (from June 2019 till February 2020). The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Independent director	Chang-Yue Ueng	5	0	100%	
Independent director	Jen-Jyh Hwang	5	0	100%	
Independent director	Niang-Shou Wei	5	0	100%	

Audit Committee Meeting Summary

Date	Meeting Resolutions
02/27/2020	1. Approved the 2019 business report and financial statements 2. Approved the 2019 earnings distribution proposal 3. Approved the proposal for cash distribution of 2019 additional paid in capital 4. Approved the 2019 management's reports on internal control
01/21/2020	1. Approved the internal audit officer replacement proposal 2. Approved the 2020 CPA assessments of competence and independence for Se-Kai Lin and Hsien-Cheng Chen from PWC 3. Approved the 2020 CPA selection and appointment
11/08/2019	1. Proposed the third quarter 2019 consolidated financial statement 2. Approved the 2020 internal audit plan
08/09/2019	1. Approved the second quarter 2019 consolidated financial statement
06/24/2019	1. Election of the 4th audit committee convener and chairman: Chang-Yue Ueng be elected as the convener and chairman

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 2019.
2. There were no independent directors' avoidance of motions in conflict of interest in 2019.
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
02/27/2020	1.CPAs discussed in writing about the fourth quarter 2019 individual and consolidated financial report, adjustment entry and audit report.

01/21/2020	1.Recent amendments to tax law, its impacts and the company's response policy 2.Draft opinion on key audit matters of 2019
11/08/2019	1.CPAs discussed in writing about the third quarter 2019 consolidated financial report and audit report
08/09/2019	1.CPAs discussed in writing about the second quarter 2019 consolidated financial report and audit report
05/13/2019	1.CPAs discussed in writing about the first quarter 2019 consolidated financial report and audit report

1.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

Date	Meeting Resolutions
02/27/2020	1. Presented the fourth quarter 2019 audit report 2. Internal Audit Officer presented 2019 internal management control system declarations to Independent Directors 3. Internal Audit Officer responded to questions from Independent Directors
01/21/2020	1. Discussion of the replacement of the internal audit officer approval
11/08/2019	1. Internal Audit Officer presented the 2020 internal audit plan 2. Presented the third quarter 2019 audit report 3. Internal Audit Officer responded to questions from Independent Directors
08/09/2019	1. Presented the second quarter 2019 audit report 2. Internal Audit Officer responded to questions from Independent Directors

3.4.3 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"?	V		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?	V		(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
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(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.	No difference
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		(3) To protect shareholders' rights and fairly treat shareholders, the Company has established the internal rules to forbid insiders trading on undisclosed information.	No difference
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		(4)The Company has also strongly advocated these rules in order to prevent any violations.	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	
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?	V		(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.	No difference
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		(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.	No difference
(3) Does the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis, reported the results of performance to the Board of Directors, and use the results as reference for directors' remuneration and renewal?	V		(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 evaluation results are divided into three levels: excellent, acceptable, and to be strengthened. The overall board evaluation results in 2019 were excellent.	No difference
(4) Does the company regularly evaluate the independence of CPAs?	V		(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 No. 10) for discussion by the Board of Directors when discussing the independence and appointment of the CPA. The Board of Directors has approved 2020 annual financial report on the independence assessment of CPA.	No difference

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status [1]</th><th rowspan="2">Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td>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.)?</td><td>V</td><td></td><td>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' 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.</td><td>No difference</td></tr>
<tr><td>5. Has the Company established a means of communicating with its Stakeholders(including but not limited to shareholders, employees, customers, suppliers,etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?</td><td>V</td><td></td><td>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.</td><td>No difference</td></tr>
<tr><td>6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?</td><td>V</td><td></td><td>The Company designates Fubon Securities Co., Ltd. to deal with shareholder affairs.</td><td>No difference</td></tr>
</table>

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?	V		(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	No difference
(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)?	V		(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
(3) Does the Company announce and report the annual financial statements within two months after the end of the fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operating status of each month before the prescribed deadline?	V		(3)The Company follows relevant laws and regulations to announce and report the annual financial statements within two months after the end of the fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operating status of each month before the prescribed deadline	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 implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		(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 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.	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	
			(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.	V		The Company has been ranked as a top 20% TPEX company in the sixth 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.	No difference

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	V	V	V	V	V	V	V	V
Goodyears Investments Ltd. (Representative person: Wen Chen Lin)	Female	V		V	V	V	V	V	V
Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	Male	V	V	V	V	V	V	V	V
Yun-Ping Lin	Male	V	V	V	V	V	V	V	V
Chang-Yue Ueng	Male	V	V	V	V	V	V	V	V
Jen-Jyh Hwang	Male	V	V	V	V	V	V	V	V
Niang-Shou Wei	Male	V	V	V	V	V	V	V	V

3.4.4 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			Independence Criteria (Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks
		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	1	2	3	4	5	6	7	8		
Independent director	Chang-Yue Ueng			V	V	V	V	V	V	V	V	V	0	
Independent director	Jen-Jyh Hwang	V			V	V	V	V	V	V	V	V	1	
Independent director	Niang-Shou Wei			V	V	V	V	V	V	V	V	V	0	

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 the company or any of its affiliates.
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 officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.
6. Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company.
7. Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the company's chairman or CEO (or equivalent

8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.
9. Other than serving as a compensation committee member of the company, not a professional individual who, or 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, and the service provided is an "audit service" or a "non-audit service which total compensation within the recent two years exceeds NTD500,000".
10. Not been a person of any conditions defined in Article 30 of the Company Law.

(2) Attendance of Members at Compensation Committee Meetings

a). Number of Board members: 3

b). Term of Office: 6/12/2019 – 6/11/2022. A total of four (A) Nomination Committee meetings were held in the previous period.

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Chairman	Jen-Jyh Hwang	4	0	100%	
Board Member	Chang-Yue Ueng	4	0	100%	
Board Member	Niang-Shou Wei	4	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
02/27/2020	1. Approved the 2019 Board of Director compensation and employee compensation
01/21/2020	1. Approved the 2019 managers year-end bonus
08/09/2019	1. Approved the 2018 managers compensation
06/24/2019	1. Election of the convener and chairman of 4th Compensation Committee: Jen-Jyh Hwang was chosen as the convener and chairman.

3.4.5 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 Niang-Shou Wei was nominated as Convener. 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: 6/12/2019 – 6/11/2022. 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
Convener	Niang-Shou Wei	2	0	100%	
Board Member	Ting Hao	2	0	100%	
Board Member	Jen-Jyh Hwang	2	0	100%	

Nomination Committee Meeting Summary

Date	Meeting Resolutions
01/21/2020	1. Approved the 2019 Board of Directors final evaluation with a full score and submitted the result to the board for confirmation.
06/24/2019	1. Election of the convener and chairman of 2nd Nomination Committee: Niang-Shou Wei was chosen as the convener and chairman.

3.4.6 Corporate 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.Does the Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management related policy or strategy?	V		The company has established the audit committee, compensation committee and risk management committee, each committee periodically assess the potential risky item and report the result to the general manager. The risk assessment report will be presented to the board of directors periodically. For the company management, the company establish risk management related policy to prevent the potential risk. For the environment, the company consider the strategy " Green Economy " is the solution to the risk "climate change", and developing the environment friendly technological product and reduce the emission of carbon dioxide. For society, the company value the social involvement. The company continuously corporate with NCTU. For corporate governance, the company had set up a corporate governance manager to ensure everyone follows the internal management regulation.	No difference
2. Does the Company have dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?	V		The company has set up CSR group in 2015 to promote social involvement and imported the CSR management system in 2016, the company's CSR group therefore turn into CSR committee. The CSR committee has set up 5 teams including corporation operation, employee caring, innovation research and development, sustainable environment and social involvement. The CSR committee hold meeting at least 2 times in a year. The committee report the CSR plan in the beginning of the year to the board of directors and report the result of plan in the end of the year. The execution status can be found in the company's website.	No difference
3. Environmental Topic (1) Has the Company set an environmental management system designed to industry characteristics?	V		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]	
(2) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	V		The Company strives for perpetual operations and development. According to the statistics from year 2007 to 2019, we reduced about 75%-85% of the waste annually.	No difference
(3) Does the Company evaluate current and future climate change's potential risks and opportunities and take measures related to climate related topics?	V		The company dedicate to developing energy-saving products, helping customers to reduce the carbon emissions of products.	No difference
(4) Does the Company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	V		CO2 Emission Reduction Goal 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
4. Social Topic (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		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

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]	
(2) Has the Company established appropriately managed employee welfare measures (include salary and compensation, leave and others), and link operational performance or achievements with employee salary and compensation?	V		The company holds the spirit of sharing profit with employees to encourage outstanding employees. Please refer to Corporate Social Responsibility Report 2018 p.60-62 for employees' compensation and welfare measures.	No difference
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	V		The company's office environment takes employees safety as the first priority (Please refer to the CSR report 2018 p.68-69 for more details). 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) Has the Company established effective career development training plans?	V		The company value employees' career development and has established effected career development training plan. For more details please refer to the company's 2018 CSR report p.67.	No difference
(5) Does the Company's product and service comply with related regulations and international rules for customers' health and safety, privacy, sales, labelling and set polices to protect consumers' rights and consumer appeal procedures?	V		The company's products and service are complying with related regulation and international rules for customers' and safety. At the same time, the company has already established customer service management procedure to provide feedback on customer complaints. For more details, please refer to the company's 2018 CSR report p.46-48.	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]	
(6) Does the Company set supplier management policy and request suppliers to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?	V		The company has promoted the eco-friendly policy and concept to the entire suppliers. Encourage suppliers to establish environmental, safety, and hygiene standards in accordance with the company's requirements. The company also asks suppliers to reduce the wastage. For more details about occupational safety and health, labor human rights issues, please refer to the company's 2018 CSR report p.50-52.	No difference
5. Does the Company refer to international reporting rules or guidelines to publish CSR Report to disclose non-financial information of the Company? Has the said Report acquire 3rd certification party verification or statement of assurance?	V		The company complies with GRI guidelines published by the Global Reporting Initiative. The company's CSR information disclosure direction follows Taiwan and international regulations such as Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, SDGs, ISO26000, EICC, etc. The company's 2018 CSR report hasn't under certification by the third party.	No difference

6. If the company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice," please describe the operational status and differences: No difference

7. Other important information to facilitate better understanding of the company's implementation of corporate social responsibility:

1. 2019 Industry-University Cooperation with National Chiao Tung University:
   (1) Davicom and ECE, NCTU jointly hold 3 times of summer camps:
   2019.07.01~2019.07.05 Big Data Analysis
   2019.07.22~2019.07.25 Deep Learning and Industrial Big Data
   2019.08.21~2019.08.23 Embedded System
   (2) Davicom and NCTU jointly make technological and educational course materials. The course materials were distributed to junior high school in Hsinchu city and county. Establish the STEM education in Hsinchu area.
   (3) Davicom involved in the NCTU Tainan Branch AI college cooperation plan.
2. 2019 Passage Love Program – Guanshan Elementary School (Dream Home Experimental Primary School), Taitung County: The Company cooperate with Guanshan Elementary School, holding 2 times of ecology tour in Hualien and Taitung. 12,240 students were benefit from the activities.
3. Taiwan Science and Technology Public Welfare Association: Davicom sponsored the Taiwan Science and Technology Public Welfare Association: Golf Talent Cultivation

3.4.7 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 Corporate Conduct and Ethics Policy and Measures (1) Does the company have a clear ethical corporate management policy approved by its Board of Directors, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team?	V		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
(2) Whether the company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?	V		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	No difference
(3) Whether the company has established relevant policies that are duly enforced to prevent unethical conduct, provided implementation procedures, guidelines, consequences of violation and complaint procedures, and periodically reviews and revises such policies?	V		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.	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. Ethic Management Practice (1) Whether the company has assessed the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	V		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.	No difference
(2)Whether the company has set up a unit which is dedicated to promoting the company's ethical standards and regularly (at least once a year) reports directly to the Board of Directors on its ethical corporate management policy and relevant matters, and program to prevent unethical conduct and monitor its implementation?	V		Department of Management.	No difference
(3) Whether the company has established policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	V		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
(4) To implement relevant policies on ethical conducts, has the company established effective accounting and internal control systems, audit plans based on the assessment of unethical conduct, and have its ethical conduct program audited by internal auditors or CPA periodically?	V		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.	No difference
(5) Does the company provide internal and external ethical conduct training programs on a regular basis?	V		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.	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	
3.Implementation of Complaint Procedures (1) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?	V		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.	No difference
(2) Whether the company has established standard operation procedures for investigating the complaints received, follow-up measures after investigation are completed, and ensuring such complaints are handled in a confidential manner?	V		The Company has in place SOPs authorized by the Board which could be applied on any confidential investigations on such cases.	No difference
(3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	V		The Company established precautions in order to protect whistleblowers.	No difference
4.Information Disclosure Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	V		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 corporate governance policies based on Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy between the policies and their implementation: There have been no differences.				
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy): Please refer to the company's website or Market Observation Post System ("MOPS").				

3.4.8 Corporate Governance Guidelines and Regulations

Please refer to the Company's website at http://www.davicom.com.tw or Market Observation Post System ("MOPS").

3.4.9 Other Important Information Regarding Corporate Governance:

Please refer to the Company's website at http://www.davicom.com.tw or Market Observation Post System ("MOPS").

3.4.10 Status of the Internal Control System Implementation

(1). Declaration of Internal Control

DAVICOM Semiconductor, Inc.

Statement of Declaration of Internal Control

Date: February 27th, 2020

DAVICOM Semiconductor, Inc. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2019, 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 February 27th 2020 with all Directors in session under unanimous consent.

DAVICOM Semiconductor, Inc.

Chairman: Ting Hao

President: Ting Hao

(2). The Company was not required to commission an independent auditor to audit its internal control system in 2019.

3.4.11 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.

3.4.12 Major Resolutions of Shareholders' Meeting and Board Meetings

(1). Key solutions from the 2019 shareholders meeting

Meeting Resolutions	Implementation status
1. Approved the proposal for distribution of 2018 earnings.	According to the resolution, the record date for share dividend was July 16, 2019. Each shareholder will be entitled to receive a cash dividend of NT$0.8 per share on July 30, 2019.
2. Election of directors and independent directors.	The newly elected independent directors and directors were Ting Hao, Wen Chen Lin , Cheng-Feng Chiu , Yun-Ping Lin ,Chang-Yue Ueng, Jen-Jyh Hwang, Niang-Shou Wei.
3. Proposal of Release of Non-Compete Restrictions on Newly-Elected Directors	Approved to release Non-Competition Restriction on Newly-Elected Directors

(2). Key resolution from Board meeting

Date	Meeting Resolutions
02/27/2020	1. Approved the 2019 Board of Director compensation and employee compensation 2. Adopted the 2019 Business Report and Financial Statements. 3. Approved the proposal for distribution of 2019 earnings. 4. Approved the proposal for cash distribution of 2019 additional paid in capital 5. Approved the 2019 Statement of Declaration of Internal Control 6. Approved the 2020 operation budge 7. Approved the date, location and agenda for convening the shareholder's meeting. 8. Approved the proposal for shares buyback
01/21/2020	1. To report the fourth quarter 2019 internal control and audit status 2. To report 2019 CSR status report 3. To report the letter from TWSE on Nov.2019 "The explanation and requirement for listed company in order to improve the financial statement preparation ability" 4. To report Corporate Governance status 5. To report the company's the prevention of insider trading education promoting status 6. To report the company's Ethical Corporate Management Best Practice Principles promoting status

	7. Approved the proposal of 2019 Board of Directors assessment of performance 8. Approved the replacement of the internal audit officer. The new internal audit officer: Ching-Huan Hsiao 9. Approved the 2019 manager year-end bonus 10.Approved the 2020 CPA assessment of Independence and performance of competence 11. Approved the 2020 CPA appointment
11/08/2019	1. To report the third quarter 2019 internal control and audit status 2. Proposed the third quarter 2019 consolidated financial statement 3. Approved the 2020 internal audit plan
08/09/2019	1. To report the second quarter 2019 internal control and audit status 2. Proposed the second quarter 2019 consolidated financial statement 3. To report the 2017 new employees restricted stock issuance status 4. Approved the 2018 managers compensation draft
06/24/2019	1. Dr. Ting Hao was re-elected by the Board of Directors as Chairman. 2. The appointment of 4th Audit Committee members: Independent director Chang-Yue Ueng, Independent director Jen-Jyh Hwang, Independent director Niang-Shou Wei 3. The appointment of 4th Compensation Committee members: Independent director Jen-Jyh Hwang, Independent director Chang-Yue Ueng Independent director Niang-Shou Wei. 4. The appointment of 2nd Nomination Committee: Independent director Niang-Shou Wei, Independent director Jen-Jyh Hwang, Chairman Ting Hao. 5. The appointment of 2nd CSR Committee: Chairman Ting Hao, Director Cheng-Feng Chiu, Independent director Niang-Shou Wei. 6. Approved the record date for share dividend is on July 16, 2019. 7. Approved to formulate the Standard Operating Procedures for managing directors' requirements.

3.4.13 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors：None

3.4.14 Resignation or Dismissal of the Company’s Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D：None

3.5 Information Regarding the Company's Audit Fee and Independence

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
PricewaterhouseCoopers (PWC)	Se-Kai, Lin	Jan. 01, 2019 ~ Dec. 31, 2019	
	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	Remark
1	Under NT$ 2,000,000		120 thousands	Human Resource
2	NT$2,000,001 ~ NT$4,000,000	2,500 thousands		
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			

(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

3.6 Replacement of CPA： None

3.7 The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2019： None

3.8 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	2019		As of Apr. 14, 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and President	Ting Hao	116,700	0	0	0
Director	Goodyears Investments Ltd.	0	0	0	0
Representative of Juridical Persons Director	Wen Chen Lin	0	0	0	0
Director	Tzay Hua Ltd.	0	0	0	0
Representative of Juridical Persons Director	Cheng-Feng Chiu	15,000	0	0	0
Director	Yun-Ping Lin	42,000	0	0	0
Independent Director	Chang-Yue Ueng	0	0	0	0
Independent Director	Jen-Jyh Hwang	0	0	0	0
Independent Director	Niang-Shou Wei	0	0	0	0
CFO	Chun-Chun Yang	30,000	0	0	0
CTO	Cheng-Fang Chiu	15,000	0	0	0
Senior Vice President	Wen-Hsien Chen	15,000	0	0	0

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

3.9 Top 10 Shareholders Who are Related Parties to Each Other：None

3.10 Ownership of Shares in Affiliated Enterprises

As of Mar. 31, 2020 / 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. 12, 2020 /Unit: Share

Share Type	Authorized Capital				Remarks
	Outstanding Stocks	Treasury Stocks	Un-issued Stocks	Total Stocks	
Common Stocks in registered form	81,843,089	2,812,000	35,344,911	120,000,000	-

(3) Information for Shelf Registration：None

4.1.2 Status of Shareholders

As of Apr. 12, 2020

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions and Natural Persons	Individuals	Total
Number of Shareholders	0	0	81	43	25,228	25,352
Shareholding (shares)	0	0	6,474,503	1,343,644	74,024,942	81,843,089
Percentage	0	0	7.911%	1.642%	90.447%	100.000%

Note：The Status of Shareholders does not include the Company's treasury Stocks: 2,812,000 shares.

4.1.3 Shareholding Distribution Status

(1). Common Shares

As of Apr. 12, 2020

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	14,213	355,219	0.43%
1,000 ~ 5,000	8,446	17,061,185	20.85%
5,001 ~ 10,000	1,487	11,553,878	14.12%
10,001 ~ 15,000	416	5,155,464	6.30%
15,001 ~ 20,000	277	5,130,516	6.27%
20,001 ~ 30,000	181	4,586,571	5.60%
30,001 ~ 40,000	88	3,189,278	3.90%
40,001 ~ 50,000	60	2,767,676	3.38%
50,001 ~ 100,000	107	7,437,410	9.09%
100,001 ~ 200,000	41	6,045,597	7.39%
200,001 ~ 400,000	27	7,418,912	9.06%
400,001 ~ 600,000	3	1,536,256	1.88%
600,001 ~ 800,000	1	705,500	0.86%
800,001 ~ 1,000,000	2	1,717,000	2.10%
1,000,001 ~ 1,200,000	0	0	0.00%
1,200,001 ~ 1,400,000	0	0	0.00%
1,400,001 ~ 1,600,000	1	1,480,652	1.81%
1,600,001 ~ 1,800,000	1	1,719,500	2.10%
1,800,001 ~ 2,000,000	0	0	0.00%
2,000,001 or over	1	3,982,475	4.87%
Total	25,352	81,843,089	100%

Note：The Status of Shareholders does not include the Company's treasury Stocks: 2,812,000 shares.

(2). Preferred Shares：None

4.1.4 List of Major Shareholders

Unit: Share

Shareholder's Name	Shareholding	
	Shares	Percentage
Goodyears Investments Ltd.	3,982,475	4.87%
Ting Hao	1,719,500	2.10%
Tzay Hua, Ltd.	1,480,652	1.81%
Yun-Ping Lin	900,000	1.10%
Mr. Hsieh	817,000	1.00%
Teipei Fubon Bank Trust Account	705,500	0.86%
The Emerging Markets Core Equity Portfolio of DFA Investment Dimensions Group Inc.	546,888	0.67%
Mr. Torng	544,398	0.67%
Mr. Chen	444,970	0.54%
Mr. Hu	395,000	0.48%

Note：The Status of Shareholders does not include the Company's treasury Stocks: 2,812,000 shares.

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

Unit: NT$

Items	2018 (Distributed In 2019)	2019 (Distributed In 2020)	Jan. 1 ~ Mar. 31, 2020 (Note 4)
Market Price per Share			
Highest Market Price	28.00	21.00	21.00
Lowest Market Price	14.75	16.35	14.20
Average Market Price	21.1	17.90	18.48
Net Worth per Share			
Before Distribution	13.74	13.74	NA
After Distribution	13.20	Note 5	NA
Earnings per Share			
Weighted Average Shares (thousand shares)	84,580	83,190	NA
Diluted Earnings Per Share	0.44	0.50	NA
Adjusted Diluted Earnings Per Share	0.44	Note 5	NA
Dividends per Share			
Cash Dividends	0.40	Note 5	NA
Stock Dividends			
Dividends from Retained Earnings	0	Note 5	NA
Dividends from Capital Surplus	0.40	Note 5	NA
Accumulated Undistributed Dividends	0	Note 5	NA
Return on Investment			
Price / Earnings Ratio	47.95	35.80	NA
Price / Dividend Ratio	52.75	Note 5	NA
Cash Dividend Yield Rate	1.90%	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 2019 earnings distribution has been approved by Board of Directors on Feb. 27, 2020. But, it hasn't been approved by the 2020 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 2019 Profits (Approved by the Board and subject to Shareholders' approval)

A total of NT$38,244,441 out of 2019 distributable profits will be distributed as cash dividends. Each shareholder will receive NT$0.46 per share which is 90.00% of distributable profits. Additional total of NT$29,099,031 out of Paid in Capital will be distributed as cash dividends. Each shareholder will receive NT$0.35 per share. Each shareholder will be entitled to receive a total cash dividend of NT$0.81 per share.

4.1.7 Effect of 2019 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 2019, it is estimated 8.53% 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$1,010,217(2% of pre-tax profit) and the profit for total employees is NT$ 4,308,448(8.53% of pre-tax profit); both shall be paid in cash. The amounts are as same as those recognized in the 2019 financial statement.

(4) The Directors' remuneration of 2018 was NT$959,563 and total employees' compensation was NT$4,582,868; 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 May. 01, 2020

Repurchase Times	The first time,2018	The first time,2019
Purpose of the share repurchase	To transfer to employees	To transfer to employees
Scheduled period for the repurchase	2018/12/12 - 2019/02/11	2020/03/02- 2020/05/01
Repurchase price range	14.5 – 24	16.5-25
Number of shares repurchased	1,515,000 shares	1,400,000 shares
Total monetary amount of the shares repurchased	NT$ 28,115,318	NT$ 22,758,483
Cumulative number of won shares held	1,515,000 shares	2,915,000 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%	3.44%

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：

(1) Issuance of New Restricted Employee Shares

As of 4/12/2020

Type of New Restricted Employee Shares	1th Tranche2017
Date of Effective Registration	2017.08.08
Issue date	2017.10.02
Number of New Restricted Employee Shares Issued	1,400,000 shares
Issued Price (NT$)	10/share
New Restricted Employee Shares as a Percentage of Shares Issued	1.68%
Vesting Conditions of New Restricted Employee Shares	If an employee continues to be employed in the Company through the vesting dates, without any violation of any terms of the Company's employment agreement, employee handbook, or policies and achievement of both employee performance criterion (more than or equal to 80) and the Company's operation objectives during the vesting period, are eligible to receive the vested shares. The actual portions of the vesting shares shall be determined by achievement of both personal performance and the Company's operation objectives. The calculation of the vesting shares ratio is as below: 1st year ended/20%,/ income before tax of each should no lower than 41.7million. eligible 2nd year ended /30%/ income before tax of each should no lower than 46.7million. 3rd year ended/50% / income before tax of each should no lower than 51.7 million.

Restricted Rights of New Restricted Employee Shares	1. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares, excluding inheritance. 2. After new restricted employee shares are issued e, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares.
Custody Status of New Restricted Employee Shares	After new restricted employee shares are issued, before the vesting conditions have been met, the shares must be deposited in TDCC or the trust which the Company designated. And conduct with the share trust institution matters including, but not limited to, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement.
Measures to be Taken When Vesting Conditions are not Met	Repurchasing shares according to Issue Price and cancel the restricted employee shares.
Number of New Restricted Employee Shares that have been Redeemed or Bought Back	0 share
Number of Released New Restricted Employee Shares	694,500 shares
Number of Unreleased New Restricted Shares	705,000 shares
Ratio of Unreleased New Restricted Shares to Total Issued Shares (%)	0.83%

(2) List of Executives Receiving New Restricted Employee Shares and the Top Ten Employees with New Restricted Employee Shares

As of 4/12/2020

	Title	Name	No. of New Restricted Shares	New Restricted Shares as a Percentage of Shares Issued	Released				Unreleased			
					No. of Shares	Issued Price (NT$)	Amount (NT$ thousands)	Released Restricted Shares as a Percentage of Shares Issued	No. of Shares	Strike Price (NT$)	Amount (NT$ thousands)	Unreleased Restricted Shares as a Percentage of Shares Issued
Executive officers	Chairman	Mr.Hao	624,000 shares	0.74%	312,000 shares	NT$10/share	NT$3,120,000	0.37%	312,200 shares	NT$10/share	N5$3,120,000	0.37%
	President	Mr.Chen										
	CFO	Mr.Yang										
	CTO	Mr.Chiu										
	Senior Vice President	Mr.Chen										
	Vice President	Mr.Lin										
Employees	Senior Director	Mr. Torng	560,000 shares	0.66%	280,000 shares	NT$10/share	NT$2,800,000	0.33%	280,000 shares	NT$10/share	N5$2,800,000	0.33%
	Senior Director	Mr.Yu										
	Senior Director	Mr.Tsai										
	Senior Director	Mr.Chiu										
	Senior Director	Mr.Chuang										
	Manager	Mr.Chung										
	Manager	Mr.Niou										
	Finance Manager	Ms.Chiu										
	Special Assistant	Ms.Yeh										
	Sales Manager	Ms.Yu										

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

(1). Main Areas of Business Operations

a). Design, research, develop, produce, manufacture and market the following products:

Product line of communication network integrated circuit	① Modem Chipsets ② LAN Controller ③ ISDN Modem Chipsets ④ Cable Modem Chipsets ⑤ ATM Transceiver and Controller ⑥ Provide the above-mentioned products with technological consultation services.
Product line of video images integrated circuit	① Video Decoder ②Provide technological consultation services for the product.
Product line of electronic paper display (EPD) driver integrated circuit	① EPD Segment Driver IC ② EPD Segment Controller IC ③ EPD Dot Matrix Driver Controller IC ④ Provide the above-mentioned products with technological consultation services.
Product line of microcontroller integrated circuit	① MCU IC ② Provide technological consultation services for the product.

b). Import and export of the above-mentioned products

(2). Revenue Distribution

As of Dec. 31, 2019

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

(3). 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°C~ +85°C), and general Electrical Specifications sepc.
Industrial Embedded 10/100/1000M Multi-port Giga-PHY Transceiver	Industrial Embedded 10/100/1000M Multi-port Giga-PHY Transceiver compliant with Industrial Operation Temperature (-40℃ ~+85℃)

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
AI SoC With Integrated Image Recognition	Integrated Single chip Solution with CIS, MCU and image recognition.
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

(4). 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

(1). Macroeconomic Environment
(2). Current Status and Future Development of DAVICOM
(3). Relationship with Up-, Middle- and Downstream Companies
(4). Product Trends and Competition
(5). Please refer to page 50-51 of the Chinese version annual report.

5.1.3 Research and Development

(1). Research and Development Expenses

Expressed in thousands of NTD

Year	R & D Expenses	%
01/01/2020-03/31/2020	16,386	33
01/01/2019-12/31/2019	76,976	32

(2). Please refer to page 51 of the Chinese version annual report

5.1.4 Long-term and Short-term Development Plans

(1). 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.

(2). 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

(1). Sales (Service) Region

As of Dec. 31, 2019 / Unit: NT$ thousand

Area / Division	Export Sales		Domestic Sales
	China	Overseas	Taiwan
LAN	145,972	40,181	22,233
EPD	3,193	102	4,556
Video	11,305	1,578	3,076
WAN & Others	-	8,275	2,060
Total	160,470	50,136	31,925

(2). 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.

(3). 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.

(4). Favorable and Unfavorable Factors in the Long Term

a). <u>Favorable factors:</u>

-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

b). <u>Unfavorable factors:</u>

-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

(1). Major Products and Their Main Uses

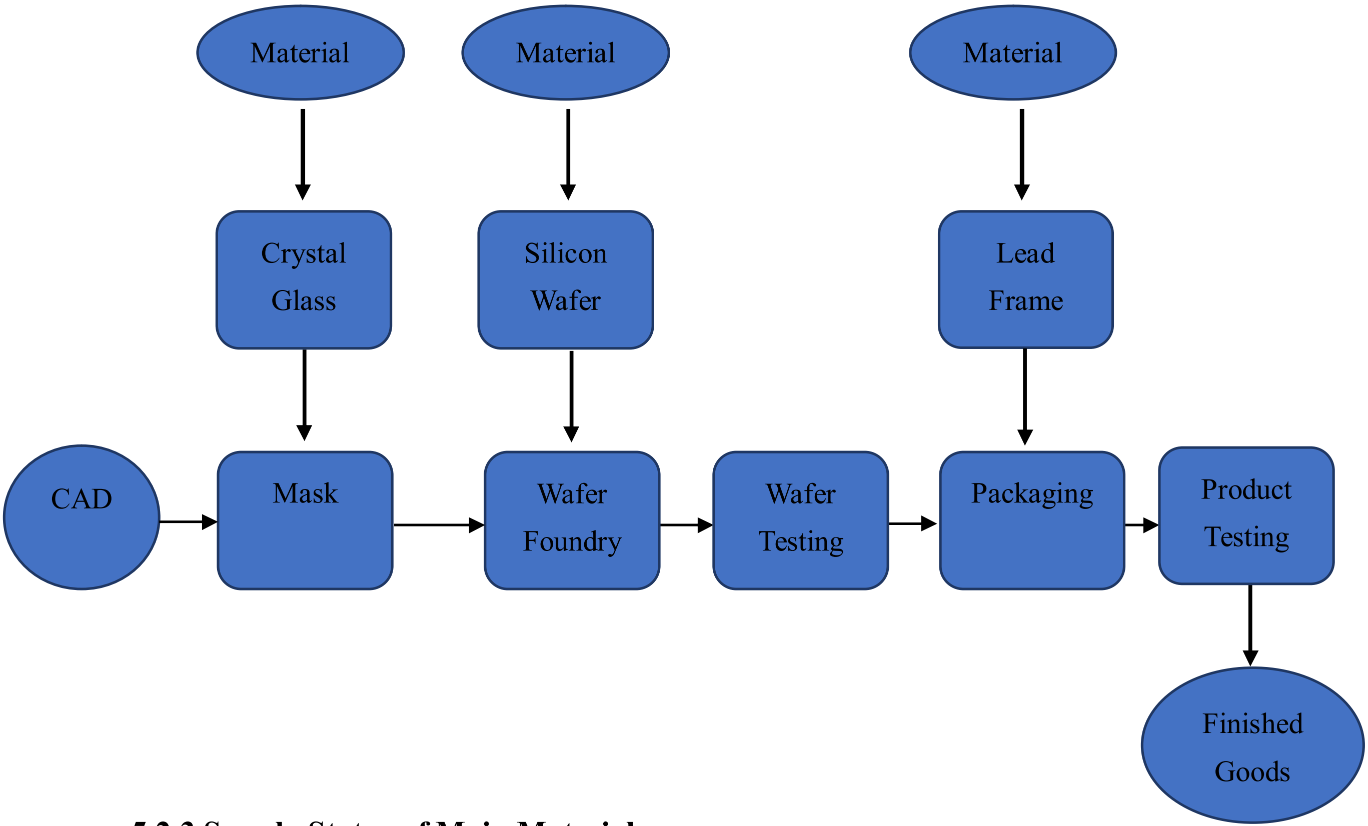
Major Products	Main Uses
Local Area Network Chipsets (LAN)	Computer communications application on the network card, hubs and switches, as local network resources to transfer and share.
Wide Area Network Chipsets (WAN)	Computer communications on the application of the data machine, as a remote access 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.

(2). 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

(1). Major Suppliers in the Last Two Calendar Years

Unit: NT$ thousands

Item	2018				2019			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	I	22,923	69.68	None	I	19,460	68.91	None
2	IV	3,323	10.10	None	III	5,558	19.68	None
3	V	2,191	6.66	None	V	1,375	4.87	None
4	Others	4,459	13.56	None	Others	1,845	6.54	None
	Net Total Supplies	32,896	100.00		Net Total Supplies	28,238	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.

(2). Major Clients in the Last Two Calendar Years

Unit: NT$ thousands

Item	2018				2019			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	B	60,336	23.11	None	B	64,627	26.65	None
2	A	49,456	18.94	None	A	38,414	15.84	None
3	C	35,094	13.44	None	C	36,000	14.48	None
4	Others	116,209	44.51	None	Others	103,490	42.67	None
	Net Total Supplies	261,095	100.00		Net Total Supplies	242,531	100.00	

5.2.5 Production in the Last Two Years

Unit: NT$ thousands/ thousand pieces

Year Output / Major Products	2018			2019		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
LAN	-	6,160	65,611	-	6,396	61,980
EPD	-	1,687	9,410	-	1,082	6,334
Others	-	333	5,941	-	341	7,215
Total	-	8,180	80,962	-	7,819	75,529

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	2018				2019			
	Local		Export		Local		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
LAN	782	35,129	5,510	191,326	570	22,233	5,658	186,154
EPD	1,013	5,693	604	5,959	807	4,556	344	3,295
Others	79	3,023	3,084	19,965	113	5,136	296	21,157
Total	1,874	43,845	9,198	217,250	1,490	31,925	6,298	210,606

5.3 Human Resources

Year		2018	2019	As of Mar. 31, 2020
Number of Employees	Engineering	58	55	56
	Administration	19	19	21
	Total	77	74	77
Average Age		49.2	49.9	49.9
Average Years of Service		12.6	13.8	13.3
Education	Doctoral	1	1	1
	Master	28	27	28
	Bachelor's Degree	45	44	45
	Senior High School	3	2	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 56~57 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

Year / Time		Financial Summary for The Last Five Years				
		Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019
Current assets		710,001	683,557	655,442	603,561	531,249
Property, Plant and Equipment		131,535	128,085	125,105	121,633	160,142
Intangible assets		2	68	125	152	84
Other assets		9,433	5,758	6,888	8,338	15,291
Total assets		1,336,466	1,297,684	1,263,760	1,206,834	1,229,378
Current liabilities	Before distribution	58,355	55,274	45,825	39,593	44,606
	After distribution	154,930	146,854	122,015	106,105	Note
Non-current liabilities		29,844	22,418	18,020	17,889	80,422
Total liabilities	Before distribution	88,199	77,692	63,845	57,482	125,028
	After distribution	184,774	169,272	140,035	123,994	Note
Equity attributable to shareholders of the parent		1,248,267	1,219,992	1,199,915	1,149,352	1,104,350
Capital stock		832,551	832,551	846,551	846,551	846,551
Capital surplus		283,187	259,876	250,252	219,776	186,520
Retained earnings	Before distribution	131,934	129,652	116,479	108,378	116,884
	After distribution	58,670	65,546	70,765	75,122	Note
Other equity interest		595.00	(2,087)	(13,367)	(8,977)	(17,490)
Treasury stock		—	—	—	(16,376)	(28,115)
Total equity	Before distribution	1,248,267	1,219,992	1,199,915	1,149,352	1,104,350
	After distribution	1,151,692	1,128,412	1,123,725	1,082,840	Note

Note: Above financial data hasn't been approved by 2020 Annual Shareholders' Meeting.

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

Unit: NT$ thousands

Year / Item		Financial Summary for The Last Five Years					As of March 31, 2020
		Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019	
Current assets		1,020,388	993,969	957,276	917,316	823,753	804,706
Property, Plant and Equipment		131,535	130,087	126,720	122,860	160,982	159,266
Intangible assets		2	68	124	153	84	165
Other assets		9,433	5,788	6,888	8,338	15,292	15,548
Total assets		1,336,791	1,299,445	1,265,739	1,209,347	1,234,889	1,204,670
Current liabilities	Before distribution	58,676	55,743	47,470	40,972	48,998	37,657
	After distribution	155,342	147,323	123,660	107,004	Note	Note
Non-current liabilities		29,844	23,080	18,171	17,942	80,423	80,611
Total liabilities	Before distribution	88,520	78,823	65,641	58,914	129,421	118,268
	After distribution	185,095	170,403	141,831	125,426	Note	Note
Equity attributable to shareholders of the parent		1,248,267	1,219,992	1,199,915	1,149,352	1,104,350	1,085,285
Capital stock		832,551	832,551	846,551	846,551	846,551	846,551
Capital surplus		283,187	259,876	250,252	219,776	186,520	186,520
Retained earnings	Before distribution	131,934	129,652	116,479	108,378	116,884	117,348
	After distribution	58,670	65,546	70,765	75,122	Note	Note
Other equity interest		595	(2,087)	(13,367)	(8,977)	(17,490)	(15,961)
Treasury stock		–	–	–	(16,376)	(28,115)	(49,173)
Non-controlling interest		4	630	183	1,081	1,118	1,117
Total equity	Before distribution	1,248,271	1,220,622	1,200,098	1,150,433	1,105,468	1,086,402
	After distribution	1,151,696	1,129,042	1,123,908	1,083,921	Note	Note

Note1: Above financial data hasn't been approved by 2020 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				
	2015	2016	2017	2018	2019
Operating revenue	328,546	312,386	305,296	250,432	232,706
Gross profit	224,435	217,279	209,093	170,766	158,130
Income from operations	59,989	63,067	57,957	13,084	12,120
Non-operating income and expenses	38,044	18,958	1,048	29,352	33,072
Income before Income Tax	98,033	82,025	59,005	42,436	45,192
Net income from operations of continued segments	84,342	71,272	52,327	37,635	41,396
Net income	84,342	71,272	52,327	37,635	41,396
Other comprehensive income (income after tax)	78,141	68,300	55,197	39,405	28,266
Total comprehensive income	78,141	68,300	55,197	39,405	28,266
Net income attributable to shareholders of the parent	84,342	71,272	52,327	37,635	41,396
Net income attributable to non-controllin interest	—	—	—	—	—
Comprehensive income attributable to Shareholders of the parent	78,141	68,300	55,197	39,405	28,266
Comprehensive income attributable to non-controlling interest	—	—	—	—	—
Earnings per share	1.01	0.86	0.63	0.44	0.50

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

Year / Item	Financial Summary for The Last Five Years					As of March 31,2020
	2015	2016	2017	2018	2019	
Operating revenue	328,897	312,545	307,342	261,095	242,531	49,274
Gross profit	224,663	217,374	210,072	173,796	161,049	36,129
Income from operations	56,314	58,340	53,338	9,980	10,186	2,953
Non-operating income and expenses	41,719	23,393	5,239	32,871	35,089	(343)
Income before Income Tax	98,033	81,733	58,577	42,851	45,275	2,610
Net income from operations of continued segments	84,342	70,886	51,880	37,923	41,433	463
Net income	84,342	70,886	51,880	37,923	41,433	464
Other comprehensive income (income after tax)	78,141	67,914	54,750	39,693	28,303	1,248
Total comprehensive income	78,141	67,914	54,750	39,693	28,303	1,248
Net income attributable to shareholders of the parent	84,342	71,272	51,880	37,923	41,396	463
Net income attributable to non-controlling interest	—	(386)	(447)	288	37	(1)
Comprehensive income attributable to Shareholders of the parent	78,141	68,300	55,197	39,405	28,266	1,249
Comprehensive income attributable to non-controlling interest	—	(386)	(447)	288	37	(1)
Earnings per share	1.01	0.86	0.63	0.44	0.50	0.01

Note: Above financial data has been audited by CPA.

6.1.5 Auditors' Opinions from 2015 to 2019

Year	Accounting Firm	CPA	Audit Opinion
2019	PWC	Se-Kai Lin, Chun-Yuan Hsiao	Unqualified 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

6.2 Five-Year Financial Analysis

6.2.1 Five-Year Individual Financial Analysis - IFRS

Item \ Year		Financial Analysis for the Last Five Years				
		2015	2016	2017	2018	2019
Financial structure (%)	Debt Ratio	6.60	5.99	5.05	4.76	10.17
	Ratio of long-term capital to property, plant and equipment	971.69	969.99	973.53	959.64	739.83
Solvency (%)	Current ratio	1,216.69	1,236.67	1,430.32	1,524.41	1,190.98
	Quick ratio	1,157.62	1,181.51	1,346.57	1,439.75	1,122.29
	Times interest earned (times)	1,691.22	2,344.54	1,967.83	1,369.90	71.07
6.13Operatig performance	Accounts receivable turnover (times)	5.62	5.45	6.28	5.28	5.73
	Average collection period	64.95	66.97	58.12	69.13	63.70
	Inventory turnover (times)	1.97	1.85	1.76	1.52	1.76
	Accounts payable turnover (times)	7.75	7.51	6.82	6.13	7.09
	Average days in sales	185.28	197.30	207.39	240.13	207.39
	Property, plant and equipment turnover (times)	2.46	2.41	2.41	2.03	1.65
	Total assets turnover (times)	0.25	0.24	0.24	0.20	0.19
Profitability	Return on total assets (%)	6.31	5.41	4.09	3.05	3.44
	Return on shareholders' equity (%)	6.71	5.78	4.32	3.20	3.67
	Pre-tax income to paid-in capital (%)	11.78	9.85	6.97	5.01	5.34
	Profit ratio (%)	25.67	22.82	17.14	15.03	17.79
	Earnings per share (NT$)	1.01	0.86	0.63	0.44	0.50
Cash flow	Cash flow ratio (%)	156.45	149.64	116.91	134.22	161.48
	Cash flow adequacy ratio (%)	113.15	119.70	94.46	64.98	57.95
	Cash reinvestment ratio (%)	(0.39)	(1.23)	(3.47)	(2.17)	0.53
Leverage	Operating leverage	3.01	2.87	2.82	8.34	6.73
	Financial leverage	1.00	1.00	1.00	1.00	1.06
Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%) Please refer to page 62 of the Chinese version annual report.						

6.2.2. Five-Year Consolidated Financial Analysis - IFRS

Item \ Year		Financial Analysis for the Last Five Years 2015	2016	2017	2018	2019	As of March 31,2020
Financial structure (%)	Debt Ratio	6.62	6.07	5.19	4.87	10.48	9.82
	Ratio of long-term capital to property, plant and equipment	971.69	955.57	961.24	950.10	735.97	732.04
Solvency (%)	Current ratio	1,739.02	1,783.13	2,016.59	2,238.89	1,681.20	2,136.94
	Quick ratio	1,680.20	1,728.43	1,932.28	2,151.99	1,613.08	2,025.56
	Interest earned ratio (times)	1,219.12	2,336.23	1,890.58	1,383.29	71.19	17.31
Operating performance	Accounts receivable turnover (times)	5.63	5.44	6.32	5.48	6.30	5.91
	Average collection period	64.83	67.10	57.75	66.61	57.94	61.75
	Inventory turnover (times)	1.97	1.85	1.78	1.63	1.82	1.18
	Accounts payable turnover (times)	7.76	7.52	6.90	6.47	6.63	4.56
	Average days in sales	185.28	197.29	205.05	223.92	200.54	309.28
	Property, plant and equipment turnover (times)	2.47	2.39	2.39	2.09	1.71	1.23
	Total assets turnover (times)	0.25	0.24	0.24	0.21	0.20	0.16
Profitability	Return on total assets (%)	6.30	5.38	4.05	3.07	3.43	0.05
	Return on shareholders' equity (%)	6.71	5.74	4.29	3.23	3.67	0.02
	Pre-tax income to paid-in capital (%)	11.78	9.82	6.92	5.06	5.35	0.31
	Profit ratio (%)	25.64	22.68	16.88	14.52	17.08	0.94
	Earnings per share (NT$)	1.01	0.86	0.63	0.44	0.50	0.01
Cash flow	Cash flow ratio (%)	159.08	151.10	94.35	131.72	126.64	(94.65)
	Cash flow adequacy ratio (%)	128.41	118.49	87.43	77.29	67	50.16
	Cash reinvestment ratio (%)	(0.21)	(1.10)	(4.29)	(2.10)	(0.44)	(3.58)
Leverage	Operating leverage	3.14	2.89	2.84	14.13	12.86	9.01
	Financial leverage	1.00	1.00	1.00	1.00	1.07	1.06
Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%) Please refer to page 64 of the Chinese version annual report.							

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 2019 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 2019 Business Report and proposal for allocation of profits. The 2019 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: Chang-Yue Ueng

Independent Director: Jen-Jyh Hwang

Independent Director: Niang-Shou Wei

February 27, 2020

6.4 2019 Only Financial Statement and Report of Independent Accountants

Please refer to page A01~A63

6.5 2019 Consolidated Financial Statement and Report of Independent Accountants

Please refer to page B01~B61

6.6 The Impact on the Company's Financial Status in Cases where the Company or its Affiliates have Financial Difficulties：None

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

Unit: NT$ thousands

Item \ Year	2019	2018	Difference	
			Amount	Amount
Current assets	823,753	917,316	-93,563	-10.20%
Property, plant and equipment	160,982	122,860	38,122	31.03%
Intangible assets	84	153	-69	-45.10%
Other assets	250,070	169,018	81,052	47.95%
Total Assets	1,234,889	1,209,347	25,542	2.11%
Current liabilities	48,998	40,972	8,026	19.59%
Non-current liabilities	80,423	17,942	62,481	348.24%
Total liabilities	129,421	58,914	70,507	119.68%
Equity attributable to owners of parent	1,104,350	1,149,352	-45,002	-3.92%
Capital stock	846,551	846,551	0	0.00%
Capital surplus	186,520	219,776	-33,256	-15.13%
Retained earnings	116,884	108,378	8,506	7.85%
Other equity interest	-17,490	-8,977	-8,513	94.83%
Treasury shares	-28,115	-16,376	11,739	71.68%
Non-controlling interests	1,118	1,081	37	3.42%
Total equity	1,105,468	1,150,433	-44,965	-3.91%

Analysis of changes in financial ratios:

1. Increase in Property, plant and equipment: The increase was due to the construction is unfinished.
2. Increase in Other assets and Non-current liabilities: Mainly due to the IFRS 16 for recognition of Right-of-use Assets.
3. Increase in Treasury shares: The increase was due to resolution of Buyback of Common Stock.

7.2 Analysis of Financial Performance

Unit: NT$ thousands

	2019	2018	Difference	
			Amount	Amount
Operating revenue	242,531	261,095	-18,564	-7.11%
Gross profit from operations	161,049	173,796	-12,747	-7.33%
Net operating income	10,186	9,980	206	2.06%
Non-operating income and expenses	35,089	32,871	2,218	6.75%
Profit before tax	45,275	42,851	2,424	5.66%
Tax expense	3,842	4,928	-1,086	-22.04%
Profit	41,433	37,923	3,510	9.26%
Other comprehensive income, net after tax	-13,130	1,770	-14,900	-841.81%
Total comprehensive income	28,303	39,693	-11,390	-28.70%
Profit, attributable to owners of parent	41,396	37,635	3,761	9.99%
Comprehensive income, attributable to owners of parent	28,266	39,405	-11,139	-28.27%

Analysis of changes in financial ratios: None

7.3 Analysis of Cash Flow

7.3.1 Remedy for Cash Deficit and Liquidity Analysis

Year / Item	2019	2018	Variance (%)
Cash Flow Ratio (%)	126.64	131.72	-3.86%
Cash Flow Adequacy Ratio (%)	67.00	77.29	-13.31%
Cash Reinvestment Ratio (%)	-0.44	-2.10	79.05%
Analysis of financial ratio change: The increase in Cash Flow Reinvestment Ratio (over 20%): The increase is due to the Net Cash Provided by Operating Activities in 2019 is more than in 2018.			

7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT$ thousands

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plans	Financing Plans
752,567	38,201	88,401	702,367	-	-
(1) Analysis of Cash Flow for the Coming Year: a). Estimated Net Cash Flow NT$ 38,201 thousands from Operating Activities:：Mainly due to the estimated sales growth. b). The Cash Flow used in Cash dividends distribution. (2)Remedy for Estimated Cash Deficit and Liquidity Analysis: Nona					

7.4 Major Capital Expenditure Items：None

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

Unit: NT$ thousands

Remarks / Item	2019 Income (Loss) Amount	Policies	Reasons for Gain or Loss	Action Plan	Investment Plan for the Next 12 Months
TSCC Inc.	95,835	Holding	Gain	-	-
Davicom Investment Inc.	212,029	Investment holding	Gain	-	-

Note：None of the Invest amounts has exceeded five percent (5%) of its paid-in capital

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

(1) Risks associated with interest rate and Foreign Exchange Rates：

a). Interest Rate：

	Ratio of Interest Income to Company Income (%)	Ratio of Interest Expense to Company Income (%)
2019	11.54%	1.56%
2018	7.18%	0.08%

b). Exchange Rate：

	Exchange benefit (Loss)	Ratio of Exchange benefit (Loss) to Company Income (%)
2019	(5,114) thousands	(12.34)%
2018	8,372 thousands	22.07%

(2) Risks associated with inflation：

There was no major impact from inflation on the Company's 2019 operations.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions：

The Company did not engage in any high-risk or high-leveraged investments. The Company formulate the procedures related to lending and endorsement.

7.6.3 Future Research & Development Projects and Corresponding Budget

Research Projects	Completion (%)	Expected Research Expenditure(NT$)	Expected Completion Schedule
Dispensing Counter ESL Tag System (ESL Tag included)	- Wireless Protocol is being developed - ESL Tag is being developed - RF Gateway Server is being developed - UI is being developed - Server API is being developed	20 million	2020Q4
High speed Ethernet transceiver chips.	IC qualification Ongoing	15 million	2020Q3
Voltage mode low-power high speed Ethernet transceiver chipsets	IC is being developed	10 million	2021Q2
Low power multi-color Dot-Matrix type EPD driver	IC qualification Ongoing	35 million	2020Q4
Low power MCU with LCD display driver interface for TENS/EMS	IC qualification Ongoing	20 million	2020Q3

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales：

The Company consistently pays close attention to any changes in local and foreign policies and makes appropriate amendments to our systems when necessary. During 2019 and as of the date of publication of this annual report, changes in related laws have not had a significant impact on our operations.

7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales：

The Company's gross margin decreased since the competitive market. The Company focuses on product improvement and cost reduction to response as the measures to the effect.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures：

The Company has consistently maintained an ethical business philosophy. Ethics has become the Company's essence in corporate governance.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans： None

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans： None

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration： None

7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%： None

7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights： None

7.6.12 Litigation or Non-litigation Matters： None

7.6.13 Other Major Risks：

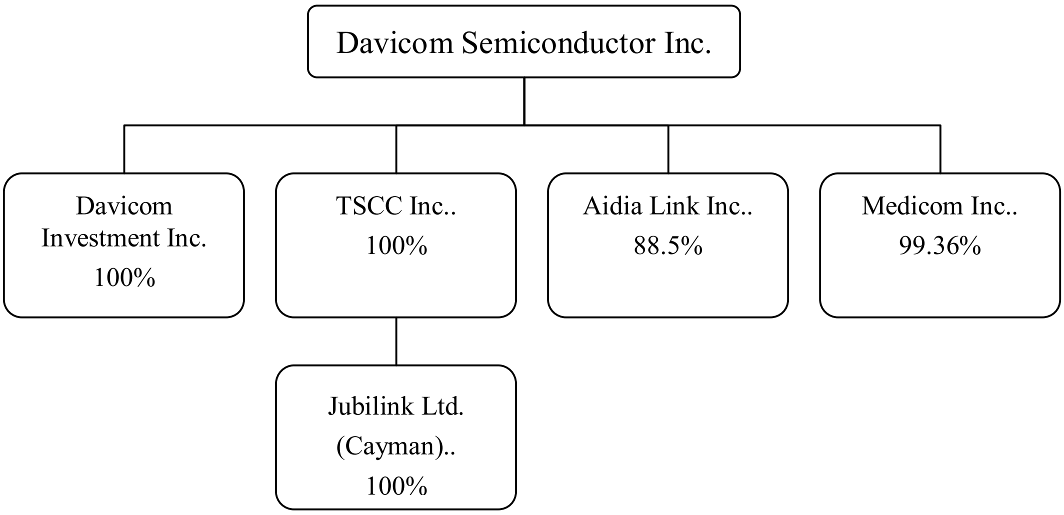
Please refer to page 176~177 of the Chinese annual report.

7.7 Other Material Events： None

VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 The Company's Affiliated Companies Chart



8.1.2 The Company Affiliated Companies

Company Name	Date of Incorporation	Place of Registration	Capital Stock	Major Business
TSCC INC.	Jan. 2002	TrustNet Chambers,Lotemau P.O. Box 1225, Apia, Samoa.	US$4,400 thousands	Investment activities
Davicom Investment Inc.	Apr. 2006	2F., No. 1, Ln. 53, Xinzhuang St., East Dist., Hsinchu City 300, Taiwan	NT$212,000 thousands	Investment activities
Medicom Inc.	Jul. 2010	2F., No. 1, Ln. 53, Xinzhuang St., East Dist., Hsinchu City 300, Taiwan	NT$5,000 thousands	Engaged in manufacturing electronic spare part
Aidia Link Inc.	Apr. 2016	15F.-3, No. 60-3, Jianxin Rd., East Dist., Hsinchu City 300, Taiwan	NT$10,000 thousands	Telecommunication Equipment and Apparatus Manufacturing
Jubilink Ltd.	Jan. 2002	P.O. Box 219, Grand Cayman	US$2,500 thousands	Investment activities

8.1.3 Common Shareholders of the Company and Its Subsidiaries or Its Affiliates with Actual of Deemed Control：None

8.1.4 Business Scope of the Company and Its Affilied Companies

Company Name	Major Business
TSCC INC.	Investment activities
Davicom Investment Inc.	Investment activities
Medicom Inc.	Manufacturing
Aidia Link Inc.	Manufacturing

8.1.5 List of Director, Supervisors and Presidents of the Company's Affiliated Companies

Company Name	Title	Name of Representative	Shares	% of Holding
TSCC INC.	Director	Nien-Tai Chen	4,400,000	100.00%
Davicom Investment Inc.	Chairman and President Director Director Supervisor	Ting Hao Nien-Tai Chen Chun-Chun Yang Kuei-Feng Chiu	21,200,000 21,200,000 21,200,000 0	100.00% 100.00% 100.00% 0.00%
Medicom Inc.	Chairman Director Director Supervisor	Wen-Hsien Chen Cheng-Feng Chiu Chun-Chun Yang Chu-Mei Lin	496,811 496,811 496,811 0	99.36% 99.36% 99.36% 0.00%
Aidia Link Inc.	Chairman Director/President Director Supervisor	Nien-Tai Chen Ping-Hung Lin Chun-Chun Yang Kuei-Feng Chiu	885,000 115,000 885,000 0	88.50% 11.50% 88.50% 0.00%

8.1.6 Operation Highlights of the Company's Affiliated Companies

Unit: NT$ thousands

Company Name	Capital	Asset	Liabilities	Net worth	Net Sales	Operation Income(Loss)	Net Income	EPS (NT$)
TSCC INC.	143,224	95,835	-	95,835	-	(2,220)	11,270	-
Davicom Investment Inc.	222,000	213,039	1,010	212,029	37,115	1,102	924	0.04
Medicom Inc.	5,000	333	-	333	19	(19)	(18)	(0.04)
Aidia Link Inc.	10,000	13,081	3,383	9,698	9,810	(2.415)	323	0.32
Jubilink Ltd.	82,725	-	-	-	-	-	-	-

8.1.7 Consolidated Financial Statements of Affiliated Enterprises：

Please refer to page B01~B61

8.1.8 Business Reports of Affiliated Enterprises：None

8.2 Private Placement Securities in the Most Recent Years：None

8.3 Holding or Disposition of the Company Stocks by Subsidiaries：None

8.4 Other Necessary Supplement：None

IX. Any Events that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan：None

DAVICOM SEMICONDUCTOR, INC.

PARENT COMPANY ONLY FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No. 333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F:+ 886 (2) 2729 6686, www.pwc.tw

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$31,440 thousand as at December 31, 2019.

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$24,841 thousand and NT$13,971 thousand as at December 31, 2019, respectively.

pwc 資誠

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 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.

pwc 資誠

Other matters

The report of 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 other independent accountants for the years ended December 31, 2019 and 2018, is NT$1,210 thousand and NT$3,873 thousand, respectively. Additionally, the recognised comprehensive income comprising share of other comprehensive income in subsidiaries, were both NT$0 thousand for the abovementioned periods. As of December 31, 2019 and 2018, the balance of the investments using the equity method was NT$220,612 thousand and NT$219,402 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.

pwc 資誠

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.

pwc 資誠

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

February 27, 2020

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, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 464,395	38	$ 524,498	44
1150	Notes receivable, net	6(3)	-	-	64	-
1170	Accounts receivable, net	6(3)	31,440	3	39,994	3
1200	Other receivables		4,773	-	5,483	-
130X	Inventories, net	6(4)	24,841	2	32,082	3
1410	Prepayments		5,800	-	1,440	-
11XX	**Current Assets**		531,249	43	603,561	50
	Non-current assets					
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	30,552	3	41,958	3
1550	Investments accounted for under equity method	6(5)	316,777	26	317,811	26
1600	Property, plant and equipment	6(6)	160,142	13	121,633	10
1755	Right-of-use assets	6(7)	63,750	5	-	-
1760	Investment property - net	6(9)	102,940	8	105,860	9
1780	Intangible assets		84	-	152	-
1840	Deferred income tax assets	6(24)	8,593	1	7,521	1
1900	Other non-current assets	6(10)	15,291	1	8,338	1
15XX	**Non-current assets**		698,129	57	603,273	50
1XXX	**Total assets**		$ 1,229,378	100	$ 1,206,834	100

(Continued)

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

	Liabilities and Equity	Notes	December 31, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current liabilities					
2130	Current contract liabilities		$ 57	-	$ -	-
2150	Notes payable		5,944	1	4,687	-
2170	Accounts payable		4,856	1	5,557	1
2200	Other payables	6(11)	28,560	2	28,959	2
2230	Current income tax liabilities	6(24)	2,234	-	-	-
2280	Current lease liabilities	6(27)	1,537	-	-	-
2310	Advance receipts		1,418	-	390	-
21XX	**Current Liabilities**		44,606	4	39,593	3
	Non-current liabilities					
2570	Deferred income tax liabilities	6(24)	512	-	572	-
2580	Non-current lease liabilities	6(27)	62,500	5	-	-
2600	Other non-current liabilities	6(12)	17,410	1	17,317	2
25XX	**Non-current liabilities**		80,422	6	17,889	2
2XXX	**Total Liabilities**		125,028	10	57,482	5
	Equity					
	Share capital	6(15)				
3110	Common stock		846,551	69	846,551	70
	Capital surplus	6(16)				
3200	Capital surplus		186,520	15	219,776	18
	Retained earnings	6(17)				
3310	Legal reserve		74,393	6	70,549	6
3350	Undistributed earnings	6(24)	42,491	3	37,829	3
	Other equity interest					
3400	Other equity interest		(17,490)	(1)	(8,977)	(1)
	Treasury shares	6(13)				
3500	Treasury shares		(28,115)	(2)	(16,376)	(1)
3XXX	**Total equity**		1,104,350	90	1,149,352	95
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 1,229,378	100	$ 1,206,834	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	2019 AMOUNT	2019 %	2018 AMOUNT	2018 %
4000	**Sales revenue**	6(18)	$ 232,706	100	$ 250,432	100
5000	**Operating costs**	6(4)(22)(23)	(74,576)	(32)	(79,666)	(32)
5900	**Net operating margin**		158,130	68	170,766	68
	Operating expenses	6(22)(23)				
6100	Selling expenses		(29,762)	(12)	(30,611)	(12)
6200	General and administrative expenses		(41,559)	(18)	(45,317)	(18)
6300	Research and development expenses		(74,789)	(32)	(80,553)	(32)
6450	Impairment on expected credit gains (losses)	6(3) and 12(2)	100	-	(1,201)	(1)
6000	**Total operating expenses**		(146,010)	(62)	(157,682)	(63)
6900	**Operating income**		12,120	6	13,084	5
	Non-operating income and expenses					
7010	Other income	6(19)	21,963	9	27,960	11
7020	Other gains and losses	6(20)	(708)	-	(2,321)	(1)
7050	Finance costs	6(21)	(645)	-	(31)	-
7070	Share of profit of associates and joint ventures accounted for under equity method	6(5)	12,462	5	3,744	2
7000	**Total non-operating income and expenses**		33,072	14	29,352	12
7900	**Income from continuing operations before income tax**		45,192	20	42,436	17
7950	Income tax expense	6(24)	(3,796)	(2)	(4,801)	(2)
8000	**Profit for the year from continuing operations**		41,396	18	37,635	15
8200	**Profit for the year**		$ 41,396	18	$ 37,635	15
	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 on defined benefit plans	6(13)	$ 458	-	$ 354	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)	(92)	-	234	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		366	-	588	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statement translation differences of foreign operations		(13,496)	(6)	1,182	1
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		(13,496)	(6)	1,182	1
8300	**Other comprehensive (loss) income for the year, net**		($ 13,130)	(6)	$ 1,770	1
8500	**Total comprehensive income for the year**		$ 28,266	12	$ 39,405	16
	Basic earnings per share	6(25)				
9750	**Net income**		$	0.50	$	0.44
	Diluted earnings per share	6(25)				
9850	**Net income**		$	0.49	$	0.44

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 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		-	-	-	-	-	-	(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(17)										
Legal reserve		-	-	-	5,103	(5,103)	-	-	-	-	-
Cash dividends		-	-	-	-	(45,714)	-	-	-	-	(45,714)
Cash dividends distribution from capital surplus	6(16)(17)	-	(30,476)	-	-	-	-	-	-	-	(30,476)
Restricted stocks to employees	6(14)(15)	-	3,570	(3,570)	-	-	-	-	8,330	-	8,330
Treasure share repurchase	6(15)	-	-	-	-	-	-	-	-	(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
Year 2019											
Balance at January 1, 2019		$ 846,551	$ 166,782	$ 52,994	$ 70,549	$ 37,829	($ 1,763)	$ -	($ 7,214)	($ 16,376)	$1,149,352
Profit for the year		-	-	-	-	41,396	-	-	-	-	41,396
Other comprehensive income (loss)		-	-	-	-	366	(13,496)	-	-	-	(13,130)
Total comprehensive income		-	-	-	-	41,762	(13,496)	-	-	-	28,266
Appropriation and distributed of 2018 earnings	6(17)										
Legal reserve		-	-	-	3,844	(3,844)	-	-	-	-	-
Cash dividends		-	-	-	-	(33,256)	-	-	-	-	(33,256)
Cash dividends distribution from capital surplus	6(16)(17)	-	(33,256)	-	-	-	-	-	-	-	(33,256)
Restricted stocks to employees	6(14)(15)	-	5,355	(5,355)	-	-	-	-	4,983	-	4,983
Treasure share repurchase	6(15)	-	-	-	-	-	-	-	-	(11,739)	(11,739)
Balance at December 31, 2019		$ 846,551	$ 138,881	$ 47,639	$ 74,393	$ 42,491	($ 15,259)	$ -	($ 2,231)	($ 28,115)	$1,104,350

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 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 45,192	$ 42,436
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation(including investment property and right-of-use assets)	6(6)(7)(9)	8,422	6,725
Amortisation	6(22)	3,644	3,034
Impairment on expected credit (gains) losses	6(3) and 12(2)	(100)	1,201
Cost of restricted stocks to employees	6(14)(15)	4,983	8,330
Deferred charges transferred to research and experimental expenses		-	4,912
Interest income	6(19)	(2,426)	(1,716)
Interest expense	6(21)	645	31
Share of profit of associates accounted for under equity method	6(5)	(12,462)	(3,744)
Net (profit) loss on financial assets at fair value through profit or loss	6(2)(20)	(9,546)	3,443
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss-current		-	1,600
Notes receivable		64	(2)
Accounts receivable		8,654	(5,788)
Other receivables		311	(196)
Inventories, net		7,241	4,947
Prepayments		(4,360)	(93)
Financial assets at fair value through profit or loss-noncurrent		20,952	-
Changes in operating liabilities			
Current contract liabilities		57	-
Notes payable		1,257	(2,619)
Accounts payable		(701)	(2,904)
Other payables		(399)	567
Advance receipts		1,028	(602)
Net defined benefit liabilities		86	164
Cash inflow generated from operations		72,542	59,726
Interest received		2,388	1,599
Income tax paid		(2,257)	(8,182)
Interest paid		(645)	-
Net cash flows from operating activities		72,028	53,143

(Continued)

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

	Notes	Years ended December 31 2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments accounted for under equity method	6(5)	$ -	($ 7,650)
Acquisition of property, plant and equipment	6(6)	(42,202)	(333)
Increase in refundable deposits		(94)	-
Increase in intangible assets		(120)	(212)
Increase in other assets		(10,315)	(9,211)
Net cash flows used in investing activities		(52,731)	(17,406)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in guarantee deposits received	6(12)(27)	373	-
Payments of cash dividends	6(17)	(66,512)	(76,190)
Repayments of principal for lease liabilities	6(7)(27)	(1,522)	-
Treasure stock repurchase	6(15)	(11,739)	(16,376)
Net cash flows used in financing activities		(79,400)	(92,566)
Net decrease in cash and cash equivalents		(60,103)	(56,829)
Cash and cash equivalents at beginning of year		524,498	581,327
Cash and cash equivalents at end of year		$ 464,395	$ 524,498

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, 2019 AND 2018
(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 authorised for issuance by the Board of Directors on February 27, 2020.

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 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.

IFRS 16, ‘Leases’

A. 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.

B. The Company has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Company increased 'right-of-use asset' by $65,559, increased 'lease liability' by $65,559 with respect to the lease contracts of lessees on January 1, 2019.

C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of $189 was recognised in 2019.

(d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.

(e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(f) The adjustment of the 'right-of-use asset' by the amount of any provision for onerous leases.

D. The Company calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 0.95%.

E. The Company recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$	7,484
Add: Adjustments as a result of a different treatment of extension and termination options		70,035
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	$	77,519
Incremental borrowing interest rate at the date of initial application		0.95%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	$	65,559

(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 2020 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 9, IAS 39 and IFRS7 ,'Interest rate benchmark reform'	January 1, 2020

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

(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
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
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

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 profit or loss.

(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.

(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) <u>Classification of current and non-current items</u>

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 Company 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 Statements by 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) 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 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) Leasing arrangements (lessee)－right-of-use assets/ lease liabilities

Effective 2019

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the fixed payments, less any lease incentives receivable. The Company subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability. The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(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) 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.

(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 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.

(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 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.

(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 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'.

(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 Company 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, 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 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.

(24) Revenue recognition

A. The Company 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 Company'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:.

Critical accounting estimates and assumptions

(1) 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.

(2) 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, 2019	December 31, 2018
Cash on hand	$ 60	$ 60
Checking accounts and demand deposits	205,282	109,868
Time deposits	259,053	414,570
	$ 464,395	$ 524,498

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, 2019	December 31, 2018
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Unlisted stocks	$ 34,761	$ 34,761
Emerging stocks	-	12,239
Subtotal	34,761	47,000
Valuation adjustment	(4,209)	(5,042)
	$ 30,552	$ 41,958

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

	Years ended December 31,	
	2019	2018
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	$ 9,546	($ 3,443)

B. As of December 31, 2019 and 2018, 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).

(3) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	$ -	$ 64
Accounts receivable	$ 32,541	$ 41,195
Less: Allowance for uncollectible accounts	(1,101)	(1,201)
	$ 31,440	$ 39,994

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

	December 31, 2019		December 31, 2018	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	$ 31,144	$ -	$ 34,497	$ 64
Up to 30 days	1,396	-	6,698	-
31 to 90 days	1	-	-	-
	$ 32,541	$ -	$ 41,195	$ 64

The above ageing analysis was based on past due date.

B. As of December 31, 2019 and 2018, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to $35,469.

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

(4) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Work in progress	$ 14,829	($ 6,809)	$ 8,020
Finished goods	23,983	(7,162)	16,821
	$ 38,812	($ 13,971)	$ 24,841

	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

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

	Years ended December 31,	
	2019	2018
Cost of goods sold	$ 74,576	$ 87,719
Gain on reversal of decline in market value	-	(600)
Inventory retirement losses	-	(7,451)
Others	-	(2)
	$ 74,576	$ 79,666

(5) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Davicom Investment Inc.	$ 212,029	$ 211,105
TSCC Inc.	95,835	98,061
Medicom Corp.	330	348
Aidialink Corp.	8,583	8,297
	$ 316,777	$ 317,811

A. The investment gains recognised by the Company for the years ended December 31, 2019 and 2018 using the equity method are $12,462 and $3,744, respectively, which were recognised based on the investees' financial statements audited by independent accountants in the same periods.

B. For information relating to the subsidiaries of the Company, please refer to Note 4(3) of the 2019 consolidated financial statements of the Company.

(6) Property, plant and equipment

	2019				
	Buildings	Computer communications equipment	Construction in progress	Others	Total
At January 1					
Cost	$ 170,034	$ 708	$ -	$ 735	$ 171,477
Accumulated depreciation	(49,249)	(275)	-	(320)	(49,844)
	$ 120,785	$ 433	$ -	$ 415	$ 121,633
Opening net book amount as at January 1	$ 120,785	$ 433	$ -	$ 415	$ 121,633
Additions	-	239	41,939	24	42,202
Depreciation charge	(3,344)	(173)	-	(176)	(3,693)
Closing net book amount as at December 31	$ 117,441	$ 499	$ 41,939	$ 263	$ 160,142
At December 31					
Cost	$ 169,884	$ 857	$ 41,939	$ 679	$ 213,359
Accumulated depreciation	(52,443)	(358)	-	(416)	(53,217)
	$ 117,441	$ 499	$ 41,939	$ 263	$ 160,142

	2018				
	Buildings	Computer communications equipment	Construction in progress	Others	Total
At January 1					
Cost	$ 170,034	$ 931	$ -	$ 811	$ 171,776
Accumulated depreciation	(45,842)	(412)	-	(417)	(46,671)
	$ 124,192	$ 519	$ -	$ 394	$ 125,105
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 Deember 31					
Cost	$ 170,034	$ 708	$ -	$ 735	$ 171,477
Accumulated depreciation	(49,249)	(275)	-	(320)	(49,844)
	$ 120,785	$ 433	$ -	$ 415	$ 121,633

(7) Leasing arrangements－lessee

Effective 2019

A. The Company leases various assets including land. Rental contracts are typically made for periods for 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	December 31, 2019	Year ended December 31, 2019
	Carrying amount	Depreciation charge
Land	$ 63,750	$ 1,809

C. The information on profit and loss accounts relating to lease contracts is as follows:

	Year ended December 31, 2019
Items affecting profit or loss	
Interest expense on lease liabilities	$ 616
Expense on short-term lease contracts	$ 189
Expense on leases of low-value assets	$ 100

D. For the year ended December 31, 2019, the Company’s total cash outflow for leases was $2,427.

(8) Leasing arrangements – lessor

Effective 2019

A. The Company leases various assets including buildings. Rental contracts are typically made for periods of 1 and 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

B. For the year ended December 31, 2019, the Company recognised rent income in the amounts of $18,065, based on the operating lease agreement, which does not include variable lease payments.

C. Gain arising from operating lease agreements for the year ended December 31, 2019 is as follows:

	Year ended December 31, 2019
Rent income	$ 18,065

D. The maturity analysis of the lease payments under the operating leases is as follows:

	December 31, 2019
2020	$ 23,630
2021	17,545
2022	1,443
	$ 42,618

(9) Investment property

Building

	Years ended December 31, 2019	Years ended December 31, 2018
At January 1		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(43,047)	(40,127)
	$ 105,860	$ 108,780
Opening net book amount as at January 1	$ 105,860	$ 108,780
Depreciation charge	(2,920)	(2,920)
Closing net book amount as at December 31	$ 102,940	$ 105,860
At December 31		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(45,967)	(43,047)
	$ 102,940	$ 105,860

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

	Years ended December 31,	
	2019	2018
Rental income from investment property	$ 18,065	$ 21,983
Direct operating expenses arising from the investment property that generated rental income during the period	($ 4,583)	($ 4,823)

B. The fair value of the investment property held by the Company as at December 31, 2019 and 2018 were $150,720 and $151,401, respectively, which was valued by independent valuers. 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	8.30%

(10) Other non-current assets

	December 31, 2019	December 31, 2018
Deferred charges	$ 12,365	$ 8,258
Overdue receivables	-	4,308
Guarantee deposits paid	174	80
Restricted assets	2,752	-
Less: Allowance for loss	-	(4,308)
	$ 15,291	$ 8,338

(11) Others payables

	December 31, 2019	December 31, 2018
Wages and bonus payable	$ 20,290	$ 19,148
Processing fees payable	2,966	2,663
Others	5,304	7,148
	$ 28,560	$ 28,959

(12) Other non-current liabilities

	December 31, 2019	December 31, 2018
Net defined benefit liability	$ 14,107	$ 14,387
Guarantee deposits received	3,303	2,930
	$ 17,410	$ 17,317

(13) 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, 2019	December 31, 2018
Present value of defined benefit obligations	($ 39,619)	($ 38,769)
Fair value of plan assets	25,512	24,382
Net defined benefit liability	($ 14,107)	($ 14,387)

(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, 2019			
Balance at January 1	($ 38,769)	$ 24,382	($ 14,387)
Current service cost	(101)	-	(101)
Interest (expense) income	(271)	170	(101)
	(39,141)	24,552	(14,589)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	936	936
Experience adjustments	(478)	-	(478)
	(478)	936	458
Pension fund contribution	-	24	24
Balance at December 31	($ 39,619)	$ 25,512	($ 14,107)

	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)

(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, 2019 and 2018 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,	
	2019	2018
Discount rate	0.70%	0.70%
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, 2019				
Effect on present value of defined benefit obligation	($ 832)	$ 865	$ 751	($ 730)
December 31, 2018				
Effect on present value of defined benefit obligation	($ 891)	$ 929	$ 816	($ 791)

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, 2020 amount to $200.

(g) As of December 31, 2019, the weighted average duration of the retirement plan is 2.5 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	($ 25,031)
1-5 year(s)	(13,273)
Over 5 years	(1,315)
	($ 39,619)

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, 2019 and 2018, were $4,374 and $4,640, respectively.

(14) Share-based payment

A. For the years ended December 31, 2019 and 2018, 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, 2019 and 2018, the compensation fees arising from restricted stocks to employees is $4,983 and $8,330, respectively.

(15) Share capital

A. As of December 31, 2019, 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.

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, 2019, the receipts for share capital was $14,000 and the capital surplus and others were $8,925 and $2,231, 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, 2019	
Name of company holding the shares	Reason for reacquisition	Number of shares (share in thousand)	Carrying amount
The Company	To be reissued to employees	1,515	$ 28,115

Name of company holding the shares	Reason for reacquisition	December 31, 2018	
		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.

(16) 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 June 12, 2019 and May 28, 2018, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to $33,256 and $30,476, respectively. On February 27, 2020, the Board of Directors proposed the distribution of cash of $29,099 from capital surplus.

(17) 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 2018 and 2017 earnings was resolved by the shareholders on June 12, 2019 and May 28, 2018, respectively. Details are as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 3,844		$ 5,103	
Cash dividends	33,256	$ 0.40	45,714	$ 0.54

On June 12, 2019 and May 28, 2018, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to $33,256 and $30,476, respectively. The abovementioned appropriation of earnings of 2018 and 2017 was in agreement with those amounts proposed by the Board of Directors on March 11, 2019 and February 22, 2018, respectively.

E. The details of the appropriation of 2019 earnings was proposed by the Board of Directors on February 27, 2020. Details are follows:

	Year ended December 31, 2019	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 4,176	
Cash dividends	38,244	$ 0.46

On February 27, 2020, the Board of Directors proposed the distribution of cash of $29,099 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(23).

(18) Operating revenue

	Years ended December 31, 2019	Years ended December 31, 2018
Revenue from contracts with customers	$ 232,706	$ 250,432

Disaggregation of revenue from contracts with customers

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

	Years ended December 31, 2019	Years ended December 31, 2018
China	$ 160,470	$ 156,849
Taiwan	30,374	43,759
USA	4,760	4,982
Others	37,102	44,842
	$ 232,706	$ 250,432

(19) Other income

	Years ended December 31, 2019	Years ended December 31, 2018
Interest income：		
Interest income from bank deposits	$ 2,398	$ 1,374
Other interest income	28	342
Rent income	18,065	21,983
Dividend income	-	3,834
Other income, others	1,472	427
	$ 21,963	$ 27,960

(20) Other gains and losses

	Years ended December 31, 2019	Years ended December 31, 2018
Net currency exchange (loss) gains	($ 5,671)	$ 5,944
Net profit (loss) on financial asssets at fair value	9,546	(3,443)
Other losses	(4,583)	(4,822)
	($ 708)	($ 2,321)

(21) Finance costs

	Years ended December 31, 2019	Years ended December 31, 2018
Interest expense	$ 645	$ 31

(22) Expenses by nature

	Years ended December 31, 2019	Years ended December 31, 2018
Change in finished goods, work-in-process and raw materials inventory	$ 34,122	$ 35,819
Employee benefit expense	113,185	122,073
Product testing fees	22,488	25,024
Amortisation charges	3,644	3,034
Depreciation charges on property, plant and equipment (including right-of-use assets)	5,502	3,805
Other costs and expenses	41,645	47,593
Operating costs and expenses	$ 220,586	$ 237,348

(23) Employee benefit expense

	Years ended December 31, 2019	Years ended December 31, 2018
Wages and salaries	$ 96,250	$ 104,880
Labour and health insurance fees	7,520	7,874
Pension costs	4,576	4,828
Directors' remuneration	1,807	1,385
Other personnel expenses	3,032	3,106
	$ 113,185	$ 122,073

As of December 31, 2019 and 2018, the number of employees of the Company were 77 and 81, respectively, and the number of directors who were not concurrently employees were 1 and 0, respectively.

For the years ended December 31, 2019 and 2018, average employee benefits were $1,466 and $1,490, respectively; average employee salary were $1,266 and $1,295, respectively. The average employee salary decreased by 2.24% year over year.

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, 2019 and 2018, employees' compensation was accrued at $4,308 and $4,583, respectively; directors' and supervisors' remuneration was accrued at $1,010 and $959, 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 $4,308 and $1,010, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2018 as resolved by the meeting of the Board of Directors were in agreement with those amounts recognised in the 2018 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.

(24) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31, 2019	Years ended December 31, 2018
Current tax:		
Current tax on profits for the year	$ 4,450	$ 2,330
Additional income tax imposed on unappropriated earnings	36	216
Prior year income tax (over) underestimation	534	(19)
Total current tax	5,020	2,527
Deferred tax:		
Origination and reversal of temporary differences	(1,224)	3,582
Impact of change in tax rate	-	(1,308)
Income tax expense	$ 3,796	$ 4,801

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

	Years ended December 31, 2019	Years ended December 31, 2018
Remeasurement of defined benefit obligations	($ 92)	$ 135
Impact of change in tax rate	-	99
	($ 92)	$ 234

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate	$ 9,087	$ 8,506
Effect from items disallowed by tax regulation	(874)	(922)
Effect from temporary difference	(3,200)	(815)
Effect from tax credits of investment	(1,787)	(956)
Additional tax on undistributed earnings	36	216
Prior year income tax (over) underestimation	534	(19)
Effect from changes in tax regulation	-	99
Other	-	(1,308)
Income tax expense	$ 3,796	$ 4,801

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

	Year ended December 31, 2019			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
–Temporary differences:				
Inventory retirement losses	$ 814	$ -	$ -	$ 814
Loss for market value decline and obsolete and slow-moving inventories	2,794	-	-	2,794
Unrealised exchange loss	-	1,030	-	1,030
Unused compensated absences	1,252	123	-	1,375
Other	2,661	11	(92)	2,580
Subtotal	$ 7,521	$ 1,164	($ 92)	$ 8,593
Deferred tax liabilities:				
–Temporary differences:				
Currency temporary differences	($ 603)	$ 91	$ -	($ 512)
Unrealised exchange gain	31	(31)	-	-
Subtotal	($ 572)	$ 60	$ -	($ 512)
Total	$ 6,949	$ 1,224	($ 92)	$ 8,081

	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 loss	-	31	-	31
Subtotal	($ 512)	($ 60)	$ -	($ 572)
Total	$ 8,940	($ 2,225)	$ 234	$ 6,949

D. The Company's income tax returns through 2017 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 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(25) Earnings per share

	Year ended December 31, 2019			
	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	$ 41,396	83,190	$ 0.50	
Diluted earnings per share				
Profit attributable to ordinary shareholders of the parent	$ 41,396	83,190		
Assumed conversion of all dilutive potential ordinary shares				
Employees' bonus	-	488		
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 41,396	83,678	$ 0.49	

	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

(26) Operating leases

Prior to 2018

A. The Company leases building to others under non-cancellable operating lease agreements. These leases have terms expiring between 2016 and 2022, and all these lease agreements are not renewable at the end of the lease period. Contingent rents of $21,983 was recognised for these leases in profit or loss for the year ended December 31, 2018. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows

	December 31, 2018
Not later than one year	$ 10,539
Later than one year but not later than five years	4,710
	$ 15,249

B. 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 under non-cancellable operating leases are as follows:

	December 31, 2018
Not later than one year	$ 2,138
Later than one year but not later than five years	5,346
	$ 7,484

(27) Changes in liabilities from financing activities

	Year ended December 31, 2019		
	Lease liability	Guarantee deposits received	Liabilities from financing activities-gross
At January 1	$ 65,559	$ 2,930	$ 68,489
Changes in cash flow from financing activities	(1,522)	373	(1,149)
Changes in other non-cash items	-	-	-
At December 31	$ 64,037	$ 3,303	$ 67,340

	Year ended December 31, 2018	
	Guarantee deposits received	Liabilities from financing activities-gross
At January 1	$ 2,930	$ 2,930
Changes in cash flow from financing activities	-	-
Changes in other non-cash items	-	-
At December 31	$ 2,930	$ 2,930

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	$ 10,108	$ 13,687

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

	Book value		
Pledged asset	December 31, 2019	December 31, 2018	Purpose
Time deposits (shown as other non-current assets)	$ 2,752	$ -	Performance guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

The Company entered into lease contracts for land and office, please refer to Note 6(26) for details of annual lease payments.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHER

(1) Capital management

The Company'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, 2019	December 31, 2018
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 30,552	$ 41,958
Financial assets at amortised cost		
Cash and cash equivalents	$ 464,395	$ 524,498
Notes receivable	-	64
Accounts receivable	31,440	39,994
Other receivables	4,773	5,483
Guarantee deposits paid	174	80
Other financial assets	2,752	-
	$ 503,534	$ 570,119
Financial liabilities		
Financial liabilities at amortised cost		
Notes payable	$ 5,944	$ 4,687
Accounts payable	4,856	5,557
Other accounts payable	28,560	28,959
Guarantee deposits received	3,303	2,930
	$ 42,663	$ 42,133
Lease liability	$ 64,037	$ -

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 (Company 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, 2019					
				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	$ 7,560	29.98	$ 226,649	1%	$ 2,266	$ -
RMB:NTD	2,073	4.31	$ 8,935	1%	89	-
Investments accounted for using equity method						
USD:NTD	$ 3,197	29.98	$ 95,835	1%	$ -	$ 958
Financial liabilities						
Monetary items						
USD:NTD	$ 152	29.98	$ 4,557	1%	$ 46	$ -

	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	$ -

ii. The total exchange (loss) gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018, amounted to ($5,671) and $5,944, 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 Company 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, 2019 and 2018, other components of equity would have increased/decreased by $306 and $420, 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 company'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 to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2019 and 2018, the provision matrix, loss rate methodology is as follows:

	Group A	Group B	Total
December 31, 2019			
Expected loss rate	0.03%	3.63%~100%	
Total book value	$ 22,200	$ 10,341	$ 32,541
Loss allowance	$ 7	$ 1,094	$ 1,101

	Group A	Group B	Total
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:

	Years ended December 31, 2019	2018
At January 1	$ 1,201	$ -
Provision for impairment	-	1,201
Reversal of impairment loss	(100)	-
At December 31	$ 1,101	$ 1,201

According to the above method, the allowance loss on the accounts receivable as of December 31, 2019 and 2018, should be $601 and $1,201, respectively, which is not significantly different from the amount of allowance loss on the current account. For the years ended December 31, 2019 and 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	Over 5 years
December 31, 2019				
Lease liability	$ 2,138	$ 2,138	$ 6,415	$ 64,689
Other financial liabilities (shown as other non-current liabilities)	838	48	2,417	-

Non-derivative financial liabilities:	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
December 31, 2018				
Other financial liabilities (shown as other non-current liabilities)	$ 2,110	$ 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(9).

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, 2019	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ -	$ -	$ 30,552	$ 30,552

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

(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, 2019 and 2018, 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, 2019 and 2018:

	Years ended December 31,	
	2019	2018
	Non-derivative equity instrument	Non-derivative equity instrument
At January 1	$ 27,088	$ 34,905
Gains and losses recognised in profit or loss		
Recorded as non-operating income and expenses	3,464	(7,817)
At December 31	$ 30,552	$ 27,088

F. For the years ended December 31, 2019 and 2018, 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, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 30,552	Net asset value	Not applicable	-	Not applicable

	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

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 $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.

DAVICOM Semiconductor, Inc.

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

December 31, 2019

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities （Note 1）	Relationship with the securities issuer （Note 2）	General ledger account	As of December 31, 2019 Number of shares	Book value （Note 3）	Ownership (%)	Fair value	Footnote （Note 4）
The Company	Unitech Capital Inc.	—	Financial assets at fair value through profit or loss - non-current	1,000,000	$ 30,552	2.00%	$ 30,552	
Davicom Investment Inc.	Global Mobile Corp.	—	Financial assets at fair value through profit or loss - non-current	892,458	-	0.32%	-	
Davicom Investment Inc.	MTECH Corporation	—	Financial assets at fair value through profit or loss - non-current	200,000	-	0.93%	-	
Davicom Investment Inc.	Schroder fund	—	Financial assets at fair value through profit or loss - non-current	2,900,000	28,942		28,942	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

DAVICOM Semiconductor, Inc.

Information on investees

December 31, 2019

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount: Balance as at December 31, 2019	Initial investment amount: Balance as at December 31, 2018	Shares held as at December 31, 2019: Number of shares	Shares held as at December 31, 2019: Ownership (%)	Shares held as at December 31, 2019: Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income(loss) recognised by the Company for the year ended December 31, 2019	Footnote
The Company	TSCC Inc.	Samoa	General investment	$ 143,224	$ 143,224	4,400,000	100	$ 95,835	$ 11,270	$ 11,270	-
The Company	Davicom Investment Inc.	Taiwan	General investment	222,000	222,000	21,200,000	100	212,029	924	924	-
The Company	Medicom Corp.	Taiwan	Designing and manufacturing of IC	17,004	17,004	496,811	99.36	330	(18)	(18)	-
The Company	Aidialink Corp.	Taiwan	Wireless communication machinery and equipment manufacturing industry	8,970	8,970	885,000	88.50	8,583	323	286	-
TSCC Inc.	Jubilink Ltd.	British Virgin Islands	General investment	82,725	82,725	22,775,207	100	-	-	-	-

DAVICOM Semiconductor, Inc.

Information on investments in Mainland China

December 31, 2019

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019 — Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019 (Note 3)	Net income of investee as of December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2019 (Note 2)	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
DAVICOM IC (SuZHou) Co.LTD		$ 74,950	(2)	$ 74,950	-	-	$ 74,950	($ 1,185)	100	($ 1,185)	$ -	-	-

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1)Directly invest in a company in Mainland China.

(2)Through investing in TSCC Inc., an existing company in the third area, which then invested in the investee in Mainland China.

(3)Others.

Note 2: Investment income (loss) was recognised based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 3: DAVICOM IC (SuZHou) Co.LTD has completed deregistration on October 11, 2019, and the mainland investment cancellation case has been approved by the INVESTMENT COMMISSION review on January 6, 2020.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
The Company	$ -	$ -	$ 663,281

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

Not application.

(Following blank)

DAVICOM SEMICONDUCTOR , INC.
CASH
DECEMBER 31, 2019

Expressed in thousands of NTD

Detail List 1

Items	Summary	Amount	Footnote
Petty cash		$ 60	
Cash in banks			
Checking accounts		1,789	
Demend deposits		21,316	
Foreign currency deposits	USD $ 6,066	181,863	Exchange rate 29.98
	CHY $ 73	314	Exchange rate 4.305
Time deposits		259,053	
		$ 464,395	

DAVICOM SEMICONDUCTOR , INC.
ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2019

Expressed in thousands of NTD

Detail List 2

Client Name	Summary	Amount	Footnote
B		$ 9,224	
A		6,736	
C		5,996	
D		3,108	
E		2,383	The balance of each client
Others		5,094	is less than 5% of this account.
		32,541	
Less: Allowance for uncollectible accounts		(1,101)	
		$ 31,440	

DAVICOM SEMICONDUCTOR , INC.
INVENTORIES
DECEMBER 31, 2019

Expressed in thousands of NTD

Detail List 3

Items	Summary	Amount: Cost	Amount: Net Realizable	Footnote
Work in process		$ 14,829	$ 12,662	The net realizable value of work in process and finished is the market price.
Finished goods		23,983	18,827	
		38,812	$ 31,489	
Less: Allowance for valuation loss and obsolescence		(13,971)		
		$ 24,841		

DAVICOM SEMICONDUCTOR , INC.
SALES REVENUE
YEAR ENDED DECEMBER 31, 2019

Expressed in thousands of NTD

Detail List 4

Items	Quantity		Amount		Footnote
Sales revenue					
Network control chipset	6,234,266	PCS	$	207,927	
Electronic paper	1,151,589	PCS		7,760	
Video Decoder	337,551	PCS		15,959	
Data processor chipset	4,450	PCS		466	
ESL electronic label	537	PCS		570	
Others	60	PCS		24	
			$	232,706	

DAVICOM SEMICONDUCTOR , INC.
OPERATING COSTS
YEAR ENDED DECEMBER 31, 2019

Expressed in thousands of NTD

Detail List 5

Items	Amount
Purchase in this period	$ 28,064
Less: Engineering experiment pick up	(982)
Others	-
Raw materials used in this period	27,082
Manufacturing expense	40,454
Manufacturing cost	67,536
Add: Beginning work in process	22,039
Engineering experiment pick up return	23
Less: Ending work in progress	(14,829)
Transfer to expenses	(367)
Cost of finished goods	74,402
Add: Beginning finished goods	24,014
Purchase in this period	174
Less: Ending finished goods	(23,983)
Engineering experiment pick up	(31)
Operating cost	$ 74,576

DAVICOM SEMICONDUCTOR , INC.
OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Detail List 6

Item		Amount
Selling expenses		
Salary expenditure	$	19,715
Insurance expenses		1,716
Other expenses		8,331
Subtotal		29,762
General & administrative expenses		
Salary expenditure		20,509
Miscellaneous expenses		1,993
Labor expenses		2,705
Travel expenses		2,354
Other expenses		13,998
Subtotal		41,559
Research and development expenses		
Salary expenditure		51,348
Research experiment fees		5,685
Insurance expenses		4,023
Other expenses		13,733
Subtotal		74,789
Impairment on expected credit profit	(	100)
	$	146,010

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019, 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

February 27, 2020

pwc 資誠

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, 2019 and 2018, 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, 2019 and 2018, 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.

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No. 333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F:+ 886 (2) 2729 6686, www.pwc.tw

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$32,321 thousand as at December 31, 2019.

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$27,524 thousand and NT$13,971 thousand as at December 31, 2019, 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.

pwc 資誠

Other matters

Reference to 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$226,120 thousand and NT$221,908 thousand as at December 31, 2019 and 2018, constituting 18.31% and 18.35% of consolidated total assets, respectively. Operating income of the subsidiary amounted to NT$9,810 thousand and NT$10,641 thousand, for the years ended December 31, 2019 and 2018, constituting 4.04% and 4.08% 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 including an Other Matter paragraph on the parent company only financial statements of DAVICOM Semiconductor, Inc. as at and for the years ended December 31, 2019 and 2018.

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.

pwc 資誠

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.

pwc 資誠

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

February 27, 2020

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, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 752,567	61	$ 835,857	69
1150	Notes receivable, net	6(3)	-	-	64	-
1170	Accounts receivable, net	6(3)	32,321	3	40,243	3
1200	Other receivables		5,490	-	5,504	1
130X	Inventories, net	6(4)	27,524	2	34,159	3
1410	Prepayments		5,851	1	1,443	-
1470	Other current assets		-	-	46	-
11XX	**Total Current Assets**		823,753	67	917,316	76
	Non-current assets					
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	59,494	5	47,247	4
1600	Property, plant and equipment, net	6(5)	160,982	13	122,860	10
1755	Right-of-use assets	6(6)	63,750	5	-	-
1760	Investment property, net	6(8)	102,940	8	105,860	9
1780	Intangible assets		84	-	153	-
1840	Deferred income tax assets	6(23)	8,594	1	7,573	-
1900	Other non-current assets	6(9)	15,292	1	8,338	1
15XX	**Total Non-current assets**		411,136	33	292,031	24
1XXX	**Total assets**		$ 1,234,889	100	$ 1,209,347	100

(Continued)

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

	Liabilities and Equity	Notes	December 31, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current liabilities					
2130	Current contract liabilities		$ 57	-	$ -	-
2150	Notes payable		5,944	1	4,687	-
2170	Accounts payable		7,421	1	6,515	1
2200	Other payables	6(10)	28,962	2	29,306	2
2230	Current income tax liabilities	6(23)	2,266	-	75	-
2280	Current lease liabilities	12(2)	1,537	-	-	-
2300	Other current liabilities		2,811	-	389	-
21XX	**Current Liabilities**		48,998	4	40,972	3
	Non-current liabilities					
2570	Deferred income tax liabilities	6(23)	513	-	625	-
2580	Non-current lease liabilities	12(2)	62,500	5	-	-
2600	Other non-current liabilities	6(11)	17,410	1	17,317	2
25XX	**Non-current liabilities**		80,423	6	17,942	2
2XXX	**Total Liabilities**		129,421	10	58,914	5
	Equity attributable to owners of parent					
	Share capital	6(14)				
3110	Common stock		846,551	69	846,551	70
	Capital surplus	6(15)				
3200	Capital surplus		186,520	15	219,776	18
	Retained earnings	6(16)				
3310	Legal reserve		74,393	6	70,549	6
3350	Undistributed earnings	6(23)	42,491	3	37,829	3
	Other equity interest					
3400	Other equity interest		(17,490)	(1)	(8,977)	(1)
	Treasury shares	6(14)				
3500	Treasury shares		(28,115)	(2)	(16,376)	(1)
31XX	**Equity attributable to owners of the parent**		1,104,350	90	1,149,352	95
36XX	**Non-controlling interest**		1,118	-	1,081	-
3XXX	**Total equity**		1,105,468	90	1,150,433	95
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 1,234,889	100	$ 1,209,347	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	2019 AMOUNT	2019 %	2018 AMOUNT	2018 %
4000	**Sales revenue**	6(17)	$ 242,531	100	$ 261,095	100
5000	**Operating costs**	6(4)(21)(22)	(81,482)	(34)	(87,299)	(33)
5900	**Net operating margin**		161,049	66	173,796	67
	Operating expenses	6(21)(22)				
6100	Selling expenses		(31,637)	(13)	(32,280)	(12)
6200	General and administrative expenses		(42,350)	(17)	(46,524)	(18)
6300	Research and development expenses		(76,976)	(32)	(83,811)	(32)
6450	Impairment on expected credit losses	6(3) and 12(2)	100	-	(1,201)	(1)
6000	**Total operating expenses**		(150,863)	(62)	(163,816)	(63)
6900	**Operating income**		10,186	4	9,980	4
	Non-operating income and expenses					
7010	Other income	6(18)	23,814	10	29,485	11
7020	Other gains and losses	6(19)	11,920	5	3,417	1
7050	Finance costs	6(20)	(645)	-	(31)	-
7000	**Total non-operating income and expenses**		35,089	15	32,871	12
7900	**Income from continuing operations before income tax**		45,275	19	42,851	16
7950	Income tax expense	6(23)	(3,842)	(2)	(4,928)	(2)
8000	**Profit for the period from continuing operations**		41,433	17	37,923	14
8200	**Profit for the year**		$ 41,433	17	$ 37,923	14

(Continued)

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

	Items	Notes	2019 AMOUNT	2019 %	2018 AMOUNT	2018 %
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial gains on defined benefit plans		$ 458	-	$ 354	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(23)	(92)	-	234	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		366	-	588	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statement translation differences of foreign operations		(13,496)	(5)	1,182	1
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		(13,496)	(5)	1,182	1
8300	**Total other comprehensive (loss) income for the year**		($ 13,130)	(5)	$ 1,770	1
8500	**Total comprehensive income for the year**		$ 28,303	12	$ 39,693	15
	Profit, attributable to:					
8610	Owners of parent		$ 41,396	17	$ 37,635	14
8620	Non-controlling interest		37	-	288	-
			$ 41,433	17	$ 37,923	14
	Comprehensive income, attributable to:					
8710	Owners of parent		$ 28,266	12	$ 39,405	15
8720	Non-controlling interest		37	-	288	-
			$ 28,303	12	$ 39,693	15
	Basic earnings per share	6(24)				
9750	**Net income**		$ 0.50		$ 0.44	
	Diluted earnings per share	6(24)				
9850	**Net income**		$ 0.49		$ 0.44	

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 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		-	-	-	-	-	-	(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 year		-	-	-	-	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(16)												
Legal reserve		-	-	-	5,103	(5,103)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(45,714)	-	-	-	-	(45,714)	-	(45,714)
Cash dividends distributed from capital surplus	6(15)(16)	-	(30,476)	-	-	-	-	-	-	-	(30,476)	-	(30,476)
Restricted stocks to employees	6(13)(14)	-	3,570	(3,570)	-	-	-	-	8,330	-	8,330	-	8,330
Treasure share repurchase	6(14)	-	-	-	-	-	-	-	-	(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
Years ended December 31, 2019													
Balance at January 1, 2019		$ 846,551	$ 166,782	$52,994	$ 70,549	$ 37,829	($ 1,763)	$ -	($ 7,214)	($ 16,376)	$ 1,149,352	$ 1,081	$ 1,150,433
Profit for the year		-	-	-	-	41,396	-	-	-	-	41,396	37	41,433
Other comprehensive income (loss) for the year		-	-	-	-	366	(13,496)	-	-	-	(13,130)	-	(13,130)
Total comprehensive income		-	-	-	-	41,762	(13,496)	-	-	-	28,266	37	28,303
Appropriation and distribution of 2018 earnings	6(16)												
Legal reserve		-	-	-	3,844	(3,844)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(33,256)	-	-	-	-	(33,256)	-	(33,256)
Cash dividends distributed from capital surplus	6(15)(16)	-	(33,256)	-	-	-	-	-	-	-	(33,256)	-	(33,256)
Restricted stocks to employees	6(13)(14)	-	5,355	(5,355)	-	-	-	-	4,983	-	4,983	-	4,983
Treasure share repurchase	6(14)	-	-	-	-	-	-	-	-	(11,739)	(11,739)	-	(11,739)
Balance at December 31, 2019		$ 846,551	$ 138,881	$47,639	$ 74,393	$ 42,491	($ 15,259)	$ -	($ 2,231)	($ 28,115)	$ 1,104,350	$ 1,118	$ 1,105,468

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 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 45,275	$ 42,851
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation (including investment property and right-of-use assets)	6(5)(6)(8)	8,809	7,113
Amortisation	6(21)	3,644	3,034
Impairment on expected credit (profits) losses	6(3) and 12(2)	(100)	1,201
Deferred charges transferred to research and experimental expenses		-	4,911
Cost of restricted stocks to employees	6(13)(14)	4,983	8,330
Interest income	6(18)	(4,781)	(2,950)
Interest expense	6(20)	645	31
Net (profit) loss on financial assets at fair value through profit or loss	6(2)(19)	(11,315)	108
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss- current		-	1,600
Notes receivable		64	(2)
Accounts receivable		8,022	(6,037)
Financial assets at fair value through profit or loss- noncurrent		(932)	2,247
Other receivables		332	(197)
Inventories		6,635	2,901
Prepayments		(4,408)	1,520
Other current assets		46	42
Changes in operating liabilities			
Current contract liabilities		57	-
Notes payable		1,257	(2,619)
Accounts payable		906	(1,946)
Other payables		(345)	716
Net defined benefit liabilities		(280)	164
Other current liabilities		2,422	(2,050)
Cash inflow generated from operations		60,936	60,968
Interest received		4,106	2,833
Interest paid		(645)	-
Income tax paid		(2,345)	(8,233)
Net cash flows from operating activities		62,052	55,568
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(5)	(42,202)	(333)
Increase in intangible assets		(120)	(212)
Increase in refundable deposits		(94)	-
Increase in other assets		(10,315)	(9,212)
Net cash flows used in investing activities		(52,731)	(9,757)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in guarantee deposits received		373	-
Payments of cash dividends	6(16)	(66,512)	(76,190)
Lease principal repayment	6(6)	(1,522)	-
Treasury stock repurchased	6(14)	(11,739)	(16,376)
Net cash flows used in financing activities		(79,400)	(92,566)
Effect of foreign exchange rate changes on cash and cash equivalents		(13,211)	1,206
Net decrease in cash and cash equivalents		(83,290)	(45,549)
Cash and cash equivalents at beginning of year		835,857	881,406
Cash and cash equivalents at end of year		$ 752,567	$ 835,857

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, 2019 AND 2018
(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 February 27, 2020.

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 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.

IFRS 16, 'Leases'

A. 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.

B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by $65,559, increased 'lease liability' by $65,559 with respect to the lease contracts of lessees on January 1, 2019.

C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of $189 was recognised in 2019.

(d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.

(e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(f) The adjustment of the 'right-of-use asset' by the amount of any provision for onerous leases.

D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 0.95%.

E. The Group recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$	7,484
Add: Adjustments as a result of a different treatment of extension options		70,035
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	$	77,519
Incremental borrowing interest rate at the date of initial application		0.95%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	$	65,559

(2)Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group.

New standards, interpretations and amendments endorsed by FSC effective from 2020 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 9, IAS 39 and IFRS7 ,'Interest rate benchmark reform'	January 1, 2020

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

(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
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
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

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 profit or loss.

(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.

(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:

			Ownership (%)		
Name of investor	Name of subsidiary	Main business activities	December 31, 2019	December 31, 2018	Description
Davicom Semiconductor, Inc.	Medicom Corp.	Manufacturing and designing of IC	99.36	99.36	
Davicom Semiconductor, Inc.	Davicom Investment Inc.	Manufacturing and designing of IC	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	88.50	
TSCC Inc.	JUBILINK LIMITED	Reinvestment business	100.00	100.00	
TSCC Inc.	DAVICOM IC (SuZHou) Co.LTD	Manufacturing and designing of IC	-	100.00	Note

Note : DAVICOM IC (SuZHou) Co. Ltd has completed the liquidation procedures in October 11, 2019.

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) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
   (a) Liabilities that are expected to be settled within the normal operating cycle;
   (b) Liabilities arising mainly from trading activities;
   (c) Liabilities that are to be settled within twelve months from the balance sheet date;
   (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

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

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

(8) Accounts and notes receivable

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

B. The Group initially measures accounts and notes receivable at fair value and subsequently recognises the amortised interest income over the period of circulation using the effective interest method and the impairment loss. A gain or loss is recognised in profit or loss.

(9) Impairment of financial assets

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

(10) Derecognition of financial assets

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

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes not do affect 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, and losses 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, and losses 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 retains significant influence over this associate, 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) Leasing arrangements (lessor)－lease receivables/ operating leases

Effective 2019

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the, fixed payments, less any lease incentives receivable. The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability. The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(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) 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.

(17) 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.

(18) 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.

(19) 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.

(20) Employee benefit

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employees' compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(21) 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'.

(22) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

G. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(23) 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.

(24) 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.

(25) 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.

(26) 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, 2019	December 31, 2018
Cash on hand	$ 62	$ 89
Checking accounts and demand deposits	398,835	326,007
Time deposits	353,670	509,761
	$ 752,567	$ 835,857

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, 2019	December 31, 2018
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	$ -	$ 222
Unlisted stocks	34,761	34,761
Emerging stocks	-	16,440
Beneficiary certificates	29,000	-
Subtotal	63,761	51,423
Valuation adjustment	(4,267)	(4,176)
	$ 59,494	$ 47,247

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

	Years ended December 31, 2019	Years ended December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	$ 11,315	($ 108)

B. As of December 31, 2019 and 2018, 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).

(3) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	$ -	$ 64
Accounts receivable	$ 33,422	$ 41,444
Less: Allowance for uncollectible accounts	(1,101)	(1,201)
	$ 32,321	$ 40,243

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

	December 31, 2019		December 31, 2018	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	$ 32,025	$ -	$ 34,746	$ 64
Up to 30 days	1,396	-	6,698	-
31 to 90 days	1	-	-	-
	$ 33,422	$ -	$ 41,444	$ 64

The above ageing analysis was based on past due date.

B. As of December 31, 2019 and 2018, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to $35,469.

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

(4) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Work in progress	$ 17,512	($ 6,809)	$ 10,703
Finished goods	23,983	(7,162)	16,821
	$ 41,495	($ 13,971)	$ 27,524

	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

The cost of inventories recognised as expenses for the period:

	Years ended December 31,	
	2019	2018
Cost of goods sold	$ 81,482	$ 95,352
Gain on reversal of decline in market value	-	(600)
Inventory retirement losses	-	(7,451)
Others	-	(2)
	$ 81,482	$ 87,299

(5) Property, plant and equipment

	2019					
	Buildings and structures	Computer communications equipment	Transportation equipment	Construction in progress	Others	Total
At January 1						
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
Opening net book amount as at January 1	$ 120,785	$ 433	$ 1,227	$ -	$ 415	$ 122,860
Additions	-	239	-	41,939	24	42,202
Depreciation charge	(3,344)	(173)	(387)	-	(176)	(4,080)
Closing net book amount as at December 31	$ 117,441	$ 499	$ 840	$ 41,939	$ 263	$ 160,982
At December 31						
Cost	$ 169,884	$ 857	$ 2,325	$ 41,939	$ 679	$ 215,684
Accumulated depreciation	(52,443)	(358)	(1,485)	-	(416)	(54,702)
	$ 117,441	$ 499	$ 840	$ 41,939	$ 263	$ 160,982

	2018					
	Buildings and structures	Computer communications equipment	Transportation equipment	Construction in progress	Others	Total
At January 1						
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
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						
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

(6) Leasing arrangements－lessee

Effective 2019

A. The Group leases assets including land. Rental contracts are made for periods of 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	December 31, 2019	Year ended December 31, 2019
	Carrying amount	Depreciation charge
Land	$ 63,750	$ 1,809

C. The information on income and expense accounts relating to lease contracts is as follows:

	Year ended December 31, 2019
Items affecting profit or loss	
Interest expense on lease liabilities	$ 616
Expense on short-term lease contracts	$ 189
Expense on leases of low-value assets	$ 100

D. For the year ended December 31, 2019, the Group's total cash outflow for leases were $2,427.

(7) Leasing arrangements – lessor

Effective 2019

A. The Group leases assets including buildings. Rental contracts are typically made for periods of 1 and 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

B. For the year ended December 31, 2019, the Group recognised rent income in the amount of $18,065 based on the operating lease agreement, which does not include variable lease payments.

C. Gain arising from operating lease agreements for the year ended December 31, 2019 are as follows:

	Year ended December 31, 2019
Rent income	$ 18,065

D. The maturity analysis of the lease payments under the operating leases is as follows:

	December 31, 2019
2020	$ 23,630
2021	17,545
2022	1,443
	$ 42,618

(8) Investment property

	Years ended December 31,	
	2019	2018
At January 1		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(43,047)	(40,127)
	$ 105,860	$ 108,780
Opening net book amount as at January 1	$ 105,860	$ 108,780
Depreciation charge	(2,920)	(2,920)
Closing net book amount as at December 31	$ 102,940	$ 105,860
At December 31		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(45,967)	(43,047)
	$ 102,940	$ 105,860

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

	Years ended December 31,	
	2019	2018
Rental income from investment property	$ 18,065	$ 21,983
Direct operating expenses arising from the investment property that generated rental income during the period	($ 4,583)	($ 4,823)

B. The fair value of the investment property held by the Group as at December 31, 2019 and 2018, was $150,720 and $151,401, respectively, which was valued by independent valuers. 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		8.30%

(9) Other non-current assets

	December 31, 2019	December 31, 2018
Deferred charges	$ 12,366	$ 8,258
Overdue receivables	-	4,308
Guarantee deposits paid	174	80
Restricted assets	2,752	-
Less: Allowance for loss	-	(4,308)
	$ 15,292	$ 8,338

Details of the Group's financial assets pledged to others as collateral are provided in Note 8.

(10) Other payables

	December 31, 2019	December 31, 2018
Wages and bonus payable	$ 20,444	$ 19,302
Processing fees payable	2,966	2,663
Others	5,552	7,341
	$ 28,962	$ 29,306

(11) Other non-current liabilities

	December 31, 2019	December 31, 2018
Net defined benefit liability	$ 14,107	$ 14,387
Guarantee deposits received	3,303	2,930
	$ 17,410	$ 17,317

(12) 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, 2019	December 31, 2018
Present value of defined benefit obligations	($ 39,619)	($ 38,769)
Fair value of plan assets	25,512	24,382
Net defined benefit liability	($ 14,107)	($ 14,387)

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined liability
Year ended December 31, 2019			
Balance at January 1	($ 38,769)	$ 24,382	($ 14,387)
Current service cost	(101)	-	(101)
Interest (expense) income	(271)	170	(101)
	(39,141)	24,552	(14,589)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	936	936
Experience adjustments	(478)	-	(478)
	(478)	936	458
Pension fund contribution	-	24	24
Balance at December 31	($ 39,619)	$ 25,512	($ 14,107)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined 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)

(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, 2019 and 2018 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,	
	2019	2018
Discount rate	0.07%	0.07%
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, 2019				
Effect on present value of defined benefit obligation	($ 832)	$ 865	$ 751	($ 730)
December 31, 2018				
Effect on present value of defined benefit obligation	($ 891)	$ 929	$ 816	($ 791)

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, 2020 amount to $200.

(g) As of December 31, 2019, the weighted average duration of the retirement plan is 2.5 years. The analysis of timing of the future pension payment was as follows:

Within 1 years	($	25,031)
1-5 year(s)	(	13,273)
Over 5 years	(	1,315)
	($	39,619)

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 Group for the years ended December 31, 2019 and 2018 were $4,374 and $4,640, respectively.

(13) Share-based payment

A. For the years ended December 31, 2019 and 2018, 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, 2019 and 2018, the compensation fees arising from restricted stocks to employees is $4,983 and $8,330, respectively.

(14) Share capital

A. As of December 31, 2019, 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.

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, 2019, the receipts for share capital was $14,000 and the capital surplus and others were $8,925 and $2,231, 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, 2019		
Name of company holding the shares	Reason for reacquisition	Number of shares (share in thousands)	Carrying amount	
The Company	To be reissued to employees	1,515	$	28,115

		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.

(15) 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 June 12, 2019 and May 28, 2018, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to $33,256 and $30,476, respectively. On February 27, 2020, the Board of Directors proposed the distribution of cash of $29,099 from capital surplus.

(16) 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 2018 and 2017 earnings was resolved by the shareholders on June 12, 2019 and May 28, 2018, respectively. Details are as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 3,844		$ 5,103	
Cash dividends	33,256	$ 0.40	45,714	$ 0.54

On June 12, 2019 and May 28, 2018, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to $33,256 and $30,476, respectively. The abovementioned appropriation of earnings of 2018 and 2017 was in agreement with those amounts proposed by the Board of Directors on March 11, 2019 and February 22, 2018, respectively.

E. The details of the appropriation of 2019 earnings was proposed by the Board of Directors on February 27, 2020. Details are follows:

	Year ended December 31, 2019	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 4,176	
Cash dividends	38,244	$ 0.46

On February 27, 2020, the Board of Directors proposed the distribution of cash of $29,099 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(22).

(17) Operating revenue

	Years ended December 31,	
	2019	2018
Revenue from contracts with customers	$ 242,531	$ 261,095

Disaggregation of revenue from contracts with customers.

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

	Years ended December 31, 2019	Years ended December 31, 2018
China	$ 160,470	$ 166,126
Taiwan	31,925	44,524
USA	4,771	5,004
Other	45,365	45,441
	$ 242,531	$ 261,095

(18) Other income

	Years ended December 31, 2019	Years ended December 31, 2018
Interest income：		
Interest income from bank deposits	$ 4,753	$ 2,608
Other interest income	28	342
Rent income	18,065	21,983
Dividend income	-	4,089
Other income, others	968	463
	$ 23,814	$ 29,485

(19) Other gains and losses

	Years ended December 31, 2019	Years ended December 31, 2018
Net currency exchange (losses) gains	($ 5,114)	$ 8,372
Net profit (losses) on financial assets at fair value through profit or loss	11,315	(108)
Gains on liquidation of investments	10,302	-
Other losses	(4,583)	(4,847)
	$ 11,920	$ 3,417

(20) Finance costs

	Years ended December 31, 2019	Years ended December 31, 2018
Interest expense	$ 645	$ 31

(21) Expenses by nature

	Years ended December 31, 2019		Years ended December 31, 2018	
Changes in finished goods, work-in-process and raw materials inventory	$	41,028	$	43,453
Employee benefit expense		115,991		125,885
Depreciation charges on property, plant and equipment (including right-of-use assets)		5,889		4,193
Amortisation charges		3,644		3,034
Product testing fees		22,488		25,024
Other costs and expenses		43,305		49,526
Operating costs and expenses	$	232,345	$	251,115

(22) Employee benefit expense

	Years ended December 31, 2019		Years ended December 31, 2018	
Wages and salaries	$	98,994	$	108,692
Labour and health insurance fees		7,552		7,874
Pension costs		4,576		4,828
Directors' remuneration		1,807		1,385
Other personnel expenses		3,062		3,106
	$	115,991	$	125,885

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, 2019 and 2018, employees' compensation was accrued at $4,308 and $4,583, respectively; directors' and supervisors' remuneration was accrued at $1,010 and $959, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 8.5% and 2% of distributable profit of current year as of the end of reporting period.

Employees' compensation and directors' and supervisors' remuneration of 2019 as resolved by the meeting of the Board of Directors were in agreement with those amounts recognised in the 2019 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.

(23) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31, 2019	2018
Current tax:		
Current tax on profits for the period	$ 4,497	$ 2,457
Additional income tax imposed on unappropriated earnings	36	216
Prior year income tax (over)underestimation	534	(19)
Total current tax	5,067	2,654
Deferred tax:		
Origination and reversal of temporary differences	(1,225)	3,582
Impact of change in tax rate	-	(1,308)
Income tax expense	$ 3,842	$ 4,928

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

	Years ended December 31, 2019	2018
Remeasurement of defined benefit obligations	($ 92)	$ 135
Impact of change in tax rate	-	99
	($ 92)	$ 234

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31, 2019	Years ended December 31, 2018
Tax calculated based on profit before tax and statutory tax rate	$ 9,281	$ 9,121
Effects from items disallowed by tax regulation	(1,207)	(1,231)
Effects from temporary difference	(3,061)	(864)
Effects from tax credits of investment	(1,787)	(956)
Additional tax on undistributed earnings	36	216
Prior year income tax (over)underestimation	534	(19)
Effect from changes in tax regulation	-	(1,308)
Other	46	(31)
Income tax expense	$ 3,842	$ 4,928

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

	Year ended December 31, 2019			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
-Temporary Differences:	$ 814	$ -	$ -	$ 814
Inventory retirement losses	2,794	-	-	2,794
Loss for market value decline and obsolete and slow-moving inventories	-	1,030	-	1,030
Unrealised exchange loss	1,252	123	-	1,375
Unused compensated absences	2,713	(40)	(92)	2,581
Subtotal	$ 7,573	$ 1,113	($ 92)	$ 8,594
Deferred tax liabilities:				
-Temporary Differences:				
Currency temporary differences:	($ 602)	$ 90	$ -	($ 512)
Unrealised exchange gain	(23)	22	-	(1)
Subtotal	($ 625)	$ 112	$ -	($ 513)
	$ 6,948	$ 1,225	$ (92)	$ 8,081

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

D. The Company's income tax returns through 2017 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 7, 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.

(24) Earnings per share

	Year ended December 31, 2019		
	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	$ 41,396	83,190	$ 0.50
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 41,396	83,190	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	488	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 41,396	83,678	$ 0.49

	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

(25) Operating leases

Prior to 2018

A. The Group leases building assets to others under non-cancellable operating lease agreements. These leases have terms expiring between 2016 and 2022, and all these lease agreements are not renewable at the end of the lease period. Contingent rents of $21,983 were recognised for these leases in profit or loss for the year ended December 31, 2018. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2018
Not later than one year	$ 10,539
Later than one year but not later than five years	4,710
	$ 15,249

B. 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 under non-cancellable operating leases are as follows:

	December 31, 2018
Not later than one year	$ 2,138
Later than one year but not later than five years	5,346
	$ 7,484

(26) Changes in liabilities from financing activities

	Year ended December 31, 2019		
	Lease liability	Guarantee deposits received	Liabilities from financing activities-gross
At January 1	$ 65,559	$ 2,930	$ 68,489
Changes in cash flow from financing activities	(1,522)	373	(1,149)
Changes in other non-cash items	-	-	-
At December 31	$ 64,037	$ 3,303	$ 67,340

	Year ended December 31, 2018	
	Guarantee deposits received	Liabilities from financing activities-gross
At January 1	$ 2,930	$ 2,930
Changes in other non-cash items	-	-
At December 31	$ 2,930	$ 2,930

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	$ 10,108	$ 13,781

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

	Book value		
Pledged asset	December 31, 2019	December 31, 2018	Purpose
Time deposits (shown as other non-current assets)	$ 2,752	$ -	Performance guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

The Group entered into lease contracts for land and office, please refer to Note 6(25) for details of annual lease payments.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT SEVENTS

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, 2019	December 31, 2018
Financial assets		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 59,494	$ 47,247
Financial assets at amortized cost		
Cash and cash equivalents	$ 752,567	$ 835,857
Notes receivable	-	64
Accounts receivable	32,321	40,243
Other accounts receivable	5,490	5,504
Guarantee deposits paid	174	80
Other non-current assets	2,752	-
	$ 793,304	$ 881,748
Financial liabilities		
Financial liabilities at amortized cost		
Notes payable	$ 5,944	$ 4,687
Accounts payable	7,421	6,515
Other accounts payable	28,962	29,306
Guarantee deposits received	3,303	2,930
	$ 45,630	$ 43,438
Lease liability	$ 64,037	$ -

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, 2019					
				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	$ 7,991	29.98	$ 239,570	1%	$ 2,396	$ -
USD:RMB	2,073	4.31	8,935	1%	89	-
HKD:NTD	2,325	3.85	8,951	1%	90	-
Financial liabilities						
Monetary items						
USD:NTD	$ 152	29.98	$ 4,557	1%	$ 46	$ -

	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	$ -

ii. The total exchange (loss) gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018, amounted to ($5,114) and $8,372, 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, 2019 and 2018, other components of equity would have increased/decreased by $595 and $472, 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, 2019 and 2018, the provision matrix are as follows:

December 31, 2019	Group A	Group B	Total
Expected loss rate	0.03%	3.63%~100%	
Total book value	$ 23,081	$ 10,341	$ 33,422
Loss allowance	$ 7	$ 1,094	$ 1,101

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:

	Years ended December 31, 2019	2018
At January 1	$ 1,201	$ -
Provision for impairment	-	1,201
Reversal of impairment loss	(100)	-
At December 31	$ 1,101	$ 1,201

According to the above method, the allowance loss on the account as of December 31, 2019 and 2018, should be $601 and $1,201, respectively, which is not significantly different from the amount of allowance loss on the current account. For the years ended December 31, 2019 and 2018, there was no impairment loss arising from customers' contracts.

(c) Liquidity risk

i. Cash flow forecasting is performed by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

ii.Surplus cash held by the operating entities over and above balance required for working capital management will be invested in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Except for notes payable, accounts payable and other payables, the amount of undiscounted contractual cash flows is approximately at its carrying amount and is due within one year. The amount of undiscounted contractual cash flows of the remaining financial liabilities is as follows:

Non-derivative financial liabilities: December 31, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Lease liability	$ 2,138	$ 2,138	$ 6,415	$ 64,689
Other financial liabilities (shown as other non-current liabilities)	838	48	2,417	-

Non-derivative financial liabilities: December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities (shown as other non-current liabilities)	$ 2,110	$ 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 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(8).

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, 2019	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ 28,942	$ -	$ 30,552	$ 59,494

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

(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, 2019 and 2018, 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, 2019 and 2018:

	Years ended December 31,	
	2019	2018
	Non-derivative equity instrument	Non-derivative equity instrument
At January 1	$ 27,088	$ 34,905
Losses recognised in profit or loss		
Recorded as non-operating income and expenses	3,464	(7,817)
At December 31	$ 30,552	$ 27,088

F. For the years ended December 31, 2019 and 2018, 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, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:						
Unlisted shares	$	30,552	Net asset value	Not applicable	-	Not applicable

		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

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of the Company’s paid-in capital: None.

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

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

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

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: None.

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 3.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry and is mainly engaged in distribution of communications Network ICs or related services. The Chief Operating Decision-Maker who allocates resources and assesses performance of the Group as a whole has identified that the Group has only one reportable operating segment.

(2) Segment information

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

	Years ended Decemberr 31,	
	2019	2018
Revenue from external customers	$ 242,531	$ 261,095
Depreciation and amortisation (including investment property, right-of-use assets)	12,453	10,147
Income tax expense	3,842	4,928
Reportable segments income	41,433	37,923
Assets of reportable segments	1,234,889	1,209,347
Capital expenditure in non-current assets of reportable segments	42,322	545
Liabilities of reportable segments	129,421	58,914

(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, 2019	Years ended December 31, 2018
Sales revenue	$ 238,388	$ 260,395
Service revenue	4,143	700
	$ 242,531	$ 261,095

(5) Geographical information

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

	Years ended December 31,			
	2019		2018	
	Revenue	Non-current assets	Revenue	Non-current assets
China	$ 160,470	$ -	$ 166,127	$ -
Taiwan	31,925	343,048	44,524	237,211
USD	4,771	-	5,004	-
Others	45,365	-	45,440	-
	$ 242,531	$ 343,048	$ 261,095	$ 237,211

(6) Major customer information

For the years ended December 31, 2019 and 2018, details of the Group's sale revenue from customers accounted for more than 10% of sales amounts in the consolidated statements of comprehensive income are as follows:

	Years ended December 31,			
	2019		2018	
	Revenue	%	Revenue	%
C	$ 64,627	27	$ 60,336	23
A	38,414	16	49,456	19
B	36,000	15	35,094	13
	$ 139,041	58	$ 144,886	55

DAVICOM Semiconductor, Inc. and subsidiaries

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

December 31, 2019

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2019 Number of shares	Book value (Note 3)	Ownership (%)	Fair value	Footnote (Note 4)
The Company	Unitech Capital Inc.	—	Financial assets at fair value through profit or loss - non-current	1,000,000	$ 30,552	2.00%	$ 30,552	
Davicom Investment Inc.	Global Mobile Corp.	—	Financial assets at fair value through profit or loss - non-current	892,458	-	0.32%	-	
Davicom Investment Inc.	MTECH Corporation	—	Financial assets at fair value through profit or loss - non-current	200,000	-	0.93%	-	
Davicom Investment Inc.	Schroder fund		Financial assets at fair value through profit or loss - non-current	2,900,000	28,942	-	28,942	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

DAVICOM Semiconductor, Inc. and subsidiaries

Information on investees

December 31, 2019

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

				Initial investment amount		Shares held as at December 31, 2019			Net profit (loss)	Investment income(loss) recognised by the Company	
Investor	Investee	Location	Main business activities	Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value	of the investee for the year ended December 31, 2019	for the year ended December 31, 2019	Footnote
The Company	TSCC Inc.	Samoa	General investment	$ 143,224	$ 143,224	4,400,000	100	$ 95,835	$ 11,270	$ 11,270	-
The Company	Davicom Investment Inc.	Taiwan	General investment	222,000	222,000	21,200,000	100	212,029	924	924	-
The Company	Medicom Corp.	Taiwan	Designing and manufacturing of IC	17,004	17,004	496,811	99.36	330	(18)	(18)	-
The Company	Aidialink Corp.	Taiwan	Wireless communication machinery and equipment manufacturing industry	8,970	8,970	885,000	88.50	8,583	323	286	-
TSCC Inc.	Jubilink Ltd.	British Virgin Islands	General investment	82,725	82,725	22,775,207	100	-	-	-	-

DAVICOM Semiconductor, Inc. and subsidiaries

Information on investments in Mainland China

December 31, 2019

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019 — Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee as of December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2019 (Note 2)	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
DAVICOM IC (SuZHou) Co.LTD		$ 74,950	(2)	$ 74,950	-	-	$ 74,950	($ 1,185)	100	($ 1,185)	$ -	-	-

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1)Directly invest in a company in Mainland China.

(2)Through investing in TSCC Inc., an existing company in the third area, which then invested in the investee in Mainland China.

(3)Others.

Note 2: Investment income (loss) was recognised based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 3: DAVICOM IC (SuZHou) Co. LTD has completed the liquidation procedures in October 11, 2019, and the mainland investment cancellation case has been approved by the INVESTMENT COMMISION reviewed on January 6, 2020.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
The Company	$ -	$ -	$ 663,281