

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

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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

## 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.

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 value loss for market value decline and obsolete and slow-moving inventories, confirming whether it agrees with the statement details generated from system, and verifying that obsolete and slow-moving inventories which were provided valuation losses, has been completely listed in the statement.
4. Tested book value of ending inventory, through selecting samples and obtaining invoices of last period to verify whether they were measured at the lower of cost or net realizable value method, and recalculating and valuating the reasonableness of changes in allowance for inventory valuation losses.
5. Participating and observing the year-end physical inventory count to verify the existence and completeness of inventory, and checking the condition of inventory to assess the appropriateness of allowance for inventory valuation losses of obsolete and slow-moving inventories.

### ***Other matters***

#### **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.



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

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

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

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

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

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

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

Se-Kai Lin

Chun-Yuan Hsiao

For and on behalf of PricewaterhouseCoopers, Taiwan

February 27, 2020

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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 |     | December 31, 2018 |     |
|--------------------|--|-------|-------------------|-----|-------------------|-----|
|                    |  |       | AMOUNT            | %   | 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 |

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

| Liabilities and Equity   |   | Notes | December 31, 2019 |      | December 31, 2018 |      |
|--|---|-------|-------------------|------|-------------------|------|
|  |   |       | AMOUNT            | %    | 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          | Years ended December 31 |       |            |       |
|--|----------------|-------------------------|-------|------------|-------|
|  |                | 2019                    |       | 2018       |       |
|  |                | AMOUNT                  | %     | AMOUNT     | %     |
| 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    |

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

| Items   | Notes | Years ended December 31 |           |                  |           |
|---|-------|-------------------------|-----------|------------------|-----------|
|   |       | 2019                    |           | 2018             |           |
|   |       | AMOUNT                  | %         | AMOUNT           | %         |
| <b>Other comprehensive income</b>   |       |                         |           |                  |           |
| <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>                     |       |                         |           |                  |           |
| 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 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>                |       | 366                     | -         | 588              | -         |
| <b>Components of other comprehensive income that will be reclassified to profit or loss</b>                         |       |                         |           |                  |           |
| 8361 Financial statement translation differences of foreign operations  |       | ( 13,496)               | ( 5)      | 1,182            | 1         |
| 8360 <b>Components of other comprehensive income that will be reclassified to profit or loss</b>                    |       | ( 13,496)               | ( 5)      | 1,182            | 1         |
| 8300 <b>Total other comprehensive (loss) income for the year</b>  |       | ( \$ 13,130)            | ( 5)      | \$ 1,770         | 1         |
| 8500 <b>Total comprehensive income for the year</b>   |       | <u>\$ 28,303</u>        | <u>12</u> | <u>\$ 39,693</u> | <u>15</u> |
| <b>Profit, attributable to:</b>   |       |                         |           |                  |           |
| 8610 Owners of parent   |       | \$ 41,396               | 17        | \$ 37,635        | 14        |
| 8620 Non-controlling interest   |       | 37                      | -         | 288              | -         |
|   |       | <u>\$ 41,433</u>        | <u>17</u> | <u>\$ 37,923</u> | <u>14</u> |
| <b>Comprehensive income, attributable to:</b>   |       |                         |           |                  |           |
| 8710 Owners of parent   |       | \$ 28,266               | 12        | \$ 39,405        | 15        |
| 8720 Non-controlling interest   |       | 37                      | -         | 288              | -         |
|   |       | <u>\$ 28,303</u>        | <u>12</u> | <u>\$ 39,693</u> | <u>15</u> |
| <b>Basic earnings per share</b>   | 6(24) |                         |           |                  |           |
| 9750 <b>Net income</b>  |       | <u>\$ 0.50</u>          |           | <u>\$ 0.44</u>   |           |
| <b>Diluted earnings per share</b>   | 6(24) |                         |           |                  |           |
| 9850 <b>Net income</b>  |       | <u>\$ 0.49</u>          |           | <u>\$ 0.44</u>   |           |

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

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

|   | Notes | Equity attributable to owners of the parent |                            |           |                   |                        |   |  |  |              |                 |          | Non-controlling interest | Total equity |
|---|-------|---|----------------------------|-----------|-------------------|------------------------|---|--|--|--------------|-----------------|----------|--------------------------|--------------|
|   |       | Share capital                               | Capital surplus            |           | Retained earnings |                        | Other equity interest                                       |  |  |              | Treasury shares | Total    |                          |              |
|   |       | Common stock                                | Additional paid-in capital | Others    | Legal reserve     | Undistributed earnings | Exchange differences from translation of foreign operations | Unrealized gain or loss on available-for-sale financial assets | Unearned compensation for restricted employee share of stock |              |                 |          |                          |              |
| 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)

|  |                | Years ended December 31 |            |
|--|----------------|-------------------------|------------|
|  | Notes          | 2019                    | 2018       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |                |                         |            |
| 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     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |                |                         |            |
| 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 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |                |                         |            |
| 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<br>International Accounting<br>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                          | <u>70,035</u>           |
| Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019 | <u><u>\$ 77,519</u></u> |
| 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<br>International Accounting<br>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<br>International Accounting<br>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<br>International Accounting<br>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:

| Name of investor            | Name of subsidiary         | Main business activities   | Ownership (%)     |                   | Description |
|-----------------------------|----------------------------|--|-------------------|-------------------|-------------|
|                             |                            |  | December 31, 2019 | December 31, 2018 |             |
| 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) Classification of current and non-current items**

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
  - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
  - (b) Assets held mainly for trading purposes;
  - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
  - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

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

(6) Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The Group initially measures accounts and notes receivable at fair value and subsequently recognises the amortised interest income over the period of circulation using the effective interest method and the impairment loss. A gain or loss is recognised in profit or loss.

(9) Impairment of financial assets

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

(10) Derecognition of financial assets

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

(11) Inventories

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

(12) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity 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 loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- H. When the Group disposes its investment in an associate, and loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it 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

|                                       | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand                          | \$ 62                    | \$ 89                    |
| Checking accounts and demand deposits | 398,835                  | 326,007                  |
| Time deposits                         | <u>353,670</u>           | <u>509,761</u>           |
|                                       | <u>\$ 752,567</u>        | <u>\$ 835,857</u>        |

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

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

| Items  | December 31, 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)           |
|  | <u>\$ 59,494</u>  | <u>\$ 47,247</u>  |

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

|  | Years ended December 31, |                 |
|--|--------------------------|-----------------|
|  | 2019                     | 2018            |
| Financial assets mandatorily measured at fair value through profit or loss |                          |                 |
| Equity instruments   | <u>\$ 11,315</u>         | <u>(\$ 108)</u> |

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                           | <u>\$ -</u>       | <u>\$ 64</u>      |
| Accounts receivable                        | <u>\$ 33,422</u>  | <u>\$ 41,444</u>  |
| Less: Allowance for uncollectible accounts | <u>(1,101)</u>    | <u>(1,201)</u>    |
|  | <u>\$ 32,321</u>  | <u>\$ 40,243</u>  |

- 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                   | -                | -                   | -                |
|               | <u>\$ 33,422</u>    | <u>\$ -</u>      | <u>\$ 41,444</u>    | <u>\$ 64</u>     |

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           |
|                  | <u>\$ 41,495</u>  | <u>(\$ 13,971)</u>           | <u>\$ 27,524</u> |
|                  | December 31, 2018 |                              |                  |
|                  | Cost              | Allowance for valuation loss | Book value       |
| Work in process  | \$ 22,039         | (\$ 8,901)                   | \$ 13,138        |
| Finished goods   | 26,091            | ( 5,070)                     | 21,021           |
|                  | <u>\$ 48,130</u>  | <u>(\$ 13,971)</u>           | <u>\$ 34,159</u> |

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)             |
|   | <u>\$ 81,482</u>         | <u>\$ 87,299</u> |

(5) Property, plant and equipment

| 2019   |                                |   |                             |                             |               |                   |
|--|--------------------------------|---|-----------------------------|-----------------------------|---------------|-------------------|
|  | Buildings<br>and<br>structures | Computer<br>communications<br>equipment | Transportation<br>equipment | Construction<br>in progress | Others        | Total             |
| <u>At January 1</u>                          |                                |   |                             |                             |               |                   |
| Cost   | \$ 170,034                     | \$ 708                                  | \$ 2,325                    | \$ -                        | \$ 735        | \$ 173,802        |
| Accumulated depreciation                     | ( 49,249)                      | ( 275)                                  | ( 1,098)                    | -                           | ( 320)        | ( 50,942)         |
|  | <u>\$ 120,785</u>              | <u>\$ 433</u>                           | <u>\$ 1,227</u>             | <u>\$ -</u>                 | <u>\$ 415</u> | <u>\$ 122,860</u> |
| Opening net book amount as at<br>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<br>December 31 | <u>\$ 117,441</u>              | <u>\$ 499</u>                           | <u>\$ 840</u>               | <u>\$ 41,939</u>            | <u>\$ 263</u> | <u>\$ 160,982</u> |
| <u>At December 31</u>                        |                                |   |                             |                             |               |                   |
| Cost   | \$ 169,884                     | \$ 857                                  | \$ 2,325                    | \$ 41,939                   | \$ 679        | \$ 215,684        |
| Accumulated depreciation                     | ( 52,443)                      | ( 358)                                  | ( 1,485)                    | -                           | ( 416)        | ( 54,702)         |
|  | <u>\$ 117,441</u>              | <u>\$ 499</u>                           | <u>\$ 840</u>               | <u>\$ 41,939</u>            | <u>\$ 263</u> | <u>\$ 160,982</u> |
| 2018   |                                |   |                             |                             |               |                   |
|  | Buildings<br>and<br>structures | Computer<br>communications<br>equipment | Transportation<br>equipment | Construction<br>in progress | Others        | Total             |
| <u>At January 1</u>                          |                                |   |                             |                             |               |                   |
| Cost   | \$ 170,034                     | \$ 931                                  | \$ 2,325                    | \$ -                        | \$ 811        | \$ 174,101        |
| Accumulated depreciation                     | ( 45,842)                      | ( 412)                                  | ( 710)                      | -                           | ( 417)        | ( 47,381)         |
|  | <u>\$ 124,192</u>              | <u>\$ 519</u>                           | <u>\$ 1,615</u>             | <u>\$ -</u>                 | <u>\$ 394</u> | <u>\$ 126,720</u> |
| Opening net book amount as at<br>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<br>December 31 | <u>\$ 120,785</u>              | <u>\$ 433</u>                           | <u>\$ 1,227</u>             | <u>\$ -</u>                 | <u>\$ 415</u> | <u>\$ 122,860</u> |
| <u>At December 31</u>                        |                                |   |                             |                             |               |                   |
| Cost   | \$ 170,034                     | \$ 708                                  | \$ 2,325                    | \$ -                        | \$ 735        | \$ 173,802        |
| Accumulated depreciation                     | ( 49,249)                      | ( 275)                                  | ( 1,098)                    | -                           | ( 320)        | ( 50,942)         |
|  | <u>\$ 120,785</u>              | <u>\$ 433</u>                           | <u>\$ 1,227</u>             | <u>\$ -</u>                 | <u>\$ 415</u> | <u>\$ 122,860</u> |



(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,<br>2019 | Year ended December<br>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<br>December 31, 2019 |
|---------------------------------------|---------------------------------|
| <u>Items affecting profit or loss</u> |                                 |
| 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<br>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             |
|      | <u>\$ 42,618</u>  |

(8) Investment property

|   | Years ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2019                     | 2018              |
| At January 1                              |                          |                   |
| Cost                                      | \$ 148,907               | \$ 148,907        |
| Accumulated depreciation                  | ( 43,047)                | ( 40,127)         |
|   | <u>\$ 105,860</u>        | <u>\$ 108,780</u> |
| 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 | <u>\$ 102,940</u>        | <u>\$ 105,860</u> |
| At December 31                            |                          |                   |
| Cost                                      | \$ 148,907               | \$ 148,907        |
| Accumulated depreciation                  | ( 45,967)                | ( 43,047)         |
|   | <u>\$ 102,940</u>        | <u>\$ 105,860</u> |

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  | <u>\$ 18,065</u>         | <u>\$ 21,983</u>  |
| Direct operating expenses arising from the investment property that generated rental income during the period | <u>(\$ 4,583)</u>        | <u>(\$ 4,823)</u> |

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<br>interest rate | Ratio of<br>salvage value  |
|-----------------|----------------------------------|----------------------------|
| Cost approach   | 1.835%                           | 5.00%                      |
|                 |                                  | <u>Capitalisation rate</u> |
| Income approach |                                  | 8.30%                      |

(9) Other non-current assets

|                          | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--------------------------|--------------------------|--------------------------|
| 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)                 |
|                          | <u>\$ 15,292</u>         | <u>\$ 8,338</u>          |

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

(10) Other payables

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

(11) Other non-current liabilities

|                               | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-------------------------------|--------------------------|--------------------------|
| Net defined benefit liability | \$ 14,107                | \$ 14,387                |
| Guarantee deposits received   | 3,303                    | 2,930                    |
|                               | <u>\$ 17,410</u>         | <u>\$ 17,317</u>         |

(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<br>defined benefit<br>obligations | Fair value of<br>plan assets | Net defined<br>liability |
|---|--|------------------------------|--------------------------|
| <u>Year ended December 31, 2019</u>   |  |                              |                          |
| 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<br>(excluding amounts included in<br>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)              |
| <u>Year ended December 31, 2018</u>   |  |                              |                          |
| Balance at January 1  | (\$ 37,994)  | \$ 23,416                    | (\$ 14,578)              |
| Current service cost  | ( 100)   | -                            | ( 100)                   |
| Interest (expense) income   | ( 228)   | 140                          | ( 88)                    |
|   | ( 38,322)  | 23,556                       | ( 14,766)                |
| Remeasurements:   |  |                              |                          |
| Return on plan asset<br>(excluding amounts included in<br>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           | <u>0.07%</u>             | <u>0.07%</u> |
| Future salary increases | <u>2.00%</u>             | <u>2.00%</u> |

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

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

|   | Discount rate    |               | Future salary increases |                  |
|---|------------------|---------------|-------------------------|------------------|
|   | Increase 0.5%    | Decrease 0.5% | Increase 0.5%           | Decrease 0.5%    |
| <u>December 31, 2019</u>                              |                  |               |                         |                  |
| Effect on present value of defined benefit obligation | (\$ <u>832</u> ) | <u>\$ 865</u> | <u>\$ 751</u>           | (\$ <u>730</u> ) |
| <u>December 31, 2018</u>                              |                  |               |                         |                  |
| Effect on present value of defined benefit obligation | (\$ <u>891</u> ) | <u>\$ 929</u> | <u>\$ 816</u>           | (\$ <u>791</u> ) |

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:

| <u>Type of arrangement</u>   | <u>Grant date</u> | <u>Quantity granted</u>       | <u>Contract period</u> | <u>Vesting conditions</u> |
|------------------------------|-------------------|-------------------------------|------------------------|---------------------------|
| Restricted stock to employee | 2017.09.29        | 1,400<br>(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 |                             | Number of shares     |                 |
| the shares              | Reason for reacquisition    | (share in thousands) | Carrying amount |
| The Company             | To be reissued to employees | 1,515                | \$ 28,115       |

|                         |                             | December 31, 2018    |                 |
|-------------------------|-----------------------------|----------------------|-----------------|
| Name of company holding |                             | Number of shares     |                 |
| the shares              | Reason for reacquisition    | (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:

|                | <u>Year ended December 31, 2018</u> |   | <u>Year ended December 31, 2017</u> |   |
|----------------|-------------------------------------|---|-------------------------------------|---|
|                | <u>Amount</u>                       | <u>Dividends<br/>per share<br/>(in dollars)</u> | <u>Amount</u>                       | <u>Dividends<br/>per share<br/>(in dollars)</u> |
| 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:

|                | <u>Year ended December 31, 2019</u> |   |
|----------------|-------------------------------------|---|
|                | <u>Amount</u>                       | <u>Dividends<br/>per share<br/>(in dollars)</u> |
| 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

|                                       | <u>Years ended December 31,</u> |                   |
|---------------------------------------|---------------------------------|-------------------|
|                                       | <u>2019</u>                     | <u>2018</u>       |
| Revenue from contracts with customers | <u>\$ 242,531</u>               | <u>\$ 261,095</u> |

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                     | 2018              |
| China  | \$ 160,470               | \$ 166,126        |
| Taiwan | 31,925                   | 44,524            |
| USA    | 4,771                    | 5,004             |
| Other  | 45,365                   | 45,441            |
|        | <u>\$ 242,531</u>        | <u>\$ 261,095</u> |

(18) Other income

|                                    | Years ended December 31, |                  |
|------------------------------------|--------------------------|------------------|
|                                    | 2019                     | 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              |
|                                    | <u>\$ 23,814</u>         | <u>\$ 29,485</u> |

(19) Other gains and losses

|  | Years ended December 31, |                 |
|--|--------------------------|-----------------|
|  | 2019                     | 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)        |
|  | <u>\$ 11,920</u>         | <u>\$ 3,417</u> |

(20) Finance costs

|                  | Years ended December 31, |              |
|------------------|--------------------------|--------------|
|                  | 2019                     | 2018         |
| Interest expense | <u>\$ 645</u>            | <u>\$ 31</u> |

(21) Expenses by nature

|   | Years ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2019                     | 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  | <u>\$ 232,345</u>        | <u>\$ 251,115</u> |

(22) Employee benefit expense

|                                  | Years ended December 31, |                   |
|----------------------------------|--------------------------|-------------------|
|                                  | 2019                     | 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             |
|                                  | <u>\$ 115,991</u>        | <u>\$ 125,885</u> |

A. According to the Articles of Incorporation of the Company, a ratio of gain on current pre-tax profit before deduction of employees' compensation and directors' remuneration, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 8.5% for employees' compensation and shall not be higher than 2% for directors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. Directors' remuneration shall be distributed in cash. Qualification requirements of employees, including the employees of subsidiaries of the Company meeting certain specific requirements, entitled to receive employees' compensation in the form of stock or cash are set by the Board of Directors.

B. For the years ended December 31, 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  | <u>5,067</u>             | <u>2,654</u>    |
| Deferred tax:  |                          |                 |
| Origination and reversal of temporary differences        | ( 1,225)                 | 3,582           |
| Impact of change in tax rate                             | -                        | ( 1,308)        |
| Income tax expense                                       | <u>\$ 3,842</u>          | <u>\$ 4,928</u> |

(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            |
|  | <u>(\$ 92)</u>           | <u>\$ 234</u> |

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 | \$ 9,281                 | \$ 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   | <u>\$ 3,842</u>          | <u>\$ 4,928</u> |

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<br>in profit or<br>loss | Recognised<br>in other<br>comprehensive<br>income | December 31     |
| Deferred tax assets:   |                              |                                    |   |                 |
| -Temporary Differences:  | \$ 814                       | \$ -                               | \$ -  | \$ 814          |
| Inventory retirement losses  | 2,794                        | -                                  | -   | 2,794           |
| Loss for market value decline<br>and obsolete and<br>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   | <u>\$ 7,573</u>              | <u>\$ 1,113</u>                    | <u>(\$ 92)</u>                                    | <u>\$ 8,594</u> |
| Deferred tax liabilities:  |                              |                                    |   |                 |
| -Temporary Differences:  |                              |                                    |   |                 |
| Currency temporary differences:  | (\$ 602)                     | \$ 90                              | \$ -  | (\$ 512)        |
| Unrealised exchange gain   | ( 23)                        | 22                                 | -   | ( 1)            |
| Subtotal   | <u>(\$ 625)</u>              | <u>\$ 112</u>                      | <u>\$ -</u>                                       | <u>(\$ 513)</u> |
|  | <u>\$ 6,948</u>              | <u>\$ 1,225</u>                    | <u>\$ (92)</u>                                    | <u>\$ 8,081</u> |



| Year ended December 31, 2018   |                 |                                    |   |                 |
|--|-----------------|------------------------------------|---|-----------------|
|  |                 | Recognised<br>in profit or<br>loss | Recognised<br>in other<br>comprehensive<br>income | December 31     |
|  | January 1       |                                    |   |                 |
| Deferred tax assets:   |                 |                                    |   |                 |
| -Temporary Differences:  | \$ 692          | \$ 122                             | \$ -  | \$ 814          |
| Inventory retirement losses  | 3,829           | ( 1,035)                           | -   | 2,794           |
| Loss for market value decline<br>and obsolete and<br>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   | <u>\$ 9,603</u> | <u>\$ (2,264)</u>                  | <u>\$ 234</u>                                     | <u>\$ 7,573</u> |
| Deferred tax liabilities:  |                 |                                    |   |                 |
| -Temporary Differences:  |                 |                                    |   |                 |
| Currency temporary differences:  | (\$ 512)        | (\$ 90)                            | \$ -  | (\$ 602)        |
| Unrealised exchange gain   | ( 151)          | 128                                | -   | ( 23)           |
| Subtotal   | <u>(\$ 663)</u> | <u>\$ 38</u>                       | <u>\$ -</u>                                       | <u>(\$ 625)</u> |
|  | <u>\$ 8,940</u> | <u>\$ (2,226)</u>                  | <u>\$ 234</u>                                     | <u>\$ 6,948</u> |

- 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<br>number of ordinary<br>shares outstanding<br>(share in thousands) | Earnings per share<br>(in dollars) |
| <u>Basic earnings per share</u>  |                  |  |                                    |
| Profit attributable to ordinary<br>shareholders of the parent  | <u>\$ 41,396</u> | 83,190   | <u>\$ 0.50</u>                     |
| <u>Diluted earnings per share</u>  |                  |  |                                    |
| Profit attributable to ordinary<br>shareholders of the parent  | \$ 41,396        | 83,190   |                                    |
| Assumed conversion of all dilutive<br>potential ordinary shares  |                  |  |                                    |
| Employees' bonus   | -                | 488  |                                    |
| Profit attributable to shareholders<br>of the parent plus assumed<br>conversion of all dilutive potential<br>ordinary shares | <u>\$ 41,396</u> | <u>83,678</u>  | <u>\$ 0.49</u>                     |
| Year ended December 31, 2018   |                  |  |                                    |
|  | Amount after tax | Weighted average<br>number of ordinary<br>shares outstanding<br>(share in thousands) | Earnings per share<br>(in dollars) |
| <u>Basic earnings per share</u>  |                  |  |                                    |
| Profit attributable to ordinary<br>shareholders of the parent  | <u>\$ 37,635</u> | 84,580   | <u>\$ 0.44</u>                     |
| <u>Diluted earnings per share</u>  |                  |  |                                    |
| Profit attributable to ordinary<br>shareholders of the parent  | \$ 37,635        | 84,580   |                                    |
| Assumed conversion of all dilutive<br>potential ordinary shares  |                  |  |                                    |
| Employees' bonus   | -                | 434  |                                    |
| Profit attributable to shareholders<br>of the parent plus assumed<br>conversion of all dilutive potential<br>ordinary shares | <u>\$ 37,635</u> | <u>85,014</u>  | <u>\$ 0.44</u>                     |

(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             |
|   | <u>\$ 15,249</u>  |

- 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             |
|   | <u>\$ 7,484</u>   |

(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                                 | <u>\$ 64,037</u>             | <u>\$ 3,303</u>             | <u>\$ 67,340</u>                            |

  

|                                 | 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                  | <u>\$ 2,930</u>              | <u>\$ 2,930</u>                             |

## 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:

| Pledged asset  | Book value        |                   | Purpose               |
|--|-------------------|-------------------|-----------------------|
|  | December 31, 2019 | December 31, 2018 |                       |
| Time deposits<br>(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

|  | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| <u>Financial assets</u>  |                          |                          |
| Financial assets measured at fair value through profit or loss             |                          |                          |
| Financial assets mandatorily measured at fair value through profit or loss | \$ 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                    | -                        |
|  | <u>\$ 793,304</u>        | <u>\$ 881,748</u>        |
| <u>Financial liabilities</u>   |                          |                          |
| 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                    |
|  | <u>\$ 45,630</u>         | <u>\$ 43,438</u>         |
| Lease liability  | <u>\$ 64,037</u>         | <u>\$ -</u>              |

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.
- (b) Risk management is carried out by a treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The management provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

## C. Significant financial risks and degrees of financial risks

### (a) Market risk

#### Foreign exchange risk

- i. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| December 31, 2019                          |                               |               |            |                        |                             |  |
|--|-------------------------------|---------------|------------|------------------------|-----------------------------|--|
| (Foreign currency:<br>functional currency) | Foreign<br>currency<br>amount | Exchange rate | Book value | Sensitivity analysis   |                             | Effect on other<br>comprehensive<br>income |
|  | (In thousands)                |               | (NTD)      | Degree of<br>variation | Effect on<br>profit or loss |  |
|  |                               |               |            |                        |                             |  |
|  | <u>Financial assets</u>       |               |            |                        |                             |  |
| <u>Monetary items</u>                      |                               |               |            |                        |                             |  |
| 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                          | -  |
| <u>Financial liabilities</u>               |                               |               |            |                        |                             |  |
| <u>Monetary items</u>                      |                               |               |            |                        |                             |  |
| USD:NTD                                    | \$ 152                        | 29.98         | \$ 4,557   | 1%                     | \$ 46                       | \$ -                                       |
| December 31, 2018                          |                               |               |            |                        |                             |  |
| (Foreign currency:<br>functional currency) | Foreign<br>currency<br>amount | Exchange rate | Book value | Sensitivity analysis   |                             | Effect on other<br>comprehensive<br>income |
|  | (In thousands)                |               | (NTD)      | Degree of<br>variation | Effect on<br>profit or loss |  |
|  |                               |               |            |                        |                             |  |
|  | <u>Financial assets</u>       |               |            |                        |                             |  |
| <u>Monetary items</u>                      |                               |               |            |                        |                             |  |
| USD:NTD                                    | \$ 11,636                     | 30.72         | \$ 357,458 | 1%                     | \$ 3,575                    | \$ -                                       |
| USD:RMB                                    | 1,126                         | 6.87          | 7,736      | 1%                     | 77                          | -  |
| RMB:NTD                                    | 2,029                         | 4.47          | 9,070      | 1%                     | 91                          | -  |
| HKD:NTD                                    | 2,324                         | 3.92          | 9,110      | 1%                     | 91                          | -  |
| <u>Financial liabilities</u>               |                               |               |            |                        |                             |  |
| <u>Monetary items</u>                      |                               |               |            |                        |                             |  |
| USD:NTD                                    | \$ 158                        | 30.72         | \$ 4,854   | 1%                     | \$ 49                       | \$ -                                       |

- 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:

|                          | Group A   | Group B    | Total     |
|--------------------------|-----------|------------|-----------|
| <u>December 31, 2019</u> |           |            |           |
| Expected loss rate       | 0.03%     | 3.63%~100% |           |
| Total book value         | \$ 23,081 | \$ 10,341  | \$ 33,422 |
| Loss allowance           | \$ 7      | \$ 1,094   | \$ 1,101  |
| <u>December 31, 2018</u> |           |            |           |
| 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              | <u>\$ 1,101</u>          | <u>\$ 1,201</u> |

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:

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



| <u>Non-derivative financial liabilities:</u>                            | Less        | Between       | Between       | Over    |
|---|-------------|---------------|---------------|---------|
| December 31, 2018   | than 1 year | 1 and 2 years | 2 and 5 years | 5 years |
| Other financial liabilities<br>(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                                     | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Assets  |                |                |                |              |
| <u>Recurring fair value measurements</u>              |                |                |                |              |
| Financial assets at fair value through profit or loss |                |                |                |              |
| Equity securities                                     | \$ 28,942      | \$ -           | \$ 30,552      | \$ 59,494    |
| December 31, 2018                                     | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets  |                |                |                |              |
| <u>Recurring fair value measurements</u>              |                |                |                |              |
| Financial assets at fair value through profit or loss |                |                |                |              |
| Equity securities                                     | \$ 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:

|                     | <u>Listed shares</u> | <u>Emerging stocks</u> |
|---------------------|----------------------|------------------------|
| Market quoted price | Closing price        | Last transaction price |

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

- iii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- iv. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. For the years ended December 31, 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:

|   | <u>Years ended December 31,</u>             |   |
|---|---|---|
|   | <u>2019</u>                                 | <u>2018</u>                                 |
|   | <u>Non-derivative<br/>equity instrument</u> | <u>Non-derivative<br/>equity instrument</u> |
| 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                                | <u>\$ 30,552</u>                            | <u>\$ 27,088</u>                            |

- 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:

|                                      |    | <u>Fair value at<br/>December 31, 2019</u> | <u>Valuation<br/>technique</u> | <u>Significant<br/>unobservable input</u> | <u>Range<br/>(weighted average)</u> | <u>Relationship of<br/>inputs to fair value</u> |
|--------------------------------------|----|--|--------------------------------|---|-------------------------------------|---|
| Non-derivative<br>equity instrument: |    |  |                                |   |                                     |   |
| Unlisted shares                      | \$ | 30,552                                     | Net asset value                | Not applicable                            | -                                   | Not applicable                                  |

  

|                                      |    | <u>Fair value at<br/>December 31, 2018</u> | <u>Valuation<br/>technique</u> | <u>Significant<br/>unobservable input</u> | <u>Range<br/>(weighted average)</u> | <u>Relationship of<br/>inputs to fair value</u> |
|--------------------------------------|----|--|--------------------------------|---|-------------------------------------|---|
| Non-derivative<br>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                     | 2018              |
| Sales revenue   | \$ 238,388               | \$ 260,395        |
| Service revenue | 4,143                    | 700               |
|                 | <u>\$ 242,531</u>        | <u>\$ 261,095</u> |

(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            | -                  |
|        | <u>\$ 242,531</u>        | <u>\$ 343,048</u>  | <u>\$ 261,095</u> | <u>\$ 237,211</u>  |

(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        |
|   | <u>\$ 139,041</u>        | <u>58</u> | <u>\$ 144,886</u> | <u>55</u> |

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

| Investor    | Investee                | Location               | Main business activities  | Initial investment amount |                         | Shares held as at December 31, 2019 |               |            | Net profit (loss)                                    | Investment income(loss) recognised by the Company |   | Footnote |
|-------------|-------------------------|------------------------|---|---------------------------|-------------------------|-------------------------------------|---------------|------------|--|---|---|----------|
|             |                         |                        |   | Balance                   | Balance                 | Number of shares                    | Ownership (%) | Book value | of the investee for the year ended December 31, 2019 | for the year ended December 31, 2019              |   |          |
|             |                         |                        |   | as at December 31, 2019   | as at December 31, 2018 |                                     |               |            |  |   |   |          |
| 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<br>Mainland China | Main business<br>activities | Paid-in capital | Investment<br>method<br>(Note 1) | Accumulated<br>amount of<br>remittance from<br>Taiwan to<br>Mainland China<br>as of January 1,<br>2019 | Amount remitted from Taiwan<br>to Mainland China/<br>Amount remitted back<br>to Taiwan for the year<br>ended December 31, 2019 |           | Accumulated<br>amount<br>of remittance<br>from Taiwan to<br>Mainland China<br>as of December 31, 2019 | Net income of<br>investee as of<br>December 31, 2019 | Ownership<br>held by<br>the<br>Company<br>(direct or<br>indirect) | Investment income<br>(loss) recognised<br>by the Company<br>for the year ended<br>December 31, 2019<br>(Note 2) | Book value of<br>investments in<br>Mainland China<br>as of December 31, 2019 | Accumulated<br>amount<br>of investment<br>income<br>remitted back to<br>Taiwan as of<br>December 31, 2019 | Footnote |
|-------------------------------|-----------------------------|-----------------|----------------------------------|--|--|-----------|---|--|---|---|--|---|----------|
|                               |                             | \$              |                                  | \$   | Mainland China   | to Taiwan | \$  |  |   |   | \$   |   |          |
| 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 COMMISSION reviewed on January 6, 2020.

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