



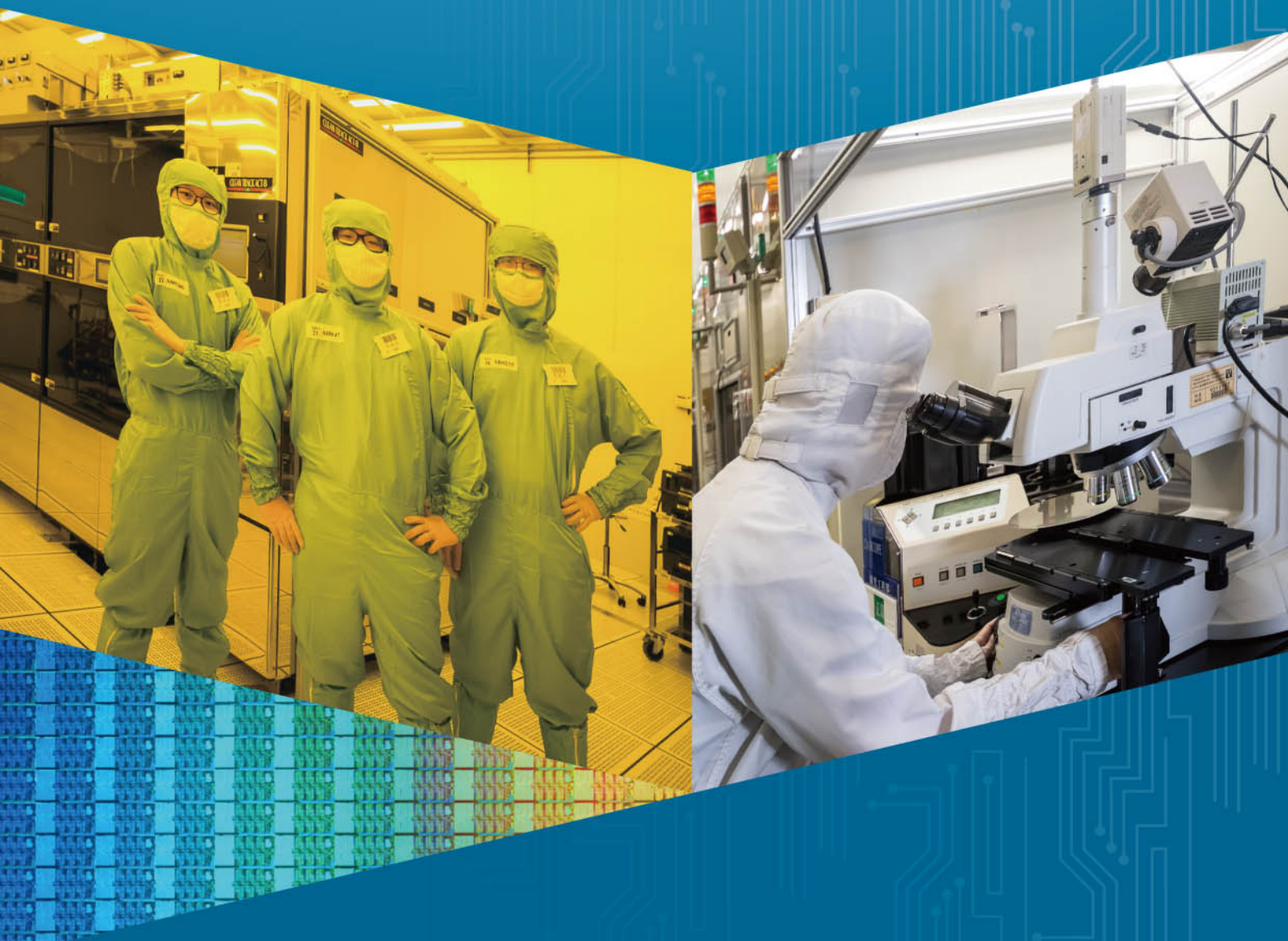
**Vanguard International
Semiconductor Corporation**

2019 Annual Report

Printed on February 29, 2020

Taiwan Stock Exchange Market Observation Post System:
<http://mops.twse.com.tw/mops/web/index>

Company Website: <http://www.vis.com.tw>



Inside Cover:**Spokesman**

Amanda Huang

Chief Financial Officer

Tel: 886-3-5770355

E-mail: VIS_PR@vis.com.tw

Primary Acting Spokesperson

K. S. Chiang

Director, Finance Division

Tel: 886-3-5770355

E-mail: kschiang@vis.com.tw

Secondary Acting Spokesperson

Tommy Liu

Vice President, Administration

Tel: 886-3-5770355

E-mail: tommyliu@vis.com.tw

Vanguard International Semiconductor Corporation

123, Park Ave-3rd, Science-Based Industrial Park, Hsin-Chu 300, Taiwan R.O.C.

Company Website: <http://www.vis.com.tw>

Tel: 886-3-5770355

Fab1

123, Park Ave-3rd, Hsinchu Science Park, Hsin-Chu 300, Taiwan R.O.C.

Tel: 886-3-5770355

Fab2

9, Li-Shin Rd., Hsinchu Science Park, Hsin-Chu 300, Taiwan R.O.C.

Tel: 886-3-5632111

Fab3

168, Chang-Rong RD., 14 Neighborhood, ChangXing Vil., Luzhu Dist., Taoyuan City, Taiwan, R.O.C..

Tel: 886-3-3116111

Common Stock Transfer Agent

China Trust Commercial Bank

Transfer Agency Department

Address: 5F, 83, Sec. 1, Chung-Ching S. Rd. Taipei, Taiwan 100, R.O.C.

Website: <http://www.ctbcbank.com>

Tel: 886-2-6636-5566

Auditors

Tung-Hui Yeh / Ming-Yuan Chung

Deloitte & Touche

20F, No. 100, Songren Rd., Xinyi Dist., Taipei, 11073, Taiwan

Website: <http://www.deloitte.com.tw>

Tel: 886-2-2725-9988

Name of any exchanges where the company's securities are traded offshore, and method by which to access information on said offshore securities: Not applicable

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I. A Letter to Shareholders

Dear Shareholders,

With the global semiconductor industry hampered by the looming uncertainties of the US-China trade war in 2019, VIS not only acquired GlobalFoundries' 8-inch fab in Singapore and its MEMS (Micro Electro Mechanical System) IPs in 2019, but also reached an estimated NT\$ 28.29 billion in revenue through the hard work of all of our employees, which was a decrease of 2% from 2018. Through continued portfolio optimization and cost control and management, the annual gross profit margin increased to 36.5% in 2019 from 35.2% in 2018. The 2019 net income of NT\$ 5.86 billion was a 5% decrease from the prior year; diluted earnings per share was NT\$ 3.54, and return on equity was 19.9%.

With the transfer of ownership completed on December 31, 2019, VIS believes that the Singapore fab will become the company's powerful growth engine, and the strong support, enabling VIS to continue generating values for our customers in the areas of power management, panel displays, automotive electronics, fingerprint recognition, IoT, and MEMS.

Capacity and Sales

Annual production capacity of VIS in 2019 reached about 2.5 million 8-inch wafers, with shipment amounting to 2.12 million wafers at a capacity utilization rate of 85%. Total capital expenditure of NT\$ 10.1 billion was 4.6 times of the total capital expenditure of NT\$ 2.2 billion in 2018, which included NT\$ 7.3 billion for the acquisition of the MEMS IPs, the buildings, facilities and equipment of the 8 inch fab in Singapore, and NT\$ 2.8 billion for continued enhancement of manufacturing technologies and expansion of capacity. VIS continues to actively invest in R&D, advanced process and device technologies, cultivate new customers, and diversify product portfolio in order to meet customer needs and continuously enhance shareholders' profits.

The end markets closely related to VIS operations include televisions, mobile phones, computers and automobiles. With continued expansion of panel manufacturers in China and increasing penetration rate of ultra-high-resolution panels, the demand for driver IC foundry is expected to remain stable, which will contribute to our performances in 2020.

Furthermore, VIS has delved into power management products for years. We now have diversified specialty process technologies and have been proactively exploring new customers, which have benefited the optimization of our product portfolio. Moreover, our commitment to the development of automotive electronics has shown promising results. VIS not only introduces a number of process technologies, but has also utilized these technologies for volume production, including display driver IC and power management products, which have all earned the recognition of leading customers in the international market.

Technology Development

In order to provide customers with more competitive technologies and services, VIS not only has developed more specialty process technologies and next-generation technology platforms from own core technologies to expand the fields of application, but also has continuously enhanced values to customers, strengthened partnerships with customers, and incorporated diverse processes and customer services to meet customer needs.

In terms of technology development of display driver IC, the 0.2/0.18/0.15/0.11um high-voltage processes are in volume production of high-end consumer electronics products, including ultra-high-resolution TV, smartphone, and laptop.

As for power management products, the 0.5/0.4/0.35/0.25/0.15/0.11um BCD (Bipolar-CMOS-DMOS) processes have all been in volume production or ramping up. The second-generation ultra-low on-resistance streamlined 0.5um ultra-high voltage (UHV) process and 0.25/0.15um SOI processes have been completed and taped out with certain customers and adopted for volume production; applications of these processes included high-end products such as 5G products. The third-generation 0.5um UHV process was further expanded to include brushless motor and AC/DC power management application, offering streamlined gate controller and high-reliability high-voltage device processes, which have been completed tape out with customers, and are projected to ramp up in 2020.

In the field of automotive electronics, the 0.4/0.25um BCD processes and 0.5/0.4/0.25um SOI processes have passed automotive electronics-related certifications and accumulated a significant amount of shipment. At the same time, the process reliability has met world-class automotive specifications. The development of the new-generation 0.15um BCD and SOI processes is also nearing completion, and tape out with customers is projected to be launched in 2020. Moreover, the 0.16/0.11um high-voltage processes with embedded non-volatile memory for automotive display panels have also been in volume production. VIS has earned the ISO 26262 certificate of the highest standards of global vehicular electronics-related safety, marking a new milestone in VIS's commitment to the market of automotive electronics.

As for optical sensor technology, the 0.18um process for applications of proximity sensor and ambient light sensor has been certified and is ready for volume production. The 0.18/0.11um processes for ultra-thin optical fingerprint sensor demonstrate the latest optical FoD (fingerprint on display) functions in response to the integration of supply chain and demands of pilot customers, and are projected to ramp up in 2020.

In the area of magnetoresistive sensor technology, in addition to volume production capabilities for standalone and SoC electronic compass sensors, VIS has also improved and refined manufacturing processes to meet the highest automotive standards for applications of automotive electronics. Furthermore, in the area of MEMS sensor technology, other than applying to production of inertial measurement accelerometer and gyroscope, VIS has also met customers' needs and introduced the technology to processes of ultrasound FoD sensor, microphone, and pressure sensor, showcasing new functions and successfully developing applications in various domains.

Welcoming the dawn of the age of IoT, VIS continued to invest resources in the development of embedded flash memory. The 0.18um process has been introduced to the productions of general MCU and products of touch control IC since 2017, whereas the 0.11um process has been taped out and planned product certification in 2020, offering customers more diversified platform options.

For wide bandgap power semiconductors, VIS has also achieved initial results in the R&D of gallium nitride (GaN); we not only provided special substrates, but also completed the manufacture and development of epitaxial wafers. Furthermore, we continued to develop application devices, in hopes of providing customers with options which were better than traditional substrates, for next-generation power control and high-frequency devices.

Awards and Honors

In 2019, VIS earned the honor of Top 5% Listed Companies at TPEx in the corporate governance evaluation conducted by Taiwan Stock Exchange for the fifth consecutive year. VIS also garnered the recognition of national prizes and evaluations by the government, media, and professional organizations, in the areas of corporate social responsibility, environmental protection, environmental education, workplace safety, healthy workplace, best companies to work for, and corporate M&A. Moreover, VIS was rated A- among 8,400 global companies that participated in the evaluation of Carbon Disclosure Project (CDP), which recognized VIS's contribution to the mitigation of climate change and global warming.

Prospects and Outlook

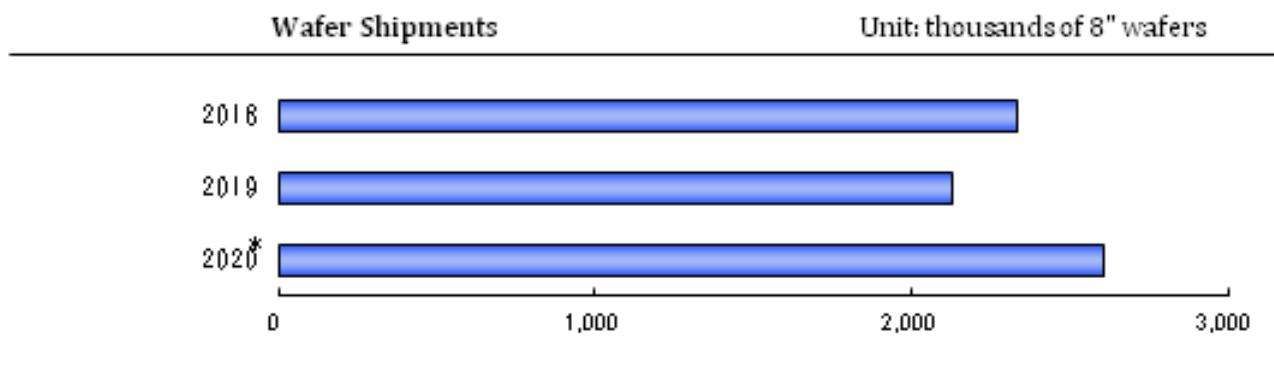
According to the global GDP growth forecast announced by IMF in January 2020, global GDP is expected to grow to 3.3% from the 2019 level of 2.9%. In 2020, global economy is expected to regain stability as the US-China trade war eases off, but we must keep a close watch on trade disputes and geopolitical situations that may escalate anytime, as well as the series of extreme weather events and other unexpected events, such as the global outbreak of COVID-19, which has already brought negative impact on the global economy and semiconductor industry. It remains to be seen when the outbreak could be under control, and when the semiconductor supply chain could recover; it is impossible to precisely predict the influences of COVID-19 at the moment. With these uncertainties, the growth of global GDP remains the subject of further observation.

Looking forward to 2020, due to favorable factors such as eased tension between the US and China, and rapid growth of 5G smartphone, the prospects of the industry look bright. According to the latest forecast by Gartner, a global research and advisory company, the overall output of global semiconductor industry will reach US\$ 471 billion in 2020, with an annual growth rate of 11%. Memory and logic products of foundry market are main forces behind the rebound, and among which the demand for 8-inch wafer is greater than supply. Having already achieved significant performances in display driver IC and power management products, VIS will continue to accelerate the development projects relating to sensor devices, fingerprint IC, high frequency power management products, and embedded flash platform, in addition to existing high-voltage analog, BCD, and UHV processes, in order to diversify product and market centralization, reduce operating risks and extend its reaches in the high-margin market, adapting to the energy saving and carbon reduction era and satisfying the demands from the automotive electronics and IoT markets.

We believe that these above-mentioned efforts will help us expand our business and maintain our leading position in the field of specialty IC foundry. At the same time, VIS will continue to enhance production efficiency and expand capacity to satisfy global customers' demand for 8-inch foundry. Furthermore, we will continue to seek various growth opportunities to cultivate long-term partnerships with customers, as well as to enhance shareholders' profits.

The acquisition of the fourth fab in 2019 marked a new milestone in the history of VIS. From one fab to four fabs, VIS has achieved significant growth through each expansion. VIS Singapore fab will definitely propel the company forward and accelerate the process of internationalization; building on the foundation we have laid in the past, VIS will continue to generate great values for our shareholders, customers and employees, and face and embrace the various challenges brought by global competition.

VIS appreciates the long-term support from our shareholders, customers and employees, and would like to express our most sincere gratitude and blessing to all of you. We believe that the future will be even better! Thank you.



*Y2020 sales forecast: 2,600 thousands wafers

Chairman & President

Leuh Fang



II. A Brief Introduction of VIS

Company Profile

Vanguard International Semiconductor Corporation (VIS) is a leading specialty IC foundry service provider. Since its founding in December 5th, 1994 in Hsinchu Science Park, Taiwan, VIS has been achieving continuous success in its technology development and production efficiency improvement. VIS has also been consistently offering its customers cost-effective solutions and high value-added services. VIS has three 8-inch fabs with a monthly capacity of approximately 209 thousand wafers in Y2019.

VIS is a spin-off of the Sub-Micron Project, sponsored by the Industrial Technology Research Institute (ITRI). Original investors include Taiwan Semiconductor Manufacturing Corporation (TSMC) and 13 other institutional investors. VIS was founded with the primary focuses on the production and development of DRAM and other memory IC. In March 1998, VIS became a listed company on the Taiwan Over-The-Counter Stock Exchange (OTC). Its main shareholders include Taiwan Semiconductor Manufacturing Corporation (TSMC), National Development Fund and other institutional investors.

In 1999, VIS started to work as a subcontractor for TSMC for the manufacturing of logic and mixed signal products. In Y2000, VIS officially announced its plan to transform from a DRAM manufacturer into a foundry service provider. After that, VIS offers a various foundry process technologies, including High Voltage, and 0.18um flash and entered into mass production. In July 2004, VIS completely terminated its DRAM production and became a pure-play foundry company. In Y2007, VIS announced the procurement of 8" fabs from Winbond. With this acquisition, VIS unleashed the growth momentum, accommodated customers' demands in capacity and technology, and provided a more comprehensive solution portfolio for our customers. In 2014, VIS acquired Nanya Technology's 8-inch fab located in Taoyuan County and machineries and equipment from Sumpro Electronic. In January 2019, VIS announced the acquisition of GF's Fab 3E in Tampines, Singapore. The transaction includes buildings, facilities, and equipment, as well as IP associated with GF's MEMS business has been completed by end of 2019. The above mentioned transactions not only granted VIS the opportunity to expand its production capacity, but also enabled VIS to grow continually and earn profits steadily.

VIS has continued its investment in the product development and process technology for the market needs. VIS offers a wide range of process technologies, including High Voltage, Ultra High Voltage, Bipolar CMOS DMOS (BCD), Silicon on Insulator (SOI), Discrete, Logic, Mixed-Signal, Analog, High Precision Analog, Embedded Memory, and MEMS to further help increase its foundry customers' global competitiveness.

In order to enhance its IP service capability, VIS has continued its IP development by strengthening strategic relationship with its IP provision partners. Currently available IPs are standard cell library, SRAM, one-time programmable, multiple-time programmable, electrical fuse, power phantom cell, etc...Furthermore, we're accelerating the set-up of non-volatile flash IP. With the help from strategic IP partners, VIS can also provide IPs that are required by specialty ICs.

VIS has total about 6 thousand employees. We are committed to adhere to our customer-oriented business philosophy to provide our customers with continuously improved and enhanced specialty IC foundry services. To better serve its worldwide customers, VIS has established sales offices in Taiwan and sales representatives in worldwide main IC clusters.

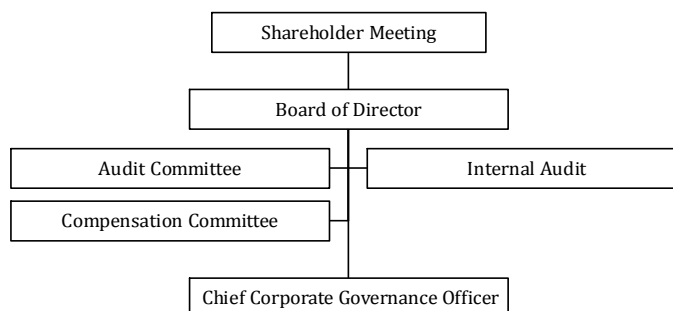
With our display driver IC, power management and discrete power devices all exhibiting distinctive operational performances, and in order to diversify product and market centralization, reduce operating risks and extend its reaches in the high-margin market. In addition to our existing high-voltage analog, BCD, and ultra-high-voltage processes, the company will continue to accelerate the development projects relating to sensing devices, fingerprint sensor ICs, high current power management ICs, and embedded flash, to adapt to the energy saving and carbon reduction era and to satisfy market demand for automobile electronics and Internet of Things applications. We believe those efforts will be beneficial toward enhancing our business operations and forge long-lasting partnerships with customers to secure our leading position among specialty IC foundry industries, and ultimately to become one of the world's leading companies in HV, PMIC and discrete power in foundry industry.

III. CORPORATE GOVERNANCE REPORT

A. Company Organization

1. Company's structure:

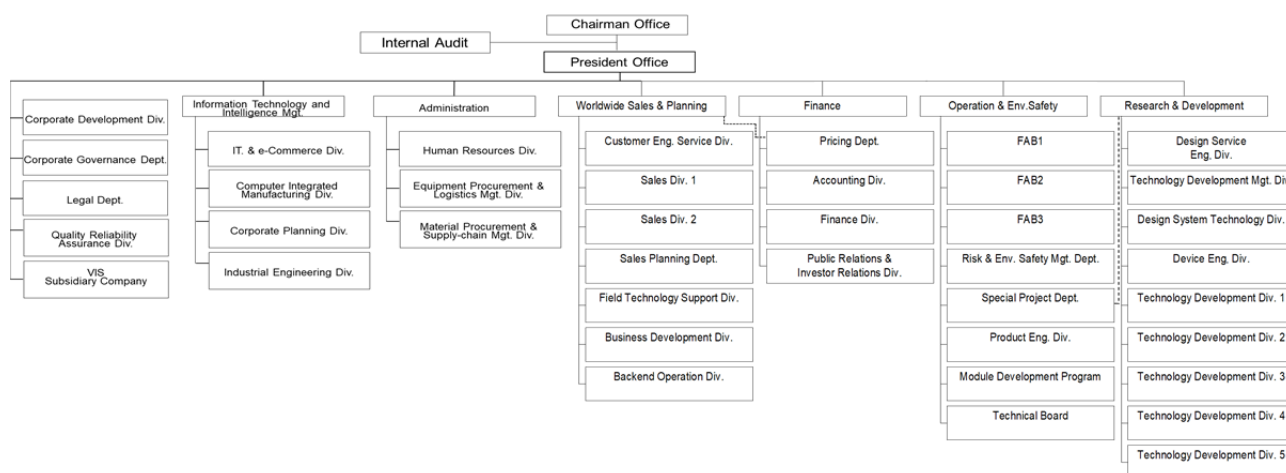
Organization Chart of Corporate Governance:



For the purpose of implementing corporate governance and reinforcing the management capabilities of the Board of Directors, the Company established the Audit Committee and Compensation Committee under the Board of Directors. In addition, Board of Directors appointed Chief Corporate Governance Officer on April 29, 2019. The main duties of Chief Corporate Governance Officer at the company include, but not limited to, providing information required by directors to carry out corporate affairs, handle matters related to Board of Directors' meetings and shareholders' meetings in accordance with the laws, prepare minutes of Board of Directors' meetings and shareholders' meetings, assist in onboarding and undergoing continuing education and training of directors, assist directors in complying with laws and regulations and other matters stipulated in the company's Articles of Incorporation or contracts.

The Chief Corporate Governance Officer has over three years of experience serving as a supervisor in charge of legal affairs at public companies, and is a qualified attorney-at-law.

Company Organization:



2. Tasks of its principal divisions:

President	Management of company-wide operations. Establish VIS business strategy and target.
Chief Financial Officer	Corporate Pricing Dept., Accounting Div., Finance Div. and PR & IR Div. Responsible for planning and maneuvering of company funds and investment management, planning and execution of accounting system and tax matters, evaluation of budget and costs, establishing the company's external communication channel, and maintaining the company's corporate image, investor relationship.
VP of Worldwide Sales and Planning	Corporate Customer Engineering Service Div., Sales Div.1-2, Sales Planning Dept., Field Technology Support Div., Business Development Div. and Backend Operation Div.. Planning of company products, including sales and marketing for these products. Responsible for product service, market analysis and development, and establishing and execution of sales plan, and coordinating sources to provide customer-oriented turnkey solution operation.
VP of Research & Development	Lead specialty technology and IP development, as well as providing IC design supports and services of IP libraries, eNVM, ESD, LAD, PDK, SPICE, layout, photomask solutions, and CAD tool management. Organization includes Design Service Engineering Div., Technology Development Management Div., Design System Technology Div., Device Engineering Div., and Technology Development Div.1-5.
VP of Operation & Environment Safety	Corporate Wafer Production, Risk & Env. Safety Management Dept., Product Engineering Div., Module Development Program, Special Project Dept. and Technical Board. Improve operation efficiency, and ensure timely delivery of high quality products to customers.
VP of Administration	Lead Human Resources Div., Equipment Procurement & Logistics Management Div., and Material Procurement & Supply-chain Management Div.. This position is responsible for enhancing the talent force and build up good labor relations. And also, to maintain a strong supply-chain position and high efficient materials management.
Associate Vice President of Information Technology and Intelligence Management	Lead IT & E-commerce Div., Computer Int. Mfg. Div., Corporate Planning Div, and Industrial Engineering Div. to define, design, implement, operate Vanguard's Manufacturing Excellence with high-first-time-success rate, high quality, fast cycle time and high productivity's based on I4.0 Smart Manufacturing with "high auto-decision" operation.
General Counsel/ Corporate Governance Officer	Corporate legal affairs, Intellectual property protection and corporate governance.
Quality Reliability Assurance Div.	Corporate Quality Assurance Dept., Reliability Assurance Dept., Quality System Management Dept., and in charge of product inspection, quality control, and promoting quality policy and strategy in VIS.
Internal Auditing	Evaluate the design and operating effectiveness of internal control systems, and provide suggestions to achieve the objectives of internal control systems.
Corporate Development Div.	Formulate the company's growth and development direction, business and competition strategy planning; foreign investment, mergers and acquisitions, strategic cooperation opportunities for business, financial evaluation and implementation.
VIS Subsidiary	Please refer to VIII. SPECIAL NOTES (A. Affiliated Information) in this annual report.

B. Information on the company's directors, supervisors, general manager, assistant general managers, deputy assistant general managers, and the chiefs of all the company's divisions and branches

1. Directors:

February 29, 2020

Title	Nationality	Name	Sex	Date Elected	Tenure (Year)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	R.O.C	Taiwan Semiconductor Manufacturing Co., Ltd. (ismc) Representatives: Leuh Fang	M	2018.06.14	3	1994.11.10	464,223,493	28.32	464,223,493	28.32			0	0	Former Fab Director, Taiwan Semiconductor Manufacturing Company, Ltd. Former Vice President, SSMC MS, Materials Science and Engineering, University of Washington	President, Vanguard International Semiconductor Corporation Director and President, VIS Associates Inc. Director and President, VIS Investment Holding, Inc. Director, VIS Micro, Inc. Director and CEO, Vanguard International Semiconductor Singapore Pte. Ltd. Director, J-MEX Inc.	None	None	None	Rationale for the chairman also acting as the president: The semiconductor industry is a highly dynamic and competitive industry. Mr. Leuh Fang has a wealth of experience in semiconductor industry, and VIS not only needs under his leadership to increase VIS's operational efficiency, but also needs his insights to guide VIS's future direction. On the other hand, VIS has set up independent directors and Audit Committee to enhance the supervising function of the board as well as more than half of the directors do not serve concurrently as employees or managers of VIS.
		Taiwan Semiconductor Manufacturing Co., Ltd. (ismc) Representatives:		2018.06.14	3	1994.11.10	464,223,493	28.32	464,223,493	28.32										

Title	Natio nality	Name	Sex	Date Elected	Tenure (Year)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice Chairman	R.O.C	F.C. Tseng	M				1,444,282	0.09	1,444,282	0.09	0	0	0	0	Former Vice Chairman, TSMC Former President, TSMC Former President, Vanguard International Semiconductor Corp. Ph.D. in Electrical Engineering, National Chengkung University, Taiwan	Chairman, TSMC China Company Ltd. Chairman, Global Unichip Corp. Director, TSMC Independent Director, Acer Inc.	None	None	None	None
Director	R.O.C	National Development Fund Executive Yuan Representative: Lai Shou Su	M	2018.06.14	3	1999.03.01	274,029,592	16.72	274,029,592	16.72	0	0	0	0	North Texas University, USA Master of Business Administration National Chung Hsing University, Taiwan Bachelor of Business Administration	Deputy Executive Secretary, National Development Fund, Executive Yuan Member of the Transformation and Withdrawal for Colleges and Universities Fund Managing Committee, Ministry of Education Member of the Export Insurance Review Committee of The Export-Import Bank of the Republic of China Director, Taiwan Aerospace Ltd.	None	None	None	None
Director	R.O.C	Edward Y. Way	M	2018.06.14	3	2010.05.26	0	0	0	0	0	0	0	0	Former Managing Partner & CEO, Deloitte Taiwan MBA, University of Georgia	Independent Director, Synnex Technology International Corp. Independent Director, Far Eastern Department Stores, Ltd.	None	None	None	None
															Independent Director, Cathay Financial Holdings Independent Director, Cathay United Bank Independent Director, Cathay Securities Corporation Director, MITAC Holdings Corp., Representative Director, Iron Force					

Title	Nationality	Name	Sex	Date Elected	Tenure (Year)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Independent Director	R.O.C.	Chintay Shih	M	2018.06.14	3	2012.06.12	0	0	0	0	0	0	0	0	Former Chairman, Institute for Information Industry Former President, Industrial Technology Research Institute Former Dean, College of Technology Management, National Tsing Hua University Ph.D. Electric Engineering, Princeton University, USA	Honorary Chair Professor, College of Technology Management, National Tsing Hua University Independent Director, FocalTech Systems, Ltd. Independent Director, Sercomm Corp. Supervisor, Tsing-Hua Entrepreneur Network	None	None	None	None
Independent Director	R.O.C.	Benson W.C. Liu	M	2018.06.14	3	2012.06.12	0	0	0	0	0	0	0	0	Former Chairman & GM, Bristol-Myers Squibb (Taiwan) Ltd. Master, International Business Administration, University of Northrop, USA	Chairman, Taiwan Corporate Governance Association Independent Director, Global Unichip Corp. Independent Director, Advantech Co., Ltd. Director, Maywufa Company Ltd., Representative	None	None	None	None
Independent Director	R.O.C.	Kenneth Kin	M	2018.06.14	3	2012.06.12	0	0	0	0	0	0	0	0	Former Senior Vice President, TSMC Former Vice President, Worldwide Sales & Services, IBM Microelectronics Division Ph.D. Nuclear Engineering and Applied Physics, Columbia University, USA	Honorary Chair Professor, College of Technology Management, National Tsing Hua University Independent Director, eMemory Technology Inc. Independent Director, Global Unichip Corp. Director, Media Tek Inc.	None	None	None	None

Major Shareholders of the Institutional Shareholders

Director that is an Institutional Shareholder	As of 12/25/2019	
	Top 10 Shareholders	Ownership (%)
Taiwan Semiconductor Manufacturing Co., Ltd.	ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	20.54%
	National Development Fund, Executive Yuan	6.38%
	Government of Singapore	2.93%
	JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.50%
	Norges Bank	1.41%
	New Labor Pension Fund	0.92%
	Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	0.88%
	iShares Core MSCI Emerging Markets ETF	0.84%
	JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	0.83%
	Invesco Oppenheimer Developing Markets Fund	0.80%
National Development Fund, Executive Yuan	Not Applicable (Government Agency)	Not Applicable

Institutional Shareholder Representatives for Major Shareholders of the Institutional Shareholders

As of 12/25/2019	
Institutional Shareholders	Major Shareholders of the Institutional Shareholders
ADR-Taiwan Semiconductor Manufacturing Company, Ltd. Government of Singapore JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds Norges Bank New Labor Pension Fund Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds iShares Core MSCI Emerging Markets ETF JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund Invesco Oppenheimer Developing Markets Fund	Not Applicable (Institutional Shareholders)
National Development Fund, Executive Yuan	Not Applicable (Government Agency)

Independence Analysis of Board Members under Taiwan SFC Criteria:

February 29, 2020

Name	Over 5 years of working experience			Criteria (Note)												Number of other public companies that concurrently serve as an independent director
	College Instructor or higher level in Business, Legal, Finance, Accounting or company business related area	Court Judge, Prosecutor, Lawyer, Accountant, or other Certified Professional expert related to company business	Business, Legal, Finance, Accounting or company business required working experience	1	2	3	4	5	6	7	8	9	10	11	12	
Leuh Fang			V				✓	✓	✓	✓	✓	✓	✓	✓		0
F.C. Tseng			V	✓		✓	✓		✓	✓		✓	✓	✓		1
Benson W.C. Liu			V	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Kenneth Kin	V		V	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chintay Shih	V		V	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Lai Shou Su			V	✓		✓	✓		✓	✓	✓	✓	✓	✓		0
Edward Y. Way		V	V	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4

Note :

1. Not an employee of affiliated companies of the company and company.
2. Not a director, supervisor of affiliated companies of the company.
3. Not a natural person shareholder directly or indirectly owning more than 1% of the Company outstanding shares, nor one of the Company top 10 natural person shareholders.
4. Not a spouse or a first-or-second-degree relative to any person specified in Criteria 1–3.
5. Not a director, supervisor or employee of a shareholder of juridical person of the Company directly or indirectly owning more than 5% of the Company's outstanding shares, nor one of the Company's top five share-holders of juridical person.
6. Not directors, supervisors or employees of other companies controlled by the same person holding a majority of the company's director seats or voting shares of the company. (However, this restriction shall not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent).
7. Not directors (governors), supervisors or employees of other companies or institutions who are the same person or spouse as the chairperson, general manager or person holding an equivalent position of the company. (However, this restriction shall not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent).
8. Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of certain companies or institutions that have financial or business relationship with the Company.
9. Not an owner, partner, director, supervisor, manager of any sole proprietor, partnership, company or institution and his/her spouse, or the specialist and his/her spouse, that provides finance, commerce, legal consultation and services to the Company or affiliated companies within one year.
10. Not a spouse or first-or-second-degree relative to any other director.
11. Not a juridical person or its representative as defined in Article 30 of Company Law.
12. Not a juridical person or its representative as defined in Article 27 of Company Law.

Diversity of directors:

Vanguard International Semiconductor Corporation Corporate Governance Practice Principles:

The composition of the board of directors should be diversified, such as different professional backgrounds, fields of work or gender, and possesses the necessary knowledge, skills and literacy to perform his duties. To achieve the ideal corporate governance, the board of directors shall possess the following abilities:

1. Ability to make operational judgments.
2. Ability to perform accounting and financial analysis.
3. Ability to conduct management administration.
4. Ability to conduct crisis management.
5. Knowledge of the industry.
6. An international market perspective.
7. Ability to lead.
8. Ability to make policy decisions.

Name \ Item	Operational judgments / Management administration	Accounting and Financial	Knowledge of the industry	Crisis management	International market perspective	Lead and make policy decisions
Leuh Fang	V		V	V	V	V
F.C. Tseng	V		V	V	V	V
Benson W.C. Liu	V	V		V	V	V
Kenneth Kin	V		V	V	V	V
Chintay Shih	V		V	V	V	V
Lai Shou Su	V	V		V	V	V
Edward Y. Way	V	V		V	V	V

Management objectives and current situation: The board of directors of VIS has reached a diversified requirement. However, in order to meet development needs in the future, VIS will continue to review the diversified components and continue to strengthen the goal of diversifying board members.

2. Managers:

February 29, 2020

Title	Name	Sex	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	Leuh Fang	M	2009.2.20	3,356,176	0.20%	0	0	0	0	MS, Materials Science and Engineering, University of Washington Fab Director, Taiwan Semiconductor Manufacturing Company, Ltd. Vice President, SSMC	Director and President, VIS Associates Inc. Director and President, VIS Investment Holding, Inc. Director, VIS Micro, Inc. Director and CEO, Vanguard International Semiconductor Singapore Pte. Ltd Director, J-MEX Inc.	None	None	None
Vice President Administration	Tommy Liu	M	2017.11.23	101,152	0.01%	20,000	0.00%	0	0	MS., Business Administration, University of Leicester President of Honghua Inc.	None	None	None	None
Vice President Research & Development	Yang Du	M	2018.1.22	0	0.00%	0	0	0	0	Ph.D. in Solid State Engineering, Columbia University, USA Senior Director of Research and Development, Qualcomm Inc.	None	None	None	None
Vice President Operation & Environment Safety	Chan-Jen Kuo	M	2007.5.21	43,409	0.00%	0	0	0	0	MS, Electrical Engineering, National Tsing Hua University	None	None	None	None
Associate Vice President Research & Development	Chrong-Jung Lin	M	2015.12.01	8,949	0.00%	0	0	0	0	Ph. D, Electrical Engineering, National Tsing Hua University Professor, Electrical Engineering, National Tsing Hua University R&D Project Manager, TSMC	None	None	None	None
Associate Vice President, Information Technology and Intelligence Management	Jonathan Chang	M	2019.6.17	0	0.00%	0	0	0	0	Ph.D., Institute of Manufacturing Information and Systems of National Cheng-Kung University Sr. Manager of TSMC Sr. Director of Infineon CIO of TFME and GM of Xiamen TFME	None	None	None	None
General Counsel/ Chief Corporate Governance Officer	Ellen Lin	F	2019.4.29	16,949	0.00%	0	0	0	0.	MS, Georgetown University, USA Sr. Attorney of Lee and Li Legal Director of Ralink Sr. Manager of MediaTek	None	None	None	None
Chief Finance Officer	Amanda Haung	F	2019.9.1	36,000	0.00%	0	0	0	0	MS, Accounting, National Taiwan University Sr. Director of Accounting, Vanguard International Semiconductor Corp.	Director, VIS Associates Inc. Director, VIS Investment Holding, Inc. Director, VIS Micro Inc. Director, Vanguard International Semiconductor Singapore Pte. Ltd.	None	None	None
Vice President, Worldwide Sales & Planning	Claire Chen	F	2019.10.29	0	0.00%	0	0	0	0	Ph.D., Materials Science and Engineering, Virginia Tech, Blacksburg, VA, USA Director of TSMC	None	None	None	None

Note: Rationale for the chairman also acting as the president: The semiconductor industry is a highly dynamic and competitive industry. Mr. Leuh Fang has a wealth of experience in semiconductor industry, and VIS not only needs under his leadership to increase VIS's operational efficiency, but also needs his insights to guide VIS's future direction. On the other hand, VIS has set up independent directors and Audit Committee to enhance the supervising function of the board as well as more than half of the directors do not serve concurrently as employees or managers of VIS.

C. Remuneration to Directors, Supervisors & Managers

1. Remuneration to Directors and Independent Director:

Unit: NT\$, in thousands

Title	Name	Remuneration to Directors						A+B+C+D as % of Net Income	Remuneration to Concurrent Employment						A+B+C+D+E+F+G as % of Net Income		Other remuneration from investment business except subsidiary or parent company					
		Remuneration (A)		Retirement pay (B)		directors' compensation (C) (Note1)			Allowances(D) (Note2)		Salary, Bonuses & Allowances (E)		Retirement pay (F) (Note3)		employees' compensation (G) (Note1)			VIS	VIS & Affiliates			
		VIS	VIS & Affiliates	VIS & Affiliates	VIS & Affiliates	VIS	VIS & Affiliates		VIS	VIS & Affiliates	VIS	VIS & Affiliates	Cash	Stock	Cash	Stock						
Director	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: Leuh Fang																					
	Vice Chairman	1,200	1,200	0	0	14,000	14,000	515	515	0.27%	0.27%	24,088	24,088	112	112	36,011	0	36,011	0	1.30%	1.30%	None
	National Development Fund, Executive Yuan Representative: Lai Shou Su																					
Director	Edward Y. Way																					
Independent Director	Benson W.C. Liu																					
	Kenneth Kin	3,600	3,600	0	0	7,800	7,800	580	580	0.20%	0.20%	0	0	0	0	0	0	0	0	0.20%	0.20%	None
	Chintay Shih																					
1. The policy, system, standards and structure of independent directors' remuneration and the correlation with the amount of remuneration according to the responsibilities, risks, and investment time: Independent directors and directors may have different structures and standards for their remuneration due to their different duties and risks. However, they should all be based on the degree of participation and contribution of the directors, and refer to the typical pay levels adopted by peer companies. The main purpose is to find qualified directors for the company and does not lead the director to engage in activities that exceed the tolerable risk level of the company.																						
2. Except above-mentioned, paid to directors for providing other service last year: 0																						

1. The policy, system, standards and structure of independent directors' remuneration and the correlation with the amount of remuneration according to the responsibilities, risks, and investment time: Independent directors and directors may have different structures and standards for their remuneration due to their different duties and risks. However, they should all be based on the degree of participation and contribution of the directors, and refer to the typical pay levels adopted by peer companies. The main purpose is to find qualified directors for the company and does not lead the director to engage in activities that exceed the tolerable risk level of the company.

2. Except above-mentioned, paid to directors for providing other service last year: 0

Note 1: As of the annual report publication date, the figure above is a tentative estimate.

Note 2:

	Transportation Allowances	Professional Practice Allowances	Total
Allowances(D)	720	375	1,095

Note 3: The amount is the number of appropriation.

Range of Remuneration to Directors (NT\$)	Number of Director			
	A+B+C+D		A+B+C+D+E+F+G	
	VIS	VIS & Affiliates	VIS	VIS & Affiliates
Less than 1,000,000				
1,000,000~ 1,999,999				
2,000,000~ 3,499,999				
3,500,000~ 4,999,999	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: Leuh Fang	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: Leuh Fang	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: F.C. Tseng	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: F.C. Tseng
	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: F.C. Tseng	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: F.C. Tseng	National Development Fund, Executive Yuan Representative: Lai Shou Su	National Development Fund, Executive Yuan Representative: Lai Shou Su
	National Development Fund, Executive Yuan Representative: Lai Shou Su	National Development Fund, Executive Yuan Representative: Lai Shou Su	Edward Y. Way	Edward Y. Way
	Edward Y. Way	Edward Y. Way	Benson W.C. Liu	Benson W.C. Liu
	Benson W.C. Liu	Benson W.C. Liu	Kenneth Kin	Kenneth Kin
	Kenneth Kin	Kenneth Kin	Chintay Shih	Chintay Shih
	Chintay Shih	Chintay Shih		
5,000,000~ 9,999,999				
10,000,000~ 14,999,999				
15,000,000~ 29,999,999				
30,000,000~ 49,999,999				
50,000,000~ 99,999,999			Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: Leuh Fang	Taiwan Semiconductor Manufacturing Co., Ltd. Representatives: Leuh Fang
100,000,000~				
Total	7	7	7	7

2. Remuneration to Supervisors: None

3. Remuneration to President and Vice Presidents:

Unit: NT\$, in thousands

Title	Name	Salary (A)		Retirement pay (B) (Note 3)		Bonus (C)		Employee Profit Sharing (D) (Note 4)				A+B+C+D as % of Net Income		Other Remuneration
		VIS	VIS & Affiliates	VIS	VIS & Affiliates	VIS	VIS & Affiliates	Cash	Stock	Cash	Stock	VIS	VIS & Affiliates	
President	Leuh Fang													
Vice President Worldwide Sales and Planning	Thomas Chang (Note 1)													
Vice President Worldwide Sales and Planning	Claire Chen (Note 2)													
Vice President Finance	D. L. Tseng (Note 1)													
Chief Finance Officer	Amanda Huang (Note 2)													
Vice President Research & Development	Yang Du	34,728	39,553	2,922		54,023	56,857	106,280	0	106,280	0	3.38	3.51	None
Vice President Operation & Environment Safety	Chan-Ien Kuo													
Associate Vice President Research & Development	Chrong-Jung Lin													
Vice President Administration	Tommy Liu													
Associate Vice President, Information Technology and Intelligence Management	Jonathan Chang (Note 2)													
General Counsel/ Chief Corporate Governance Officer	Ellen Lin (Note 2)													

Note 1: Thomas Chang resigned as VP on January 10, 2020. D. L. Tseng retired and resigned as VP on August 31, 2019.

Note 2: Ellen Lin was appointed as Chief Corporate Governance Officer of VIS on April 29, 2019; Jonathan Chang was appointed as Associate Vice President of VIS on June 17, 2019; Amanda Huang was appointed as Chief Finance Officer of VIS on September 1, 2019; Claire was appointed as Vice President of VIS on October 29, 2019.

Note 3: The amount is the number of appropriation.

Note 4: As of the annual report publication date, the figure above is a tentative estimate.

Range of Remuneration to President and Vice President (NT\$)	Name of President, Vice President, and Associate Vice President
3,500,000~4,999,999	VIS
5,000,000~9,999,999	Amanda Huang, Ellen Lin, Jonathan Chang
10,000,000~14,999,999	Claire Chen, D. L. Tseng, Chrong-Jung Lin
15,000,000~29,999,999	Thomas Chang, Yang Du, Chan-Jen Kuo, Tommy Liu
30,000,000~49,999,999	
50,000,000~99,999,999	Leuh Fang
Total	11

Employee Profit Sharing Granted to Management Team:

Title	Name	Stock	Cash (Note 2)	Total	Total as % of Net Income
President	Leuh Fang				
Vice President Marketing & Sales (Note 1)	Thomas Chang				
Vice President Marketing & Sales (Note 2)	Claire Chen				
Vice President Operation & Environment Safety	Chan-Jen Kuo				
Vice President Finance (Note 1)	D. L. Tseng				
Chief Finance Officer (Note 2)	Amanda Huang				
Vice President Administration	Tommy Liu	0	106,280	106,280	1.81
Vice President Research & Development	Yang Du				
Associate Vice President Research & Development	Chrong-Jung Lin				
Associate Vice President, Information Technology and Intelligence Management (Note 2)	Jonathan Chang				
General Counsel/ Chief Corporate Governance Officer (Note 2)	Ellen Lin				

February 29, 2020

Note 1: Thomas Chang resigned as VP on January 10, 2020. D. L. Tseng retired and resigned as VP on August 31, 2019.

Note 2: Ellen Lin was appointed as Chief Corporate Governance Officer of VIS on April 29, 2019; Jonathan Chang was appointed as Associate Vice President of VIS on June 17, 2019; Amanda Huang was appointed as Chief Finance Officer of VIS on September 1, 2019; Claire was appointed as Vice President of VIS on October 29, 2019.

Note 3: The amount is the number of appropriation.

Note 4: As of the annual report publication date, the figure above is a tentative estimate.

4. Comparison and Description of all Company Paid Remuneration to Net Income Ratio Analysis and Company Remuneration Policy, Pattern, Procedures and Ties to the Operational Result

a. Analysis of Remuneration to Net Income Ratio in the last two years for Company Directors, Supervisors and Executive Officers:

Unit: NT\$, in thousands

Title	VIS Paid Remuneration as % of Net Income					
	Y2018			Y2019		
	Remuneration	Net Income	Remuneration as % of Net Income	Remuneration	Net Income	Remuneration as % of Net Income
Directors	27,970	6,166,269	0.45%	27,695	5,860,497	0.47%
Supervisors	0		0.00%	0		0.00%
Managers	181,664		2.95%	197,953		3.38%

Unit: NT\$, in thousands

Title	VIS & Affiliates Paid Remuneration as % of Net Income					
	Y2018			Y2019		
	Remuneration	Net Income	Remuneration as % of Net Income	Remuneration	Net Income	Remuneration as % of Net Income
Directors	27,970	6,166,269	0.45%	27,695	5,860,497	0.47%
Supervisors	0		0.00%	0		0.00%
Managers	185,540		3.01%	205,612		3.51%

b. Company Remuneration Policy, Pattern, Procedures and Ties to the Operational Result:

In accordance with the regulations set forth under Article 29 of the Company's Articles of Incorporation concerning remuneration of the Company's directors and employees, no more than 1% of the profit for the year may be distributed as remuneration to directors, and no less than 10% of the profit for the year as employees' compensation. The Company's business results shall be taken into consideration, and reasonable compensation shall be provided which is commensurate with the extent to which individual directors participate in the Company's operations and contribute to the Company; the remuneration policy for the President and Vice President takes into consideration a necessary level of industry competitiveness and aims to be able to attract and retain outstanding managers as well as incentivize managers to, contingent on the Company's risk appetite, achieve the best short-term and long-term performance.

The procedures for formulating remuneration packages are reviewed in accordance with the Company's "Policies, Systems, Standards, and Structure of the Performance Assessment and Remuneration of Directors" and the "Policies, Systems, Standards, and Structure of the Performance Assessment and Remuneration of Managers", and reasonable compensation is provided which takes into consideration the Company's overall operating performance, individual performance achievement rate, and level of contribution to the Company's performance. Relevant performance evaluations and compensation are subject to review by the Compensation Committee and the Board of Directors, and regularly reviews and adjustments are conducted annually. In principle, significant changes are not made unless a material change occurs either in the prevailing industry standards or the Company's performance targets.

c. Regularly review policies, systems, standards and structures of performance evaluation, salary and remuneration for directors and managers

The company has measures on "directors' performance evaluation and salary and remuneration policies, systems, standards and structures" and "managers' performance evaluation and salary and remuneration policies, systems, standards and structures", which stipulate regular review and adjustment every year. The Compensation Committee shall review regularly in the third quarter of each year, and the 2019 regular review has been submitted to the Board of Directors for approval on July 29, 2019.

i. Director:

In the fourth quarter of each year, the Compensation Committee shall prepare the annual evaluation items and evaluation forms for the performance evaluation of individual directors, and conduct the evaluation in the first quarter after the end of the next year.

The salary and remuneration structure and standards of directors shall be reviewed and adjusted on a regular basis every year. The amount of fixed remuneration shall be evaluated by the Compensation Committee in the first quarter of each year, and then submitted to the Board of Directors for approval.

ii. Manager:

For performance evaluation of managers, in the fourth quarter of each year, the Chairman and the President shall prepare the manager performance evaluation items and evaluation forms for the next year in accordance with their respective rights and responsibilities. After discussion and approval by the Compensation Committee and the Board of Directors, the performance evaluation shall be conducted in the first quarter after the end of the next year.

The salary and remuneration structure and standards of managers are reviewed and adjusted regularly every year. For fixed amount of annual remuneration for individual managers, in the first quarter of each year, the Compensation Committee shall make suggestions after evaluating the performance of individual managers and submit them to the Board of Directors for approval.

iii. Please refer to the meeting information of the Compensation Committee for the annual performance evaluation and remuneration review of the Compensation Committee.

D.Implementation of Corporate Governance

1. Implementation of Board Meeting:

The Board convened 7 meetings in Y2019. Meeting attendance was as follows:

Title	Name	No. of Meetings Attended	No. of Meetings Substituted	Attendance Rate	Note
Chairman	Leuh Fang	7	0	100%	
Vice Chairman	F.C. Tseng	6	1	86%	
Independent Director	Benson W.C. Liu	7	0	100%	
Independent Director	Chintay Shih	7	0	100%	
Independent Director	Kenneth Kin	7	0	100%	
Director	Edward Y. Way	7	0	100%	
Director	Lai Shou Su	7	0	100%	

Y2019 Meeting attendance of Independent Directors was as follows: ☉:Attendance ; ☆:Proxy ; * :Absence

Y2019	1st	2nd	3rd	4th	5th	6th	7th
Benson W.C. Liu	☉	☉	☉	☉	☉	☉	☉
Chintay Shih	☉	☉	☉	☉	☉	☉	☉
Kenneth Kin	☉	☉	☉	☉	☉	☉	☉

Supplement Notes:

- There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in Y2019

Opinions of Independent Directors in Respect of Important Proposals:

BOD Meeting	Important Proposals	List on Article14-3 of the Securities and Exchange Act	Independent Director Expresses an Objection or Reservation
6 th BOD meeting (9 th Term) 2019/01/15	To approve establishing Vanguard International Semiconductor Singapore Pte. Ltd, a wholly-owned subsidiary.	V	
7 th BOD meeting (9 th Term) 2019/01/29	To amend the Procedures for Acquisition or Disposal of Assets.	V	
	To amend the Operational Procedures for Financial Derivative Transactions.	V	
	To amend the Procedure for Making Endorsements and Guarantees.	V	
	To amend the Procedure for Lending Funds to Other Parties.	V	
	To amend the Internal Control System.	V	
8 th BOD meeting (9 th Term) 2019/01/31	To approve capital injection to Vanguard International Semiconductor Singapore Pte. Ltd	V	
	To approve making endorsements/guarantees for Vanguard International Semiconductor Singapore Pte. Ltd	V	
	To approve loaning funds to Vanguard International Semiconductor Singapore Pte. Ltd.	V	
	To approve the hiring of attesting CPA of Vanguard International Semiconductor Singapore Pte. Ltd. and the compensation given thereto.	V	
10 th BOD meeting (9 th Term) 2019/07/29	To approve Finance Vice President DL Tseng retirement.	V	
	To appoint Sr. Director Amanda Huang as the CFO and Accounting Officer.	V	
	To amend the Operational Procedures for Financial Derivative Transactions.	V	
11 th BOD meeting (9 th Term) 2019/10/29	To approve the hiring of an attesting CPA and the compensation given thereto.	V	
	To approve capital injection to VIS Associates Inc., a wholly-owned subsidiary.	V	

BOD Meeting	Important Proposals	List on Article 14-3 of the Securities and Exchange Act	Independent Director Expresses an Objection or Reservation
13 th BOD meeting (9 th Term) 2020/02/20	To amend the Procedure for Lending Funds to Other Parties.	V	
	To amend the Internal Control System.	V	
	To approve loaning funds to Vanguard International Semiconductor Singapore Pte. Ltd	V	
Opinions of Independent directors in respect of the above proposals : None The responses to opinions of Independent directors : None Resolved: The above proposals were approved unanimously.			

2. Recusals of directors due to conflicts of interests in 2019:

Chairman and President: Leuh Fang recused himself from the discussion and voting of his performance and compensation resolution.

3. Information about the evaluation cycle and period, evaluation scope, method, and evaluation content of the Board of Directors Performance Evaluation:

Evaluation cycle	Period of Evaluation	Scope	Evaluation methods	Assessment Content
Executed every year.	From January 1 to December 31, 2019	Individual board members, overall Board of Directors and functional committees	The methods of internal evaluation include self-evaluation of directors, self-evaluation of the Board of Directors, self-evaluation of the functional committee, review of the Compensation Committee, and resolution of the Board of Directors.	The performance evaluation of individual directors includes the attendance and continuous learning of the Board of Directors, the participation in the direction and strategy of the company, the guidance and communication to the management, the supervision of the implementation and tracking of the operation plan, and internal control. The performance evaluation of the Board of Directors includes the degree of participation in the operation of the company, the quality of the decision-making of the Board of Directors, the composition and structure of the Board of Directors, the selection and appointment of directors, continuous learning and internal control. The performance evaluation of functional committee includes the degree of participation in the operation of the company, the quality of decision-making of functional committee and internal control. In 2019, the internal performance evaluation results of individual members of the Board of Directors, the overall Board of Directors and each functional committee met the expectations. Performance assessment results for the Board of Directors have been reported to the Board of Directors on February 20, 2020.

4. Measures taken to strengthen the functionality of the Board:

- Continue strengthening the supervisory function of the board of directors, VIS Board delegates various responsibilities and authority to two Board Committees, Audit Committee and Compensation Committee. Both the two Committees consist solely of the three Independent Directors. Each Committee's chairperson regularly reports to the Board on the activities and actions of the relevant committee.
- Strengthening the directors' remuneration be combined with performance, VIS Board established Board of Directors performance Assessment Policy, and conduct Board's self-evaluation every year. Also, the company appointed the Taiwan Corporate Governance Association to conduct external assessment of Board performance in 2019.
- Increasing support for directors and enhancing the Board functions, appointed Chief Corporate Governance Officer to be in charge of corporate governance affairs.

2. Implementation and Focus of Audit Committee Meeting:

The qualifications of members of the Audit Committee are identical to those of the Compensation Committee. The primary purpose of establishing the Audit Committee is to reinforce the oversight capabilities of the Board of Directors. The Audit Committee is tasked with overseeing adequate representation of the Company's financial statements, appointment (or dismissal) of certified public accountants as well as their competence, independence, and performance, effective implementation of the Company's internal controls, the Company's compliance with relevant laws and regulations, and control over existing or potential risks to the Company. The main scope of authority of the Audit Committee consists of the following:

- a. The adoption of or amendments to the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
- b. Assessment of the effectiveness of the internal control system.
- c. The adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of the procedures for handling financial or business activities of a material nature, such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, and endorsements or guarantees for others.
- d. Matters in which a director is an interested party.
- e. Asset transactions or derivatives trading of a material nature.
- f. Loans of funds, endorsements, or provision of guarantees of a material nature.
- g. The offering, issuance, or private placement of equity-type securities.
- h. The hiring or dismissal of a certified public accountant, or their compensation.
- i. The appointment or discharge of a financial, accounting, or internal audit officer.
- j. Annual and quarterly financial reports, which are signed or sealed by the chairperson, managerial officer, and accounting officer.
- k. Review of the annual business report, the surplus earning distribution, or loss make-up proposal.
- l. Review the changes of accounting policies or accounting estimate and other material matters as may be required by this Corporation or by the competent authority.

The Audit Committee convened 6 regular meetings in Y2019. Meeting attendance was as follows:

Title	Name	No. of Meetings Attended	No. of Meetings Substituted	Attendance Rate	Note
Independent Director	Benson W.C. Liu	6	0	100%	
Independent Director	Chintay Shih	6	0	100%	
Independent Director	Kenneth Kin	6	0	100%	

Supplement Notes:

1. In the event that the Audit Committee encounters any of the following conditions during the course of its operations, a description of the date, term, and content of the proposed motion of the Board of Directors along with the result of the Audit Committee's resolution and the Company's handling of the Audit Committee's opinion shall be provided.

a. Conditions stipulated in Article 14-5 of the Securities and Exchange Act:

Board of Directors	Proposed Motions	Resolution Adopted by the Audit Committee	Action Taken by the Company in Response to Opinion of the Audit Committee
6th Meeting (9th Term) 2019/1/15	Approved to establish Vanguard International Semiconductor Singapore Pte. Ltd, a wholly-owned subsidiary.	All committee members present Reviewed and approved (2019/1/15)	All directors present Unanimously resolved
7th Meeting (9th Term) 2019/1/29	1. Revision to the Company's Internal Control System 2. Review of the effectiveness of the Company's annual internal control system for Y2018, and reaching an agreement to issue a statement on the effectiveness of the internal control's design and implementation. 3. Amended the Procedures for Acquisition or Disposal of Assets. 4. Amended the Operational Procedures for Financial Derivative Transactions. 5. Amended the Procedure for Making Endorsements and Guarantees 6. Amended the Procedure for Lending Funds to Other Parties	All committee members present Reviewed and approved (2019/1/28)	All directors present Unanimously resolved
8th Meeting (9th Term) 2019/1/31	1. Parent company only and Consolidated Financial Statements of the Company for Y2018 2. Approved to make endorsements/guarantees for Vanguard International Semiconductor Singapore Pte. Ltd. 3. Approved to loan funds to Vanguard International Semiconductor Singapore Pte. Ltd. 4. Approved capital injection to Vanguard International Semiconductor Singapore Pte. Ltd. 5. To approve the hiring of attesting CPA of Vanguard International Semiconductor Singapore Pte. Ltd. and the compensation given thereto.	All committee members present Reviewed and approved (2019/1/31)	All directors present Unanimously resolved
10th Meeting (9th Term) 2019/7/29	1. To approve Finance Vice President DL Tseng retirement and appoint Sr. Director Amanda Huang as the CFO and Accounting Officer. 2. Amended the Operational Procedures for Financial Derivative Transactions.	All committee members present Reviewed and approved (2019/7/29)	All directors present Unanimously resolved
11th Meeting (9th Term) 2019/10/29	1. Proposed capital increase for the Company's subsidiary VIS Associates, Inc. 2. Agreed to Deloitte Touche Tohmatsu Limited to audit Y2020 financial statements of Vanguard and the subsidiaries.	All committee members present Reviewed and approved (2019/10/29)	All directors present Unanimously resolved
13th Meeting (9th Term) 2020/2/20	1. Parent company only and Consolidated Financial Statements of the Company for Y2019 2. Amended the Procedure for Lending Funds to Other Parties 3. Approved to loan funds to Vanguard International Semiconductor Singapore Pte. Ltd. 4. Revision to the Company's Internal Control System 5. Review of the effectiveness of the Company's annual internal control system for Y2019, and reaching an agreement to issue a statement on the effectiveness of the internal control's design and implementation.	All committee members present Reviewed and approved (2020/2/20)	All directors present Unanimously resolved

- b. Other resolutions not approved by the Audit Committee but passed by more than a two-thirds majority of all Board members:

There were no instances of the Company adopting a resolution which was not approved by the Audit Committee but approved by more than a two-thirds majority of all Board members.

- 2. No refusing case for Audit Committee in the latest fiscal year.
- 3. Conditions concerning communication between the Company's independent directors, internal audit supervisors, and accountants (which shall include carrying out various tasks related to communication matters, methods, and results concerning the Company's financial affairs and sales performance):
 - a. There are direct channels of communication available between all of the Company's independent directors and internal audit supervisors, resulting in a satisfactory level of communication. An Audit Committee meeting is convened at least once each quarter, consisting of a closed-door meeting with internal audit supervisors. The meeting shall include discussing and verifying the annual audit plan and current state of implementation of the Company's internal audit procedures. Each month, internal audit supervisors are to submit a report in writing to the independent directors and communicate important points of concern as deemed necessary.
 - b. There is a satisfactory level of communication between the Company's independent directors and accountants. Each quarter, a closed-door meeting is held between the Audit Committee and the Company's accountants. The Company's accountants are tasked with discussing and communicating various matters with the independent directors, including submitting a report on the results of audits/reviews of the financial statements of VIS and other companies in which VIS is invested along with matters pertaining to material changes in accounting estimates, accounting principles, and important issues discussed with the supervisory authority, changes in securities and tax laws, and the statement of independence issued by the Company's accountants. To read a summary of the current state of communication between the Company's independent directors, internal audit supervisors, and accountants, please visit the official VIS website:
http://www.vis.com.tw/visCom/chinese/d_ir/d0402_committees.htm

The State of Participation in Board Meetings by the Supervisors: NA

3. VIS Implementation as Required by Taiwan Financial Supervisory Commission:

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
1. Did the company formulate and disclose corporate governance practice principles according to the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies?	V		VIS formulated our Corporate Governance Practice Principles on Nov. 1, 2016 (last modified: Apr. 29, 2019). It upholds principles regarding protecting the rights and interests of shareholders, strengthening the powers of the board of directors, fulfilling the function of Audit Committee, respecting the rights and interests of stakeholders and enhancing information transparency. For the details of Company's Corporate Governance Practice Principles, please refer to our website via www.vis.com.tw .
2. Shareholding Structure & Shareholders' Rights (1) Did the company establish internal operating procedures to process shareholders' suggestions, doubts, disputes, and litigation matters, and implement the procedures accordingly?	V		VIS has specific staff to handle shareholders' suggestions, doubts, and disputes. Meanwhile, the "Procedures for Handling Shareholder Complaints" were formulated on Feb. 21, 2017 as an addition to the Company's internal control system. Matters related to shareholder complaints are solely handled by the Legal Department and are implemented in accordance with the aforementioned procedures, and written records of all handling procedures are retained for future reference. Handling of litigation proceedings and duties and responsibilities of the Legal Department are as follows: 1. Notify the Finance Department and make an announcement where required by law. 2. Conduct an internal investigation of matters relating to the alleged legal violation or contravention of company bylaws. 3. Present a report on the investigation to board members or management executives who do not have conflict of interest in the matter, and confirm the results of the investigation. 4. Provide a response or negotiate a settlement on the basis of the result of the investigation. 5. Depending on the complexity of the case in question, after it has been examined and a decision has been reached by the chairman or a responsible supervisor authorized by the chairman, an external attorney may be appointed to handle the litigation proceedings and assistance is provided to the appointed attorney during the litigation proceedings to formulate a legal defense.
(2) The Company's possession of major shareholder's list and the list of ultimate owners of these major shareholders	V		VIS tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of VIS.
(3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	V		VIS has established proper organization control structure to monitor the major financial and business operations in any of the subsidiaries. VIS also follows the internal control regulations to review related businesses of the subsidiaries regularly so as to build and executed a risk management system and "firewall" between the Company and its affiliates.

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
(4) Did the company develop internal rules for prohibiting company insiders from trading securities using information not disclosed to the market?	V		VIS has formulated an "Operating Procedure for Processing of Major Internal Information" on Dec. 11, 2009 by board of directors (last modified: Oct. 29, 2019), prohibiting company insiders from trading securities using information not disclosed to the market. And measures for prohibition of buying and selling include: 1. When any directors, managerial officers, or employees of the Company become aware of material inside information that influences the Company's stock price, they may not, within the time frame specified in the Securities and Exchange Act, buy and sell stocks that are traded by the Company in the open market or other negotiable securities that feature stock properties. 2. Ten days before the investor conference are deemed as the quiet period. The Company shall inform the personnel of related unit who are participating in preparations and discussions that they are prohibited from buying and selling the Company's shares.
3. Composition and Responsibilities of the Board of Directors			None
(1) Did the board of directors formulate appropriate policy on diversity based on the composition of its members and implement such policy accordingly?	V		Article 20 of the company's Corporate Governance Practice Principles specifically discloses the executive directors should not exceed one third of the seats of the board of directors. The composition of the board of directors should be diversified, such as different professional backgrounds, fields of work or gender, and possesses the necessary knowledge, skills and literacy to perform his duties; Company requirements and the diversity of board of directors are considered in the nominations for re-electing directors of the board. Among the current board of directors: 1. Directors' Education & Selected Past Positions include: MS, Materials Science and Engineering, University of Washington; Ph.D. in Electrical Engineering, National Chengkung University, Taiwan; MBA, University of Georgia ; Master of Business Administration, North Texas University, USA. 2. Independent Directors' Education & Selected Past Positions include: Ph.D. Electric Engineering, Princeton University, USA; President, Industrial Technology Research Institute; Dean, College of Technology Management, National Tsing Hua University; Master, International Business Administration, University of Northrop, USA; Chairman, Taiwan Corporate Governance Association; Ph.D. Nuclear Engineering and Applied Physics, Columbia University, USA; Professor, National Tsing Hua University etc.
(2) In addition to establishing remuneration committee and audit committee, did the company voluntarily set up other functional committees?		V	In addition to establishing a remuneration committee and audit committee, we did not set up other functional committees.

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
(3) Did the company formulate rules and methods for board of directors' performance evaluations, and perform periodic performance assessments each year as well as the results of the performance evaluations are reported to the board of directors and used as a reference for individual directors' remuneration and nomination?	V		The Company has formulated a series of rules and policies pertaining to evaluations, including the revision of "Policies, Systems, Standards, and Structure of the Performance Assessment and Remuneration of Directors" on Aug. 6, 2018 as well as a "Board of Directors Performance Assessment Policy" on Nov. 1, 2016. The Company shall conduct an internal Board Performance Assessment once a year and an external independent professional institution or a panel of external experts and scholars at least once every three years. The Company will keep directors' remunerations closely linked with their performance. In addition, when electing members of the Board of Directors or nominating directors, the Company shall base its election on the assessment results of the performance of individual directors as reference. The scope of evaluation covers individual Board members, the Board as a whole, and functional committees. The methods of evaluation may be either internal evaluation, external evaluation, or both. Internal evaluation includes self-evaluation by individual Board members, internal evaluation by the Board, internal evaluation by functional committees, re-evaluation by the Compensation Committee, and resolutions of meetings of the Board. External evaluation includes evaluations by appointed external professional institutions, experts, or other appropriate methods. Internal evaluation shall be adopted for the evaluation of individual Board members and functional committees. Both internal and external evaluations shall be adopted for the evaluation of the Board as a whole. The criteria for assessing the performance of the individual Board members shall cover the following five aspects: (1) Board meeting attendance and continuing education; (2) Participation in supporting the company's objectives and strategies; (3) Instructions to and communication with management executives; (4) Supervision of the execution of business plans and tracking the progress of such execution; (5) Internal control and avoidance of conflicts of interest; The criteria for assessing the performance of the Board as a whole and each functional committee shall cover the following five aspects: (1) Participation in the operation of the company; (2) Improvement of the quality of the Board of Directors' decision making; (3) Composition and structure of the Board of Directors; (4) Election and continuing education of the directors; and (5) Internal control Results from self-assessment of the Board of Directors' performance in 2019: 1. Assessment period: January 1, 2019 to December 31, 2019 2. Internal performance assessment results for individual directors: Performance of individual directors all met expectations. 3. Internal performance assessment results for the entire Board of Directors and functional committees: Performance of the entire Board of Directors and all functional committees met expectations. 4. Performance assessment results for the Board of Directors have been reported to the Board of Directors' on February 20, 2020.

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
			The Company formulates performance assessment items at the beginning of each year, evaluate the performance at the end of each year, and incorporate the assessment results into consideration for remuneration of the Board. The Company appointed the Taiwan Corporate Governance Association (TCGA) to conduct the external assessment based on eight major aspects and 38-question indicators on October 14, 2019, including the composition, guidance, authorization, supervision, communication and self-discipline of the Board of Directors as well as internal control, risk management and others, via questionnaire survey and on-site visit. TCGA has no dealings with the Company, and is independent of the Company. The external performance assessment result for the Board of Directors has been reported to the Board of Directors' meeting on February 20, 2020. 1. Assessment period: October 1, 2018 to September 30, 2019 2. Overall assessment results and enhancement suggestion: The report concluded that the Company's Board of Directors has a balanced internal and external director structure and seats, and is in line with the diversity of professional skills and industrial experience. Moreover, the operation and communication of the Board of Directors is smooth. The Company held special discussions and courses irregularly, which helps to improve the efficiency of board operations. The Company has established a sound risk management operating mechanism and internal control system, which helps members of the Board of Directors to grasp the Company's risk management situation and reduce the Company's operating risks. The Company has established "Ethics and Business Conduct", "Code of Ethics for Directors", "Ethical Corporate Management Best Practice Principles" and "Guidelines for Reporting and Handling Ethical Conduct Violations", with a view to promoting self-discipline of the Board of Directors and all members of the Company and abiding by business ethics. In addition, the Company's high-performance in corporate governance evaluation represents that the Company has highly implemented corporate governance and that is praiseworthy. And from the planning of various meetings and the provision of information, convenient for directors to grasp important company information in real time, which can prove that the relevant support system of the Board of Directors is quite complete. The report also provided suggestions on the establishment of an induction course for the newly elected directors, the performance evaluation of the internal audit officer, and the approval level of "Guidelines for Reporting and Handling Ethical Conduct Violations" for the Company to enhance the efficiency of the Board. Based on its suggestions, the Company will plan the introduction course for newly-elected directors, the performance of the internal audit officer will be reviewed by the Board of Directors, and the approval level for implementing the "Guidelines for Reporting and Handling Ethical Conduct Violations" will be raised. The internal and external assessment results are disclosed on our website : http://www.vis.com.tw/visCom/english/d_ir/d0402_committees.htm

Item	Implementation Status		Non-implementation and Its Reason(s)																						
	Yes	No																							
(4) Did the company evaluate the independence of Certified Public Accountants (CPA) periodically?	V		The Audit Committee evaluates the independence of Certified Public Accountants fourth quarter of each year (CPA) mainly including financial interests, financing and guarantees, business relationships, employment, non-audited services, significant value of gifts, continuous engagements, etc. and assess CPA's performance and competence, then submit to BOD meeting. The board of directors approved the assessments on Oct 29, 2019.																						
4. As a TWSE/TPEx-listed company, has VIS set up appropriate numbers of corporate governance personnel and appoint Chief Corporate Governance Officer in charge of corporate governance affairs (including but not limited to furnishing information required by directors to conduct business, assisting directors in complying with laws and regulations, handling matters relating to board meetings and shareholders' meetings as required by law, producing minutes of board meetings and shareholders' meetings, etc.)?	V		Board of Directors appointed Chief Corporate Governance Officer on April 29, 2019 and the Company has set up Corporate Governance Department with qualified corporate governance personnel in an appropriate number. The main duties include, but not limited to, providing information required by directors to carry out corporate affairs, handle matters related to Board of Directors' meetings and shareholders' meetings in accordance with the laws, prepare minutes of Board of Directors' meetings and shareholders' meetings, assist in onboarding and undergoing continuing education and training of directors, assist directors in complying with laws and regulations and other matters stipulated in the company's Articles of Incorporation or contracts. The Chief Corporate Governance Officer has over three years of experience serving as a supervisor in charge of legal affairs at public companies, and is a qualified attorney-at-law. The performance of operations for 2019 is as follows: • Handling of matters relating to 7 board meetings and the annual shareholders meeting in accordance with law as well as preparation of the meeting minutes of board meetings and shareholders' meeting after adjournment thereof. • Establishment of Standard Operational Procedure for responding to Requests from Directors. • Amendment of Rules of Procedure of Board of Directors Meetings. • Provision of continuing education courses and assistance in directors' attendance in a total of 85 hours of training activities. • Provision of information required for the performance of duties by the directors. Continuing training of Chief Corporate Governance Officer in 2019: <table><tr><th>Name</th><th>Date</th><th>Host by</th><th>Training Title</th><th>Duration</th></tr><tr><td rowspan="4">Ellen Lin</td><td>6/18/2019</td><td>Securities and Futures Institute</td><td>Information Security Governance</td><td>3 hours</td></tr><tr><td>6/18/2019</td><td>Securities and Futures Institute</td><td>New Specification of Corporate Governance</td><td>3 hours</td></tr><tr><td>8/1/2019</td><td>Taiwan Corporate Governance Association</td><td>Trade War and Export Control</td><td>3 hours</td></tr><tr><td>12/10/2019</td><td>Taiwan Corporate Governance Association</td><td>Industry 4.0 and Innovation</td><td>3 hours</td></tr></table>	Name	Date	Host by	Training Title	Duration	Ellen Lin	6/18/2019	Securities and Futures Institute	Information Security Governance	3 hours	6/18/2019	Securities and Futures Institute	New Specification of Corporate Governance	3 hours	8/1/2019	Taiwan Corporate Governance Association	Trade War and Export Control	3 hours	12/10/2019	Taiwan Corporate Governance Association	Industry 4.0 and Innovation	3 hours
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Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
5. Did the company maintain channels of communication with its stakeholders (including but not limited to shareholders, employees, clients and supplies), designate a stakeholders section on its website, and adequately respond to stakeholders' concerns regarding corporate social responsibility?	V		VIS attaches great importance to the communication between our stakeholders and us. The stakeholders include but not limited to shareholders, employees, clients and supplies. We maintain good communication with our stakeholders through relevant departments depending on situation. Furthermore, we have publicly disclosed the contact information of our corporate spokesperson and relevant departments. Also, we have a stakeholder section on our corporate website to address our corporate social responsibilities and any other issues. Stakeholder Communication Mechanism includes: a. Shareholders and investors Issue of concern: Business strategy, Business performance, Corporate governance, Innovation management Method and frequency of communication: ● Annual meeting of shareholders ● Quarterly meetings of the Board of Directors and investors conference ● Monthly business revenue announcements ● Immediate update of material information on the corporation website and the Market Observation Post System Contact Window: Investor Relations: Janey Liu, Tel: 886-3-5770355 ext. 1421, Email: cyluc@vis.com.tw b. Customers Issue of concern: Service quality and customer satisfaction, Managing customer relations and methods for filing a complaint, Customer privacy Method and frequency of communication: ● Real-time online customer communication system ● Quarterly business meeting ● Regular project discussion meetings ● Unscheduled customer visits Contact Window: Sales: Bill Chuang, Tel: 886-3-5770355 ext. 5777, Email: billchuang@vis.com.tw Customer Service: Seven Dong, Tel: 886-3-5770355 ext. 5213, Email: jcdong2@vis.com.tw c. Employees Issue of concern: Talent recruitment and retention, Labor-Management Relations, Employee communication and satisfaction, Human resources development, Employee diversity, Method for filing a labor condition complaint, Human rights policy, Forced labor, Discrimination, Child labor Method and frequency of communication: ● Internal network and telephone communication platform ● Employee Assistance Program (EAP) hotline ● Quarterly meeting between employer and employees ● Quarterly meeting of factory directors

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
			● President communication meeting ● Mailbox of the executives, mailbox of the Audit Committee, mailbox of the chairman Contact Window: Human Resources: Philip Feng, Tel: 886-3-5770355 ext. 1717, Email: philipfeng@vis.com.tw d. Government authority Issue of concern: Compliance with environmental protection regulations, Occupational health, safety, and sanitation, Energy efficiency, Energy management, Waste management, Anti-corruption, Water resource management, Greenhouse gas emissions, Climate Change, Direct impact of goods and services on the environment, Compliance with product regulations, Carbon management Method and frequency of communication: ● Instant communication according to law ● Periodic reporting e. Supplier Issue of concern: Management of conflict minerals, Green procurement, Compliance with environmental protection regulations, Raw materials, Compliance with product regulations, Management of supply chains, Waste management, Hazardous substance management, Carbon management, Anti-corruption, Conflict minerals, Assessment of suppliers' human rights policies, Local procurement and local recruitment, Child labor Method and frequency of communication: ● Semi-annual joint review of qualified suppliers ● Annual audit of major suppliers ● Scheduled yearly communication with suppliers ● E-Supplier communication platform Contact Window: Material Management: Jay Tasi, Tel: 886-3-5770355 ext. 4300, Email: cjtsai@vis.com.tw f. Community Issue of concern: Charitable events, Compliance with environmental protection regulations, Water resource management, Waste management, Hazardous substance management, Greenhouse gas emissions, Carbon management, Environmental investment, Direct impact of goods and services on the environment, Climate Change, Charitable events, Community impact assessment, Green construction, Biodiversity, Community investment Method and frequency of communication: ● Hold randomly scheduled events and makes donations ● Sponsor regular regional broadcast shows to discuss social concerns Contact Window: Public Relations: Dana Tsai, Tel: 886-3-5770355 ext. 1901, Email: dana_tsai@vis.com.tw g. Media Issue of concern: Business performance, Corporate governance, Compliance with environmental

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
			protection regulations, Compliance with product regulations Method and frequency of communication: ● Quarterly conferences ● Monthly business revenue announcements ● Immediate update of material information on the corporation website and the Market Observation Post System Contact Window: Public Relations: Dana Tsai, Tel: 886-3-5770355 ext. 1901, Email: dana_tsai@vis.com.tw
6. Did the company engage a professional shareholder services agent to handle shareholders meeting matters?	V		We have designated CTBC Bank as our service agent to handle shareholders meeting matters.
7. Information Disclosure			
(1) Establishment of corporate website to disclose information regarding the Company's financials, business and corporate governance status	V		VIS discloses our financials, business and corporate governance status on its website at http://www.vis.com.tw
(2) Other information disclosure channels (e.g. English website, appointing responsible people to handle information collection and disclosure, appointing spokesperson, webcasting investor conference)	V		VIS has launched bilingual Chinese and English websites and has assigned the related departments to collect and reveal company information, while the Public Relations and Investor Relations department is in charge of integrated management. We have Investor Relations segment on our corporate website, and it contains historical Investor Conference Report and the video of latest Investor Conference. In addition, based on article 11 of Company's "Operating Procedure for Processing of Major Internal Information", the disclosure of material inside information of the Company shall be handled by a spokesperson designated by the Company or a deputy spokesperson acting on his/her behalf in a specified sequential order unless prescribed otherwise in relevant laws or orders. The disclosure may be made directly by the responsible person of the Company if deemed necessary. VIS, in principle, announces revenue, derivatives transactions and balance of lending to other parties and of making endorsements and guarantees of previous month on the 9th of the month or, as exceptions, the day advance to the reporting deadline if there are consecutive holidays in the beginning of the month. In addition, VIS declared and announced the Chinese financial reports of 1Q19, 2Q19, 3Q19 and FY19 on 2019/04/30, 2019/07/30, 2019/10/31 and 2020/02/21, all meets the target timeframe on the question and regulated deadline.
(3) Did the company announce and file the annual financial report within two months after the end of the fiscal year, and announce and file the first, second and third quarter financial reports and operating status of each month as soon as possible before the prescribed period?			

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	V		● For employee rights and employee wellness, please refer to "Employee / employer relations" of this Annual Report. ● Investor relations : VIS has specific staffs handle shareholders' suggestions, doubts and disputes. In addition, we hold Investor Conference for institutional investors every quarter and we also disclose Chinese and English financial reports on our corporate website. ● For supplier relations and rights of stakeholders, please refer to 「Implementation of Corporate Social Responsibility Measures」 of this Annual Report. ● For Directors' training records, please refer to "Other Important Information Disclosed for Better Understanding of Corporate Governance" of this Annual Report. ● For the implementation of risk management policies and risk evaluation measures, please refer to 「The policy of the risk management」 and 「The organization chart of the risk management」 of this Annual Report. ● Implementation of customer relations policies: From the moment we start negotiating with our customers about business opportunities, we require all customers to sign a Non-Disclosure Agreement. To protect customer privacy rights, we determine the security level of confidential information and establish corresponding control measures, requiring only those with permission to access the information. All other personnel must not attempt to make inquiries on customer information, and when customers make requests or apply for documents through our VIS-online system, proper authorization must be obtained. ● We maintain D&O Insurance for its directors and officers. ● Succession planning of board members and important management: the company regularly discusses and communicates with major shareholders on succession planning of board members; meanwhile, it pays close attention to the social talents with professional ability and learning expertise in various fields of the outside world, and the company also regularly arranges professional training courses to provide directors with further education. The company's succession planning for key management is based on the talent selection and evaluation tool to select lower level managers with development potential and formulate relevant development plans. Including mentor coaching, job rotation, overseas assignment, participation in external high-level supervisor training, etc. for two to three years of development projects. Through all-round professional ability training, cultivate decision-making ability, so that the trained talents can obtain job challenges and learning opportunities in work, and achieve succession planning.

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
9. Consulted the explanation of improvements to the corporate governance evaluation results for the most recent year published by the Taiwan Stock Exchange Corporation (TWSE) Corporate Governance Center and proposed fast-tracked implementation of improvements and related measures for areas which had yet to be rectified. For five years in a row, the Company has been ranked in the top 5% of the Corporate Governance Evaluation. With respect to the state of improvements made in 2019, report of communication situation with the stakeholders, appointment of Chief Corporate Governance Officer, disclosure of resolutions of compensation committee meetings, strengthening of disclosure of financial, business and corporate governance information on the company's website and MOPS, implementation of ethical corporate management training, and relevant management guidelines were amended and implemented by units tasked with handling corporate governance, CSR, and ethical management best practice principles. The Company also submits a report regarding the improved items to the Board of Directors and, after taking into consideration the specific aspects of each industry segment and actual operating requirements, the Board has continued its efforts to enhance the Company's corporate governance, thereby boosting the core competitiveness of VIS.			

4. Compensation Committee

VIS has established a Compensation Committee as required by the competent authority for assisting the BOD in the study and design of the compensation policy and structure in order to attract, motivate, reward, and retain talent. The functions of this committee are: Map out the compensation policy and structure, the method for the release of fees for directors and supervisors, the salaries of the managers and release of the salaries, the reward for the managers and incentives for motivating people, Planning and implementation of performance evaluations for the Board of directors (including the Chairman) and managers (including the President) any other duties assigned by or authorized by BOD.

Members of the Compensation Committee

Title	Name	Over 5 years of working experience			Criteria (Note)										Number of other public companies that concurrently serve as an member of Compensation Committee	Remark
		College Instructor or higher level in Business, Legal, Finance, Accounting or company business related area	Court Judge, Prosecutor, Lawyer, Accountant, or other Certified Professional expert related to company business	Business, Legal, Finance, Accounting or company business required working experience	1	2	3	4	5	6	7	8	9	10		
Independent Director	Chintay Shih	V		V	V	V	V	V	V	V	V	V	V	V	2	
Independent Director	Kenneth Kin	V		V	V	V	V	V	V	V	V	V	V	V	2	
Independent Director	Benson W.C. Liu			V	V	V	V	V	V	V	V	V	V	V	2	

Note :

1. Not an employee of affiliated companies of the company and company.
2. Not a director, supervisor of affiliated companies of the company and company.
3. Not a natural person shareholder directly or indirectly owning more than 1% of the Company outstanding shares, nor one of the Company top 10 natural person shareholders.
4. Not a spouse or a first-or-second-degree relative to any person specified in Criteria 1–3.
5. Not a director, supervisor or employee of a shareholder of juridical person of the Company directly or indirectly owning more than 5% of the Company's outstanding shares, nor one of the Company's top five share-holders of juridical person.
6. Not directors, supervisors or employees of other companies controlled by the same person holding a majority of the company's director seats or voting shares of the company. (However, this restriction shall not apply do not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent).
7. Not directors (governors), supervisors or employees of other companies or institutions who are the same person or spouse as the chairperson, general manager or person holding an equivalent position of the company. (However, this restriction shall not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a company and its parent or subsidiary or a subsidiary of the same parent).
8. Not a director, supervisor, manager or shareholder holding more than 5%of the outstanding shares of certain companies or institutions that have financial or business relationship with the Company.
9. Not an owner, partner, director, supervisor, manager of any sole proprietor, partnership, company or institution and his/her spouse, or the specialist and his/her spouse, that provides finance, commerce, legal consultation and services to the Company or affiliated companies within one year.
10. Not a juridical person or its representative as defined in Article 30 of Company Law.

Compensation Committee Operations Information

1. The company's Compensation Committee is composed of three members
2. Term of office for the current members: June 14, 2018 to June 13, 2021. The committee has met 5 times in the most recent year. Membership and attendance information are provided below:

Title	Name	No. of Meetings Attended	No. of Meetings Substituted	Attendance Rate	Note
Convener	Kenneth Kin	5	0	100%	
Member	Chintay Shih	5	0	100%	
Member	Benson W.C. Liu	5	0	100%	

Other items of note:

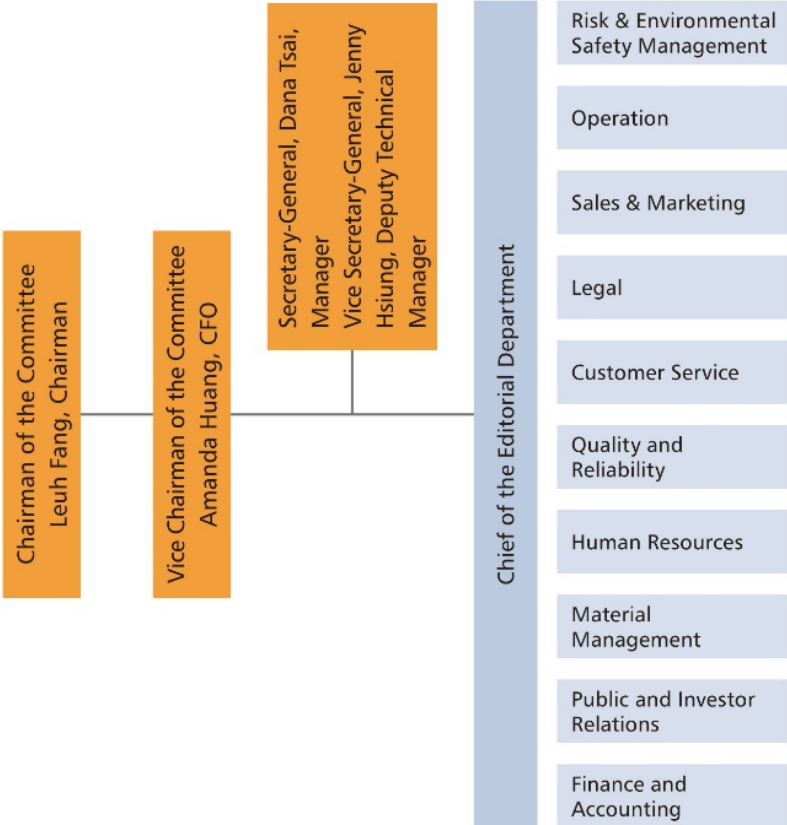
1. If the Board of Directors does not adopt or amend the Compensation Committee's recommendations, the date, period, motion, decision of the board, and how the Company shall handle the Committee's recommendations must be clearly stated: None.
2. If members of the Compensation Committee oppose or reserve their opinions for any resolved issues and have a record or written statement for it, the date, period, motion, and all opinions of the members and how these opinions were handled shall be clearly stated: None.

Compensation Committee	Important Proposals	Resolution	The Company's actions in response to the opinions of the Remuneration Committee
The 4th meeting of the 9th Board 2019.1.28	1. Review the ratio and total amount of employee compensation and director compensation allocated as per the company's profit in 2018 2. Salary adjustment plan of the company in 2019 3. Review the performance and bonus in 2018 and fixed remuneration in 2019 of VP and AVP 4. Review directors' performance in 2018 and fixed remuneration in 2019 5. Review the Chairman's performance and bonus in 2018 and fixed remuneration in 2019 6. Review the performance of the Board of Directors and functional committees in 2018	Unanimously approved by all members present in the meeting	Proposed by the Board of Directors and adopted with the approval of all attended Directors
The 5th meeting of the 9th Board 2019.4.29	1. Review the compensation amount of individual managers and employees in 2018 2. Review the compensation amount of individual directors in 2018 3. Review the employee compensation of the President and the compensation of the Chairman in 2018 4. Review and appoint Hui-Jung Lin, the General Counsel of legal, to concurrently serve as the company's Head of Corporate Governance and her compensation plan 5. Review the compensation plan for the appointment of Dr. Yung-Cheng Chang as the company's manager (information technology and intelligent management organization)	All members present unanimously approved	Proposed by the Board of Directors and adopted with the approval of all attended Directors
The 6th meeting of the 9th Board 2019.7.29	1. Review the "directors' performance evaluation and compensation policies, systems, standards and structures" 2. Review the "manager performance evaluation and compensation policies, systems, standards and structures" 3. Review bonus payment standards in 2019 4. Review the application for retirement and pension plan of Mr. Tung-Liang Tseng, VP of Finance 5. Review the compensation plan for the appointment of Hui-Lan Huang, senior director, as the manager (CFO and Head of Accounting) of the company	All members present unanimously approved	Proposed by the Board of Directors and adopted with the approval of all attended Directors

Compensation Committee	Important Proposals	Resolution	The Company's actions in response to the opinions of the Remuneration Committee
The 7th meeting of the 9th Board 2019.10.29	1. Review the performance evaluation items of the overall Board of Directors and functional committees in 2020 2. Review the performance evaluation item of directors and Vice Chairman in 2020 3. Review the performance evaluation item of VP, AVP, CFO and Head of Corporate Governance in 2020 4. Review the performance evaluation item of President in 2020 5. Review the performance evaluation item of the Chairman in 2020 6. Review the retirement and pension plan of Mr. Thomas Chang, VP of Worldwide Sales and Planning 7. Review and appoint Dr. Tzu-Chun Chen as the company's manager (VP of Worldwide Sales and Planning) and the compensation plan	All members present unanimously approved	Proposed by the Board of Directors and adopted with the approval of all attended Directors
The 8th meeting of the 9th Board 2020.2.20	1. Review the ratio and total amount of employee compensation and director compensation allocated as per the company's profit in 2019 2. Salary adjustment plan of the company in 2020 3. Review the performance and bonus of VP, AVP, CFO and Head of Corporate Governance in 2019 and the fixed compensation in 2020 4. Review directors' performance in 2019 and fixed compensation in 2020 5. Review the Chairman's performance, bonus in 2019 and fixed compensation in 2020 6. Review the performance of the Board of Directors and functional committees in 2019	All members present unanimously approved	Proposed by the Board of Directors and adopted with the approval of all attended Directors

5. Implementation of Corporate Social Responsibility Measures

Assessed items	State of operations			Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and root causes										
	Yes	No	Summary											
A. Does the Company conduct risk assessments on environmental, social, and corporate governance issues related to its operations in accordance with the materiality principle, and implement relevant risk management policies or strategies?	V		According to the materiality principle, the company identifies issues / risk items / management policies as follows: <table><tr><th>Major Issues</th><th>Assessment Item</th><th>Risk management policy or strategy</th></tr><tr><td>Environment</td><td>Energy management, occupational safety, climate change, air pollution control, water management, waste management</td><td rowspan="3">Please refer to "major issues and sustainable goals of the company" - sustainable goals, future directions and plans in this annual report</td></tr><tr><td>Social</td><td>Talent attraction and retention, talent development, human rights, social participation</td></tr><tr><td>Corporate Governance (Economic)</td><td>Business ethics, supplier sustainability management, customer service / sustainability products, regulatory compliance</td></tr></table>	Major Issues	Assessment Item	Risk management policy or strategy	Environment	Energy management, occupational safety, climate change, air pollution control, water management, waste management	Please refer to "major issues and sustainable goals of the company" - sustainable goals, future directions and plans in this annual report	Social	Talent attraction and retention, talent development, human rights, social participation	Corporate Governance (Economic)	Business ethics, supplier sustainability management, customer service / sustainability products, regulatory compliance	No deviation
Major Issues	Assessment Item	Risk management policy or strategy												
Environment	Energy management, occupational safety, climate change, air pollution control, water management, waste management	Please refer to "major issues and sustainable goals of the company" - sustainable goals, future directions and plans in this annual report												
Social	Talent attraction and retention, talent development, human rights, social participation													
Corporate Governance (Economic)	Business ethics, supplier sustainability management, customer service / sustainability products, regulatory compliance													
B. Does the Company establish an exclusively (or part-time) dedicated unit for promoting Corporate Social Responsibility? Is the unit authorized by the Board of Directors to implement CSR activities at the executive level? Does the unit report the progress of such activities to the Board of Directors?	V		The company has established a "Corporate Social Responsibility Promotion Committee", which is responsible for the formulation and implementation of corporate social responsibility policies and systems, as well as the review of implementation effectiveness and continuous improvement at any time to ensure the implementation of corporate social responsibility policies. Please refer to the company's website or figure below for the organizational structure of CSR Promotion Committee	No deviation										

Assessed items	State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and root causes
	Yes	No	
		Summary CSR Committee Organization Chart  The CSR Promotion Committee shall meet quarterly and review the implementation effect and continuous improvement at any time. The Committee shall report the implementation situation to the Board of Directors every six months. Please refer to the website of the company: www.vis.com for the specific promotion plan and implementation effect of the Committee	

Assessed items	State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and root causes
	Yes	No	
C. Environmental issues 1. Does the Company establish proper environmental management systems based on the characteristics of their industries?	V	1. VIS obtained ISO14001 certification in 1997 (valid until January 17, 2021, and it is expected to complete the version transfer verification by the end of 2020), and in accordance with the spirit of continuous improvement of its environmental management system PDCA, it regularly identifies and responds to various environmental protection related laws and regulations every month. In addition, it is planned that the Environmental Safety and Health Committee of each level shall be held, including monthly inspection of environmental safety and health matters by the Environmental Safety and Health Committee held by the factory director of each plant area, and then quarterly meeting of each area (FAB manufacturing /ADM administration /IS&QRA R&D and quality reliability assurance) shall be held to inspect the overall operation of the environmental safety and health management system in the area, and then summarized and submitted to the Environmental Safety and Health Committee of the entire company every quarter presided over by the President. 2. It is an important environmental policy of the company to implement green production to reduce the impact on the environment. In 2019, 82 environmental improvement plans have been completed, of which the plan types are mainly waste reduction, energy and resources saving and reducing the probability of pollution and leakage, including replacement of energy-saving / variable frequency DRY PUMP, extension of Tube Cleaner HF & DI Water plan, reduction of the amount of chemicals / gases used in the process (such as ammonia, TMAH, N₂, O₂, EKC, photoresist & vapor, etc.) to reduce the impact on the environment; in addition, we continued to purchase green (recycled) products such as refrigerators, toilet paper, photocopy paper, etc., and used raw materials without prohibited substances to reduce the environmental load and impact. 3. Climate change is one of the most concerned environmental issues in the United Nations, governments, society and business circles, as well as for VIS. In recent years, the "Corporate Social Responsibility Promotion Committee" of VIS has actively promoted carbon reduction projects related to climate change issues and reported to the Board of Directors. Its policies are aimed at meeting the goals of VIS' carbon emissions and national regulation. Since 2005, after cooperating with Taiwan Semiconductor Industry Association (TSIA) for reduction of PFC in advance, in 2014, we began to implement carbon reduction work with energy saving and carbon reduction. In order to achieve the goal inspection, since 2016, the company has carried out the inventory of product carbon footprint and water footprint, and introduced the environmental accounting and ISO 50001 energy management system in 2017, the material flow cost analysis method and the three inventory of ISO 14064-1 category were introduced in 2018, all of which have passed the external verification of SGS by the third party. The results of the verification	No deviation
2. Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		
3. Does the Company assess the potential risks and opportunities of climate change for its current and future operations and undertake response measures with respect to climate change?	V		

Assessed items	State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and root causes
	Yes	No	
4. Does the Company calculate the amount of greenhouse gas emission, water consumption, and waste production in the past two years and implement policies to cut down energy and water consumptions, carbon and greenhouse gas emissions, and waste production?	V	shall be reported to the senior management of the Safety, Health and Environmental Protection Committee of the company every year, and shall be reported in accordance with the regulations of the Environmental Protection Administration. In addition, the energy-saving goal of VIS' energy management is to reduce the power consumption per unit wafer area by 10% in 2020 compared with that in 2015; and VIS' carbon reduction goal is to reduce the greenhouse gas emissions per unit wafer area by 20% in 2020 compared with that in 2015. According to statistics, by the end of 2019, the power consumption of wafer area was 28.7% lower than that in 2015, and the greenhouse gas emission per unit wafer area was 14.7% lower than that in 2015. 4. Please refer to the attached "major issues and sustainable goals of the company" and this annual report on IV. Environmental protection expenditure of Chapter 5: Operation Overview for details.	
ID. Social Issues 1. Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights? 2. Does the Company establish and deliver reasonable employee welfare programs (including salary, compensated absences, and other benefits) and adjust employee compensation in relation to business performance?	V	1. The company formulated VIS' human rights policy in 2019. All human rights related actions are in line with relevant international norms and guidelines, including the human rights with international indicator advocacy such as the United Nations Declaration of Human Rights and the Code of Conduct - Responsible Business Alliance. It is committed to ensuring a safe working environment. Current colleagues, contract and temporary staff, interns, etc. are treated with dignity and abide by ethics; at the same time, we take into account employee welfare and shareholders' rights and interests, try to give back to the society; establish positive employee relations, create a highly involved working environment, etc., to ensure that VIS' code of conduct can be aligned with international indicators. 2. The company provides employees with a salary and welfare above the industry average level, and connects organizational strategies and personal performance objectives through the performance management system, so that the salary is fully positively connected with the performance, so as to reward and motivate employees' efforts in the implementation of the company's policies. The articles of association also stipulates that the employee benefits shall be distributed at a rate of not less than 10% of the profit of the current year, and shall be distributed in shares or cash by the resolution of the Board of Directors. The parties to be distributed may include the employees of the subordinate	No deviation

Assessed items	State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and root causes
	Yes	No	
3. Does the Company provide a healthy and safe work environment and organize training on health and safety for its employees on a regular basis?	V		company who meet certain conditions, and such conditions of the employees of the subordinate company shall be determined by the Board of Directors. However, if the company has accumulated losses, the amount of compensation shall be set aside for the amount and then distributed employee benefits in accordance with the aforementioned percentage. 3. Please refer to the annual report on IV. Environmental protection expenditure and V. Labor relations of Chapter 5. Operation Overview 4. In order to cultivate professional talents in line with the company's needs, explore the potential of employees, VIS, in accordance with the company's vision and strategic objectives, establishes a complete talent development system, builds training management system (Learning Passport System), knowledge management platform, online learning platform and other learning resources, tailors personal learning development plans for colleagues, and provides all-round talent training courses for colleagues and a wealth of diverse learning resources, in order to enhance the development of employees and enhance the competitiveness of enterprises. In 2019, through external lecturers to teach the training and guidance courses of subordinates, the primary supervisors learnt more about how to cultivate subordinates and conduct performance interviews, and became familiar with the skills and concepts of downward management. A total of 52 supervisors have been trained, supplemented by regular performance management and development every year, to measure the achievement, so as to ensure the implementation of organizational business and personal development priorities. 5. The company follows relevant laws and regulations as well as international standards in the marketing of products and services. In addition, the company has established a "customer complaint handling method" to provide transparent and effective complaint channels to customers for the company's products and services, and handles customers' complaints fairly and timely. In addition, the company abides by relevant laws and regulations to truly respect customers' privacy rights and protect the data provided by customers. It also regularly evaluates the cooperation satisfaction between the company and customers. For outsourcing of customer satisfaction, we treat the customers as important stakeholders and listen to the customer's opinions, so as to improve the delivery time of service products. 6. When the company evaluates new suppliers, relevant units will refer to the actual performance of the industry, and check the official website of the competent environmental protection unit to see if the supplier has any adverse records affecting the
4. Does the Company provide its employees with career development and training sessions?	V		
5. Does the Company comply with relevant regulations and international standards regarding customer health and safety, right to privacy, marketing and labeling of its products and services and set up relevant consumer protection policies and complaint procedures?	V		
6. Does the Company formulate supplier management policies that require suppliers to comply with relevant	V		

Assessed items	State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and root causes
	Yes	No	
regulations on environmental protection, occupational safety and health, and labor rights and request their reporting on the implementation of such issues?		environment and society in the past? As a reference for the selection of suppliers, it is required to conduct qualification review and on-site audit, and sign the code of corporate social responsibility of VIS, so as to ensure that the supplier does not have the risk of affecting the environment and society, and can meet the regulatory requirements. The company regulates in the order contract that suppliers must implement the compliance of relevant laws and regulations and international standards (including but not limited to corporate social responsibility policy). In case of any violation, the company may terminate the cooperation.	
E. Did the company, following internationally recognized standards or guidelines, prepare and publish reports such as its Corporate Social Responsibility report to disclose non-financial information of the company? Has the company received assurance or certification of the aforesaid reports from a third party accreditation institution?	V	In 2019, the company's corporate social responsibility report was prepared on the basis of GRI Standard core options, and the third-party impartial unit, Ernst & Young, was appointed to conduct limited assurance of indicators according to the assurance standard of ISAE 3000, which not only strengthened the transparency of the report, but also improved the accuracy of internal operations. (The corporate social responsibility report of 2019 is under assurance).	No deviation
F. If the Company has established the corporate social responsibility best practice principles based on the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the Principles and their implementation: The company has formulated the VIS Corporate Social Responsibility Manual as the basis for the company to actively practice social responsibility, and its operation conforms to the spirit of the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.			
G. Other important information to facilitate better understanding of the company's Corporate Social Responsibility practices: Social aspects: VIS actively participates in community and public welfare activities, continues to care for the disadvantaged groups in the community, and gives back to the community with concrete course of actions. The company actively participates in community and public welfare activities, continues to care for the disadvantaged groups in the community, and gives back to the community with concrete course of actions. In October 2019, VIS held the family day of fun sports for the first time, invited the Atayal Aboriginal children of the Skikun Culture Dance Group of Yilan County to make a wonderful aboriginal dance opening performance for the activity, and arranged them to visit the "TSMC NCTU Energy Education Center (Orchid House)" after the performance, the engineer explained to children for how to achieve the effect of environmental protection and earth love through the energy-saving design of a house. In addition, VIS specially set up public welfare booths on the family day of fun sports in 2019. Social welfare groups supported by the company for a long time were invited to set up booths to sell their hand-made food and stationery, and each colleague was given a NT\$100 love meal voucher, which was designated for consumption in the love booths. At the same time, fund was donated to Saint Joseph Social Welfare Foundation, May Peace Prevail On Earth, Eden Social Welfare Foundation, Sunshine Social Welfare Foundation, SOS Children's Village of Taoyuan, as well as the Skikun Culture Dance Group, with each of them receiving NT\$200,000, totaling NT\$1.2 million. The vulnerable groups we helped included children from low-income families, children with physical and mental disabilities, abused children with mental retardation, and people with facial disabilities.			

Assessed items	State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and root causes
	Yes	No	
Summary			
At the end of 2019, VIS provided 42 tables and invited more than 400 elders who lived alone and served by the Old Five Old Foundation, Huashan Social Welfare Foundation and Eden Social Welfare Foundation, as well as the elders who lived alone in Jinshan Vil of Xinzhu City, Kehul Vil and Baoshan Township of Xinzhu County adjacent to the company's factory area, to participate in the love dinner. The theme of "accompany the elders to celebrate the new year" was continued from the previous year, and the colleagues were called on to contribute generously and participate in the activities such as delivering new year's dishes and accompanying elders around the stove held by the above three foundations. Thanks to the warm response of colleagues to charity donation activities, in 2019, the company increased "halfway houses" as the parties for donation and added three social service organizations, i.e. Garden of Hope Foundation, Bluesky Home of Xinzhu and Lohas Preschool of Taoyuan, to help not only the elderly living alone, but also children, corrected teenagers and abused girls who are not suitable for growing up in their original families and need to be placed in the halfway houses. In 2019, a total of NT\$2.5 million was raised for the charity donation, which was donated by the Chairman to six social welfare groups on behalf of his colleagues in the charity dinner. In 2019, under the call of Chairperson Sophie Chang of the TSMC Charity Foundation not to waste food, "cherish food", the VIS volunteer society expanded its scale and added a routine activity of "sharing meals with elders in the community". VIS and the supplier jointly funded the preparation of lunch boxes, which were sent twice a month to three villages near the plant area and distributed to the elderly living alone. Volunteers accompanied them to eat and chat together, caring for their physical and mental health. Not only to dine with the elders, in order to assist small farmers who are not capable of selling agricultural produce, in selling their agricultural produce so that they can earn a living, VIS also initiated activities to help disadvantaged small farmers, thus receiving overwhelming response from our coworkers. If it is a small farmer visited and recommended by the nearby chief of village, its produce will be introduced to the company and sold to the colleagues. The colleagues in FAB2 of VIS even set up a team of volunteers for good neighborly relationship. It was found in the chat between the team and the small farmers that the small farmers are generally on the high side of the age and are not suitable for long-term standing selling. Therefore, after the team discussion, they decided to cooperate with the coffee bar sales agency in the factory. At the same time, they assisted in poster design and online publicity so that the colleagues could easily buy fresh and cheap organic fruits and created a new public welfare model of three wins. At the same time, in order to give back to the community, VIS also continued to sponsor NT\$100,000 for the TSMC Hsinchu Art Festival" to promote art education. In 2019, we sponsored the piano concert "Miracle! Listen to NOBU" by Japanese visually impaired pianist Tsujii Nobuyuki and the performance "I am crazy for crosstalk" by Taipei Quytuan, which were performed in National Taichung Theater and Art Performance Hall of Xinzhu County respectively. In addition, in 2019, VIS also invested in environmental protection and ecological related social participation activities, and proposed the possible impact of climate change on human beings. On March 12, 2019, at the Tree Planting Festival, the director of the FAB2 led the colleagues of the FAB2 to plant trees in the Cherry Blossom Park in Jinshan Vil, together with Hui-Hong Shen, deputy mayor of Xinzhu City, and Qing-Jie Wu, chief of Jinshan Vil, to unveil the adopted Cherry Blossom Park. About 700 people participated in the event, planting 61 ring-cupped oak and 10 cherry trees. The FAB2 colleagues and the company's third party suppliers regularly come to the Cherry Blossom Park for cleaning and maintenance, so that the Cherry Blossom Park becomes a beautiful back garden for the neighborhood and the company's colleagues. At the same time, the company's relevant units further adopt the Kezihu River surrounding the Cherry Blossom Park, strengthen the hydrophilic function and facilities of the Cherry Blossom Park section of the Kezihu River, and jointly study and plan with the professors of Taiwan University to re-cultivate fireflies in the Kezihu River, making the Cherry Blossom Park a riverbank park with both ecological and environmental protection. In addition to Cherry Blossom Park, VIS also adopts the Qianjia Park, which is the starting point of hydrophilic blue belt of Xinzhu City's "Smiling Water Bank". On the left bank of Xinzhu, it regularly invests in human inspection and appoints professional gardening vendors to help maintain planting, purify urban air and improve the quality of life of the public. In addition, since 2015, the company has continuously sponsored NT\$2 million per year for the production of "Taiwan's Tomorrow and Tomorrow's Taiwan" hosted by IC Broadcasting Co., Ltd. This radio program discusses various issues in Taiwan, including education, talents, social, livelihood, energy and environment together with listeners based on current global trends. The program has received great acclaim. In 2019, the radio program added other issues, such as elderly care and climate change, for discussion, in which the host of the program, Jennifer Shen led experts and listeners together to care about the future of Taiwan. Among them, the issue of climate change is one of the 17 sustainable development goals of the United Nations.			

Assessed items			State of operations		Gaps in the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and root causes
Yes	No	Summary			
Product aspect: To enhance the company's quality culture, continuously improve product quality and production efficiency, reduce production costs, and improve customer satisfaction, VIS fully implements the Suggestion System (SS) and Continual Improvement Team (CIT) at all plants. In 2019, a total of 2,498 SS cases and 417 CIT cases were proposed and implemented, where the benefits derived from both sets of cases amounted to NT\$1.037 billion. 34.2% of all 263 CIT cases (or 90 CIT cases) closed were related to product quality improvement measures. Beginning 2019, the company has issued the Best Improvement Award, Teamwork Award and the Best Publication Award to participating CITs. Environment and employees: Please refer to the annual report on Chapter 5. Operation Overview (IV. Environmental protection expenditure and V. Labor relations) The company's achievements in certification and awards in recent years are as follows:					
EHS certificate			Date of initial certification	Latest renewal date	Expiry (valid) date
ISO 14001 Environmental Management System Certification			1997.12.12	2018.4.18	2021.1.17
OHSAS 18001 Safety and Health Management System Certification			2003.2.26	2018.1.18	2021.1.17
SONY Green Partner Certification			2003.6.19	2019.12.24	2022.3.31
Taiwan Occupational Safety and Health Management System (TOSHMS) Certification			2010.5.26	2018.1.18	2021.1.17
ISO 14064-1 Greenhouse Gas Inventory Verification			2012.12.16	-	-
ISO 14046 Product Water Footprint Verification			2016.9.4	2018.10.2	2020.10.1
ISO 14067 Product Carbon Footprint Verification			2016.9.4	2018.10.2	2020.10.1
ISO 50001 Energy Management Systems Verification			2017.12.8	2018.11.9	2020.12.2
ISO 14051 Material Flow Cost Analysis and Verification			2018.10.13	-	-
● The best performer of the top 5% of TPEX-listed companies in the 5th Corporate Governance Review ● The best performer of the top 10% of the electronic companies listed in TWSE and TPEX in the 5th Corporate Governance Review that are not classified and have a market value of more than NT\$10 billion ● Silver award in the "Enterprise Environmental Protection Award" by the Environmental Protection Administration, Executive Yuan. ● 1st "Green Chemistry Application and Innovation Award" by the Environmental Protection Administration, Executive Yuan. ● The first place in the private enterprise group of the 1st "National Environmental Education Award" by the Environmental Protection Administration, Executive Yuan. ● The "Excellent Unit of Occupational Safety and Health" by the Occupational Safety and Health Administration, Ministry of Labor, Executive Yuan ● The annual most representative M&A award of "Taiwan M&A Jinxin Award" by the 9th Taiwan Mergers & Acquisitions and Private Equity Council ● Bronze award of "Taiwan Enterprise Sustainability Report Award" by the Taiwan Institute for Sustainable Energy ● No. 30 in the large enterprise group of the "World Corporate Citizen Award" by the CommonWealth magazine ● Top 20 of the "Great Award for Happy Enterprises in IT Industry" by Cheers magazine					

Major issues and sustainable goals of the company

Major Issues	Assessment Item	Target of Sustainability	Risk management policy or strategy
Corporate Governance	Business ethics	Uphold business integrity	Continue to conduct Code of Conduct re-training and annual conflict of interest reporting investigation every year.
	Supplier sustainability management	100% Suppliers recognize and comply with VIS CSR policy 100% Suppliers comply with R.B.A. Responsible Minerals Initiative	- Supplier sustainable management evaluation and management - Supplier CSR policy Management
	Customer service / Sustainability products	VIS continues to prove more competitive manufacturing technology for customer to produce products that are highly efficient and energy-saving	Actively promote VIS UHV production platform to new customers and help existing customers in product upgrade; it is projected to increase output by 10,000 wafers in applications of LED lighting and motor driver, thus achieving the sustainable goal of energy conservation and carbon reduction.
	Regulatory compliance	- No material regulatory violations - No litigations relating to anti-competition, anti-trust, and anti-monopoly laws	- Continue to adopt laws and regulations governing various business areas into company policies and rules, and organize training courses on legal compliance. - Continue to include the prevention of violation of anti-trust laws as the focus of legal compliance, and demand high-risk business units to complete training course on anti-trust law.
Environment	Energy management	Reduce electricity consumption to 10% below 2015 level by 2020	- Continue to promote ISO 50001 Energy Management System - Continue to enhance energy-saving performance
	Occupational safety	- Provide employees safe and healthy working environment - Reduce employee disabling injury frequency and severity	- Zero-occupational safety accidents and positive prevention of occupational diseases - Employee disabling injury frequency(FR)<0.45 and severity(SR)<4; future goal is to have zero accident, becoming a world-class company of occupational safety and health
	Climate change	Reduce carbon emission per unit area of wafer to 20% below 2015 level by 2020	- Continue to promote ISO 14064 GHG verification and ISO 14067 Product Carbon Footprinting Verification - Continue to promote measure of GHG reduction
	Air pollution control	Reduce VOC emission per unit area of wafer to 10% below 2015 level by 2020	- Chemicals source reduction - Optimization of parameters of air pollution prevention
	Water management	- Reduce water consumption per unit area of wafer to 13% below 2015 level by 2020 - Water recycling processing rate>85% (Fab3>75%)	- Continue to promote optimization of process water - Continue to promote ISO 14046 Product Wafer Footprint Verification
	Waste management	Waste recycling rate>90%	- Continue to promote waste source reduction and waste recycling and reuse - Cooperate with partners to develop new waste recycling technology

Major Issues	Assessment Item	Target of Sustainability	Risk management policy or strategy
Social	Talent attraction and retention	● Continue to promote “Employer Value Proposition” to attract talents that share the same vision	● Continue to target schools and organize corporate visits and alumni homecoming activities to gain campus visibility and enhance brand image of VIS ● Promote VIS Employ Value Proposition to job seekers and public through social media
	Talent development	● Responding to the need of company growth, plan and organize talent development, build talent echelon, and strengthen employee capabilities and development, in order to achieve sustainable operation	● Continue to carry out talent development project, establishing managerial talent pool for different levels ● Strengthen managerial capacity of executives at different levels and offer management skill training ● Tailor personal development plan based on employee personal needs and career development, and continue to perfect “Learning Passport” System
	Human rights	● Help employees to maintain physical and mental health and work-life balance-building challenging yet fun working environment	● Continue to organize company-wide activities to enhance corporate identity ● Continue to care for employees and build harmonious employer-employee relationship through diverse and open channels where employees can reflect opinions and feedbacks ● Continue to publish quarterly journal to share local and overseas company achievements, and share the VIS world within the greater world around, enhancing corporate identity
	Social participation	● Select specific issues and demographics for long-term engagement ● Develop diverse volunteering service ● Continue making charity donations to underprivileged group	● Continue to care for the underprivileged ● Continue to effort in community building ● Continue to invest in environmental protection and ecological conservation ● Strive to alleviate urban-rural gap and digital divide

6. Implementation of Integrity Management and Measures

The company's philosophy dictates that employees of the Company, regardless of their physical location, shall adhere to the highest standards of professional ethics and maintain such in their personal conduct. When engaged in day-to-day work, employees shall observe business ethics and maintain the Company's reputation to gain the respect and trust of customers, suppliers, and all other professionals.

Implementation of integrity management				Variation compared with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
Assessment Items	Current Situation		Description	
	Yes	No		
1. Formulation of Integrity Management Policy and Measures (1) Did the company explicitly state the policy and practices of integrity management in its regulations and external documents, and did the board of directors and managements commit to implementing such management policy?	V		(1) In order to foster a corporate culture of ethical management and sound development, and offer a reference framework for establishing good commercial practices, the company has established “Integrity Management Policy and Measures” on November 1, 2016. And article 1 of VIS's business philosophy: Honoring the principle of good faith, abiding by an exacting code of professional ethics. The company clearly regulates the practice of this philosophy in the "Professional Code of Ethics," requiring all employees to understand and abide by the professional code of ethics and personal integrity. In addition, the Professional Code of Ethics for Directors explicitly states the need for directors to uphold the principle of good faith and abide by a behavior of professional standards.	No variation
(2) Did the company formulate measures for preventing dishonest behavior, specify operating procedures, behavioral guidelines, violation penalties, and system of appeal in such measures, and implement such measures?	V		(2) The company specifies the reasonable scope of gift presentation and hospitality in its Professional Code of Ethics: Employees must uphold the highest standards of professional ethics toward the company's suppliers, contractors, customers, or other stakeholders (including governmental officials) and are absolutely forbidden from bribes of any forms. In the VIS Corporate Social Responsibility Policy, VIS pledges to uphold integrity in employee and executive conduct in all business activities and internal interactions. Business books shall be clear and accurate, transparent, and compliant with applicable regulations and accurately reflect the financial performance and health of the Company. VIS will work against corruption in any and all forms, including extortion, bribery, and embezzlement.	
(3) Did the company adopt prevention measures against business activities within its business scope at a higher risk of being involved in an unethical conduct or those listed in Paragraph 2 of Article 7 of	V		(3) The article 6, 21, and 24 of VIS Ethical Corporate Management Best Practice Principles have formulated the related measures, and the company states the operating procedures, methods, violation penalties, and system of appeal in its Professional Code of Ethics, and provides employee training when encountering conflicts of interest each year in accordance with the provisions in the Professional Code of Ethics.	

Assessment Items	Current Situation		Variation compared with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?			
2. Implementation of Integrity Management (1) Did the company assess the integrity of its transaction parties, and specify provisions pertaining to behaviors of integrity in the contract signed with the transaction party?	V		(1) The company mandates in its Professional Code of Ethics that employees must uphold the highest standards of professional ethics toward the company's suppliers, contractors, customers, or other stakeholders (including governmental officials) and are absolutely forbidden from bribes of any form. In addition, the Ethical Code of VIS and Supplier stipulates that either party may not give or receive bribes of any form or act in any way contrary to the interests of either party and shall avoid engaging in frequent or improper hospitality behaviors during business activities. Suppliers in violation of the aforementioned regulation shall prompt VIS to stringently review its business cooperative relationship with the supplier and adopt necessary measures, including adjustment to the amount of purchases from the supplier.
(2) Did the company establish a unit affiliated with the board of directors exclusively for the promotion of corporate integrity management and periodically report to the board of directors regarding the implementation progress?	V		(2) To achieve sound ethical corporate management, the company assigned Human Resource Division to responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The Human Resource Division shall be in charge of the following matters, and shall compile the report to the Audit Committee and report to the board of directors on a yearly basis. Besides, the company has set up the "Corporate Social Responsibility Promotion Committee" to take charge of establishing the "corporate social responsibility policy" and proposing and implementing systems and assist with the promotion of corporate integrity management. In addition, the Committee periodically submits the company's corporate social responsibility report to the board of directors, and the board will supervise the implementation of corporate integrity management.
(3) Did the company formulate policies for prevention against conflicts of interests, provide appropriate channels of communication, and implement such policies and communication?	V		(3) The company has formulated the Conflicts of Interest Prevention policy in the Professional Code of Ethics: Conflicts of interests shall be periodically reported on a yearly basis and an appropriate channel of communication shall be provided for implementation of preventive measures.
(4) Did the company set up an effective accounting system and internal control system to implement integrity management,	V		(4) VIS has formulated accounting systems according to the International Financial Reporting Standards (IFRS), mandating the need to adopt CPA's opinions during accounting project assessments before presenting the most suitable project to the executive-in-charge for review and approval; Furthermore, in light of changes to accounting policies and estimations, the company has developed related procedures

Assessment Items	Current Situation		Variation compared with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation														
	Yes	No															
and designate internal audit units or entrust accountants to perform audits of these systems?		according to the Regulations Governing the Preparation of Financial Reports by Securities Issuers. All financial statements are audited by certified public accountants to ensure the fairness of the financial statements and are reviewed by the company's Audit Committee. VIS has established a comprehensive internal control system, to which control points for each operation have been incorporated. The system is reviewed and modified on a yearly basis and inspected by internal audit units for functionality. Respective units are asked to perform spontaneous inspections on a daily basis. In addition, the Board of Directors and the management will discuss results of the spontaneous inspections and audit reports from the audit department periodically to ensure the reliability, transparency, effectiveness and efficiency, accuracy of financial reports, and compliance with the applicable laws and regulations of the company operation.															
(5) Did the company periodically hold internal and external training on integrity management?	V	(5) The Company periodically hosts internal training on ethical management each year, including online courses pertaining to corporate ethics principles, and designates relevant representatives to participate in external training programs or forums (e.g., a corporate governance forum hosted by the Agency Against Corruption). In addition, experts from the Taiwan Corporate Governance Association were also retained to visit the Company and carry out an ethics review. To establish a corporate culture and sound development with a basis in ethical management, the Company implemented various courses in 2019 on topics including ethical management best practice principles, code of professional ethics, corporate social responsibility, and protection of proprietary information; employees participated a total of 10,552 times in the training, completing 4,993 training man-hours; the aim of the training is to ensure that employees are able to fully understand the Company's commitment to ethical corporate management and to help them personally abide by these principles in word and deed and incorporate these practices into daily work routines. <table><tr><th>Course</th><th>Number of times</th><th>Training man-hours</th></tr><tr><td>ethical management best practice principles code of professional ethics</td><td>5,170</td><td>1,986</td></tr><tr><td>corporate social responsibility (On-the-Job Training Employees)</td><td>243</td><td>72.9</td></tr><tr><td>protection of proprietary information</td><td>5,139</td><td>2,934</td></tr><tr><td>Total</td><td>10,552</td><td>4,993</td></tr></table>	Course	Number of times	Training man-hours	ethical management best practice principles code of professional ethics	5,170	1,986	corporate social responsibility (On-the-Job Training Employees)	243	72.9	protection of proprietary information	5,139	2,934	Total	10,552	4,993
Course	Number of times	Training man-hours															
ethical management best practice principles code of professional ethics	5,170	1,986															
corporate social responsibility (On-the-Job Training Employees)	243	72.9															
protection of proprietary information	5,139	2,934															
Total	10,552	4,993															

Assessment Items	Current Situation		Variation compared with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
3. Operation of VIS Whistle-Blowing System (1) Did the company establish concrete whistle-blowing and incentive systems and convenient whistle-blowing channels, and appoint a suitable personnel to handle the reported cases? (2) Did the company devise standard operating procedures for handling the investigation of reported cases and relevant confidentiality mechanisms?	V	V	(1) The company has formulated concrete whistle-blowing systems and convenient whistle-blowing channels in the Professional Code of Ethics. Employees and stakeholders can directly make reports to the company's board of director Audit Committee by using the whistle-blowing mailbox on the company website. In addition, dedicated units and personnel are appointed to handle reported cases. (2) The company has specified standard operating procedures for handling the investigation of reported cases and relevant confidentiality mechanisms in the Professional Code of Ethics. The board of director Audit Committee shall appoint suitable supervisors to establish an investigatory group comprising personnel who specialize in internal audits, human resources, and legal affairs. Such investigatory group shall perform investigations and compile reports to the Audit Committee. If evidence of violation is identified, the subject being reported shall be given a chance for appeal, and the subject and his/her respective supervisor shall be informed of the penalties imposed thereof. (3) The company has stipulated measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing in the Professional Code of Ethics; VIS holds the principle of fairness and confidentiality during the investigation process. The company shall protect whistle-blowers handling the investigation from subjecting to unfair revenge or treatment.
4. Strengthening of Information Disclosure Measures Did the company disclose the content and promotion effectiveness of its integrity management principles on its website and on the Market Observation Post System of the Taiwan Stock Exchange website?	V		The company has established a website for periodically disclosing relevant corporate integrity management information on a yearly basis to its stockholders and investors. The information disclosed on the company website is uniformly compiled and announced by public relation and investor relations department.
5. If the company did formulate principles for integrity management according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please state the variations in the operations and rules of such practice: In order to foster a corporate culture of ethical management and sound development, and offer a reference framework for establishing good commercial practices, the company has formulated principles for integrity management according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. In addition, the company has specified operating procedures and methods in its Professional Code of Ethics: Employees shall honor the professional code of ethics, avoid pursuing personal			No variation

Assessment Items	Current Situation		Variation compared with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
interests, comply with the principles of confidentiality, engage in fair trade, protect and properly utilize company assets, adhere to laws and regulations, prevent conflicts of interests, offer or accept bribes and hospitality, and abide by operating procedures for punishment and appeals. The company has specified regulations and guidelines in the Professional Code of Ethics for Directors: The board of directors shall avoid personal conflicts of interest, avoid pursuing personal interests, keep confidential business secrets, engage in fair trade, prevent insider trading, adhere to laws and regulations, and present reports of misconduct, alleged dishonest or illegal activity. No variation with the above.			
6. Other Information for Better Understanding of the company's integrity management practices: The Ethical Code of VIS and Supplier: We anticipate that all our suppliers, business partners, and other cooperating groups understand our standards of business ethics. All suppliers shall acknowledge VIS's ethical conduct and confirm their compliance with the regulations stipulated in this document before engaging in business activities with VIS. In any case, suppliers in violation of the aforementioned regulation shall prompt VIS to stringently review its business cooperative relationship with the supplier and adopt necessary measures, including adjustment to the amount of purchases from the supplier. Professional Code of Ethics: We hope that our customers, suppliers, business partners, and other stakeholders can understand and support our professional code of ethics. Employees are required to periodically report of any violations to the principle of conflicts of interest according to regulations on a yearly basis. Each year, VIS also re-reviews and updates its Professional Code of Ethics according to recent laws and regulations and practices of its competitors.			

7. Disclosure of Company Governance Principles and Regulations

VIS announced Corporate Governance Practice Principles is as below:

http://www.vis.com.tw/visCom/download/d_ir/orporate_governance_rule_e.pdf

8. Other Important Information Disclosed for Better Understanding of Corporate Governance

- a. Directors of VIS shall be elected by adopting the candidate nomination system
- b. Three out of the seven directors are independent directors
- c. All members of the Compensation Committee and the Audit Committee are independent directors, includes Chintay Shih, Kenneth Kin, and Benson W.C. Liu.
- d. VIS has established “Diversity of Directors Policy” and disclosed it on company’s annual report and website.
- e. VIS was ranked in the best Top 5% during the fifth Corporate Governance Evaluation.
- f. VIS conducts an internal Board Performance Assessment once a year and the scope covers the assessment of individual directors, the Board as a whole, and functional committees. The results will be disclosed on the company website.
- g. VIS completed external evaluation of Board performance by Taiwan Corporate Governance Association in Y2019.
- h. Seven directors completed a total of 85 hours of continuing education in 2019, please refer to Market Observation Post System via <https://mops.twse.com.tw/mops/web/t100sb07>.

9. Internal Control:

Vanguard International Semiconductor Corporation

Internal Control Statement

Date: February 20, 2020

The Company states the following with regard to its internal control system in Y2019, based on the findings of a self-evaluation:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability of financial reporting, transparency and efficiency, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems (herein below, the regulations”). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment, 2. risk estimation, 3. control activities, 4. information and communications, 5. monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, the Company believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement has been approved by the Board of Directors Meeting held on February 20, 2020. All of the 7 attending directors affirmed the content of this Statement.

Vanguard International Semiconductor Corporation

Chairman & President Leuh Fang



Where a CPA has been hired to carry out a special audit of the internal control system, furnish the CPA audit report: None

10. Legal Penalty:

VIS has not violated in any aspect the internal control requirement that resulted in penalty.

11. Major Resolutions of Shareholders Meetings and Board Meetings:

Review of Shareholder Meetings

The Y2019 Regular Shareholders' Meeting was held on June 14, 2019.

The major resolutions and implementation status were as below:

Date	Subject	Result	Implementation status
2019/06/14	To approve the Y2018 business report and financial statements	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	To approve the proposal for Y2018 profit distribution	After voting by poll, was approved as proposed.	Set July 10, 2019 as recording date for dividend distribution. July 25, 2019 sent out cash dividend, each common share holder received a cash dividend of NT\$3.2 per share.
	To amend Article of Incorporation	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	To amend Procedures for Acquisition or Disposal of Assets.	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	To amend Operational Procedures for Financial Derivative Transactions	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	To amend Procedure for Lending Funds to Other Parties	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	To amend Procedure for Making Endorsements and Guarantees	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.

Review of Board Meetings

Major resolutions adopted are summarized as below:

Y2019 :

- a. Agreed to convene the Y2019 regular shareholders meeting and related issues.
- b. Approved Y2018 annual business and operation report.
- c. Approved Y2018 annual financial report.
- d. Approved Y2018 profit distribution plan.
- e. Approved Y2018 internal control system statement.
- f. 6. Amended the Internal Control System.

- g. Approved Y2018 performance and Y2019 remuneration of managerial officers.
- h. Approved Y2018 performance and Y2019 remuneration of Chairman, Vice Chairman and directors.
- i. Approved Y2018 compensation of employees and directors.
- j. Amended the Rules of Procedure of Board of Directors Meetings.
- k. Amended the Articles of Incorporation.
- l. Amended the Procedures for Acquisition or Disposal of Assets.
- m. Amended the Operational Procedures for Financial Derivative Transactions.
- n. Amended the Procedure for Lending Funds to Other Parties.
- o. Amended the Procedure for Making Endorsements and Guarantees.
- p. Amended the Code of Ethical Conduct for employees.
- q. Approved to revise Y2019 operation plan and capital expenditure budget plan.
- r. Approved the investment of preferred stocks of QROMIS, INC.
- s. Approved to establish Vanguard International Semiconductor Singapore Pte. Ltd., a wholly-owned subsidiary.
- t. Approved capital injection to Vanguard International Semiconductor Singapore Pte. Ltd.
- u. Approved Vanguard International Semiconductor Singapore Pte. Ltd. to acquire GLOBALFOUNDRIES' Fab 3E In Singapore.
- v. Approved to make endorsements/guarantees for Vanguard International Semiconductor Singapore Pte. Ltd.
- w. Approved to loan funds to Vanguard International Semiconductor Singapore Pte. Ltd.
- x. Approved General Counsel Ellen Lin to be appointed as the Chief Corporate Governance Officer.
- y. Approved Dr. Jonathan Chang to be appointed as the Associate Vice President of ITIM.
- z. Amended the Corporate Governance Practice Principles.
- aa. Approved the Standard Operation Procedure of Handling the Request by Directors.
- bb. Approved the disposal of shares of Champion Microelectronic Corp.
- cc. Approved Finance Vice President DL Tseng to retire.
- dd. Approved Sr. Director Amanda Huang to be appointed as the CFO.
- ee. Amended the Guideline of Investment Management.

- ff. Amended the Guidelines for cash investment.
- gg. Approved Y2020 operation plan and capital expenditure budget plan.
- hh. Approved Y2020 Internal audit plan.
- ii. Agreed to Deloitte Touche Tohmatsu Limited to audit Y2020 financial statements of Vanguard and the subsidiaries.
- jj. Approved capital injection to VIS Associates Inc., a wholly-owned subsidiary.
- kk. Amended the Procedures for Handling Material Inside Information.
- ll. Approved the retirement of WSP Vice President Thomas Chang, effective May 31, 2020.
- mm. Approved Dr. Claire Chen to be appointed as the Vice President of WSP.
- nn. Approved the disposal of common stocks of Image Match Design Inc.
- oo. Approved Vanguard International Semiconductor Singapore Pte. Ltd. to apply for short-term banking facilities.

Y2020(As of February 29, 2020):

- a. Agreed to convene the Y2020 regular shareholders meeting and related issues.
- b. Approved Y2019 annual business and operation report.
- c. Approved Y2019 annual financial report.
- d. Approved Y2019 profit distribution plan.
- e. Approved Y2019 internal control system statement.
- f. Amended the Internal Control System.
- g. Approved Y2019 performance and Y2020 remuneration of managerial officers.
- h. Approved Y2019 performance and Y2020 remuneration of Chairman, Vice Chairman and directors.
- i. Approved Y2019 compensation of employees and directors.
- j. Amended the Procedure for Lending Funds to Other Parties.
- k. Amended the Audit Committee Charter.
- l. Approved Y2020 capital expenditure budget raising plan.
- m. Approved to loan funds to Vanguard International Semiconductor Singapore Pte. Ltd.

12. Dissenting Opinions Held by Directors and Supervisors in Respect of Important Resolutions Passed by the Board of Directors:

No dissenting opinions held by directors in respect of important resolutions passed by the board of directors from Y2019 to publish of this annual report.

13. Personnel Termination Summary Related to Annual Financial Report:

Title	Name	Date of Elected	Date of Resigned	Remark
Vice President Finance	D.L. Tseng	2011/5/1	2019/9/1	Retirement

E. Information Regarding VIS's Independent Auditors

Unit: NT\$, in thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Whether the CPA's audit period covers an entire fiscal year		
			System Design	Company Registration	Human Resource	Others (Note)	Subtotal	Yes	No	Audit Period
Deloitte & Touche	Tung-Hui Yeh	5,962	0	0	0	665	665	v		2019.01.01~ 2019.12.31
	Ming-Yuan Chung									

Note: Fees mainly related to taxation consulting service and review fair value of financial instruments.

The non-audit fee amounted to NT\$665 thousand is less than 25% of the audit fee.

The corporation did not change its accounting firm until February 29, 2020.

The audit fee in Y2019 did not reduce over 10% of previous year.

F. Information on Replacement of Certified Public Accountant

1. Former CPAs

Date of change	January 1, 2018 (Approved by BOD on November 6, 2017)			
Reasons and Explanation of Changes	Due to its internal personnel changes, Deloitte & Touche updated the audit partners for VIS from Yu-Feng Huang and Cheng-Chih Lin to Tung-Hui Yeh and Ming-Yuan Chung.			
State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Clients		CPA	Consignor
	Status			
	Appointment terminated automatically		Not available	Not available
	Appointment rejected (discontinued)		Not available	Not available
The Opinions Other than Unmodified Opinion Issued in the Last Two Years and the Reasons	None			
Is There any Disagreement in Opinion with the Issuer	Yes		Accounting principle or practice	
			Disclosure of financial statements	
			Auditing scope or procedures	
			Others	
	No	V		
	Explanation			
Supplementary Disclosure	(Disclosures Specified in Article 10.6.1.4~7 of the Standards) None			

2. Successor CPAs

Accounting Firm	Deloitte & Touche
CPA	Tung-Hui Yeh and Ming-Yuan Chung
Date of Engagement	January 1, 2018 (Approved by BOD on November 6, 2017)
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	None
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	None

3. The reply of former CPAs on Article 10.6.1 and Article 10.6.2.3 of the standards: None.

G. Company Chairman, President, Financial or Accounting Head has Worked for Certifying Accounting Firm or Its Affiliate Business in the Past Year: None

H. Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders of 10% Shareholdings or More:

Title	Name	Y2019		01/01/2020 ~ 02/29/2020	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman Vice Chairman	Taiwan Semiconductor Manufacturing Co., Ltd.(tsmc) Representatives: Leuh Fang F.C. Tseng	0	0	0	0
Director	National Development Fund, Executive Yuan Representative: Lai Shou Su	0	0	0	0
Director	Edward Y. Way	0	0	0	0
Independent Director	Benson W.C. Liu	0	0	0	0
Independent Director	Chintay Shih	0	0	0	0
Independent Director	Kenneth Kin	0	0	0	0
President	Leuh Fang	60,242	0	0	0
Vice President	D. L. Tseng (2019/9/1 retired)	13,963	0	0	0
Vice President	Thomas Chang (2020/1/10 retired)	15,595	0	0	0
Vice President	Claire Chen (2019/10/29 on board)	0	0	0	0
Vice President	Tommy Liu	583	0	0	0
Vice President	Du Yang	0	0	0	0
Vice President	Chan-Jen Kuo	14,535	0	0	0
Associate Vice President	Chrong-Jung Lin	8,403	0	0	0

Title	Name	Y2019		01/01/2020 ~ 02/29/2020	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Associate Vice Presiden	Jonathan Chang (2019/6/17 on board)	0	0	0	0
Chief Corporate Governance Officer	Ellen Lin (2019/4/29 on board)	1,100	0	0	0
CFO	Amanda Huang (2019/9/1 on board)	0	0	0	0
Major shareholder	Taiwan Semiconductor Manufacturing Co., Ltd.(tsmc)	0	0	0	0
Major shareholder	National Development Fund, Executive Yuan	0	0	0	0

Stock Trade with Related Party: None

Stock Pledge with Related Party: None

I. Top 10 shareholders relation

As of February 29, 2020

Name	Shareholding		Spouse & Minor shareholding		Shareholding by nominee arrangement		Top 10 shareholders with the relation of SFAS No.6		Note
	Share	%	Share	%	Share	%	Name	Relation	
Taiwan Semiconductor Manufacturing Co., Ltd.(tsmc) Representatives: Chairman:Leuh Fang Vice Chairman:F.C. Tseng	464,223,493	28.32%	0	0	0	0	National Development Fund, Executive Yuan Representatives: Director: Lai Shou Su	Director of tsmc	
National Development Fund, Executive Yuan Representatives: Director: Lai Shou Su	274,029,592	16.72%	0	0	0	0	Taiwan Semiconductor Manufacturing Co., Ltd.(tsmc) Representatives: Director: Leuh Fang Director: F.C. Tseng	Investee of NDF	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital Income Builder	81,482,089	4.97%	0	0	0	0	None		
JPMorgan Chase Bank N.A. Taipei Branch in custody for The Income Fund of America	50,830,886	3.10%	0	0	0	0	None		
NAN SHAN LIFE INSURANCE CO., LTD	47,385,000	2.89%	0	0	0	0	None		
SmallCap World Fund Inc.	47,232,575	2.88%	0	0	0	0	None		
JPMorgan Chase Bank N.A. Taipei Branch in custody for JPMorgan Funds	33,002,000	2.01%	0	0	0	0	None		
FUBON LIFE INSURANCE CO.,LIMITED.-TWOTC-FFI	28,025,000	1.71%	0	0	0	0	None		
Cathay Life Insurance Co., Ltd.	24,039,000	1.47%	0	0	0	0	None		
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for International Growth and Income Fund	23,888,250	1.46%	0	0	0	0	None		

J. VIS Long-Term Investment Ownership

As of February 29, 2020; Unit: shares; %

Long-Term Investment	Ownership by VIS		Direct/Indirect Ownership by Directors, Supervisors, and Management		Total Ownership	
	Shares	%	Shares	%	Shares	%
VIS Associates Inc.	317,000	100.00%	-	-	317,000	100.00%
Vanguard International Semiconductor Singapore Pte. Ltd.	400,000	100.00%	-	-	400,000	100.00%
Qromis Inc.	10,705,235	39.31%	-	-	10,705,235	39.31%
CMSC Inc.	9,902,000	24.94%	-	-	9,902,000	24.94%
United Industrial Gases Co., Ltd.	4,246,079	1.95%	21,230,414	9.75%	25,476,493	11.70%
Image Match Design Inc.	700,000	2.11%	-	-	700,000	2.11%
AnDAPT, Inc.	1,000,000	5.63%	-	-	1,000,000	5.63%
Voltafield Technology Corp.	600,000	1.56%	-	-	600,000	1.56%
Advanced Microelectronic Products, Inc.	30,000,000	6.85%	-	-	30,000,000	6.85%
VIS Shanghai company limited	Not Applicable (Note)	100.00%	-	-	Not Applicable (Note)	100.00%
Shenzhen Winsemi Microelectronics Co., Ltd	Not Applicable (Note)	10.00%	-	-	Not Applicable (Note)	10.00%

Note: Not applicable. These firms do not issue shares. VIS's investment is measured as a percentage of ownership.

IV. INFORMATION ON IMPLEMENTATION OF THE COMPANY FUNDS UTILIZATION PLANS

A.Capital and shares

1. Source of capital

Unit: Shares As of February 29, 2020

Month/Year	Price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets other than Cash	Date of Approval & Approval Document No.
8/2014	NT\$14.5	3,300,000,000	33,000,000,000	1,638,982,267	16,389,822,670	Exercise of employees stock options		(92)Tai-Tsai-Zheng (I) No.0920144383

* There is no change of Capital since Aug. '14.

Unit: Shares As of February 29, 2020

Type of Stock	Authorized Capital			Note
	Listed Shares	Non-listed shares	Total Shares	
Common Stock	1,638,982,267	1,661,017,733	3,300,000,000	

Shelf Registration: None

2. Shareholder Structure

As of February 29, 2020

	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	29	112	33,614	673	34,429
Shareholding	274,029,592	164,470,912	499,872,908	97,967,595	602,641,260	1,638,982,267
Holding Percentage (%)	16.72%	10.03%	30.50%	5.98%	36.77%	100.00%

3. Distribution Profile of Shareholder Ownership

As of February 29, 2020

Shareholder Ownership (Share)	Number of Shareholders	Ownership (Share)	Ownership (%)
1~ 999	16,009	4,355,752	0.27%
1,000~ 5,000	14,430	28,229,135	1.72%
5,001~ 10,000	1,995	14,264,784	0.87%
10,001~ 15,000	588	7,208,154	0.44%
15,001~ 20,000	282	5,122,285	0.31%
20,001~ 30,000	271	6,677,920	0.41%
30,001~ 50,000	244	9,646,554	0.59%
50,001~ 100,000	198	14,360,494	0.88%
100,001~ 200,000	116	15,923,268	0.97%
200,001~ 400,000	99	28,432,372	1.73%
400,001~ 600,000	42	20,864,698	1.27%
600,001~ 800,000	20	13,826,819	0.84%
800,001~1,000,000	18	16,355,149	1.00%
Over 1,000,001	117	1,453,714,883	88.70%
Total	34,429	1,638,982,267	100.00%

Preferred Stock: Not Applicable

4. Major Shareholders

As of February 29, 2020

Major Shareholders	Total Shares Owned	Ownership (%)
Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)	464,223,493	28.32%
National Development Fund, Executive Yuan	274,029,592	16.72%

5. Market Price, Net Worth, Earnings and Dividends Per Common Share

Unit: NT\$; shares in thousands

Item		Year	2018	2019	01/01/2020~ 02/29/2020
Market Price Per Share	Highest Market Price		83.60	82.40	83.30
	Lowest Market Price		49.05	55.00	72.50
	Average Market Price		65.80	66.73	77.67
Net Worth Per Share	Before Distribution		17.96	18.02	-
	After Distribution		14.76	(Note 4)	-
Diluted Earnings Per Share	Weighted Average Shares		1,659,643	1,655,580	-
	Earnings Per Share		3.72	3.54	-
Dividends Per Share	Cash Dividends		3.20	(Note 4) 3.20	-
	Stock Dividends	Dividends from Retained Earnings	-	(Note 4)	-
		Dividends from Capital Surplus	-	(Note 4)	-
	Accumulated Undistributed Dividends		-	-	-
Return on Investment	Price/Earnings Ratio (Note1)		17.69	18.85	-
	Price/Dividend Ratio (Note 2)		20.56	(Note 4)	-
	Cash Dividend Yield Rate (Note 3)		4.86%	(Note 4)	-

Note 1 : Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 2 : Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 3 : Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

Note 4 : Subject to shareholders' meeting resolution.

6. Dividend Policy

According to the Company's Articles of Incorporations, when allocating the earnings for each fiscal year, the Company shall first offset its losses in previous years and set aside a legal capital reserve at 10% of total remaining profits; this excludes circumstances in which accumulated legal capital reserve is equivalent to the total capital of the Company. The Company shall set aside or reverse a special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge. Any balance left over plus accumulated undistributed earnings shall be allocated according to the following principles per resolution of the shareholders' meeting:

- (1) Except for when distribution of capital reserve is conducted in accordance with Subparagraph 2 or Paragraph 1 of this article, the Company shall not allocate dividends or bonuses when there is no surplus earning. VIS may fully allocate its distributable earnings for the year based on factors such as financial, business, operation, etc. Earning distributions may be paid out with cash or stock dividends jointly or separately. Due to the steady growth experienced by our Company to date, the amount of cash dividends distributed shall be no less than 60% of the gross amount dividends.

- (2) In the event the Company suffers no losses in a certain year but possesses no distributable earnings, or the earnings of a certain year is significantly less than the earnings distributed by the Company during the previous year, or in consideration of the company's financial, business, or operational factors, the Company may allocate all or a portion of its reserve for distribution in accordance with relevant laws or regulations, or upon the provisions of competent authorities. Where legal reserve is distributed by issuing new shares or cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

VIS aims for a steady dividend policy. Looking forward to next year, the cash dividend per share would be equal or more than the amount that to be distributed in Y2020.

Y2019 Profit Distribution for Common Shareholders:

Unit: NT\$

Year	Date of Board Resolution	Dividend to Common Shareholders (Cash)
2019	2020/2/20	5,244,743,254

7. Stock Dividend Distribution: None

8. Compensation of employees, directors, and supervisors:

- a. The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth in the company's articles of incorporation.

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.

- b. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period(2. For the year ended December 31, 2019, the employees' compensation and the remuneration to directors were \$1,205,833,750 and \$21,800,000, respectively. The above calculation was at a certain percentage of the net income before income tax, employees' compensation and remuneration to directors. Any discrepancy between amount resolved by the board of directors and the above estimated figure will be recorded a change in accounting estimate and adjusted to profit and loss of next year.

- c. Information on any approval by the board of directors of distribution of compensation.

- (1) The amount of any employees' compensation distributed in cash or stocks and remuneration to directors and supervisors. If there is any discrepancy between that amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed.

The amounts of employees' compensation and remuneration to directors resolved by the board of directors on February 20, 2020 were as follows:

- The employees' compensation amounted to NT\$1,205,833,750. The distribution will be paid in cash. There is no difference between the amount resolved by the board of directors and the expense recognized in Year 2019.
- The remuneration to directors amounted to NT\$21,800,000. The distribution will be paid in cash. There is no difference between the amount resolved by the board of directors and the expense recognized in Y2019.

(2) The amount of any employees' compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports for the current period and total employees' compensation: Not Applicable.

d. The actual distribution of employee, director, and supervisor compensation for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated.

Distribution of employees' compensation and remuneration to directors for the Y2018 was as follows.

	Board of Directors Resolution (January 29, 2019)	Actual Distribution		
	Amount (NT\$)	Amount (NT\$)	Underlying Number of Shares	Dilution
Remuneration to Directors	22,195,073	22,195,073	NA	NA
Employees' compensation in cash	1,170,000,311	1,170,000,311	NA	NA
Total	1,192,195,384	1,192,195,384	NA	NA

The above figures have been recognized in the Y2018 financial report. There is no difference between the actual distribution and the expense recognized in Y2018.

9. Share Buy-back : None

B. Issuance of Corporate Bond : None

C. Issuance of Preferred Stock

1. Preferred Stock : None

2. Preferred Stock with Warrants : None

D. Issuance of Depositary Shares: None

E. Issuance of Employee Stock Option

1. Status of Employee Stock Option Plan (ESOP): None

2. New restricted employee shares: None

F. Status of Mergers and Acquisitions: None

G. Fund Plan Implementation: None

V. OPERATIONAL HIGHLIGHTS

A.A description of the business

1. Scope of business

VIS' scope of business is in wafer foundry manufacturing. Based on the generic CMOS process to develop variety process technologies such as HV, PMIC, Discrete, NVM and serve customer demand. At the same time, dedicate on the developing of BCD, high-voltage/ultra high-voltage, Sensor and MEMS new technologies. VIS also supports specialty IC process manufacturing and is committed to instilling a zero-defect mindset for production, supply chain management, and service flow. We are firmly dedicated to continuous improvement in order to reach our ultimate goal of providing panel and power management products with zero defects to customers. Meanwhile, VIS is co-operating with various IP service providers to expand VIS service in manufacturing. Above are all for the purpose of establishing VIS as the preferred partner in specialty IC foundry & service.

Y2019 VIS Sales Revenue

	Item	AMT (NT\$ in thousands)
(1)	Wafer Foundry	28,123,512
(2)	Others	602,234
Less	Sales returns and allowances	439,674
TTL	Net Revenue	28,286,072

2. Overview of the industry

Current state of industry and trends

Macroeconomic aspects

According to the latest World Economic Outlook (WEO) report issued by the International Monetary Fund (IMF), the statistics and forecast of global GDP growth are shown in Table 1. The global GDP growth is estimated to be 2.9% in 2019, 3.2% in 2020 and 3.4% in 2021.

The global economic recovery and trade warm-up are reflected in the stable political and economic situation of all countries and the steady increase of demand and investment. China and the United States are trying to avoid more trade tensions and further deterioration of economic relations between the two countries. The United Kingdom is trying to avoid the "no-deal Brexit", aiming to negotiate for favorable conditions in order to alleviate the social unrest and geopolitical tensions caused by Brexit, so as not to let the situation result in the economic decline.

The novel coronavirus disease (COVID-19), which has spread around the world in early 2020, has caused global economic activity to slow down. It is expected to have a certain impact on the overall GDP growth. As of March, the IMF lowered the growth rate of China's GDP to 5.6%, and the global growth rate was revised downwards by 0.1% to 3.2%. However, the exact impact depends on the situation of epidemic control in various countries.

Table 1. Statistics and forecasting of global GDP growth (2018-2021)

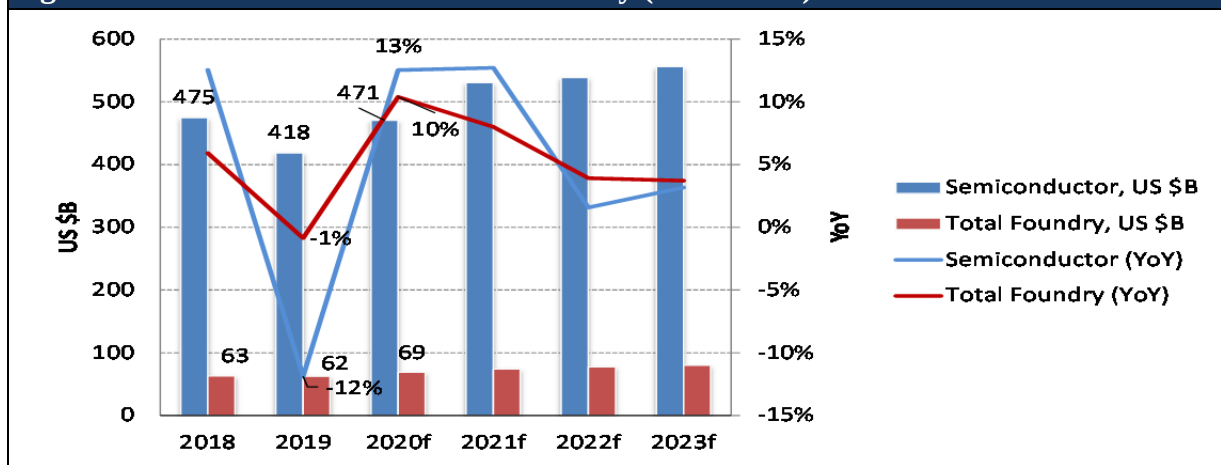
	2018	2019	2020	2021f
Worldwide	3.6%	2.9%	3.2%	3.4%
Advanced Economies	2.2%	1.7%	1.6%	1.6%
USA	2.9%	2.3%	2.0%	1.7%
Euro Area	1.9%	1.2%	1.3%	1.4%
UK	1.3%	1.3%	1.4%	1.5%
Emerging and Developing Economies	4.5%	3.7%	4.4%	4.6%
China	6.6%	6.1%	5.6%	5.8%

Source : IMF (Feb. 2020)

Economic Output of Global Semiconductor and Foundry Industries

According to the data of research institute Gartner in 2019, the semiconductor revenue will reach US\$418 billion in 2019, down by 12% compared with the previous year. As for the wafer foundry industry, the scale is about US\$62 billion, a 0.8% YoY decline. In the first half of the year, uncertain factors such as no agreement reached in the trade war has resulted in weak market demand; but in the second half of the year, 5G mobile communication started to develop, the penetration rate of new products increased, coupled with the deployment and development of communication equipment in various countries, both at the same time have driven the application processor (AP), radio frequency (RF) IC, power management IC, discrete components, display driver IC, sensor IC and other related semiconductors to grow, and the overall wafer foundry industry's capacity utilization has increased by the end of 2019.

Looking forward to 2020, it was originally expected that with the help of 5G mobile communication development, the output value of semiconductor will have a growth rate of more than 10%. However, the impact of the outbreak of COVID-19 at the beginning of the year will lead to conservative consumption in the first half of the year. In addition, the closure and shutdown of some regions in various countries will affect the supply chain and logistics. It is expected that in the second half of the year, after the outbreak is stable, the delayed consumption demand and economy will recover, and the output value of semiconductors will still grow compared with 2019.

Figure 1. Global Semiconductor and Foundry (Pure+IDM) Production Value


Source : Gartner (Dec. 2019)

Revenue and ranking of global foundry providers

Gartner announced that the revenue and market share of global foundry (including Pure Player and IDM) in 2019 are as shown in Table 2. It is about the same as -0.8% in the wafer foundry market. The revenue of the top ten companies decreased slightly by 1.6%, accounting for 91.5% of the total.

TSMC is still the leader, with revenue growth of 1% and market share rising to 55.5%. The revenues of other companies have almost declined without exception. GlobalFoundries ranked No. 2, accounting for 8.6% of the market, followed by 7.7% of UMC, 7% of Samsung, 5% of SMIC, and 2% of TowerJazz, which were all affected by the market fluctuations caused by the China-US trade war in the first half of the year.

At the same time, due to the impact of memory price decline, revenue of Powerchip Technology, which has a memory foundry, fell by 13.5%, ranking seventh, and its market share dropped to 1.6%. Thanks to the injection of 12 inch new fab, Huahong Grace's revenue maintained a flat growth of about 0.2%, ranking eighth. In 2019, the company's revenue of about US\$916 million ranked ninth, with a market share of about 1.5%.

Global Foundry (Pure+IDM) Revenue and Market Share						
2019	Company	2018		2019		Revenue YoY
		\$M	SoM%	\$M	SoM%	
1	tsmc	34,199	54.20%	34,599	55.50%	1.2%
2	GF	5,451	8.90%	5,380	8.60%	-1.3%
3	UMC	5,022	8.30%	4,792	7.70%	-4.6%
4	Samsung	4,840	7.50%	4,340	7.00%	-10.3%
5	SMIC	3,360	5.20%	3,116	5.00%	-7.3%
6	Towerjazz	1,304	2.30%	1,234	2.00%	-5.4%
7	PSMC	1,149	1.80%	994	1.60%	-13.5%
8	Huahong Grace	931	1.60%	933	1.50%	0.2%
9	VIS	962	1.40%	916	1.50%	-4.8%
10	HLMC	674	1.40%	681	1.10%	1.0%
	Top 10	57,892	92.60%	56,985	91.50%	-1.6%
	Others	5,657	7.40%	6,036	8.50%	6.7%
	Total	63,549	100.00%	63,021	100.00%	-0.8%

Source : Gartner (Feb. 2020)

Taiwan Semiconductor Industrial

The following chart displays the statistics and forecasting of industry output values for various secondary semiconductor industries in Taiwan. According to the data presented by the TSIA and IEK, thanks to the influence of the China-US trade war leading to China localization, the overall output value reached NT\$2,665.6 billion, with an annual growth of 1.7%, which is better than the annual decrease of 12% in the global semiconductor market.

Looking forward to a stabilized trade war in 2020, Taiwan's overall industry is expected to continue to grow in 2019, with an estimated annual growth rate of 4%.

Table 3. Output values of various secondary semiconductor industries in Taiwan

	2018 (NT\$100 millions)	2029 (NT\$100 millions)	2020e (NT\$100 millions)	18'-19' YoY	19'-20' YoY
Overall industrial output value (total)	26,199	26,656	27,742	1.7%	4%
-IC design industry	6,413	6,928	7,227	8.0%	4%
-IC manufacturing (OEM + memory)	14,856	14,721	15,285	-0.9%	4%
-IC packaging test industry	4,930	5,007	5,230	1.6%	4%

Source: TSIA and IEK (Feb. 2020)

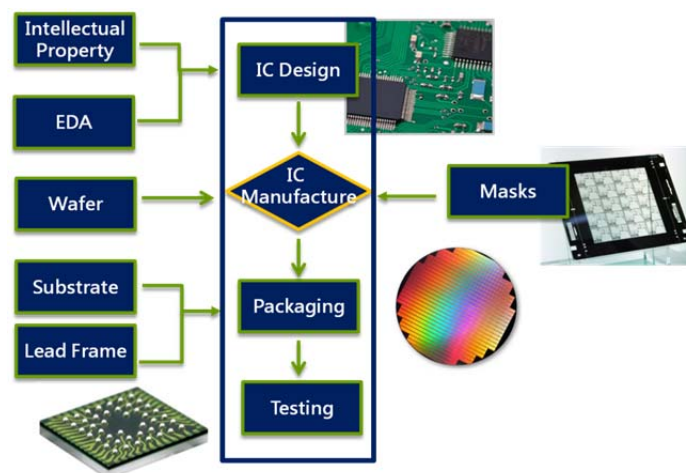
Table 4 shows the ranking of Taiwan's major wafer manufacturers by revenue in 2019 TSMC and UMC from the foundry industry occupied the first two places in the ranking, whereas the company ranked 7th. At present, there is only one DRAM manufacturer left among Taiwan's wafer manufacturers, i.e. Nanya Technology Corporation. Most wafer manufacturers have implemented the foundry business model, or are operating as an IDM and a foundry simultaneously.

Table 4: Regarding the revenue rankings for Taiwan's foundry manufacturers

2019 Ranking	Company	2018 NT\$ 100M	2019 NT\$ 100M	18'-19' YoY	Note
1	tsmc	10,315	10,700	4%	Pure Foundry
2	UMC	1,513	1,482	-2%	Pure Foundry
3	Nanya	847	517	-39%	DRAM
4	Winbond	512	488	-5%	IDM/Foundry
5	Powerchip	499	360	-28%	Pure Foundry
6	Macronix	370	350	-5%	IDM/Foundry
7	VIS	289	283	-2%	Pure Foundry
8	Nuvoton	100	104	3%	IDM/Foundry

Source: Company data (Mar. 2020)

Semiconductor Industry Supply Chain



Product development trends and state of competition

a. Product development trends

VIS provides the best quality IC foundry services and logic foundry process technology. Apart from existing logic, mixed-signal and high-voltage process, VIS also offers ultra high voltage, BCD (Bipolar-CMOS-DMOS), SOI (Silicon on Insulator), and embedded non-volatile memory processes. Our high voltage processes range from 10V to 700V, enabling us to satisfy the needs of different product specifications and help customers expand applications in different field. In light of the increasing need for consumable electronics, VIS has completed building the structure of an IC application platform for magnetic and fingerprint sensor process technologies, thereby providing customers with additional options other than driver ICs, power management ICs, and discrete components. In response to the automobile industry's demand for semiconductors, VIS has actively proposed solution plans and applied for AEC-Q100 & VDA6.3 certifications to provide our customers with multiple choices of technical platforms.

Besides, the company announced the acquisition and completed the transaction of GlobalFoundries' Fab 3E in Singapore in February 2019. Benefiting from this acquisition, foundry manufacturing of products such as micro electro mechanical systems (MEMs) will also be added to the company's technology platform in the future.

Our wafer foundry services are closely linked with end markets, including computer, consumer electronics, communications and automotive markets. We chiefly supply products for computers (including desktop, notebook and tablet), LCD TVs, and cell phones; the following are demand forecasts for various end markets from the research firms:

Computer :

Soft demand continued to impact the shipment of PC products in 2019. The shipment of tablet did not grow as the increased shipment of large size smartphones. And 12.9" tablet did not motivate corporate clients in the use of tablet computers, generating an overall shipment of 133 million, which reflects a 9% decrease. Because of the shortage of Intel CPU, the desktops and notebook computers shipped 96 million and 145 million units respectively.

Looking forward to the next few years, the PC market still presents a continuous depression trend. Notebook computers benefit from ultra-thin, e-sports, multi screen and other product innovation, barely maintaining an annual average compound growth rate of -1% ('19 - '23), as for desktop computers and tablet computers, there will be a decline of -3%.

Table 5: Projections and Annual Growth Rate of Global PC Shipments, including Tablets (in millions)

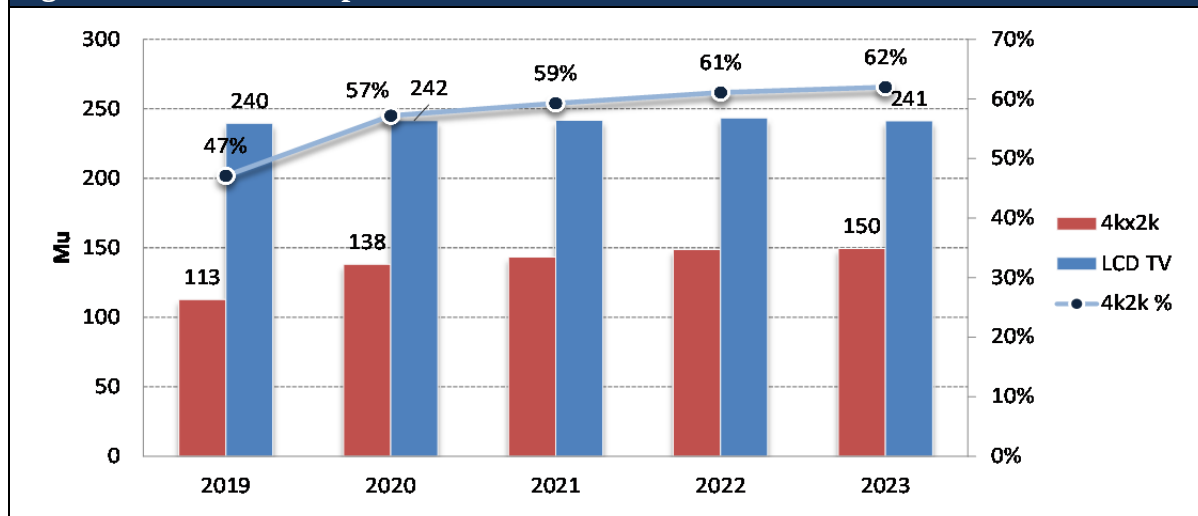
	2019	2020	2021	2022	2023	CAGR (19-23)
DT	96	93	90	87	85	-2.9%
NB	145	140	138	137	139	-1.1%
Tablets	133	126	123	121	116	-3.3%
DT YoY%	-3%	-3%	-3%	-2%	-2%	
NB YoY%	-1%	-4%	-2%	0%	1%	
Tablets YoY%	-9%	-5%	-2%	-2%	-4%	

Source : IHS, Gartner, IDC (4Q19)

Consumer Electronics :

The following figure and table depict the global shipment and resolution trend of LCD TVs. In 2019, a 0.4% annual growth rate (approximately 240 million) was observed, with FHD (1920x1080) accounting for 20%. The penetration rate of UFHD (3840x2160, 4k2k) was about 47%. Regarding UFHD resolution devices, favorable growth is expected under the influence of price fluctuations, occupying over 50% of the overall LCD TV market in 2020. Meanwhile, with the market for 4K/2K devices continuing to mature and with consumers gaining more exposure to this technology, 8K/4K televisions will soon begin hitting the market. A positive growth in the shipment of LCD TVs and enhanced panel resolution are market trends that positively influence VIS business performance in driver IC operations.

Figure 2: Global TV Shipment Volume and Annual Growth Rate



Source : IHS, Gartner, IDC (4Q19)

Table 6: LCD Shipment Ratio by Resolution

Resolution	2018	2019	2020	2021	2022	2023
1366 x 768	35%	33%	26%	25%	23%	23%
1920 x 1080	25%	20%	17%	15%	14%	14%
3840 x 2160	39%	47%	57%	59%	61%	62%
7680 x 4320	0%	0%	0%	1%	1%	2%

Source : IHS (4Q19)

Communication :

The following table depicts the global shipment and annual growth rate forecasts for mobile phones. Regarding the average compound growth rate for shipments from 2019 to 2023, feature phones register a decline of 13%, whereas mid-/low-end devices and premium high-end devices each project an around 2~3% growth.

In the second half of 2019, 5G mobile phones was launched, which will lead to the recovery of Premium high-level model demand. In 2020, it is expected to grow by 7% and increase the demand for replacement of Utility/Basic model by 3%. . VIS supplies driver IC capacity for products with ramless in response to customer demands for mid-/low-end devices.

Table 7: Global Mobile Phone Shipments (in millions of units) and Growth Rate Forecast

Mu, YoY%	2019	2020	2021	2022	2023	CAGR (19-23)
Total Mobile	1,670	1,728	1,760	1,745	1,735	1.0%
Feature phone	185	171	145	126	105	-13.3%
Utility/Basic Smart phone	937	970	1,004	1,006	1,013	2.0%
Premium Smart Phone	547	587	611	613	617	3.1%
Feature phone YoY%	-23%	-8%	-15%	-13%	-17%	
Utility/Basic Smart phone YoY%	-4%	3%	4%	0%	1%	
Premium Smart Phone YoY%	-1%	7%	4%	0%	1%	

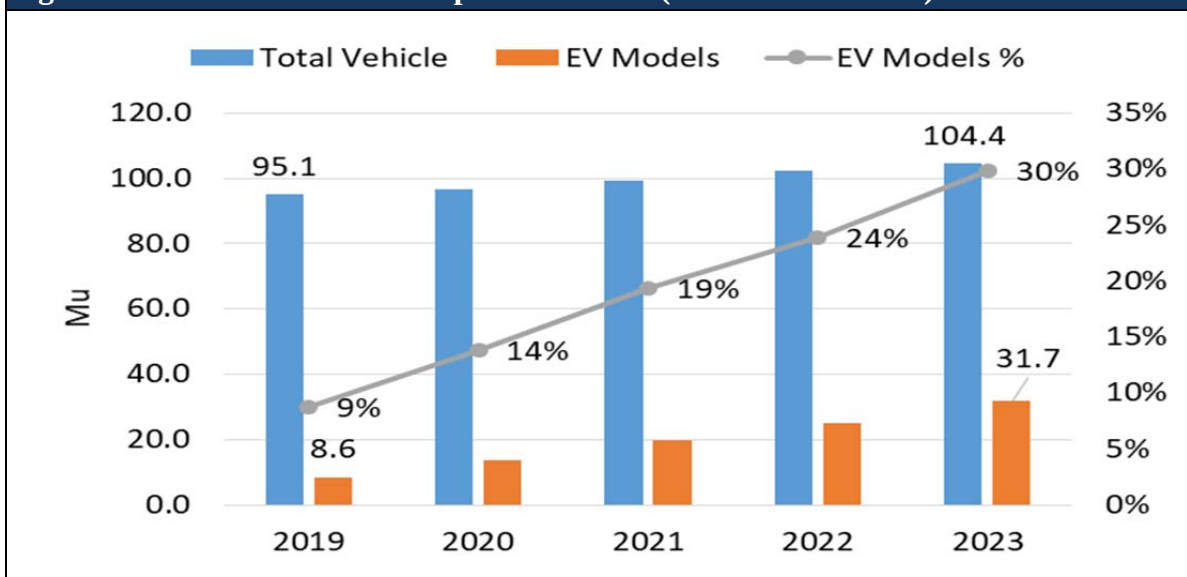
Source : IHS, Gartner, IDC (4Q19)

Automotive Electronics :

The global automotive shipment volume is shown in the following figure. The shipment volume in 2019 was approximately 95 million vehicles, mostly traditional fossil fuel vehicles. The growth rate of battery electric, plug-in and hybrid electric vehicles will increase drastically as energy conservation and carbon reduction topics ferment and the European Union gradually implements laws and regulations for controlling automobile carbon dioxide emissions. It is predicted that 100 million new vehicles will be shipped in 2023, with electric vehicles accounting for 30% of the projected number.

The global automotive electronics semiconductor output value is illustrated in the following table. As can be seen, the '19-'23 annual compound growth rate was 2.3%. In addition to the aforementioned energy conservation requirements for electric vehicles, the automotive market will become highly dependent on semiconductor elements as product designs that incorporate networking capabilities and driverless. Moreover, the industry output as a whole has the opportunity to achieve a scale of US\$63.1 billion in 2023. In response to demand for automotive electronics, the company has been actively working on this market for over 10 years. In addition to fabless companies, we have also shown good performance with regard to IDM customers.

Figure 3: Global Automotive Shipment Volume (in millions of units)



Source : IHS (May '19)

Table 8: Automobile semiconductor output value (US\$ Billion)

Device Category	Device	2019	2020	2021	2022	2023	CAGR (19'-23')
Total, \$B		41.8	46.6	52.7	58.7	63.1	10.8%
General-Purpose	Analog	2.9	3.2	3.5	3.7	3.9	7.5%
	Discrete	6.4	7.4	8.5	9.4	10.1	11.9%
	Memory	2.2	2.9	3.9	4.6	5.1	22.9%
	MCU	7.2	7.9	8.6	9.5	10.2	9.0%
	Optoelectronics	4.0	4.3	4.7	5.1	5.4	8.1%
	Nonoptical Sensors	4.2	4.4	4.7	5.1	5.4	6.3%
	Logic	1.0	1.1	1.3	1.5	1.6	13.2%
Application-Specific	ASIC/ASSP	13.8	15.5	17.6	19.8	21.3	11.5%

Source : IHS (Dec. '19)

b. Competitiveness

In IC foundry processes, in addition to the 0.5um, 0.35um, 0.25um, 0.18um, 0.16um, and 0.11um processes, we have developed multiple integrated circuit technologies and successfully mass produced these products to enhance the competitiveness of our customers' products. In contrast to digital ICs, analog ICs, mixed-signal ICs, and high-voltage technologies are the key to bridging communication between reality and digital systems. The design of each product requires specific components and IP. VIS therefore cultivates the development of specific components and IP to help clients quickly enter the market. This business model of jointly developing novel technologies with our customers helps VIS in forming a consolidated, longstanding partnership with its customers.

3. Technology and R&D

R&D expenses in past 2 years and to the day this report was printed.

Year	R&D spending (in NTD thousand)
2018	1,494,321
2019	1,745,567
2020/01/01–2020/02/29	295,848

In order to provide customers with more competitive technologies and services, the Company is continuously developing more specialized applications from its core technology as well as enhancing the value of the services we provide. In terms of sensor ICs used in fingerprint recognition, VIS's 0.18um/0.15um IC manufacturing process for capacitive fingerprint sensors has now entered full-scale mass production. Furthermore, VIS has achieved gains in client development for optical fingerprint recognition ICs using the 0.18um IC manufacturing process for optical fingerprint recognition applications and has integrated this technology into smartphones, successfully showcasing the latest optical fingerprint recognition functionality. Besides, 0.11um high voltage process technology was developed from Y2012 and Finger Print IC technology was also co- worked with customer and developed since Y2014. For high growth of Automotive Display market, the Company is active developing Automotive Display Driver ICs and lists it to operational focus. The advanced 0.11um automotive technology platforms also passed automotive qualification and customers started verifying their products.

With regards to the BCD (Bipolar-CMOS-DMOS) process for power management ICs, apart from the 0.5um, 0.4um, 0.35um, 0.25um, 0.15um processes that have already gone into mass production, and 0.11um BCD have passed product qualification. The 120V extension technology platforms also passed automotive qualification; customers started verifying their

products and expected to enter into mass production this year. The advanced 0.11um AMR eCompass SOC platform has been adopted by customers and will be certified by the end of next year. In addition, customers are using 0.18um AMR platform to develop automotive and industrial magnet resistor products, plan to kick off mass production in next year. Moreover, the 0.5um HV SOI technology continues in mass production. The new generation, 0.25um HV SOI technologies completed the process development customers' production verification as well. The next generation of 0.5um ultra-high-voltage processing with ultra-low on resistance and cost effective version has been accomplished and start the mass production this year. With respect to wide bandgap semiconductors, the Company has made preliminary progress in the application of gallium nitride (GaN) including for providing special base materials and also by completing development on the production of epitaxial wafers (epiwafer). Moreover, the Company is continuing to evaluate development of additional components, and we anticipate being able to provide customers with better alternatives to conventional silicon-based materials in upcoming next-generation power control components. In the future, Vanguard International will continue to actively develop the high voltage and power management technology components that the market demands and continue to collaborate with TSMC to develop even more advanced processes.

It is expected that VIS will increase its R&D spending in Y2020 to 6% of its revenue.

Project	Description
0.5um UHV Low Ron & High Side Technology	Based on customer demand, develop UHV Technology for Motor Driver IC & LED Driver IC.
Power Management IC Technology Platform	Develop 0.15um/0.11um with 120V extension power management IC technology platforms to supply products for computers (including desktop, notebook, netbook, and tablet), cell phones, and automotive application.
Display driver IC technology platform	Based on customer demand, develop display driver IC technology platform for 8K4K, 4K2K TV, tablet, mobile phone, touch panel and automotive panel display.
Finger Print IC Technology Platform	Research and develop fingerprint IC technology platform that fulfills the requirement of customization and industry's latest development applications.

4. Long and short-term business development plans

Short-term development plan

We are constantly innovating and developing new technologies. We have conducted R&D in the high-voltage process field for many years. In the short term we will continue to apply our high-voltage process technology to driver IC products, while developing BCD, UHV, SOI, NVM processes in an effort to response to customers' increasing diverse needs and enhance customer service quality.

- a. Short-term business development plan: We will strengthen our on-time delivery rate in order to boost customer satisfaction: We plan production of most of our products after get orders from customers. Because our customers' exacting design and customization needs, we commonly engage in face-to-face communication with customers, and provide consulting-style services. Our superior process technology, professional technical personnel, and rigorous certification measures have helped us win our customers' trust.

- b. We will continue to improve our large panel driver ICs performance. We have developed e-book, tablet, and TV applications, and hope to capture over 30% market share of for gate driver ICs and over 25% market share for source driver ICs.
- c. We will strive to develop high-efficiency, energy-conserving, carbon-reducing products. We look forward to the continued growth of our power management ICs in the years ahead. Our current main products include DC to AC power converters and AC to DC converters, which are used in small-/medium-size computers, smartphones, LCD TVs, and energy-saving home appliances and lighting fixtures.
- d. We will endeavor to set up an embedded Flash, magnetic and fingerprint sensor IC platform and expand other markets in addition to the driver IC and power management IC markets, in order to provide more devices solutions to customers.
- e. Various reliability certifications recently obtained by VIS pertaining to automotive application technologies, including AEC-Q100 Grade 0 and VDA 6.3 Grade A, will be utilized to make further inroads in the automotive electronics market.
- f. We will integrate our global resource and actively expand our foreign market.

Long-term development plan

- a. We will strengthen our BCD, UHV, Discrete, and eNVM R&D, enhance our yield rates and technological maturity, improve our processes, and cut costs.
- b. We will continue to develop new process technologies, keep on going processes for products with new specifications such as GaN, expand our range of product applications, widen our customer base, and strengthen overseas market development.
- c. We will seek partners to establish strategic alliance and attempt to prolong the life cycle of our 8-inch FAB.
- d. Planning and rolling out expansions into new areas of business and new production capacity.

B. Industry survey and market analysis

1. Market analysis

Major product sales areas

Unit: NT\$, in thousands

	Y2018		Y2019	
	Net Revenue	%	Net Revenue	%
Asia	26,011,474	90	25,779,088	91
Europe	1,841,180	6	1,839,018	7
America	1,074,778	4	667,878	2
Oceania	625	0	88	0
Africa	37	0	0	0
Total	28,928,094	100	28,286,072	100

Market share

VIS has cultivated the high-voltage process market for many years, and will continue to develop BCD, UHV, and SOI process technology, boosting operating performance. VIS had revenue of approximately NT\$28.3 billion in Y2019. According to statistics from the research firm, Gartner, VIS had a market share of roughly 1.5% in Y2019, making it the world's No. 9 largest pure foundry player.

(Please see Industry Overview concerning future supply and demand and growth)

Favorable and unfavorable factors affecting competitive niche and development vision, and response measures

Favorable competitive factors

- a. As new information, communications, and consumer products emerge in rapid succession, shipment volumes have set new records. In addition, international IDM firms are constantly releasing foundry orders in order to boost the competitiveness of their products. As a result, the foundry market, which VIS is enjoying steady growth. Furthermore, future development trends for relevant end products such as LCD flat panel displays, PCs, handheld devices, and automotive electronics bode well for VIS, which will provide technical blueprints for process services, continuously monitor with market trends, and keep up with customers' needs.
- b. VIS received ISO 9001 international quality certification in 1996, ISO 14001 international environmental certification in 1997, QS 9000 international quality management system certification in 2002, and IATF 16949: 2002 international quality management system in 2004. VIS is now recognized as a top global vendor due to its exceptional manufacturing service quality. In addition, VIS has obtained various automotive electronics certifications including AEC-Q100 and VDA 6.3 to conform to the requirements of certain customers, and the Company has continued to cultivate excellent business relationships with numerous large-scale global vendors, facilitating a greater degree of stable production capacity and a higher market share.
- c. VIS and TSMC maintain a close wafer foundry service relationship, and VIS has been transferred TSMC's 0.5/0.35/0.25/0.18/0.16/0.11um process technologies, which have been successfully entered in mass production. VIS has also successfully developed many specialty IC technologies, which have been used in mass production.
- d. Our highly effective management team, in conjunction with our professional process team and outstanding sales team, enable us to achieve superb business performance.
- e. Our highly flexible customer support system helps us to form long-term partnerships with customers.

Unfavorable factors to competition

- a. The current trend of component integration is such that, when the accumulated degree of integration is higher, the Company's 8-inch process technology might not be able to meet the needs of advanced processing customers.
- b. The merging and acquisition trend within semiconductor industries have elevated market centralization, which is detrimental to the Company's business operations.
- c. China's self-sufficiency policies have caused tectonic plate shifts in our supply chain, and this shift is also detrimental to the Company's future operations.

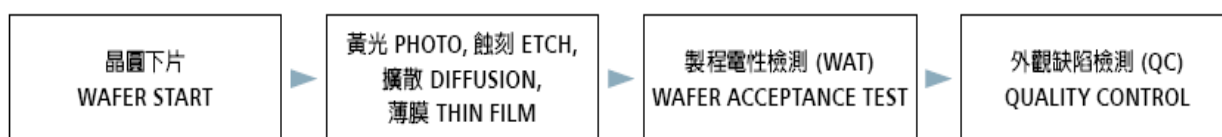
Response measures

- a. We will continue to improve our process technology, quality, and mass production capability, reduce production costs for various products, enhance our yield rate and service, boost production efficiency, and consolidate our professional wafer foundry service capacity.
- b. We will accelerate process development, make opportune innovations in the specialty IC foundry area, and consolidate our partnerships with customers by maintaining differentiation, making us become the best choice of specialty IC manufacturing service provider.
- c. We will focus on and optimize high-voltage, ultra-high-voltage, and discrete, BCD, eNVM, as well as MEMS technology, and concentrate our resources in order to enhance our competitiveness.
- d. We will strengthen our partnerships with customers and adopt an IDM Fab-lite strategy in order to better complement our customers.
- e. We will strengthen marketing and customer service performance, continue to raise customer satisfaction, and achieve our goal of sustainable operation.

2. Major Applications of Products

VIS provides world-class quality Logic IC manufacturing service. Those products can be applied into Computers and its peripherals (including TFT LCD monitor, CD-ROMs and Motherboard), Communications (including Mobile phone, Wireless LAN, Switch, and mobile navigator), and Consumer electronics (including High Resolution TV, tablet, e-book, Digital Camera, and Media player).

Production Flow



3. Major Materials Supply Status

Major Product	Major Material	Major Suppliers	Supply Status
Logic Foundry	Wafer	FORMOSA SUMCO TECHNOLOGY Corp. SILTRONIC group. (Local Agent: Siltronic AG, Taiwan Branch) TAISIL ELECTRONIC MATERIALS Corp. SHIN-ETSU HANDOTAI TAIWAN Co., Ltd. (Local Agent: TOPCO SCIENTIFIC Co., Ltd.) GLOBALWAFERS CO., LTD.	Normal
	Chemical	CABOT MICROELECTRONICS Corp. TAIWAN Branch WAH LEE INDUSTRIAL Corp. BASF ELECTRONIC MATERIALS TAIWAN LTD. AIR PRODUCTS SAN FU GAS CO., LTD.	Normal
	Photo Resist	TOKYO OHKA KOGYO Corp. Ltd. TOPCO SCIENTIFIC CO., LTD. SUMITRONICS TAIWAN CO., LTD. ROHM AND HAAS ELECTRONIC MATERIALS TAIWAN LTD.	Normal
	Gas	UNITED INDUSTRIAL GASES CO., LTD. BOC LIENHWA INDUSTRIAL GASES CO., LTD. AIR PRODUCTS SAN FU CO., LTD. SHOWA SPECIALTY GAS(TAIWAN) CO. LTD.	Normal

4. Suppliers and Customers accounting for 10 percent or more of total procurement (sales) amount in either of the 2 most recent fiscal years

Major Customers : No apparent changes

Unit: NT\$, in thousands

		Y2018				Y2019			
No	Customer	Net Revenue	%	Relation to VIS	Customer	Net Revenue	%	Relation to VIS	
1	A	5,085,112	17	None	A	4,865,261	17	None	
2	TSMC	5,098,011	18	Major Shareholder	TSMC	3,062,881	11	Major Shareholder	
	Others	18,744,971	65		Others	20,357,930	72		
	Net Revenue	28,928,094	100		Net Revenue	28,286,072	100		

Major Suppliers : No apparent changes

Unit: NT\$, in thousands

	Y2018				Y2019			
No	Supplier	Amount	%	Relation to VIS	Supplier	Amount	%	Relation to VIS
1	Supplier A	1,338,269	17	None	Supplier A	1,197,176	18	None
2	Supplier B	1,213,305	16	None	Supplier B	782,721	12	None
	Others	5,132,150	67		Others	4,524,563	70	
	Net Procurement	7,683,724	100		Net Procurement	6,504,460	100	

5. Productions over the Last Two Years

Unit: Capacity and Quantity (8 inch equivalent wafer) / Amount (NT\$, in thousands)

Major Product	Y2018			Y2019		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Foundry	2,391,700	2,342,189	18,635,088	2,502,100	2,128,961	17,797,846
Total	2,391,700	2,342,189	18,635,088	2,502,100	2,128,961	17,797,846

6. Shipment and Net Revenue over the Last Two Years

Units: Quantity (8 inch equivalent wafer in thousands) / Amount (NT\$, in thousands)

	Y2018						Y2019					
	Domestic			Export			Domestic			Export		
	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue
Revenue from Sales of Goods	1,697	19,870,924	632	8,588,443	2,329	28,459,367	1,316	16,294,153	807	11,389,685	2,123	27,683,838
Other	0	216,492	0	252,235	0	468,727	0	225,020	0	377,214	0	602,234
Total	1,697	20,087,416	632	8,840,678	2,329	28,928,094	1,316	16,519,173	807	11,766,899	2,123	28,286,072

C. Personnel Structure

As of February 29, 2020

Year		2018	2019	2020/02/29
Personnel	Direct	2,594	2,385	2,349
	Indirect	2,944	2,904	2,878
	Total	5,538	5,289	5,227
Average Age		37	37	38
Average Year of Service		7.27	8.32	8.49
Average Year of Service Education	PH. D	45	45	45
	Master	1,493	1,425	1,398
	College	2,520	2,407	2,387
	High School	1,473	1,405	1,390
	Less than High School	7	7	7

D.Environmental Protection Measures

Environmental Investment

VIS continuously improves our environmental management and upgrade pollution control equipments. In addition to the existing equipment maintenance, we continuously invested in purchasing pollution control equipments for special chemical substances, wastewater and exhaust, and local scrubbers. The total investment was around NT\$486 million in Y2019.

● Greenhouse Gases Emissions Management

According to the company's greenhouse gas reduction policy, VIS divides risks into three dimensions: laws and regulations, climate disasters and other behaviors, and identifies the risks and opportunities brought by global climate change to VIS.

Dimensions	Risk Consideration	Response plan	Implementation result for 2019
Laws	Mandatory inventory and declaration of greenhouse gases	Driving data inventory: investigating greenhouse gas emissions and energy use	100% of greenhouse gas inventory was reached
	Product energy consumption and carbon footprint	Improve product energy efficiency and manufacture low-energy consumption products for customers as a key analysis basis for identifying carbon reduction and energy conservation	Carbon footprint in 2018 presents product carbon usage management
	Greenhouse Gas Reduction	It is expected that greenhouse gas emissions per unit wafer area will be reduced by another 20% in 2020 compared to 2015	14.7% reduction in greenhouse gas emissions per unit wafer area was reached in 2019.
Natural Disaster	Wind disasters, floods and droughts lead to reduced or interrupted capacity	Strengthen the resilience of organization and operation: establish crisis management procedures and build disaster prevention and response capacity	Establish guidelines for continuous operation management (VIS BUSINESS CONTINUITY MANAGEMENT GUIDELINE)
Other behavioral effects	Stakeholders demand for the establishment of green supply chain that can adapt to climate change	External initiatives: jointly promote climate change related initiatives and plans with the government and the industry	Participate in national reduction plan group and semiconductor association to implement reduction plan

And the company's GHG emissions in Y2017, and Y2018, and Y2019 are 711.1 thousand tons CO₂e, 787.6 thousand tons CO₂e, and 722.6 thousand tons CO₂e, respectively. And the company has accomplished the GHG reduction of 258 thousand tons CO₂e in 2019.

VIS conducts its GHG inventories by following ISO/CNS 14064-1 standards, the Executive Yuan Environmental Protection Administration (EPA) Greenhouse Gas Validation Guidelines Note, "Greenhouse Gas Emission Inventory Registration Guidelines", and the WBCSD/WRI GHG Protocol, with 100% control to define organizational boundaries (Operational Control Act).

Our target of the GHG emission per unit area of wafer is expected to be 20% less by 2020 than the amount emitted in 2015. As of the end of 2019, the target reached 14.7%.

VIS ensures the transparency of its GHG information by disclosing relevant GHG emission and reduction information through various channels. VIS performs self-inspection during the disclosure process and obtains external opinions in order to continuously reduce its GHG emissions. Information disclosure channels include the following:

- Since 2005, VIS has utilized third-party verification for annual greenhouse gas (GHG) emissions and submitted annual reports of GHG emission to the Taiwan Semiconductor Industry Association (TSIA) and EPA, Executive Yuan.
- Since 2014, VIS has voluntarily participated in the Carbon Disclosure Project (CDP) to disclose climate change-related information on a yearly basis which includes information on GHG emissions and reductions. In addition, we conduct inspections and make improvements on risks and opportunities relating to legal regulations, natural disasters, finance, and business operations. External bodies are able to access relevant information on the CDP website.
- Since 2014, VIS has made its annual CSR reports publicly available on the Company's website, which includes information disclosures which are of concern to our customers and investors.

Furthermore, the company announced its safety, health, and environment policy to promote environmental protection and development of a sustainable environment. For details, please visit VIS website as follows:

http://www.vis.com.tw/visCom/chinese/a_about/a04_environmental.htm

● Energy Management

The company is a professional manufacturer of integrated circuit design, R&D, manufacturing and sales. In order to maintain the sustainable operation of the company and fulfill the responsibility of good corporate citizens, based on risk management, green production and energy impact consideration, the company participates fully in the operation of the energy management system, and achieves the goal of meeting laws and regulations, customer requirements and improving energy efficiency. In order to achieve this goal, the company commits to continuously carry out and improve the following works: 1. Abide by the energy regulations - abide by the relevant energy laws and regulations; 2. Effectively use the energy - cherish and properly use the power, natural gas and other resources; 3. Implement the goal management - set the energy performance indicators, and manage according to the PDCA model; 4. Continuously improve the performance - review regularly, and continuously improve the energy efficiency; 5. Support green procurement - support the

procurement of energy-saving equipment or products; 6. Promote internal and external communication - establish internal and external communication channels to promote information transmission; 7. Provide appropriate resources to achieve goals and targets; 8. Move towards energy conservation and sustainability.

VIS continues to work towards low carbon. From 2015 to 2019, the power consumption per unit wafer area decreased from 1.01 degree / cm² to 0.72 degree / cm², a decrease of about 28.7%.

The company continues to save energy in various public facilities, cooperates with the government ESCO scheme to invest in replacing large-scale energy-saving equipment, and completes the update of UPS equipment in the factory in 2019; the additional project of air conditioning box heat pump outside the clean room carries out waste heat recovery to improve energy-saving performance; it is formally included in the production equipment for energy-saving; frequency conversion control pump is adopted for replacing vacuum pump used in process equipment year by year; for natural gas energy-saving, the hot water boiler in the plant area is set for the dew point temperature of the external gas to achieve the optimal operation; ISO 50001:2011 certification has been imported into three plants in 2017, and the whole plant of the company has passed the third-party external verification of SGS in 2019. By comparing the systematic management procedure of ISO 50001:2011 with the cross plant energy efficiency, we can find the opportunity point of energy saving improvement that has not been found and improve the energy saving performance. Through promoting many energy-saving schemes, VIS has continuously invested more energy-saving measures and responded to the national energy-saving goal. According to the "energy users set a target of 1% reduction in saving electricity consumption" announced by the Ministry of Economic Affairs on August 1, 2014 (Ri-Jing-Neng-Zi No. 10304603580), VIS' power-saving rate has reached more than 1% of power-saving rate in the past five years.

● Air Pollution Control

VIS currently has three wafer fabrication plants, all of which are equipped with extensive waste gas and wastewater collection, monitoring and treatment systems that surpass the regulatory requirements and operate continuously 24 hours a day. To prevent abnormal discharge of waste gas and wastewater during power outage, we have included our production machinery and pollution control equipment into the emergency power supply system to make sure that all waste gas and wastewater are adequately treated before discharge. For waste gas treatment, our various waste gas scrubbers are monitored 24 hours a day, allowing on-duty personnel to quickly manage any system issues that may occur. The level of volatile organic compounds in the treated waste gas we discharge is far below the legal standard.

● Water resource management/ Prevention and control of water pollution

In terms of water resource management, in order to lessen the impact of water shortages on production processes during periods of low rainfall, the Company has developed the "VIS water vehicle transportation contingency response plan during water shortages" based on the status and condition at each plant as well as the practices of other foundries. This response mechanism can be activated in the event of water shortages to minimize impacts on production.

VIS maximizes the reuse of water discharged from its manufacturing processes. Based on the characteristics of the discharged water, VIS has established over 10 types of water

discharge pipes and various types of recycling systems, which are classified according to water quality and user demands. The recycling systems described above can be used to reduce wastewater discharge and ease the burden on the environment, as well as prevent the use of tap water for refilling, thereby conserving more water.

VIS's water pollution prevention strategy is focused on reducing the generation of pollutants and recycling and treating water pollutants by using effective equipment, thereby ensuring that the quality of discharged water meets or exceeds government standards.

VIS has installed water quality and quantity monitoring equipment at the discharge outlet of its wastewater treatment facilities to monitor and record changes in water quality and quantity. To prevent wastewater tanks from rupturing and causing contamination of underground water, VIS also conducts annual groundwater sampling tests at its plant sites and tests the soil at its facilities every three years. This ensures that wastewater discharge and underground water and soil conditions near the vicinity of the plant comply with monitoring standards.

- **Waste management and recycling**

In order to properly manage the waste generated by the company, VIS has established waste disposal control procedures in accordance with the spirit of ISO 14001, and requires all colleagues to strictly comply with the requirements of classification, collection, storage, removal and treatment at all stages. All waste of VIS shall be properly disposed or reused by qualified waste removal, treatment or reuse institutions. The total output of waste is 6,933 metric tons in 2018 and 6,493 metric tons in 2019. The above data will be verified through the product carbon footprint verification commissioned to SGS once every two years by the company, which is expected to be completed by August 2020. The previous implementation of the product carbon footprint verification is 2018, and the data year is 2017.

With regard to VIS's promotion of environmental, safety, and health management, please see the chapter of **E. Employee / employer relations, 5. Employee Working Environment and Personal Safety**, or the VIS Corporate Social Responsibility Report for more details.

E. Employee / employer relations

1. Employee Benefit and Implementation

VIS places high priority in employee's health, and made great effort to improve the working environment, setting up facilities and planned leisure activities as well as providing health and insurance services. VIS was granted a number of awards, including the Healthy Workplace Certification given by the Health Promotion Administration, and the company the Epidemic Prevention award from the Centers for Disease Control in 2019.

Miscellaneous Employee Benefits

To ensure the comfort of employee's health and daily life, in terms of facilities, VIS provides a clean and comfortable work environment, several and variety of leisure facilities and regular examination of environment operation. In terms of health, the Medical Center arranges health checkup for supervisors and all members; in occasions, discounted health checkup and consulting services by doctors are arranged in each FAB. Moreover, we constantly organize activities to help enhance employee's health condition and relieve work pressure, helping make life more pleasant for all.

For details of VIS Employee Benefits, please refer to VIS Corporate Social Responsibility Report.

Employee profit sharing plan:

The profit sharing plan with employees refers to financial goal of the employees are in line with the business goal of the Company. All employees work hard for creating profit in a concerted effort. This allows the employees to share the joy of success of the Company. If there is a surplus at the end of the fiscal year after account settlement, specific percentage of the profit will be allocated as employee bonuses.

Group insurance

Labor insurance and national health insurance give basic protection for the employees. VIS seeks to provide better protection of its people by taking a group insurance policy to cover the inadequacy of the said insurance programs. Under this group insurance policy, the spouse and the dependents of the employees are also protected so that the families of VIS people can enjoy the benefits as well. The limitation of insurance benefits claim under the group policy is much lesser than the labor insurance and the benefit amount is higher. The Company pays for the group insurance premium and employees are entitled to take specific options on their own under the group coverage at their own cost. (The scope of coverage: life insurance, accident insurance, medical insurance on accidents, coverage for hospitalization and treatment of cancer.)

2. Training

Education and Training programs:

To better facilitate the Company's vision and help meet strategic goals and organization demand, VIS has continued its endeavors to construct a comprehensive talent development system.

The company develops individual learning and development plans according to employees' work and career development needs. In addition, not only has the company built an internal online platform to encourage employees to learn, but also employees can participate in external training courses, thereby combining both internal and external training resources in order to cultivate and improve employees' capabilities, and eventually help employees grow with the company.

- a. VIS has a comprehensive training system for training professional talents and developing employees' potential. This comprehensive training system includes new comers' orientation, management training, professional / technical training, external training, and self-development. The company improves employees' professional competence and competitiveness through on-the-job training (OJT) and off the job training (Off-JT).
- b. The company has also built a training management system, an e-learning platform, and a knowledge management platform as personal learning resources. Employees are required to set learning and development goals every year, and develop personal development plans after having discussions with their supervisors in order to achieve continuous development goals and apply learning results to their work fields, thereby continuously improving work efficiency.

- c. VIS provides an e-learning web portal which offers over 760 courses, and the Company's educational materials are constantly being updated. At present, VIS's training covers a wide range of topics including engineering technology, professional competencies, management, and other courses on specialized skill sets. This training mechanism allows VIS employees to expand their knowledge without limitations imposed by time or location. Employees can increase their competitiveness by learning at their own pace. Thus it can foster a Company culture which encourages self-directed learning. VIS e-learning classes were viewed around 36 thousand times in 2019.
- d. The training statistics of Y2019 are summarized in the following table. And total training expenses is over NTD 7 million.

Average Numbers of Personnel	Total Training Hours	Total Employees Trained	Average Training Hours Per Employee
5,315	139,974	105,744	26.34

3. Retirement Plan:

The specific content and current state of implementation of the Company's retirement system is as follows:

Proportion and status of disbursements under the new and old retirement systems:

The monthly contribution rate for labor pension disbursements provided by the Company for applicable employees as stipulated under the Labor Pension Act is six percent (6%) of the employee's monthly wage or salary; under the old labor pension fund system, the contribution rate for disbursements is two percent (2%) of the employee's monthly wage or salary.

Procedures and Qualifications for Employee Retirement Applications:

The Company's standards for employee retirement are implemented in accordance with the following regulations:

- (1) An employee of the Company who meets any one of the following conditions may apply for voluntary retirement:
 - a. The employee has worked at the Company for 15 years or longer and is aged 55 or older.
 - b. The employee has worked at the Company for 25 years or longer.
 - c. The employee is aged 60 or older and has worked for 10 years or longer.
- (2) An employee of the Company who meets any one of the following conditions shall be subject to compulsory retirement:
 - a. The employee is aged 65 or older.
 - b. The employee is mentally or physically incapacitated such that he or she is unable to perform his or her work duties.

The Company may request the central competent authority to approve an adjustment to the age limit stipulated in Subparagraph 1 of the preceding paragraph if the specific job entails risk, requires substantial physical strength, or otherwise of a special nature, but the minimum age may be no lower than 55.

Except where otherwise stipulated in the Labor Pension Act or other law or regulation, the calculation method for pensions shall be handled in accordance with the regulations set forth under the Labor Standards Act.

When applying for retirement, an employee shall fill out a Retirement Application Form and submit it for review; applications shall not be effective until they have been reviewed and approved. If an employee's pension plan is governed by the old pension system, an application shall be submitted to the Pension Supervisory Committee for review, and the pension shall be disbursed to the employee within 30 days from the date of retirement. An employee whose pension plan is subject to the new labor pension system shall submit an application on his or her own behalf to the Bureau of Labor Insurance; If an employee becomes deceased prior to claiming his/her pension, the employee's survivor(s) or designated claimant(s) shall apply to the Bureau of Labor Insurance to claim the insurance benefits. Where an employee's pension plan was already subject to the retirement provisions set forth under the Labor Standards Act prior to promulgation of the Labor Pension Act, and where the employee continued to work at the Company after the foregoing provisions went into effect, and where the employee opted to remain bound by the pension system prescribed by the foregoing provisions, the employee shall retain the number of years of service he/she accumulated prior to being subject to the foregoing provisions, and he/she may continue to be subject to the retirement provisions stipulated under the Labor Standards Act.

Operation status of the Supervisory Committee of Labor Retirement Reserve:

The Supervisory Committee of Labor Retirement Reserve (hereinafter referred to as the "Committee") consists of nine members. The number of worker representatives shall not be less than two-thirds of all the members of the Committee. A chairman shall be appointed to manage committee affairs, whereas a vice-chairman shall be appointed to assist in handling committee affairs. Each member will serve a term of three years. Worker representatives (committee members) may be re-elected; however, the number of re-elected worker representatives shall not exceed half the total number of committee members. Employer representatives (committee members) may be re-elected, and may be re-assigned according to changes in duties. In addition, an executive secretary shall be appointed to handle matters related to regular meetings. The appointment of executive secretary has to be submitted to the committee for approval.

The mission (responsibilities) of the Committee includes:

- (1) Deliberate on the suspension of contribution to the labor retirement reserve.
- (2) Review the amount of contribution to the labor retirement reserve.
- (3) Examine the deposits into and use of the labor retirement reserve.
- (4) Examine the amount of labor retirement payment.
- (5) Provide the balance of the labor retirement reserve account when employees inquire about the account.
- (6) Supervise other matters related to the labor retirement reserve.

The Committee shall convene a meeting once every three months, and shall convene extraordinary meetings when necessary. Committee meetings shall be chaired by the Chairman of the Committee. If the Chairman is unable to attend a committee meeting, the committee meeting shall be chaired by the Vice-Chairman. A committee meeting must be attended by a majority of all the members of the Committee. A resolution shall be valid when it is approved by two-thirds of all the members of the Committee.

4. Other important agreements and employment protection policies:

The Company treasures the establishment of harmonious atmosphere in labor-management relation through mutual trust in corporate management, and adopts the proactive openness model of management to create a challenging and joyful work environment.

For example, VIS highly treasures the opinions of the employees and thereby established an “Employee Relation Section” for handling labor-management relation and related matters. Different channels were cultivated for labor-management communications in order to create an open environment. Further to quarterly labor-management meetings and executive meetings, department meetings, which were held not on a regular basis and orientation of new people, VIS also set up a mailbox for employee communication. In addition, VIS conducts survey on employee opinions on their satisfaction with management and the welfare system regularly. VIS not only made efforts in sustaining positive labor-management relation, but also provided consultation services to employees, and organized related speech presentations and symposiums with the employees at any time as needed to strengthen the communications of idea and establish a consensus.

5. Employee Working Environment and Personal Safety

VIS's Environmental, Safety, and Health Policies

When it comes to the Company's environmental, safety, and health policies, VIS places a strong emphasis on full participation by all employees to ensure across-the-board safety. After being reviewed and signed by VIS Chairperson and President Leuh Fang, the latest policies are posted on the Company's official website and the announcement board of each production site. To ensure that each employee clearly understands the Company's policies and works to achieve their objectives, the policies are also printed out onto cards which are then distributed to all employees, thereby facilitating widespread compliance. In addition, VIS's contractors are required to comply with the Company's policies pertaining to safety and health management. To this end, VIS has incorporated various informational directives concerning health, safety, and environmental policies into related education training provided to contractors, ensuring that all contractors which handle work for VIS clearly grasp the Company's health, safety, and environmental policies.

Environmental, Safety and Health Management Systems

With regard to safety and health management as it relates to VIS's improvement-oriented management methodology, our primary strategy for boosting occupational safety is to prevent harm associated with equipment use to the greatest extent possible. To this end, the Company continually proposes and implements improvement plans where feasible in a bid to clamp down on potential safety and health risks. In terms of environmental protection, the top three approaches VIS has adopted to improve its impact on the environment are waste reduction, re-use and recycling, and energy conservation, all of which effectively serve to reduce the waste of resources. In the course of promoting our environmental, safety, and health management system, we create relevant forms in the system in order to comply with PDCA (Plan-Do-Check-Action) tracking methodology and to uphold our spirit of continuous improvement, including: Environmental Safety & Health (ESH) management system, regulatory compliance verification, corrective and preventive measures, and other systems for managing non-compliance.

Promotion of Environmental, Safety, and Health in Each Department

Each department designates senior personnel to record and assess safety and health risks and environmental aspects associated with the various types of occupational activities, products, and services encountered on the job as well as common occupational hazards, insurance company audits, recommendations from outside experts, and records of previous accidents and regulatory requirements of each department and partnering plants. In addition, VIS departments are required to submit ESH improvement proposals which address high-risk and significant environmental aspects. Proposals currently being implemented include the following:

- a. Formulating environmental, safety, and health management programs
- b. Determining and verifying regulatory compliance
- c. Measuring safety and health performance, and managing environmental monitoring
- d. Administering competitive KPI benchmarks for environmental, safety, and health compliance
- e. Carrying out internal and external audits

Promotion of Environmental Safety and Health Education

Adhering to the concept of "happy enterprise" with an employee-oriented approach, VIS actively promotes personnel education and training, as well as acquisition of relevant professional certificates with the support of senior executives, raises safety awareness among our coworkers through learning, and establishes a safety culture, thereby achieving the vision of "a healthy, joyful workplace, and a happy home".

- a. On-the-Job Training Employees participate in various on-the-job training programs in order to enhance specific skill sets related to different job duties.
- b. A grading system for environmental, safety and health courses to improve the professional skills of environmental, safety and health personnel at all levels.
- c. Promoting Education: VIS is dedicated to fulfilling its responsibilities as a good corporate citizen, including participating in the "annual industrial safety and environmental protection month" events hosted by the Hsinchu Science Park Administration. In line with the Annual Industrial Safety and Environmental Protection Month conducted by the Administration Bureau of Hsinchu Science Park and bringing it into the campus, we introduce food forest and practical teaching to improve the environmental awareness of the industry peers and students in the park; promote the "tea drinking with utensils" environmental protection cup rental (free) and return activities in the company's park fair, and the colleagues respond warmly, effectively reducing the waste generation from the wash free cup / bowl, so as to make people pay attention to environmental protection, and colleagues have learnt the interdependence with the environment from the activities.

Employee Behavior and Ethical Standards

VIS takes the following as its core managerial principles: “rounded in integrity, guided by professional ethics” and “Ethical Management and Guidelines for Conduct.” Furthermore, it has established a code of professional conduct for its employees. Not only are employees asked to adhere to this code, they are forbidden from giving or taking bribes, from acting in any way contrary to the interests of the company, and from any instance of conflict of interest. Each year, employees are asked to fill out a conflict of interest disclosure form as well as a voluntary disclosure form. VIS has established a Proprietary Information Protection policy, which clearly lays out guidelines for confidential company information as well as the receiving, sending, saving and utilization of sensitive data.

To align with the corporate vision and value, VIS specifies four core competencies, which are Integrity, Customer Orientation, Value Orientation, and Commitment as the behavior/ethical standards for management team and employees.

6. Losses due to labor disputes from previous year till current year printing of annual report:

VIS sees its employees as its most precious asset. The company is committed to establishing a positive relationship with employees, pays attention to two-way communication, and provides supervisors, coworkers and peers with an environment for open communication. By establishing multiple channels for employee feedbacks, the company offers these channels in a clear and effective manner for use by coworkers in need. Each case will be handled and tracked rapidly in a confidential manner. Thus, we have maintained harmonious labor relations and have not suffered any losses due to labor disputes.

F. Major Contracts

Major Contract	Contracting Party	Term of Agreement	Major Contents of Agreement	Limitation
Manufacturing, License, and Technology Transfer Agreement	Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)	April 1, 2004 to March 31, 2006 to be renewed on an annual basis.	TSMC grants specific process technology license to VIS for manufacturing TSMC and VIS foundry products. VIS reserves certain capacity for TSMC.	None
Sale and Purchase Agreement	GLOBALFOUNDRIES SINGAPORE PTE. LTD.(GF)	January 1, 2019 to the Completion Date.	Acquire GF's Fab 3E in Tampines, Singapore. The transaction includes the 8-inch wafer fab buildings, facilities, and equipment, as well as IP associated with MEMS business.	None

VI. FINANCIAL STATEMENTS

A. Condensed Balance Sheets and Statements of Comprehensive Income

1. Condensed Balance Sheets

Consolidated

Unit: NT\$, in thousands

Item	Year	Financial analysis from 2015 to 2019				
		2015	2016	2017	2018	2019
Current assets		24,800,749	25,662,921	23,993,539	25,803,146	21,116,555
Property, plant and equipment		6,979,397	6,284,081	6,249,123	6,444,050	13,418,411
Intangible assets		41,596	30,282	19,271	25,999	345,735
Other assets		562,499	3,002,758	4,036,391	5,379,834	7,911,411
Total Assets		32,384,241	34,980,042	34,298,324	37,653,029	42,792,112
Current liabilities	Before distribution	4,262,001	5,476,672	5,498,113	7,189,330	11,078,984
	After distribution	8,523,355	10,393,619	10,415,060	12,434,073	Note
Non-current liabilities		712,611	804,107	924,209	1,024,576	2,180,995
Total Liabilities	Before distribution	4,974,612	6,280,779	6,422,322	8,213,906	13,259,979
	After distribution	9,235,966	11,197,726	11,339,269	13,458,649	Note
Equity attributable to shareholders of parent company		27,409,629	28,699,263	27,876,002	29,439,123	29,532,133
Capital stock		16,389,823	16,389,823	16,389,823	16,389,823	16,389,823
Capital surplus		855,123	862,594	856,629	856,616	881,651
Retained earnings	Before distribution	10,280,494	11,484,802	11,006,580	12,355,401	12,966,213
	After distribution	6,019,140	6,567,855	6,089,633	7,100,658	Note
Other equity		(115,811)	(37,956)	(377,030)	(162,717)	(705,554)
Treasury stock		-	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total Equity	Before distribution	27,409,629	28,699,263	27,876,002	29,439,123	29,532,133
	After distribution	23,148,275	23,782,316	22,959,055	24,194,380	Note

Note: Subject to change after shareholders' meeting resolution.

Unconsolidated

Unit: NT\$, in thousands

Item	Year	Financial analysis from 2015 to 2019				
		2015	2016	2017	2018	2019
Current assets		24,545,917	24,829,499	19,852,150	21,019,704	15,364,942
Property, plant and equipment		6,979,148	6,282,629	6,248,171	6,443,435	6,907,162
Intangible assets		41,596	30,282	19,271	25,999	72,744
Other assets		813,426	3,828,955	8,173,041	10,153,074	19,622,968
Total Assets		32,380,087	34,971,365	34,292,633	37,642,212	41,967,816
Current liabilities	Before distribution	4,257,847	5,467,995	5,492,422	7,178,513	10,254,752
	After distribution	8,519,201	10,384,942	10,409,369	12,423,256	Note
Non-current liabilities		712,611	804,107	924,209	1,024,576	2,180,931
Total Liabilities	Before distribution	4,970,458	6,272,102	6,416,631	8,203,089	12,435,683
	After distribution	9,231,812	11,189,049	11,333,578	13,447,832	Note
Capital stock		16,389,823	16,389,823	16,389,823	16,389,823	16,389,823
Capital surplus		855,123	862,594	856,629	856,616	881,651
Retained earnings	Before distribution	10,280,494	11,484,802	11,006,580	12,355,401	12,966,213
	After distribution	6,019,140	6,567,855	6,089,633	7,110,658	Note
Other equity		(115,811)	(37,956)	(377,030)	(162,717)	(705,554)
Treasury stock		-	-	-	-	-
Total Equity	Before distribution	27,409,629	28,699,263	27,876,002	29,439,123	29,532,133
	After distribution	23,148,275	23,782,316	22,959,055	24,194,380	Note

Note: Subject to change after shareholders' meeting resolution.

2. Condensed Statements of Comprehensive Income

Consolidated

Unit: NT\$, in thousands

Item \ Year	Financial analysis from 2015 to 2019				
	2015	2016	2017	2018	2019
Net revenue	23,319,721	25,828,634	24,909,613	28,928,094	28,286,072
Gross profit	6,897,266	8,924,152	7,973,638	10,168,270	10,332,787
Operating income	4,611,982	6,100,905	5,228,458	7,154,708	6,909,389
Non-operating income and expenses	326,529	159,189	52,170	317,478	448,930
Income before income tax	4,938,511	6,260,094	5,280,628	7,472,186	7,358,319
Income from operations of continued segments-after tax	4,157,583	5,537,925	4,505,064	6,166,269	5,860,497
Income (loss) from operations of discontinued segments-after tax	-	-	-	-	-
Net Income	4,157,583	5,537,925	4,505,064	6,166,269	5,860,497
Other comprehensive (loss) income	(61,886)	5,592	(405,413)	284,652	(539,802)
Total comprehensive income	4,095,697	5,543,517	4,099,651	6,450,921	5,320,695
Net income attributable to owner of the corporation	4,157,583	5,537,925	4,505,064	6,166,269	5,860,497
Net income attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to owner of the corporation	4,095,697	5,543,517	4,099,651	6,450,921	5,320,695
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-
Diluted earnings per share (Note)	2.50	3.35	2.73	3.72	3.54

Note: Based on weighted average outstanding shares in each year.

Unconsolidated

Unit: NT\$, in thousands

Item \ Year	Financial analysis from 2015 to 2019				
	2015	2016	2017	2018	2019
Net revenue	23,319,721	25,828,634	24,909,613	28,928,094	28,302,399
Gross profit	6,897,266	8,924,152	7,973,638	10,168,270	10,349,995
Operating income	4,610,048	6,097,353	5,225,314	7,150,268	7,048,669
Non-operating income and expenses	328,012	166,174	58,478	324,206	336,795
Income before income tax	4,938,060	6,263,527	5,283,792	7,474,474	7,385,464
Income from operations of continued segments-after tax	4,157,583	5,537,925	4,505,064	6,166,269	5,860,497
Income (loss) from operations of discontinued segments-after tax	-	-	-	-	-
Net Income	4,157,583	5,537,925	4,505,064	6,166,269	5,860,497
Other comprehensive (loss) income	(61,886)	5,592	(405,413)	284,652	(539,802)
Total comprehensive income	4,095,697	5,543,517	4,099,651	6,450,921	5,320,695
Diluted earnings per share (Note)	2.50	3.35	2.73	3.72	3.54

Note: Based on weighted average outstanding shares in each year.

3. Independent Auditors' Opinion

VIS has retained Deloitte & Touche Certified Public Accountants as the external auditors over the last 5 years.

Year	CPA	Audit Opinion
2015	Yu-Feng Huang, Cheng-Chih Lin	An Unqualified Opinion
2016	Yu-Feng Huang, Cheng-Chih Lin	An Unqualified Opinion
2017	Yu-Feng Huang, Cheng-Chih Lin	An Unqualified Opinion
2018	Tung-Hui Yeh, Ming-Yuan Chung	An Unqualified Opinion
2019	Tung-Hui Yeh, Ming-Yuan Chung	An Unqualified Opinion

B. Financial Analysis

Consolidated

Item		Year	Financial analysis from 2015 to 2019				
			2015	2016	2017	2018	2019
Capital Structure Analysis	Debt Ratio(%)		15.36	17.95	18.72	21.81	30.98
	Long Term Capital to Properties, Plant and Equipment (%)		402.93	469.49	460.86	472.74	236.34
Liquidity Analysis	Current Ratio (%)		581.90	468.58	436.39	358.90	190.60
	Quick Ratio(%)		525.26	424.92	382.47	309.12	160.81
	Times Interest Earned (Times)		-	-	-	-	180
Operating Performance Analysis	Avg. Collection Turnover (Times)		6.62	7.36	6.20	5.90	5.28
	Avg. Collection Days		55	50	59	62	69
	Avg. Inventory Turnover (Times)		6.91	7.59	6.78	6.04	5.50
	Avg. Payment Turnover (Times)		16.11	16.83	13.87	14.41	15.49
	Avg. Inventory Turnover Days		53	48	54	60	66
	Properties, Plant and Equipment Turnover (Times)		3.11	3.89	3.97	4.55	2.84
	Total Assets Turnover (Times)		0.70	0.76	0.71	0.80	0.70
Profitability Analysis	Return on Total Assets (%)		12.57	16.44	13.00	17.14	14.65
	Return on Total Equity (%)		15.13	19.74	15.93	21.52	19.88
	Pre-tax Income to Capital Stock (%)		30.13	38.19	32.21	45.59	44.89
	Net Margin (%)		17.82	21.44	18.08	21.31	20.71
	Basic Earnings per Share(NT\$) (Note)		2.54	3.38	2.75	3.76	3.58
	Diluted Earnings per Share(NT\$) (Note)		2.50	3.35	2.73	3.72	3.54
Cash Flow	Cash Flow Ratio (%)		168.52	145.58	108.30	103.76	76.22
	Cash Flow Adequacy Ratio (%)		143.49	149.39	125.49	106.47	93.05
	Cash Flow Reinvestment Ratio (%)		3.14	3.84	1.06	2.51	3.07
Leverage Analysis	Operating Leverage		3.82	3.19	3.53	3.05	3.19
	Financial Leverage		1.00	1.00	1.00	1.00	1.00

Analysis of variation over 20% - Y2019 vs. Y2018:

1. Debt ratio increased by 42% was mainly due to the increase in short-term loans and recognizing lease liabilities in accordance with IFRS 16.
2. Long term capital to properties, plant and equipment decreased by 50% was primarily due to the increase of properties, plant and equipment.
3. Current ratio and quick ratio decreased by 47% and 48%, respectively, were mainly due to the increase in properties, plant and equipment in subsidiary and short-term loans.
4. Times interest earned was 180 in Y2019 due to no interest expenses in previous year and the increase in short-term loans and recognizing interest expense arising from lease liabilities in accordance with IFRS 16.
5. Properties, plant and equipment turnover decreased by 38% was mainly due to the increase of properties, plant and equipment.
6. Cash flow ratio decreased by 27% was mainly due to the increase in short-term loans.
7. The cash flow reinvestment ratio increased by 22% was mainly due to the decrease in working capital, which resulted from acquisitions of right-of-use assets, machinery and equipments and increasing short-term loans.

Note: Based on weighted average outstanding shares in each year.

Unconsolidated

Item \ Year		Financial analysis from 2015 to 2019				
		2015	2016	2017	2018	2019
Capital Structure Analysis	Debt Ratio (%)	15.35	17.93	18.71	21.79	29.63
	Long Term Capital to Properties, Plant and Equipment (%)	402.94	469.60	460.93	472.78	459.13
Liquidity Analysis	Current Ratio (%)	576.48	454.08	361.44	292.81	149.83
	Quick Ratio (%)	519.80	410.37	307.48	242.97	118.19
	Times Interest Earned (Times)	-	-	-	-	181
Operating Performance Analysis	Avg. Collection Turnover (Times)	6.62	7.36	6.20	5.90	5.29
	Avg. Collection Days	55	50	59	62	69
	Avg. Inventory Turnover (Times)	6.91	7.59	6.78	6.04	5.51
	Avg. Payment Turnover (Times)	16.11	16.83	13.87	14.41	15.49
	Avg. Inventory Turnover Days	53	48	54	60	66
	Properties, Plant and Equipment Turnover (Times)	3.11	3.89	3.97	4.55	4.23
	Total Assets Turnover (Times)	0.70	0.76	0.71	0.80	0.71
Profitability Analysis	Return on Total Assets (%)	12.57	16.44	13.00	17.14	14.80
	Return on Total Equity (%)	15.13	19.74	15.93	21.52	19.88
	Pre-tax Income to Capital Stock (%)	30.12	38.21	32.23	45.60	45.06
	Net Margin(%)	17.82	21.44	18.08	21.31	20.70
	Basic Earnings per Share(NT\$) (Note)	2.54	3.38	2.75	3.76	3.58
	Diluted Earnings per Share(NT\$) (Note)	2.50	3.35	2.73	3.72	3.54
Cash Flow	Cash Flow Ratio (%)	168.53	145.55	107.19	101.32	81.74
	Cash Flow Adequacy Ratio (%)	143.20	149.21	125.11	105.61	107.89
	Cash Flow Reinvestment Ratio (%)	3.13	3.83	0.99	2.32	3.01
Leverage Analysis	Operating Leverage	3.82	3.19	3.53	3.05	3.13
	Financial Leverage	1.00	1.00	1.00	1.00	1.00

Analysis of variation over 20% - Y2019 vs. Y2018:

1. The debt ratio increased by 36% was mainly due to the increase in short-term loans and recognizing lease liabilities in accordance with IFRS 16.
2. The current ratio and quick ratio decreased by 49% and 51%, respectively, were mainly due to the increase in short-term loans.
3. Times interest earned was 181 in Y2019 due to no interest expenses in previous year and the increase in short-term loans and recognizing interest expense arising from lease liabilities in accordance with IFRS 16.
4. The cash flow reinvestment ratio increased by 30% was mainly due to the decrease in working capital, which resulted from subscribing for new shares in subsidiaries and increasing short-term loans.

Note: Based on weighted average outstanding shares in each year.

C.Audit Committee's Review Report

The company's Y2019 financial statement (including Parent company only and consolidated financial reports), which was approved by our Audit Committee and authorized through the Board of Directors resolution, has been audited and certified by Deloitte & Touche, and for which an audit report has been issued.

The Board of Directors has also prepared and submitted the Y2019 business report and earnings distribution plan, which have been audited and confirmed by our Audit Committee as having being properly prepared in accordance with Article 14-4 of the Securities and Exchange Law and Article 219 of the Company Act.

Please kindly review and approve the provided information.

The above is respectfully submitted at the VIS Y2020 General Shareholders' Meeting

Vanguard International Semiconductor Corporation

Convener of the Audit Committee: Benson W.C. Liu

February 20, 2020

D.Financial Statements and Independent Auditors' Report

Please refer to IX. Financial Statements, Consolidated Financial Statements and Independent Auditors' Report

E.Consolidated Financial Statements and Independent Auditors' Report

Please refer to IX. Financial Statements, Consolidated Financial Statements and Independent Auditors' Report

F. The financial impact to the Company due to company or affiliate companies financial difficulties: None

VII. Financial Position, Operating Results and Risk Management

A. Analysis of Consolidated Financial Position

Unit: NT\$, in thousands

Item \ Year	2019	2018	Difference	
			Amount	%
Current Assets	21,116,555	25,803,146	(4,686,591)	(18)
Property, Plant and Equipment	13,418,411	6,444,050	6,974,361	108
Other Non-current Assets	8,257,146	5,405,833	2,851,313	53
Total Assets	42,792,112	37,653,029	5,139,083	14
Current Liabilities	11,078,984	7,189,330	3,889,654	54
Non-Current Liabilities	2,180,995	1,024,576	1,156,419	113
Total Liabilities	13,259,979	8,213,906	5,046,073	61
Capital Stock	16,389,823	16,389,823	0	0
Capital Surplus	881,651	856,616	25,035	3
Retained Earnings	12,966,213	12,355,401	610,812	5
Total Equity	29,532,133	29,439,123	93,010	0
Analysis for variation over 20% :				
1. The increase in property, plant and equipment was mainly due to subsidiary acquiring machinery and equipments.				
2. The increase in other non-current assets was mainly due to the increase in investments and subsidiary's right-of-use assets.				
3. The increase in current liabilities was mainly due to the increase in short-term loans.				
4. The increase in non-current liabilities was mainly due to the increase in lease liabilities.				

B. Analysis of Consolidated Financial Performance

Unit: NT\$, in thousands

Item \ Year	2019	2018	Difference	%
Net Revenue	\$ 28,286,072	\$ 28,928,094	\$ (642,022)	(2)
Cost of Revenue	17,953,285	18,759,824	(806,539)	(4)
Gross Profit	10,332,787	10,168,270	164,517	2
Operating Expenses	3,423,398	3,013,562	409,836	14
Operating Income	6,909,389	7,154,708	(245,319)	(3)
Non-operating Income and Expenses	448,930	317,478	131,452	41
Income before Income Tax	7,358,319	7,472,186	(113,867)	(2)
Income Tax Expenses	1,497,822	1,305,917	191,905	15
Net Income	5,860,497	6,166,269	(305,772)	(5)
Other Comprehensive (Loss) Income	(539,802)	284,652	(824,454)	(290)
Total Comprehensive Income	\$ 5,320,695	\$ 6,450,921	\$ (1,130,226)	(18)
1. Analysis for variation over 20% :				
1.1 The increase in non-operating income and expenses was mainly due to the increase in interest revenue and settlement of insurance claim.				
1.2 The decrease in other comprehensive income (loss) was due to the decrease in exchange differences on translation of foreign operations.				
2. Reasons for changing the Company's major business; explain the variance resulting from the adjustment of selling prices or costs, the increase or decrease of quantity and the combination of production and selling, or the replacement of old products. If the Company's operation strategy, market situation, economic environment, other internal or external factors have changed or expects to have any significant changes, explain the fact, influencing factors and the possible impact to the Company's future finance and responding proposal :				
Not Applicable				
3. Planned selling quantities and its base for next year. Explain the major factors that keep the Company's forecast sales quantity to rise or decline :				
Please refer to the " Letter To The Shareholders"				

C. Analysis of Consolidated Cash Flow

Unit : NT\$, in millions

Cash Balance 2019/1/1	Net Cash Provided by Operating Activities	Net Cash Used in Investing and Financing Activities	Cash Balance 2019/12/31	Remedy for Cash Shortfall	
				Investing Plan	Financing Plan
14,607	8,130	(11,849)	10,888	None	None
1. Analysis of Cash Flows for Y2019:					
1.1 Cash provided by operating activities NT\$8,130 million was mainly from net income and depreciation/amortization.					
1.2 Cash used in investing activities NT\$9,642 million was mainly due to capital expenditures and the acquisitions of financial assets.					
1.3 Cash used in financing activities NT\$2,207 million was mainly for the payment due to the cash outflows of 5.2 billion in cash dividends and short-term borrowing inflows of 3.2 billion.					
2. Remedy for Cash Shortfall and Liquidity Analysis : Not Applicable.					
3. Cash Flow Projection for Next Year :					
Cash Balance 2020/1/1	Net Cash Provided by Operating Activities	Net Cash Used in Investing and Financing Activities	Cash Balance 2020/12/31	Remedy for Cash Shortfall	
				Investing Plan	Financing Plan
10,888	7,569	(8,882)	9,575	None	None
1. Analysis of Cash Flows for Y2020:					
1.1 Cash provided by operating activities NT\$7,569 million was mainly from net income and depreciation/amortization.					
1.2 Cash used in investing and financing activities NT\$8,882 million was mainly due to capital expenditures and the payment of the cash dividends..					

D. Major Capital Expenditure

Capital expenditure was approximately NT\$10.1 billion in 2019 primarily spent on acquiring and renovation of facilities and equipments.

Unit : NT\$, in millions

Project	Actual or Planned Sources of Capital	Planned Completion Date Year/Month	Total Capital Expenditure	Execution of Major Capital Expenditure	
				Y2018	Y2019
1	Purchase and renovate facilities, equipments and right-of-use assets.	2020.12	15,733	2,198	10,055
					3,480

E. Long-term Investment Policy and Results

To align with the company's development, VIS has long-term business cooperation as purpose and strategically invested in eight companies. While due to the strategic investment companies Qromis Inc. and CMSC Inc. need a longer time for product development and verification, the loss from these investments recognized at equity method amounted to NT\$40 million on a consolidated basis in 2019. In the same time VIS also disposed all shares of Champion Microelectronic Corp. and some of Image Match Design Inc. with gain of NT\$19 millions, followed the change of industry environment and strategy adjustment itself time by time. Looking forward, the company will continue to carefully evaluate investment based on long-term strategy and monitors the performance of investments regularly.

F. Risk Management

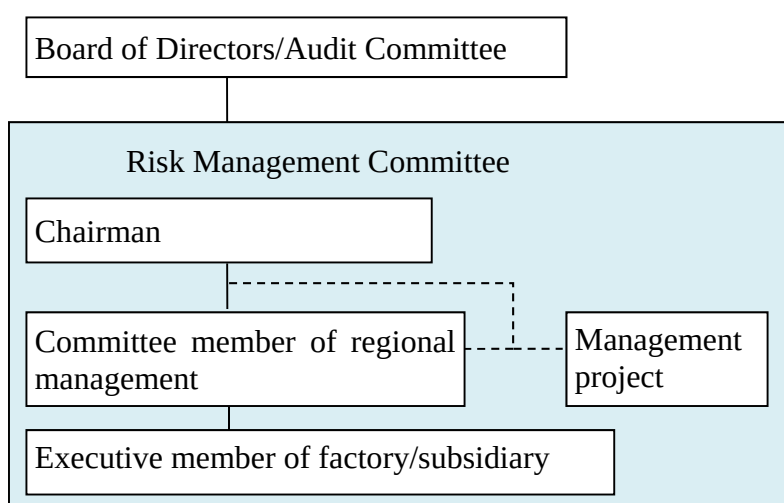
Risk management policy

VIS actively implements risk prevention and loss control through professional technique and concept of risk assessment at home and abroad, and enables all colleagues to participate in education, training and continuous improvement through effective insurance engineering technique and risk management mechanism. In order to integrate risk management measures into daily internal control operations, each unit shall regularly inspect its own risk control situation, and the Board of Directors and senior management shall inspect the implementation effect of risk control, so as to effectively control the company's risks within an acceptable range. To further implement the execution of risk management policies, the company has established the Risk Management Committee to report to the Audit Committee and the Board of Directors on risk management policies and procedures.

Risk management organization structure

The organizational structure and responsibilities of the company's risk management are as follows:

(I) Organizational structure



(II) Responsibilities

- ◆ Board of Directors/Audit Committee: guide risk management and approve risk management policies and procedures

- ◆ Risk Management Committee: it is composed of Chairman, committee member of regional management, executive member of factory/subsidiary and management project. It formulates risk management policies and procedures and reports the operation to the Board of Directors or Audit Committee.
- ◆ Chairman: the President shall assume the post and may appoint a secretary to assist in the business.
- ◆ Committee member of regional management: the VP of Operation & Environment Safety shall act as the general convener, and the top director of each region shall act as the committee member of regional management.
 - Supervising the improvement of risk control
 - Identify and approve the priority of risk control
- ◆ Executive member of the factory / subsidiary: composed of the head of the factory and the president of the subsidiary.
 - Planning, review and implementation of risk identification results and control measures
- ◆ Management project: the head of Risk and Environmental Safety Management Department shall act as the director general, and the top regional head shall each assign the director above the departmental level to act as the regional promotion representative.
 - Integrate affairs promotion of the Risk Management Committee

Integrate the company's risk management report and report to the general convener of the Risk Management Committee

1. Interest Rates Fluctuation, Foreign Exchange Rate Volatility and Inflation

Interest rate:

VIS' investment portfolio, which is composed by cash and investment grade debt securities, is exposed to interest rate risks and the interest income is sensitive to fluctuations in R.O.C. and U.S. interest rates. Changes in R.O.C. and U.S. interest rates affect the interest earned on the Company's cash, cash equivalent and marketable securities and the fair value of those securities. As of December 31, 2019, all VIS's debts are short term bank loans and therefore changes in interest rate have limit impact on financial expenses.

Foreign exchange:

Majority of VIS' revenues are denominated in U.S. dollar. A weakening U.S. dollar against NT dollar would have an adverse impact on VIS's revenue and profit as expressed in NT dollar. On the other hand, VIS' materials payments and capital expenditures are dominated in US Dollars, Japanese Yens and Euros, among which a substantial portion is in US Dollars. Therefore, benefits from natural hedge by setting off account receivable and payable would partially reduce the impact from foreign exchange volatility. But if U.S. dollar significantly appreciates versus other major currencies, the demand for VIS's products and services will likely decrease, which will negatively affect the Company's revenues.

Inflation:

2019 Taiwan inflation rate is 0.56%. The inflation rate did not have significant impact on VIS's operation and profit. VIS will endeavor to improve production process and efficiency for the reduction of operating cost and eliminate the impact from inflation risk.

2. High risk, high leveraged investment, lending, endorsement and guarantee for other parties and financial derivatives transactions

VIS focuses on foundry manufacturing operations and IC wafer production. The company does not make high risk/high leveraged investments. All financial derivatives transactions that VIS enters into are strictly for hedging purpose and not for trading and speculative purposes. Except Vanguard International Semiconductor Singapore Pte. Ltd., a wholly-owned subsidiary, VIS did not provide lending, endorsement, and guarantee for any entity. In order to control and monitor various types of financial transactions, VIS has established internal control policies and procedures conforming to the relevant laws and regulations promulgated by the authorities concerned. These policies and procedures include "Policies and Procedures for Financial Derivative Transactions", "Procedures for Lending Funds to Other Parties" and "Procedures for Endorsement and Guarantee".

3. R&D Plan and Progress

In Y2019, VIS capital expenditure is about NT\$10.1 billion, while in Y2020 capital expenditure is planned to be around NT\$3.5 billion. Other than equipment and facility maintaining expense and expense arising from lease liabilities in accordance with IFRS 16, capital expenditure covers the product and process R&D to provide complete IC manufacturing service for customers and to enhance our competitiveness in global market. VIS will continue to build on the existing foundation and strengthen the specialty process technologies. R&D budget in Y2020, estimated around 6% of total sales. (Please refer to 「Technology and R&D Status」)

4. Changes in Domestic and International Policies and Regulations

Management team closely monitors political and regulatory developments that could have a material impact on business and operations. Political and regulatory developments did not have any material adverse effect on VIS during Y2019.

5. Changes in Technology

VIS has continued its investment in the product development and process technology for the market needs; on the other hand, we also adapt ourselves to the changes and needs due to technology evolutions to reduce risks and pursue long-term steady development in finance and business. (please refer to Overview of the Industry")

6. Changes in Company Image

The Company focuses on its primary business activities, upholds the principle of good faith, abides by rigorous code of professional ethics, endeavors to improve the Company's competitiveness and pursue corporate sustainability, and strictly forbids conducts that violate the Company's principle of good faith and core corporate values.

The Company conducts regular inspections on its external environment, operating models, and management systems, simulates unexpected incidents that may influence corporate reputation, proposes response strategies, and minimizes the potential impact of uncertain factors and disasters that the Company may face in the future, in order to maintain the Company's normal operations and protect the overall interest of our shareholders, customers, and employees.

Furthermore, the Company also actively participates in community and charity events in fulfillment of its corporate social responsibilities. From Y2019 to the publication date of this annual report, the Company has been and remains free of changes in corporate image or events that have influenced its capacity for crisis management.

7. Risks from Merge, Acquisition and Plant Expansion

No merger and acquisition event occurred from Y2019 to the date of publishing this annual report.

8. Risks from Plant Expansion

To meet customer demand and increase capacity effectively, the company acquired GLOBALFOUNDRIES's Fab 3E in Tampines, Singapore by end of Y2019. The transaction includes buildings, facilities, and equipment, as well as IP associated with GF's MEMS business. The relevant prices were paid according to the contract. The newly added plant and equipment are expected to increase the company's production capacity by 30,000 eight-inch wafers per month, which will further meet customers' demand and increase the company's market share.

No other plant expansion occurred from Y2019 to the publishing date of this annual report.

9. Risks from Concentration of Stock and Sales

To avoid overly concentrated risk and to protect raw materials supply for the manufacturing process at all time, VIS has maintained multiple suppliers for the major materials to spread the risk. In Y2018 and Y2019, the top two customers have made around 35% and 28% of company annual sales respectively. The concentration of sales is the industry nature of our business as focused specialty foundry. To minimize the risks, we'll continue to expand the product lines and customer base.

10. Transfer of Shareholdings of Directors, Supervisors or Large Shareholders

The value of shareholders' investment may be reduced by possible future sales of VIS shares owned by the major shareholders. No other transfer of shareholdings of directors, supervisors or large shareholders occurred from Y2019 to the date of publishing this annual report.

11. Change of Management

No change of management occurred from Y2019 to the date of publishing this annual report.

12. Litigation or non-litigation proceedings

No litigation or non-litigation proceedings with material effect occurred from Y2019 to the date of publishing this annual report.

13. Other Material Risks

In order to improve the company's information security management, the company established the "Proprietary Information Protection Committee" (PIP Committee) in 2003 and formulated the "Important Information Protection Measures", which is responsible for information protection strategy, implementation content and related authorization matters, and quarterly review of the company's information security status. In July 2013, we

formulated the "VIS Information Security Policy" and established the information security management framework, committed to pay attention to the information security and implement it to ensure the company's competitive advantage, and passed the certification of ISO 27001 Information Security Management System – ISO / IEC 27001: 2013 in December 2015, which continues up to now.

Although the company has established a complete framework and defense system to ensure the company's customer service and production and operation functions, it cannot guarantee that the relevant computer system can completely avoid malicious attacks from third parties. In case of serious attack, the VIS system may lose important data or be unable to operate for a long time. The attack may also include snooping confidential information and stealing business secrets. Considering this risk, VIS has taken out information security risk management insurance since January 1, 2019 to reduce the losses caused by the above situations.

Measures responding to events that seriously impact on the company operations

VIS regularly conducts drills and trainings for managing natural or man-made damage, such as typhoon, earthquake, fire, gas and chemicals leak, and establish broad and detailed prevention measures as well as contingent plans. VIS is capable of maintaining the company operations and protecting the interests of shareholders, customers and employees. No emergency event occurred from Y2019 to the publishing date of this annual report.

G. Other important matters:

Intellectual Property Management Policy

The company's intellectual property management is based on the intellectual property management policies of "protecting research and development achievements, promoting innovation", "using intellectual property, strengthening competition", "avoiding infringement risks, and sustainable operation", and has established management objectives and relevant systems to ensure compliance with the company's business strategy.

Management System

In order to protect the most important information of the company, such as business secrets, since 2003, according to the Proprietary Information Protection Policy (PIP Policy), through the cross-organizational PIP Committee, regular meetings have been held to review violations, improve system deficiencies, and discuss time-sensitive cases and issues, so as to fully implement the protection measures.

According to the company's operation strategy, we will continue to invest in innovative R&D, and the R&D personnel and intellectual property management personnel will cooperate with the R&D strategy to carry out global patent layout, so as to ensure that the R&D achievements are fully protected and strengthen the power of intellectual property. Since its establishment, the company has obtained more than 2,000 patents from various countries. In recent years, the number of certified patents has grown steadily. In addition to gaining a unique leading position in technology to strengthen competitive advantage, it can provide more perfect protection for the rights and interests of the enterprise itself and its customers.

Possible intellectual property risks and countermeasures

In the process of business operation, in addition to protecting the company's intellectual property

rights from infringement to maintain competitiveness, the company may also face the risk of infringement of the technology used, thus unable to continue production or suffer major liability for compensation, resulting in damage to the company's operation.

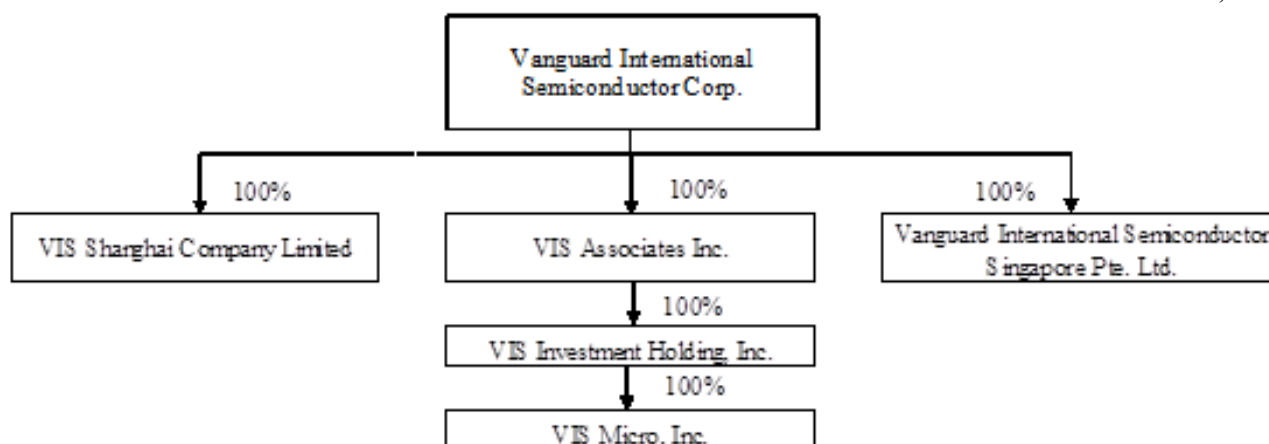
In order to avoid such risks, it is necessary to enhance the risk awareness of each colleague and implement it in daily work. In this regard, the company has established an important information protection zone at the portal of the internal website, which provides colleagues with access to relevant regulations, advocacy and training materials in a timely manner, so that colleagues can carry out self-education at any time, and enhance their cognition of the company's business secrets and important information protection through the required PIP advocacy online courses, irregular case advocacy and physical courses every year, so as to strengthen the protection of business secrets and important information. In addition, we also provide patent online courses for colleagues to study, conduct online advocacy on R&D units and relevant organizations from time to time, and require them to complete test questionnaires, assist colleagues to further establish specific concepts of patent and business secret protection, improve their cognition and awareness, so as to effectively reduce operational risk and enhance market competitiveness.

VIII. SPECIAL NOTES

A. Affiliated Information

1. VIS Affiliated Companies Chart

As of December 31, 2019



2. Business Scope of the Affiliated Companies

As of December 31, 2019

Investee Company	Major Business Items
VIS Associates Inc.	Investment
VIS Investment Holding, Inc.	Investment
VIS Micro, Inc.	Marketing Service
VIS Shanghai Company Limited	Marketing Service
Vanguard International Semiconductor Singapore Pte. Ltd.	Semiconductor manufacturing, selling and packaging

3. Affiliates Information

Unit: USD/RMB/SGD, in thousands, As of December 31, 2019

Name of Enterprise	Date of Establishment	Address	Paid-in Capital	Major Business / Production Items
VIS Associates Inc.	1996.9.24	Trident Chambers, PO Box 146, Road Town Tortola, British Virgin Islands	USD 317,000	IC Business Investment
VIS Investment Holding, Inc.	1996.11.15	Corporation Trust Center 1209 Orange Street Wilmington, Delaware 19801	USD 6,250	IC Business Investment
VIS Micro, Inc.	1996.11.21	1475 S. Bascom Ave, Suite 109 Campbell, CA 95008	USD 200	Marketing Service
VIS Shanghai Company Limited	2017.08.16	Room 1628, Unit 1604-1606, Tower B, No. 588, Dalian Road, Yangpu District, Shanghai City, China 200082	RMB 1,000	Marketing Service
Vanguard International Semiconductor Singapore Pte. Ltd.	2019.01.21	1 Tampines Industrial Avenue 5 Singapore 528830	SGD 325,610	Semiconductor manufacturing, selling and packaging

Note: Foreign exchange rate on balance sheet date is \$1 USD = \$29.988 NTD; \$1 RMB = \$4.295 NTD; \$1 SGD = \$22.266 NTD.

4. VIS Shareholders Representing Both Holding Companies and Subordinates: None

5. Directors, Supervisors & Presidents of Affiliates

As of December 31, 2019

Name of Enterprise	Title	Name or Representative	Holding Shares	
			Shares (K)	%
VIS Associates Inc.	Director	Fang, Leuh ; Huang, Huei-Lan	317	100%
VIS Investment Holding, Inc.	Director	Fang, Leuh ; Huang, Huei-Lan	63	100%
VIS Micro, Inc.	Director	Fang, Leuh ; Huang, Huei-Lan ; Chang, Tung-Lung	200	100%
VIS Shanghai Company Limited	Director / Supervisor	Chiang, Kun-Sheng / Liu, Yu-Ching	Investment Amount RMB 1,000	100%
Vanguard International Semiconductor Singapore Pte. Ltd.	Director	Fang, Leuh ; Goh Inn Swee ; Huang, Huei-Lan	325,610	100%

6. Operating Highlights of Affiliates

Unit: NT\$, in thousands, except earnings per share

Name of Enterprise	Capital	Total Assets	Total Liabilities	Net Worth	Net Revenue	Operating Income (Loss)	Net Income (Loss)	EPS (NT\$) (after tax)
VIS Associates Inc.	\$9,774,919	\$9,817,273	\$0	\$9,817,273	\$0	(\$251)	\$296,891	\$1,026.57
VIS Investment Holding, Inc.	187,425	84,138	150	83,988	0	(576)	2,161	34.58
VIS Micro, Inc.	5,998	91,235	27,179	64,056	102,901	4,955	4,065	20.32
VIS Shanghai Company Limited	4,556	4,409	340	4,069	1,127	(230)	(175)	None
Vanguard International Semiconductor Singapore Pte. Ltd.	7,448,974	7,929,586	829,466	7,100,120	3,233	(143,179)	(153,644)	(0.71)

Note: Foreign exchange rate for balance sheet amounts is \$1 USD = \$29.988 NTD; \$1 RMB = \$4.295 NTD; \$1 SGD = \$22.266 NTD. Foreign exchange rate for income statement amounts is \$1 USD = \$30.318 NTD; \$1 RMB = \$4.317 NTD; \$1 SGD = \$22.33 NTD.

B. Private placements Securities

VIS has no private placements securities from Y2019 to the publishing date of this annual report.

C. VIS Common Shares acquired, disposed of and held by subsidiaries

VIS Common Shares was not acquired, disposed of and held by subsidiaries from Y2019 to the publishing date of this annual report.

D. Other Necessary Supplement: None

E. Any Events in Y2018 that had Significant Impacts on Shareholders' Right or Security Prices as started in Item 3 paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None

IX. Financial Statements, Consolidated Financial Statements and Independent Auditors' Report

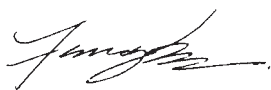
DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard NO.10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

By



LEUH FANG
Chairman

February 20, 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Vanguard International Semiconductor Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated 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 consolidated financial statements of the Group for the year ended December 31, 2019, are described as follows:

Timing of revenue recognition

1. The sales revenue of the Group is material to the Group. Please refer to Note 25. 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 Group, 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 Group relating to property, plant and equipment is significant to its consolidated financial statements. Because of the significance of such expenditure, delaying in capitalization thereof may lead to the consolidated financial statements not fairly presented. Please refer to Note 16.
2. We reviewed the capital expenditure policy of the Group 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.

Other Matter

We have also audited the parent company only financial statements of Vanguard International Semiconductor Corporation as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group 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 consolidated 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

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 20, 2020

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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 consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 31)	\$ 10,888,029	25	\$ 14,607,185	39
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	150,256	-	1,526	-
Financial assets at amortized cost - current (Notes 4, 5, 9, 10 and 31)	1,233,827	3	1,600,259	4
Notes and accounts receivable, net (Notes 4, 5, 12, 25 and 31)	4,769,130	11	5,311,885	14
Other receivables (Notes 4 and 31)	199,084	1	416,219	1
Other receivables from related parties (Notes 4, 31 and 32)	227,338	1	280,233	1
Inventories (Notes 4 and 13)	-	-	3,842	-
Prepaid expenses	3,107,612	7	3,415,585	9
Other current assets (Notes 19 and 31)	192,524	-	163,520	1
	<u>348,755</u>	<u>1</u>	<u>2,892</u>	<u>-</u>
Total current assets	<u>21,116,555</u>	<u>49</u>	<u>25,803,146</u>	<u>69</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 31)	180,848	-	262,294	1
Financial assets at amortized cost - non-current (Notes 4, 5, 9, 10 and 31)	4,956,334	12	4,246,872	11
Investments accounted for using equity method (Notes 4 and 15)	240,575	1	238,044	1
Property, plant and equipment (Notes 4 and 16)	13,418,411	31	6,444,050	17
Right-of-use assets (Notes 3, 4, 5 and 17)	1,848,440	4	-	-
Intangible assets (Notes 4 and 18)	345,735	1	25,999	-
Deferred income tax assets (Notes 4 and 27)	188,646	-	115,760	-
Refundable deposits	192,481	1	212,905	-
Other non-current assets (Notes 4, 19, 31 and 33)	<u>304,087</u>	<u>1</u>	<u>303,959</u>	<u>1</u>
Total non-current assets	<u>21,675,557</u>	<u>51</u>	<u>11,849,883</u>	<u>31</u>
TOTAL ASSETS	<u>\$ 42,792,112</u>	<u>100</u>	<u>\$ 37,653,029</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Notes 20, 29 and 31)	\$ 3,210,000	7	\$ -	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 31)	-	-	4,547	-
Notes and accounts payable (Note 31)	1,012,509	2	1,278,483	3
Payables to related parties (Notes 31 and 32)	12,195	-	14,288	-
Accrued employees' compensation and remuneration to directors (Notes 26 and 31)	1,227,834	3	1,192,595	3
Payables to contractors and equipment suppliers (Note 31)	961,708	2	331,272	1
Other payables (Notes 21 and 31)	2,557,357	6	2,576,216	7
Other payables to related parties (Notes 31 and 32)	3,920	-	10,363	-
Current income tax liabilities (Notes 4 and 27)	1,081,862	3	1,252,726	3
Lease liabilities - current (Notes 3, 4, 5, 17, 29 and 31)	259,726	1	-	-
Other current liabilities (Notes 22, 25 and 32)	<u>751,873</u>	<u>2</u>	<u>528,840</u>	<u>2</u>
Total current liabilities	<u>11,078,984</u>	<u>26</u>	<u>7,189,330</u>	<u>19</u>
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 27)	206,169	-	163,302	1
Lease liabilities - non-current (Notes 3, 4, 5, 17, 29 and 31)	1,104,788	3	-	-
Net defined benefit liabilities - non-current (Notes 4 and 23)	813,887	2	804,486	2
Other non-current liabilities (Notes 29 and 32)	<u>56,151</u>	<u>-</u>	<u>56,788</u>	<u>-</u>
Total non-current liabilities	<u>2,180,995</u>	<u>5</u>	<u>1,024,576</u>	<u>3</u>
Total liabilities	<u>13,259,979</u>	<u>31</u>	<u>8,213,906</u>	<u>22</u>
EQUITY (Notes 4, 8 and 24)				
Capital stock	16,389,823	38	16,389,823	43
Capital surplus	881,651	2	856,616	2
Retained earnings	5,127,697	12	4,511,070	12
Legal reserve	162,717	-	377,030	1
Special reserve	7,675,799	18	7,467,301	20
Unappropriated earnings	12,966,213	30	12,355,401	33
Total retained earnings	<u>(706,554)</u>	<u>(1)</u>	<u>(162,717)</u>	<u>-</u>
Other equity	29,532,133	69	29,439,123	78
Total equity	<u>\$ 42,792,112</u>	<u>100</u>	<u>\$ 37,653,029</u>	<u>100</u>
TOTAL LIABILITIES AND EQUITY				

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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, 25 and 32)	\$ 28,286,072	100	\$ 28,928,094	100
COST OF REVENUE (Notes 4, 13, 26 and 32)	<u>17,953,285</u>	<u>63</u>	<u>18,759,824</u>	<u>65</u>
GROSS PROFIT	<u>10,332,787</u>	<u>37</u>	<u>10,168,270</u>	<u>35</u>
OPERATING EXPENSES (Note 26)				
Marketing	326,739	1	340,524	1
General and administrative	1,351,092	5	1,178,132	4
Research and development	1,745,567	6	1,494,321	5
Expected credit losses (Notes 4, 5 and 12)	<u>-</u>	<u>-</u>	<u>585</u>	<u>-</u>
Total operating expenses	<u>3,423,398</u>	<u>12</u>	<u>3,013,562</u>	<u>10</u>
OPERATING INCOME	<u>6,909,389</u>	<u>25</u>	<u>7,154,708</u>	<u>25</u>
NON-OPERATING INCOME AND EXPENSES (Note 4)				
Gain arising from derecognition of financial assets at amortized cost (Note 9)	13,765	-	-	-
Interest income (Note 26)	388,005	1	316,624	1
Dividend income (Notes 8 and 26)	30,330	-	27,978	-
Other income (Note 32)	162,689	-	92,043	-
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Note 26)	9,594	-	(285,526)	(1)
Interest expense (Notes 3, 4, 5 and 26)	(41,167)	-	-	-
(Loss) gain on disposal of property, plant and equipment (Note 32)	(273)	-	610	-
Net (loss) gain on foreign exchange (Note 26)	(73,926)	-	218,325	1
Share of loss of associates and joint ventures (Note 15)	<u>(40,087)</u>	<u>-</u>	<u>(52,576)</u>	<u>-</u>
Total non-operating income and expenses	<u>448,930</u>	<u>1</u>	<u>317,478</u>	<u>1</u>
INCOME BEFORE INCOME TAX	7,358,319	26	7,472,186	26
INCOME TAX EXPENSE (Notes 4 and 27)	<u>(1,497,822)</u>	<u>(5)</u>	<u>(1,305,917)</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 AND SUBSIDIARIES

CONSOLIDATED 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 24)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	\$ (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 associates and joint ventures (Note 15)	-	-	3	-
Total other comprehensive (loss) income	(539,802)	(2)	284,652	1
TOTAL COMPREHENSIVE INCOME	<u>\$ 5,320,695</u>	<u>19</u>	<u>\$ 6,450,921</u>	<u>22</u>
NET INCOME ATTRIBUTABLE TO				
Owner of the Corporation	\$ 5,860,497	21	\$ 6,166,269	21
Non-controlling interests	-	-	-	-
	<u>\$ 5,860,497</u>	<u>21</u>	<u>\$ 6,166,269</u>	<u>21</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Owner of the Corporation	\$ 5,320,695	19	\$ 6,450,921	22
Non-controlling interests	-	-	-	-
	<u>\$ 5,320,695</u>	<u>19</u>	<u>\$ 6,450,921</u>	<u>22</u>
EARNINGS PER SHARE (Note 28)				
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 consolidated financial statements.

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
**CONSOLIDATED 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 (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Equity
			Legal Reserve	Special Reserve					
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	-	-	-	-	(450,506)	-	-	-	-
Legal reserve	-	-	450,506	-	(339,074)	-	-	-	-
Special reserve	-	-	-	339,074	(4,916,947)	-	-	-	-
Cash dividends - 30%	-	-	-	-	-	-	-	-	(4,916,947)
Changes in capital surplus from investment in 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	-	-	-	-	(616,627)	-	-	-	-
Legal reserve	-	-	616,627	-	(5,244,743)	-	-	-	(5,244,743)
Cash dividends - 32%	-	-	-	-	214,313	-	-	-	-
Reversal of special reserve	-	-	-	(214,313)	-	-	-	-	-
Changes in capital surplus from investment in 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 consolidated financial statements.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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	\$ 7,358,319	\$ 7,472,186
Adjustments for:		
Depreciation	2,128,035	1,811,747
Amortization	13,048	11,559
Expected credit losses	-	585
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	(126)	269
Interest expense	41,167	-
Net gain arising from derecognition of financial assets at amortized cost	(13,765)	-
Interest income	(388,005)	(316,624)
Dividend income	(30,330)	(27,978)
Share of losses of associates and joint ventures	40,087	52,576
Loss (gain) on disposal of property, plant and equipment	273	(610)
Net loss on foreign exchange	240	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	72,664	(67,356)
Other receivables from related parties	3,842	4,406
Inventories	307,973	(624,615)
Prepaid expenses	(33,722)	9,943
Other current assets	(345,863)	145
Financial liabilities held for trading	(4,547)	4,547
Notes and accounts payable	(265,974)	(31,675)
Payables to related parties	(2,093)	14,288
Other payables	(27,855)	458,127
Other payables to related parties	(6,443)	(67,585)
Other current liabilities	223,033	186,780
Net defined benefit liabilities	(6,448)	6,884
Accrued employees' compensation and remuneration to directors	35,239	506,935
Cash generated from operations	9,810,035	7,961,939
Interest received	367,030	292,085
Interest paid	(32,171)	-
Income tax paid	(1,699,725)	(793,810)
Net cash provided by operating activities	8,445,169	7,460,214
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	(2,924,444)	(2,826,064)
Proceeds from disposal of financial assets at amortized cost	826,732	-
Proceeds from redemption of financial assets at amortized cost	1,605,968	954,951
Acquisitions of financial assets at fair value through profit or loss	(200,000)	-

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	2019	2018
Proceeds from disposal of financial assets at fair value through profit or loss	\$ 100,000	\$ -
Acquisition of investment accounted for using equity method	(30,740)	-
Acquisitions of property, plant and equipment	(8,262,119)	(1,919,433)
Proceeds from disposal of property, plant and equipment	11	648
Decrease (increase) in refundable deposits	14,934	(15,498)
Acquisitions of intangible assets	(336,692)	(20,651)
Acquisitions of right-of-use assets	(505,058)	-
Increase in other non-current assets	(128)	(128)
Dividends received	<u>30,330</u>	<u>27,978</u>
Net cash used in investing activities	<u>(9,641,790)</u>	<u>(3,902,746)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	3,210,000	-
Repayment of the principal portion of lease liabilities	(172,111)	-
(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>(2,207,343)</u>	<u>(4,903,253)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(315,192)</u>	<u>192,199</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,719,156)	(1,153,586)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,607,185</u>	<u>15,760,771</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,888,029</u>	<u>\$ 14,607,185</u>

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

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED 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 functional currency of the Corporation is New Taiwan dollars. The consolidated financial statements are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated 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 accounting policies of the Corporation and entities controlled by the Corporation (collectively, the “Group”):

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 Group 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 Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated 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 consolidated statements of comprehensive income, the Group 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 consolidated 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 Group applies IAS 36 to assess impairment of all right-of-use assets.

The Group also applies the following practical expedients:

- a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Group 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>704,738</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 1,488,345</u>

The Group as lessor

The Group 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	\$ -	\$ 1,488,345	\$ 1,488,345
Total effect on assets	\$ -	\$ 1,488,345	\$ 1,488,345
Lease liabilities - current	\$ -	\$ 202,323	\$ 202,323
Lease liabilities - non-current	-	1,286,022	1,286,022
Total effect on liabilities	\$ -	\$ 1,488,345	\$ 1,488,345

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 Group 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 Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’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 consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group'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 consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the 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.

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 Group 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. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 14, Table 8 and Table 9 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity'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.

For the purpose of presenting consolidated financial statements, the functional currencies of the Corporation and the Group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Corporation) are translated into the presentation currency, New Taiwan dollars, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

f. 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 cost necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

g. Investment in associates

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

The Group 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 Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognized the changes in the Group's share of the equity of associates.

When the Group 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 Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of the equity of associates. If the Group'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 a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

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 Group 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 Group 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 Group 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 31.

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

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Group 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 Group 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 Group 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 Group.

The Group 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 Group 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 entity.

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 Group 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 Group are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

1) 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 31.

2) 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 Group 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 Group 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.

1) 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 Group 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.

2) 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 are 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group assesses whether the contract is, or contains, a lease.

1) The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 service.

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 Group's defined benefit plans.

3) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group 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 and loss carryforwards can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group 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 that it is 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 Group 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 Group'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 Group 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 Group 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 Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group'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

	December 31	
	2019	2018
Deposits in bank	\$ 7,745,618	\$ 13,531,252
Cash equivalents		
Bonds acquired under repurchase agreements	<u>3,142,411</u>	<u>1,075,933</u>
	<u>\$ 10,888,029</u>	<u>\$ 14,607,185</u>

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

	December 31	
	2019	2018
Bank deposits	0%-3.36%	0%-3.55%
Bonds acquired under repurchase agreements	0.50%-0.60%	0.48%-0.55%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
<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 Group entered into structured investment contracts with the 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 Group 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 Group'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 Group sold the partial shares of investment. Proceeds from disposal of the shares were \$39,416 thousand, 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

	December 31	
	2019	2018
<u>Current</u>		
Domestic investments		
Financial bonds	\$ -	\$ 100,261
Foreign investments		
Corporate bonds	<u>1,233,827</u>	<u>1,499,998</u>
	<u>\$ 1,233,827</u>	<u>\$ 1,600,259</u>
<u>Non-current</u>		
Domestic investments		
Financial bonds	\$ 352,665	\$ 354,568
Foreign investments		
Corporate bonds	<u>4,603,669</u>	<u>3,892,304</u>
	<u>\$ 4,956,334</u>	<u>\$ 4,246,872</u>

The Group's investments in debt instrument are held for collecting contractual cash flows. For higher contractual cash flow, the partial bonds were disposed to adjust investment portfolio, and the proceeds from disposal of these bonds were \$826,732 thousand and gain arising from disposal were \$13,765 thousand in 2019.

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.

	December 31	
	2019	2018
Gross carrying amount	\$ 6,190,161	\$ 5,847,131
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 6,190,161</u>	<u>\$ 5,847,131</u>

The Group 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 Group's exposure and the external credit ratings are continuously monitored. The Group 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 Group 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 Group'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%	\$ 6,190,161

December 31, 2018

Category	Expected Loss Rate	Gross Carrying Amount
		At Amortized Cost
Performing	0%	\$ 5,847,131

11. FINANCIAL INSTRUMENTS FOR HEDGING

The Group'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 Group 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 Group 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 Group 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 Group's credit risk was significantly reduced.

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

The Group 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 Group 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 Group'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)	-	-	-	(731)	(731)
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)	-	-	-	(3,872)	(3,872)
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:

	December 31	
	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

	December 31	
	2019	2018
Finished goods	\$ 221,125	\$ 210,248
Work in process	1,651,841	1,707,479
Raw materials	725,019	1,044,442
Supplies and spare parts	<u>509,627</u>	<u>453,416</u>
	<u>\$ 3,107,612</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	\$ 17,953,285	\$ 18,759,824
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. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

Investor	Investee	Nature of Activities	Proportion of Ownership	
			December 31	
			2019	2018
Vanguard International Semiconductor Corporation	VIS Associates Inc.	Investments	100%	100%
Vanguard International Semiconductor Corporation	VIS Shanghai Company Limited	Marketing service	100%	100%
Vanguard International Semiconductor Corporation	Vanguard International Semiconductor Singapore Pte. Ltd.	Manufacturing, selling and packaging	100%	-
VIS Associates Inc.	VIS Investment Holding, Inc.	Investments	100%	100%
VIS Investment Holding, Inc.	VIS Micro, Inc.	Marketing service	100%	100%

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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 8 “Information on Investees” for the nature of business, 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 Group subscribed 873 thousand shares of preferred stocks of Qromis, Inc. in cash amounting to \$30,740 thousand. As of December 31, 2019, the Group subscribed 10,705 thousand shares of preferred stocks and the percentage of voting rights in Qromis, Inc. was 39.31%.

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 unaudited financial statements. The Group's management considered the use of unaudited financial statements of the investees did not have material impact on its consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2019
Assets used by the Group	\$ 13,172,377
Assets subject to operating leases	<u>246,034</u>
	<u>\$ 13,418,411</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	\$ 420,632	\$ 705,043	\$ 1,037,160	\$ 77,207,152
Additions	1,119,029	8,119,114	65,526	(275,532)	-	9,028,137
Disposal	(1,180)	(293,998)	(97)	-	-	(295,275)
Reclassified	2,199	1,709	-	-	-	3,908
Translation adjustments	<u>(3,588)</u>	<u>(124,068)</u>	<u>(59)</u>	<u>(42)</u>	<u>-</u>	<u>(127,757)</u>
Balance, December 31, 2019	<u>\$ 15,736,582</u>	<u>\$ 68,126,952</u>	<u>\$ 486,002</u>	<u>\$ 429,469</u>	<u>\$ 1,037,160</u>	<u>\$ 85,816,165</u>
<u>Accumulated depreciation</u>						
Balance, January 1, 2019	\$ 12,782,382	\$ 56,649,896	\$ 386,932	\$ -	\$ 760,371	\$ 70,579,581
Depreciation	316,674	1,561,952	20,316	-	30,755	1,929,697
Disposal	(1,180)	(293,714)	(97)	-	-	(294,991)
Translation adjustments	<u>-</u>	<u>-</u>	<u>(54)</u>	<u>-</u>	<u>-</u>	<u>(54)</u>
Balance, December 31, 2019	<u>\$ 13,097,876</u>	<u>\$ 57,918,134</u>	<u>\$ 407,097</u>	<u>\$ -</u>	<u>\$ 791,126</u>	<u>\$ 72,214,233</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>\$ 2,638,706</u>	<u>\$ 10,025,297</u>	<u>\$ 78,905</u>	<u>\$ 429,469</u>	<u>\$ 246,034</u>	<u>\$ 13,418,411</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	\$ 398,993	\$ 790,887	\$ 75,243,395
Additions	300,991	1,763,860	25,313	(85,844)	2,004,320
Disposal	-	(37,619)	(5,397)	-	(43,016)
Reclassified	-	730	1,634	-	2,364
Translation adjustments	-	-	89	-	89
Balance, December 31, 2018	<u>\$ 15,657,282</u>	<u>\$ 60,424,195</u>	<u>\$ 420,632</u>	<u>\$ 705,043</u>	<u>\$ 77,207,152</u>
<u>Accumulated depreciation</u>					
Balance, January 1, 2018	\$ 13,249,204	\$ 55,180,959	\$ 380,588	\$ -	\$ 68,810,751
Depreciation	293,549	1,506,556	11,642	-	1,811,747
Disposal	-	(37,619)	(5,359)	-	(42,978)
Translation adjustments	-	-	61	-	61
Balance, December 31, 2018	<u>\$ 13,542,753</u>	<u>\$ 56,649,896</u>	<u>\$ 386,932</u>	<u>\$ -</u>	<u>\$ 70,579,581</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>\$ 33,700</u>	<u>\$ 705,043</u>	<u>\$ 6,444,050</u>

The Group 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 7 years

17. 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	\$ 385,202	\$ 16,236	\$ 8,548	\$ 1,488,345
Additions	-	573,868	-	-	573,868
Lease expired	-	(2,654)	-	-	(2,654)
Lease terms changed	-	(3,963)	-	(140)	(4,103)
Translation adjustments	-	(11,403)	-	-	(11,403)
Balance, December 31, 2019	<u>\$ 1,078,359</u>	<u>\$ 941,050</u>	<u>\$ 16,236</u>	<u>\$ 8,408</u>	<u>\$ 2,044,053</u>
<u>Accumulated depreciation</u>					
Restated balance, January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	103,840	83,309	7,071	4,118	198,338
Lease expired	-	(2,654)	-	-	(2,654)
Translation adjustments	-	(71)	-	-	(71)
Balance, December 31, 2019	<u>\$ 103,840</u>	<u>\$ 80,584</u>	<u>\$ 7,071</u>	<u>\$ 4,118</u>	<u>\$ 195,613</u>
Carrying amounts, December 31, 2019	<u>\$ 974,519</u>	<u>\$ 860,466</u>	<u>\$ 9,165</u>	<u>\$ 4,290</u>	<u>\$ 1,848,440</u>

b. Lease liabilities - 2019

**December 31,
2019**

Carrying amounts

Current	<u>\$ 259,726</u>
Non-current	<u>\$ 1,104,788</u>

Range of discount rate for lease liabilities was as follows:

**December 31,
2019**

Land	1.70%
Buildings	1.70%-3.62%
Machinery and equipment	1.70%
Other equipment	1.70%

c. Material lease-in activities and terms

The Group 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	\$ 2,189
Expenses relating to low-value asset leases	\$ 167
Expenses relating to variable lease payments not included in the measurement of lease liabilities	\$ 587
Total cash outflow for leases	\$ 197,530

The Group leases certain buildings, machinery and equipment which qualify as short-term leases, and certain other equipment which qualify as low-value asset leases. The Group 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.

18. INTANGIBLE ASSETS

	Computer Software	Technological Assets	Total
<u>Cost</u>			
Balance, January 1, 2018	\$ 794,605	\$ -	\$ 794,605
Additions	20,651	-	20,651
Reclassified	<u>(2,364)</u>	<u>-</u>	<u>(2,364)</u>
Balance, December 31, 2018	<u>\$ 812,892</u>	<u>\$ -</u>	<u>\$ 812,892</u>
<u>Accumulated amortization</u>			
Balance, January 1, 2018	\$ 775,334	\$ -	\$ 775,334
Amortization	<u>11,559</u>	<u>-</u>	<u>11,559</u>
Balance, December 31, 2018	<u>\$ 786,893</u>	<u>\$ -</u>	<u>\$ 786,893</u>
Carrying amounts, December 31, 2018	<u>\$ 25,999</u>	<u>\$ -</u>	<u>\$ 25,999</u>

(Continued)

	Computer Software	Technological Assets	Total
<u>Cost</u>			
Balance, January 1, 2019	\$ 812,892	\$ -	\$ 812,892
Additions	63,701	278,373	342,074
Reclassified	(3,908)	-	(3,908)
Translation adjustments	<u>-</u>	<u>(5,382)</u>	<u>(5,382)</u>
Balance, December 31, 2019	<u>\$ 872,685</u>	<u>\$ 272,991</u>	<u>\$ 1,145,676</u>
<u>Accumulated amortization</u>			
Balance, January 1, 2019	\$ 786,893	\$ -	\$ 786,893
Amortization	<u>13,048</u>	<u>-</u>	<u>13,048</u>
Balance, December 31, 2019	<u>\$ 799,941</u>	<u>\$ -</u>	<u>\$ 799,941</u>
Carrying amounts, December 31, 2019	<u>\$ 72,744</u>	<u>\$ 272,991</u>	<u>\$ 345,735</u> (Concluded)

Technological assets were the purchase of patents from other companies. The Group will start to amortize by straight line at the time in service.

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

Computer software	3 to 5 years
Technological assets	5 years

19. OTHER ASSETS

	December 31	
	2019	2018
Pledged time deposit	\$ 304,087	\$ 303,959
Repatriated offshore funds deposit	345,662	-
Others	<u>3,093</u>	<u>2,892</u>
	<u>\$ 652,842</u>	<u>\$ 306,851</u>
Current	\$ 348,755	\$ 2,892
Non-current	<u>304,087</u>	<u>303,959</u>
	<u>\$ 652,842</u>	<u>\$ 306,851</u>

20. SHORT-TERM LOANS

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

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

21. OTHER PAYABLES

	December 31	
	2019	2018
Bonus	\$ 849,326	\$ 817,803
Maintenance	506,896	667,036
Utilities	134,313	133,788
Others	<u>1,066,822</u>	<u>957,589</u>
	<u>\$ 2,557,357</u>	<u>\$ 2,576,216</u>

22. OTHER CURRENT LIABILITIES

	December 31	
	2019	2018
Refund liabilities (Provision of sales returns and allowances)	\$ 472,091	\$ 389,056
Contract liabilities - advanced receipts	279,692	139,577
Others	<u>90</u>	<u>207</u>
	<u>\$ 751,873</u>	<u>\$ 528,840</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.

23. 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. Besides, VIS Micro, Inc., VIS Shanghai Company Limited and Vanguard International Semiconductor Singapore Pte. Ltd. are required by local regulations to make monthly contributions at certain percentage of the basic salary of their employees.

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 consolidated balance sheets in respect of the Group’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>
Contributions from the employer	<u>-</u>	<u>(15,307)</u>	<u>(15,307)</u>
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>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability (Asset)
Service cost			
Current service cost	\$ 6,942	\$ -	\$ 6,942
Interest expense (income)	13,779	(3,821)	9,958
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	-	(15,374)	(15,374)
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 Group 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:

	December 31	
	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.

	December 31	
	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:

	December 31	
	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>

24. EQUITY

a. Capital stock

Common stock

	December 31	
	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

	December 31	
	2019	2018
<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 Group has no deficit, such capital surplus may be distributed in cash transferred to capital, which are limited to a certain percentage of the Group'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 26-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	3.20

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	\$ (55,587)	\$ (384,631)
Recognized during the year		
Exchange differences on translation of foreign operations	(481,924)	329,041
Share of exchange differences of associates accounted for using equity method	-	3
Recognized in other comprehensive (loss) income	(481,924)	329,044
Balance, end of year	\$ (537,511)	\$ (55,587)

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

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

25. 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>512,453</u>	<u>403,092</u>
	<u>28,196,291</u>	<u>28,862,459</u>
Other operating revenue		
Rental income	38,995	33,843
Others	<u>50,786</u>	<u>31,792</u>
	<u>89,781</u>	<u>65,635</u>
	<u>\$ 28,286,072</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	\$ 25,779,088	\$ 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>\$ 28,286,072</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>602,234</u>	<u>468,727</u>
	<u>\$ 28,286,072</u>	<u>\$ 28,928,094</u>

3) Disaggregation of revenue by process

	Years Ended December 31	
	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>602,234</u>	<u>468,727</u>
	<u>\$ 28,286,072</u>	<u>\$ 28,928,094</u>

b. Contract balances

	December 31	
	2019	2018
Notes and accounts receivable, net (Note 12)	\$ 4,769,130	\$ 5,311,885
Receivables from related parties (Note 32)	<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 22)	<u>\$ 279,692</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:

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

26. OTHER ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Depreciation and amortization

	Years Ended December 31	
	2019	2018
Classification of depreciation - by function		
Cost of revenue	\$ 2,023,112	\$ 1,774,284
Operating expenses	<u>104,923</u>	<u>37,463</u>
	<u>\$ 2,128,035</u>	<u>\$ 1,811,747</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 23)		
Defined contribution plans	\$ 217,037	\$ 222,979
Defined benefit plans	<u>16,900</u>	<u>22,191</u>
	233,937	245,170
Other employee benefits	<u>7,396,768</u>	<u>7,465,138</u>
Total employee benefits expense	<u>\$ 7,630,705</u>	<u>\$ 7,710,308</u>
Employee benefits expense summarized by function		
Cost of revenue	\$ 5,676,267	\$ 5,874,795
Operating expenses	<u>1,954,438</u>	<u>1,835,513</u>
	<u>\$ 7,630,705</u>	<u>\$ 7,710,308</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 consolidated 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 consolidated 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	\$ 221,234	\$ 209,416
Financial assets at amortized cost	<u>166,771</u>	<u>107,208</u>
	<u>\$ 388,005</u>	<u>\$ 316,624</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>(73,926)</u>	<u>219,078</u>
	<u>\$ (73,926)</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>23,668</u>	<u>-</u>
	<u>\$ 41,167</u>	<u>\$ -</u>

27. 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	\$ 1,515,466	\$ 1,513,530
Adjustments for prior years' tax	(17,014)	(192,076)
Withheld tax in accordance with Repatriated Offshore Funds Act	30,374	-
Others	(985)	508
	<u>1,527,841</u>	<u>1,321,962</u>
Deferred income tax		
In respect of the current year	<u>(30,019)</u>	<u>(16,045)</u>
Income tax expenses recognized in profit or loss	<u>\$ 1,497,822</u>	<u>\$ 1,305,917</u>

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

	Years Ended December 31	
	2019	2018
Income before income tax	<u>\$ 7,358,319</u>	<u>\$ 7,472,186</u>
Income tax expense calculated at the statutory rate	\$ 1,450,824	\$ 1,454,786
Additional items in determining taxable income	11,174	11,796
Income tax on unappropriated earnings	30,936	-
The origination and reversal of temporary differences	21,096	35,963
Effect of tax on loss carryforward	(28,583)	(5,060)
Adjustments for prior years' tax	(17,014)	(192,076)
Withheld tax in accordance with Repatriated Offshore Funds Act	30,374	-
Others	<u>(985)</u>	<u>508</u>
Income tax expense recognized in profit or loss	<u>\$ 1,497,822</u>	<u>\$ 1,305,917</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>\$ 1,081,862</u>	<u>\$ 1,252,726</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
Loss carryforwards	\$ 9,376	\$ 27,372	\$ 36,748
Temporary differences	<u>106,384</u>	<u>45,514</u>	<u>151,898</u>
	<u>\$ 115,760</u>	<u>\$ 72,886</u>	<u>\$ 188,646</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
Loss carryforwards	\$ 8,512	\$ 864	\$ 9,376
Temporary differences	<u>31,800</u>	<u>74,584</u>	<u>106,384</u>
	<u>\$ 40,312</u>	<u>\$ 75,448</u>	<u>\$ 115,760</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

	December 31	
	2019	2018
Loss carryforwards		
Expire in 2020	\$ 19,166	\$ 17,867
Expire in 2021	410	419
Expire in 2027	221	226
Expire in 2034	2,306	2,362
Expire in 2036	<u>88</u>	<u>90</u>
	<u>\$ 22,191</u>	<u>\$ 20,964</u>
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.

28. EARNINGS PER SHARE

Unit: NT\$ Per Share

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

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

Earnings

	Years Ended December 31	
	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	-	-
Earnings used in the computation of diluted earnings per share	\$ 5,860,497	\$ 6,166,269

Shares

Unit: Shares in Thousands

	Years Ended December 31	
	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	16,598	20,661
Weighted average number of common stocks used in the computation of diluted earnings per share	1,655,580	1,659,643

Since the Corporation is allowed to settle compensation paid to employees by cash or shares, the Corporation assumed that the entire amount of the 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.

29. 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)	1,488,345	(172,111)	48,280	1,364,514
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>\$ 1,545,410</u>	<u>\$ (2,207,343)</u>	<u>\$ 5,293,023</u>	<u>\$ 4,631,090</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>

30. CAPITAL MANAGEMENT

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

The capital structure of the Group 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 Group is not subject to any externally imposed capital requirements.

31. FINANCIAL INSTRUMENTS

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

December 31, 2019

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets at amortized cost					
Domestic financial bonds	\$ 352,665	\$ 354,559	\$ -	\$ -	\$ 354,559
Foreign corporate bonds	5,837,496	5,868,715	-	-	5,868,715

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
Foreign corporate bonds	5,392,302	5,375,235	-	-	5,375,235

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 Group 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

	December 31	
	2019	2018
<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)	22,923,491	26,770,454
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)	8,985,523	5,403,217
Lease liabilities	1,364,514	-

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 short-term loans, accounts payable and other payables.

d. Objectives and policies of financial risk management

The Group's major financial instruments include equity and bond investments, accounts receivable, borrowings, accounts payable, and lease liabilities. The Group'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 Group 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 Group 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 Group'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 Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

1) Market risk

The Group'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 Group 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 Group's exposure to market risks or the manner in which these risks are managed and measured.

a) Foreign currency risk

The Group's operating activities are partially denominated in foreign currencies and apply natural hedge. The purpose of the Group'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 Group selects the instruments to hedge currency exposure by considering the hedge cost and hedge period. The Group currently utilizes derivative financial instruments, primarily buy/sell forward exchange contracts, to hedge its currency exposure.

The Group uses forward exchange contracts to eliminate currency exposure. It is the Group'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 Group.

Sensitivity analysis

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

The following table details the Group'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
Gain (Loss)	\$ 29,367	\$ (129,792)
	Impact on JPY Items	
	Years Ended December 31	
	2019	2018
(Loss) Gain	\$ (558)	\$ 10,712
	Impact on EUR Items	
	Years Ended December 31	
	2019	2018
(Loss) Gain	\$ (910)	\$ 1,085

b) Interest rate risk

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

The carrying amounts of the Group'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	\$ 13,408,037	\$ 18,707,306
Financial liabilities	4,574,514	-
Cash flow interest rate risk		
Financial assets	4,420,028	2,050,969

Sensitivity analysis

The sensitivity analyses below are determined based on the Group'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 Group for the years ended on December 31, 2019 and 2018 will increase/decrease \$4,420 thousand and \$2,051 thousand, respectively, resulting from the exposure of the net assets with floating rates.

c) Other price risk

The Group is exposed to price risk arising from its investments in stocks. Equity investments are held for strategic rather than trading purposes. The Group 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 and \$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 Group. As of the end of the reporting period, the Group 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 consolidated balance sheets.

In order to mitigate credit risk, the Group has made the policy of credit management to ensure that appropriate action is taken to recover overdue receivables. In addition, the Group 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 Group considers the credit risk is significantly reduced.

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

The Group'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 Group'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 Group believes the concentration of credit risk is insignificant for the remaining accounts receivable.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining adequate reserves of cash and cash equivalents to fund the Group'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 Group'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 Group 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
Non-derivative financial liabilities						
Non-interest bearing liabilities	\$ 5,775,523	\$ -	\$ -	\$ -	\$ -	\$ 5,775,523
Lease liabilities	275,164	586,609	509,991	93,248	-	1,465,012
Short-term loans	<u>3,210,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,210,000</u>
	<u>\$ 9,260,687</u>	<u>\$ 586,609</u>	<u>\$ 509,991</u>	<u>\$ 93,248</u>	<u>\$ -</u>	<u>\$ 10,450,535</u>

December 31, 2018

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	More than 15 Years	Total
Non-derivative financial liabilities						
Non-interest bearing liabilities	<u>\$ 5,403,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,403,217</u>

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

The following tables detail the Group'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
Gross settled		
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
Gross settled		
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>

32. TRANSACTIONS WITH RELATED PARTIES

Intercompany balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties were disclosed below.

a. Name and relationship of related parties

Name	Relationship with the Group
Taiwan Semiconductor Manufacturing Company Ltd.	Investors that have significant influence over the Group
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

b. Operating transactions

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

Non-operating Income and Gains
Years Ended December 31

	2019	2018
--	-------------	-------------

Investors that have significant influence over the Group	\$ 10,754	\$ 13,226
Taiwan Semiconductor Manufacturing Company Ltd.		
Key management personnel	<u>-</u>	<u>12</u>
	<u>\$ 10,754</u>	<u>\$ 13,238</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 Group	\$ 153,977	\$ 353,238
Taiwan Semiconductor Manufacturing Company Ltd.		
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
--	-------------	-------------

Investors that have significant influence over the Group	\$ -	\$ 3,842
Taiwan Semiconductor Manufacturing Company Ltd.		

Payables to Related Parties
December 31

	2019	2018
--	-------------	-------------

Substantial related parties	\$ 12,195	\$ 14,228
Systems on Silicon Manufacturing Co. Pte. Ltd.		
Investors that have significant influence over the Group	<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 Group	\$ 3,920	\$ 10,363
Taiwan Semiconductor Manufacturing Company Ltd.		

	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.	<u>\$ 11,995</u>	<u>\$ 12,296</u>

	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>

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, 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	\$ 229,791	\$ 214,932
Post-employment benefits	<u>2,922</u>	<u>2,940</u>
	<u>\$ 232,713</u>	<u>\$ 217,872</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.

33. 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>

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The significant commitments of the Group 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.

35. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On January 31, 2019, the Corporation’s board of directors approved a capital increase of SGD 399,990 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 SGD 325,600 thousand, sequentially, the Corporation remitted another SGD 74,390 thousand within the approved quota in January 2020.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities 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	\$ 546,472	29.988	\$ 479,258	30.74
EUR	1,194	33.617	226	35.25
JPY	277,080	0.2761	17,976	0.2769
SGD	18,691	22.266	5	22.49
RMB	907	4.295	1,077	4.475
Non-monetary items				
USD	6,751	29.988	6,293	30.74
RMB	12,352	4.295	17,893	4.475
Derivative instruments				
USD	-	-	4,200	30.74
EUR	-	-	1,300	35.25
<u>Financial liabilities</u>				
Monetary items				
USD	56,160	29.988	32,815	30.74
EUR	652	33.617	2,141	35.25
JPY	236,680	0.2761	325,483	0.2769
SGD	841	22.266	-	-
RMB	79	4.295	20	4.475
Derivative instruments				
USD	183,000	29.988	84,490	30.74
JPY	-	-	466,200	0.2769

Please refer to the consolidated 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 and functional currencies within the subsidiaries of the Group, the Group was unable to disclose foreign exchange gain (loss) towards each foreign currency with significant impact.

37. 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. Intercompany relationships and significant intercompany transactions: Table 7 (attached)
- k. Information on investees: Table 8 (attached)
- l. 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 9 (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: Table 7 (attached)
 - 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

38. SEGMENT INFORMATION

a. Segment revenue, results and segment assets

For the purpose of resources allocation and performance assessment, the Group's chief operating decision maker reviews operating results and financial information on a per plant basis. It focuses on the operating result of each of the plants operated under Vanguard International Semiconductor Corporation and its subsidiaries. Accordingly, each of the plants constitutes an operating segment of the Group. As each plant shares similar economic characteristics, produces similar products by using similar production process and all of products produced are distributed and sold to the same level of customers through a central sales function, the Group's segments are aggregated into a single reportable segment.

The revenues, operating results and financial information on a plant by plant basis presented to the chief operating decision maker are consistent with the information in the consolidated financial statements. The segment revenues and operating results for the years ended December 31, 2019 and 2018 can be referred to the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018. The segment assets as of December 31, 2019 and 2018 can be referred to the consolidated balance sheets as of December 31, 2019 and 2018.

b. Revenue from major products and services

The Group's revenue from its major products and services, please refer to Note 25.

c. Geographic information

Revenue by region as of December 31, 2019 and 2018, please refer to Note 25. Non-current assets by region were as follows:

	Non-current Assets	
	December 31	
	2019	2018
Asia	\$ 15,265,289	\$ 6,443,435
America	<u>1,562</u>	<u>615</u>
Total	<u>\$ 15,266,851</u>	<u>\$ 6,444,050</u>

Non-current assets exclude the investments accounted for by the equity method, financial instruments, intangible assets, deferred income tax assets, refundable deposits and other assets.

d. Major customers

Sales to customers amounting to at least 10% of total gross revenue:

Customer	Years Ended December 31	
	2019	2018
A	\$ 4,865,261	\$ 5,085,112
B	3,062,881	5,098,011

TABLE 1
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	Vanguard International Semiconductor 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.

TABLE 2

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	Vanguard International Semiconductor 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.

TABLE 3
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	Shares/ Units (Thousands)	Carrying Value	% of Ownership December 31, 2019	Market Value or Net Asset Value	Note
Vanguard International Semiconductor Corporation	Structured Instruments: Euro Airways Corp. 3 rd credit linked structured investment notes	-	Financial assets at fair value through profit or loss - current	-	\$ 100,126	-	\$ 100,126	-
	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 - 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	-	Financial assets at amortized cost - current	-	150,370	-	150,990	-
	Bank of China Limited, Hong Kong Branch bonds	-	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	-
	Investment Global Investments Ltd. bonds	-	Financial assets at amortized cost - current	-	359,807	-	360,180	-
	Investment Global Investments Ltd. bonds	-	Financial assets at amortized cost - current	-	268,654	-	268,654	-
	ABN AMRO Bank N.V. bonds	-	Financial assets at amortized cost - current	-	60,326	-	60,750	-
	ABN AMRO Bank N.V. bonds	-	Financial assets at amortized cost - non-current	-	119,662	-	122,625	-
	ABO Finance Ltd. bonds	-	Financial assets at amortized cost - non-current	-	210,272	-	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 (XS157232318)	-	Financial assets at amortized cost - non-current	-	182,545	-	182,627	-
	Bank of China Limited, Hong Kong Branch bonds	-	Financial assets at amortized cost - non-current	-	207,230	-	210,084	-
	Bank of China Limited, Hong Kong Branch bonds	-	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	-	Financial assets at amortized cost - non-current	-	50,789	-	50,823	-
	BOC Aviation Ltd. bonds	-	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	-	Financial assets at amortized cost - non-current	-	88,220	-	87,974	-
	DIB Sukuk Ltd. bonds	-	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	-
	First Abu Dhabi Bank P.J.S.C. bonds	-	Financial assets at amortized cost - non-current	-	200,350	-	200,350	-
	ICBC, Singapore Branch bonds	-	Financial assets at amortized cost - non-current	-	270,207	-	270,297	-
	ING Group N.V. bonds	-	Financial assets at amortized cost - non-current	-	151,121	-	150,974	-
Vanguard International Semiconductor Corporation	Kookmin Bank bonds	-	Financial assets at amortized cost - non-current	-	121,426	-	121,457	-
	Lloyds Banking Group PLC bonds	-	Financial assets at amortized cost - non-current	-	269,678	-	276,882	-
	Lotte Property & Development Co., Ltd. bonds	-	Financial assets at amortized cost - non-current	-	60,189	-	60,318	-
	Mizuho Financial Group Inc. bonds	-	Financial assets at amortized cost - non-current	-	90,369	-	90,333	-
	QNB Finance Ltd. bonds (XS1824431313)	-	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	-
	Santander UK PLC bonds	-	Financial assets at amortized cost - non-current	-	239,015	-	239,015	-
	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	-
	Stocks	-	Financial assets at fair value through other comprehensive income - non-current	30,000	20,100	7	20,100	-
	Advanced Microelectronic Products Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	4,246	105,084	2	105,084	-
	United Industrial Gases Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income - non-current	1,000	-	6	-	-
	AndAPT Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	700	2,611	2	2,611	-
	Image Match Design Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	600	-	2	-	-
	Vollfeld Technology Corporation (Cayman)	Investee	Financial assets at fair value through other comprehensive income - non-current	-	55,053	10	55,053	-
	Shenzhen Winsemi Microelectronics Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income - non-current	-	-	-	-	-

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 8 and TABLE 9.

TABLE 4

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
Vanguard International Semiconductor 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.

TABLE 5

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	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sales	\$ 3,062,881	11	30 days after closing	\$ -	-	\$ 153,977	3	-

TABLE 6

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		
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	\$ 153,977	12.08	\$ -	-	\$ 152,936	\$ -

TABLE 7
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Net Revenue or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Micro, Inc.	Transaction from ultimate parent company to subsidiary	Marketing expenses	\$ 102,901	-	0.36%
				Other payables to related parties	11,552	-	0.03%
		VIS Shanghai Company Limited	Directly held subsidiary	Marketing expenses	911	-	-
				Other payables to related parties	227	-	-
		Vanguard International Semiconductor Singapore Pte. Ltd.	Directly held subsidiary	Interest income	38,315	-	0.14%
				Other receivables from related parties	19,860	-	0.05%
				Sales revenue	19,560	-	0.07%

Note: The trade term of the intercompany transactions were based on related agreements.

TABLE 8
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEE 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			
Vanguard International Semiconductor Corporation	VIS Associates Inc. Vanguard International Semiconductor Singapore Pte. Ltd. CMSC, Inc.	British Virgin Islands Singapore Hsinchu City, Taiwan	Investments Semiconductor manufacturing, selling and packaging Integrated circuit design services and related businesses	\$ 9,774,919 7,448,974	\$ 8,269,635 -	317 325,610	100 100	\$ 296,891 (153,644)	\$ 296,891 (153,644)	Subsidiary Subsidiary
	Qromis, Inc.	Delaware, USA	Semiconductor research and development related businesses	347,490	316,750	10,705	39	(49,230)	(12,279)	Investment accounted for using equity method
	VIS Investment Holding, Inc.	Delaware, USA	Investments	187,425 (US\$ 6,250)	187,425 (US\$ 6,250)	63	100	2,161 (US\$ 70)	2,161 (US\$ 70)	Investment accounted for using equity method Subsidiary
	VIS Investment Holding, Inc.	California, USA	Marketing services	5,998 (US\$ 200)	5,998 (US\$ 200)	200	100	4,065 (US\$ 131)	4,065 (US\$ 131)	Subsidiary

TABLE 9

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 (RMB 1,000 thousand)	\$4,556 (RMB 1,000 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 (RMB 23,340 thousand), of which \$104,549 thousand (RMB 22,340 thousand) is accounted for financial assets at fair value through other comprehensive income. Please refer to TABLE 3.

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 overseas 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

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

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	(539,802)	(2)	284,652	1
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	-	-	-	-	(450,506)	-	-	-	-
Legal reserve	-	-	450,506	-	(339,074)	-	-	-	-
Special reserve	-	-	-	339,074	(4,916,947)	-	-	-	(4,916,947)
Cash dividends - 30%	-	-	-	-	-	-	-	-	-
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	-	-	-	-	(616,627)	-	-	-	-
Legal reserve	-	-	616,627	-	(5,244,743)	-	-	-	(5,244,743)
Cash dividends - 32%	-	-	-	-	214,313	-	-	-	-
Reversal of special reserve	-	-	-	(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	8,382,876	7,273,934

(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	\$ -	\$ 1,484,739	\$ 1,484,739
Total effect on assets	\$ -	\$ 1,484,739	\$ 1,484,739
Lease liabilities - current	\$ -	\$ 200,085	\$ 200,085
Lease liabilities - non-current	-	1,284,654	1,284,654
Total effect on liabilities	\$ -	\$ 1,484,739	\$ 1,484,739

- 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

	December 31	
	2019	2018
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:

	December 31	
	2019	2018
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

	December 31	
	2019	2018
<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

	<u>December 31</u>	
Equity Instruments	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

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

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.

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

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)	-	-	-	(731)	(731)
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)	-	-	-	(3,872)	(3,872)
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:

	December 31	
	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

	December 31	
	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	\$ 17,952,404	\$ 18,759,824
Provision of inventory valuation and obsolescence loss	\$ 111,181	\$ 71,859
Unallocated manufacturing overheads	\$ 16,766	\$ 32,919

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2019	2018
Investments in subsidiaries	\$ 16,921,462	\$ 8,680,884
Investments in associates	240,575	238,044
	<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.	7,100,120	-
	<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	
	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Buildings	Total
<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	<u>2,199</u>	<u>1,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,908</u>
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	<u>(1,180)</u>	<u>(293,714)</u>	<u>(97)</u>	<u>-</u>	<u>-</u>	<u>(294,991)</u>
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	<u>-</u>	<u>730</u>	<u>1,634</u>	<u>-</u>	<u>2,364</u>
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	<u>-</u>	<u>(37,619)</u>	<u>(4,994)</u>	<u>-</u>	<u>(42,613)</u>
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	-	(3,963)	-	(140)	(4,103)
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	-	(2,654)	-	-	(2,654)
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	\$ 1,911
Expenses relating to low-value asset leases	\$ 97
Expenses relating to variable lease payments not included in the measurement of lease liabilities	\$ 581
Total cash outflow for leases	\$ 194,632

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	451,926
	<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	\$ -	\$ (15,307)	\$ (15,307)
Benefits paid	(31,319)	31,319	-
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	-	(15,374)	(15,374)
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:

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

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.

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

Maturity analyses of pension benefit were as follows

	December 31	
	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	717,242	797,725
	\$ 1,247,869	\$ 1,297,419

23. EQUITY

a. Capital stock

Common stock

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

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

b. Capital Surplus

	December 31	
	2019	2018
<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	\$ (55,587)	\$ (384,631)
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	-	3
Recognized in other comprehensive (loss) income	(481,924)	329,044
Balance, end of year	\$ (537,511)	\$ (55,587)

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

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

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

	Years Ended December 31	
	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

	December 31	
	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:

	Years Ended December 31	
	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

	Years Ended December 31	
	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

	December 31	
	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

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

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

Earnings

	Years Ended December 31	
	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	-	-
Earnings used in the computation of diluted earnings per share	\$ 5,860,497	\$ 6,166,269

Shares

Unit: Shares in Thousands

	Years Ended December 31	
	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	16,598	20,661
Weighted average number of common stocks used in the computation of diluted earnings per share	1,655,580	1,659,643

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			
		Level 1	Level 2	Level 3	Total
<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

	December 31	
	2019	2018
<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
Non-derivative financial liabilities						
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
Non-derivative financial liabilities						
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
Gross settled		
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
Gross settled		
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

Name	Relationship with the Corporation
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

	Revenue from Sales of Goods		Purchases	
	Years Ended December 31		Years Ended December 31	
	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	\$ -	\$ -	\$ -
			Manufacturing Expenses	
			Years Ended December 31	
			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.	\$ 707,717	\$ -	\$ 707,717	\$ -

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

TABLE 1

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 opening 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.

TABLE 2
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 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	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.

TABLE 3

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	Shares/Units (Thousands)	Carrying Value	% of Ownership	Market Value or Net Asset Value	Note
The Corporation	Structured Instruments	-	Financial assets at fair value through profit or loss - current	-	\$ 100,126	-	\$ 100,126	-
The Corporation	EVA Airways Corp. 3 rd credit linked structured investment notes	-	Financial assets at amortized cost - non-current	-	100,707	-	101,218	-
	MEGA Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	151,158	-	152,036	-
	Taiwan Cooperative Bank 2014 2 nd 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 (US\$139(CA000)	-	Financial assets at amortized cost - current	-	150,370	-	150,390	-
	Bank of China Limited, Hong Kong Branch bonds (X\$156(1673804)	-	Financial assets at amortized cost - current	-	150,661	-	150,661	-
	Bank of China Limited, Hong Kong Branch bonds	-	Financial assets at amortized cost - current	-	299,605	-	300,990	-
	Investment Global Investments Ltd. bonds	-	Financial assets at amortized cost - current	-	359,897	-	360,180	-
	State Elite Global Ltd. bonds	-	Financial assets at amortized cost - current	-	256,806	-	256,761	-
	ABN AMRO Bank N.V. bonds (X\$1377968307)	-	Financial assets at amortized cost - non-current	-	60,326	-	60,750	-
	ABN AMRO Bank N.V. bonds (X\$1871116171)	-	Financial assets at amortized cost - non-current	-	119,662	-	122,675	-
	Aozora Bank Ltd. bonds	-	Financial assets at amortized cost - non-current	-	210,772	-	210,042	-
	AVIC International Finance & Investment Ltd. bonds	-	Financial assets at amortized cost - non-current	-	73,517	-	73,475	-
	Azure Nova Finance bonds (X\$1514507)	-	Financial assets at amortized cost - non-current	-	131,709	-	131,318	-
	Azure Nova Finance bonds (X\$1514508)	-	Financial assets at amortized cost - non-current	-	131,709	-	131,318	-
	Bank of China Limited, Hong Kong Branch bonds (X\$157232318)	-	Financial assets at amortized cost - non-current	-	182,545	-	182,627	-
	Bank of China Limited, Hong Kong Branch bonds (X\$1371532208)	-	Financial assets at amortized cost - non-current	-	207,230	-	210,084	-
	BMW Finance N.V. bonds	-	Financial assets at amortized cost - non-current	-	150,980	-	150,735	-
	BOC Aviation Ltd. bonds (US\$9681MAC29)	-	Financial assets at amortized cost - non-current	-	211,113	-	211,364	-
	BOC Aviation Ltd. bonds (US\$9681MAC33)	-	Financial assets at amortized cost - non-current	-	50,789	-	50,823	-
	Credit Agricole S.A., London Branch bonds	-	Financial assets at amortized cost - non-current	-	60,337	-	60,258	-
	DBP SICAV Ltd. bonds (X\$135229258)	-	Financial assets at amortized cost - non-current	-	206,637	-	211,113	-
	DBP SICAV Ltd. bonds (X\$135229259)	-	Financial assets at amortized cost - non-current	-	80,120	-	80,120	-
	First Abu Dhabi Bank P.J.S.C. bonds	-	Financial assets at amortized cost - non-current	-	91,799	-	91,799	-
	HSBC Holdings PLC bonds	-	Financial assets at amortized cost - non-current	-	60,365	-	60,366	-
	ICBC, Luxembourg Branch bonds	-	Financial assets at amortized cost - non-current	-	269,890	-	274,291	-
	ICBC, Singapore Branch bonds	-	Financial assets at amortized cost - non-current	-	270,207	-	270,297	-
	ING Group N.V. bonds	-	Financial assets at amortized cost - non-current	-	151,121	-	150,974	-
	Kookmin Bank bonds	-	Financial assets at amortized cost - non-current	-	121,426	-	121,457	-
	Lloyds Banking Group PLC bonds	-	Financial assets at amortized cost - non-current	-	269,678	-	276,882	-
	Lytle Property & Development Co., Ltd. bonds	-	Financial assets at amortized cost - non-current	-	60,189	-	60,318	-
	QNB Finance Ltd. bonds (X\$182443131)	-	Financial assets at amortized cost - non-current	-	172,531	-	172,531	-
	QNB Finance Ltd. bonds (X\$182443133)	-	Financial assets at amortized cost - non-current	-	168,874	-	172,531	-
	QNB Finance Ltd. bonds (X\$182443135)	-	Financial assets at amortized cost - non-current	-	299,880	-	299,880	-
	Santander UK PLC bonds	-	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 (BV) Company Ltd. bonds	-	Financial assets at amortized cost - non-current	-	141,530	-	141,435	-
Vanguard International Semiconductor Corporation	Stocks	Investee	Financial assets at fair value through other comprehensive income - non-current	30,000	20,100	7%	20,100	-
	Advanced Microelectronic Products Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	4,246	105,084	2%	105,084	-
	United Industrial Gases Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income - non-current	-	-	6%	-	-
	AutDAPT Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	1,000	-	2%	-	-
	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.

TABLE 4

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	Shares/Units (Thousands)	Amount
The Corporation	Unlisted stock investment VJS 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.

TABLE 5

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	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	-

TABLE 6

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	\$ -

TABLE 7

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEE 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			
The Corporation	VIS Associates Inc.	British Virgin Islands	Investments	\$ 9,774,919	\$ 8,269,635	317	100	\$ 9,817,273	\$ 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)	Subsidiary
	CMSC, Inc.	Hsinchu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	38,129	(49,230)	Investment accounted for using equity method
VIS Associates Inc.	Qromis, Inc.	Delaware, USA	Semiconductor research and development related businesses	347,490	316,750	10,705	39	202,446	(60,468)	Investment accounted for using equity method
	VIS Investment Holding, Inc.	Delaware, USA	Investments	187,425 (US\$ 6,250)	187,425 (US\$ 6,250)	63	100	83,988 (US\$ 2,801)	2,161 (US\$ 70)	Subsidiary
	VIS Mtero, Inc.	California, USA	Marketing services	5,998 (US\$ 200)	5,998 (US\$ 200)	200	100	64,056 (US\$ 2,136)	4,065 (US\$ 131)	Subsidiary

TABLE 8

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.

Vanguard International Semiconductor Corporation



Leuh Fang , Chairman



Vanguard International
Semiconductor Corporation





Vanguard International Semiconductor Corporation



For the sustainability of the Earth, we are printing the Company's annual report on recycled paper, which will cut our consumption of paper by amount 300 kilograms- equivalent to saving 6 Formosa Acacias. We extend our sincerest gratitude to each of you, our shareholders, for your continued support and for helping us make this contribution the Earth together.

