

**Vanguard International Semiconductor
Corporation**

**Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders
Vanguard International Semiconductor Corporation

Opinion

We have audited the accompanying parent company only financial statements of Vanguard International Semiconductor Corporation (the Corporation), which comprise the parent company only balance sheets as of December 31, 2019 and 2018, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Corporation as of December 31, 2019 and 2018, and the parent company only financial performance and the parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 audit of the parent company only financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the parent company only financial statements of the Corporation for the year ended December 31, 2019, are described as follows:

Timing of revenue recognition

1. The sales revenue of the Corporation is material to the Corporation. Please refer to Note 24. The major types of transactions together with their timing of recognition are as follows:
 - 1) Revenue generated from domestic shipment with the transaction term of ex-works accounted for approximately 51% of total revenue and is recognized as sales revenue at point of ex-factory. Revenue generated from domestic shipment with the transaction term of delivered-at-place accounted for 20% of total revenue and is also recognized at point of ex-factory due to its nature of the goods delivering and receiving are at the same day.

- 2) Revenue generated from oversea shipment accounted for 29% of the total revenue depending on the trade terms where the revenue is recognized when the risk of goods is transferred to customers.
2. Revenues generated from either domestic or foreign shipments whose trade terms denote that the revenues are recognized at point of ex-factory consist of 99% of total revenue. The recognition process of revenue thereof is to have sales personnel verify the shipment on the computer system, and the system automatically recognizes the sale revenue and issues invoice. When the customers or their designated forwarders come to withdraw the goods, warehouse personnel will have them sign off on handheld devices and transmit the information to the shipping system. The system automatically checks the shipment on a daily basis. For goods that are not withdrawn, the system will notify sales personnel for confirmation and delete the shipping list where the sales revenue will be reversed automatically and the invoice cancelled.
3. Since the above process consists of manual controls, the risk exists in revenue before or after the end of the reporting period being unrecognized in the appropriate period.
4. We reviewed the revenue recognition policy of the Corporation, assessed the reasonableness of the revenue recognition, conducted on-site observation and recorded the details of the last shipment of the year ended 2019. We also traced all of the shipping records at December 31, 2019, against relevant supporting documents and accounting records to verify the accuracy of the timing of sales revenue recognition as well as the monetary amount, and evaluated whether the risk and rewards of goods are transferred.

Timing of capitalization of property, plant and equipment

1. The annual capital expenditure of the Corporation relating to property, plant and equipment is significant to its parent company only financial statements. Because of the significance of such expenditure, delaying in capitalization thereof may lead to the parent company only financial statements not fairly presented. Please refer to Note 15.
2. We reviewed the capital expenditure policy of the Corporation on property, plant and equipment, assessed the reasonableness of the timing of capitalization, and conducted procedures as follows:
 - 1) Selecting samples of newly acquired items from the lists of Advance Payments and Construction in Progress of the year to verify whether they are included in the un-capitalized list of the current month.
 - 2) Selecting samples from those that are transferred from Advance Payments and Construction in Progress to Property, Plant and Equipment of the year to verify whether such items are not included in the un-capitalized list of the current month.
 - 3) Selecting samples from the un-capitalized list at the year end and perform on-site count to observe whether such items were not ready for their intended use.
 - 4) Selecting samples of items that were not capitalized over three months from the un-capitalized list to examine whether the reasons of such items not capitalized explained by applicants or users were approved by supervisors.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control 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 Corporation'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 Corporation 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 Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only 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 an auditors' 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 the auditing standards generally accepted in the Republic of China 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 the auditing standards generally accepted in the Republic of China, 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 control.
2. Obtain an understanding of internal control 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 Corporation's internal control.
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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Corporation 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 disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Tung-Hui Yeh and Ming-Yuan Chung.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 20, 2020

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, parent company only financial performance and parent company only cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such parent company only financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying parent company only financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and parent company only financial statements shall prevail.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018		LIABILITIES AND EQUITY	2019		2018	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4, 6 and 30)	\$ 6,501,310	16	\$ 11,390,017	30	Short-term loans (Notes 19, 28 and 30)	\$ 3,210,000	8	\$ -	-
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30)	150,256	-	1,526	-	Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 30)	-	-	4,547	-
Financial assets at amortized cost - current (Notes 4, 5, 9, 10 and 30)	-	-	100,261	-	Notes and accounts payable (Note 30)	1,011,737	2	1,278,483	3
Notes and accounts receivable, net (Notes 4, 5, 12, 24 and 30)	4,769,130	11	5,311,885	14	Payables to related parties (Notes 30 and 31)	12,195	-	14,288	-
Receivables from related parties (Notes 4, 5, 24, 30 and 31)	199,084	1	416,219	1	Accrued employees' compensation and remuneration to directors (Notes 25 and 30)	1,227,834	3	1,192,595	3
Other receivables (Notes 4 and 30)	132,020	-	215,154	1	Payables to contractors and equipment suppliers (Note 30)	238,636	1	331,272	1
Other receivables from related parties (Notes 4, 30 and 31)	19,860	-	3,842	-	Other payables (Notes 20 and 30)	2,510,626	6	2,548,494	7
Inventories (Notes 4 and 13)	3,091,826	8	3,415,585	9	Other payables to related parties (Notes 30 and 31)	15,699	-	27,640	-
Prepaid expenses	152,761	-	162,415	1	Current income tax liabilities (Notes 4 and 26)	1,081,752	3	1,252,561	3
Other current assets (Notes 18 and 30)	348,695	1	2,800	-	Lease liabilities - current (Notes 3, 4, 5, 16, 28 and 30)	201,490	-	-	-
Total current assets	15,364,942	37	21,019,704	56	Other current liabilities (Notes 21, 24 and 31)	744,783	2	528,633	2
					Total current liabilities	10,254,752	25	7,178,513	19
NON-CURRENT ASSETS					NON-CURRENT LIABILITIES				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 30)	180,848	-	262,294	1	Deferred income tax liabilities (Notes 4 and 26)	206,169	-	163,302	1
Financial assets at amortized cost - non-current (Notes 4, 5, 9, 10 and 30)	352,665	1	354,568	1	Lease liabilities - noncurrent (Notes 3, 4, 5, 16, 28 and 30)	1,104,724	3	-	-
Investments accounted for using equity method (Notes 4 and 14)	17,162,037	41	8,918,928	24	Net defined benefit liabilities - non-current (Notes 4 and 22)	813,887	2	804,486	2
Property, plant and equipment (Notes 4 and 15)	6,907,162	17	6,443,435	17	Other non-current liabilities (Notes 28 and 31)	56,151	-	56,788	-
Right-of-use assets (Notes 3, 4, 5, and 16)	1,284,759	3	-	-	Total non-current liabilities	2,180,931	5	1,024,576	3
Intangible assets (Notes 4 and 17)	72,744	-	25,999	-	Total liabilities	12,435,683	30	8,203,089	22
Deferred income tax assets (Notes 4 and 26)	146,365	-	100,605	-	EQUITY (Notes 4, 8 and 23)				
Refundable deposits	192,207	-	212,720	-	Capital stock				
Other non-current assets (Notes 4, 18, 30 and 32)	304,087	1	303,959	1	Common stock	16,389,823	39	16,389,823	43
Total non-current assets	26,602,874	63	16,622,508	44	Capital surplus	881,651	2	856,616	2
					Retained earnings				
					Legal reserve	5,127,697	12	4,511,070	12
					Special reserve	162,717	1	377,030	1
					Unappropriated earnings	7,675,799	18	7,467,301	20
					Total retained earnings	12,966,213	31	12,355,401	33
					Other equity	(705,554)	(2)	(162,717)	-
					Total equity	29,532,133	70	29,439,123	78
TOTAL ASSETS	\$ 41,967,816	100	\$ 37,642,212	100	TOTAL LIABILITIES AND EQUITY	\$ 41,967,816	100	\$ 37,642,212	100

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
NET REVENUE (Notes 4, 11, 24 and 31)	\$ 28,302,399	100	\$ 28,928,094	100
COST OF REVENUE (Notes 4, 13, 25 and 31)	<u>17,952,404</u>	<u>63</u>	<u>18,759,824</u>	<u>65</u>
GROSS PROFIT	<u>10,349,995</u>	<u>37</u>	<u>10,168,270</u>	<u>35</u>
OPERATING EXPENSES (Notes 25 and 31)				
Marketing	331,463	1	345,743	1
General and administrative	1,312,748	5	1,177,353	4
Research and development	1,657,115	6	1,494,321	5
Expected credit loss (Notes 4, 5 and 12)	<u>-</u>	<u>-</u>	<u>585</u>	<u>-</u>
Total operating expenses	<u>3,301,326</u>	<u>12</u>	<u>3,018,002</u>	<u>10</u>
OPERATING INCOME	<u>7,048,669</u>	<u>25</u>	<u>7,150,268</u>	<u>25</u>
NON-OPERATING INCOME AND EXPENSES (Note 4)				
Interest income (Notes 25 and 31)	129,616	-	111,175	-
Dividend income (Notes 8 and 25)	30,330	-	27,978	-
Other income (Note 31)	162,485	1	92,043	-
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Note 25)	9,594	-	(285,526)	(1)
Share of profit of subsidiaries, associates and joint ventures (Note 14)	102,985	-	159,563	1
Interest expense (Notes 3, 4, 5 and 25)	(41,065)	-	-	-
(Loss) gain on disposal of property, plant and equipment (Note 31)	(273)	-	648	-
Net (loss) gain on foreign exchange (Note 25)	<u>(56,877)</u>	<u>-</u>	<u>218,325</u>	<u>1</u>
Total non-operating income and expenses	<u>336,795</u>	<u>1</u>	<u>324,206</u>	<u>1</u>
INCOME BEFORE INCOME TAX	7,385,464	26	7,474,474	26
INCOME TAX EXPENSE (Notes 4 and 26)	<u>(1,524,967)</u>	<u>(5)</u>	<u>(1,308,205)</u>	<u>(5)</u>
NET INCOME	<u>5,860,497</u>	<u>21</u>	<u>6,166,269</u>	<u>21</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Notes 4 and 23)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 22)	\$ (15,849)	-	\$ (20,501)	-
Unrealized loss on investment in equity instruments designated as at fair value through other comprehensive income	(42,029)	-	(23,891)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	(481,924)	(2)	329,041	1
Share of other comprehensive income of subsidiaries, associates and joint ventures (Note 14)	-	-	3	-
Total other comprehensive (loss) income	<u>(539,802)</u>	<u>(2)</u>	<u>284,652</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 5,320,695</u>	<u>19</u>	<u>\$ 6,450,921</u>	<u>22</u>
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 3.58</u>		<u>\$ 3.76</u>	
Diluted	<u>\$ 3.54</u>		<u>\$ 3.72</u>	

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Capital Stock	Capital Surplus	Retained Earnings			Exchange Differences on Translation of Foreign Operations	Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	
BALANCE, JANUARY 1, 2018	\$ 16,389,823	\$ 856,629	\$ 4,060,564	\$ 37,956	\$ 6,908,060	\$ (384,631)	\$ -	\$ 7,601	\$ 27,876,002
Effect of retrospective application for adoption of IFRS 9	-	-	-	-	120,000	-	(83,239)	(7,601)	29,160
RESTATED BALANCE, JANUARY 1, 2018	16,389,823	856,629	4,060,564	37,956	7,028,060	(384,631)	(83,239)	-	27,905,162
Appropriation of prior year's earnings									
Legal reserve	-	-	450,506	-	(450,506)	-	-	-	-
Special reserve	-	-	-	339,074	(339,074)	-	-	-	-
Cash dividends - 30%	-	-	-	-	(4,916,947)	-	-	-	(4,916,947)
Changes in capital surplus from investment in subsidiaries, associates and joint ventures accounted for using equity method	-	(128)	-	-	-	-	-	-	(128)
Other change in capital surplus	-	115	-	-	-	-	-	-	115
Net income for the year ended December 31, 2018	-	-	-	-	6,166,269	-	-	-	6,166,269
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(20,501)	329,044	(23,891)	-	284,652
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	6,145,768	329,044	(23,891)	-	6,450,921
BALANCE, DECEMBER 31, 2018	16,389,823	856,616	4,511,070	377,030	7,467,301	(55,587)	(107,130)	-	29,439,123
Appropriation of prior year's earnings									
Legal reserve	-	-	616,627	-	(616,627)	-	-	-	-
Cash dividends - 32%	-	-	-	-	(5,244,743)	-	-	-	(5,244,743)
Reversal of special reserve	-	-	-	(214,313)	214,313	-	-	-	-
Changes in capital surplus from investment in subsidiaries, associates and joint ventures accounted for using equity method	-	36	-	-	-	-	-	-	36
Other change in capital surplus	-	148	-	-	-	-	-	-	148
Net income for the year ended December 31, 2019	-	-	-	-	5,860,497	-	-	-	5,860,497
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(15,849)	(481,924)	(42,029)	-	(539,802)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	5,844,648	(481,924)	(42,029)	-	5,320,695
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	18,884	-	(18,884)	-	-
Differences between equity purchase price and carrying amount arising from subscription of associates	-	24,851	-	-	(7,977)	-	-	-	16,874
BALANCE, DECEMBER 31, 2019	\$ 16,389,823	\$ 881,651	\$ 5,127,697	\$ 162,717	\$ 7,675,799	\$ (537,511)	\$ (168,043)	\$ -	\$ 29,532,133

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,385,464	\$ 7,474,474
Adjustments for:		
Depreciation	2,125,230	1,811,378
Amortization	13,048	11,559
Expected credit loss	-	585
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	(126)	269
Interest expense	41,065	-
Interest income	(129,616)	(111,175)
Dividend income	(30,330)	(27,978)
Share of profit of subsidiaries, associates and joint ventures	(102,985)	(159,563)
Loss (gains) on disposal of property, plant and equipment	273	(648)
Net losses on foreign exchange	6,163	643
Changes in operating assets and liabilities:		
Financial assets mandatorily classified as at fair value through profit or loss	(48,604)	228,203
Notes and accounts receivable	542,755	(1,682,853)
Receivables from related parties	217,135	11,412
Other receivables	78,540	(65,953)
Other receivables from related parties	(6,236)	4,406
Inventories	323,759	(624,615)
Prepaid expenses	4,924	10,296
Other current assets	(345,895)	177
Financial liabilities held for trading	(4,547)	4,547
Notes and accounts payable	(266,746)	(31,675)
Payables to related parties	(2,093)	14,288
Other payables	(46,864)	444,116
Other payables to related parties	(11,941)	(58,681)
Other current liabilities	216,150	186,817
Net defined benefit liabilities	(6,448)	6,884
Accrued employees' compensation and remuneration to directors	35,239	506,935
Cash generated from operations	9,987,314	7,953,848
Interest received	126,300	112,883
Interest paid	(32,069)	-
Income tax paid	(1,698,669)	(792,797)
Net cash provided by operating activities	<u>8,382,876</u>	<u>7,273,934</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of financial assets at fair value through other comprehensive income	\$ -	\$ (104,549)
Proceeds from disposal of financial assets at fair value through other comprehensive income	39,416	-
Acquisitions of financial assets at amortized cost	-	(177,749)
Proceeds from redemption of financial assets at amortized cost	100,000	177,198
Acquisitions of financial assets at fair value through profit or loss	(200,000)	-
Proceeds from disposal of financial assets at fair value through profit or loss	100,000	-
Acquisition of investment accounted for using equity method	(8,984,998)	(1,373,951)
Acquisitions of property, plant and equipment	(2,482,475)	(1,919,391)
Proceeds from disposal of property, plant and equipment	11	648
Decrease (increase) in refundable deposits	15,026	(15,493)
Acquisitions of intangible assets	(63,701)	(20,651)
Increase in other non-current assets	(128)	(128)
Dividends received	<u>410,190</u>	<u>27,978</u>
Net cash used in investing activities	<u>(11,066,659)</u>	<u>(3,406,088)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	3,210,000	-
Repayment of the principal portion of lease liabilities	(169,692)	-
(Decrease) increase in other non-current liabilities	(637)	13,579
Cash dividends	(5,244,743)	(4,916,947)
Unclaimed dividends	<u>148</u>	<u>115</u>
Net cash used in financing activities	<u>(2,204,924)</u>	<u>(4,903,253)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,888,707)	(1,035,407)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>11,390,017</u>	<u>12,425,424</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 6,501,310</u>	<u>\$ 11,390,017</u>

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

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION

Vanguard International Semiconductor Corporation (the “Corporation”) was incorporated in Hsinchu Science-based Industrial Park in December 1994 and commenced business in January 1995. The Corporation engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks.

The Corporation’s shares have been traded over the counter on the Republic of China (ROC) Taipei Exchange since March 25, 1998.

The parent company only financial statements are presented in the Corporation’s functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved and authorized for issue by the Board of Directors on February 20, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Corporation’s accounting policies.

1) IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Corporation elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases on the parent company only balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the parent company only statements of comprehensive income, the Corporation presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the parent company only statements of cash flows.

Leases previously classified as operating leases under IAS 17 were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Corporation applies IAS 36 to assess impairment of all right-of-use assets.

The Corporation also applies the following practical expedients:

- a) The Corporation applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Corporation accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Corporation excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Corporation uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.7%. The difference between the lease liabilities recognized and the future minimum non-cancellable lease payable on December 31, 2018 is stated as follows:

The future minimum lease payments of non-cancellable operating leases on December 31, 2018	<u>\$ 853,912</u>
Undiscounted amounts on January 1, 2019	<u>\$ 853,912</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 783,607
Add: Future minimum lease payments of cancellable operating leases	<u>701,132</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 1,484,739</u>

The Corporation as lessor

The Corporation does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ <u> -</u>	\$ <u>1,484,739</u>	\$ <u>1,484,739</u>
Total effect on assets	\$ <u> -</u>	\$ <u>1,484,739</u>	\$ <u>1,484,739</u>
Lease liabilities - current	\$ <u> -</u>	\$ <u>200,085</u>	\$ <u>200,085</u>
Lease liabilities - non-current	<u> -</u>	<u>1,284,654</u>	<u>1,284,654</u>
Total effect on liabilities	\$ <u> -</u>	\$ <u>1,484,739</u>	\$ <u>1,484,739</u>

- b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by The International Accounting Standards Board (IASB)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: The Corporation shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Corporation shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Corporation shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the parent company only financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

As of the date the parent company only financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, where are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing its parent company only financial statements, the Corporation used equity method to account for its investment in subsidiaries, associates and joint ventures. The amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements were the same as the amounts attributable to the owner of the Corporation in its consolidated financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the parent company only financial statements, transactions in currencies other than the Corporation's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

e. Inventories

Inventories consist of raw materials, supplies and spare parts, work-in-process and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

f. Investment in subsidiaries

The Corporation uses the equity method to account for its investments in subsidiaries.

Subsidiary is an entity that is controlled by the Corporation.

Under the equity method, investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary. The Corporation also recognizes the changes in the Corporation's share of the equity of subsidiaries.

Changes in the Corporation's ownership interest in a subsidiary that do not result in the Corporation losing control of the subsidiary are equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

The Corporation assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Corporation recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Corporation.

g. Investment in associates

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Corporation uses the equity method to account for its investments in associates.

Under the equity method, investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognized the changes in the Corporation's share of the equity of associates.

When the Corporation subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Corporation's proportionate interest in the associate. The Corporation records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Corporation's share of the equity of associates. If the Corporation's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Corporation transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Corporation's parent company only financial statements only to the extent that interests in the associate are not related to the Corporation.

h. Property, plant, and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditure

Expenditures on research activities are recognized as an expense in the period in which they are incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the aggregate of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, such intangible assets are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include derivative financial assets.

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 30.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables and other financial assets at amortized cost, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i. Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Credit-impaired financial assets mean that the issuer or debtor experiences significant financial difficulties or defaults, the debtor is likely to claim bankruptcy or other financial reorganization, or the active market for financial assets disappears due to financial difficulties.

Cash equivalents include time deposits and bonds acquired under repurchase agreements, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Corporation may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets and contract assets

The Corporation recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Corporation always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Corporation recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Corporation measures the loss allowance for that financial instrument at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Under internal credit risk management purpose, the Corporation concludes that the financial assets were defaulted when internal or external information shows that debtor will not be able to repay, without considering the collateral held by the Corporation.

The Corporation recognizes an impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

3) Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income are transferred directly to retained earnings, without recycling through profit or loss.

Equity instruments

Equity instruments issued by the Corporation are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

a. Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liabilities are either held for trading or designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 30.

b. Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

The Corporation enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts and currency-swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

1. Hedge accounting

The Corporation designates certain hedging instruments, which include derivatives in respect of foreign currency risk, as both fair value hedges and cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

The Corporation discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

b. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gains or losses relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged items affect profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are

removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

The Corporation discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

m. Revenue recognition

The Corporation identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

For contracts where the period between the date on which the Corporation transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Corporation does not adjust the promised amount of consideration for the effects of a significant financing component.

Revenue from the sales of goods is mainly recognized when a customer obtains control of the promised assets, that is, at which time the goods are delivered to the designated location and the performance obligations are satisfied.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

The Corporation does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

n. Leasing

2019

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease.

1) The Corporation as lessor

Leases are classified as financial leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Corporation subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If the head lease contract is a short-term lease agreement and exempted from capitalization, the lease is classified as an operating lease.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Corporation as lessee

Except for short-term leases and low-value asset leases which are recognized as expenses on a straight-line basis over the lease terms, the Corporation recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If implicit rate cannot be readily determined, the Corporation uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Corporation remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Corporation as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rentals are recognized as income in the period in which they are incurred.

2) The Corporation as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term. Contingent rentals are recognized as expenses in the period in which they are incurred.

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Corporation's defined benefit plans.

3) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Corporation can no longer withdraw the offer of the termination benefit and when the Corporation recognizes any related restructuring costs.

p. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments

a. Lease terms - 2019

In determining a lease term, the Corporation considers all facts and circumstances that create an economic incentive to exercise or not to exercise an option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Main factors considered include contractual terms and conditions for the optional periods, significant leasehold improvements undertaken over the contract term, the importance of the underlying asset to the lessee's operations, etc. The lease term is reassessed if a significant change in circumstances that are within control of the Corporation occurs.

Key sources of estimation uncertainty

a. Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Corporation uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Corporation's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Notes 10 and 12. Where the actual future cash inflows are less than expected, an impairment loss may arise.

b. Lessees' incremental borrowing rates - 2019

In determining a lessee's incremental borrowing rate used in discounting lease payments, a risk-free rate for the same currency and relevant duration is selected as a reference rate, and the lessee's credit spread adjustments and lease specific adjustments (such as asset type, secured position, etc.) are also taken into account.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Deposits in bank	\$ 3,358,899	\$ 10,314,084
Cash equivalents		
Bonds acquired under repurchase agreements	<u>3,142,411</u>	<u>1,075,933</u>
	<u>\$ 6,501,310</u>	<u>\$ 11,390,017</u>

The market rate intervals of cash and cash equivalents at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Bank deposits	0%-1.91%	0%-2.69%
Bonds acquired under repurchase agreements	0.50%-0.60%	0.48%-0.55%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Hybrid financial assets		
Credit linked notes (a)	\$ 100,126	\$ -
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	18,304	1,275
Currency-swap contracts (c)	<u>31,826</u>	<u>251</u>
Financial assets at FVTPL - current	<u>\$ 150,256</u>	<u>\$ 1,526</u>
<u>Financial liabilities held for trading</u>		
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	\$ -	\$ 1,225
Currency-swap contracts (c)	<u>-</u>	<u>3,322</u>
Financial liabilities at FVTPL - current	<u>\$ -</u>	<u>\$ 4,547</u>

- a. The Corporation entered into structured investment contracts with bank in 2019. The structured investment contracts included embedded derivative instruments which were not closely related to the host contracts. The entire contract should be assessed and mandatorily classified as at FVTPL since it contained a host that is an asset within the scope of IFRS 9.

- b. At the end of the reporting period, outstanding forward exchange contracts that did not meet the criteria of hedge accounting were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2019</u>			
Sell forward exchange contracts	US\$ to NT\$	2020.01.08-2020.01.30	US\$ 42,000
<u>December 31, 2018</u>			
Buy forward exchange contracts	EUR to US\$	2019.01.09	EUR 1,300
Sell forward exchange contracts	US\$ to NT\$	2019.01.09-2019.01.18	US\$ 29,000

- c. At the end of the reporting period, outstanding currency-swap contracts that did not meet the criteria of hedge accounting were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2019</u>			
Sell forward exchange contracts	US\$ to NT\$	2020.01.07-2020.02.13	US\$ 141,000
<u>December 31, 2018</u>			
Sell forward exchange contracts	US\$ to NT\$	2019.01.10-2019.01.28	US\$ 54,000
Buy forward exchange contracts	US\$ to JPY	2019.01.08	US\$ 4,200

The Corporation entered into foreign exchange forward contracts and currency-swap contracts during the years ended December 31, 2019 and 2018 to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT

Equity Instruments	December 31	
	2019	2018
Domestic investments		
Listed stocks	\$ 20,100	\$ 54,053
Unlisted stocks	107,695	122,368
Foreign investments		
Unlisted stocks	<u>53,053</u>	<u>85,873</u>
	<u>\$ 180,848</u>	<u>\$ 262,294</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Corporation's strategy of holding these investments for long-term purposes.

During the year ended December 31, 2019, as the strategic purposes no longer existed, the Corporation sold the partial shares of investment. Proceeds from disposal of the shares were \$39,416 thousand, that is, the gain on disposal of the shares, and other equity - unrealized gain on financial assets at fair value through other comprehensive income of \$18,884 thousand, that is, the gain on disposal of the shares, was transferred directly to retained earnings.

Dividends from equity investments held at the reporting date were \$30,330 thousand and \$27,978 thousand for the years ended December 31, 2019 and 2018, respectively.

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Domestic investments		
Financial bonds	\$ <u> -</u>	\$ <u>100,261</u>
<u>Non-current</u>		
Domestic investments		
Financial bonds	\$ <u>352,665</u>	\$ <u>354,568</u>

Refer to Note 10 for information relating to their credit risk management and assessment of impairment.

10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at amortized cost.

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Gross carrying amount	\$ 352,665	\$ 454,829
Less: Allowance for impairment loss	<u> -</u>	<u> -</u>
Amortized cost	\$ <u>352,665</u>	\$ <u>454,829</u>

The Corporation only invests in debt instruments that are rated the equivalent of higher or above investment grade and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Corporation's exposure and the external credit ratings are continuously monitored. The Corporation continued reviews the changes of bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the initial recognition to the reporting date.

In determining the expected credit losses for debt instrument investments, the Corporation considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and the future prospects of the industries.

The Corporation's current credit risk grading mechanism is as follows:

Category	Description	Basis for Recognizing Expected Credit Losses (ECLs)
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12-month ECLs

The gross carrying amounts of debt instrument investments by credit category and the corresponding expected loss rates were as follows:

December 31, 2019

Category	Expected Loss Rate	Gross Carrying Amount At Amortized Cost
Performing	0%	\$ 352,665

December 31, 2018

Category	Expected Loss Rate	Gross Carrying Amount At Amortized Cost
Performing	0%	\$ 454,829

11. FINANCIAL INSTRUMENTS FOR HEDGING

The Corporation's hedging strategy is to enter into forward exchange contracts and currency-swap contracts to avoid exchange rate exposure of its foreign currency receipts and payments and to manage exchange rate exposure of its forecasted foreign currency sales. Those transactions are designated as cash flow hedges. When forecast sales actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable forecast sales, the major terms (such as notional amount, period and the underlying) of forward exchange contracts and currency-swap contracts are negotiated to match the terms of the hedged items. The Corporation qualitatively assessed the effectiveness and considered that the value of the forward exchange contracts and currency-swap contracts have a negative correlation with the value of the corresponding hedged items in response to the movements of the underlying exchange rates.

The major cause of hedge ineffectiveness is driven by the effect of the counterparty's breach of the contract. No other factor of ineffectiveness emerged from these hedging relationships.

The following tables summarize the information relating to the hedges of foreign currency risk.

For the year ended December 31, 2019

Effect of Comprehensive Income	Hedging Gains (Losses) Recognized in OCI	Amount of Hedge Ineffectiveness Recognized in Profit or Loss	Line Item of Ineffectiveness	Amount Reclassified to Profit and Loss	
				Due to Hedged Item Affecting P/L	Due to Hedged Future Cash Flows no Longer Expected to Occur
Cash flow hedges					
Forecast sales	\$ -	\$ -	-	\$ (435) Revenue	\$ -

For the year ended December 31, 2018

Effect of Comprehensive Income	Hedging Gains (Losses) Recognized in OCI	Amount of Hedge Ineffectiveness Recognized in Profit or Loss	Line Item of Ineffectiveness	Amount Reclassified to Profit and Loss	
				Due to Hedged Item Affecting P/L	Due to Hedged Future Cash Flows no Longer Expected to Occur
Cash flow hedges					
Forecast sales	\$ -	\$ -	-	\$ (2,285) Revenue	\$ -

12. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2019	2018
<u>Notes and accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 4,769,861	\$ 5,315,757
Less: Allowance for impairment loss	<u>(731)</u>	<u>(3,872)</u>
	<u>\$ 4,769,130</u>	<u>\$ 5,311,885</u>

At amortized cost

The average credit period on sales of goods was 30 to 60 days after month closing. No interest was charged on notes and accounts receivable. Because the discounted effect of accounts receivable is not significant, it is measured by the original invoice amount. In order to minimize credit risk, the management of the Corporation has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Corporation's credit risk was significantly reduced.

The Corporation applies the simplified approach prescribed by IFRS 9 which permits using lifetime expected credit loss as the provision loss of trade receivables. The lifetime expected credit losses are estimated using a provision matrix by reference to the debtors' past default experience, the debtors' current financial position, economic circumstance of the industry as well as the forecasted GDP and industrial

prospect. As the historical experience shows no significant difference on individual customer, therefore, the Corporation's provision matrix does not distinguish by customer group. The expected credit loss rates are estimated based on past due days of the trade receivables.

The Corporation writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are past due, whichever occurs earlier. For trade receivables that have been written off, the Corporation continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Corporation's provision matrix.

December 31, 2019

Item	Not Past Due	Past Due Less than 60 Days	Past Due 61 to 90 Days	Past Due Over 90 Days	Total
Gross carrying amount	\$ 4,465,881	\$ 290,859	\$ 11,380	\$ 1,741	\$ 4,769,861
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(731)</u>	<u>(731)</u>
Amortized cost	<u>\$ 4,465,881</u>	<u>\$ 290,859</u>	<u>\$ 11,380</u>	<u>\$ 1,010</u>	<u>\$ 4,769,130</u>

December 31, 2018

Item	Not Past Due	Past Due Less than 60 Days	Past Due 61 to 90 Days	Past Due Over 90 Days	Total
Gross carrying amount	\$ 5,123,029	\$ 181,870	\$ -	\$ 10,858	\$ 5,315,757
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,872)</u>	<u>(3,872)</u>
Amortized cost	<u>\$ 5,123,029</u>	<u>\$ 181,870</u>	<u>\$ -</u>	<u>\$ 6,986</u>	<u>\$ 5,311,885</u>

The movement of the loss allowance of trade receivables was as follows:

	<u>December 31</u>	
	2019	2018
Balance, beginning of year (IFRS 9)	\$ 3,872	\$ 3,287
Add: Provision of loss allowance	-	585
Less: Amounts written off	<u>(3,141)</u>	<u>-</u>
Balance, end of year	<u>\$ 731</u>	<u>\$ 3,872</u>

13. INVENTORIES

	<u>December 31</u>	
	2019	2018
Finished goods	\$ 221,125	\$ 210,248
Work in process	1,643,188	1,707,479
Raw materials	719,024	1,044,442
Supplies and spare parts	<u>508,489</u>	<u>453,416</u>
	<u>\$ 3,091,826</u>	<u>\$ 3,415,585</u>

Cost of revenue, the write-downs of inventory and unallocated manufacturing overheads included in the cost of revenue were as below:

	Years Ended December 31	
	2019	2018
Cost of revenue	<u>\$ 17,952,404</u>	<u>\$ 18,759,824</u>
Provision of inventory valuation and obsolescence loss	<u>\$ 111,181</u>	<u>\$ 71,859</u>
Unallocated manufacturing overheads	<u>\$ 16,766</u>	<u>\$ 32,919</u>

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2019	2018
Investments in subsidiaries	\$ 16,921,462	\$ 8,680,884
Investments in associates	<u>240,575</u>	<u>238,044</u>
	<u>\$ 17,162,037</u>	<u>\$ 8,918,928</u>

a. Investments in subsidiaries

	December 31	
	2019	2018
Unlisted stocks		
VIS Associates Inc.	\$ 9,817,273	\$ 8,676,465
VIS Shanghai Company Limited	4,069	4,419
Vanguard International Semiconductor Singapore Pte. Ltd.	<u>7,100,120</u>	<u>-</u>
	<u>\$ 16,921,462</u>	<u>\$ 8,680,884</u>

	Proportion of Ownership and Voting Rights	
	December 31	
	2019	2018
VIS Associates Inc.	100%	100%
VIS Shanghai Company Limited	100%	100%
Vanguard International Semiconductor Singapore Pte. Ltd.	100%	-

The investments in subsidiaries accounted for using equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2019 and 2018 were based on the subsidiaries' financial statements audited by the auditors for the same years.

The Corporation received cash dividends from subsidiary VIS Associates Inc. amounting to \$379,860 thousand in 2019, accounted as deduction of investments accounted for under equity method.

b. Investments in associates

	December 31	
	2019	2018
<u>Associates individually immaterial</u>		
CMSC, Inc.	\$ 38,129	\$ 50,407
Qromis, Inc.	<u>202,446</u>	<u>187,637</u>
	<u>\$ 240,575</u>	<u>\$ 238,044</u>

Refer to Table 7 “Information on Investees” for the nature of activities, principal place of business and country of incorporation of the associates.

Aggregate information of associates that are not individually material

	Years Ended December 31	
	2019	2018
The Corporation’s share of		
Loss from continuing operations	\$ (40,087)	\$ (52,576)
Other comprehensive income	<u>-</u>	<u>3</u>
Total comprehensive loss for the years	<u>\$ (40,087)</u>	<u>\$ (52,573)</u>

In February 2019, the Corporation subscribed 873 thousand shares of preferred stocks of Qromis, Inc. in cash amounting to \$30,740 thousand. As of December 31, 2019, the Corporation has 10,705 thousand shares of preferred stocks of Qromis with 39.31% of voting rights in Qromis, Inc.

The investments in associates accounted for using the equity method, the share of net profit or loss and the share of other comprehensive income (loss) from investments were calculated based on the unreviewed financial statements. The Corporation’s management considered the use of unreviewed financial statements of the investees did not have material impact on its parent company only financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2019
Assets used by the Corporation	\$ 6,661,128
Assets subject to operating leases	<u>246,034</u>
	<u>\$ 6,907,162</u>

a. 2019

	Assets Used by the Group				Assets Subject to Operating Leases	Total
	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Buildings	
<u>Cost</u>						
Balance, January 1, 2019	\$ 14,620,122	\$ 60,424,195	\$ 418,199	\$ 705,043	\$ 1,037,160	\$ 77,204,719
Additions	933,447	1,837,583	65,526	(447,100)	-	2,389,456
Disposal	(1,180)	(293,998)	(97)	-	-	(295,275)
Reclassified	2,199	1,709	-	-	-	3,908
Balance, December 31, 2019	<u>\$ 15,554,588</u>	<u>\$ 61,969,489</u>	<u>\$ 483,628</u>	<u>\$ 257,943</u>	<u>\$ 1,037,160</u>	<u>\$ 79,302,808</u>
<u>Accumulated depreciation</u>						
Balance, January 1, 2019	\$ 12,782,382	\$ 56,649,896	\$ 385,114	\$ -	\$ 760,371	\$ 70,577,763
Depreciation	316,674	1,561,952	19,972	-	30,755	1,929,353
Disposal	(1,180)	(293,714)	(97)	-	-	(294,991)
Balance, December 31, 2019	<u>\$ 13,097,876</u>	<u>\$ 57,918,134</u>	<u>\$ 404,989</u>	<u>\$ -</u>	<u>\$ 791,126</u>	<u>\$ 72,212,125</u>
<u>Accumulated impairment</u>						
Balance, January 1, 2019 and December 31, 2019	<u>\$ -</u>	<u>\$ 183,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,521</u>
Carrying amounts, December 31, 2019	<u>\$ 2,456,712</u>	<u>\$ 3,867,834</u>	<u>\$ 78,639</u>	<u>\$ 257,943</u>	<u>\$ 246,034</u>	<u>\$ 6,907,162</u>

b. 2018

	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Total
	<u>Cost</u>				
Balance, January 1, 2018	\$ 15,356,291	\$ 58,697,224	\$ 396,288	\$ 790,887	\$ 75,240,690
Additions	300,991	1,763,860	25,271	(85,844)	2,004,278
Disposal	-	(37,619)	(4,994)	-	(42,613)
Reclassified	-	730	1,634	-	2,364
Balance, December 31, 2018	<u>\$ 15,657,282</u>	<u>\$ 60,424,195</u>	<u>\$ 418,199</u>	<u>\$ 705,043</u>	<u>\$ 77,204,719</u>
<u>Accumulated depreciation</u>					
Balance, January 1, 2018	\$ 13,249,204	\$ 55,180,959	\$ 378,835	\$ -	\$ 68,808,998
Depreciation	293,549	1,506,556	11,273	-	1,811,378
Disposal	-	(37,619)	(4,994)	-	(42,613)
Balance, December 31, 2018	<u>\$ 13,542,753</u>	<u>\$ 56,649,896</u>	<u>\$ 385,114</u>	<u>\$ -</u>	<u>\$ 70,577,763</u>
<u>Accumulated impairment</u>					
Balance, January 1, 2018 and December 31, 2018	<u>\$ -</u>	<u>\$ 183,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,521</u>
Carrying amounts, December 31, 2018	<u>\$ 2,114,529</u>	<u>\$ 3,590,778</u>	<u>\$ 33,085</u>	<u>\$ 705,043</u>	<u>\$ 6,443,435</u>

The Corporation leases a part of building subject to operating lease from January 2015 to December 2024. The lessees do not have preferential purchase right to acquire the assets at the expiry of the lease periods.

The maturity analysis of lease receivable subject to operating lease for property, plant and equipment was as follows:

	December 31, 2019
Year 1	\$ 27,526
Year 2	26,495
Year 3	26,495
Year 4	26,495
Year 5	<u>26,495</u>
	<u>\$ 133,506</u>

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	
Main plants	20 years
Mechanical and electrical power equipment	5 to 10 years
Clean rooms	10 years
Machinery and equipment	3 to 5 years
Other equipment	3 to 5 years

16. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Restated balance, January 1, 2019	\$ 1,078,359	\$ 381,596	\$ 16,236	\$ 8,548	\$ 1,484,739
Lease expired	-	(2,654)	-	-	(2,654)
Lease terms changed	<u>-</u>	<u>(3,963)</u>	<u>-</u>	<u>(140)</u>	<u>(4,103)</u>
Balance, December 31, 2019	<u>\$ 1,078,359</u>	<u>\$ 374,979</u>	<u>\$ 16,236</u>	<u>\$ 8,408</u>	<u>\$ 1,477,982</u>
<u>Accumulated depreciation</u>					
Restated balance, January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	103,840	80,848	7,071	4,118	195,877
Lease expired	<u>-</u>	<u>(2,654)</u>	<u>-</u>	<u>-</u>	<u>(2,654)</u>
Balance, December 31, 2019	<u>\$ 103,840</u>	<u>\$ 78,194</u>	<u>\$ 7,071</u>	<u>\$ 4,118</u>	<u>\$ 193,223</u>
Carrying amounts, December 31, 2019	<u>\$ 974,519</u>	<u>\$ 296,785</u>	<u>\$ 9,165</u>	<u>\$ 4,290</u>	<u>\$ 1,284,759</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 201,490</u>
Non-current	<u>\$ 1,104,724</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.70%
Buildings	1.70%
Machinery and equipment	1.70%
Other equipment	1.70%

c. Material lease-in activities and terms

The Corporation leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration and a certain individual under renewable operating lease agreements expiring on various dates from December 2022, December 2027, December 2029 and December 2034. The rental pay to Hsinchu Science-Based Industrial Park Administration can be adjusted according to the lease contract, and the lease is renewable upon expiration.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	<u>\$ 1,911</u>
Expenses relating to low-value asset leases	<u>\$ 97</u>
Expenses relating to variable lease payments not included in the measurement of lease liabilities	<u>\$ 581</u>
Total cash outflow for leases	<u>\$ 194,632</u>

The Corporation leases certain buildings, machinery and equipment which qualify as short-term leases, and certain other equipment which qualify as low-value asset leases. The Corporation has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The future minimum lease payments of non-cancellable operating lease were as follows:

	December 31, 2018
Not later than 1 year	\$ 82,339
Later than 1 year and not later than 5 years	319,647
Later than 5 years	<u>451,926</u>
	<u>\$ 853,912</u>

The lease payments recognized as expense were \$81,826 thousand for the year ended December 31, 2018.

17. INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance, January 1, 2018	\$ 794,605
Additions	20,651
Reclassified	<u>(2,364)</u>
Balance, December 31, 2018	<u>\$ 812,892</u>
<u>Accumulated amortization</u>	
Balance, January 1, 2018	\$ 775,334
Amortization	<u>11,559</u>
Balance, December 31, 2018	<u>\$ 786,893</u>
Carrying amounts, December 31, 2018	<u>\$ 25,999</u>
<u>Cost</u>	
Balance, January 1, 2019	\$ 812,892
Additions	63,701
Reclassified	<u>(3,908)</u>
Balance, December 31, 2019	<u>\$ 872,685</u>
<u>Accumulated amortization</u>	
Balance, January 1, 2019	\$ 786,893
Amortization	<u>13,048</u>
Balance, December 31, 2019	<u>\$ 799,941</u>
Carrying amounts, December 31, 2019	<u>\$ 72,744</u>

Intangible assets were amortized on a straight-line basis over the estimated useful lives as follows:

Computer software	3 to 5 years
-------------------	--------------

18. OTHER ASSETS

	<u>December 31</u>	
	2019	2018
Pledged time deposit	\$ 304,087	\$ 303,959
Repatriated offshore funds deposit	345,662	-
Others	<u>3,033</u>	<u>2,800</u>
	<u>\$ 652,782</u>	<u>\$ 306,759</u>

(Continued)

	December 31	
	2019	2018
Current	\$ 348,695	\$ 2,800
Non-current	<u>304,087</u>	<u>303,959</u>
	<u>\$ 652,782</u>	<u>\$ 306,759</u> (Concluded)

19. SHORT-TERM LOANS

	December 31	
	2019	2018
<u>Unsecured loans</u>		
Credit loans	<u>\$ 3,210,000</u>	<u>\$ -</u>

The range of interest rates on bank loans was 0.83%-0.88% per annum at December 31, 2019.

20. OTHER PAYABLES

	December 31	
	2019	2018
Bonus	\$ 828,245	\$ 793,571
Maintenance	506,818	667,036
Utilities	134,313	133,788
Others	<u>1,041,250</u>	<u>954,099</u>
	<u>\$ 2,510,626</u>	<u>\$ 2,548,494</u>

21. OTHER CURRENT LIABILITIES

	December 31	
	2019	2018
Refund liabilities (Provision of sales returns and allowances)	\$ 472,091	\$ 389,056
Contract liabilities - advanced receipts	<u>272,692</u>	<u>139,577</u>
	<u>\$ 744,783</u>	<u>\$ 528,633</u>

The provision of sales returns and allowances was estimated based on historical experience, management's judgments and any other known factors that would affect the returns and allowances. The provision was recognized as a reduction of revenue in the periods of the related products sold.

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, the Corporation makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Law and the “Pension Plan of Senior Management” of the Corporation. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Corporation has no right to influence the investment policy and strategy.

The amounts included in the parent company only balance sheets in respect of the Corporation’s defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 1,150,126	\$ 1,131,640
Fair value of plan assets	<u>(336,239)</u>	<u>(327,154)</u>
Net defined benefit liability	<u>\$ 813,887</u>	<u>\$ 804,486</u>

Movements in net defined benefit liability were as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2018	\$ <u>1,107,016</u>	\$ <u>(329,915)</u>	\$ <u>777,101</u>
Service cost			
Current service cost	9,494	-	9,494
Interest expense (income)	<u>18,061</u>	<u>(5,364)</u>	<u>12,697</u>
Recognized in profit or loss	<u>27,555</u>	<u>(5,364)</u>	<u>22,191</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(7,887)	(7,887)
Actuarial gain - changes in demographic assumptions	(26,311)	-	(26,311)
Actuarial loss - changes in financial assumptions	13,146	-	13,146
Actuarial loss - experience adjustments	<u>41,553</u>	<u>-</u>	<u>41,553</u>
Recognized in other comprehensive income	<u>28,388</u>	<u>(7,887)</u>	<u>20,501</u>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability (Asset)
Contributions from the employer	\$ <u>-</u>	\$ (15,307)	\$ (15,307)
Benefits paid	<u>(31,319)</u>	<u>31,319</u>	<u>-</u>
Balance at December 31, 2018	<u>1,131,640</u>	<u>(327,154)</u>	<u>804,486</u>
Service cost			
Current service cost	6,942	-	6,942
Interest expense (income)	<u>13,779</u>	<u>(3,821)</u>	<u>9,958</u>
Recognized in profit or loss	<u>20,721</u>	<u>(3,821)</u>	<u>16,900</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(11,250)	(11,250)
Actuarial loss - changes in financial assumptions	39,325	-	39,325
Actuarial gain - experience adjustments	<u>(12,226)</u>	<u>-</u>	<u>(12,226)</u>
Recognized in other comprehensive income	<u>27,099</u>	<u>(11,250)</u>	<u>15,849</u>
Contributions from the employer	<u>-</u>	<u>(15,374)</u>	<u>(15,374)</u>
Benefits paid	<u>(29,334)</u>	<u>21,360</u>	<u>(7,974)</u>
Balance at December 31, 2019	<u>\$ 1,150,126</u>	<u>\$ (336,239)</u>	<u>\$ 813,887</u> (Concluded)

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rates	0.75%	1.25%
Expected rates of salary increase	3.25%	3.25%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	2019	2018
Discount rates		
0.50% increase	<u>\$ (39,325)</u>	<u>\$ (41,664)</u>
0.50% decrease	<u>\$ 41,954</u>	<u>\$ 44,512</u>
Expected rates of salary increase		
0.50% increase	<u>\$ 40,741</u>	<u>\$ 43,443</u>
0.50% decrease	<u>\$ (38,615)</u>	<u>\$ (41,107)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2019	2018
The expected contributions to the plan for the next year	<u>\$ 15,874</u>	<u>\$ 15,804</u>
The average duration of the defined benefit obligation	7 years	7.6 years

Maturity analyses of pension benefit were as follows

	<u>December 31</u>	
	2019	2018
Maturity analyses of undiscounted pension benefit		
No later than 1 year	\$ 137,621	\$ 58,686
Later than 1 year and not later than 5 years	393,006	441,008
Later than 5 years	<u>717,242</u>	<u>797,725</u>
	<u>\$ 1,247,869</u>	<u>\$ 1,297,419</u>

23. EQUITY

a. Capital stock

Common stock

	<u>December 31</u>	
	2019	2018
Authorized shares (in thousands)	<u>3,300,000</u>	<u>3,300,000</u>
Authorized capital	<u>\$ 33,000,000</u>	<u>\$ 33,000,000</u>
Issued and fully paid shares (in thousands)	<u>1,638,982</u>	<u>1,638,982</u>
Issued capital	<u>\$ 16,389,823</u>	<u>\$ 16,389,823</u>

The authorized shares include 300,000 thousand shares reserved for the exercise of employee stock options.

b. Capital Surplus

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>May be used to offset a deficit, distributed by cash or transferred to capital</u>		
Issuance of common stock	\$ 544,884	\$ 544,884
<u>May be used to offset a deficit only</u>		
Employee stock options (transferred and inactive)	285,845	285,845
Share of changes in equities of subsidiaries, associates and joint ventures	50,497	25,610
Unclaimed dividends	<u>425</u>	<u>277</u>
	<u>\$ 881,651</u>	<u>\$ 856,616</u>

The capital surplus from stock issued in excess of par may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed in cash transferred to capital, which are limited to a certain percentage of the Corporation's paid-in capital.

c. Retained earnings and dividend policy

Earnings distribution and dividend policy

Under the dividend policy as set forth in the Corporation's Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. The policies of the distribution of employees' compensation and remuneration of directors set forth in the Articles, refer to employees' compensation and remuneration of directors in Note 25-c.

The Corporation's Articles also stipulate that all profits may be distributed after taking into consideration to financial, business and operational factors. Dividends are in cash and/or in the form of stock. Since the Corporation's operation is at the steady growth stage, the cash dividend paid (in any given year) should be at least 60% of the dividends of the current year's appropriation. If there is no profit for distribution, or the profit is far less than the profit actually distributed by the Corporation in the previous year or other reasons so require, all or part of the capital surplus may be distributed in accordance with relevant laws or regulations of the authorities in charge.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Corporation appropriates or reverses a special reserve in accordance with Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs". Distributions can be made out of any subsequent reversal of the debit to other equity items.

The appropriations of earnings for 2018 and 2017 have been approved in the shareholders' meeting on June 14, 2019 and June 14, 2018, respectively, were as follows:

	Appropriations of Earnings		Dividends Per Share (NT\$)	
	2018	2017	2018	2017
Provision of legal reserve	\$ 616,627	\$ 450,506	\$ -	\$ -
(Reversal) provision of special reserve	(214,313)	339,074	-	-
Cash dividends	5,244,743	4,916,947	3.20	3.00

The appropriation of earnings for 2019 had been proposed by the Corporation's board of directors on February 20, 2020. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
Provision of legal reserve	\$ 585,555	\$ -
Provision of special reserve	542,838	-
Cash dividends	5,244,743	3.2

The appropriation of earnings for 2019 is subject to the resolution of the shareholders' meeting to be held on June 12, 2020.

d. Other equity

1) Exchange differences on translation of foreign operations

	Years Ended December 31	
	2019	2018
Balance, beginning of year	\$ <u>(55,587)</u>	\$ <u>(384,631)</u>
Recognized during the year		
Exchange differences on translation of foreign operations	(481,924)	329,041
Share of exchange differences of subsidiaries and associates accounted for using equity method	<u>-</u>	<u>3</u>
Recognized in other comprehensive (loss) income	<u>(481,924)</u>	<u>329,044</u>
Balance, end of year	\$ <u>(537,511)</u>	\$ <u>(55,587)</u>

2) Unrealized gain (loss) on financial assets at FVTOCI

	Years Ended December 31	
	2019	2018
Balance, beginning of year	\$ <u>(107,130)</u>	\$ <u>(83,239)</u>
Recognized during the year		
Unrealized loss - equity instruments	<u>(42,029)</u>	<u>(23,891)</u>
Recognized in other comprehensive income	<u>(42,029)</u>	<u>(23,891)</u>
Disposal of investments in equity instruments at fair value through other comprehensive income	<u>(18,884)</u>	<u>-</u>
Balance, end of year	\$ <u>(168,043)</u>	\$ <u>(107,130)</u>

24. REVENUE

	Years Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from sales of goods	\$ 27,683,838	\$ 28,459,367
Others	<u>509,220</u>	<u>403,092</u>
	<u>28,193,058</u>	<u>28,862,459</u>
Other operating revenue		
Rental income	38,995	33,843
Others	<u>70,346</u>	<u>31,792</u>
	<u>109,341</u>	<u>65,635</u>
	<u>\$ 28,302,399</u>	<u>\$ 28,928,094</u>

Refer to Note 11 for the effective hedge amounts from the foreign sales cash flow hedges which were recognized as decrease of revenue for the years ended December 31, 2019 and 2018.

a. Disaggregation of revenue

1) Disaggregation of revenue by region

	Years Ended December 31	
	2019	2018
<u>Regions</u>		
Asia	\$ 25,795,415	\$ 26,011,474
Europe	1,839,018	1,841,180
America	667,878	1,074,778
Oceania	88	625
Africa	<u>-</u>	<u>37</u>
	<u>\$ 28,302,399</u>	<u>\$ 28,928,094</u>

2) Disaggregation of revenue by platform

	Years Ended December 31	
	2019	2018
<u>Platforms</u>		
Power Management	\$ 16,322,151	\$ 14,226,047
Large panel driver IC	7,988,279	8,841,943
Small panel driver IC	2,005,853	3,331,855
Other platforms	<u>1,367,555</u>	<u>2,059,522</u>
Revenue from sales of goods	27,683,838	28,459,367
Other revenue	<u>618,561</u>	<u>468,727</u>
	<u>\$ 28,302,399</u>	<u>\$ 28,928,094</u>

3) Disaggregation of revenue by process

	<u>Years Ended December 31</u>	
	2019	2018
<u>Processes</u>		
0.18 micron (and) below	\$ 10,758,370	\$ 10,559,505
0.25 micron	3,402,689	4,094,829
0.35 micron	6,333,575	6,416,788
0.5 micron (and) above	<u>7,189,204</u>	<u>7,388,245</u>
Revenue from sales of goods	27,683,838	28,459,367
Other revenue	<u>618,561</u>	<u>468,727</u>
	<u>\$ 28,302,399</u>	<u>\$ 28,928,094</u>

b. Contract balances

	<u>December 31</u>	
	2019	2018
Notes and accounts receivable, net (Note 12)	\$ 4,769,130	\$ 5,311,885
Receivables from related parties (Note 31)	<u>199,084</u>	<u>416,219</u>
Trade Receivables	<u>\$ 4,968,214</u>	<u>\$ 5,728,104</u>
Contract liabilities		
Contract liabilities - advanced receipts (Other current liabilities) (Note 21)	<u>\$ 272,692</u>	<u>\$ 139,577</u>

The contract liabilities primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment.

Revenues from the beginning balance of the contract liability and satisfaction during the years ended December 31, 2019 were as follows:

	<u>Years Ended December 31</u>	
	2019	2018
Revenues from the beginning balance of contract liabilities		
Sales of goods	<u>\$ 91,721</u>	<u>\$ 81,350</u>

25. OTHER ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Depreciation and amortization

	<u>Years Ended December 31</u>	
	2019	2018
Classification of depreciation - by function		
Cost of revenue	\$ 2,023,112	\$ 1,774,284
Operating expenses	<u>102,118</u>	<u>37,094</u>
	<u>\$ 2,125,230</u>	<u>\$ 1,811,378</u>

(Continued)

	Years Ended December 31	
	2019	2018
Classification of amortization - by function		
Cost of revenue	\$ 4,678	\$ 4,033
Operating expenses	<u>8,370</u>	<u>7,526</u>
	<u>\$ 13,048</u>	<u>\$ 11,559</u>
		(Concluded)

b. Employee benefits expense

	Years Ended December 31	
	2019	2018
Post-employment benefits (Note 22)		
Defined contribution plans	\$ 215,131	\$ 221,130
Defined benefit plans	<u>16,900</u>	<u>22,191</u>
	232,031	243,321
Other employee benefits	<u>7,303,709</u>	<u>7,375,444</u>
Total employee benefits expense	<u>\$ 7,535,740</u>	<u>\$ 7,618,765</u>
Employee benefits expense summarized by function		
Cost of revenue	\$ 5,672,856	\$ 5,874,795
Operating expenses	<u>1,862,884</u>	<u>1,743,970</u>
	<u>\$ 7,535,740</u>	<u>\$ 7,618,765</u>

c. Employees' compensation and remuneration of directors

The Corporation should distribute no less than 10% of the current year's profit as employees' compensation in the form of stock or in cash as resolved by the board of directors. The employees include those of subsidiaries meeting some conditions agreed by the board of directors. The Corporation should also distribute no higher than 1% of the current year's profit as remuneration to directors. However, the Corporation's accumulated losses shall have been covered. For the years ended December 31, 2019 and 2018, the employees' compensation was \$1,205,834 thousand and \$1,170,000 thousand, respectively. For the years ended December 31, 2019 and 2018, the remuneration to directors was \$21,800 thousand and \$22,195 thousand, respectively. The above calculation was at a certain percentage of the base income.

If there is a change in the proposed amounts after the annual parent company only financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of employees' compensation and remuneration to directors for 2019 and 2018 having been resolved by the board of directors on February 20, 2020 and January 29, 2019, respectively, were as below:

	Years Ended December 31			
	2019		2018	
	Cash	Stock	Cash	Stock
Employees' compensation	\$ 1,205,834	\$ -	\$ 1,170,000	\$ -
Remuneration to directors	21,800	-	22,195	-

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the parent company only financial statements for the years ended December 31, 2018 and 2017.

Information of the employees' compensation and remuneration to directors resolved by the Corporation's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Net gain and loss of financial instruments

	Years Ended December 31	
	2019	2018
Interest income		
Cash and cash equivalents	\$ 86,995	\$ 104,995
Financial assets at amortized cost	4,306	6,180
Other financial assets (Financing provided to subsidiaries)	<u>38,315</u>	<u>-</u>
	<u>\$ 129,616</u>	<u>\$ 111,175</u>
Dividends		
Investments in equity instruments at FVTOCI	<u>\$ 30,330</u>	<u>\$ 27,978</u>
Net foreign exchange (loss) gain		
Financial assets at amortized cost	\$ -	\$ (753)
Other monetary assets and liabilities	<u>(56,877)</u>	<u>219,078</u>
	<u>\$ (56,877)</u>	<u>\$ 218,325</u>
Gain (loss) on financial assets and liabilities at FVTPL		
Financial assets and liabilities mandatorily classified as at FVTPL		
Forward exchange and currency-swap contracts	\$ 9,134	\$ (286,058)
Credit linked notes	<u>460</u>	<u>532</u>
	<u>\$ 9,594</u>	<u>\$ (285,526)</u>

e. Interest expense

	Years Ended December 31	
	2019	2018
Bank loans	\$ 17,499	\$ -
Lease liabilities	<u>23,566</u>	<u>-</u>
	<u>\$ 41,065</u>	<u>\$ -</u>

26. INCOME TAXES

- a. Major components of tax expenses recognized in profit or loss:

	Years Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ 1,514,486	\$ 1,512,497
Adjustments for prior years' tax	(17,000)	(192,043)
Withheld tax in accordance with Repatriated Offshore Funds Act	<u>30,374</u>	<u>-</u>
	1,527,860	1,320,454
Deferred income tax		
In respect of the current year	<u>(2,893)</u>	<u>(12,249)</u>
Income tax expenses recognized in profit or loss	<u>\$ 1,524,967</u>	<u>\$ 1,308,205</u>

A reconciliation of accounting profit and income tax expenses was as follow:

	Years Ended December 31	
	2019	2018
Income before income tax	<u>\$ 7,385,464</u>	<u>\$ 7,474,474</u>
Income tax expense calculated at the statutory rate	\$ 1,477,092	\$ 1,494,895
Additional items in determining taxable income	10,885	11,894
Income tax on unappropriated earnings	30,936	-
The origination and reversal of temporary differences	(7,320)	(6,541)
Adjustments for prior years' tax	(17,000)	(192,043)
Withheld tax in accordance with Repatriated Offshore Funds Act	<u>30,374</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 1,524,967</u>	<u>\$ 1,308,205</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. The rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are invested in construction or purchase of certain assets or technologies can be deducted from unappropriated earnings when computing the income tax.

- b. Current tax liabilities

	December 31	
	2019	2018
Current tax liabilities		
Income tax payable	<u>\$ 1,081,752</u>	<u>\$ 1,252,561</u>

c. Deferred income tax assets and liabilities

The movements of deferred income tax assets and liabilities were as follows:

2019

Deferred Income Tax Assets	Balance, Beginning of Year	Movements	Balance, End of Year
Temporary differences	<u>\$ 100,605</u>	<u>\$ 45,760</u>	<u>\$ 146,365</u>

Deferred Income Tax Liabilities	Balance, Beginning of Year	Movements	Balance, End of Year
Temporary differences	<u>\$ 163,302</u>	<u>\$ 42,867</u>	<u>\$ 206,169</u>

2018

Deferred Income Tax Assets	Balance, Beginning of Year	Movements	Balance, End of Year
Temporary differences	<u>\$ 28,953</u>	<u>\$ 71,652</u>	<u>\$ 100,605</u>

Deferred Income Tax Liabilities	Balance, Beginning of Year	Movements	Balance, End of Year
Temporary differences	<u>\$ 103,899</u>	<u>\$ 59,403</u>	<u>\$ 163,302</u>

d. Items for which no deferred income tax assets have been recognized

	<u>December 31</u>	
	2019	2018
Deductible temporary differences	<u>\$ 227,909</u>	<u>\$ 195,258</u>

e. Unrecognized deferred income tax liabilities associated with investments

As of December 31, 2019 and 2018, there were no taxable temporary differences associated with investment in subsidiaries for which no deferred income tax liabilities have been recognized.

f. Income tax assessments

Income tax returns through 2017 had been examined and cleared by the tax authorities.

27. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>Years Ended December 31</u>	
	2019	2018
Basic earnings per share	<u>\$ 3.58</u>	<u>\$ 3.76</u>
Diluted earnings per share	<u>\$ 3.54</u>	<u>\$ 3.72</u>

The earnings and weighted average number of common shares used in the computation of earnings per share were as follows:

Earnings

	<u>Years Ended December 31</u>	
	2019	2018
Earnings used in computation of basic earnings per share	\$ 5,860,497	\$ 6,166,269
Effect of dilutive potential common stocks:		
Employees' compensation	<u> -</u>	<u> -</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 5,860,497</u>	<u>\$ 6,166,269</u>

Shares

Unit: Shares in Thousands

	<u>Years Ended December 31</u>	
	2019	2018
Weighted average number of common stocks used in the computation of basic earnings per share	1,638,982	1,638,982
Effect of dilutive potential common stocks:		
Employees' compensation	<u> 16,598</u>	<u> 20,661</u>
Weighted average number of common stocks used in the computation of diluted earnings per share	<u> 1,655,580</u>	<u> 1,659,643</u>

Since the Corporation is allowed to settle compensation paid to employees by cash or shares, the Corporation assumed that the entire amount of compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share as the shares had dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees in the following year.

28. CASH FLOWS INFORMATION FOR FINANCING ACTIVITIES

For the year ended December 31, 2019

	Balance, January 1	Cash Flows	Non-cash Changes	Balance, December 31
Other non-current liabilities	\$ 56,788	\$ (637)	\$ -	\$ 56,151
Lease liabilities (Note 3)	1,484,739	(169,692)	(8,833)	1,306,214
Short-term loans	-	3,210,000	-	3,210,000
Dividends Payable	-	(5,244,743)	5,244,743	-
Unclaimed dividends	<u>277</u>	<u>148</u>	<u>-</u>	<u>425</u>
	<u>\$ 1,541,804</u>	<u>\$ (2,204,924)</u>	<u>\$ 5,235,910</u>	<u>\$ 4,572,790</u>

For the year ended December 31, 2018

	Balance, January 1	Cash Flows	Non-cash Changes	Balance, December 31
Other non-current liabilities	\$ 43,209	\$ 13,579	\$ -	\$ 56,788
Dividends Payable	-	(4,916,947)	4,916,947	-
Unclaimed dividends	<u>162</u>	<u>115</u>	<u>-</u>	<u>277</u>
	<u>\$ 43,371</u>	<u>\$ (4,903,253)</u>	<u>\$ 4,916,947</u>	<u>\$ 57,065</u>

29. CAPITAL MANAGEMENT

The Corporation manages its capital in a manner to ensure its ability to continue as a going concern while maximizing the return to shareholders. The Corporation's overall strategy has no significant variations.

The capital structure of the Corporation consists of net debt (loans offset by cash and cash equivalents) and equity (i.e. capital stock, capital surplus, retained earnings and other equity).

The Corporation is not subject to any externally imposed capital requirements.

30. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments not measured at fair value

December 31, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets at amortized cost					
Domestic financial bonds	\$ 352,665	\$ 354,559	\$ -	\$ -	\$ 354,559

December 31, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets at amortized cost					
Domestic financial bonds	\$ 454,829	\$ 457,346	\$ -	\$ -	\$ 457,346

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ -	\$ 50,130	\$ -	\$ 50,130
Hybrid financial assets	-	100,126	-	100,126
	<u>\$ -</u>	<u>\$ 150,256</u>	<u>\$ -</u>	<u>\$ 150,256</u>
Financial assets at FVTOCI				
Equity instruments				
Domestic listed stocks	\$ -	\$ 20,100	\$ -	\$ 20,100
Domestic unlisted stocks	-	107,695	-	107,695
Foreign unlisted stocks	-	53,053	-	53,053
	<u>\$ -</u>	<u>\$ 180,848</u>	<u>\$ -</u>	<u>\$ 180,848</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ -	\$ 1,526	\$ -	\$ 1,526
Financial assets at FVTOCI				
Equity instruments				
Domestic listed stocks	\$ 18,353	\$ 35,700	\$ -	\$ 54,053
Domestic unlisted stocks	-	122,368	-	122,368
Foreign unlisted stocks	-	85,873	-	85,873
	<u>\$ 18,353</u>	<u>\$ 243,941</u>	<u>\$ -</u>	<u>\$ 262,294</u>
Financial liabilities at FVTPL				
Derivative instruments	\$ -	\$ 4,547	\$ -	\$ 4,547

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2019 and 2018, respectively.

There were no acquisition or disposal of financial assets measured by Level 3 of the fair value hierarchy for the years ended December 31, 2019 and 2018, respectively.

2) Valuation techniques and assumptions applied to Level 2 of fair value hierarchy

The fair values of financial assets and financial liabilities are determined as follows:

- a) For those derivative instruments with no quoted market prices, their fair values are determined by using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants in their estimates of fair values.

Fair values of forward exchange contracts and currency-swap contracts are determined by using valuation techniques based on forward rates for each contract. The Reuter's quotation system is mainly used as reference for the forward rates.

- b) For the private placement shares issued by listed companies with no quoted market prices, the fair value is determined by using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants in their estimates of fair values.

The Corporation uses "Black-Scholes model" to determine the fair value.

- c) The fair value of the unlisted stocks are synthetically estimated by reference to comparable targets and compare investees' assets, liabilities, profit and loss with the observable stock prices and give them implicit value multiplier. The "Black-Scholes model" is adopted according to the individual terms of each equity instrument, and it takes the observable stock price, stock price volatility, risk-free interest rate and exit probability as the parameters, and comprehensively considers the discount of non-controlling rights and liquidity risks.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 150,256	\$ 1,526
Financial assets at amortized cost (Note 1)	12,623,818	18,095,905
Financial assets at FVTOCI		
Equity instruments	180,848	262,294
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	-	4,547
Financial liabilities at amortized cost (Note 2)	8,226,727	5,392,772
Lease liabilities	1,306,214	-

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets, and debts securities.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise accounts payable and other payables.

d. Objectives and policies of financial risk management

The Corporation's major financial instruments include equity and bond investments, accounts receivable, borrowings, accounts payable, and lease liabilities. The Corporation's corporate finance function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Corporation through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Corporation seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Corporation's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of derivatives and non-derivative financial instruments, and the investment of excess liquidity. The compliance with policies and the control of exposure limits are continuously reviewed by the internal auditors on a continuous basis. The Corporation does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The corporate finance function reports quarterly to the Corporation's board of directors and audit committee for their independent mentorship to risks and policy implementation.

1) Market risk

The Corporation's activities are exposed to the financial risks primarily arising from the changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below) and other prices (see (c) below). The Corporation enters into a variety of derivative financial instruments including forward exchange and currency-swap contracts to manage its exposure to foreign currency risk.

There has been no change to the Corporation's exposure to market risks or the manner in which these risks are managed and measured.

a) Foreign currency risk

The Corporation's operating activities are partially denominated in foreign currencies and apply natural hedge. The purpose of the Corporation's management of the foreign currency risk is to hedge the risk instead of making a profit.

The strategy of foreign currency risk management is to review the net position exposed to foreign currency risk and manage the risk of the net position. The Corporation selects the instruments to hedge currency exposure by considering the hedge cost and hedge period. The Corporation currently utilizes derivative financial instruments, primarily buy/sell forward exchange contracts, to hedge its currency exposure.

The Corporation uses forward exchange contracts to eliminate currency exposure. It is the Corporation's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item for maximizing the hedge effectiveness.

Investing in foreign operations is for strategic purposes; it is not hedged by the Corporation.

Sensitivity analysis

The Corporation is mainly exposed to the exchange rate fluctuation of USD, JPY and EUR.

The following table details the Corporation's sensitivity to a 5% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items

(including cash and cash equivalents, financial assets, accounts receivable, other receivables, refundable deposits, accounts payable, and other payables) and the hedge contracts, for which their translation at period end is adjusted for a 5% change in foreign currency rates. The following table indicates the influences which the New Taiwan dollars strengthen 5% against the relevant currency.

	Impact on USD Items	
	Years Ended December 31	
	2019	2018
Loss	\$ 5,971	\$ 129,792

	Impact on JPY Items	
	Years Ended December 31	
	2019	2018
(Loss) Gain	\$ (1,870)	\$ 10,712

	Impact on EUR Items	
	Years Ended December 31	
	2019	2018
(Loss) Gain	\$ (910)	\$ 1,085

b) Interest rate risk

The Corporation's financial assets are exposed to interest rate risk both at fixed and floating interest rates.

The carrying amounts of the Corporation's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 5,051,123	\$ 10,482,283
Financial liabilities	4,516,214	-
Cash flow interest rate risk		
Financial assets	2,552,727	1,666,522

Sensitivity analysis

The sensitivity analyses below are determined based on the Corporation's exposure to interest rates for the derivative and non-derivative instruments at the end of the reporting period. For the floating rate assets, the analysis is prepared assuming the amount of the asset at the end of the reporting date is outstanding during the reporting period.

If the market interest rate increases/decrease by 0.1% and all other variables remain constant, the pre-tax profit of the Corporation for the years ended on December 31, 2019 and 2018 will increase/decrease \$2,553 thousand and \$1,667 thousand, respectively, resulting from the exposure of the net assets with floating rates.

c) Other price risk

The Corporation is exposed to price risk arising from its investments in stocks. Equity investments are held for strategic rather than trading purposes. The Corporation does not actively trade these investments.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to security price risks at the end of the reporting period.

If financial assets at FVTOCI stocks prices had been 5% higher/lower, the other comprehensive income for the years ended December 31, 2019 and 2018 would have an increase/decrease of \$9,042 thousand \$13,115 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterpart will default on its contractual obligations and result in financial loss to the Corporation. As of the end of the reporting period, the Corporation may have a financial loss due to the default on obligation from counterparts, and the maximum exposure to credit risk is the carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets.

In order to mitigate credit risk, the Corporation has made the policy of credit management to ensure that appropriate action is taken to recover overdue receivables. In addition, the Corporation reviews the recoverable amount of each receivable debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Corporation considers the credit risk is significantly reduced.

The credit risk on operating funds and derivatives is limited as the counterparts are creditworthy banks.

The Corporation's accounts receivable outstanding arose from trading with its customers spreading across diverse industries and geographical areas. The balances are monitored on an ongoing basis by evaluating the customer's financial condition.

The Corporation's credit concentration risk was related to the 5 largest customers. Besides the 5 largest customers, credit concentration risks related to other customers do not exceed 10% of total gross accounts receivable at any time during the period. The 5 largest customers are creditworthy counterparts, therefore, the Corporation believes the concentration of credit risk is insignificant for the remaining accounts receivable.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining adequate reserves of cash and cash equivalents to fund the Corporation's operations and mitigate the effects of fluctuations in cash flows.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following tables detail the Corporation's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Corporation can be required to pay. The tables include both interest and principal cash flows.

December 31, 2019

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	More than 15 Years	Total
<u>Non-derivative financial liabilities</u>						
Non-interest bearing liabilities	\$ 5,016,727	\$ -	\$ -	\$ -	\$ -	\$ 5,016,727
Lease liabilities	216,263	586,544	509,991	93,248	-	1,406,046
Short-term loans	<u>3,210,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,210,000</u>
	<u>\$ 8,442,990</u>	<u>\$ 586,544</u>	<u>\$ 509,991</u>	<u>\$ 93,248</u>	<u>\$ -</u>	<u>\$ 9,632,773</u>

December 31, 2018

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	More than 15 Years	Total
<u>Non-derivative financial liabilities</u>						
Non-interest bearing liabilities	<u>\$ 5,392,772</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,392,772</u>

b) Liquidity and interest rate risk tables for derivative financial liabilities

The following tables detail the Corporation's liquidity analysis for its derivative financial instruments. The tables were based on the undiscounted net inflows and outflows from those derivatives with gross settlement.

December 31, 2019

	Less than 1 Year	More than 1 Year
<u>Gross settled</u>		
Forward exchange and currency-swap contracts		
Inflows	\$ 5,537,934	\$ -
Outflows	<u>(5,487,804)</u>	<u>-</u>
	<u>\$ 50,130</u>	<u>\$ -</u>

December 31, 2018

	Less than 1 Year	More than 1 Year
<u>Gross settled</u>		
Forward exchange and currency-swap contracts		
Inflows	\$ 2,723,290	\$ -
Outflows	<u>(2,726,311)</u>	<u>-</u>
	<u>\$ (3,021)</u>	<u>\$ -</u>

c) Financial facilities

	December 31	
	2019	2018
Unsecured bank credit facilities (Reviewed annually)	\$ 3,212,000	\$ 2,900
Amount used	<u>9,906,000</u>	<u>5,601,100</u>
Amount unused	<u>\$ 13,118,000</u>	<u>\$ 5,604,000</u>

31. TRANSACTIONS WITH RELATED PARTIES

a. Name and relationship of related parties

<u>Name</u>	<u>Relationship with the Corporation</u>
Taiwan Semiconductor Manufacturing Company Ltd.	Investors that have significant influence over the Corporation
Image Match Design Inc.	Key management personnel
Shenzhen Winsemi Microelectronics Co., Ltd.	Key management personnel
Global Unichip Corp.	Substantial related parties
Systems on Silicon Manufacturing Co. Pte. Ltd.	Substantial related parties
CMSC, Inc.	Associates
Qromis, Inc.	Associates
VIS Micro, Inc.	Subsidiaries
VIS Shanghai Company Limited	Subsidiaries
Vanguard International Semiconductor Singapore Pte. Ltd.	Subsidiaries

b. Operating transactions

	<u>Revenue from Sales of Goods</u>		<u>Purchases</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	2019	2018	2019	2018
Investors that have significant influence over the Corporation				
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 3,062,881	\$ 5,098,011	\$ 161	\$ 56
Key management personnel	\$ 74,628	\$ 236,978	\$ -	\$ -
Substantial related parties	\$ 46,203	\$ 43,885	\$ (1,722)	\$ 34,833
Associates	\$ 31,519	\$ 53,242	\$ -	\$ -
Subsidiaries	\$ 19,560	\$ -	\$ -	\$ -
			<u>Manufacturing Expenses</u>	
			<u>Years Ended December 31</u>	
			2019	2018
Investors that have significant influence over the Corporation			\$ 25,423	\$ 206,121

	Marketing Expenses	
	Years Ended December 31	
	2019	2018
Subsidiaries		
VIS Micro, Inc.	\$ 102,901	\$ 108,888
Others	<u>911</u>	<u>912</u>
	<u>\$ 103,812</u>	<u>\$ 109,800</u>

	Non-operating Income and Gains	
	Years Ended December 31	
	2019	2018
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 10,754	\$ 13,226
Key management personnel	<u>-</u>	<u>12</u>
	<u>\$ 10,754</u>	<u>\$ 13,238</u>

	Interest Revenue	
	Years Ended December 31	
	2019	2018
Subsidiaries		
Vanguard International Semiconductor Singapore Pte. Ltd.	<u>\$ 38,315</u>	<u>\$ -</u>

The following balances were outstanding at the end of the reporting period:

	Receivables from Related Parties	
	December 31	
	2019	2018
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 153,977	\$ 353,238
Key management personnel	26,773	33,611
Associates	8,447	14,805
Substantial related parties	<u>9,887</u>	<u>14,565</u>
	<u>\$ 199,084</u>	<u>\$ 416,219</u>

	Other Receivables from	
	Related Parties	
	December 31	
	2019	2018
Subsidiaries		
Vanguard International Semiconductor Singapore Pte. Ltd.	\$ 19,860	\$ -
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	<u>-</u>	<u>3,842</u>
	<u>\$ 19,860</u>	<u>\$ 3,842</u>

	Payables to Related Parties	
	December 31	
	2019	2018
Substantial related parties		
Systems on Silicon Manufacturing Co. Pte. Ltd.	\$ 12,195	\$ 14,228
Investors that have significant influence over the Corporation	<u> -</u>	<u> 60</u>
	<u>\$ 12,195</u>	<u>\$ 14,288</u>

	Other Payables to Related Parties	
	December 31	
	2019	2018
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 3,920	\$ 10,363
Subsidiaries		
VIS Micro, Inc.	11,552	17,277
Others	<u> 227</u>	<u> -</u>
	<u>\$ 15,699</u>	<u>\$ 27,640</u>

	Contract Liabilities - Advanced Receipts (Other Current Liabilities)	
	December 31	
	2019	2018
Key management personnel	\$ 7,400	\$ 3,462
Associates	835	550
Substantial related parties	<u> 283</u>	<u> -</u>
	<u>\$ 8,518</u>	<u>\$ 4,012</u>

	Guarantee Deposits (Other Non-current Liabilities)	
	December 31	
	2019	2018
Key management personnel		
Shenzhen Winsemi Microelectronics Co., Ltd.	\$ 11,995	\$ 12,296

	Disposal of Property, Plant and Equipment			
	Proceeds		Gain (Loss) on Disposal	
	Years Ended December 31		Years Ended December 31	
	2019	2018	2019	2018
Key management personnel	<u>\$ -</u>	<u>\$ 236</u>	<u>\$ -</u>	<u>\$ 236</u>

	Endorsements/Guarantees Provided			
	Amount		Amount Actually Drawn	
	December 31		December 31	
	2019	2018	2019	2018
Subsidiaries				
Vanguard International Semiconductor Singapore Pte. Ltd.	<u>\$ 707,717</u>	<u>\$ -</u>	<u>\$ 707,717</u>	<u>\$ -</u>

The terms of sales and purchases transactions with related parties were not significantly different from those with third parties. However, for other related-party transactions, license fees, interest revenue, non-operating income and gains and guarantee deposits, there were no similar transactions in the market; thus, transaction terms were determined in accordance with related contracts.

c. Compensation of key management personnel

	Years Ended December 31	
	2019	2018
Short-term employee benefits	\$ 223,035	\$ 211,056
Post-employment benefits	<u>2,922</u>	<u>2,940</u>
	<u>\$ 225,957</u>	<u>\$ 213,996</u>

The remuneration to directors and other key management personnel were determined by the Compensation Committee in accordance with the individual performance and the market trends.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been pledged as collateral for the guarantee of customs duty and lease of the manufacturing plant from the Hsinchu Science-Based Industrial Park Administration:

	December 31	
	2019	2018
Pledged time deposits (presented under other non-current assets)	<u>\$ 304,087</u>	<u>\$ 303,959</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The significant commitments of the Corporation as of December 31, 2019 were as follows:

The Corporation entered into a “Manufacturing, License, and Technology Transfer Agreement” with Taiwan Semiconductor Manufacturing Company Ltd. beginning January 1, 2004 to pay fees according to the net sales of certain products and reserve a portion of its production capacity.

34. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On January 31, 2019, the Corporation's board of directors approved a capital increase of SGD399,990 thousand to VANGUARD INTERNATIONAL SEMICONDUCTOR SINGAPORE PTE. LTD. that has been approved by Investment Commission, MOEA. As of December 31, 2019, the Corporation has remitted SGD325,600 thousand, sequentially, the Corporation remitted another SGD74,390 thousand within the approved quota in January 2020.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2019		2018	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 217,172	29.988	\$ 197,208	30.74
EUR	1,194	33.617	226	35.25
JPY	275,927	0.2761	17,976	0.2769
SGD	34	22.266	5	22.49
RMB	65	4.295	70	4.475
Non-monetary items				
USD	334,124	29.988	288,546	30.74
RMB	13,300	4.295	18,880	4.475
SGD	318,877	22.266	-	-
Derivative instruments				
USD	-	-	4,200	30.74
EUR	-	-	1,300	35.25
<u>Financial liabilities</u>				
Monetary items				
USD	30,189	29.988	32,473	30.74
EUR	652	33.617	2,141	35.25
JPY	140,437	0.2761	325,483	0.2769
RMB	53	4.295	-	-
Derivative instruments				
USD	183,000	29.988	84,490	30.74
JPY	-	-	466,200	0.2769

Please refer to the parent company only statements of comprehensive income for the total of realized and unrealized foreign exchange gain and loss for the years ended December 31, 2019 and 2018, respectively. Since there were varieties of foreign currency transactions, the Corporation was unable to disclose foreign exchange gain (loss) towards each foreign currency with significant impact.

36. SEPARATELY DISCLOSED ITEMS

Information on significant transactions and information on investees:

- a. Financing provided to others: Table 1 (attached)
- b. Endorsements/guarantees provided: Table 2 (attached)
- c. Marketable securities held (excluding investment in subsidiaries, associates and jointly ventures): Table 3 (attached)
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 4 (attached)
- e. Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- g. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached)
- i. Trading in derivative instruments: Notes 7 and 11.
- j. Information on investees: Table 7 (attached)
- k. Information on investment in Mainland China:
 - 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 8 (attached)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: Note 31.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes

- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Financing Company	Counter-Party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrowing Company (Note 3)	Total Available Amount for Lending (Note 3)	Note
													Item	Value			
0	The Corporation	Vanguard International Semiconductor Singapore Pte. Ltd.	Other receivables from related parties	Note 2	\$ 1,737,890 (USD 55,000)	\$ -	\$ -	4.76	For short-term financing	\$ -	Assets purchase and initial operating funding needed	\$ -	-	\$ -	\$ 2,953,213	\$ 5,906,426	-

Note 1: The description of the number column is as follows

(1) Issuer fills in 0

(2) The invested company is numbered sequentially according to the company from Arabic Numbers 1.

Note 2: Directly held subsidiary.

Note 3: The amount for lending to each borrowing company and the total available amount for all borrowings shall not exceed 10% and 20% of the Corporation's net equity, respectively.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Endorsement/Guarantee Provider	Guarantee Party		Limit Amount for Endorsement/ Guarantee to Each Guarantee Party (Note 3)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements (%)	Allowable amount for Endorsement/ Guarantee (Note 3)	Endorsement/ Guarantee Provided by Parent Company	Endorsement/ Guarantee Provided by Subsidiaries	Endorsement/ Guarantee Provided to Subsidiaries in Mainland China	Note
		Company Name	Nature of Relationship											
0	The Corporation	Vanguard International Semiconductor Singapore Pte. Ltd.	Note 2	\$ 8,859,639	\$ 7,254,640 (USD 236,000)	\$ 707,717 (USD 23,600)	\$ 707,717 (USD 23,600)	\$ -	2.40	\$ 8,859,639	Yes	No	No	-

Note 1: The description of the number column is as follows
(1) Issuer fills in 0
(2) The invested company is numbered sequentially according to the company from Arabic Numbers 1.

Note 2: Directly held subsidiary.

Note 3: The individual amount to each company and the total amount of endorsement/guarantee shall not exceed 30% of the Corporation's net equity.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Name (Note 1)	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2019				Note
				Shares/ Units (Thousands)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
The Corporation	<u>Structured Instruments</u> EVA Airways Corp. 3 rd credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	\$ 100,126	-	\$ 100,126	-
The Corporation	<u>Bonds</u> MEGA Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	100,707	-	101,218	-
	MEGA Bank 2014 2 nd Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	151,158	-	152,036	-
	Taiwan Cooperative Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	100,800	-	101,305	-
VIS Associates Inc.	Azure Orbit II International Finance Ltd. bonds	-	Financial assets at amortized cost - current	-	57,200	-	57,194	-
	Bank of China (Hong Kong) Ltd. bonds (USY1391CAJ00)	-	Financial assets at amortized cost - current	-	150,370	-	150,390	-
	Bank of China Limited, Hong Kong Branch bonds (XS1561673804)	-	Financial assets at amortized cost - current	-	110,039	-	110,061	-
	China Construction Bank Co., Hong Kong Branch bonds	-	Financial assets at amortized cost - current	-	299,605	-	300,990	-
	Inventive Global Investments Ltd. bonds	-	Financial assets at amortized cost - current	-	359,807	-	360,180	-
	State Elite Global Ltd. bonds	-	Financial assets at amortized cost - current	-	256,806	-	256,761	-
	ABN AMRO Bank N.V. bonds (XS1377968307)	-	Financial assets at amortized cost - non-current	-	60,326	-	60,750	-
	ABN AMRO Bank N.V. bonds (XS1871116171)	-	Financial assets at amortized cost - non-current	-	119,662	-	122,675	-
	ABQ Finance Ltd. bonds	-	Financial assets at amortized cost - non-current	-	210,772	-	210,042	-
	Aozora Bank Ltd. bonds	-	Financial assets at amortized cost - non-current	-	73,517	-	73,475	-
	AVIC International Finance & Investment Ltd. bonds	-	Financial assets at amortized cost - non-current	-	131,709	-	131,318	-
	Azure Nova Finance bonds (XS1511025907)	-	Financial assets at amortized cost - non-current	-	59,788	-	59,778	-
	Azure Nova Finance bonds (XS1572322318)	-	Financial assets at amortized cost - non-current	-	182,545	-	182,627	-
	Bank of China Limited, Hong Kong Branch bonds (XS1371532208)	-	Financial assets at amortized cost - non-current	-	207,230	-	210,084	-
	Bank of China Limited, Hong Kong Branch bonds (XS1641476657)	-	Financial assets at amortized cost - non-current	-	150,980	-	150,735	-
	BMW Finance N.V. bonds	-	Financial assets at amortized cost - non-current	-	211,113	-	211,364	-
	BOC Aviation Ltd. bonds (US09681MAC29)	-	Financial assets at amortized cost - non-current	-	50,789	-	50,823	-
	BOC Aviation Ltd. bonds (US09681MAG33)	-	Financial assets at amortized cost - non-current	-	60,337	-	60,258	-
	Credit Agricole S.A., London Branch bonds	-	Financial assets at amortized cost - non-current	-	206,637	-	211,113	-
	DIB Sukuk Ltd. bonds (XS1387925958)	-	Financial assets at amortized cost - non-current	-	88,220	-	87,974	-
	DIB Sukuk Ltd. bonds (XS1565166789)	-	Financial assets at amortized cost - non-current	-	91,982	-	91,790	-
	First Abu Dhabi Bank P.J.S.C bonds	-	Financial assets at amortized cost - non-current	-	60,365	-	60,366	-
	HSBC Holdings PLC bonds	-	Financial assets at amortized cost - non-current	-	269,890	-	274,291	-
	ICBC, Luxemburg Branch bonds	-	Financial assets at amortized cost - non-current	-	270,207	-	270,297	-
	ICBC, Singapore Branch bonds	-	Financial assets at amortized cost - non-current	-	151,121	-	150,974	-
	ING Group N.V. bonds	-	Financial assets at amortized cost - non-current	-	121,426	-	121,457	-
	Kookmin Bank bonds	-	Financial assets at amortized cost - non-current	-	269,678	-	276,882	-
	Lloyds Banking Group PLC bonds	-	Financial assets at amortized cost - non-current	-	60,189	-	60,318	-
	Lotte Property & Development Co., Ltd. bonds	-	Financial assets at amortized cost - non-current	-	90,369	-	90,333	-
	Mizuho Financial Group Inc. bonds	-	Financial assets at amortized cost - non-current	-	168,874	-	172,162	-
	QNB Finance Ltd. bonds (XS1824431313)	-	Financial assets at amortized cost - non-current	-	299,880	-	299,880	-
	QNB Finance Ltd. bonds (XS1985100509)	-	Financial assets at amortized cost - non-current	-	270,852	-	270,702	-
	Santander UK PLC bonds	-	Financial assets at amortized cost - non-current	-	239,015	-	244,870	-
	Shinhan Bank bonds	-	Financial assets at amortized cost - non-current	-	133,828	-	133,676	-
	Union National Bank P.J.S.C bonds	-	Financial assets at amortized cost - non-current	-	150,838	-	150,690	-
	Xingsheng (BVI) Company Ltd. bonds	-	Financial assets at amortized cost - non-current	-	141,530	-	141,435	-
	<u>Stocks</u> Advanced Microelectronic Products Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	30,000	20,100	7%	20,100	-
Vanguard International Semiconductor Corporation	United Industrial Gases Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income - non-current	4,246	105,084	2%	105,084	-
	AnDAPT Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	1,000	-	6%	-	-
	Image Match Design Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	700	2,611	2%	2,611	-
	Voltafield Technology Corporation (Cayman)	Investee	Financial assets at fair value through other comprehensive income - non-current	600	-	2%	-	-
	Shenzhen Winsemi Microelectronics Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income - non-current	-	53,053	10%	53,053	-

Note 1: Marketable securities mentioned in the table include stocks, bonds, beneficiary certificate and the derivative securities from aforementioned items.

Note 2: As of December 31, 2019, all the securities were not pledged or restricted.

Note 3: With respect to the information of subsidiaries, associates and joint ventures, please see TABLE 7 and TABLE 8.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition (Note 1)		Disposal				Ending Balance (Note 2)	
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
The Corporation	Unlisted stock investment VIS Associates Inc.	Investment accounted for using equity method	-	Subsidiary	269	\$ 8,676,465	48	\$ 1,505,284	-	\$ -	\$ -	\$ -	317	\$ 9,817,273
	Vanguard International Semiconductor Singapore Pte. Ltd.	Investment accounted for using equity method	-	Subsidiary	-	-	325,610	7,448,974	-	-	-	-	325,610	7,100,120

Note 1: Subscription of cash injection shares.

Note 2: The ending balance included the profit and loss recognized by using equity method and the exchange differences on translation of foreign operations.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Transaction Detail				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Term	Unit Price	Payment Term	Ending Balance	% to Total	
The Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sales	\$ 3,062,881	11	30 days after closing	\$ -	-	\$ 153,977	3	-

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	\$ 153,977	12.08	\$ -	-	\$ 152,936	\$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING THE INFORMATION ON INVESTMENT IN MAINLAND CHINA)
 FOR THE YEAR ENDED DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2019			Net Gain (Loss) of the Investee (Foreign Currencies in Thousands)	Investment Gain (Loss) Recognized (Foreign Currencies in Thousands)	Note
				December 31, 2019 (Foreign Currencies in Thousands)	December 31, 2018 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
The Corporation	VIS Associates Inc.	British Virgin Islands	Investments	\$ 9,774,919	\$ 8,269,635	317	100	\$ 9,817,273	\$ 296,891	\$ 296,891	Subsidiary
	Vanguard International Semiconductor Singapore Pte. Ltd.	Singapore	Semiconductor manufacturing, selling and packaging	7,448,974	-	325,610	100	7,100,120	(153,644)	(153,644)	Subsidiary
	CMSC, Inc.	Hsinchu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	38,129	(49,230)	(12,279)	Investment accounted for using equity method
	Qromis, Inc.	Delaware, USA	Semiconductor research and development related businesses	347,490	316,750	10,705	39	202,446	(60,468)	(27,808)	Investment accounted for using equity method
VIS Associates Inc.	VIS Investment Holding, Inc.	Delaware, USA	Investments	187,425	187,425	63	100	83,988	2,161	2,161	Subsidiary
				(US\$ 6,250)	(US\$ 6,250)			(US\$ 2,801)	(US\$ 70)	(US\$ 70)	
VIS Investment Holding, Inc.	VIS Micro, Inc.	California, USA	Marketing services	5,998	5,998	200	100	64,056	4,065	4,065	Subsidiary
				(US\$ 200)	(US\$ 200)			(US\$ 2,136)	(US\$ 131)	(US\$ 131)	

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outflow	Inflow							
VIS Shanghai Company Limited	Marketing services	\$ 4,556 (RMB 1,000 thousand)	Note 1	\$ 4,556 (RMB 1,000 thousand)	\$ -	\$ -	\$ 4,556 (RMB 1,000 thousand)	\$ (175) (RMB (40) thousand)	100	\$ (175) (RMB (40) thousand)	\$ 4,069 (RMB 948 thousand)	\$ -	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by Investment Commission, MOEA (Note 3)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$4,556 (RMB1,000 thousand)	\$4,556 (RMB1,000 thousand)	\$17,719,279

Note 1: Directly invested.

Note 2: Amount was recognized based on the subsidiary's financial statements which were audited by the certified public account of parent company.

Note 3: The investment amount in Mainland China authorized by Investment Commission, MOEA is total \$109,105 thousand (RMB23,340 thousand), of which \$104,549 thousand (RMB22,340 thousand) is accounted for financial assets at fair value through other comprehensive income. Please refer to TABLE 3.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEM	STATEMENT INDEX
MAJOR ACCOUNTING ITEMS IN ASSETS, LIABILITIES AND EQUITY	
STATEMENT OF CASH AND CASH EQUIVALENTS	1
STATEMENT OF NOTES AND ACCOUNTS RECEIVABLE	2
STATEMENT OF INVENTORIES	3
STATEMENT OF PREPAID EXPENSES	4
STATEMENT OF OTHER CURRENT ASSETS	Note 18
STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT	5
STATEMENT OF CHANGES IN FINANCIAL ASSETS AT AMORTIZED COST – NON-CURRENT	6
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	7
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Note 15
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	Note 15
STATEMENT OF CHANGES IN ACCUMULATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	Note 15
STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS	Note 16
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS	Note 16
STATEMENT OF CHANGES IN INTANGIBLE ASSETS	Note 17
STATEMENT OF DEFERRED INCOME TAX ASSETS	Note 26
STATEMENT OF REFUNDABLE DEPOSITS	8
STATEMENT OF OTHER NONCURRENT ASSETS	Note 18
STATEMENT OF SHORT-TERM LOANS	9
STATEMENT OF NOTES AND ACCOUNTS PAYABLE	10
STATEMENT OF PAYABLES TO CONTRACTORS AND EQUIPMENT SUPPLIERS	11
STATEMENT OF OTHER PAYABLES	Note 20
STATEMENT OF OTHER CURRENT LIABILITIES	Note 21
STATEMENT OF LEASE LIABILITIES	Note 16
STATEMENT OF DEFERRED INCOME TAX LIABILITIES	Note 26
MAJOR ACCOUNTING ITEMS IN PROFIT OR LOSS	
STATEMENT OF NET REVENUE	12
STATEMENT OF COST OF REVENUE	13
STATEMENT OF OPERATING EXPENSES	14
STATEMENT OF FINANCIAL COSTS	Note 25
SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION	15

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Description	Annual Interest Rate (%)	Amount
Cash in banks			
Time deposits	Including NT\$2,189,790 thousand	0.62-1.07	\$ 2,189,790
Current accounts	Including NT\$33,817 thousand, US\$33,904 thousand @29.988, JPY275,927 thousand @0.2761, EUR1,194 thousand @33.617 and small amount of RMB, SGD and HKD	0-1.91	1,167,895
Checking accounts			<u>1,214</u> 3,358,899
Bonds acquired under repurchase agreements	Expired by the end of January, 2020	0.50-0.60	<u>3,142,411</u>
			<u>\$ 6,501,310</u>

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF NOTES AND ACCOUNTS RECEIVABLE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Client Name	Amount
Notes receivable	\$ <u>58</u>
Accounts receivable	
Client A	728,765
Client B	584,693
Client C	465,250
Client D	429,435
Client E	376,484
Client F	352,907
Others (Note)	<u>1,832,269</u>
	4,769,803
Less: Allowance for doubtful accounts	<u>(731)</u>
	<u>\$ 4,769,130</u>

Note: The amount of individual client in others does not exceed 5% of the account balance.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION**STATEMENT OF INVENTORIES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Cost	Allowance for Valuation Loss	Net Amount	Net Realizable Value
Finished goods	\$ 254,679	\$ 33,554	\$ 221,125	\$ 359,891
Work in process	1,675,864	32,676	1,643,188	4,393,063
Raw materials	740,742	21,718	719,024	719,024
Supplies and spare parts	<u>518,293</u>	<u>9,804</u>	<u>508,489</u>	<u>508,489</u>
	<u>\$ 3,189,578</u>	<u>\$ 97,752</u>	<u>\$ 3,091,826</u>	<u>\$ 5,980,467</u>

Note: Inventories were fully insured according to the amount in the parent company only balance sheet.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF PREPAID EXPENSES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount
Software license fee	\$ 83,316
Long-service bonuses	58,555
Others (Note)	<u>10,890</u>
	<u>\$ 152,761</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Financial Assets	Balance, January 1, 2019		Additions		Decrease		Changes in Fair Value	Balance, December 31, 2019		Collateral
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount		Shares (In Thousands)	Amount	
Equity instruments										
Listed company										
Champion Microelectronic Corp.	400	\$ 18,353	-	\$ -	(400)	\$ (13,532)	\$ (4,821)	-	\$ -	Nil
Advanced Microelectronic Products Inc.	30,000	35,700	-	-	-	-	(15,600)	30,000	20,100	Nil
Unlisted company										
United Industrial Gases Co., Ltd.	4,246	113,909	-	-	-	-	(8,825)	4,246	105,084	Nil
Image Match Design Inc.	1,400	8,459	-	-	(700)	(7,000)	1,152	700	2,611	Nil
AnDAPT Inc.	1,000	5,432	-	-	-	-	(5,432)	1,000	-	Nil
Voltafield Technology Corporation (Cayman)	600	371	-	-	-	-	(371)	600	-	Nil
Shenzhen Winsemi Microelectronics Co., Ltd.	-	80,070	-	-	-	-	(27,017)	-	53,053	Nil
		<u>\$ 262,294</u>		<u>\$ -</u>		<u>\$ (20,532)</u>	<u>\$ (60,914)</u>		<u>\$ 180,848</u>	

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT AMORTIZED COST – NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Financial Assets	Balance, January 1, 2019		Additions		Decrease		Premium (Discounts) Amortization	Balance, December 31, 2019		Accumulated Impairment	Collateral	Note
	Units (In Thousands)	Amount	Units (In Thousands)	Amount	Units (In Thousands)	Amount		Units (In Thousands)	Amount			
MEGA Bank 2014 1 st Subordinated Financial Debentures	10	\$ 101,273	-	\$ -	-	\$ -	\$ (566)	10	\$ 100,707	\$ -	Nil	-
MEGA Bank 2014 2 nd Subordinated Financial Debentures	15	151,931	-	-	-	-	(773)	15	151,158	-	Nil	-
Taiwan Cooperative Bank 2014 1 st Subordinated Financial Debentures	10	101,364	-	-	-	-	(564)	10	100,800	-	Nil	-
		<u>\$ 354,568</u>		<u>\$ -</u>		<u>\$ -</u>	<u>\$ (1,903)</u>		<u>\$ 352,665</u>	<u>\$ -</u>		

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2019		Additions		Decrease (Note 3)		Investment Gain (Loss) Recognized by Using Equity Method	Capital Surplus Recognized by Using Equity Method	Exchange Differences	Undistributed Retained Earnings	Balance, December 31, 2019			Net Assets Value	Collateral	Remarks
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount					Shares (In Thousands)	%	Amount			
VIS Associates Inc.	269	\$ 8,676,465	48	\$ 1,505,284	-	\$ (379,860)	\$ 296,891	\$ -	\$ (281,507)	\$ -	317	100	\$ 9,817,273	\$ 9,817,273	Nil	Note 1
CMSC, Inc.	9,902	50,407	-	-	-	-	(12,279)	-	1	-	9,902	25	38,129	38,129	Nil	Note 2
Qromis, Inc.	9,832	187,637	873	30,740	-	-	(27,808)	36	(5,033)	16,874	10,705	39	202,446	202,446	Nil	Note 2
VIS Shanghai Company Limited	-	4,419	-	-	-	-	(175)	-	(175)	-	-	100	4,069	4,069	Nil	Note 1
Vanguard International Semiconductor Singapore Pte. Ltd.	-	-	325,610	7,448,974	-	-	(153,644)	-	(195,210)	-	325,610	100	7,100,120	7,100,120	Nil	Note 1
		<u>\$ 8,918,928</u>		<u>\$ 8,984,998</u>		<u>\$ (379,860)</u>	<u>\$ 102,985</u>	<u>\$ 36</u>	<u>\$ (481,924)</u>	<u>\$ 16,874</u>			<u>\$ 17,162,037</u>	<u>\$ 17,162,037</u>		

Note 1: The net value was based on audited financial statements of the same period.

Note 2: The net value was based on unaudited financial statements of the same period.

Note 3: This is reinvestment company distributes cash dividends.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF REFUNDABLE DEPOSITS

DECEMBER 31, 2019

(In thousands of New Taiwan Dollars)

Item	Amount
Contract security deposit of purchase materials	\$ 176,569
Forward exchange transaction deposit	13,136
Others (Note)	<u>2,502</u>
	<u>\$ 192,207</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION**STATEMENT OF SHORT-TERM LOANS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands of New Taiwan Dollars and Pieces)**

Type of Loans and Creditors	Period	Interest Rate (%)	Balance	Financing Amount	Collateral
Credit loan Citibank Taiwan Limited	2019.07.23 -2020.01.17	0.85	\$ 1,700,000	USD 58,000	Nil
SMBC Taipei Branch	2019.07.23 -2020.01.17	0.83	300,000	USD 20,000	Nil
Taipei Fubon Commercial Bank Co., LTD	2019.07.23 -2020.01.17	0.88	<u>1,210,000</u>	USD100,000	Nil
			<u>\$ 3,210,000</u>		

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF NOTES AND ACCOUNTS PAYABLE

DECEMBER 31, 2019

(In thousands of New Taiwan Dollars)

Vendor Name	Amount
Accounts payable	
Shin-Etsu Handotai Taiwan Co., Ltd.	\$ 249,814
Formosa Sumco Technology Corporation	141,141
Others (Note)	<u>620,782</u>
	<u>\$ 1,011,737</u>

Note: The amount of individual vendor in others does not exceed 5% of the account balance.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENT OF PAYABLES TO CONTRACTORS AND EQUIPMENT SUPPLIERS

DECEMBER 31, 2019

(In thousands of New Taiwan Dollars)

Vendor Name	Amount
Generiton Co., Ltd.	\$ 29,791
Exyte Taiwan Co., Ltd.	27,951
APET Co., Ltd.	26,899
Wholetech System Hitech Limited	22,717
Genens Tech Co., Ltd.	17,528
Desiccant Technology Co., Ltd.	12,285
Others (Note)	<u>101,465</u>
	<u>\$ 238,636</u>

Note: The amount of individual vendor in others does not exceed 5% of the account balance.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

**STATEMENT OF NET REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands of New Taiwan Dollars and Pieces)**

Item	Shipments (In Thousands of Pieces)	Amount
Wafer foundry	2,123	\$ 28,123,512
Others		<u>618,561</u>
		28,742,073
Sales returns and allowance		<u>(439,674)</u>
		<u>\$ 28,302,399</u>

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION**STATEMENT OF COST OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands of New Taiwan Dollars)**

Item	Amount
Raw materials used	
Balance, beginning of year	\$ 1,049,882
Raw material purchased	2,919,691
Raw materials, end of year	(740,742)
Transferred to manufacturing and operating expenses	<u>(198,815)</u>
	3,030,016
Direct labors	1,177,635
Manufacturing expenses	<u>13,590,195</u>
Manufacturing cost	17,797,846
Work in process, beginning of year	1,731,264
Work in process, end of year	<u>(1,675,864)</u>
Cost of finished goods	17,853,246
Finished goods, beginning of year	217,916
Finished goods, end of year	(254,679)
Transferred to manufacturing and operating expenses	<u>(57,597)</u>
Cost of goods manufactured	17,758,886
Other operating cost	
Inventory valuation loss	111,181
Sales of raw materials and supplies	20,201
Royalties	<u>62,136</u>
Cost of revenue	<u>\$ 17,952,404</u>

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands of New Taiwan Dollars)**

Item	Marketing Expense	General and Administrative Expense	Research and Development Expense
Payroll and related expense	\$ 172,082	\$ 651,431	\$ 687,148
Commission	113,728	-	-
Year-end bonus	13,555	69,330	57,759
Research project expense	1,653	3,369	741,748
Others (Note)	<u>30,445</u>	<u>588,618</u>	<u>170,460</u>
	<u>\$ 331,463</u>	<u>\$ 1,312,748</u>	<u>\$ 1,657,115</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
 (In thousands of New Taiwan Dollars)

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Classified as Cost of Revenue	Classified as Operating Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Total
Employee benefits expenses						
Salary and bonus	\$ 4,525,193	\$ 1,510,661	\$ 6,035,854	\$ 4,743,719	\$ 1,437,333	\$ 6,181,052
Labor and health insurance	341,611	85,499	427,110	332,028	78,682	410,710
Pension	185,587	46,444	232,031	196,694	46,627	243,321
Remuneration to directors	-	27,695	27,695	-	27,970	27,970
Others	620,465	192,585	813,050	602,354	153,358	755,712
	<u>\$ 5,672,856</u>	<u>\$ 1,862,884</u>	<u>\$ 7,535,740</u>	<u>\$ 5,874,795</u>	<u>\$ 1,743,970</u>	<u>\$ 7,618,765</u>
Depreciation	\$ 2,023,112	\$ 102,118	\$ 2,125,230	\$ 1,774,284	\$ 37,094	\$ 1,811,378
Amortization	\$ 4,678	\$ 8,370	\$ 13,048	\$ 4,033	\$ 7,526	\$ 11,559
Average number of employees to employee benefits expenses (person)			5,422			5,454
Director who not concurrent as employee (person)			6			6
Average benefits expenses per person			\$ 1,386			\$ 1,393
Average salary per person			\$ 1,114			\$ 1,135
Changes in average salary costs per person			(1.8)%			