Stock Code: 3094

DAVICOM Semiconductor, Inc.

2016 Annual Report

Notice to readers

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

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Contact Information

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

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

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

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

Overseas Securities Exchange
None

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

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

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Dear Shareholders,

First of all, I would like to thank you for your continuing support throughout the year. DAVICOM has responded to the changing business climate by adopting an aggressive stance in strengthening our competitiveness. Total consolidated revenue for 2016 was about NT$312 million with pre-tax income of NT$81 million and we have achieved more than 40 quarters of profit results simultaneously.

As the Internet of Things application market gradually flourish, which Ethernet network is also a key part of IoT network structure, the company's network chip products can be widely used in smart grid, smart home, wisdom Medical, safety monitoring, industrial control and other niche market. In addition to the network chip products, the company also successfully applied electronic paper-driven chip series into the banking system of financial cards, prepaid cards, electronic shelf labels and other emerging market products, and has already achieved significant market gains.

Looking forward to the year 2017, due to the continued growth of Internet of Things applications, specific business projects and behavior has become clear, which will bring more new opportunities for the communications industry. Coupled with energy-saving demand for the growing popularity of electronic paper applications, we expected it will quite benefit our second half performance of this year.

In contrast to the above optimism, since Donald Trump was elected as the president of the United States in the year 2016, its US trade policy makes the US dollar in the international money market became strong and then weak after. The weak dollar effect will have a certain impact on the revenue and profit of the exporting company that contains the US dollar denominated.

In view of the above-mentioned optimism and potential unfavorable factors, the Company will continue the spirit of pragmatic governance over the years and the management team and all my colleagues will make the best efforts in the year 2017.

Implementing the operational plan to overcome the difficulties, strengthen cost control and scientific management to improve efficiency. Working closely with customers to master the user's application to provide the best all-round solution. At the same time through the strategic alliance, partnership and mergers and acquisitions to introduce new technologies and new products, expand product line and niche market share, in order to improve our competitive advantage, to create better performance and greater results to our shareholders.

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

We wish you all health and happiness
Sincerest regards,

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

I. Company Profile

2.1 Date of Incorporation: August 16, 1996

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

Later in 1996, with UMC Communication team and American networking experts, DAVICOM Semiconductor Inc. was founded. Today DAVICOM has already developed over 20 digital and analog products and applied for 15 IPs, and has successfully become one of the leading IC design companies in Taiwan.

DAVICOM aims at manufacturing the most professional technique of Communication and Network ICs. By way of mixing signal design, IC integration and the capability of technical supports on software application systems, we provide customers with the best solutions of SoC chipsets in Local Area Network (LAN), Wide Area Network (WAN), Personal Computing (PC), and Internet areas.

In addition, we consider Integrity and Humanity the credo of DAVICOM. With such a belief and outstanding design expertise, we intend to meet customer satisfaction with quality consistency, efficient delivery and cost effectiveness. We will continue to provide our best service and support to help customers gain competitive advantages and win over more orders.

2.2 Company History

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

Jul. 1998	Launched 3 in 1 Internet Chip (DM9102F), Bus MAC Controller and PHY/Transceiver.
Apr. 1999	Additional Cash Capital NT$160,000,000, Paid-up Capital increased to NT$400,000,000.
Jun. 1999	Launched 56K Modem Chip (DM560P).
Oct. 1999	Launched DM9801, 0.35µm 1 Mbps Home Networking PHY/Transceiver.
Dec. 1999	Securities and Futures Institute authorized public offering.
May 2000	Replenished earnings and employee bonuses NT$109,500,000 into Capital, Paid-up Capital increased to NT$509,500,000.
Jun. 2000	Launched DM9102A, Bus MAC Controller and PHY/Transceiver.
Jun. 2001	Replenished earnings and employee bonuses NT$21,880,000 into Capital, Paid-up Capital increased to NT$531,380,000.
Oct. 2001	Launched DM9000, NON-PCI Bus MAC Controller and PHY/Transceiver.
May 2002	Launched DM9331A, Fiber Ethernet media converter chip.
Jun. 2002	Fulfilled the requirements of Emerging listing.
Mar. 2003	Launched the world's smallest IrDA MODEM Module.
Jun. 2003	Developed 802.11b WLAN MAC Control Chip.
Jun. 2003	Developed 10/100M 0.25µm PHY Chip.
Aug. 2003	DM9700, 1.8/3.3V 0.18µm 10/100/1000M Base-TX Single chip Gigabit MAC and PHY transceiver.
Oct. 2003	DM9102C, 2.5/3.3V 0.25µm 10/100M Base-TX Integrated PCI, Single chip Bus Embedded System.
Oct. 2003	DAVICOM was authorized by ISO 9001: version 2000. (Issued by Lloyd's Register Inspection Limited Taiwan Branch for and on behalf of Lloyd's Quality Assurance Limited)
Dec. 2003	Launched DM562AP, Support MFP G3 33.6K color fax with T.31 command.
Mar. 2004	DAVICOM moved to the new building.
Apr. 2004	Additional Cash Capital NT$108,620,000, Paid-up Capital increased to NT$640,000,000.
May 2004	Obtained Technology Company Listed Recommendation from Industrial Development Bureau of Economic Affairs.
May 2004	Launched DM3003, USB 2.0 Card Reader Controller.
Jun. 2004	Developed DM8603, Gigabit Switch.
Jan. 2005	Provided environmentally friendly products: RoHS.
May 2005	Launched DM6588A-E5 2.5/3.3V 0.25µm.
Sep. 2005	Launched DM9000A-E7.
Mar. 2006	Launched an integrated program of DM9218 and IP-CAM.
May 2006	Products obtained the certification of SONY SS-00259.

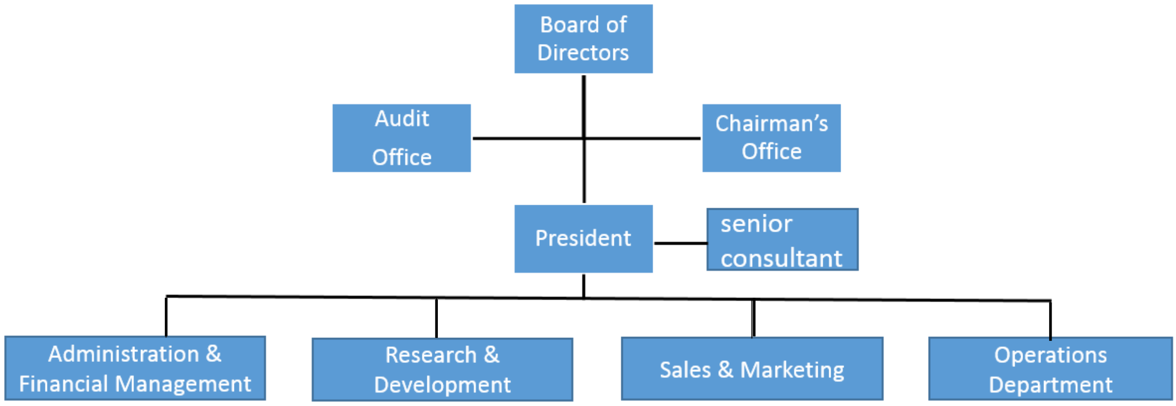
Jul. 2006	Launched DM9013.
Oct. 2006	Provided industry-standard products.
Nov. 2006	Launched DM6588A-E6 2.5/3.3V 0.25µm and Multi-function fax modem chip.
Jan. 2007	Launched DM9000B 0.18 µm.
Jan. 2007	Launched DM9161B 0.18 µm.
Apr. 2007	Obtained Technology Company Listed Recommendation from Industrial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

Nov. 2012	Launched Medical Care return pass system hardware, firmware and server platform.
Mar. 2013	Launched new IC product line: Video Decoder 1-Channel: DM5900/ DM5960/ DM5150/DM5160.
May 2013	Launched hearing aid software “HearingAmp V1.2” and was available on iTunes.
Jul. 2013	Launched new IC product line: Video Decoder 4-Channel: DM5865/ DM5866/ DM5885/DM5886.
Sep. 2013	Launched hearing aid software “HearingAmp V1.3” and is available on iTunes.
Nov. 2013	Launched Medical Care return pass system Apps.
Apr. 2014	Launched DM9163.
Jul. 2014	Purchased Teamtech Technology Corp EPD Driver and SoC IC product line.
Aug. 2014	Launched DM9051.
Sep. 2014	Launched hearing aid software “HearingAmp V1.4” and was available on iTunes.
Nov. 2014	Launched hearing aid software “HearingAmp V1.5” and is available on iTunes.
Sep. 2015	Developed tricolor e-paper driver with wireless energy harvesting chips.
Oct. 2015	Developed embedded portable hearing aid software “HearingPod V1.0”.
Nov. 2015	Developed voltage mode low-power high speed Ethernet transceiver chipsets.
Apr. 2016	Launched hearing aid software “HearingAmp V1.6” and was available on iTunes.
May. 2016	Developed a digital circuit with flexible operation capability to precisely control an analog circuit and can be applied to medical products.
Nov. 2016	Completed the foresighted hearing aid platform of HearingPod V1.1 smart device.
Dec. 2016	Launched hearing aid software “HearingAmp V1.7” and is available on iTunes.

II. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart



3.1.2 Major Corporate Functions

Department	Functions
President	Strategic planning, business planning authorization and supervision.
Audit Office	To identify deficiencies in the internal control system, assess the effectiveness and efficiency of operations, and provide appropriate improvement suggestions to ensure the effectiveness of the internal control system as well as for continuous improvement.
Sales and Marketing	Responsible for corporate image planning, maintaining and enhancing external public relations, corporate marketing activities worldwide, and analyzing industry data and trends. It is also in charge of formulating and implementing corporate marketing, product plans and customer service.
Research and Development	Responsible for the research and development of communication IC, design, sample verification, and writing programs for system testing and IC driver.
Operations Department	Responsible for product manufacturing and production capacity allocation. Planning and execution of quality control systems, general affairs and other affairs.
Administration and Financial Management	Responsible for the planning and execution of human resource management. Responsible for maintaining information systems. Responsible for the summarization and supply of accounting information, management and operation of finance and investment, annual budgeting, credit control, and stocks services.

3.1.3 Management Team

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

3.2 Directors, Supervisors and Management Team

3.2.1 Directors and Supervisors

As of March 28, 2017

Title	Name	Gender	Nationality/ Country of Origin	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Ting Hao	Male	R.O.C.	May 21, 1999	June 06, 2016	3	1,310,000	1.57	1,310,000	1.57	0	0.00	0	0.00	**Doctor**, Business Management, Victoria University **Master**, Electrical Engineering, UC Berkeley **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	-Independent director, United Integrated Services Co., Ltd.	-	-	-
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	Male	R.O.C.	June 12, 2006	June 06, 2016	3	3,545,475	4.26	3,975,475	4.78	0	0.00	0	0.00	Former Chairman of Hitpoint Inc. **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	-President of the Company	-	-	-
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	Male	R.O.C.	June 10, 2013	June 06, 2016	3	1,480,652	1.78	1,480,652	1.78	0	0.00	0	0.00	Former Manager of Medicom Corporation **Master**, Electronic engineering, National Chiao Tung University	-Director of the Company	-	-	-
Independent director	Wen-Hui Wan	Female	R.O.C.	March 30, 2007	June 06, 2016	3	32,258	0.04	32,258	0.04	0	0.00	0	0.00	CPA of AETAN CPAs **Bachelor**, Accounting, Tamkang University	-CPA of AETAN CPAs	-	-	-
Independent director	Ting-Hsin Li	Male	R.O.C.	June 25, 2010	June 06, 2016	3	0	0.00	0	0.00	40	0.00	0	0.00	Manager of Bastek technology co., Ltd. **Bachelor**, Electrical and Control Engineering, National Chiao Tung University	NA	-	-	-
Independent director	Yung-Teng Lin	Male	R.O.C.	June 25, 2010	June 06, 2016	3	0	0.00	0	0.00	0	0.00	0	0.00	Chairman of Sinbao Technology Co., Ltd. **Doctor**, Business Management, Victoria University	-Chairman of Sinbao Technology Co., Ltd. -Supervisor of Shengyitech Ltd.	-	-	-

3.2.2 Major shareholders of the institutional shareholders

March 28, 2017

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

3.2.3 Major shareholders of the Company's major institutional shareholders

March 28, 2017

Name of Institutional Shareholders	Major Shareholders
NA	NA

3.2.4 Professional qualifications and independence analysis of directors and supervisors

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

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

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

3.2.5 Profiles of Key Managers

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	R.O.C.	Nien-Tai Chen	Male	Oct. 09, 2014	65,119	0.08	0	0.00	0	0.00	**Bachelor,** Electrical and Control Engineering, NCTU	NA	NA	NA	NA
Senior Vice President	R.O.C.	Wen-Hsien Chen	Male	Jul. 02, 2012	13,185	0.02	0	0.00	0	0.00	**Master**, Electrical Engineering, State University of New York	NA	NA	NA	NA
CTO	R.O.C.	Cheng-Fang Chiu	Male	Aug. 10, 2016	50,508	0.06	1,671	0.00	0	0.00	**Master**, Computer Science, NTHU	NA	NA	NA	NA
CFO	R.O.C.	Chun-Chun Yang	Male	Aug. 17, 2010	26,099	0.03	0	0.00	0	0.00	**Bachelor,** Cooperative Economics, Feng Chia University	NA	NA	NA	NA

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

(1) Remuneration of Directors

Unit: NT$ thousands / thousands shares

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees												Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay and Pensions (B)		Bonus to Directors (C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Profit Sharing- Employee Bonus (G)				Exercisable Employee Stock Options (H)		New Restricted Employee Shares (I)				
																The company		From All Consolidated Entities								
		The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	Cash	Stock	Cash	Stock	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	
Chairman	Ting Hao	0	0	0	0	237	237	10	10	0.35	0.35	3,476	3,476	0	0	239	0	239	0	0	0	0	0	5.56	5.56	NA
Director	Yih-Rong Chen	0	0	0	0	232	232	8	8	0.34	0.34	1,537	1,537	2,857	2,857	121	0	121	0	0	0	0	0	6.67	6.67	NA
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	0	0	0	0	234	234	10	10	0.34	0.34	1,006	1,006	45	45	59	0	59	0	0	0	0	0	1.90	1.90	NA
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	0	0	0	0	234	234	10	10	0.34	0.34	697	697	40	40	53	0	53	0	0	0	0	0	1.45	1.45	NA
Independent director	Wen-Hui Wan	0	0	0	0	234	234	130	130	0.51	0.51	0	0	0	0	0	0	0	0	0	0	0	0	0.51	0.51	NA
Independent director	Ting-Hsin Li	0	0	0	0	234	234	131	131	0.51	0.51	0	0	0	0	0	0	0	0	0	0	0	0	0.51	0.51	NA
Independent director	Yung-Teng Lin	0	0	0	0	234	234	131	131	0.51	0.51	0	0	0	0	0	0	0	0	0	0	0	0	0.51	0.51	NA

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	From All Consolidated Entities	The company	From All Consolidated Entities
Under NT$ 2,000,000	Ting Hao Yih-Rong Chen Goodyears Investments Ltd. Tzay Hua Ltd. Wen-Hui Wan Ting-Hsin Li Yung-Teng Lin		Goodyears Investments Ltd. Tzay Hua Ltd. Wen-Hui Wan Ting-Hsin Li Yung-Teng Lin	
NT$2,000,001 ~ NT$5,000,000	-		Ting Hao Yih-Rong Chen	
NT$5,000,001 ~ NT$10,000,000	-	-	-	-
NT$10,000,001 ~ NT$15,000,000	-	-	-	-
NT$15,000,001 ~ NT$30,000,000	-	-	-	-
NT$30,000,001~ NT$50,000,000	-	-	-	-
NT$50,000,001 ~ NT$100,000,000	-	-	-	-
Over NT$100,000,000	-	-	-	-
Total	7	7	7	7

(2) Remuneration of Supervisors

Unit: NT$ thousands

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

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

(3) Remuneration of the President, and Vice President

Unit: NT$ thousands/ thousands shares

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		New Restricted Employee Shares		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary
		The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company		From All Consolidated Entities		The company	From All Consolidated Entities	The company	From All Consolidated Entities	The company	From All Consolidated Entities	
								Cash	Stock	Cash	Stock							
President	Nien-Tai Chen	1,840	1,840	108	108	574	574	143	0	143	0	3.74	3.74	0	0	0	0	NA
Senior Vice President	Yih-Rong Chen	383	383	2,823	2,823	51	51	0	0	0	0	4.57	4.57	0	0	0	0	NA
Senior Vice President	Wen-Hsien Chen	1,755	1,755	108	108	450	450	104	0	104	0	3.39	3.39	0	0	0	0	NA

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

Employee Compensation to Key Managers

Unit: NT$ thousands/ thousands shares

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Nien-Tai Chen	0	483	483	0.68
	Senior Vice President	Wen-Hsien Chen				
	CTO	Cheng-Fang Chiu				
	CFO	Chun-Chun Yang				

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

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

Year	Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	From All Consolidated Entities
2016	22.69%	22.69%
2015	15.62%	15.62%

3.3 Implementation of Corporate Governance

3.3.1 Operation of the Board

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

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Chairman	Ting Hao	7	0	100%	
Director	Yih-Rong Chen	5	2	71%	Dismissal on Feb. 20, 2017.
Director	Goodyears Investments Ltd. (Representative person: Nien-Tai Chen)	7	0	100%	
Director	Tzay Hua Ltd. (Representative person: Cheng-Feng Chiu)	7	0	100%	
Independent director	Wen-Hui Wan	7	0	100%	
Independent director	Ting-Hsin Li	7	0	100%	
Independent director	Yung-Teng Lin	7	0	100%	

Other mentionable items:

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

3.3.2 Operation of Audit Committee

A total of five (A) Audit Committee meetings were held in the previous period (from May 2016 till March 2017). The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Independent director	Wen-Hui Wan	5	0	100%	
Independent director	Ting-Hsin Li	5	0	100%	
Independent director	Yung-Teng Lin	5	0	100%	

Other mentionable items:

1. There were no circumstances referred to Article 14-5 of the Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors in 2016.
2. There were no independent directors' avoidance of motions in conflict of interest in 2016.
3. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.)
   (1) The Company's chief internal auditor presents the audit reports to the members of the Audit Committee periodically and report the findings in the meetings of the Audit Committee. The communication between the independent directors and the internal auditors works well.
   (2) CPAs regularly report to Audit Committee on the Company's financial results. The communication between the independent directors and the CPAs also works well.
4. Matters that independent directors have asked the Company's chief internal auditor and CPAs:
   (1) Independent directors have asked the Company's chief internal auditor how the annual audit plan be carried out and suggested to strengthen the audit depth and breadth while discussing the annual audit plan.
   (2) The CPAs have explained the newly adopted version of the audit report to independent directors on November 11, 2017. The communication between the independent directors and the CPAs works well.

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

Evaluation Item	Implementation Status[1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		The Company has established the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies". The information has been disclosed on the Company's website and MOPS (Market Observation Post System).	None
2. Shareholding structure and shareholders' rights (1) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		In addition to the existing hotline and email channels, the Company has established an internal operating procedure, and has designated appropriate departments, such as Investor Relations, Public Relations, Legal Department, to handle shareholders' suggestions, doubts, disputes and litigation.	None

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

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members? (2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? (3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	✓		Member diversification is considered by the Board members. Factors taken into account include, but are not limited to gender, age, cultures, educational background, race, professional experience, skills, knowledge and terms of service. The Board objectively chooses candidates to meet the goal of member diversification. With a Remuneration Committee and an Audit Committee to assist the Board of Directors in executing its duties, DAVICOM has not established any other functional committee. The Company has set up and reviews the performance evaluation and remuneration policy, standard, system and framework for board of directors.	None

Evaluation Item	Implementation Status[1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(4) Does the company regularly evaluate the independence of CPAs?			The Audit Committee annually evaluates the independence of external auditors and reports the same to the Board of Directors.	
4. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		The Company provides detailed contact information, including telephone numbers and email addresses in the "Investor Relation" section of the corporate website. In addition, personnel are in place to exclusively deal with issues of social responsibility, ensuring that various interested parties have channels to communicate with the Company.	None
5. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		The Company designates Fubon Securities Co., Ltd. to deal with shareholder affairs.	None
6. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	✓		The Company has set up a Chinese/English website (http://www.davicom.com.tw) to disclose information regarding the Company's financials, business and corporate governance status.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?			The Company has assigned an appropriate person to handle information collection and disclosure. Contact person: Chun-Chun Yang, TEL: +886-3-579-8797 The Company has established a spokesman system. Investor conference information is disclosed on the corporate website.	
7. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)? (1) DAVICOM discloses its financial statements and corporate governance information on its Chinese and English websites (http://www.davicom.com.tw). (2) The Company aims to provide free access to transparent information for employees, investors, suppliers and stakeholders. (3) DAVICOM directors are experts in their professional specialties. Director training records can also be found on the MOPS website. (4) The Company has already instituted internal control systems as required by law and has properly implemented the system. The Company also conducts risk assessments on banks, customers, and suppliers in order to reduce credit risks. (5) The Company has purchased Directors and Officers liability insurance for its directors and supervisors.				

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
8. Has the company implemented a self-evaluation report [2] on corporate governance or has it authorized any other professional organization to conduct such evaluation? If so, please describe the opinion from the Board, the result of self or authorized evaluation, the major deficiencies, suggestions, or improvements. The Company participated in the self-evaluation of corporate governance accord with the Corporate Governance Evaluation System of the TSE. There have been no major deficiencies.				

Note: 1. Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.
2. A self-evaluation report is defined as the company assessing its corporate governance evaluation items with appropriate explanations on current corporate operations and implementation.

3.3.4 Composition, Responsibilities and Operations of the Remuneration Committee

The Remuneration Committee aims at establishing and regularly reviewing the performance evaluation procedure for directors, supervisors and managers as well as establishing compensation policy, system, standard and structure and regularly reviewing the compensation of directors, supervisors and managers.

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

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

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

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

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

(2) Attendance of Members at Remuneration Committee Meetings

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

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Convener	Ting-Hsin Li	3	0	100%	
Committee Member	Yung-Teng Lin	3	0	100%	
Committee Member	Jen-Chih Huang	3	0	100%	

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified:
   The Company communicates with the remuneration committee in good condition.

3.3.5 Corporate Social Responsibility

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
1. Corporate Governance Implementation (1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?	✓		The Company has set up a "corporate social responsibility policy" in written. The company's implementation of corporate governance, environmental sustainability, social responsibility and information disclosure has been in accordance with corporate social responsibility policy principles.	None
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	✓		The Company carries out regular trainings sessions and propaganda on corporate social responsibility with its employees. For new employees, training on personnel rules, management systems, business ethics, morals, and all other CSR-related subjects are carried out on their first working day to clarify their due responsibilities and obligations.	None
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	✓		The Company has formulated the code of "corporate social responsibility policy", which will compose the committees of corporate social responsibility department by inter-departmental staff. The Board will also authorize the senior management to deal with the situation and report the situation to the Board of Directors.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	✓		The Company has established a reward and disciplinary system based on the employee performance appraisal system which includes our corporate social responsibility policy as one of the most important criteria for evaluation.	None
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		The Company strives for perpetual operations and development. According to the statistics from year 2007 to 2016, we reduced about 75%-85% of the waste annually.	None
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		DAVICOM is an IC design company and all the products of DAVICOM are outsourcing manufacturing by companies that have received ISO 9001 and ISO 14001 certifications for environmental management systems. In line with ISO 9001 and ISO 14001's concept of continuous improvement, DAVICOM diligently carries out its responsibilities of pollution prevention, energy and resource conservation, waste reduction, accident prevention, and the establishment of a safe and comfortable work place.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	✓		<u>CO_2 Emission Reduction Goal</u> DAVICOM implements the greenhouse gas examination and makes continuous efforts to reduce CO2 creation and save energy including the reducing, reusing and recycling resources. Dedicated personnel are assigned to take responsibility for environmental management.	None
3. Preserving Public Welfare (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	✓		The Company abides by the rules, policies, and procedures of the Labor Standards Act and international human rights agreements to protect the legitimate rights and interests of employees. The Company establishes complaint mechanism and channels for employees. We adhere to "Complaint and Punishment of Sexual Harassment in the Workplace", established complaint and punishment measures to handle gender equality in the workforce.	None
(3) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	✓		The Company offers an Employee Relations Hotline that provides a channel for employees to express their opinions regarding their work and the overall work environment. The employee relations team ensures all cases are handled with care under the supervision of the first-line managers.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	✓		The Company aims to offer a safe and healthy working environment and promote a health life. The Company also regularly holds safety and health training sessions to employees.	None
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	✓		The Employee Welfare Committee was established to encourage employees to enjoy company benefits. Labor Management conferences are convened periodically to ensure labor harmony. If significant impacts to operating activities are expected, it will be announced early to employees.	None
(5) Does the company provide its employees with career development and training sessions?	✓		The Company offers a comprehensive career development training program, a challenging learning environment to develop employee's potential and continue to invest in the organization's capabilities.	None
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	✓		DAVICOM sales the products to suppliers directly and has already established procedures for customer service management to provide feedback on customer complaints.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	✓		The Company upholds the concept of integrity to their customers, providing customer-oriented technology, rigorous production, excellent quality and quality service.	None
(8) Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships	✓		Encourage suppliers to establish environmental, safety and hygiene standards in accordance with CSR, SA8000 or EICC. DAVICOM will take steps to avoid using conflict minerals in its products and request that all suppliers should investigate their source of Gold (Au), Tantalum (Ta), Tin (Sn), Tungsten (W) and other metallic materials. If thought necessary DAVICOM will require suppliers to provide the survey information. DAVICOM will continue to monitor this issue of conflict minerals in order to improve these mineral sourcing issues.	None
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	✓		Require suppliers to offer raw materials that are in line with EU RoHS/REACH environmental directives and provide material safety data sheet with high credibility test report periodically. If a supplier acts against the standards of the Company, rights to terminate cooperation will be carried out.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation [2]	
4. Enhancing Information Disclosure (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	✓		The Company discloses CSR information on its company website and on the TSE "MOPS".	None
5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: There have been no differences.				
6. Other important information to facilitate better understanding of the company's corporate social responsibility practices： Please refer to the Chinese version at http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: NA				

3.3.6 Ethical Corporate Management

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs (1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	✓		The Company's Ethical Corporate Management Best-Practice Principles is a guideline to provide high ethical standards for all employees. The principles are disclosed in the annual report and on the company website. The Board of Directors and the management place the greatest importance in adopting the highest standards of integrity and ethics in corporate management and employee work conduct.	None

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

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
2. Fulfill operations integrity policy	✓			None
(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?			The Company holds annual business meetings, conveying our integrity requirements to all our business partners. In addition, an ethic-related clause is included in every business contract. If there is any breach of the clause, the Company may terminate the partnership at any time without any further obligation or compensation.	
(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?			Department of Management.	
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?			When conflicts of interest occur, the employee may report directly to the head of the department or to the chairman of the board of directors.	

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

Evaluation Item	Implementation Status[1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
3. Operation of the integrity channel (1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up? (2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases? (3) Does the company provide proper whistleblower protection?	✓		The Company established the Reporting Procedure and the reporting unethical behavior system. Employees can use this system to report unethical and improper behaviors, and the Company will designate senior management to handle the case. The Company has in place SOPs authorized by the Board which could be applied on any confidential investigations on such cases. The Company established precautions in order to protect whistleblowers.	None

Evaluation Item	Implementation Status [1]			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
4. Strengthening information disclosure (1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	✓		The Company's Ethical Corporate Management Best-Practice Principles and the results of our implementation have been posted on the Company's Chinese / English website and MOPS.	None
5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation. There have been no differences.				
6. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies). Have already been disclosed in above items. Please refer to the company's website at http://www.davicom.com.tw for further information.				

3.3.7 Corporate Governance Guidelines and Regulations

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

3.3.8 Other Important Information Regarding Corporate Governance

None

Key Management Profession Enhancement Status: Please refer to page 29 of the Chinese annual report at http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf

3.3.9 Status of the Internal Control System Implementation

1. Declaration of Internal Control

DAVICOM Semiconductor, Inc.

Statement of Declaration of Internal Control

Date: February 24th, 2017

DAVICOM Semiconductor, Inc. has conducted internal audits in accordance with its Internal Control Regulations for the period ended December 31st, 2016, and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement, and preservation of internal control systems are the responsibility of the Board and that the managers and the Company have already established such systems. The purpose is to reasonably ensure the effectiveness (including profitability, performance, and security of assets), the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.
2. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.
3. The Company judges the effectiveness of the internal control systems in design and enforcement according to the "Criteria for the Establishment of Internal Control Systems of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.
4. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.
5. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.
7. This statement of declaration has been approved by the Board on February 24th 2017 with all Directors in session under unanimous consent.

DAVICOM Semiconductor, Inc.

Chairman: Ting Hao

President: Nien-Tai Chen

2. The Company was not required to commission an independent auditor to audit its internal control system in 2016.

3.3.10 Reprimands on the Company and its Staff

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

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

Please refer to page 31 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

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

None

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

Please refer to page 31 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

3.4 Information Regarding the Company's Audit Fee and Independence

3.4.1 Audit Fee

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
PricewaterhouseCoopers(PWC)	Chin-Mu, Hsiao	Jan. 01, 2016 ~ Dec. 31, 2016	
	Chun-Yuan, Hsiao		

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

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

Unit: NT$ thousands

Accounting Firm	Audit Fee	Non-audit Fee				
		System of Design	Company Registration	Human Resource	Others	Subtotal
PWC	2,400	0	0	0	0	2,400

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

3.5 Replacement of CPA

None

3.6 The Company's Chairman, President or managers in charge of finance or accounting has been under current audit firm or its affiliates' employment in 2016

None

3.7 Net Changes in Shareholding

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

Unit: Shares

Title	Name	2016		As of Mar. 28, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Ting Hao	0	0	0	0
Director	Goodyears Investments Ltd.	430,000	0	0	0
Director	Tzay Hua Ltd.	0	0	0	0
Independent Director	Wen-Hui Wan	0	0	0	0
Independent Director	Ting-Hsin Li	0	0	0	0
Independent Director	Yung-Teng Lin	0	0	0	0
President	Nien-Tai Chen	12,000	0	0	0
Senior Vice President	Wen-Hsien Chen	0	0	0	0
CTO	Cheng-Fang Chiu	0	0	0	0
CFO	Chun-Chun Yang	20,000	0	0	0

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

3.8 Top 10 Shareholders Who are Related Parties to Each Other

None

3.9 Ownership of Shares in Affiliated Enterprises

As of Mar. 31, 2017

Unit: shares

	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
TSCC Inc.	4,400,000	100.00	-	-	4,400,000	100.00
Davicom Investment Inc.	21,200,000	100.00	-	-	21,200,000	100.00
Medicom Corp.	496,811	99.36	-	-	496,811	99.36
Aidialink Corp.	120,000	51.06	-	-	120,000	51.06

Note: Long-Term Investment Ownership under Equity Method.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

(1) Issued Shares

Unit: thousands shares/ NT$ thousands

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

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

10/2011	10	120,000	1,200,000	85,099	850,986	Replenishment of Earnings and Additional Paid In Capital 16,665	None	Yuan-Shang-Tze No. 1000032771
03/2012	4.8	120,000	1,200,000	85,227	852,271	Exercise of Employee Stock Options 1,285	None	Yuan-Shang-Tze No. 1010008507
07/2012	4.8	120,000	1,200,000	85,259	852,591	Exercise of Employee Stock Options 320	None	Yuan-Shang-Tze No. 1010020767
12/2012	4.2	120,000	1,200,000	85,289	852,891	Exercise of Employee Stock Options 300	None	Yuan-Shang-Tze No. 1010039626
08/2014	25.9 and 24.8	120,000	1,200,000	85,452	854,521	Exercise of Employee Stock Options 163	None	Zhu- Shang -Tze No. 1030023720
11/2014	10	120,000	1,200,000	83,215	832,151	Cancellation of Treasury Stocks 2,237	None	Zhu- Shang -Tze No. 1030034128
03/2015	24.8	120,000	1,200,000	83,255	832,551	Exercise of Employee Stock Options 40	None	Zhu- Shang -Tze No. 103007422

(2) Type of Stock

As of Mar. 28, 2017; Unit: Share

Share Type	Authorized Capital				Remarks
	Outstanding Stocks	Treasury Stocks	Un-issued Stocks	Total Stocks	
Common Stocks in registered form	83,255,089	0	36,744,911	120,000,000	-

(3) Information for Shelf Registration

None

4.1.2 Status of Shareholders

As of Mar. 28, 2017

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Individuals	Foreign Institutions and Natural Persons	Total
Number of Shareholders	0	0	28	22,382	34	22,444
Shareholding (shares)	0	0	5,727,626	76,801,485	725,978	83,255,089
Percentage	0	0	6.88%	92.25%	0.87%	100.00%

4.1.3 Shareholding Distribution Status

A. Common Shares

As of Mar. 28, 2017

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	10,201	396,257	0.476%
1,000 ~ 5,000	9,397	19,107,294	22.950%
5,001 ~ 10,000	1,581	12,066,715	14.494%
10,001 ~ 15,000	430	5,288,062	6.352%
15,001 ~ 20,000	272	4,999,772	6.005%
20,001 ~ 30,000	218	5,486,887	6.590%
30,001 ~ 40,000	104	3,726,361	4.476%
40,001 ~ 50,000	67	3,061,632	3.677%
50,001 ~ 100,000	105	7,185,334	8.631%
100,001 ~ 200,000	35	4,960,604	5.958%
200,001 ~ 400,000	27	7,560,172	9.081%
400,001 ~ 600,000	1	426,872	0.513%
600,001 ~ 800,000	2	1,422,000	1.708%
800,001 ~ 1,000,000	1	801,000	0.962%
1,000,001 ~ 2,000,000	2	2,790,652	3.351%
2,000,001 or over	1	3,975,475	4.775%
Total	22,444	83,255,089	100.000%

B. Preferred Shares

None

4.1.4 List of Major Shareholders

Unit: Share

Shareholder's Name	Shareholding	
	Shares	Percentage
Goodyears Investments Ltd.	3,975,475	4.78%
Tzay Hua, Ltd.	1,480,652	1.78%
Ting Hao	1,310,000	1.57%
Kuei-Chih, Chuang	801,000	0.96%
Nien-Chin Hsiao	792,000	0.95%
Yung-Pin Lin	630,000	0.76%
Chiao-Tang Yeh	426,872	0.51%
Chao-Hsing Lu	370,498	0.45%
Cheng-Feng Chiu	368,101	0.44%
Chin-Chang Hsieh	364,000	0.44%

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

Unit: NT$

Items	2015 (Distributed In 2016)	2016 (Distributed In 2017)	Jan. 1 ~ Mar. 31, 2017
Market Price per Share			
Highest Market Price	39.50	28.00	24.20
Lowest Market Price	15.70	19.55	21.00
Average Market Price	27.69	22.98	22.47
Net Worth per Share			
Before Distribution	15.02	14.65	14.71
After Distribution	14.19	Note 4	Note 4
Earnings per Share			
Weighted Average Shares (thousand shares)	83,122	83,255	83,255
Diluted Earnings Per Share	1.01	0.86	0.07
Adjusted Diluted Earnings Per Share	1.01	Note 4	Note 4
Dividends per Share			
Cash Dividends	0.88	Note 4	Note 4
Stock Dividends			
Dividends from Retained Earnings	0	Note 4	Note 4
Dividends from Capital Surplus	0.28	Note 4	Note 4
Accumulated Undistributed Dividends	0	Note 4	Note 4
Return on Investment			
Price / Earnings Ratio (Note 1)	27.42	26.72	321.00
Price / Dividend Ratio (Note 2)	31.47	Note 4	Note 4
Cash Dividend Yield Rate (Note 3)	3.18%	Note 4	Note 4

Note 1: Price / Earnings Ratio = Average Market Price / Earnings per Share
Note 2: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
Note 3: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price
Note 4: Pending shareholders' approval in Annual General Shareholders' Meeting

4.1.6 Dividend Policy and Implementation Status

(1) Dividend Policy under the Articles of Incorporation

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

(2) Proposal to Distribute 2016 Profits
(Approved by the Board and subject to Shareholders' approval)

A total of NT$91,580,597 in cash dividends, each shareholder will be entitled to receive a cash dividend of NT$1.10 per share. In the event of any change in the number of outstanding shares resulting from executing employee stock options or converting treasury stock to its employees, the dividend ratio must be adjusted. It is proposed to fully authorize the Chairman of Board of Directors of DAVICOM to adjust the dividend ratio and to proceed on the relevant matters.
Besides, directors' compensation is NT$1,640,497 and the profit to employees is NT$ 8,019,589; both shall be paid in cash.

4.1.7 Effect of 2015 Share Dividends to Operating Performance and EPS

Not applicable.

4.1.8 Employees' Compensation and Remuneration to Directors and Supervisors

Please refer to page 36 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

4.1.9 Buyback of Treasury Stock

None

4.2 Status of Corporate Bonds

None

4.3 Status of Preferred Stocks

None

4.4 Status of GDR/ADR

None

4.5 Employee Stock Options

None

4.6 Status of New Employees Restricted Stock Issuance

None

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

None

4.8 Financing Plans and Implementation

None

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main areas of business operations

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

- Product line of communication network integrated circuit:
  a) Modem Chipsets
  b) LAN Controller
  c) ISDN Modem Chipsets
  d) Cable Modem Chipsets
  e) ATM Transceiver and Controller
  f) Provide the above-mentioned products with technological consultation services.

- Product line of video images integrated circuit:
  a) Video Decoder
  b) Provide technological consultation services for the product.

- Product line of electronic paper display (EPD) driver integrated circuit:
  a) EPD Segment Driver IC
  b) EPD Segment Controller IC
  c) Provide the above-mentioned products with technological consultation services.

- Product line of microcontroller integrated circuit:
  a) MCU IC
  b) Provide technological consultation services for the product.

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

B. Revenue distribution

As of Dec. 31, 2016

Major Divisions	(%) of Total Sales
LAN	92%
Other	8%

C. Products Currently Offered by DAVICOM

Product	Product Specifications
USB1.1/2.0 通用匯流排網路應用	3.3V/1.8V ，0.18μm 晶片設計；可達 USB2.0/480Mbps 高速傳輸規格；並符合省電模式下的超低功率設計。
嵌入式 10/100M 網管智慧型多埠交換器	10/00M 交換器核心，具 QoS，VLAN 等頻寬流量控制功能，及 IGMP, STP/RSTP, MLD 等網管機制； 整合兩埠實體層/收發器之單晶片設計。
工業控制 10/100M 高速網路系統	高速時序同步機置, 符合工業規格操作溫度（-40℃-85℃），網路晶片之各項電氣規格。
10/100M TX/FX 銅線/光纖網管介質轉換器	具 10/100M 三埠交換器及 MAC 核心；及高速兩埠實體層，包括 TX（銅線）及 FX（光纖）介質；低遲延（Latency）效應，以提升介質轉換效益。
消費性網路晶片	10/100 Ethernet 與多埠 USB2.0 整合。
安全監控識別 Video Decoder 晶片	一路 (channel)Video Decoder/ 四路 Video Decoder(或含內建混合器 Mixer)
EPD 電子紙顯示器區段驅動晶片	多種多區段驅動 Driver IC, 規格符合主要供應商之電子紙
量測健康生理訊號 MCU IC 微控制器晶片	內建 ROM/Flash, RAM, ADC, GPIO,多種標準介面 UART/SPI/ISO7816, Low-Voltage Reset, ESD protection

D. New Products Planned for Development

Product	Product Specifications
Communication Network Protocol acceleration Chip	Network protocol standard, 10/100M physical layer and low power
Ethernet Chip with Industrial Control Interface	SPI, I2C, 10/100, ESD
Multi-Segment and Dot-Matrix EPD Driver IC for E-paper Display	Compliant with most of E-paper providers
Wireless Power Harvesting Technology for Wearable/Portable Devices	Compliant with ISO14443, ISO51693, etc.
ESL System Total Solution	ESL Tag, Wireless AP, Server, API, etc.
Elder Nursing System/Child Guard System	UHF-based RFID and Cloud Computing Tracking

5.1.2 Industry Overview

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

Please refer to page 38 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

5.1.3 Research and Development

Please refer to page 39 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

Research and Development Spending

DAVICOM's R&D spending in 2016 was NT$ 77,804,000 (25%) and from January 1st 2017 to March 31st 2017, the R&D spending was NT$ 18,286,000 (26%).

5.1.4 Long-term and Short-term Development Plans

Please refer to page 40 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

A. Short-term Development Plans

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

B. Long-term Development Plans

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

5.2 Market and Sales Overview

5.2.1 Market Analysis

Please refer to page 40-41 of the Chinese version annual report.
(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

A. Sales (Service) Region

As of Dec. 31, 2016

(Area) / (Division)	Export Sales		Domestic Sales
	China	Overseas	Taiwan
LAN	181,780	67,190	38,664
EPD	8,158	-	9,011
WAN	23	16	543
Video	4,937	1,072	1,014
Others	-	17	120
Total	194,898	68,295	49,352

B. Market Share of Major Product Categories

In recent years, the company is committed to the niche market of embedded system chip. With a wide range of technical support and quality assurance, the product has already won customers' identification, performance and profit can also be expected.

C. Market Analysis of Major Product Categories

Based on the advantages of easy to use, low price and high bandwidth, Ethernet has grown into a ubiquitous networking, and gradually surpassed the scope of application on SOHO and enterprise networks to enter the consumer electronics field and become the most attractive Embedded System Networking Technology.

D. Favorable and Unfavorable Factors in the Long Term

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

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

5.2.2 Production Procedures of Main Products

A. Major Products and Their Main Uses

(1) Local Area Network Chipsets (LAN):
Computer communications application on the network card, hubs and switches, as a local network resources to transfer and share.

(2) Wide Area Network Chipsets (WAN):
Computer communications on the application of the data machine, as a remote access for data and video transmission.

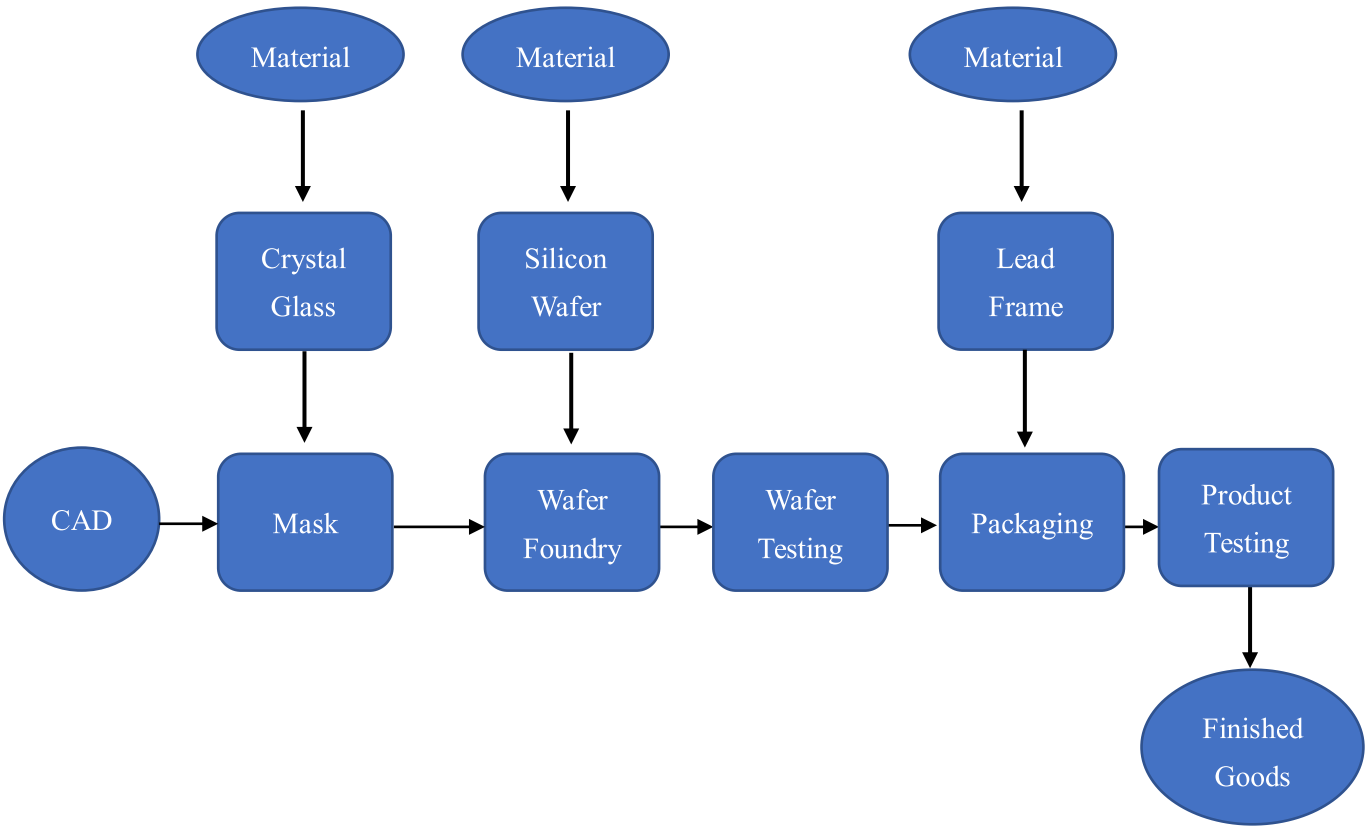
(3) Video Decoder Chipsets:
Closed-circuit television security monitoring system or DVR / NVR system applications, as the camera image signal decoding.

(4) Electronic Paper Display (EPD):
Drive electronic paper, suitable for low-power applications and equipment, such as financial smart cards, electronic shelf labels, wearing equipment etc.

(5) Microcontroller Unit (MCU):
Motor control, analogy digital signal, RFID, financial smart card, electronic shelf labels, wearable equipment etc.

B. Production Processes

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



5.2.3 Supply Status of Main Materials

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

5.2.4 Major Suppliers and Clients

A. Major Suppliers in the Last Two Calendar Years

Unit: NT$ thousands

Item	2015				2016			
	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer
1	UMC	33,681	68.88	None	UMC	32,434	73.42	None
2	Nuvoton Technology Corporation	5,237	10.71	None	Nuvoton Technology Corporation	4,091	9.26	None
3	EPISIL	2,711	5.54	None	Macronix	2,629	5.95	None
4	Others	7,272	14.87	None	Others	5,007	11.37	None
	Net Total Supplies	48,901	100.00		Net Total Supplies	44,161	100.00	

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

B. Major Clients in the Last Two Calendar Years

Unit: NT$ thousands

Item	2015				2016			
	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer	Company Name	Amount (in thousands)	Percentage %	Relation with Issuer
1	Jhongtech	80,678	25	None	Jhongtech	84,651	27	None
2	A.X.W	53,170	16	None	QFTEK	63,926	20	None
3	QFTEK	48,820	15	None	A.X.W	43,658	14	None
4	Others	146,229	44	None	Others	120,310	39	None
	Net Total Sales	328,897	100		Net Total Sales	312,545	100	

5.2.5 Production in the Last Two Years

Unit: NT$ thousands/ thousand pieces

Output / Year Major Products	2015			2016		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
LAN	-	7,630	84,682	-	7,047	78,923
EPD	-	3,113	16,381	-	2,446	11,656
Others	-	59	1,502	-	120	2,815
Total	-	10,802	102,565	-	9,613	93,394

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

5.2.6 Shipments and Sales in the Last Two Years

Unit: NT$ thousands/ thousand pieces

Shipments and Sales / Year Major Products	2015				2016			
	Local		Export		Local		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
LAN	1,138	47,294	6,460	251,533	872	38,644	6,399	248,970
EPD	2,016	13,611	1,089	11,455	1,535	9,011	844	8,159
Others	26	2,110	48	2,894	24	1,676	99	6,065
Total	3,180	63,015	7,597	265,882	2,431	49,351	7,342	263,194

5.3 Human Resources

Year		2015	2016	As of Mar. 31,2017
Number of Employees	Engineering	67	66	64
	Administration	21	20	20
	Total	88	86	84
Average Age		46.9	47.4	48.6
Average Years of Service		9.7	10.1	11.3
Education	Doctoral	1	1	1
	Master	37	36	34
	Bachelor's Degree	47	46	46
	Senior High School	3	3	3

5.4 Environmental Protection Expenditure

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

5.5 Labor Relations

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

(http://www.davicom.com.tw/userfile/29038/105Q4-C.pdf)

5.6 Important Contracts

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

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

A. Parent Company Condensed balance sheet – Based on ROC GAAP

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years Dec. 31, 2012
Current assets		697,791
Funds and Long-term investments		325,272
Fixed assets		171,238
Intangible assets		1,521
Other assets		124,082
Total assets		1,319,904
Current liabilities	Before distribution	42,901
	After distribution	125,926
Long-term liabilities		—
Other liabilities		22,036
Total liabilities	Before distribution	64,937
	After distribution	147,962
Capital stock		852,891
Capital surplus		384,737
Retained earnings	Before distribution	30,284
	After distribution	—
Unrealized gain or loss on financial instruments		—
Cumulative translation adjustments		(5,343)
Net loss unrecognized as pension cost		—
Treasury Stocks		(68,951)
Total equity	Before distribution	1,254,967
	After distribution	1,171,942

Note: The financial data above are audited by CPA.

B. Parent Company Condensed Balance Sheet – Based on IFRS

Unit: NT$ thousands

Item / Year		Financial Summary for The Last Five Years				
		Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Current assets		690,038	733,690	794,614	710,001	683,557
Property, Plant and Equipment		171,238	141,412	135,174	131,535	128,085
Intangible assets		1,521	62	157	2	68
Other assets		23,496	18,432	17,684	9,433	5,758
Total assets		1,317,122	1,336,820	1,340,297	1,336,466	1,297,684
Current liabilities	Before distribution	50,074	48,535	52,280	58,355	55,274
	After distribution	133,099	141,523	148,024	154,930	Note 1
Non-current liabilities		22,591	22,859	23,139	29,844	22,418
Total liabilities	Before distribution	72,665	71,394	75,419	88,199	77,692
	After distribution	155,690	164,382	171,163	184,774	Note 1
Equity attributable to shareholders of the parent		1,244,457	1,265,426	1,264,878	1,248,267	1,219,992
Capital stock		852,891	852,891	832,151	832,551	832,551
Capital surplus		381,464	351,523	315,897	283,187	259,876
Retained earnings	Before distribution	87,608	109,736	112,738	131,934	129,652
	After distribution	37,793	44,146	50,296	58,670	Note 1
Other equity interest		(8,555.00)	(1,063.00)	4,092.00	595.00	(2,087.00)
Treasury stock		(68,951.00)	(47,661.00)	–	–	–
Total equity	Before distribution	1,244,457	1,265,426	1,264,878	1,248,267	1,219,992
	After distribution	1,161,432	1,172,438	1,169,134	1,151,692	Note 1

Note1: Not available yet.

Note2: The financial data of 2012~2016 are audited by CPA.

C. **Consolidated Condensed balance sheet – Based on ROC GAAP**

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years Dec. 31, 2012
Current assets		974,649
Funds and Long-term investments		59,266
Fixed assets		171,413
Intangible assets		1,521
Other assets		124,082
Total assets		1,330,931
Current liabilities	Before distribution	56,175
	After distribution	139,200
Long-term liabilities		—
Other liabilities		19,787
Total liabilities	Before distribution	75,962
	After distribution	158,987
Capital stock		852,891
Capital surplus		384,737
Retained earnings	Before distribution	91,633
	After distribution	8,608
Unrealized gain or loss on financial instruments		—
Cumulative translation adjustments		(5,343)
Net loss unrecognized as pension cost		—
Treasury Stocks		(68,951)
Total equity	Before distribution	1,254,969
	After distribution	1,171,944

Note: The financial data above are audited by CPA.

D. Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT$ thousands

Item		Financial Summary for The Last Five Years					As of March 31, 2017
		Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	
Current assets		965,494	996,261	997,384	1,020,388	993,969	989,196
Property, Plant and Equipment		171,413	141,447	135,174	131,535	130,087	129,566
Intangible assets		1,521	62	157	2	68	151
Other assets		23,496	18,432	17,684	9,433	5,788	7,314
Total assets		1,330,398	1,337,090	1,340,401	1,336,791	1,299,445	1,300,330
Current liabilities	Before distribution	63,348	48,649	52,380	58,676	55,743	58,854
	After distribution	146,373	141,637	148,124	155,342	Note 1	Note 1
Non-current liabilities		22,591	22,859	23,139	29,844	23,080	16,678
Total liabilities	Before distribution	85,939	71,508	75,519	88,520	78,823	75,532
	After distribution	168,964	164,496	171,263	185,095	Note 1	Note 1
Equity attributable to shareholders of the parent		1,244,457	1,265,426	1,264,878	1,248,267	1,219,992	1,224,317
Capital stock		852,891	852,891	832,151	832,551	832,551	832,551
Capital surplus		381,464	351,523	315,897	283,187	259,876	259,876
Retained earnings	Before distribution	87,608	109,736	112,738	131,934	126,652	135,442
	After distribution	4,583	16,748	50,296	58,670	Note 1	Note 1
Other equity interest		(8,555)	(1,063)	4,092	595	(2,087)	(3,552)
Treasury stock		(68,951)	(47,661)	—	—	—	—
Non-controlling interest		2	156	4	4	630	481
Total equity	Before distribution	1,244,459	1,265,582	1,264,882	1,248,271	1,220,622	1,224,798
	After distribution	1,161,434	1,172,594	1,169,138	1,151,696	Note 1	Note 1

Note1: Not available yet.

Note2: The financial data of 2012~2016 are audited, while Q1 2017 is review by CPA.

6.1.2 Condensed Statement of Comprehensive Income

A. Parent Company Condensed Statement of Comprehensive Income –Based on IFRS

Unit: NT$ thousands

Item \ Year	Financial Summary for The Last Five Years				
	2012	2013	2014	2015	2016
Operating revenue	$355,402	$337,047	$322,064	$328,546	$312,386
Gross profit	236,407	236,391	225,368	224,435	217,279
Income from operations	75,924	73,954	68,022	59,989	63,067
Non-operating income and expenses	(4,650)	11,468	28,336	38,044	18,958
Income before Income Tax	71,274	85,422	96,358	98,033	82,025
Net income from operations of continued segments	60,017	71,943	83,190	84,342	71,272
Net income	60,017	71,943	83,190	84,342	71,272
Other comprehensive income (income after tax)	49,482	79,435	87,382	78,141	68,300
Total comprehensive income	49,482	79,435	87,382	78,141	68,300
Net income attributable to shareholders of the parent	60,017	71,943	83,190	84,342	71,272
Net income attributable to non-controlling interest	—	—	—	—	—
Comprehensive income attributable to Shareholders of the parent	49,482	79,435	87,382	78,141	68,300
Comprehensive income attributable to non-controlling interest	—	—	—	—	—
Earnings per share	0.73	0.87	1.00	1.01	0.86

Note: The financial data above are audited by CPA.

B. Consolidated Condensed Statement of Comprehensive Income

–Based on IFRS

Unit: NT$ thousands

Item \ Year	Financial Summary for The Last Five Years					As of March 31, 2017
	2012	2013	2014	2015	2016	
Operating revenue	$375,256	$350,236	$322,333	$328,897	$312,545	$71,590
Gross profit	252,398	245,317	225,637	224,663	217,374	49,832
Income from operations	65,836	63,181	64,258	56,314	58,340	12,614
Non-operating income and expenses	3,998	23,238	32,175	41,719	23,393	(7,076)
Income before Income Tax	69,834	86,419	96,433	98,033	81,733	5,538
Net income from operations of continued segments	58,510	71,936	83,189	84,342	70,886	5,641
Net income	58,510	71,936	83,189	84,342	70,886	5,641
Other comprehensive income (income after tax)	47,975	79,428	87,381	78,141	67,914	4,176
Total comprehensive income	47,975	79,428	87,381	78,141	67,914	4,176
Net income attributable to shareholders of the parent	60,017	71,943	83,190	84,342	70,886	5,641
Net income attributable to non-controlling interest	(1,507)	(7)	(1)	—	(386)	(149)
Comprehensive income attributable to Shareholders of the parent	49,482	79,435	87,382	78,141	68,300	4,325
Comprehensive income attributable to non-controlling interest	(1,507)	(7)	(1)	—	(386)	(149)
Earnings per share	0.73	0.87	1.00	1.01	0.86	0.07

Note: The financial data of 2012~2016 are audited, while Q1 2017 is review by CPA.

6.1.3 Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	CPA	Audit Opinion
2016	PWC	Chin-Mu Hsiao, Chun-Yuan Hsiao	Unqualified Opinion
2015	PWC	Chin-Mu Hsiao, Chun-Yuan Hsiao	Modified Unqualified Opinion
2014	PWC	Se-Kai Lin, Chun-Yuan Hsiao	Modified Unqualified Opinion
2013	PWC	Se-Kai Lin, Chun-Yuan Hsiao	Modified Unqualified Opinion
2012	PWC	Se-Kai Lin, Chin-Mu Hsiao	Modified Unqualified Opinion

6.2 Five-Year Financial Analysis

A. Parent Company Financial Analysis – Based on IFRS

Item		Financial Analysis for the Last Five Years 2012	2013	2014	2015	2016
Financial structure (%)	Debt Ratio	5.52	5.34	5.63	6.60	5.99
	Ratio of long-term capital to property, plant and equipment	739.93	911.02	952.86	971.69	969.99
Solvency (%)	Current ratio	1,378.04	1,511.67	1,519.92	1,216.69	1,236.67
	Quick ratio	1,309.18	1,451.15	1,451.69	1,157.62	1,181.51
	Times interest earned (times)	2,458.72	1,643.73	1,634.19	1,691.22	2,344.54
Operating performance	Accounts receivable turnover (times)	4.23	5.64	6.04	5.62	5.45
	Average collection period	86.29	64.72	60.43	64.95	66.97
	Inventory turnover (times)	2.08	2.07	1.93	1.97	1.85
	Accounts payable turnover (times)	7.49	7.78	8.41	7.75	7.51
	Average days in sales	175.48	176.33	189.12	185.28	197.30
	Property, plant and equipment turnover (times)	2.03	2.16	2.33	2.46	2.41
	Total assets turnover (times)	0.27	0.25	0.24	0.25	0.24
Profitability	Return on total assets (%)	4.56	5.42	6.22	6.31	5.41
	Return on shareholders' equity (%)	4.81	5.73	6.58	6.71	5.78
	Pre-tax income to paid-in capital (%)	8.36	10.02	11.58	11.78	9.85
	Profit ratio (%)	16.89	21.35	25.83	25.67	22.82
	Earnings per share (NT$)	0.73	0.87	1.00	1.01	0.86
Cash flow	Cash flow ratio (%)	249.50	267.65	204.76	156.45	149.64
	Cash flow adequacy ratio (%)	200.12	173.63	131.91	113.15	119.70
	Cash reinvestment ratio (%)	6.40	3.99	1.22	(0.39)	(1.23)
Leverage	Operating leverage	2.50	2.38	2.60	3.01	2.87
	Financial leverage	1.00	1.00	1.00	1.00	1.00

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

B. Consolidated Financial Analysis – Based on IFRS

Item	Year	Financial Analysis for the Last Five Years					As of March 31, 2017
		2012	2013	2014	2015	2016	
Financial structure (%)	Debt Ratio	6.46	5.35	5.63	6.62	6.07	5.81
	Ratio of long-term capital to property, plant and equipment	739.18	910.90	952.86	971.69	955.57	957.81
Solvency (%)	Current ratio	1,524.11	2,047.86	1,904.13	1,739.02	1,783.13	1,680.76
	Quick ratio	1,466.06	1,987.18	1,835.96	1,680.20	1,728.43	1,628.33
	Interest earned ratio (times)	1,628.10	1,105.87	1,186.51	1,219.12	1,410.19	693.25
Operating performance	Accounts receivable turnover (times)	4.61	6.08	6.03	5.63	5.44	5.53
	Average collection period	79.18	60.03	60.53	64.83	67.10	65.97
	Inventory turnover (times)	1.99	2.04	1.93	1.97	1.85	1.72
	Accounts payable turnover (times)	7.71	7.95	8.41	7.76	7.52	6.65
	Average days in sales	183.42	178.92	189.12	185.28	197.29	212.44
	Property, plant and equipment turnover (times)	2.14	2.24	2.33	2.47	2.39	2.21
	Total assets turnover (times)	0.28	0.26	0.24	0.25	0.24	0.22
Profitability	Return on total assets (%)	4.42	5.39	6.22	6.30	5.38	0.43
	Return on shareholders' equity (%)	4.69	5.73	6.57	6.71	5.74	0.46
	Pre-tax income to paid-in capital (%)	8.19	10.13	11.59	11.78	9.82	0.67
	Profit ratio (%)	15.59	20.54	25.81	25.64	22.68	7.88
	Earnings per share (NT$)	0.73	0.87	1.00	1.01	0.86	0.07
Cash flow	Cash flow ratio (%)	228.79	211.75	203.52	159.08	151.10	4.73
	Cash flow adequacy ratio (%)	236.38	170.23	140.30	128.41	118.49	10.87
	Cash reinvestment ratio (%)	8.16	1.70	1.19	(0.21)	(1.11)	0.25
Leverage	Operating leverage	2.46	2.76	2.69	3.14	2.89	2.84
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00

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

All the difference does not exceed 20%

Glossary:

1. Financial structure Analysis:

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

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

2. Solvency Analysis:

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

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

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

3. Operating performance Analysis:

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

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

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

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

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

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

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

4. Profitability Analysis:

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

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

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

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

5. Cash Flow:

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

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

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

6. Leverage:

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

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

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

DAVICOM Semiconductor, Inc.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2016, 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 24, 2017

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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, 2016 and 2015, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparations 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 judgment, were of most significance in our

資誠聯合會計師事務所 *PricewaterhouseCoopers, Taiwan*
11012 臺北市信義區基隆路一段333號27樓 / 27F, 333, Keelung Road, Sec. 1, Xinyi Dist., Taipei City 11012, Taiwan
T: +886 (2) 2729 6666, F:+ 886 (2) 2757 6371, www.pwc.com/tw

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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.

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(4) for details of accounts receivable. The balance of accounts receivable amounted to NT$42,363 thousand as at December 31, 2016.

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 the aging analysis, historical experience and customer present financial conditions to estimate unrecoverable amounts. This process involves management's subjective judgement on past due and unrecoverable amounts, therefore, we determined the valuation of accounts payable 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 operations and sales counterparties, assessed the reasonableness of the assumptions used to estimate allowance for uncollectible accounts, including objective evidences used to determine whether bad debt exist and how to decide the policy of provision for bad debt, and checking whether the accounting policy is applied consistently compared with last period.
2. Checked historical information of accounts receivable collections for individual sales customers, comparing with prior provision for bad debt loss, and verified whether there are long overdue unrecoverable accounts receivable on the list to assess the adequacy of allowance for uncollectible accounts.
3. 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(5) for details of inventory. The balance of inventory and allowance for inventory valuation losses amount to NT$27,888 thousand and NT$22,522 thousand as at December 31, 2016, 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 judgment, it also belongs to one of the audit scopes involving professional judgment. 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, vervifying 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 inventories policy.
3. For general statement that management use to valuate loss for market value decline and obsolete and slow-moving inventories, confirming whether it agrees with the statement details generated from system, and verifying that obsolete and slow-moving inventories which were provided valuation losses, has been completely listed in the statement.
4. Tested book value of ending inventory, through selecting samples and obtaining invoices of last period to verify whether they were measured at the lower of cost or net realizable value method, and recalculating and valuating the reasonableness of changes in allowance for inventory valuation

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losses.

5. Participating and observing the year-end physical inventory count to verify the existence and completeness of inventory, and checking the condition of inventory to assess the appropriateness of allowance for inventory valuation losses of obsolete and slow-moving inventories

Other matters

The report of the other independent accountants

We did not audit the financial statements of a wholly-owned consolidated subsidiary that are included in the financial statements. Total assets of the subsidiary amounted to NT$213,792 thousand and NT$ 208,212 as at December 31, 2016 and 2015, constituting 16.45% and 15.58% of consolidated total assets, respectively. Operating income of the subsidiary amounted to NT$ 20,241 thousand and NT$ 14,284 thousand, for the years ended December 31, 2016 and 2015, constituting 6.48% and 4.34% of consolidated total operating income, respectively. Those financial statements were audited by other independent accountants whose report thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

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

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers", and for such internal controls as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

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

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

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

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

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presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Chin-Mu Hsiao　　　　　　　　　　Chun-Yuan Hsiao

For and on behalf of PricewaterhouseCoopers, Taiwan

February 24, 2017

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, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 914,769	70	$ 896,535	67
1125	Available-for-sale financial assets - current	6(2)	5,730	1	36,360	3
1150	Accounts receivable, net - related parties		65	-	-	-
1170	Accounts receivable, net	6(4)	42,363	3	52,753	4
1200	Other receivables		535	-	214	-
130X	Inventories, net	6(5)	27,888	2	30,135	2
1410	Prepayments		2,601	-	4,379	-
1470	Other current assets		18	-	12	-
11XX	**Total Current Assets**		993,969	76	1,020,388	76
	Non-current assets					
1523	Available-for-sale financial assets - noncurrent	6(2)	47,879	4	51,447	4
1543	Financial assets carried at cost - noncurrent	6(3)	-	-	-	-
1600	Property, plant and equipment, net	6(6)	130,087	10	131,535	10
1760	Investment property, net	6(7)	111,700	9	114,621	8
1780	Intangible assets		68	-	2	-
1840	Deferred income tax assets		9,954	1	9,365	1
1900	Other non-current assets	6(8)	5,788	-	9,433	1
15XX	**Total Non-current assets**		305,476	24	316,403	24
1XXX	**Total assets**		$ 1,299,445	100	$ 1,336,791	100

(Continued)

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

	Liabilities and Equity	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
	Current liabilities					
2150	Accounts payable - related parties		$ 5,939	-	$ 8,438	1
2170	Accrued expenses		6,490	-	4,448	-
2200	Other payables	6(9)	35,218	3	39,137	3
2230	Current income tax liabilities	6(19)	7,624	1	5,511	1
2300	Other current liabilities		472	-	1,142	-
21XX	**Current Liabilities**		55,743	4	58,676	5
	Non-current liabilities					
2570	Deferred income tax liabilities		3,636	-	3,537	-
2600	Other non-current liabilities	6(10)	19,444	2	26,307	2
25XX	**Non-current liabilities**		23,080	2	29,844	2
2XXX	**Total Liabilities**		78,823	6	88,520	7
	Equity attributable to owners of parent					
	Share capital	6(13)				
3110	Common stock		832,551	64	832,551	62
	Capital surplus	6(14)				
3200	Capital surplus		259,876	20	283,187	21
	Retained earnings	6(15)				
3310	Legal reserve		58,312	5	50,132	4
3350	Undistributed earnings	6(19)	71,340	5	81,802	6
	Other equity interest					
3400	Other equity interest		(2,087)	-	595	-
31XX	**Equity attributable to owners of the parent**		1,219,992	94	1,248,267	93
36XX	**Non-controlling interest**		630	-	4	-
3XXX	**Total equity**		1,220,622	94	1,248,271	93
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 1,299,445	100	$ 1,336,791	100

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated February 24, 2017.

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

	Items	Notes	2016 AMOUNT	2016 %	2015 AMOUNT	2015 %
4000	**Sales revenue**		$ 312,545	100	$ 328,897	100
5000	**Operating costs**	6(5)(17)(18)	(95,171)	(30)	(104,234)	(32)
5900	**Net operating margin**		217,374	70	224,663	68
	Operating expenses	6(17)(18) and 7				
6100	Selling expenses		(33,594)	(11)	(33,923)	(10)
6200	General & administrative expenses		(47,636)	(15)	(51,149)	(16)
6300	Research and development expenses		(77,804)	(25)	(83,277)	(25)
6000	**Total Operating Expenses**		(159,034)	(51)	(168,349)	(51)
6900	**Operating income**		58,340	19	56,314	17
	Non-operating income and expenses					
7010	Other income	6(7)	26,085	8	29,263	9
7020	Other gains and losses	6(16)	(2,657)	(1)	17,013	5
7050	Finance costs		(35)	-	(58)	-
7060	Share of profit/(loss) of associates and joint ventures accounted for under equity method		-	-	(4,499)	(1)
7000	**Total non-operating income and expenses**		23,393	7	41,719	13
7900	**Income from continuing operations before income tax**		81,733	26	98,033	30
7950	Income tax expense	6(19)	(10,847)	(3)	(13,691)	(4)
8000	**Profit for the year from continuing operations**		70,886	23	84,342	26
8200	**Profit for the year**		$ 70,886	23	$ 84,342	26

Years ended December 31

(Continued)

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

	Items	Notes	2016 AMOUNT	2016 %	2015 AMOUNT	2015 %
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans		($ 349)	-	($ 3,258)	(1)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		59	-	554	-
	Components of other comprehensive income that will be reclassified to profit or loss		(290)	-	(2,704)	(1)
8361	Financial statement translation differences of foreign operations		(4,655)	(2)	1,285	1
8362	Unrealized gain (loss) on valuation of available-for-sale financial assets	6(2)	1,965	1	(6,002)	(2)
8399	Income tax relating to the components of other comprehensive income	6(19)	8	-	1,220	-
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		(2,682)	(1)	(3,497)	(1)
8500	**Total comprehensive income for the year**		$ 67,914	22	$ 78,141	24
	Profit (loss), attributable to:					
8610	Owners of parent		$ 71,272	23	$ 84,342	26
8620	Non-controlling interest		(386)	-	-	-
			$ 70,886	23	$ 84,342	26
	Comprehensive income attributable to:					
8710	Owners of parent		$ 68,300	22	$ 78,141	24
8720	Non-controlling interests		(386)	-	-	-
			$ 67,914	22	$ 78,141	24
	Basic earnings per share	6(20)				
9750	**Net income**		$ 0.86		$ 1.01	
	Diluted earnings per share	6(20)				
9850	**Net income**		$ 0.85		$ 1.01	

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated February 24, 2017.

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

		Equity attributable to owners of the parent											
			Capital Surplus			Retained Earnings			Other equity interest				
	Notes	Common stock	Additional paid-in capital	Employees' stock options	Others	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences from translation of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Total	Non-controlling interest	Total equity
Year 2015													
Balance at January 1, 2015		$ 832,151	$ 276,505	$ 37,324	$ 2,068	$ 43,216	$ 358	$ 69,164	$ 5,912	($ 1,820)	$ 1,264,878	$ 4	$ 1,264,882
Legal reserve		-	-	-	-	6,916	-	(6,916)	-	-	-	-	-
Special reserve		-	-	-	-	-	(358)	358	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(62,442)	-	-	(62,442)	-	(62,442)
Exercise of employees' share options	6(12)	400	1,270	(678)	-	-	-	-	-	-	992	-	992
Cash dividends distributed from capital surplus		-	(33,302)	-	-	-	-	-	-	-	(33,302)	-	(33,302)
Profit for the year		-	-	-	-	-	-	84,342	-	-	84,342	-	84,342
Other comprehensive income (loss) for the year		-	-	-	-	-	-	(2,704)	1,285	(4,782)	(6,201)	-	(6,201)
Balance at December 31, 2015		$ 832,551	$ 244,473	$ 36,646	$ 2,068	$ 50,132	$ -	$ 81,802	$ 7,197	($ 6,602)	$ 1,248,267	$ 4	$ 1,248,271
Year 2016													
Balance at January 1, 2016		$ 832,551	$ 244,473	$ 36,646	$ 2,068	$ 50,132	$ -	$ 81,802	$ 7,197	($ 6,602)	$ 1,248,267	$ 4	$ 1,248,271
Legal reserve		-	-	-	-	8,180	-	(8,180)	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(73,264)	-	-	(73,264)	-	(73,264)
Employees' stock options expired	6(12)	-	-	(36,646)	36,646	-	-	-	-	-	-	-	-
Cash dividends distributed from capital surplus	6(15)	-	(23,311)	-	-	-	-	-	-	-	(23,311)	-	(23,311)
Profit (loss) for the year		-	-	-	-	-	-	71,272	-	-	71,272	(386)	70,886
Other comprehensive income (loss) for the year		-	-	-	-	-	-	(290)	(4,655)	1,973	(2,972)	-	(2,972)
Non-controlling interests		-	-	-	-	-	-	-	-	-	-	1,012	1,012
Balance at December 31, 2016		$ 832,551	$ 221,162	$ -	$ 38,714	$ 58,312	$ -	$ 71,340	$ 2,542	($ 4,629)	$ 1,219,992	$ 630	$ 1,220,622

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated February 24, 2017.

DAVICOM SEMICONDUCTOR INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 81,733	$ 98,033
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation (including investment property)	6(6)(7)(17)	7,011	6,743
Amortisation	6(17)	4,470	5,591
Research and experimental expenses		527	1,601
Interest income		(1,736)	(1,369)
Share of loss accounted for using equity method		-	4,499
Gain on disposal of available-for-sale financial assets	6(16)	(2,342)	(577)
Gain on disposal of investment accounted for using equity method	6(16)	-	(11,156)
Gain on disposal of property, plant and equipment	6(16)	(48)	-
Impairment loss	6(2)(16)	500	1,686
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(65)	475
Accounts receivable		10,390	(8,552)
Other receivables		(346)	452
Inventories		2,247	1,560
Prepayments		1,778	(364)
Other current assets		5	(8)
Changes in operating liabilities			
Accounts payable - related parties		(2,499)	2,411
Accrued expenses		2,042	(3,505)
Other payables		(4,161)	5,607
Net defined benefit liabilities		(7,211)	446
Other current liabilities		(674)	(89)
Cash inflow generated from operations		91,621	103,484
Interest received		1,761	1,329
Income taxes paid		(9,157)	(11,472)
Net cash flows from operating activities		84,225	93,341
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of available-for-sale financial assets		38,004	1,904
Acquisition of property, plant and equipment	6(6)	(2,642)	(161)
Proceeds from disposal of property, plant and equipment		48	-
Acquisition of available-for-sale financial assets-current		-	(39,400)
Proceeds from disposal of investments accounted using equity method		-	16,760
Cash received through merger		950	-
Increase in intangible assets		(65)	-
Decrease in refundable deposit		(4)	1,407
Increase in other assets		(1,054)	(193)
Net cash flows from (used in) investing activities		35,237	(19,683)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received		-	(24)
Payments of cash dividends	6(15)	(96,575)	(95,744)
Proceeds from exercise of employees' stock options		-	992
Net cash flows used in financing activities		(96,575)	(94,776)
Effect of foreign exchange rate changes on cash and cash equivalents		(4,653)	1,285
Net increase (decrease) in cash and cash equivalents		18,234	(19,833)
Cash and cash equivalents at beginning of year		896,535	916,368
Cash and cash equivalents at end of year		$ 914,769	$ 896,535

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated February 24, 2017.

DAVICOM SEMICONDUCTOR, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

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 24, 2017.

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”)

None.

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

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows：

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14,‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

(3) IFRS issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, ‘Financial instruments’ with IFRS 4, ‘Insurance contracts’ (amendments to IFRS 4)	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Clarifications to IFRS 15, ‘Revenue from contracts with customers’ (amendments to IFRS 15)	January 1, 2018
IFRS 16, ‘Leases’	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting	January 1, 2018

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Standards'	
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 15, ‘Revenue from contracts with customers’

IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11, ‘Construction Contracts’, IAS 18, ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from Contracts with Customers’

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

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) Available-for-sale financial assets measured at fair value.

(b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

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

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

			Ownership (%)		
Name of investor	Name of subsidiary	Main business activities	December 31, 2016	December 31, 2015	Description
Davicom Semiconductor, Inc.	Medicom Corp.	Manufacturing and designing of IC	99.36	99.36	-
Davicom Semiconductor, Inc.	Davicom Investment Inc.	General investment	100.00	100.00	Note 2
Davicom Semiconductor, Inc.	TSCC Inc.	Reinvestment business	100.00	100.00	-
Davicom Semiconductor, Inc.	Aidialink Corp.	Wireless communication machinery and equipment manufacturing industry	51.06	-	Note 3
TSCC Inc.	JUBILINK LIMITED	Reinvestment business	100.00	100.00	-
TSCC Inc.	DAVICOM IC (SuZHou) Co.LTD	Manufacturing and designing of IC	100.00	100.00	Note 1

Note 1: The principal operations have not commenced. The subsidiary is engaged in sales and agent services.

Note 2: On November 16, 2015, Davicom Investment Inc. reduced capital by $10,000 to offset accumulated losses. In addition, on November 18, 2015, Davicom Investment Inc. increased capital by $90,000 and was fully subscribed by the Company.

Note 3: On October 12, 2016, Davicom Semiconductor, Inc subscribed for 51.06% of the shares of Aidialink Corp.

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 the Group still 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 pay off 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) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are presented in ‘financial assets measured at cost’.

(8) Receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(c) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(d) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assess that there has been objective evidence of impairment and an impairment loss has occurred, accounting treatment for impairment is as follows:

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

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

(11) Inventories

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

(12) Investments accounted for using equity method / associates

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

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

C. When changes in an associate's equity that are not recognised in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognised as capital surplus in relation to the associate are transferred to profit or loss proportionately.

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

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 ~ 6 years
Transportation equipment	5 years
Other equipment	3 ~ 4 years

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Investment property is depreciated on a straight-line basis over its estimated useful life of 50 years.

(15) Operating leases (lessee/lessor)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Employee benefit

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

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

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

(20) Employee share-based-payment

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.

(21) Income tax

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

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

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

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

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

(22) Share capital

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

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

(23) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(24) Revenue recognition

The Group manufactures and sells communications network ICs. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(25) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Evaluation of accounts receviable

When there is objective evidence showing signs of impairment, the Group considers future cash flow estimates. The amount of the impairment loss is measured by the difference between the carrying amount of the asset and the estimated future cash flow at the original effective interest rate of the financial asset. If the actual cash flow is less than expected, there may be significant impairment losses.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 76	$ 62
Checking accounts and demand deposits	345,193	347,626
Time deposits	569,500	548,847
	$ 914,769	$ 896,535

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) Available-for-sale financial assets

Items	December 31, 2016	December 31, 2015
Current items:		
Listed stocks	$ 6,171	$ 39,295
Valuation adjustment	(441)	(2,935)
Total	$ 5,730	$ 36,360
Non-current items:		
Unlisted stocks	$ 39,761	$ 39,761
Emerging stocks	18,908	21,446
Subtotal	58,669	61,207
Valuation adjustment	(5,790)	(5,260)
Accumulated impairment	(5,000)	(4,500)
Total	$ 47,879	$ 51,447

A. The Group recognised $1,965 and ($4,782) in other comprehensive income for fair value change and reclassified $2,342 and $96 from equity to profit or loss for the years ended December 31, 2016 and 2015, respectively.

B. The Group assessed and recognised impairment loss of $500 and $0 on equity investment, MTECH Corporation, for the years ended December 31, 2016 and 2015, respectively.

C. As of December 31, 2016 and 2015, the Group has no available-for-sale financial assets pledged to others.

(3) Financial assets measured at cost

Items	December 31, 2016	December 31, 2015
Non-current items:		
Global Mobile Corp.	$ 15,449	$ 15,449
Accumulated impairment-financial assets measured at cost	(15,449)	(15,449)
	$ -	$ -

A. According to the Group's intention, its investment in Global Mobile Corp. stocks should be classified as available-for-sale financial assets. However, as Global Mobile Corp. stocks are not traded in an active market, and there are no sufficient industry information of companies similar to Global Mobile Corp. or Global Mobile Corp.'s financial information cannot be obtained, the fair value of the investment in Global Mobile Corp. stocks cannot be measured reliably. Therefore the Group classified those stocks as 'financial assets measured at cost'.

B. The Group assessed and recognised impairment loss of $1,686 on equity investment, Global Mobile Corp. for the year ended December 31, 2015 and already has full impairment of its value.

C. As of December 31, 2016 and 2015, no financial assets measured at cost held by the Group were pledged to others.

(4) Accounts receivable

	December 31, 2016	December 31, 2015
Accounts receivable	$ 42,363	$ 52,753

A. As of December 31, 2016 and 2015, the Group has no impairment loss on accounts receivable.

B. For the information of the credit quality of financial assets that are neither past due nor impaired and the ageing analysis of accounts receivable that were past due but not impaired, please referred to Note 12(2) C.

(5) Inventories

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Work in process	$ 26,447	($ 13,037)	$ 13,410
Finished goods	23,963	(9,485)	14,478
	$ 50,410	($ 22,522)	$ 27,888

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Work in process	$ 26,683	($ 13,515)	$ 13,168
Finished goods	25,974	(9,007)	16,967
	$ 52,657	($ 22,522)	$ 30,135

The cost of inventories recognised as expenses for the period:

	Years ended December 31,	
	2016	2015
Cost of goods sold	$ 95,186	$ 103,182
Loss on decline in market value	-	1,000
Others	(15)	52
	$ 95,171	$ 104,234

(6) Property, plant and equipment

	Buildings	Computer communications	Transportation equipment	Others	Total
At January 1, 2016					
Cost	$ 169,883	$ 1,486	$ 1,090	$ 850	$ 173,309
Accumulated depreciation	(39,116)	(1,139)	(1,090)	(429)	(41,774)
	$ 130,767	$ 347	$ -	$ 421	$ 131,535
2016					
Opening net book amount as at January 1	$ 130,767	$ 347	$ -	$ 421	$ 131,535
Additions	-	100	2,325	217	2,642
Depreciation charge	(3,331)	(221)	(323)	(215)	(4,090)
Closing net book amount as at December 31	$ 127,436	$ 226	$ 2,002	$ 423	$ 130,087
At December 31, 2016					
Cost	$ 169,884	$ 1,016	$ 2,325	$ 909	$ 174,134
Accumulated depreciation	(42,448)	(790)	(323)	(486)	(44,047)
	$ 127,436	$ 226	$ 2,002	$ 423	$ 130,087

	Buildings	Computer communications	Transportation equipment	Others	Total
At January 1, 2015					
Cost	$ 169,963	$ 1,486	$ 1,090	$ 784	$ 173,323
Accumulated depreciation	(35,838)	(898)	(1,090)	(323)	(38,149)
	$ 134,125	$ 588	$ -	$ 461	$ 135,174
2015					
Opening net book amount as at January 1	$ 134,125	$ 588	$ -	$ 461	$ 135,174
Additions	-	-	-	161	161
Depreciation charge	(3,358)	(241)	-	(201)	(3,800)
Closing net book amount as at December 31	$ 130,767	$ 347	$ -	$ 421	$ 131,535
At December 31, 2015					
Cost	$ 169,883	$ 1,486	$ 1,090	$ 850	$ 173,309
Accumulated depreciation	(39,116)	(1,139)	(1,090)	(429)	(41,774)
	$ 130,767	$ 347	$ -	$ 421	$ 131,535

(7) Investment property

Buildings

	Years ended December 31,	
	2016	2015
At January 1		
Cost	$ 148,907	$ 148,977
Accumulated depreciation	(34,286)	(31,413)
	$ 114,621	$ 117,564
Opening net book amount as at January 1	$ 114,621	$ 117,564
Depreciation charge	(2,921)	(2,943)
Closing net book amount as at December 31	$ 111,700	$ 114,621
At December 31		
Cost	$ 148,907	$ 148,907
Accumulated depreciation	(37,207)	(34,286)
	$ 111,700	$ 114,621

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

	Years ended December 31,	
	2016	2015
Rental income from investment property	$ 20,712	$ 21,129
Direct operating expenses arising from the investment property that generated rental income during the period	($ 4,868)	($ 5,082)

B. The fair value of the investment property held by the Group as at December 31, 2016 and 2015 was $179,714 and $185,522, respectively, which was valued by independent valuers on December 31, 2016 and 2015. Valuations were made using the cost approach and income approach in a weight ratio of 50% for each approach which is categorised within Level 3 in the fair value hierarchy. Key assumptions are as follows:

	Overall capital interest rate	Earning power of real property assets	Ratio of salvage value
Cost approach	1.44%	15.00%	5.00%
	Growth rate	Capitalisation rate	Discount rate
Income approach	1.30%	6.00%	5.11%

(8) Other non-current assets

	December 31, 2016	December 31, 2015
Overdue receivables	$ 9,702	$ 9,702
Guarantee deposits paid	103	70
Others	5,685	9,363
Less: Allowance for uncollectible accounts	(9,702)	(9,702)
	$ 5,788	$ 9,433

(9) Other payables

	December 31, 2016	December 31, 2015
Wages and bonus payable	$ 25,060	$ 29,122
Processing fees payable	4,117	3,745
Others	6,041	6,270
	$ 35,218	$ 39,137

(10) Other non-current liabilities

	December 31, 2016	December 31, 2015
Net defined benefit liability	$ 16,514	$ 23,377
Guarantee deposits received	2,930	2,930
	$ 19,444	$ 26,307

(11) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, 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 Law. 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 recognised in the balance sheet are as follows:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	($ 36,704)	($ 39,434)
Fair value of plan assets	20,190	16,057
Net defined benefit liability	($ 16,514)	($ 23,377)

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	($ 39,434)	$ 16,057	($ 23,377)
Current service cost	(99)	-	(99)
Interest (expense) income	(316)	128	(188)
	(39,849)	16,185	(23,664)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	9	9
Change in financial assumptions	537	-	537
Experience adjustments	(895)	-	(895)
	(358)	9	(349)
Pension fund contribution	-	4,697	4,697
Paid pension	3,503	(701)	2,802
Balance at December 31	($ 36,704)	$ 20,190	($ 16,514)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	($ 35,289)	$ 15,616	($ 19,673)
Current service cost	(96)	-	(96)
Interest (expense) income	(670)	297	(373)
	(36,055)	15,913	(20,142)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	121	121
Change in financial assumptions	(2,198)	-	(2,198)
Experience adjustments	(1,181)	-	(1,181)
	(3,379)	121	(3,258)
Pension fund contribution	-	23	23
Balance at December 31	($ 39,434)	$ 16,057	($ 23,377)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's 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 authorised by the Regulator. The composition of fair value of plan assets as of December 31, 2016 and 2015 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,	
	2016	2015
Discount rate	1.10%	0.80%
Future salary increases	2.00%	2.00%

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

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

	Discount rate		Future salary increases	
	Increase 0.5%	Decrease 0.5%	Increase 0.5%	Decrease 0.5%
December 31, 2016				
Effect on present value of defined benefit obligation	($ 866)	$ 904	$ 800	($ 774)
December 31, 2015				
Effect on present value of defined benefit obligation	($ 1,026)	$ 1,074	$ 957	($ 925)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. 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, 2016 amounts to $281.

(g) As of December 31, 2016, the weighted average duration of that retirement plan is 5.1 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	($	22,873)
1-5 year(s)	(	2,105)
Over 5 years	(	11,726)
	($	36,704)

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company's sub-subsidiary, DAVICOM IC (SuZHou) Co. LTD, has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC.) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2016 and 2015 were $5,055 and $5,133, respectively.

(12) Share-based payment

A. For the years ended December 31, 2016 and 2015, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Employee stock options	2008.06.26	5,108 (share in thousands)	8 years	2~4 years' service
Treasury stock transferred to employees	2014.10.08	27 (share in thousands)	-	Vested immediately

B. Details of the share-based payment arrangements are as follows:

	Years ended December 31,			
	2016		2015	
	No. of options (share in thousands)	Weighted-average exercise price (in dollars)	No. of options (share in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	2,162	$ 23.60	2,202	$ 24.08
Options forreited	-	-	(40)	24.08
Options exercised	(2,162)	-	-	-
Options outstanding at December 31	-	-	2,162	23.60
Options exercisable at December 31	-	-	2,162	-

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2016 and 2015 was $23.26 and $35.64, respectively.

D. As of December 31, 2016, there were no stock options outstanding; As of December 31, 2015, the exercise price of stock options outstanding was $23.6; the weighted-average remaining contractual period was 0.5 year.

E. The fair value of stock options granted after January 1, 2008, is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Employee stock options	June 26, 2008	$36.50	$ 36.5	54.63	4.37 years	-	2.61%	$ 16.95

(13) Share capital

As of December 31, 2016, 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 $832,551 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	2016 (share in thousands)	2015 (share in thousands)
At January 1	83,255	83,215
Employee stock options exercised	-	40
At December 31	83,255	83,255

(14) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the

Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(15) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings shall first be used to pay all taxes and offset prior years' operating losses and 10% of the remaining amount shall be set aside as legal reserve, then set aside or reverse special reserve in accordance with related regulations. The appropriation of the remainder along with the earnings in prior years shall be proposed by the Board of Directors and resolved by 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 2015 and 2014 earnings was resolved by the shareholders on June 6, 2016 and June 15, 2015, respectively. Details are as follows:

	Years ended December 31,			
	2015		2014	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 8,180		$ 6,916	
Reversal of special reserve	-		(358)	
Cash dividends	73,264	$ 0.88	62,442	$ 0.75

On June 6, 2016 and June 15, 2015, the distribution of cash dividends from capital surplus was approved by the shareholders and amounted to $23,311 and $33,302, respectively. The abovementioned appropriation of earnings of 2015 and 2014 was in agreement with those amounts proposed by the Board of Directors on March 7, 2016 and April 29, 2015.

E. The details of the appropriation of 2016 earnings was proposed by the Board of Directors on February 24, 2017. Details are as follows:

	Year ended December 31, 2016	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 7,134	
Cash dividends	64,106	$ 0.77

On February 24, 2017, the Board of Directors proposed the Company to distribute cash of $27,474 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(18).

(16) Other income and expenses – net

	Years ended December 31,	
	2016	2015
Gains on disposal of investments	$ 5,152	$ 11,733
Net currency exchange gains (losses)	(2,168)	12,049
Impairment losses	(500)	(1,686)
Gains on disposal of property, plant and equipment	48	-
Other losses	(5,189)	(5,083)
	($ 2,657)	$ 17,013

(17) Expenses by nature

	Years ended December 31,	
	2016	2015
Employee benefit expense	$ 125,707	$ 132,688
Raw materials and supplies used	45,738	46,013
Product testing fees	29,609	33,398
Amortisation charges	4,470	5,591
Depreciation charges on property, plant and equipment	4,090	3,800
Changes in finished goods and work-in-process inventory	2,219	3,199
Other costs and expenses	42,372	47,894
Operating costs and expenses	$ 254,205	$ 272,583

(18) Employee benefit expense

	Years ended December 31,	
	2016	2015
Wages and salaries	$ 108,704	$ 115,772
Labour and health insurance fees	8,021	8,184
Pension costs	5,341	5,602
Other personnel expenses	3,641	3,130
	$ 125,707	$ 132,688

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 distrubuted 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, 2016 and 2015, employees' compensation was accrued at $8,020 and $9,382, respectively; directors' and supervisors' remuneration was accrued at $1,640 and $2,140, respectively. The aforementioned amounts were recognised in salary expenses. The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on the 8.5% and 2% of distributable profit of current year as of the end of reporting period. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were $8,020 and $1,640, respectively, and the employees' compensation will be distributed in the form of cash.

   Employees' compensation and directors' and supervisors' remuneration of 2015 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2015 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.

(19) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2016	2015
Current tax:		
Current tax on profits for the period	$ 14,457	$ 13,366
Additional 10% income tax imposed on unappropriated earnings	36	16
Prior year income tax (over) underestimation	(3,223)	(38)
Total current tax	11,270	13,344
Deferred tax:		
Origination and reversal of temporary differences	(423)	347
Income tax expense	$ 10,847	$ 13,691

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

	Years ended December 31,	
	2016	2015
Fair value gains/losses on available-for-sale financial assets	$ 8	$ 1,220
Remeasurment of defined benefit obligations	59	554
	$ 67	$ 1,774

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	$ 13,962	$ 16,664
Effects from items disallowed by tax regulation	5,541	(1,249)
Effect from temporary difference	199	(49)
Effect from tax credit of investment	(6,143)	(1,653)
Additional 10% tax on undistributed earnings	36	16
Prior year income tax (over) underestimation	(3,223)	(38)
Others	475	-
Income tax expense	$ 10,847	$ 13,691

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

	Year ended December 31, 2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Loss on scrapped inventory	$ 692	$ -	$ -	$ 692
Loss for market value decline and obsolete and slow-moving inventories	3,829	-	-	3,829
Unrealised exchange loss	-	-	-	-
Unused compensated absences	1,455	(202)	-	1,253
Others	3,389	724	67	4,180
Subtotal	9,365	522	67	9,954
- Deferred tax liabilities:				
Currency translation differences	(512)	-	-	(512)
Unrealised exchange loss	(3,025)	(99)	-	(3,124)
Subtotal	(3,537)	(99)	-	(3,636)
Total	$ 5,828	$ 423	$ 67	$ 6,318

	Year ended December 31, 2015			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Loss on scrapped inventory	$ 692	$ -	$ -	$ 692
Loss for market value decline and obsolete and slow-moving inventories	3,659	170	-	3,829
Unrealised exchange loss	(2,196)	2,196	-	-
Unused compensated absences	1,219	236	-	1,455
Others	1,539	76	1,774	3,389
Subtotal	4,913	2,678	1,774	9,365
- Deferred tax liabilities:				
Currency translation differences	(512)	-	-	(512)
Unrealised exchange loss	-	(3,025)	-	(3,025)
Subtotal	(512)	(3,025)	-	(3,537)
Total	$ 4,401	($ 347)	$ 1,774	$ 5,828

D. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

E. Unappropriated retained earnings:

	December 31, 2016	December 31, 2015
After 1998	$ 71,340	$ 81,802

F. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was \$9,879 and \$11,552, respectively. The creditable tax rate was 14.12% for the year ended December 31, 2015 and is estimated to be 13.85% for the year ended December 31, 2016.

(20) Earnings per share

	Year ended December 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 71,272	83,255	$ 0.86
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 71,272	83,255	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	415	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 71,272	83,670	$ 0.85

	Year ended December 31, 2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 84,342	83,122	$ 1.01
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 84,342	83,122	
Assumed conversion of all dilutive potential ordinary shares			
Employee stock option	-	366	
Employees' bonus	-	376	
Profit attributable to shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 84,342	83,864	$ 1.01

(21) Operating leases

Please refer to Note 9(2).

7. RELATED PARTY TRANSACTIONS

Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	$ 16,354	$ 13,171

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Operating lease agreement

The Group entered into a 9-year non-cancellable operating lease agreement with Science Park Administration for lands and office. The lease agreement is renewable at the end of the lease period at market price.

The future aggregate minimum lease payments are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	$ 2,154	$ 1,892
Later than one year but not more than five years	8,614	7,568
Later than five years	-	1,892
	$ 10,768	$ 11,352

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, notes payable, accounts payable and other payables) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

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. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(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, 2016					
				Sensitivity analysis		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	$ 4,734	32.25	$ 152,672	1%	$ 1,527	$ -
USD:RMB	1,325	6.99	9,255	1%	93	-
RMB:NTD	1,071	4.62	4,945	1%	49	-
Financial liabilities						
Monetary items						
USD:NTD	188	32.25	6,063	1%	61	$ -

	December 31, 2015					
				Sensitivity analysis		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	$ 7,612	32.83	$ 249,869	1%	$ 2,499	$ -
USD:RMB	960	6.49	5,907	1%	59	-
HKD:NTD	487	4.24	2,062	1%	21	-
Financial liabilities						
Monetary items						
USD:NTD	135	32.83	4,448	1%	44	$ -

ii. The total exchange gain (loss), including realised and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015, amounted to ($2,168) and $12,049, respectively.

Price risk

i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk. 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 domestic listed and unlisted stocks. 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, 2016 and 2015, other components of equity would have increased/decreased by $536 and $878, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(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. 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 ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored. Thus, the probability of credit risk is remote.

ii. For the years ended December 31, 2016 and 2015, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

iii. The credit quality information of financial assets that are neither past due nor impaired is as follows:

	December 31, 2016	
	Group 1	Group 2
Accounts receivable	$ 1,655	$ 32,944

	December 31, 2015	
	Group 1	Group 2
Accounts receivable	$ 1,452	$ 41,386

Group 1: Credit limits granted to customers less than $1,000 according to existing customers' selling limits for the first half year and receipts of accounts receivable during the latest three months.

Group 2: Credit limit granted to customers exceeding $1,000 according to existing customers' selling limits for the first half year and receipts of accounts receivable during the latest three months.

iv. The ageing analysis of financial assets that were past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Accounts receivable		
Up to 30 days	$ 6,895	$ 5,679
31 to 90 days	869	1,307
91 to 180 days	-	1,610
Over 181 days	-	1,319
	$ 7,764	$ 9,915

The above ageing analysis was based on past due date.

(c) Liquidity risk

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

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

iii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities: December 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Notes payable	$ 5,939	$ -	$ -
Accounts payable	6,490	-	-
Other payables	35,218	-	-
Other financial liabilities (shown as other non-current liabilities)	1,648	18	1,264

Non-derivative financial liabilities: December 31, 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Notes payable	$ 8,438	$ -	$ -
Accounts payable	4,448	-	-
Other payables	39,137	-	-
Other financial liabilities (shown as other non-current liabilities)	1,282	1,648	-

(3) Fair value information

A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(7).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks and emerging stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

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 at December 31, 2016 and 2015 is as follows:

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Equity securities	$ 28,266	$ -	$ 25,343	$ 53,609

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Equity securities	$ 61,914	$ -	$ 25,893	$ 87,807

D. The methods and assumptions the Group used to measure fair value are as follows:

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

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

(b) 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 measured by using valuation techniques can be referred to current fair value of 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).

(c) 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

(d) 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.

E. For the years ended December 31, 2016 and 2015, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the years ended December 31, 2016 and 2015:

	Years ended December 31,	
	2016	2015
	Non-derivative equity instrument	Non-derivative equity instrument
At January 1	$ 25,893	$ 33,068
Gains and losses recognised in profit or loss (Note 1)	(500)	-
Gains and losses recognised in other comprehensive income (Note 2)	(50)	(7,175)
At December 31	$ 25,343	$ 25,893

Note 1: Recorded as non-operating expense.

Note 2: Recorded as unrealised valuation gain or loss of available-for-sale financial assets.

G. For the years ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.

H. 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.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 25,343	Net asset value	Not applicable	-	Not applicable

	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 25,893	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 on 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 December 31,	
	2016	2015
Revenue from external customers	$ 312,545	$ 328,897
Depreciation and amortisation (including investment property)	11,481	12,334
Income tax expense	10,847	13,691
Investment loss accounted for under the equity method	-	4,499
Reportable segments income	70,886	84,342
Assets of reportable segments	1,299,445	1,336,791
Capital expenditure in non-current assets of reportable segments	2,642	161
Liabilities of reportable segments	78,823	88,520

(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 a manner consistent with that in the financial statements. Thus, no reconciliation is required.

(4) Information on products and services

Detail of revenue balance is as follows:

	Years ended December 31,	
	2016	2015
Sales revenue	$ 312,545	$ 328,897

(5) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

	Years ended December 31,			
	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
China	$ 194,959	$ -	$ 187,657	$ -
Taiwan	49,481	257,800	63,015	264,956
USA	6,701	-	7,132	-
Others	61,404	-	71,093	-
Total	$ 312,545	$ 257,800	$ 328,897	$ 264,956

(6) Major customer information

For the years ended December 31, 2016 and 2015, details of the Group's sale revenue from customers that accounted for more than 10% of sales amounts in the consolidated income statements are as follows:

	Years ended December 31,			
	2016		2015	
	Revenue	%	Revenue	%
A	$ 84,736	27	$ 80,678	25
B	64,010	20	53,170	16
C	43,659	14	48,820	15
	$ 192,405	61	$ 182,668	56

DAVICOM Semiconductor, Inc.

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

December 31, 2016

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2016 Number of shares	Book value (Note 3)	Ownership (%)	Fair value	Footnote (Note 4)
The Company	Unitech Capital Inc.	—	Available-for-sale financial assets - non-current	1,000,000	$ 25,343	2.00%	$ 25,343	
The Company	Auden Techno Corp.	—	Available-for-sale financial assets - non-current	1,210,000	14,629	2.96%	14,629	
The Company	D-Link Corporation	—	Available-for-sale financial assets - current	502,500	5,431	0.08%	5,431	
The Company	Analog Integrations Corporatio	—	Available-for-sale financial assets - current	108,000	299	0.33%	299	
Davicom Investment Inc.	Global Mobile Corp.	—	Financial assets measured at cost	892,458	-	0.32%	-	
Davicom Investment Inc.	MTECH Corporation	—	Available-for-sale financial assets - non-current	200,000	-	0.00%	-	
Davicom Investment Inc.	Auden Techno Corp.	—	Available-for-sale financial assets - non-current	654,000	7,907	2.21%	7,907	

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

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

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

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

DAVICOM Semiconductor, Inc.

Information on investees

December 31, 2016

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2016			Net profit (loss) of the investee for the year ended December 31, 2016 (Note 2(2))	Investment income(loss) recognised by the Company for the year ended December 31, 2016 (Note 2(3))	Footnote
				Balance as at December 31, 2016	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value			
The Company	TSCC Inc.	Samoa	General investment	$ 143,224	$ 143,224	4,400,000	100	$ 106,822	$ 438	$ 438	-
The Company	Davicom Investment Inc.	Taiwan	General investment	222,000	222,000	21,200,000	100	211,392	2,075	2,075	-
The Company	Medicom Corp.	Taiwan	Designing and manufacturing of IC	30,393	30,393	496,811	99.36	383	(224)	(224)	-
The Company	Aidialink Corp.	Taiwan	Wireless communication machinery and equipment manufacturing industry	1,320,000	-	120,000	51.06	655	(400)	(400)	-
TSCC Inc.	Jubilink Ltd.	British Virgin Islands	General investment	82,725	82,725	22,775,207	100	-	-	-	-

DAVICOM Semiconductor, Inc.

Information on investments in Mainland China

December 31, 2016

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2015	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016,	Net income of investee as of 31-Dec-16	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended 31-Dec-16 (Note 2)	Book value of investments in Mainland China as of December 31, 2016,	Accumulated amount of investment income remitted back to Taiwan as of 31-Dec-16	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
DAVICOM IC (SuZHou) Co.LTD		$ 80,625	(2)	$ 80,625	-	-	$ 80,625	($ 85)	100	($ 85)	$ 43,056	-	-

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.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
DAVICOM IC (SuZHou) Co.LTD	$ 80,625	$ 101,588	$ 732,373