



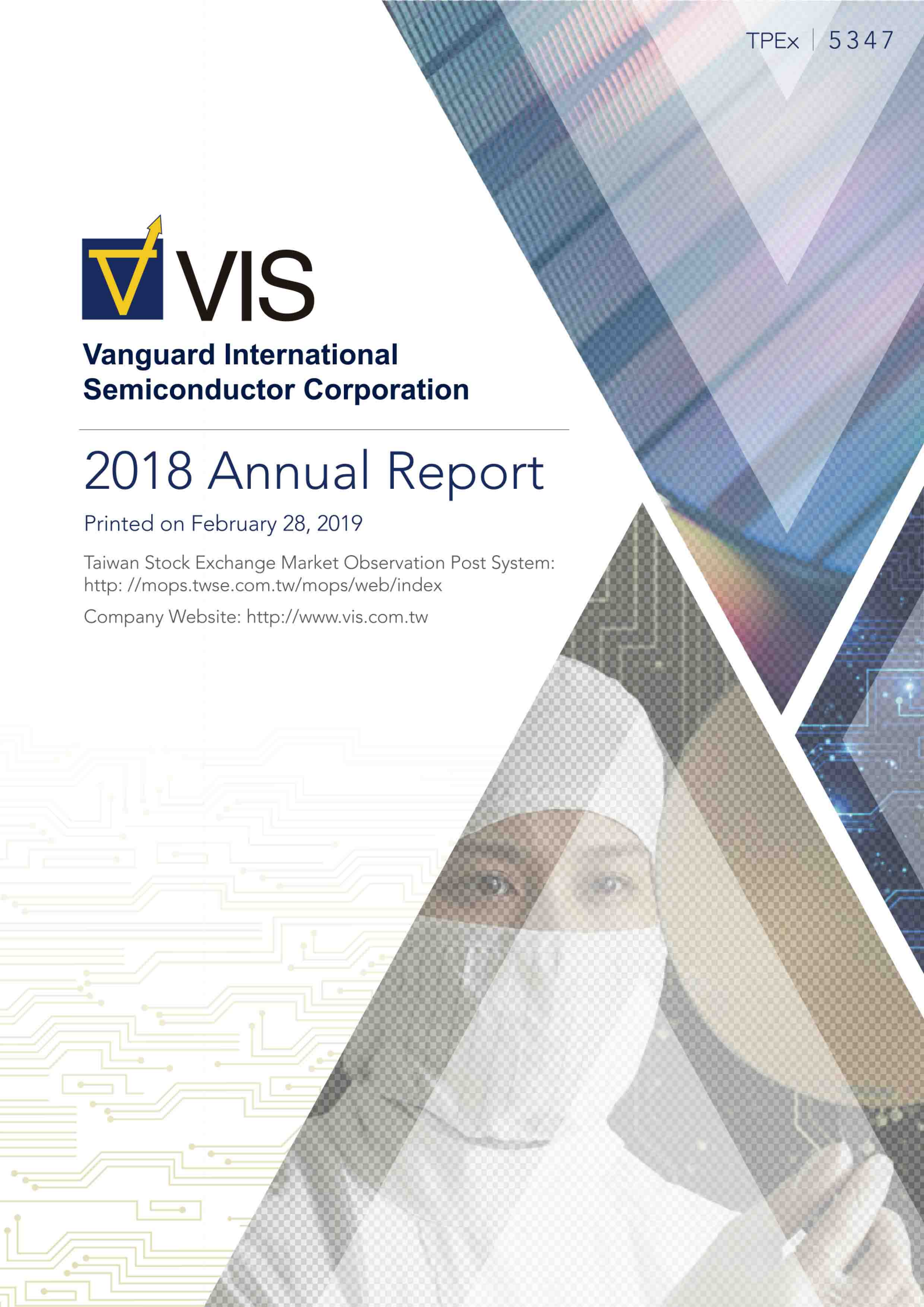
**Vanguard International
Semiconductor Corporation**

2018 Annual Report

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



Inside Cover:**Spokesman**

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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

Contents

I.	A Letter to Shareholders	1
II.	A Brief Introduction of VIS	6
	Company Profile	6
III.	Corporate Governance Report	8
	A. Company Organization	8
	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.....	10
	C. Remuneration to Directors, Supervisors & Managers	16
	D. Implementation of Corporate Governance	21
	E. Information Regarding VIS’s Independent Auditors	57
	F. Information on Replacement of Certified Public Accountant	57
	G. Company Chairman, President, Financial or Accounting Head has Worked for Certifying Accounting Firm or Its Affiliate Business in the Past Year	58
	H. Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders of 10% Shareholdings or More	58
	I. Top 10 shareholders relation	59
	J. VIS Long-Term Investment Ownership	60
IV.	Information On Implementation Of The Company Funds Utilization Plans	61
	A. Capital and shares	61
	B. Issuance of Corporate Bond	65
	C. Issuance of Preferred Stock	65
	D. Issuance of Depositary Shares	65
	E. Issuance of Employee Stock Option	65
	F. Status of Mergers and Acquisitions	65
	G. Fund Plan Implementation	65
V.	Operational Highlights	66
	A. A description of the business	66
	B. Industry survey and market analysis	79
	C. Personnel Structure	84
	D. Environmental Protection Measure	84
	E. Employee / employer relations	88
	F. Major Contracts	97

VI. Financial Statements	98
A. Brief Balance Sheets and Brief Statements of Income	98
B. Financial Analysis	100
C. Audit Committee’s Review Report	103
D. Financial Statements and Independent Auditors’ Report	104
E. Consolidated Financial Statements and Independent Auditors’ Report	104
F. The financial impact to the Company due to company or affiliate companies financial difficulties	104
VII. Financial Position, Operating Results And Risk Management	105
A. Analysis of Consolidated Financial Position	105
B. Analysis of Consolidated Financial Performance	105
C. Analysis of Consolidated Cash Flow	106
D. Major Capital Expenditure	106
E. Long Term Investment	107
F. Risk Management	107
G. Other important matters	112
VIII. Special Notes	113
A. Affiliated Information	113
B. Private placements Securities	115
C. VIS Common Shares acquired, disposed of and held by subsidiaries	115
D. Other Necessary Supplement	115
E. Any Events in Y2017 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	115
IX. Financial Statements, Consolidated Financial Statements and Independent Auditors’ Report	116
Consolidated Financial Statements and Independent Auditors' Report	117
Financial Statements and Independent Auditors' Report	193

I. A Letter to Shareholders

2018 was the year for VIS to reach another new height. In the globally uncertain atmosphere of semiconductor industry resulted from the US-China trade war, VIS delivered not only record revenue and profit but also record earnings per share. VIS upholds its core values of integrity, commitment, value-oriented and customer-oriented to continually create values for customers in panel displays, power management, automotive electronics, fingerprint recognition and Internet of Things, driving growth of the company.

Financial Performance

Despite a power outage at Fab 3 in the third quarter of 2018 interrupted the operation of the fab, our management team worked together to make operations recover at the earliest time, so as to minimize the impact on our finances. Also, with VIS benefiting from both stable market demand and an optimized product portfolio, our consolidated revenue for the year totaled NT\$28.928 billion, a 16.1% increase over NT\$24.910 billion in 2017, whereas our net income was NT\$6.166 billion, a 36.9% increase over NT\$4.505 billion in 2017. Meanwhile, our diluted earnings per share were NT\$3.72, a 36.3% increase over NT\$2.73 in 2017. In addition, our gross profit margin for the year was approximately 35.2%, whereas our return on equity was 21.5%.

Production Capacity and Sales

In 2018, our total capital expenditure was NT\$2.2 billion, whereas our annual production capacity was 2.39 million wafers, with shipments amounting to 2.33 million 8-inch wafers at a capacity utilization rate of 98%. To continuously improve process technology and expand production capacity and to acquire GF's Fab 3E in Tampines, Singapore, the transaction includes buildings, facilities, and equipment, as well as IP associated with GF's MEMS business., it is estimated that our consolidated capital expenditure for 2019 will be approximately NT\$11.7 billion. VIS continues to actively invest in R&D, advance process/component technology, and acquire new customers, while planning to introduce a more diversified product portfolio in order to meet customer needs and continuously enhance shareholders' equity.

The end markets which are closely related to our operations include televisions, mobile phones, computers and automobiles. With the gradual saturation of the end markets, panel manufacturers in China continue to expand their plants, hence demand for driver IC foundry is expected to remain stable. Benefiting from large-size television panels, especially those with point-to-point (P2P) transmission interface, demand for these television panels from our customers

has been better than expected. Thus, we continued to show an industry-leading performance. Furthermore, the driver IC market momentum driven by ultra-high resolution panels also contributed to our operations in 2018 to a certain extent.

Besides, our commitment to the development of automotive electronics have gradually born fruit in 2018. We not only continue to import a number of process technologies, but also incorporate these technologies into mass production of various products, including display driver ICs, power management ICs, and discrete devices, thereby winning the favor of leading customers in the international market.

Technological Developments

In order to provide customers with more competitive technologies and services, VIS not only develops more special process technologies and next-generation technology platforms from our core technologies to expand the fields of application, but also continues to enhance service value for customers, strengthen partnerships with customers and incorporate advanced processes to meet customer needs.

With regard to the development of display driver ICs, including 0.2 μ m, 0.18 μ m, 0.15 μ m and 0.11 μ m high-voltage process, as well as 0.16 μ m for touch panels and automotive panels and 0.11 μ m high-voltage process added with embedded flash memory have been incorporated into mass production.

As regards Bipolar-CMOS-DMOS (BCD) processes for power management ICs, 0.5 μ m, 0.4 μ m, 0.35 μ m, 0.25 μ m and 0.15 μ m BCD process have been incorporated into mass production, and 0.11 μ m BCD have passed product qualification. The development of the updated second-generation ultra-low on-resistance streamlined 0.5 μ m, ultra-high voltage process and 0.25 μ m SOI processes have been completed and the design of these processes have been finalized with specific customers. In addition, these processes have also been incorporated into mass production.

In the field of automotive electronics, the 0.5/0.4 μ m SOI processes have passed automotive electronics-related certifications and cumulative shipments have reached a certain scale. At the same time, process reliability meets world-class automobile specifications, which helps us to richly cultivate the automotive electronics market and created another new milestone. Meanwhile, our unique magnetic sensor technology has also entered the mass production stage. This technology is mainly used in mobile devices and vehicle systems.

In the area of fingerprint sensor applications, the 0.18um/0.15um IC processes for capacitive fingerprint sensor have already put into mass production. On the other hand, the 0.18um IC process for optical fingerprint sensor has been developed by customers, and smoothly integrated into smart phones, thereby successfully displaying the latest optical fingerprint sensor function.

Moreover, in response to the needs of the Internet of Things (IoT) era, VIS continues to invest resources in the development of embedded flash memory. The 0.18um process has been put into production since 2017, whereas the 0.11um process is expected to be put into production in 2019, thereby providing customers with diversified platform options.

For wide bandgap power semiconductors, VIS has also achieved initial results in relation to gallium nitride (GaN). We not only provide special substrates, but also complete the manufacture and development of epitaxial wafers. Furthermore, we continue to develop application components, in hopes of providing customers with options which are better than traditional substrates, for next-generation power control and high-frequency components.

Prospects and Outlook

In 2018, the global economy experienced a huge change in the fourth quarter due to the outbreak of trade hostilities between the US and China. According to the global GDP growth forecast announced by IMF in October 2018, global GDP was expected to grow by 3.7%, which was almost at the same level as the previous year but is 0.2% lower than the growth forecast for the whole year made in the previous quarter. As the US-China trade war intensifies with each passing day, another downward revision of global GDP growth in 2018 was to be expected. In addition, according to the data released by the World Bank in January 2019, the global GDP growth rate in 2018 was 3.1%, which was approximately 0.6% lower than 3.7% in the previous year as announced by IMF.

As regards the semiconductor industry which is closely related to GDP growth, a report by Gartner, a global research and advisory company, pointed out that the growth of the global semiconductor industry overall output in 2018 was approximately 13.4%, with its scale amounting to US\$476.7 billion, whereas the foundry annual growth rate in 2018 was 6.8%, with its scale amounting to US\$63.4 billion. On the other hand, the 8-inch foundry market that we focus on experienced a slight growth. Overall, the growth of semiconductor industry is from memory, whereas the growth of foundry industry is from advanced processes.

Outlook for global economy growth in 2019 is heavily affected by the development of the US-China trade war. Before a consensus is reached by both the US and China, it may be difficult to remain optimistic about global GDP growth, which is reflected in the semiconductor industry through a flat or negative growth forecast. The ever-changing market ultimately depends on when will the US-China war end to have better visibility and predictability for the industry.

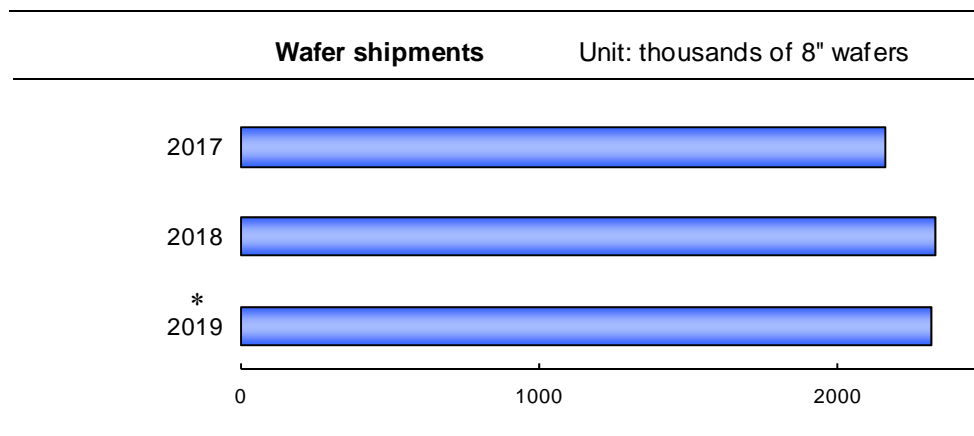
VIS has achieved results in operations related to display driver ICs, power management ICs, and discrete devices. In order to diversify products and market concentration, reduce operational risks and move toward high-margin market, In addition to existing high-voltage, BCD and ultra-high voltage processes, we continue to accelerate our project implementation related to sensor components, fingerprint sensor recognition ICs, high power management ICs and embedded flash memory platforms in respond to the arrival of the energy conservation and carbon reduction era, and to meet the demands in 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 special foundry, while becoming one of the world's leading manufacturers of high-voltage and power semiconductor processes in the global foundry industry. At the same time, VIS also incorporates more IDM customers and raises the proportion of foreign customers, while we continuously expand capacity to meet global customers' demand for 8-inch foundry. Furthermore, we continue to seek various growth opportunities to cultivate long-term partnerships with customers as well as to increase shareholder values.

VIS has been ranked in the top 5% of companies based on corporate governance performance for several consecutive years. In the future, we will continue to create values to our shareholders, customers and employees based on the foundation we have laid in the past, and move forward steadily in highly uncertain international political and economic situations.

VIS appreciates the long-term support from our shareholders, customers and employees. We believe that the future will be even better! Thank you.

VIS would like to express our utmost and sincere gratitude to our shareholders, customers and employees for their long-term support. We believe that the future will be even better! Thank you.



*Y2019 sales forecast: 2,317 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 199,000 wafers in Y2018.

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. This transaction 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, Magnetic Sensor, and Embedded Memory 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 about 5,500 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.

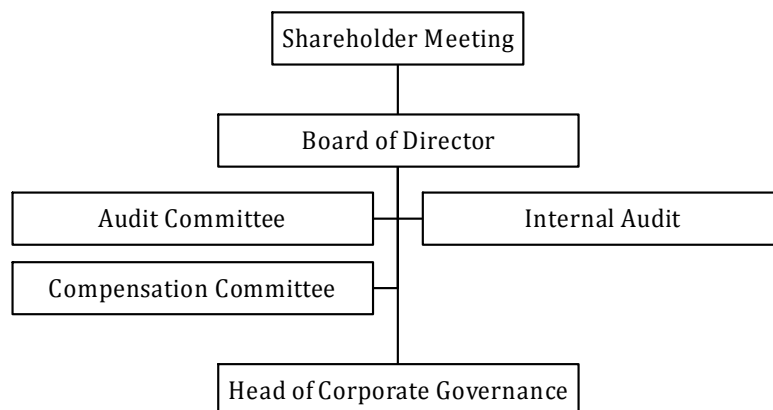
With our display driver IC, power management and discrete power devices all exhibiting distinctive operational performances, and in order to diversify product and market centralization, reduce operating risks and extend its reaches in the high-margin market. In addition to our existing high-voltage analog, 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. Furthermore, the company will continue to engage more IDM companies and oversea customers to expand customer base and will strengthen ties 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

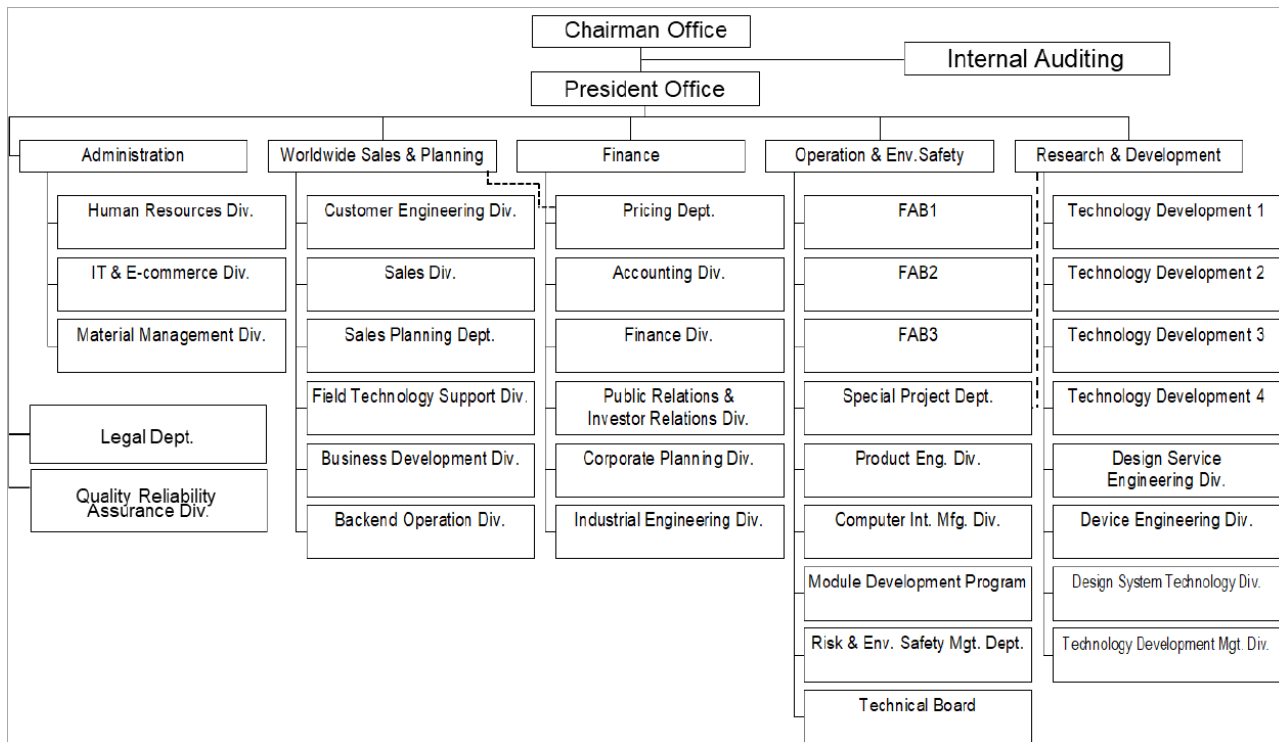
1. Company's structure:

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, upon approval by the Board of Directors on April 29, 2019, the company appointed the Chief Legal Officer as the Head of Corporate Governance, who shall be responsible for corporate governance-related affairs. The company's Chief Legal Officer has over three years of experience serving as an executive officer in charge of legal affairs at public companies, and is a qualified lawyer. The main duties of the Head of Corporate Governance at the company include, but are 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 law, handle company registration and change registration, prepare minutes of Board of Directors' meetings and shareholders' meetings, assist directors in taking office and undergoing continuing education and training, assist directors in complying with laws and regulations and other matters stipulated in the company's Articles of Incorporation or contracts.

Company Organization:



2. Tasks of its principal divisions:

President	Management of company-wide operations. Establish VIS business strategy and target.
VP of Finance	Corporate Pricing Dept., Accounting Div., Finance Div., PR & IR Div. and Corporate Planning Div., and Industrial Engineering Div.. Responsible for the company finance, accounting operation as well as BOD related, establishing the company's external communication channel, and maintaining the company's corporate image, investor relationship, long-term investment planning, and planning & improving the efficiency of the company.
VP of Worldwide Sales and Planning	Customer Engineering Div., Corporate Sales Div., 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.
VP of Research & Development	Lead specialty technology and IP development, as well as providing services for device engineering, IP resources, ESD, LAD, PDK, SPICE, layout, photomask solution, and CAD tool management. Incl.: Technology Development Div., Device Engineering Div., Design Service Engineering Div., Design System Technology Div., and Technology Development Management Div.
VP of Operation & Environment Safety	VP of Operation & Environment Safety Corporate Wafer Production, Risk & Env. Safety Management Dept., Computer Int. Mfg. Div., 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	Corporate Human Resources Div., Material Management Div., and IT & E-commerce Div. Responsible for the company material management, as well as IT support, recruiting the most qualified and suitable talents, providing employee training & development programs to meet company's growth, and establishing an effective & innovative personnel management system and work environment in order to maintain good labor relations.
General Counsel of Legal	Corporate legal affairs, Intellectual property protection and Legal compliances.
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.

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:

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 of Within Second-degree Relative of Consanguinity to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C.	Taiwan Semiconductor Manufacturing Co., Ltd. (tsmc) Representatives: Leuh Fang	M	2018.06.14	3	1994.11.10	464,223,493	28.32	464,223,493	28.32	0	0	0	0	Fab Director, Taiwan Semiconductor Manufacturing Company, Ltd. 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, J-MEX, Inc.	None	None	None
Vice Chairman	R.O.C.	Taiwan Semiconductor Manufacturing Co., Ltd. (tsmc) Representatives: F.C. Tseng	M	2018.06.14	3	1994.11.10	1,444,282	0.09	1,444,282	0.09	0	0	0	0	President, TSMC 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
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 Board of Taiwan Aerospace Ltd. Member of the Small and Medium Enterprise Development Fund Managing Committee, Ministry of Economic Affairs Member of the Export Insurance Review Committee of The Export-Import Bank of the Republic of China	None	None	None

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	
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name
Director	R.O.C.	Edward Y. Way	M	2018.06.14	3	2010.05.26	0	0	0	0	0	0	0	0	0	0	None	None
Independent Director	R.O.C.	Chintay Shih	M	2018.06.14	3	2012.06.12	0	0	0	0	0	0	0	0	0	0	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	0	0	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	0	0	None	None

Major Shareholders of the Institutional Shareholders

As of 7/1/2018

Institutional Shareholders	Shareholders	Ownership (%)
Taiwan Semiconductor Manufacturing Co., Ltd.	ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	20.60%
	National Development Fund, Executive Yuan Representative: Mei-Ling Chen	6.38%
	Government of Singapore	2.67%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for EuroPacific Growth Fund	1.40%
	Norges Bank	1.30%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.26%
	Cathay Life Insurance Co., Ltd.	1.16%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Oppenheimer Developing Markets Funds, managed by Oppenheimer Funds, Inc.	1.08%
	Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	0.87%
	New Labor Pension Fund	0.85%

* Others Institutional Shareholders listed in our Top10 shareholders were all non-company organization.

Institutional Shareholder Representatives for Major Shareholders of the Institutional Shareholders

As of 7/1/2018

Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Cathay Life Insurance Co., Ltd.	Cathay Financial Holdings 100%
ADR-Taiwan Semiconductor Manufacturing Company, Ltd. National Development Fund, Executive Yuan Government of Singapore JPMorgan Chase Bank N.A. Taipei Branch in Custody for EuroPacific Growth Fund Norges Bank JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds JPMorgan Chase Bank N.A. Taipei Branch in Custody for Oppenheimer Developing Markets Funds, managed by Oppenheimer Funds, Inc. Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds New Labor Pension Fund	Non-company organization

Independence Analysis of Board Members under Taiwan SFC Criteria:

February 28, 2019

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	
Leuh Fang			V				V	V	V	V	V	V		0
F.C. Tseng			V	V	V	V				V	V	V		1
Benson W.C. Liu			V	V	V	V	V	V	V	V	V	V	V	2
Kenneth Kin	V		V	V	V	V	V	V	V	V	V	V	V	2
Chintay Shih	V		V	V	V	V	V	V	V	V	V	V	V	2
Lai Shou Su			V	V	V	V			V	V	V	V		0
Edward Y. Way		V	V	V	V	V	V	V	V	V	V	V	V	3

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 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.
7. 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.
8. Not a spouse or first-or-second-degree relative to any other director.
9. Not a juridical person or its representative as defined in Article 30 of Company Law.
10. 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 28, 2019

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	Leth Fang	M	2009.2.20	3,295,934	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, Finance	D. L. Tseng	M	2011.5.1	43,693	0.00%	224,937	0.01%	0	0	Bachelor, National Chengchi University Dept. Manager, Philips Electronics	Director and Vice President, VIS Associates Inc. Director and CFO, VIS Investment Holding, Inc. Director and CFO, VIS Micro Inc. Director, VIS Shanghai Company Limited	None	None	None
Vice President Worldwide Sales and Planning	Thomas Chang	M	2003.8.22	220,234	0.01%	0	0	0	0	MS, Electrical Engineering, University of Cincinnati Vice President, Mosel Vitelic Inc.	Director and President, VIS Micro Inc.	None	None	None
Vice President Administration	Tommy Liu	M	2017.11.23	100,569	0.01%	20,000	0.00%	0	0	MS., Business Administration, University of Leicester President of Hongghwa 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	28,874	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	546	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

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 2,000,000				
2,000,000 ~ 4,999,999	Leuh Fang (Taiwan Semiconductor Manufacturing Co., Ltd. Representative) F.C. Tseng (Taiwan Semiconductor Manufacturing Co., Ltd. Representative) Benson W.C. Liu Kenneth Kin Chintay Shih Lai Shou Su (National Development Fund, Executive Yuan Representative) Edward Y. Way	Leuh Fang (Taiwan Semiconductor Manufacturing Co., Ltd. Representative) F.C. Tseng (Taiwan Semiconductor Manufacturing Co., Ltd. Representative) Benson W.C. Liu Kenneth Kin Chintay Shih Lai Shou Su (National Development Fund, Executive Yuan Representative) Edward Y. Way	F.C. Tseng (Taiwan Semiconductor Manufacturing Co., Ltd. Representative) Benson W.C. Liu Kenneth Kin Chintay Shih Lai Shou Su (National Development Fund, Executive Yuan Representative) Edward Y. Way	F.C. Tseng (Taiwan Semiconductor Manufacturing Co., Ltd. Representative) Benson W.C. Liu Kenneth Kin Chintay Shih Lai Shou Su (National Development Fund, Executive Yuan Representative) Edward Y. Way
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			Leuh Fang (Taiwan Semiconductor Manufacturing Co., Ltd. Representative)	Leuh Fang (Taiwan Semiconductor Manufacturing Co., Ltd. Representative)
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)		Bonus (C)		Employee Profit Sharing (D) (Note 3)				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 Finance	D. L. Tseng															
Vice President Worldwide Sales and Planning	Thomas Chang															
Vice President Research & Development (Note 1)	Yang Du	30,390	34,266	0	0	58,742	58,742	89,592	0	89,592	0	2.90	2.96		None	
Vice President Operation & Environment Safety	Chan-Jen Kuo															
Associate Vice President Research & Development	Chrong-Jung Lin															
Vice President Administration	Tommy Liu															

Note 1: Yang Du was appointed as Vice President of VIS on January 22, 2018.

Note 2: 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
10,000,000 ~ 14,999,999	VIS
15,000,000 ~ 29,999,999	D. L. Tseng, Thomas Chang, Yang Du, Chan-Jen Kuo, Chrong-Jung Lin, Tommy Liu
30,000,000 ~ 49,999,999	
50,000,000 ~ 99,999,999	Leuh Fang
Total	7

Employee Profit Sharing Granted to Management Team:

February 28, 2019

Title	Name	Stock	Cash (Note 2)	Total	Total as % of Net Income
President	Leuh Fang				
Vice President Finance	D. L. Tseng				
Vice President Marketing & Sales	Thomas Chang				
Vice President Research & Development (Note 1)	Yang Du	0	89,592	89,592	1.45
Vice President Operation & Environment Safety	Chan-Jen Kuo				
Associate Vice President Research & Development	Chrong-Jung Lin				
Vice President Administration	Tommy Liu				

Note 1: Yang Du was appointed as Vice President of VIS on January 22, 2018.

Note 2: 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

(1) 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					
	Y2017			Y2018		
	Remuneration	Net Income	Remuneration as % of Net Income	Remuneration	Net Income	Remuneration as % of Net Income
Directors	15,625	4,505,064	0.35%	27,970	6,166,269	0.45%
Supervisors	0		0.00%	0		0.00%
President and Vice Presidents	106,167		2.36%	178,724		2.90%

Unit: NT\$, in thousands

Title	VIS & Affiliates Paid Remuneration as % of Net Income					
	Y2017			Y2018		
	Remuneration	Net Income	Remuneration as % of Net Income	Remuneration	Net Income	Remuneration as % of Net Income
Directors	15,625	4,505,064	0.35%	27,970	6,166,269	0.45%
Supervisors	0		0.00%	0		0.00%
President and Vice Presidents	109,615		2.43%	182,600		2.96%

(2) 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, no more than 1% of the profit for the year may be distributed as remuneration to directors, 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.

D. Implementation of Corporate Governance

1. Implementation of Board Meeting:

The Board convened 7 meetings in Y2018. 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	7	0	100%	
Independent Director	Benson W.C. Liu	7	0	100%	
Independent Director	Chintay Shih	6	1	83%	
Independent Director	Kenneth Kin	6	1	83%	
Director	Edward Y. Way	7	0	100%	
Director	Lai Shou Su	7	0	100%	

Y2018 Meeting attendance of Independent Directors was as follows: ☉:Attendance ; ☆:Proxy ; * :Absence

Y2018	1st	2nd	3rd	4th	5th	6th	7th
Benson W.C. Liu	☉	☉	☉	☉	☉	☉	☉
Chintay Shih	☉	☉	☉	☆	☉	☉	☉
Kenneth Kin	☉	☉	☉	☉	☉	☉	☆

Supplement Notes:

1. There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in Y2018

Opinions of Independent Directors in Respect of Important Proposals:

BOD Meeting	Important Proposals	List on Article 14-3 of the Securities and Exchange Act	Independent Director Expresses an Objection or Reservation
17 th BOD meeting (8 th Term) 2018/02/05	To approve capital injection to VIS Associates Inc., a wholly-owned subsidiary.	V	
	To amend the Internal Control System.	V	
18 th BOD meeting (8 th Term) 2018/04/30	To amend the Procedures for Acquisition or Disposal of Assets.	V	
	To amend the Procedure for Making Endorsements and Guarantees.	V	
	To amend the Procedure for Lending Funds to Other Parties.	V	
3 rd BOD meeting (9 th Term) 2018/10/29	To approve capital injection to VIS Associates Inc., a wholly-owned subsidiary.	V	
	To approve the hiring of an attesting CPA and the compensation given thereto.	V	
5 th BOD meeting (9 th Term) 2018/12/19	To approve VIS purchasing assets from potential counterparties to expand capacity.	V	
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	

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 2018:

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

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

- a. 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.
- b. 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.
- c. Increasing support for directors and enhancing the Board functions, will appoint a chief corporate governance officer to be in charge of corporate governance affairs.

Dissenting opinions held by directors and supervisors in respect of important resolutions passed by the board directors: None.

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

2. Implementation and Focus of Audit Committee Meeting:

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, semi-annual, and quarterly financial reports.

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 qualifications of members of the Audit Committee are identical to those of the Compensation Committee.

The Audit Committee convened 6 regular meetings in Y2018. 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	5	1	83.33%	
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
17th Meeting (8th Term) 2018/2/5	<ol style="list-style-type: none"> Individual and Consolidated Financial Statements of the Company for Y2017 Revision to the Company's Internal Control System Proposed capital increase for the Company's subsidiary VIS Associates, Inc. Review of the effectiveness of the Company's annual internal control system for Y2017, 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 (2018/2/5)	All directors present Unanimously resolved
18th Meeting (8th Term) 2018/4/30	<ol style="list-style-type: none"> Amended the Procedures for Acquisition or Disposal of Assets. Amended the Procedure for Making Endorsements and Guarantees Amended the Procedure for Lending Funds to Other Parties 	All committee members present Reviewed and approved (2018/4/30)	All directors present Unanimously resolved

Board of Directors	Proposed Motions	Resolution Adopted by the Audit Committee	Action Taken by the Company in Response to Opinion of the Audit Committee
3th Meeting (9th Term) 2018/10/29	<ol style="list-style-type: none"> Proposed capital increase for the Company's subsidiary VIS Associates, Inc. Agreed to Deloitte Touche Tohmatsu Limited to audit Y2019 financial statements of Vanguard and the subsidiaries. 	All committee members present Reviewed and approved (2018/10/29)	All directors present Unanimously resolved
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	<ol style="list-style-type: none"> Revision to the Company's Internal Control System 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. Amended the Procedures for Acquisition or Disposal of Assets. Amended the Operational Procedures for Financial Derivative Transactions. Amended the Procedure for Making Endorsements and Guarantees 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	<ol style="list-style-type: none"> Individual and Consolidated Financial Statements of the Company for Y2018 Approved to make endorsements/guarantees for VANGUARD INTERNATIONAL SEMICONDUCTOR SINGAPORE PTE. LTD Approved to loan funds to VANGUARD INTERNATIONAL SEMICONDUCTOR SINGAPORE PTE. LTD Approved capital injection to VANGUARD INTERNATIONAL SEMICONDUCTOR SINGAPORE PTE. LTD. 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

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

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		<p>VIS formulated our Corporate Governance Practice Principles on Nov. 11, 2016. 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.</p> <p>For the details of Company's Corporate Governance Practice Principles, please refer to our website via www.vis.com.tw.</p>
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		<p>VIS has specific staff to handle shareholders' suggestions, doubts, and disputes. Meanwhile, the "Procedures for Handling Shareholder Complaints" were formulated on Feb. 5, 2018 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:</p> <ol style="list-style-type: none"> 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. <p>VIS tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of VIS.</p>
(2) The Company's possession of major shareholder's list and the list of ultimate owners of these major shareholders	V		None

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
(3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates? (4) Did the company develop internal rules for prohibiting company insiders from trading securities using information not disclosed to the market?	V 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. VIS has formulated an "Operating Procedure for Processing of Major Internal Information" on Aug. 3 rd , 2012 by board of directors, 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 (1) Did the board of directors formulate appropriate policy on diversity based on the composition of its members and implement such policy accordingly?	V		None 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 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, Chinese Corporate Governance Association; Master of Business Administration, North Texas University, USA; Ph.D. Nuclear Engineering and Applied Physics, Columbia University, USA; Professor, Department of Economics, College of Technology Management, National Tsing Hua University etc.

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
<p>(2) In addition to establishing remuneration committee and audit committee, did the company voluntarily set up other functional committees?</p> <p>(3) Did the company formulate rules and methods for board of directors' performance assessments, and perform periodic performance assessments each year?</p>	<p>V</p>	<p>V</p>	<p>In addition to establishing a remuneration committee and audit committee, we did not set up other functional committees.</p> <p>The Company has formulated a series of rules and polices pertaining to evaluations, including the revision of "Policies, Systems, Standards, and Structure of the Performance Assessment and Remuneration of Directors" on Aug. 6th, 2018 as well as a "Board of Directors Performance Evaluation Policy" on Nov. 1st, 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 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. In Q4 of every year, the Compensation Committee shall compile assessment items and the weighting of assessment one by one for the following year for the Company's individual Board members, the Board as a whole, and functional committees. The performance assessment result shall be submitted to the Board of Directors and the assessment meeting shall be conducted after the end of the following year. The criteria for assessing the performance of the individual Board members shall cover the following five aspects:</p> <ol style="list-style-type: none"> (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. <p>The criteria for assessing the performance of the Board as a whole and each functional committee shall cover the following five aspects:</p> <ol style="list-style-type: none"> (1) Participation in the operation of the company; (2) Improvement of the quality of the Board of Directors' decision making;

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		<p>(3) Composition and structure of the Board of Directors; (4) Election and continuing education of the directors; and (5) Internal control We formulate 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. Results from self-assessment of the Board of Directors' performance in 2018: 1. Assessment period: January 1, 2018 to December 31, 2018 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 January 29, 2019. In November 2016, the company appointed the Taiwan Corporate Governance Association (TCGA) to conduct external assessment of eight major aspects and 30-question indicators, including the composition, guidance, authorization, supervision, communication and self-discipline of the Board of Directors, as well as internal control and risk management, via questionnaire survey and on-site visit. TCGA has no dealings with the company, and is independent of the company. Overall assessment results: The company's Board of Directors is able to fully communicate with the company's management team, and offers guidance on the company's development strategies. A manager incentive system has been established by the Board of Directors to effectively monitor the operational effectiveness of the company's management team, with a view to reducing the company's operational risks. In addition, the Board of Directors regularly reviews the effectiveness and implementation of the system, so as to gradually shape the company's corporate culture, thereby laying a good foundation for sustainable management at the company. The internal and external assessment results are disclosed on our website : http://www.vis.com.tw/visCom/english/d_ir/d0402_committees.htm The Audit Committee annually evaluates the independence of Certified Public Accountants (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 and reports the assessments to the board of directors on January 29, 2019.</p>

Item	Implementation Status		Non-implementation and its Reason(s)
	Yes	No	
4. As a TWSE/TPEx-listed company, has VIS set up a full- (or part-) time corporate governance unit or personnel in charge of corporate governance affairs and designated a senior officer to be in charge of supervision (including but not limited to furnishing information required by directors and supervisors to conduct business, handling matters relating to board meetings and shareholders' meetings as required by law, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders' meetings, etc.)?	V		Upon approval by the Board of Directors on April 29, 2019, the company appointed the Chief Legal Officer as the Head of Corporate Governance. The main duties of the Head of Corporate Governance at the company include, but are 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 law, 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 shareholder services unit is responsible for handling corporate registration and amendment registration. All application documents need to be reviewed and approved by the Head of Corporate Governance. The company's Chief Legal Officer has over three years of experience serving as an executive officer in charge of legal affairs at public companies, and is a qualified lawyer. It is expected that in 2019, the Chief Legal Officer will complete the 18-hour training requirement for the Head of Corporate Governance set by the competent authority. The Company's status of operations for 2018 is as follows: 1. Assisted the Board of Directors and shareholders' meetings on regulatory compliance matters relating to meeting agendas and resolutions, and completed the meeting minutes of board meetings and shareholders' meetings after adjournment thereof. 2. Assisted in onboarding of 9th directors. 3. Arranged for seven directors to undergo a total of 88 hours of continuing education. 4. Assisted independent directors and ordinary board members to execute their duties and provided required information.
5. Did the company maintain channels of communication with its stakeholders (including but not limited to shareholders, employees, clients and suppliers), designate a stakeholder 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 suppliers. 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:

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
		<p>Description</p> <ul style="list-style-type: none"> ● 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 <p>Contact Window: Investor Relations: Janey Liu, Tel: 886-3-5770355 ext. 1421, Email: cylie@vis.com.tw</p> <p>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: <ul style="list-style-type: none"> ● 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</p> <p>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: <ul style="list-style-type: none"> ● Internal network and telephone communication platform ● Employee Assistance Program (EAP) hotline ● Quarterly meeting between employer and employees ● Quarterly meeting of factory directors ● President communication meeting ● Mailbox of the executives, mailbox of the Audit Committee, mailbox of the chairman Contact Window: Human Resources: Andrew Chen, Tel: 886-3-5770355 ext. 1100, Email: andrewchen@vis.com.tw</p>	

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	

Implementation Status

Description

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

Item	Implementation Status		Non-implementation and Its Reason(s)
	Yes	No	
6. Did the company engage a professional shareholder services agent to handle shareholders meeting matters?	V		None
7. Information Disclosure (1) Establishment of corporate website to disclose information regarding the Company's financials, business and corporate governance status (2) Other information disclosure channels (e.g. English website, appointing responsible people to handle information collection and disclosure, appointing spokesperson, webcasting investor conference)	V V		None

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		<p>● For employee rights and employee wellness, please refer to "Employee / employer relations" of this Annual Report.</p> <p>● 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.</p> <p>● For supplier relations and rights of stakeholders, please refer to 「Implementation of Corporate Social Responsibility Measures」 of this Annual Report.</p> <p>● For Directors' training records, please refer to "Directors' training records" of this Annual Report.</p> <p>● 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.</p> <p>● 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.</p> <p>● We maintain D&O Insurance for its directors and officers.</p>
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 four 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 2018, formulation of human rights policy, establishment of corporate governance framework, appointment of Head of Corporate Governance, strengthening of disclosure of financial, business and corporate governance information on the company's website, and implementation of ethical corporate management training, and relevant management guidelines were formulated and implemented by part-time 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 a 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		
Independent Director	Chintay Shih	√		√	√	√	√	√	√	√	√	√	2	
Independent Director	Kenneth Kin	√		√	√	√	√	√	√	√	√	√	2	
Independent Director	Benson W.C. Liu			√	√	√	√	√	√	√	√	√	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 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.
7. 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.
8. 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	4	1	80%	
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.
3. Matters concerning the Board of Directors Performance Evaluation Policy and methods and implementation status of performance evaluations (in cases where an external institution or experts are appointed to conduct evaluations of Board performance, the Company shall disclose the name of the external institution in question and names of the experts and a description of their specialties, and indicate whether the external institution and experts have business dealings with the Company and whether they are independent):

The Company has formulated the Board of Directors Performance Evaluation Policy, which is a performance evaluation policy which applies to Board members.

The scope of the performance evaluation for the Company's Board of Directors includes evaluating individual directors, the Board as a whole, and functional committees. 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.

- (1) Internal performance evaluation for individual Board members:

The evaluation items and evaluation forms compiled by the Compensation Committee during Q4 of each calendar year shall be used in the performance reviews carried out after the first quarter of the following calendar year (to be regularly implemented once annually), and the assessment results are incorporated into consideration for Board remuneration.

Cumulative Evaluation Results for Y2018: The performance of all directors was determined to have met expectations.

- (2) Internal performance evaluations for the Board as a whole and functional committees:

The evaluation items and evaluation forms compiled by the Compensation Committee during the fourth quarter of each calendar year shall be used in the performance reviews carried out after the first quarter of the following calendar year (to be regularly implemented once annually).

Cumulative evaluation results for Y2018: The overall performance of the Board as a whole and each functional committee was determined to have met expectations.

(3) External performance evaluation for the Board of Directors:

At least once every three years, an outside professional institution is retained to carry out an assessment. For Y2016, the Company engaged the Taiwan Corporate Governance Association to carry out an assessment.

Cumulative Evaluation Results for Y2016: The Company's Board of Directors and management team were found to have maintained open and direct lines of communication; the Board of Directors provided guidance on the Company's developmental strategies, established an incentive mechanism for managers, exercised effective oversight of the VIS management team's operating achievements, reduced the Company's operating risks, and regularly examined the effectiveness and implementation of various systems, and furthermore gradually consolidated the Company's corporate governance culture, thereby ensuring the Company possesses a strong foundation for future sustainability.

5. Implementation of Corporate Social Responsibility Measures

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
<p>1. Implementation of Corporate Governance</p> <p>(1) Did the company formulate corporate social responsibility policies or systems and review the effectiveness of its implementation?</p> <p>(2) Did the company periodically hold social responsibility training?</p> <p>(3) Did the company establish a unit exclusively for the promotion of corporate social responsibility, and did the board of directors authorize high-level managements to manage this unit and report management progress to the board of directors?</p> <p>(4) Did the company formulate reasonable remuneration policy, integrate employee</p>	V		No variation
			<p>(1) To implement corporate social responsibility and embrace the overall development of societies, VIS has established the "Corporate Social Responsibility Policy" and "Corporate Social Responsibility Report". VIS commits to abide by ethical norms in business management, assume environmental protection responsibility, provide a safe working environment, and protect employee rights, as the crucial criteria for maintaining positive developments in our society.</p> <p>(2) To embrace social responsibility and promote corporate governance, VIS constantly reminds and promotes corporate governance concepts and arranges corporate social responsibility training to the board of directors, independent directors, and employees. For example, formulating ethical norms for business practice represents the advocacy of integrity and ethical business behavior; promoting the importance of integrity and uprightness helps employees understand the concept and principles of business ethics, thereby motivating them to comply with laws and regulations. Employees' participation in relevant training programs is recorded and registered. The training outcomes are provided to their respective supervisors as reference for employee performance assessments.</p> <p>(3) 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 while at the same time constantly reflecting the implementation effectiveness and making constant improvements, ensuring execution of the company's corporate social responsibility policy. The Committee periodically reports to the board of directors regarding promotion progress. The structure of company's CSR committee please refers to our website via http://www.vis.com.tw/visCom/english/download/csr_group.jpg And VIS CSR Activities & Performance please refers to our website via http://www.vis.com.tw/visCom/english/a_about/a05_corporation_social_resp.htm The committee has designated representatives to convene meetings on a quarterly Basis, and reported to Board of Directors twice in a year.</p> <p>(4) VIS provides its employees with compensation above the standard of that of the same industries. Additionally, the company's performance assessment system considers both</p>

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
performance assessments with the corporate social responsibility policy, and establish an effective rewarding and punishment system?			company strategies and personal performance goals to keep employees' remunerations are closely linked with their performance. The purpose is to encourage and reward employees for their efforts during policy promotions, thereby strengthening the sustainability of future policy promotions.
2. Development of Sustainable Environment (1) Is the company committed to enhancing the usage efficiency of various resources and utilizing renewable materials that exert a low impact on environmental load? (2) Did the company establish an appropriate environmental management system according to its industry characteristics? (3) Did the company show concerns for the influence that climate change has on its	V		<p>(1) Minimizing environmental impact through green production is VIS's core environmental policy. In Y2018, the Company targeted 113 items in an endeavor to enhance the usage efficiency of various resources, waste reduction and pollution minimization. For example, VIS has made efforts to minimize the volume of chemicals and gases used in production processes, which includes Reduce the use of process chemicals/gas (e.g., ammonia water, TMAH, O₂, photoresist and other sources), set up energy conservation solutions with pure water pump inverter in the 3A UPW system, replace the inverter to improve dry pumps, and reduce the use of LHF-R filter elements, in order to reduce their impact on the environment to mitigate negative environmental impacts.</p> <p>(2) In addition to upholding the spirit of continuous improvement embedded in the PDCA (Plan-Do-Check-Action) methodology under ISO 14001 (Certificated since 1997), VIS conducts a review of relevant environmental protection laws and regulations on a monthly basis and makes corresponding adjustments as needed. We also conduct discussion meetings with environmental, safety, and health committees of various levels. For example, fab directors hold monthly committee meetings to examine environmental safety and health issues, and the various departments of each area (fab manufacturing, ADM administration, and IS & QRA) hold quarterly meetings to examine the Company's overall operations relating to environmental safety and health management systems. A report is then presented at a quarterly company-wide environmental safety and health committee meeting hosted by the President of VIS. In compliance with the ISO 14001 and OHSAS 18001 (Certificated since 2003/2/26; Renew since 2018/1/28), VIS maintained the environment, safety, and health performances of its manufacturing plants at levels exceeding the standard requirements. VIS demonstrated greater than 90% efficiency for its handling of air pollution prevention; greater than 85% water recycling processing rate (more than 75% for Fab 3); greater than 92% waste recycling rate (more than 87% for Fab 3); zero accidents, and less than 2 abnormal incidents per year.</p> <p>(3) Climate change topics have attracted attention worldwide, so as to VIS. In addition to following rules and regulations closely, VIS conducts corporation-wide GHG emission</p>

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
business activities, and embark on inventorying greenhouse gas emissions and formulating strategies to conserve energy, reduce carbon emission, and decrease greenhouse gas volume?		inventories annually as well as external verifications. Inventory and verification results are reported to the government as well as the high level executives in the Health, Safety and Environmental Protection Committee. And our target for conserve energy, reduce carbon emission, and decrease greenhouse gas volume is in 2020, the electricity consumption per unit area of wafer is reduced by 10% compared with 2015. And based on the 2015 GHG carbon emission coefficient announced by the Taiwan Power Company, the GHG emission per unit area of wafer is expected to be 20% less by 2020 than the amount emitted in 2015.	
<p>3. Protection of Society's Public Interest</p> <p>(1) Did the company formulate applicable managerial policies and procedures in accordance with relevant regulations and international human rights conventions?</p> <p>(2) Did the company establish a staff complaint mechanism and channels, and adequately handle employee complains?</p>	V	<p>(1) In 2018, the company formulated the VIS Human Rights Policy, in which all human rights-related actions comply with the relevant international rules and regulations, including the United Nations Universal Declaration of Human Rights, the Code of Conduct of the Responsible Business Alliance (RBA), etc. The company is committed to maintaining a safe working environment, and ensuring that current coworkers, contract and temporary employees, and interns are treated with dignity, and follow ethics. At the same time, the company provides employee welfare and protects shareholders' rights and interest simultaneously, and strives to give back to the society. Furthermore, the company establishes a positive relationship with employees, and create a working environment with a high degree of engagement, in order to ensure that VIS' code of conduct is aligned with international indicators.</p> <p>(2) By establishing multiple channels for employee feedback, 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. Judging from all complaint channels, a total of 492 complaint cases were filed through our internal communication channels in 2018, including 242 cases through the "I have something to say" channel, 234 cases through the employee suggestion box, 14 cases through the complaint mailbox, 2 cases through the sexual harassment complaint mailbox. All the cases were distributed to the relevant units for subsequent processing. For cases filed through the employee suggestion box, the HR Department will first learn about the reason for such cases before delivering them to the relevant units for subsequent processing according to the content and suggested direction of these problems, and will also communicate the corresponding approaches and results with the coworkers so that the coworkers' suggestions and problems can be properly dealt with and processed, while the cases can be settled. Our</p>	No variation

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
<p>(3) Did the company provide employees a safe healthy working environment, and periodically educate employees on safety and health issues?</p> <p>(4) Did the company devise a periodic communication mechanism for its employees, and notify employees in a reasonable manner of potential major influences to the company's</p>		<p>proactive care and handling have earned recognition and acknowledgement from our coworkers.</p> <p>(3) The company pays serious attention to employees' physical and mental health, and spares no effort in improving the working environment, setting up recreational activities and facilities, as well as strengthening health and insurance services. The company provides physical examinations for coworkers involved in special operations, so that they feel at ease at work. In 2018, a total of 211 workers were involved in particularly hazardous operations, where all of them underwent physical examination. On the other hand, a total of 32 coworkers were involved in occupational cerebrovascular and heart disease prevention and management, in which registered professional nurses took the initiative to arrange for outpatient examination in the factory area, offer consultation and suggestions, enabling coworkers to lead a healthy lifestyle. In addition, the company regularly conducts musculoskeletal survey, and proactively offers protection to ensure work safety. Every year, the company organizes physical examination for our coworkers. In 2018, 91.6% of all coworkers at of the company, or a total amount of 4,159 coworkers, underwent physical examination. For coworkers with abnormal physical examination results, registered professional nurses will take the initiative to arrange for outpatient examination for them, provide personalized health consultation, offer medical assistance to medium/high-risk coworkers and assist them in managing working hours. Furthermore, graded health management is implemented according to different levels of abnormality. In 2018, a total amount of 1,043 people received outpatient consultation in the factory area. As regards epidemic prevention, the company has been providing free flu vaccination to employees since 2004. To increase vaccination rate, the company invited all factory managers to serve as epidemic prevention ambassadors in 2017. In 2018, the company organized flu prevention talks at departmental level, while the number of vaccinations climbed to 2,349. The promotion of this effort has even earned the company the Epidemic Prevention award from the Centers for Disease Control for three consecutive years, and helped the company won the "Friendly Enterprise Role Model" award, the highest honor in this aspect respect.</p> <p>(4) (V) Every six months, the company organizes two meeting sessions with the Chairman, including the Manager Meeting for coworkers of job grade level 35 and above, and the Town Hall Meeting which is open to all employees. In 2018, a total of four meeting sessions with the Chairman were organized by the company, and attended</p>	

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
operational process?		by approximately 1,200 people. During the meeting sessions, the Chairman shared the operating status and future prospects of the company, and responded to each of the 31 questions raised by coworkers in a questionnaire conducted before the meeting sessions, which enable the Chairman to communicate and interact with employees face to face, so that employees can truly express their opinions and the ideas from the management team can be fully communicated with employees.	
(5) Did the company establish effective career development programs for its employees?		(5) To cultivate professional talents who meet the company's needs and help employees explore their own potential, the company has established a complete talent development system according to the vision and strategic goals of VIS. In addition, the company has also established various learning resources, including a training management system (learning passport system), a knowledge management platform and an online learning platform, in order to develop personal learning development plans for coworkers. Furthermore, the company provides coworkers with complete talent training courses and a wide variety of learning resources, so as to enhance the development of employees' talents and improve the company's competitiveness. In 2018, internal lecturers and professors of the company taught a total of 36 supervisors and 326 employees performance management courses, which assisted in setting and implementing goals. Besides, the company also regularly conducts performance management and development to measure the achievement of goals, so as to ensure the implementation of organization and personal development focus.	
(6) Did the company formulate relevant policies for protection of consumer rights and interests and consumer complaints procedure with regards to research & development (R&D), procurement, production, operating, and service procedures?		(6) VIS has established a Guideline for Handling Customer Complaints, providing customers a transparent, effective channel to file the complaints they have for our products and services. In addition, the company handles customer complaints fairly and instantly, and complies with relevant laws and regulations in respecting customer privacy and protection customer information. VIS also periodically assesses customer satisfaction with the company, commissioning external agencies to handle such assessments. The company views customers as its crucial stakeholders, attending to customer opinions and using these opinions as the basis to improve process technology, service and product delivery performance.	
(7) Did the company comply with applicable laws, regulations, and international standards when marketing and labeling its products and services?		(7) The company complies with applicable laws, regulations, and international standards when marketing its products and services.	

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
<p>(8) Before cooperating with a supplier, did the company assess whether the supplier had records of engaging in activities that influenced the environment and society?</p> <p>(9) In the contract signed between VIS and its primary suppliers, does it include provisions stating the termination or rescindment of the contract for instances when the supplier violates the company's corporate social responsibility policy such that its actions significantly influenced the environment and society?</p>		<p>(8) Before cooperating with a new supplier, VIS's relevant unit evaluates the potential supplier to ensure it is not involved in activities that adversely impact the environment and society and to make sure the supplier fulfills all legal requirements. Moreover, VIS performs a qualifications review, conducts an on-site audit, and requests the potential supplier to sign VIS's Corporate Social Responsibility Rules.</p> <p>(9) The company specifies in the contract that the supplier must adhere to relevant laws and regulations (including but not limited to the corporate social responsibility policy); failure to do so shall result in termination of cooperation with VIS.</p>	
<p>4. Strengthening of Information Disclosure Measures (1) Did the company disclose any relevant and reliable corporate social responsibility information on its website and on the Market Observation Post System of the Taiwan Stock Exchange website?</p>	V		No variation
<p>5. If the company did formulate principles for corporate social responsibility practices according to the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please state the variations in the operations and rules of such practice: VIS has developed a VIS Corporate Social Responsibility Manual as a guide for the company to implement its social responsibilities; such implementation conforms to the spirit of the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies.</p>			
<p>6. Other Information for Better Understanding of the company's corporate social responsibility practices: VIS CSR Activities & Performance Society: The company actively participates in community and public welfare activities, continues to care for the disadvantaged community groups, and gives back to the society with concrete 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. During the winter break in 2018, the volunteer program of the company sponsored kids in Smangus to travel to National Tsing Hua University (NTHU) in Hsinchu and to participate in the two-day "Small Insects, Big Secrets" camp organized by Tze-Chiang Foundation of Science and Technology. The camp was well received by the children. Principal of Smangus Sunday School, Wu Li believed that for kids in Smangus, mountain forest is home, and insects are good friends who live together with them. Participating in camps not only enables kids in Smangus to acquire knowledge about insects, but also allows them to interact with kids from the city.</p>			

Assessment Items	Current Situation		Variation compared with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Reason for the Variation
	Yes	No	
<p>At the end of 2018, VIS hosted 33 dinner tables, and invited approximately 300 elderly living alone taken care by Old Five Old Foundation, Huashan Social Welfare Foundation, and Eden Social Welfare Foundation to enjoy a caring dinner. Based on the theme of "Spending the Lunar New Year with the Elderly", the company called on our coworkers to donate generously and participate in various activities organized by the above-mentioned foundations, including giving out Lunar New Year dishes and having reunion dinner with the elderly. Enthusiastic response from our coworkers helped this charity donation raise NT\$1,995,879. The Chairman presented the donation, on behalf of our coworkers, to these social welfare groups during the caring dinner. In addition to donations from our coworkers, the company also donated each NT\$200,000 to Syn-Lu Social Welfare Foundation, World Peace Association, and Sunshine Foundation. Moreover, during the Family Day organized in November 2018, the company donated each NT\$200,000 to Children Are Us Foundation, Saint Joseph Social Welfare Foundation, and Taiwan Fund for Children and Families. In 2018, VIS donated a total of NT\$1.2 million to six social welfare groups. The disadvantaged groups to which the company has lent a helping hand include kids from low-income households, kids with physical and mental disabilities, kids who suffered from abuse, kids with intellectual development disorders, mentally disabled kids, kids with facial disabilities, etc.</p> <p>The company also sponsored the Rising Sun Program hosted by NTHU by providing two students from disadvantaged families with an annual scholarship of NT\$200,000 each, so that these students from low-income households can study hard without worries. To give back to the community, the company sponsored the TSMC Art Festival by contributing NT\$100,000, with a view to promoting art education. In order to promote peaceful social development, the company focuses on the future prospects of Taiwan by continuously sponsoring offering NT\$2 million every year to the radio program titled "Taiwan's Tomorrow and Tomorrow's Taiwan" hosted by IC Broadcasting Co., Ltd. since 2015. This radio program discusses various issues in Taiwan, including education, talents, social, livelihood, energy and environment together with listeners based on current global trends. This radio program is well received since it was first on air. In 2019, the radio program will add other issues, such as elderly care and climate change, for discussion, in which the host of the program, Jennifer Shen leads experts and listeners together to care about the future of Taiwan. Climate change is one of the 17 Sustainable Development Goals of United Nations.</p> <p>In addition, to assist small farmers who are not capable of selling agricultural produce, in selling their agricultural produce so that they can earn a living, the company initiated activities to help disadvantaged small farmers, thus receiving overwhelming response from our coworkers. The company sold agriculture produce from small farmers who were identified and recommended by village chiefs nearby, to our coworkers. Our coworkers at Fab 2 even set up a neighborhood volunteer group after conversations with small farmers that most of them are generally old and are not fit enough to stand and sell agricultural produce for a long period of time. Hence, the volunteer group decided to cooperate with coffee bars in our factories and help small farmers to sell their produce in these bars. At the same time, the company assisted in designing posters and launching Internet promotion so that our coworkers can purchase fresh and cheap organic fruits, thereby creating a new charity model which benefits all three parties.</p> <p>Products:</p> <p>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 2018, a total of 2,936 SS cases and 492 CIT cases were proposed and implemented, where the benefits derived from both sets of cases amounted to NT\$1,047 million. 30.4% of all 332 CIT cases (or 101 CIT cases) closed were related to product quality improvement measures. Beginning 2018, the company has issued the Best Improvement Award, Teamwork Award and the Best Publication Award to participating CITs.</p> <p>Environmental and Personnel Concerns:</p> <p>For further details, please refer to Section IV: "Business Overview – Environmental Protection Expenditures and Labor-Management Relations" of this Annual Report.</p> <p>7 If the company's corporate social responsibility report passes the verification standards of relevant verification institutions, descriptions of it should be provided:</p> <p>Y2017 CSR report have been verified to comply with the accountability principles of inclusivity, materiality and responsiveness by the British Standards Institution (BSI) Taiwan branch office, according to the AA1000 AS: 2008 Assurance Standards and the requirements of GRI G4. And the report adheres to the "Core" option of the GRI G4, and conforms to the AA1000 Type II high-level accountability. (The Company's 2018 CSR Report is currently undergoing a review.)</p>	<p>Description</p>		

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		
		Yes	No
<p>1. Formulation of Integrity Management Policy and Measures</p> <p>(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?</p> <p>(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?</p> <p>(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 the Ethical Corporate Management Best Practice Principles for</p>	V	V	<p>(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.</p> <p>(2) 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.</p> <p>(3) 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</p>

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	
TWSE/GTSM Listed Companies?			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.
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.

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	
(4) Did the company set up an effective accounting system and internal control system to implement integrity management, and designate internal audit units or entrust accountants to perform audits of these systems?	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 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 2018 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 21,102 times in the training, completing 6,837 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.	

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																			
		<table border="1"> <thead> <tr> <th>Course</th> <th>Number of times</th> <th>Training man-hours</th> </tr> </thead> <tbody> <tr> <td>ethical management best practice principles</td> <td>5,109</td> <td>766</td> </tr> <tr> <td>code of professional ethics</td> <td>5,578</td> <td>2,789</td> </tr> <tr> <td>corporate social responsibility</td> <td>5,153</td> <td>1,546</td> </tr> <tr> <td>protection of proprietary information</td> <td>5,262</td> <td>1,736</td> </tr> <tr> <td>Total</td> <td>21,102</td> <td>6,837</td> </tr> </tbody> </table>	Course	Number of times	Training man-hours	ethical management best practice principles	5,109	766	code of professional ethics	5,578	2,789	corporate social responsibility	5,153	1,546	protection of proprietary information	5,262	1,736	Total	21,102	6,837	
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Total	21,102	6,837																			
3. Operation of VIS Whistle-Blowing System	V		No variation																		
(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?	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) Did the company devise standard operating procedures for handling the reported cases and relevant confidentiality mechanisms?	V		(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) Did the company adopt measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing?	V		(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.																		

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	
<p>4. Strengthening of Information Disclosure Measures (1) 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?</p>	V		No variation
<p>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 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.</p>			
<p>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.</p>			

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

- Three out of the seven directors are independent directors
- All members of the Compensation Committee and the Audit Committee are independent directors, includes Chintay Shih, Kenneth Kin, and Benson W.C. Liu.
- VIS was granted the highest rating of “Outstanding” in Corporate Governance Assessment by Taiwan Corporate Governance Association.
- VIS was ranked in the best Top 5% during the fourth Corporate Governance Evaluation.
- 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.
- VIS completed First External Evaluation of Board Performance by Taiwan Corporate Governance Association in Y2016
- VIS has established “Diversity of Directors Policy” and disclosed it on company’s annual report and website.

9. Internal Control:

Vanguard International Semiconductor Corporation Internal Control Statement

Date: January 29, 2019

The Company states the following with regard to its internal control system in Y2018, based on the findings of a self-evaluation:

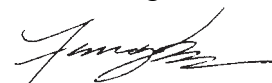
1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness 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 January 29, 2019. All of the 7 attending directors affirmed the content of this Statement.

Vanguard International Semiconductor Corporation

Chairman & President Leuh Fang

A handwritten signature in black ink, appearing to read 'Leuh Fang', with a horizontal line extending to the right.

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 Y2018 Regular Shareholders' Meeting was held on June 14, 2018.

The major resolutions and implementation status were as below:

Date	Subject	Result	Implementation status
2018/06/14	To approve the Y2017 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 Y2017 profit distribution	After voting by poll, was approved as proposed.	Set July 11, 2018 as recording date for dividend distribution. July 27, 2018 sent out cash dividend, each common share holder received a cash dividend of NT\$3 per share.
	To amend the 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 the Procedure for Making Endorsements and Guarantees	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	To amend the Procedure for Lending Funds to Other Parties	After voting by poll, was approved as proposed.	Implement as approved and disclosed on VIS's website.
	Elected VIS's 9th Board of Directors.	The list of the newly elected directors Directors: Leuh Fang (Representative of Taiwan Semiconductor Manufacturing Co., Ltd.) F.C. Tseng (Representative of Taiwan Semiconductor Manufacturing Co., Ltd.) Lai Shou Su (Representative of National Development Fund, Executive Yuan) Edward Y. Way Independent Directors: Benson W.C. Liu Kenneth Kin Chintay Shih.	Disclose on VIS's website and complete the registration on June 26, 2018.
	Approved the removal of noncompetition restrictions on Board of Director elected in the shareholders' meeting.	After voting by poll, was approved as proposed.	Implement as approved and disclose on VIS's website.

Review of Board Meetings

Major resolutions adopted are summarized as below:

Y2018 :

- a. Agreed to convene the Y2018 regular shareholders meeting and related issues.

- b. Approved Y2017 annual business and operation report.
- c. Approved Y2017 annual financial report.
- d. Approved Y2017 profit distribution plan.
- e. Approved Y2017 internal control system statement.
- f. Amended the Internal Control System.
- g. Approved Y2017 performance and Y2018 remuneration of managerial officers.
- h. Approved Y2017 performance and Y2018 remuneration of Chairman, Vice Chairman and directors.
- i. Approved Y2017 compensation of employees and directors.
- j. Approved capital injection to VIS Associates Inc., a wholly-owned subsidiary.
- k. Amended the Procedures for Acquisition or Disposal of Assets.
- l. Amended the Procedure for Lending Funds to Other Parties.
- m. Amended the Procedure for Making Endorsements and Guarantees.
- n. Reviewed the qualifications of each director nominee.
- o. Elected Mr. Leuh Fang as Chairman and Mr. F.C. Tseng as Vice Chairman.
- p. Approved Mr. Benson W.C. Liu, Mr. Chintay Shih and Mr. Kenneth Kin were appointed as members of compensation committee.
- q. Approved authorizing Chairman of directors to sign the bank facility and transaction contracts.
- r. Approved Y2018 capital expenditure budget raising plan.
- s. Amend the performance index and the remuneration structure of the directors.
- t. Approved Y2019 operation plan and capital expenditure budget plan.
- u. Approved Y2019 Internal audit plan.
- v. Agreed to Deloitte Touche Tohmatsu Limited to audit Y2019 financial statements of Vanguard and the subsidiaries.
- w. Approved the donation of natural gas piping in Fab 3.
- x. Approved VIS to purchase assets from potential counterparties to expand capacity.

Y2019(As of February 28, 2019):

- 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. 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.

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 Y2018 to publish of this annual report.

13. Personnel Termination Summary Related to Annual Financial Report: None

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	5,662	0	0	0	950	950	v		2018.01.01~ 2018.12.31
	Ming-Yuan Chung									

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

The non-audit fee amounted to NT\$950 thousand is less than 25% of the audit fee. The corporation did not change its accounting firm until February 28, 2019. The audit fee in year 2018 did not reduce over 15% 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	Status	Clients	CPA
	Appointment terminated automatically		Not available
	Appointment rejected (discontinued)		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	Y2018		01/01/2019 ~ 02/28/2019	
		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	72,592	0	0	0
Vice President	D. L. Tseng	(11,234)	0	0	0
Vice President	Thomas Chang	18,148	0	0	0
Vice President	Tommy Liu	40,000	0	0	0
Vice President	Du Yang (2018/1/22 on board)	0	0	0	0
Vice President	Chan-Jen Kuo	57	0	0	0
Associate Vice President	Chrong-Jung Lin	364	0	0	0

Title	Name	Y2018		01/01/2019 ~ 02/28/2019	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
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:

Name	Trade Reason	Trade Date	Related Party	Relationship	Shares	Trade Price
D. L. Tseng	Grant	107.03.09	Wei-Cheng, Tseng	Father and son	28,000	59.70

Stock Pledge with Related Party: None

I. Top 10 shareholders relation

As of February 28, 2019

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	103,237,725	6.30%	0	0	0	0	None		
JPMorgan Chase Bank , N.A. , Taipei Branch in Custody for International Growth and Income Fund	61,775,000	3.77%	0	0	0	0	None		
SmallCap World Fund Inc.	56,908,575	3.47%	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		
FUBON LIFE INSURANCE CO. , LIMITED.-TWOIC-FFI	32,308,000	1.97%	0	0	0	0	None		
JPMorgan Chase Bank N.A. Taipei Branch in custody for JPMorgan Funds	29,751,000	1.82%	0	0	0	0	None		
Cathay Life Insurance Co., Ltd.	25,862,000	1.58%	0	0	0	0	None		
New Labor Pension Fund	20,093,500	1.23%	0	0	0	0	None		

J. VIS Long-Term Investment Ownership

As of February 28, 2019; Unit: shares; %

Long-Term Investment	Ownership by VIS		Direct/Indirect Ownership by Directors, Supervisors, and Management		Total Ownership	
	Shares	%	Shares	%	Shares	%
VIS Associates Inc.	269,000	100.00%	-	-	269,000	100.00%
Vanguard International Semiconductor Singapore Pte. Ltd.	10,000	100.00%	-	-	10,000	100.00%
Qromis Inc.	10,705,235	48.13%	-	-	10,705,235	48.13%
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.	1,400,000	4.22%	-	-	1,400,000	4.22%
AnDAPT, Inc.	1,000,000	4.01%	-	-	1,000,000	4.01%
Voltafield Technology Corp.	600,000	1.67%	-	-	600,000	1.67%
Champion Microelectronic Corp.	399,856	0.58%	-	-	399,856	0.58%
Advanced Microelectronic Products, Inc.	30,000,000	9.43%	-	-	30,000,000	9.43%
VIS Shanghai company limited	Not Applicable (Note 1)	100.00%	-	-	Not Applicable (Note 1)	100.00%
Shenzhen Winsemi Microelectronics Co., Ltd	Not Applicable (Note 1)	10.00%	-	-	Not Applicable (Note 1)	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 28, 2019

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 28, 2019

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 28, 2019

	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	25	117	31,473	624	32,240
Shareholding	274,029,592	102,533,446	528,265,137	80,142,118	654,011,974	1,638,982,267
Holding Percentage (%)	16.72%	6.26%	32.23%	4.89%	39.90%	100.00%

3. Distribution Profile of Shareholder Ownership

As of February 28, 2019

Shareholder Ownership (Share)	Number of Shareholders	Ownership (Share)	Ownership (%)
1~ 999	16,735	4,570,061	0.28%
1,000~ 5,000	12,152	23,293,347	1.42%
5,001~ 10,000	1,661	11,719,195	0.72%
10,001~ 15,000	497	6,007,554	0.37%
15,001~ 20,000	236	4,258,119	0.26%
20,001~ 30,000	192	4,774,703	0.29%
30,001~ 50,000	201	7,931,801	0.48%
50,001~ 100,000	164	11,598,821	0.71%
100,001~ 200,000	118	17,340,831	1.06%
200,001~ 400,000	88	24,550,804	1.50%
400,001~ 600,000	39	18,858,902	1.15%
600,001~ 800,000	24	16,410,445	1.00%
800,001~ 1,000,000	28	25,116,801	1.53%
Over 1,000,001	105	1,462,550,883	89.23%
Total	32,240	1,638,982,267	100.00%

Preferred Stock: Not Applicable

4. Major Shareholders

As of February 28, 2019

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		01/01/2019~ 02/28/2019		
	2017	2018			
Market Price Per Share	Highest Market Price	73.30	83.60	70.20	
	Lowest Market Price	51.80	49.05	55.00	
	Average Market Price	59.67	65.80	63.21	
Net Worth Per Share	Before Distribution	17.01	17.96	-	
	After Distribution	14.01	(Note 4)	-	
Diluted Earnings Per Share	Weighted Average Shares	1,651,090	1,659,643	-	
	Earnings Per Share	2.73	3.72	-	
Dividends Per Share	Cash Dividends	3.00	(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 (Note 1)	21.86	17.69	-	
	Price/Dividend Ratio (Note 2)	19.89	(Note 4)	-	
	Cash Dividend Yield Rate (Note 3)	5.03%	(Note 4)	-	

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

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

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

Note 4 : Pending by 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 Y2019.

Y2018 Profit Distribution for Common Shareholders:

Unit: NT\$

Year	Date of Board Resolution	Dividend to Common Shareholders (Cash)
2018	2019/1/31	5,244,743,254

7. Stock Dividend Distribution: None

8. Compensation to 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.

For the year ended December 31, 2018, the employees' compensation and the remuneration to directors were \$1,170,000,311 and \$22,195,073, respectively. The above calculation was at a certain percentage of the base income. 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 January 29, 2019 were as follows:

- The employees' compensation amounted to NT\$1,170,000,311. 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 Y2018.
- The remuneration to directors amounted to NT\$22,195,073. 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 Y2018.

(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 Y2017 was as follows.

	Board of Directors Resolution (February 5, 2018)	Actual Distribution		
	Amount (NT\$)	Amount (NT\$)	Underlying Number of Shares	Dilution
Remuneration to Directors	9,900,000	9,900,000	NA	NA
Employees' compensation in cash	675,759,960	675,759,960	NA	NA
Total	685,659,960	685,659,960	NA	NA

The above figures have been recognized in the Y2017 financial report. There is no difference between the actual distribution and the expense recognized in Y2017.

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 and high-voltage/ultra high-voltage 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.

Y2018 VIS Sales Revenue

	Item	AMT (NT\$ in thousands)
(1)	Wafer Foundry	28,729,373
(2)	Others	468,727
Less	Sales returns and allowances	270,006
TTL	Net Revenue	28,928,094

2. Overview of the industry

Current state of industry and trends

Macroeconomic aspects

With global economic growth facing downside risks, the International Monetary Fund (IMF) has recently revised downward its global GDP forecast twice, indicating that GDP growth rates in 2019 and 2020 will be lower. more conservative.

Developed countries experience long-term low economic growth rate. In recent times, these countries barely managed to hold bottom-line growth due to the US-China trade war, the continuous weakening of the European economy, and the impact of the Brexit withdrawal agreement. In 2019, the economic situation of developing countries is also not optimistic. China has repeatedly revised downward its economic growth to a level near 6%. Furthermore, the US-China trade tension remains a major worry.

Regardless of developed countries or emerging markets, the global economy appears to lack growth momentum for the time being.

According to the latest World Economic Outlook (WEO) report published by IMF in January 2019, global GDP growth statistics and forecasts are shown in Table 1. A series of tax cuts in the US have not driven economic growth as expected. Coupled with the economic turmoil resulted from trade tariffs, global economic growth in 2019 and 2020 are conservatively estimated at 2.5% and 1.8%, respectively; however, these figures are still ahead of those in mature, developed countries.

On the other hand, the Eurozone economy is forecasted to grow by 1.6% and 1.7% in 2019 and 2020, respectively, indicating a slowdown in economic growth. Economic crisis resulted from the on-going Brexit saga, as well as political turmoil in Italy and Turkey continues to have a negative impact on the economic situation in Europe.

Meanwhile, China, whose GDP grew by 6.6% in 2018, continues to experience a downward trend. Uncertainties arising from the on-going trade tariff war between the US and China have caused China to revise downward its GDP growth target to 6.2%. In recent times, rising commodity prices in China, along with uncertainties arising from the US-China trade war, has seriously shaken consumer confidence, thus affecting consumer spending and related investments. Recently, Chinese Premier Li Keqiang made it clear that due to the impact of trade war, the Chinese economy is indeed facing downward pressure. Hence, China has set its estimated GDP and economic growth target for 2019 to be in the range of 6% to 6.5%.

IMF conservatively estimates the growth rate of emerging markets to be 4.5% in 2019. The US, a leading developed country, is only expected to hold a bottom-line growth rate of 2.5%, while the Eurozone economy will continue to remain sluggish. Overall, global GDP is expected to demonstrate flat or slight growth in 2019 and 2020. Correspondingly, the global semiconductor industry is also equally conservative about market growth. At present, we can only expect the trade war to be settled as soon as possible, so that the industry chain can return to stability. The 2020 Tokyo Olympics will bring a certain level of demand for the entire industry.

Table 1: Statistics and forecasting of global GDP growth (2017-2020)

	2017	2018	2019f	2020f
Worldwide	3.8%	3.7%	3.5%	3.6%
Advanced Economies	2.4%	2.3%	2.0%	1.7%
Emerging and Developing Economies	4.7%	4.6%	4.5%	4.9%
USA	2.2%	2.9%	2.5%	1.8%
Euro Area	2.4%	1.8%	1.6%	1.7%
Germany	2.5%	1.5%	1.3%	1.6%
China	6.9%	6.6%	6.2%	6.2%

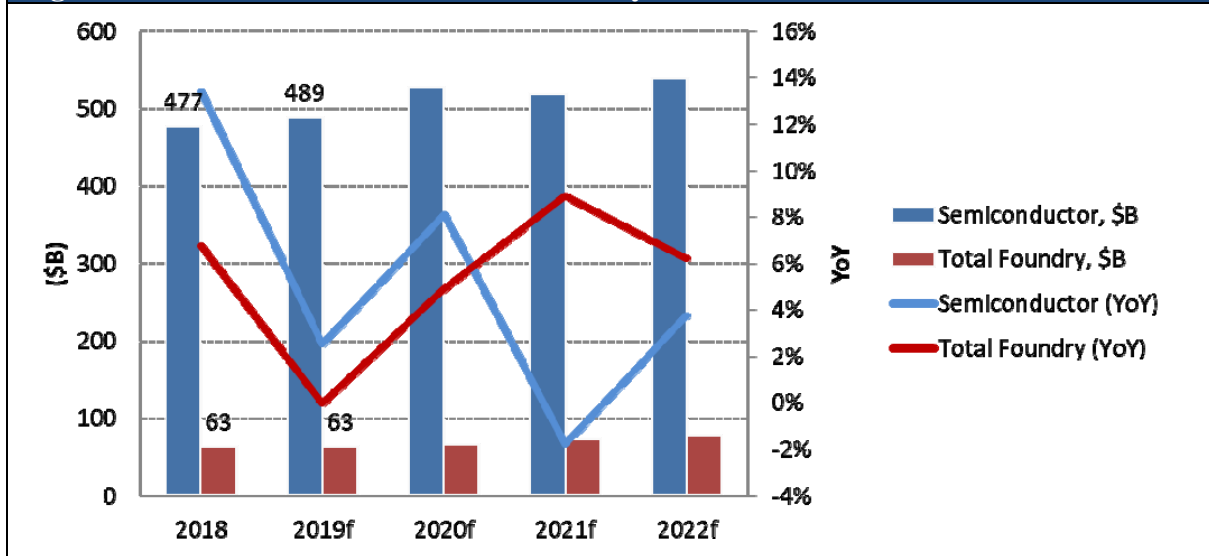
Source : IMF (Jan. 2019)

Economic Output of Global Semiconductor and Foundry Industries

For the end market in 2018, although mobile phone shipments did not grow as well as before, while PC and tablet shipments continue to be sluggish, system vendors continue to pursue product innovation and specification improvement. Furthermore, smart automotive electronic applications remain highly reliant on semiconductor components. Driven by memory and certain ASIC components, the global semiconductor industry recorded an output of US\$477 billion, with an annual growth rate of 13% (Fig. 1). The markets which foundries focus on, including application processors (APs), RF ICs, power management ICs, discrete devices, display driver ICs, and sensor ICs, remain lively. In 2018, the output of the global foundry market grew by 7%, amounting to approximately US\$63.4 billion.

Outlook for 2019, smart phones remain the focus of the industry. On the other hand, not only will Internet of Things (IoT) be used in unmanned factories in the industrial sector, but its introduction to the commercial sector, such as the service industry, can also drive the growth of the semiconductor market to a certain extent. The key ICs for these applications, such as APs, or even energy-efficient memory, power management ICs and sensor ICs, will also maintain the growth of demand for wafer capacity. According to information provided by Gartner, a global research and advisory company, revenues in the semiconductor industry will reach US\$489 billion in 2019, demonstrating a growth rate of 3%. Meanwhile, the foundry industry is expected to experience flat growth, with its scale to remain at US\$63.4 billion.

Figure 1: Global Semiconductor and Foundry Production Value



Source : Gartner (Dec. 2018)

Revenue and ranking of global foundry providers

Table 2 shows the revenue and market share of global foundry providers (including Pure Play and IDM) in 2018 as published by Gartner. Global foundry providers experienced either increase or decrease in market share, whereas slight changes in ranking were observed. Taiwan Semiconductor Manufacturing Company (TSMC) remained the leader of this industry, with a revenue growth of 6%, and a flat market share of 54.4%. GlobalFoundries came in at second place with a market share of 8.7%, followed by United Microelectronics Corporation (UMC) with a market share of 8.0%. Samsung ranked 4th, while fifth-placed Semiconductor Manufacturing International Corporation owns a market share of 5.3%. As for TowerJazz, most of its growth in the past originated from mergers and acquisitions (M&A of production capacity. In 2018, no results were observed from related M&A activities. Coupled with the impact of stagnant growth momentum in the mobile phone market (Note: TowerJazz is the world's leading RF IC foundry), its revenue declined by 6%, while its market share remained at 2.1%. Next, Powerchip Technology Corporation ranked 7th, with a market share of 1.8%, while the company came in at 8th place, with a revenue of US\$962 million and a market share of 1.5%. In 2018, the revenue of the top 10 foundry providers grew by 4%, accounting for 91% of the overall market. In other words, the foundry industry remains in the hands of the major players.

Table 2: Global Foundry (Pure+IDM) Revenue and Market Share

2018	Company	Foundry Type	2017		2018		YoY	
			\$M	Share %	\$M	Share %	Rev %	Share %
1	tsmc	Pure-FDY	32,155	54.2%	34,199	54.4%	6.4%	0.2%
2	GF	Pure-FDY	5,284	8.9%	5,451	8.7%	3.2%	-0.2%
3	UMC	Pure-FDY	4,909	8.3%	5,022	8.0%	2.3%	-0.3%
4	Samsung	IDM	4,475	7.5%	4,840	7.7%	8.2%	0.2%
5	SMIC	Pure-FDY	3,101	5.2%	3,360	5.3%	8.4%	0.1%
6	TowerJazz	Pure-FDY	1,387	2.3%	1,304	2.1%	-6.0%	-0.2%
7	Powerchip	Pure-FDY	1,057	1.8%	1,149	1.8%	8.7%	0.0%
8	Vanguard	Pure-FDY	816	1.6%	961	1.5%	17.8%	-0.1%
9	Huahong Grace	Pure-FDY	808	1.4%	931	1.5%	15.2%	0.1%
10	HLMC	Pure-FDY	587	1.4%	674	1.1%	14.8%	-0.3%
	Top-10		54,964	92.6%	57,215	91.0%	4.1%	-1.6%
	Others		4,393	7.4%	5,657	9.0%	28.8%	1.6%
	Total		59,357	100.0%	62,872	100.0%	5.9%	

Source : Gartner (March 2019)

Taiwan Semiconductor Industrial

Table 3 shows the statistics and forecast of Taiwan's semiconductor industry. According to data provided by the Institute for Information Industry (III), Taiwan Semiconductor Industry Association (TSIA), and the Industrial Economics and Knowledge Center (IEK), the overall output of the industry grew by 6% in 2018, reaching a scale of NT\$2,619.9 billion. The performance of the industry was quite similar to that of the global semiconductor industry. Driven by memory products, the manufacturing industry grew by 9%. With the uncertain situation resulted from international trade tariffs, it is conservatively estimated that Taiwan's overall semiconductor industry will grow slightly by 0.9% in 2019.

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

	2017	2018	2019e	17'-18'	18'-19'
	(NT \$100M)	(NT \$100M)	(NT \$100M)	YoY	YoY
Overall Industry output value	24,623	26,199	26,445	6%	0.9%
-IC design	6,171	6,413	6,675	4%	4.1%
-IC manufacturing (foundry +m)	13,682	14,856	14,820	9%	-0.2%
-IC packaging & testing	4,770	4,930	4,950	3%	0.4%

Source: TSIA, IEK (Feb. 2019)

Table 4 shows the ranking of Taiwan's major wafer manufacturers by revenue in 2018 (Note: Inotera Memories, Inc. and Rexchip Electronics Corp. were merged into the parent company, Micron Technology, Inc. in 2016 and 2014, respectively. Hence, both companies are marked with NA). 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,

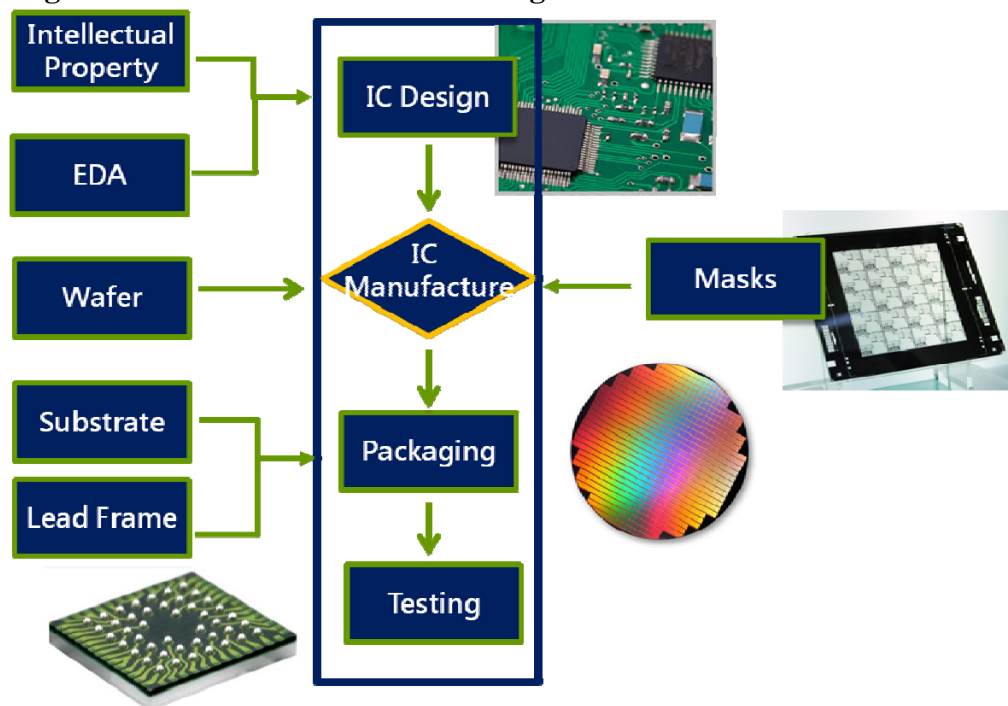
i.e. Nanya Technology Corporation. Most wafer manufacturers have implemented the foundry business model, or are operating as an IDM and a foundry simultaneously.

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

2018 Ranking	Company	2017 NT\$ 100M	2018 NT\$ 100M	17'-18' YoY	Note
1	tsmc	9,774	10,315	6%	Pure Foundry
2	UMC	1,493	1,513	1%	Pure Foundry
3	Nanya	549	847	54%	DRAM
4	Winbond	476	512	8%	IDM/Foundry
5	Powerchip	463	499	8%	Pure Foundry
6	Macronix	342	370	8%	IDM/Foundry
7	Vanguard	249	289	16%	Pure Foundry
8	Nuvoton	92	100	9%	IDM/Foundry
	華亞科		NA		DRAM
	瑞晶		NA		DRAM

Source: Company data (Mar. 2019)

The relationships between up-, mid-, and downstream industry segments are as shown in the following chart



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 of GlobalFoundries' Fab 3E in Singapore in February 2019. Benefiting from this acquisition, foundry manufacturing of products such as microelectromechanical 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, netbook, 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 2018. The shipment of desktop computers was 97 million units with a drop of 6%. And the shipment of notebook was 94 million units, which reflects a 9% decrease YoY. 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 131 million, which reflects a 10% decrease. Looking ahead into 2019, the PC, notebook, and tablet market is expected to continue to exhibit distress.

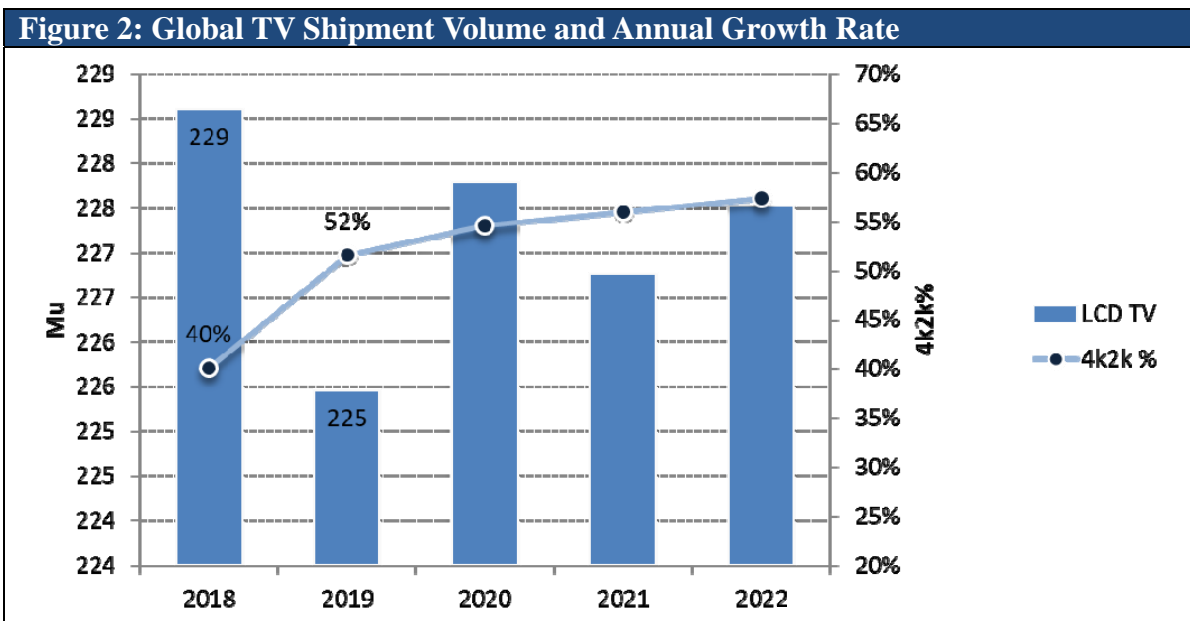
Table 5: Projections and Annual Growth Rate of Global PC Shipments, including Tablets (in millions)

Mu, YoY%	2018	2019	2020	2021	2022
DT	97	96	95	91	89
NB	94	90	87	81	75
Tablet	131	132	130	128	126
DT YoY%	-6%	-1%	-1%	-4%	-2%
NB YoY%	-9%	-5%	-3%	-7%	-7%
Tablet YoY%	-10%	1%	-1%	-2%	-1%

Source : IHS, Gartner, IDC (4Q18)

Consumer Electronic :

The following figure and table depict the global shipment and resolution trend of LCD TVs. In 2018, a 0.5% annual growth rate (approximately 229 million) was observed, with FHD (1920x1080) accounting for 25%. The penetration rate of UFHD (3840x2160, 4k2k) was about 40%. According to IHS, Gartner, and IDC, the overall shipment of LCD TVs for the next few years is projected to be flat YoY. Regarding UFHD resolution devices, favorable growth is expected under the influence of price fluctuations, occupying over 50% of the overall LCD TV market in 2019. 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.



Source : IHS, Gartner, IDC (4Q18)

Table 6: LCD Shipment Ratio by Resolution

Resolution	2018	2019	2020	2021	2022
1366 x 768	35%	28%	26%	24%	23%
1920 x 1080	25%	20%	19%	18%	17%
3840 x 2160 (4kx2k)	40%	52%	55%	56%	57%
7680 x 4320 (8kx4k)	0%	0%	1%	2%	2%

Source : IHS (2Q18)

Communication :

The following table depicts the global shipment and annual growth rate forecasts for mobile phones. Smartphones unit shipments was flat YoY in 2018, the growth is no longer comparable to that in the past. Regarding the average compound growth rate for shipments from 2018 to 2022, functional mobile phones register a decline of 24%, whereas mid-/low-end devices and premium high-end devices each project an around 3.5% growth. 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%	2018	2019	2020	2021	2022	CAGR (18-22)
Feature phone	234	166	132	103	79	-23.7%
Utility/Basic Smart phone	966	1,007	1,052	1,081	1,095	3.2%
Premium Smart Phone	577	593	634	669	669	3.8%
Feature phone	-22%	-29%	-20%	-22%	-23%	
Utility/Basic Smart phone	0%	4%	5%	3%	1%	
Premium Smart Phone	-1%	3%	7%	6%	0%	

Source : IHS, Gartner, IDC (4Q18)

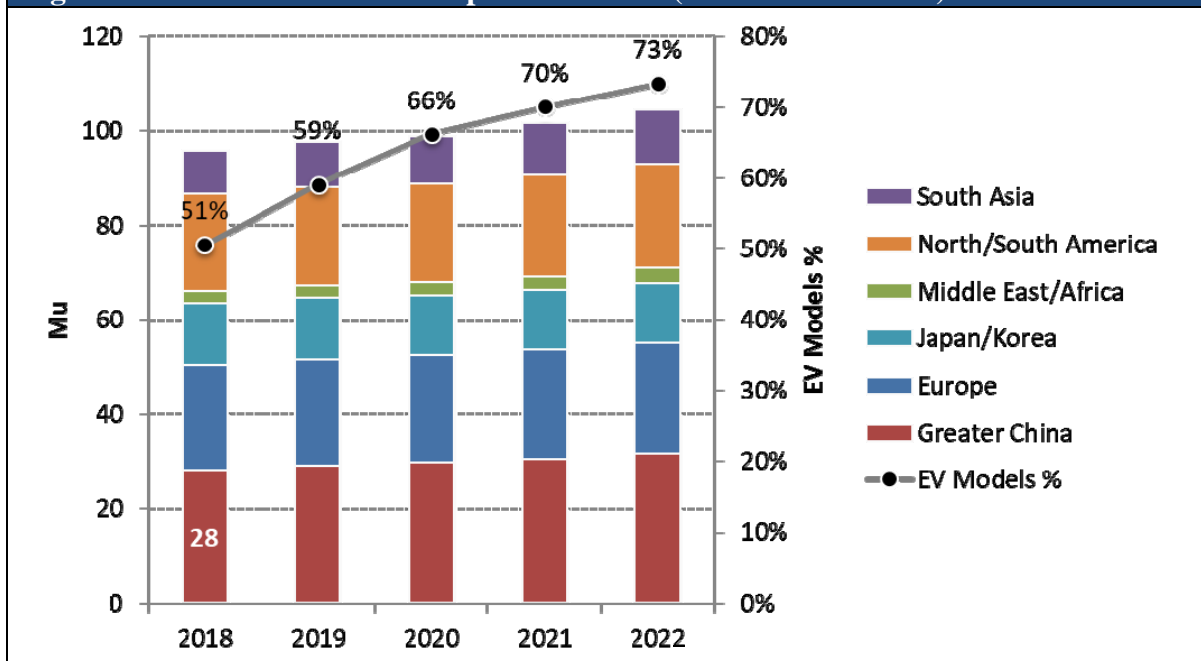
Automotive Electronics

The global automotive shipment volume is shown in the following figure. The shipment volume in 2018 was approximately 96 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 2021, with electric vehicles accounting for 70% of the projected number. As for global car shipments in various regions, China has the largest growth momentum, and it is currently the largest single market in the world with a market share of 30%.

The global automotive electronic semiconductor output value is illustrated in the following table. As can be seen, the '18-'22 annual compound growth rate was 8.3%. 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\$58.8 billion in 2022. 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 (4Q18)

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

Device Category	Device	2018	2019	2020	2021	2022	CAGR (18'-22')
Total, \$B		42.7	45.8	50.1	54.6	58.8	8.3%
Application-Specific	ASIC/ASSP	13.2	14.5	15.8	17.3	18.7	9.0%
General-Purpose	Analog	3.0	3.3	3.6	4.0	4.3	7.1%
	Logic	1.0	1.1	1.2	1.3	1.3	6.4%
	Discrete	5.6	6.1	7.0	8.0	8.8	12.2%
	Memory	3.4	3.7	4.3	4.8	5.4	12.4%
	MCU	7.9	8.1	8.7	9.1	9.7	5.3%
	Optoelectronics	3.7	3.9	4.2	4.5	4.7	5.8%
	Nonoptical Sensors	4.9	5.1	5.3	5.6	5.9	4.7%

Source : IHS (4Q18)

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)
2017	1,546,994
2018	1,494,321
2019/01/01–2019/02/28	265,939

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 (epiwafers). 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 Y2019 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 40% 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

	Y2017		Y2018	
	Net Revenue	%	Net Revenue	%
Asia	22,556,304	91	26,011,474	90
Europe	1,501,670	6	1,841,180	6
America	851,199	3	1,074,778	4
Oceania	440	0	625	0
Africa	0	0	37	0
Total	24,909,613	100	28,928,094	100

Market share

VIS has cultivated the high-voltage process market for many years, and will continue to develop BCD and SOI process technology, boosting operating performance. VIS had revenue of approximately NT\$28.9 billion in Y2018. According to statistics from the research firm, Gartner, VIS had a market share of roughly 1.5% in Y2018, making it the world's No. 8 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

(1) 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 grow. 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.

- (2) 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.
- (3) VIS and TSMC maintain a close wafer foundry service relationship, and VIS has been transferred TSMC's 0.5um/0.35um /0.25um /0.18um /0.16um /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.
- (4) Our highly effective management team, in conjunction with our professional process team and outstanding sales team, enable us to achieve superb business performance.
- (5) Our highly flexible customer support system helps us to form long-term partnerships with customers.

Unfavorable factors to competition

- (1) 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.
- (2) The merging and acquisition trend within semiconductor industries have elevated market centralization, which is detrimental to the Company's business operations.
- (3) 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.

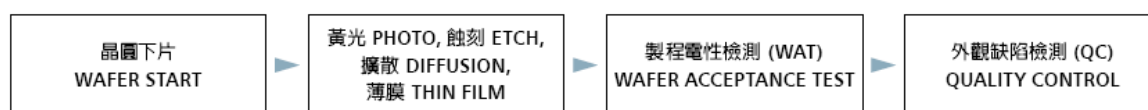
Response measures

- (1) 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.
- (2) 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.
- (3) We will focus on and optimize high-voltage, ultra-high-voltage, and discrete, BCD, as well as eNVM technology, and concentrate our resources in order to enhance our competitiveness.
- (4) We will strengthen our partnerships with customers and adopt an IDM Fab-lite strategy in order to better complement our customers.
- (5) 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
	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
Logic Foundry	Chemical	CABOT MICROELECTRONICS Corp. TAIWAN Branch WAH LEE INDUSTRIAL Corp. BASF ELECTRONIC MATERIALS TAIWAN LTD. AIR PRODUCTS SAN FU GAS CO., LTD. TOKYO OHKA KOGYO Corp. Ltd. TOPCO SCIENTIFIC CO., LTD. SUMITRONICS TAIWAN CO., LTD. ROHM AND HAAS ELECTRONIC MATERIALS TAIWAN LTD.	Normal
	Photo Resist	UNITED INDUSTRIAL GASES CO., LTD. BOC LIENHWA INDUSTRIAL GASES CO., LTD. AIR PRODUCTS SAN FU CO., LTD. SHOWA SPECIALTY GAS(TAIWAN) CO. LTD.	Normal
	Gas		Normal

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

a. Major Customers : No apparent changes

Unit: NT\$, in thousands

No	Customer	Y2017		Y2018		Relation to VIS	Relation to VIS
		Net Revenue	%	Net Revenue	%		
1	TSMC	5,728,778	23	5,098,011	18	Major Shareholder	Major Shareholder
2	B	4,934,838	20	5,085,112	17	None	None
	Others	14,245,997	57	18,744,971	65		
	Net Revenue	24,909,613	100	28,928,094	100		

b. Major Suppliers : No apparent changes

Unit: NT\$, in thousands

No	Y2017				Y2018			
	Supplier	Amount	%	Relation to VIS	Supplier	Amount	%	Relation to VIS
1	Supplier A	1,076,180	16	None	Supplier A	1,338,269	17	None
2	Supplier B	982,818	14	None	Supplier B	1,213,305	16	None
	Others	4,744,789	70		Others	5,132,150	67	
	Net Procurement	6,803,787	100		Net Procurement	7,683,724	100	

5. Productions over the Last Two Years

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

Major Product Foundry	Y2017		Y2018	
	Capacity	Quantity	Capacity	Quantity
Total	2,342,080	2,089,775	2,391,700	2,342,189
	2,342,080	2,089,775	2,391,700	2,342,189
		16,920,425		18,635,088
		16,920,425		18,635,088

6. Shipment and Net Revenue over the Last Two Years

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

Revenue from Sales of Goods	Y2017						Y2018					
	Domestic			Export			Domestic			Export		
	Quantity	Net Revenue	Total	Quantity	Net Revenue	Total	Quantity	Net Revenue	Total	Quantity	Net Revenue	Total
	1,649	18,865,987	2,086	5,639,642	24,505,629	1,697	19,870,924	2,329	8,588,443	28,459,367	0	0
Other	0	243,426	0	160,558	403,984	0	216,492	0	252,235	468,727	0	0
Total	1,649	19,109,413	2,086	5,800,200	24,909,613	1,697	20,087,416	2,329	8,840,678	28,928,094	0	0

C. Personnel Structure

As of February 28, 2019

Year		2017	2018	2019/02/28
Personnel	Direct	2,385	2,594	2,553
	Indirect	2,789	2,944	2,922
	Total	5,174	5,538	5,475
Average Age		37	37	37
Average Year of Service		7.13	7.27	7.45
Average Year of Service Education	PH. D	44	45	46
	Master	1,352	1,493	1,475
	College	2,272	2,520	2,492
	High School	1,499	1,473	1,455
	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\$412 million. VIS also made an investment around NT\$30.66 million in green products procurement and will keep surveying and purchasing relative green products in order to fulfill our environmental protection responsibility.

● Greenhouse Gases Emissions Management

Climate change is a major topic of discussion in the United Nations and among governments, societies, and corporate bodies worldwide. This is also the case for VIS. VIS Corporate Social Responsibility Promotion Committee, which incorporates climate change issues into project implementation and promotion. The results of implementation are periodically reported to the Board of Directors.

In addition to periodically monitoring regulatory compliance, the company has also worked to implement product carbon footprint and water footprint inventories started from 2016, providing a basis for future environmental mitigation measures.

And the company's GHG emissions in Y2016, and Y2017, and Y2018 are 721.1 thousand tons CO₂e, 711.1 thousand tons CO₂e, and 787.6 thousand tons CO₂e, respectively. And the company has accomplished the GHG reduction of 327.6 thousand tons CO₂e in 2018.

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 2018, 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 continues to conserve energy within its public facilities. For example, to in line with the government's ESCO program, the company invested in a large-scale energy-saving UPS equipment in order to improve energy efficiency from 94.4% to 99%, an increase of 4.6%, while maintaining high product quality, VIS has increased the environmental temperature in non-photo areas of cleanroom, improved energy consumption of fan filter units in the cleanroom, installed heat pumps on

external air-conditioning boxes in the cleanroom, purchased energy-saving production equipment, and adopted variable frequency control systems in the vacuum pumps of manufacturing equipment in order to conserve energy. With respect to conserving natural gas, the external dew point temperature is used to set the optimal operational level of boilers within each plant. Air pollution treatment equipment and the VOC burner were upgraded to recycle and reuse high-temperature exhaust gas. In addition, ISO 50001 certification was obtained for three VIS plants in 2017. The systematic management processes of ISO 50001 have enabled VIS to identify new opportunities for improving our energy-saving capabilities, thus enhancing the Company's energy conservation efforts. In 2018 we conserved 21,620 Kwh of electricity, reducing electricity costs by approximately NT\$46.7 million.

VIS's target for energy management is as follows. We aim to conserve 10% less energy per unit area of wafer by 2020 than the amount consumed in 2015. As of the end of 2018, the target reached 33.7%.

- 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 three types of recycling systems, which are classified according to water quality and user demands into low-concentration HF waste recycling (LHF-R) system, chemical mechanical polishing wastewater recycling (CMP-R) system, and low-concentration acidic wastewater recycling (DLA) system. LHF-R provides additional water for scrub columns and cooling water towers, and water produced by the CMP-R system provides additional water for scrub columns. Lastly, the DLA system recycles water for use in a pure water system. 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**

To ensure that waste generated at the Company is adequately managed, we have documented management measures in compliance with the spirit of ISO 14001, and require all employees to faithfully implement the tasks of waste classification, collection, storage, and disposal. We currently engage a qualified waste disposal and recycling organization to help us properly dispose, process, or reuse waste. As a result of our efforts, fabs have maintained a recycling rate of 90% over the past few years.

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 The Excellence Award in the Creative Golden Pin Award and the Healthy Workplace Certification given by the Health Promotion Administration, Ministry of Health and Welfare; as well as the Exercise Enterprise Certification, and the Friendly Enterprise Role Model award in the Epidemic Prevention Award given by the Centers for Disease Control in 2018.

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 71,000 times in 2018.

d. The training statistics of Y2018 are summarized in the following table.

And total training expenses is over NTD 7 million.

Numbers of Personnel	Total Training Hours	Total Employees Trained	Average Training Hours Per Employee
5,538	151,465	128,494	27.35

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, ensuring that employees are able to participate in both on-site and off-site CSR activities. In addition, in response to the government's energy conservation and carbon reduction initiatives, the company participated in the "International Coastal Cleanup Day - Love the Ocean Trip along the North Shore of Zhuwei Fishing Harbor in Taoyuan", "Succulent Plant DIY Event", "Travel with Seedlings" and "Environmental Education Activities for Students".

Company Achievements Relating to Environmental, Safety, and Health in Y2018

- a. Excellence award for "Outstanding Companies in Waste Reduction and Circular Economy" given by the Hsinchu Science Park Bureau.
- b. Excellent Unit in the Implementation of Occupational Safety and Health awarded by the Hsinchu Science Park Bureau.
- c. Silver award in the "Enterprise Environmental Protection Award" given by the Environmental Protection Administration, Executive Yuan.
- d. Grade A award in the "Public and Private Space Air Pollutant Reduction Award" given by the Department of Environmental Protection, Taoyuan.

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.

2. 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

VI. FINANCIAL STATEMENTS

A. Brief Balance Sheets and Brief Statements of Income

1. Brief Balance Sheets

Brief Consolidated Balance Sheets

Unit: NTS, in thousands

Item	Year	Financial analysis from 2014 to 2018				
		2014	2015	2016	2017	2018
Current assets		25,114,426	24,800,749	25,662,921	23,993,539	25,803,146
Property, plant and equipment		7,983,767	6,979,397	6,284,081	6,249,123	6,444,050
Intangible assets		37,174	41,596	30,282	19,271	25,999
Other assets		619,403	562,499	3,002,758	4,036,391	5,379,834
Total Assets		33,754,770	32,384,241	34,980,042	34,298,324	37,653,029
Current liabilities	Before distribution	5,391,799	4,262,001	5,476,672	5,498,113	7,189,330
	After distribution	9,651,152	8,523,355	10,393,619	10,415,060	Note 1
Non-current liabilities		816,655	712,611	804,107	924,209	1,024,576
Total Liabilities	Before distribution	6,208,454	4,974,612	6,280,779	6,422,322	8,213,906
	After distribution	10,467,807	9,235,966	11,197,726	11,339,269	Note 1
Equity attributable to shareholders of parent company		27,546,316	27,409,629	28,699,263	27,876,002	29,439,123
Capital stock		16,389,823	16,389,823	16,389,823	16,389,823	16,389,823
Capital surplus		838,029	855,123	862,594	856,629	856,616
Retained earnings	Before distribution	10,398,845	10,280,494	11,484,802	11,006,580	12,355,401
	After distribution	6,139,492	6,019,140	6,567,855	6,089,633	Note 1
Other equity		(70,506)	(115,811)	(37,956)	(377,030)	(162,717)
Treasury stock		(9,875)	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total Equity	Before distribution	27,546,316	27,409,629	28,699,263	27,876,002	29,439,123
	After distribution	23,286,963	23,148,275	23,782,316	22,959,055	Note 1

Note 1: Subject to change after shareholders' meeting resolution.

Note 2: 2014 figures have been restated in accordance with 2013 version of IFRSs.

Brief Unconsolidated Balance Sheets

Unit: NTS, in thousands

Item	Year	Financial analysis from 2014 to 2018				
		2014	2015	2016	2017	2018
Current assets		24,875,522	24,545,917	24,829,499	19,852,150	21,019,704
Property, plant and equipment		7,983,500	6,979,148	6,282,629	6,248,171	6,443,435
Intangible assets		37,174	41,596	30,282	19,271	25,999
Other assets		856,692	813,426	3,828,955	8,173,041	10,153,074
Total Assets		33,752,888	32,380,087	34,971,365	34,292,633	37,642,212
Current liabilities	Before distribution	5,389,917	4,257,847	5,467,995	5,492,422	7,178,513
	After distribution	9,649,270	8,519,201	10,384,942	10,409,369	Note 1
Non-current liabilities		816,655	712,611	804,107	924,209	1,024,576
Total Liabilities	Before distribution	6,206,572	4,970,458	6,272,102	6,416,631	8,203,089
	After distribution	10,465,925	9,231,812	11,189,049	11,333,578	Note 1
Capital stock		16,389,823	16,389,823	16,389,823	16,389,823	16,389,823
Capital surplus		838,029	855,123	862,594	856,629	856,616
Retained earnings	Before distribution	10,398,845	10,280,494	11,484,802	11,006,580	12,355,401
	After distribution	6,139,492	6,019,140	6,567,855	6,089,633	Note 1
Other equity		(70,506)	(115,811)	(37,956)	(377,030)	(162,717)
Treasury stock		(9,875)	-	-	-	-
Total Equity	Before distribution	27,546,316	27,409,629	28,699,263	27,876,002	29,439,123
	After distribution	23,286,963	23,148,275	23,782,316	22,959,055	Note 1

Note 1: Subject to change after shareholders' meeting resolution.

Note 2: 2014 figures have been restated in accordance with 2013 version of IFRSs.

2. Brief Statements of Income

Brief Consolidated Statements of Comprehensive Income

Unit: NT\$, in thousands

Item	Year	Financial analysis from 2014 to 2018				
		2014	2015	2016	2017	2018
Net revenue		23,931,479	23,319,721	25,828,634	24,909,613	28,928,094
Gross profit		8,613,673	6,897,266	8,924,152	7,973,638	10,168,270
Operating income		6,206,459	4,611,982	6,100,905	5,228,458	7,154,708
Non-operating income and expenses		289,607	326,529	159,189	52,170	317,478
Income before income tax		6,496,066	4,938,511	6,260,094	5,280,628	7,472,186
Income from operations of continued segments-after tax		5,440,081	4,157,583	5,537,925	4,505,064	6,166,269
Income (loss) from operations of discontinued segments-after tax		-	-	-	-	-
Net Income		5,440,081	4,157,583	5,537,925	4,505,064	6,166,269
Other comprehensive (loss) income		(68,552)	(61,886)	5,592	(405,413)	284,652
Total comprehensive income		5,371,529	4,095,697	5,543,517	4,099,651	6,450,921
Net income attributable to owner of the corporation		5,440,081	4,157,583	5,537,925	4,505,064	6,166,269
Net income attributable to non-controlling interests		-	-	-	-	-
Total comprehensive income attributable to owner of the corporation		5,371,529	4,095,697	5,543,517	4,099,651	6,450,921
Total comprehensive income attributable to non-controlling interests		-	-	-	-	-
Diluted earnings per share (Note 1)		3.30	2.50	3.35	2.73	3.72

Note 1: Based on weighted average outstanding shares in each year.

Note 2: 2014 figures have been restated in accordance with 2013 version of IFRSs.

Brief Unconsolidated Statements of Comprehensive Income

Unit: NT\$, in thousands

Item	Year	Financial analysis from 2014 to 2018				
		2014	2015	2016	2017	2018
Net revenue		23,931,479	23,319,721	25,828,634	24,909,613	28,928,094
Gross profit		8,613,673	6,897,266	8,924,152	7,973,638	10,168,270
Operating income		6,204,596	4,610,048	6,097,353	5,225,314	7,150,268
Non-operating income and expenses		289,373	328,012	166,174	58,478	324,206
Income before income tax		6,493,969	4,938,060	6,263,527	5,283,792	7,474,474
Income from operations of continued segments-after tax		5,440,081	4,157,583	5,537,925	4,505,064	6,166,269
Income (loss) from operations of discontinued segments-after tax		-	-	-	-	-
Net Income		5,440,081	4,157,583	5,537,925	4,505,064	6,166,269
Other comprehensive (loss) income		(68,552)	(61,886)	5,592	(405,413)	284,652
Total comprehensive income		5,371,529	4,095,697	5,543,517	4,099,651	6,450,921
Diluted earnings per share (Note 1)		3.30	2.50	3.35	2.73	3.72

Note 1: Based on weighted average outstanding shares in each year.

Note 2: 2014 figures have been restated in accordance with 2013 version of IFRSs.

3. Auditors' Opinion

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

Year	CPA	Audit Opinion
2014	Yu-Feng Huang, Cheng-Chih Lin	An Unqualified 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

B. Financial Analysis

Consolidated Financial Analysis

Item	Year	Financial analysis from 2014 to 2018				
		2014	2015	2016	2017	2018
Capital Structure Analysis	Debt Ratio(%)	18.39	15.36	17.95	18.72	21.81
	Long Term Capital to Properties, Plant and Equipment (%)	355.25	402.93	469.49	460.86	472.74
Liquidity Analysis	Current Ratio (%)	465.78	581.90	468.58	436.39	358.90
	Quick Ratio(%)	417.33	525.26	424.92	382.47	309.12
	Times Interest Earned (Times)	-	-	-	-	-
Operating Performance Analysis	Avg. Collection Turnover (Times)	6.82	6.62	7.36	6.20	5.90
	Avg. Collection Days	54	55	50	59	62
	Avg. Inventory Turnover (Times)	7.34	6.91	7.59	6.78	6.04
	Avg. Payment Turnover (Times)	15.43	16.11	16.83	13.87	14.41
	Avg. Inventory Turnover Days	50	53	48	54	60
	Properties, Plant and Equipment Turnover (Times)	3.27	3.11	3.89	3.97	4.55
	Total Assets Turnover (Times)	0.76	0.70	0.76	0.71	0.80
Profitability Analysis	Return on Total Assets (%)	17.37	12.57	16.44	13.00	17.14
	Return on Total Equity (%)	20.93	15.13	19.74	15.93	21.52
	Pre-tax Income to Capital Stock (%)	39.63	30.13	38.19	32.21	45.59
	Net Margin (%)	22.73	17.82	21.44	18.08	21.31
	Basic Earnings per Share(NT\$) (Note1)	3.35	2.54	3.38	2.75	3.76
	Diluted Earnings per Share(NT\$) (Note1)	3.30	2.50	3.35	2.73	3.72
Cash Flow	Cash Flow Ratio (%)	123.63	168.52	145.58	108.30	103.76
	Cash Flow Adequacy Ratio (%)	147.25	143.49	149.39	125.49	106.47
	Cash Flow Reinvestment Ratio (%)	4.16	3.14	3.84	1.06	2.51
Leverage Analysis	Operating Leverage	2.93	3.82	3.19	3.53	3.05
	Financial Leverage	1.00	1.00	1.00	1.00	1.00

Analysis of variation over 20% - Y2018 vs. Y2017:

1. The return on total assets and return on total equity increased by 32% and 35%, respectively, were mainly due to the increase in net income.
2. The pre-tax income to capital stock increased by 42% was primarily due to the increase in net income.
3. The basic and diluted earnings per share increased by 37% and 36%, respectively, were mainly due to the increase in net income.
4. The cash flow reinvestment ratio increased by 137% was mainly due to the increase in net cash flow from operating activities.

Note 1: Based on weighted average outstanding shares in each year.

Note 2: 2014 figures have been restated in accordance with 2013 version of IFRSs.

Unconsolidated Financial Analysis

Item	Year	Financial analysis from 2014 to 2018				
		2014	2015	2016	2017	2018
Capital Structure Analysis	Debt Ratio (%)	18.38	15.35	17.93	18.71	21.79
	Long Term Capital to Properties, Plant and Equipment (%)	355.26	402.94	469.60	460.93	472.78
Liquidity Analysis	Current Ratio (%)	461.51	576.48	454.08	361.44	292.81
	Quick Ratio (%)	413.05	519.80	410.37	307.48	242.97
	Times Interest Earned (Times)	-	-	-	-	-
Operating Performance Analysis	Avg. Collection Turnover (Times)	6.82	6.62	7.36	6.20	5.90
	Avg. Collection Days	54	55	50	59	62
	Avg. Inventory Turnover (Times)	7.34	6.91	7.59	6.78	6.04
	Avg. Payment Turnover (Times)	15.43	16.11	16.83	13.87	14.41
	Avg. Inventory Turnover Days	50	53	48	54	60
	Properties, Plant and Equipment Turnover (Times)	3.27	3.11	3.89	3.97	4.55
	Total Assets Turnover (Times)	0.76	0.70	0.76	0.71	0.80
Profitability Analysis	Return on Total Assets (%)	17.38	12.57	16.44	13.00	17.14
	Return on Total Equity (%)	20.93	15.13	19.74	15.93	21.52
	Pre-tax Income to Capital Stock (%)	39.62	30.12	38.21	32.23	45.60
	Net Margin(%)	22.73	17.82	21.44	18.08	21.31
	Basic Earnings per Share(NT\$) (Note 1)	3.35	2.54	3.38	2.75	3.76
	Diluted Earnings per Share(NT\$) (Note 1)	3.30	2.50	3.35	2.73	3.72
Cash Flow	Cash Flow Ratio (%)	123.41	168.53	145.55	107.19	101.32
	Cash Flow Adequacy Ratio (%)	147.07	143.20	149.21	125.11	105.61
	Cash Flow Reinvestment Ratio (%)	4.14	3.13	3.83	0.99	2.32
Leverage Analysis	Operating Leverage	2.94	3.82	3.19	3.53	3.05
	Financial Leverage	1.00	1.00	1.00	1.00	1.00

Analysis of variation over 20% - Y2018 vs. Y2017:

1. The quick ratio decreased by 21% was mainly due to the increase in payable.
2. The return on total assets and return on total equity increased by 32% and 35%, respectively, were mainly due to the increase in net income.
3. The pre-tax income to capital stock increased by 41% was primarily due to the increase in net income.
4. The basic and diluted earnings per share increased by 37% and 36%, respectively, were result of the increase in net income.
5. The cash flow reinvestment ratio increased by 134%, was mainly due to the increase in net cash flow from operating activities.

Note 1: Based on weighted average outstanding shares in each year.

Note 2: 2014 figures have been restated in accordance with 2013 version of IFRSs.

The calculation formula of financial analysis was listed as follows:

1. Capital Structure Analysis
 - (1) Debt ratio = Total Liabilities / Total Assets
 - (2) Long-term capital to properties, plant and equipment = (Equity + Non-current Liabilities) / Net Properties, Plant and Equipment
2. Liquidity Analysis
 - (1) Current ratio = Current Assets / Current Liabilities
 - (2) Quick ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
 - (3) Times interest earned = Earnings before Interest and Taxes / Interest Expenses
3. Operating Performance Analysis
 - (1) Average collection turnover = Net Revenue / Average Trade Receivables
 - (2) Average collection days = 365 / Average collection turnover
 - (3) Average inventory turnover = Cost of Revenue / Average Inventory
 - (4) Average payment turnover = Cost of Revenue / Average Trade Payables
 - (5) Average inventory turnover days = 365 / Average Inventory Turnover
 - (6) Properties, plant and equipment turnover = Net Revenue / Average Net Properties, Plant and Equipment
 - (7) Total assets turnover = Net Revenue / Average Total Assets
4. Profitability Analysis
 - (1) Return on total assets = (Net Income + Interest Expenses * (1 - Effective tax rate)) / Average Total Assets
 - (2) Return on total equity = Net Income / Average Total Equity
 - (3) Net margin = Net Income / Net Revenue
 - (4) Earnings per share = (Net Income Attributable to Owner of the Corporation - Preferred Stock Dividend) / Weighted Average Outstanding Shares
5. Cash Flow
 - (1) Cash flow ratio = Net Cash Provided by Operating Activities / Current Liabilities
 - (2) Cash flow adequacy ratio = Five-year sum of cash provided by operations / Five-year sum of capital expenditures, inventory additions, and cash dividends
 - (3) Cash flow reinvestment ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Properties, Plant and Equipment + Investment + Other Non-current Assets + Working Capital)
6. Leverage Analysis
 - (1) Operating leverage = (Net Revenue - Variable Cost and Expenses) / Income from Operations
 - (2) Financial leverage = Income from Operations / (Income from Operations - Interest Expenses)

C. Audit Committee's Review Report

The company's 2018 financial statement (including individual 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 Y2018 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 2019 General Shareholders' Meeting

Vanguard International Semiconductor Corporation

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

January 31, 2019

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	2018	2017	Difference	
				Amount	%
Current Assets		25,803,146	23,993,539	1,809,607	8
Property, Plant and Equipment		6,444,050	6,249,123	194,927	3
Other Non-Current Assets		5,405,833	4,055,662	1,350,171	33
Total Assets		37,653,029	34,298,324	3,354,705	10
Current Liabilities		7,189,330	5,498,113	1,691,217	31
Non-Current Liabilities		1,024,576	924,209	100,367	11
Total Liabilities		8,213,906	6,422,322	1,791,584	28
Capital Stock		16,389,823	16,389,823	0	0
Capital Surplus		856,616	856,629	(13)	(0)
Retained Earnings		12,355,401	11,006,580	1,348,821	12
Total Equity		29,439,123	27,876,002	1,563,121	6

Analysis for variation over 20% :

The increase in other non-current assets was mainly due to the increase in investments and deferred income tax assets.

The increase in current liabilities was mainly due to the increase in payables and tax liability.

B. Analysis of Consolidated Financial Performance

Unit: NT\$, in thousands

Item	Year	2018	2017	Difference	
				Amount	%
Net Revenue		\$ 28,928,094	\$ 24,909,613	\$ 4,018,481	16
Cost of Revenue		18,759,824	16,935,975	1,823,849	11
Gross Profit		10,168,270	7,973,638	2,194,632	28
Operating Expenses		3,013,562	2,745,180	268,382	10
Operating Income		7,154,708	5,228,458	1,926,250	37
Non-operating Income and Expenses		317,478	52,170	265,308	509
Income before Income Tax		7,472,186	5,280,628	2,191,558	42
Income Tax Expenses		1,305,917	775,564	530,353	68
Net Income		6,166,269	4,505,064	1,661,205	37
Other Comprehensive Income (Loss)		284,652	(405,413)	690,065	(170)
Total Comprehensive Income		\$ 6,450,921	\$ 4,099,651	\$ 2,351,270	57

1. Analysis for variation over 20% :

- 1.1 The increase in gross profit was mainly due to higher sales volume, better capacity utilization and product mix.
- 1.2 The increase in operating income, income before tax and net income were mainly due to the increase in gross profit.
- 1.3 The increase in non-operating income and expenses was mainly due to increase in interest revenue and less foreign exchange loss.
- 1.4 The increase in income tax expenses was mainly due to profit increase.
- 1.5 The increase in other comprehensive income (loss) was due to the increase 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 2018/1/1	Net Cash Provided by Operating Activities	Net Cash Used in Investing and Financing Activities	Cash Balance 2018/12/31	Remedy for Cash Shortfall	
				Investing Plan	Financing Plan
15,761	7,652	(8,806)	14,607	None	None
<p>1. Analysis of Cash Flows for Y2018:</p> <p>1.1 Cash provided by operating activities NT\$7,652 million was mainly from net income and depreciation/amortization.</p> <p>1.2 Cash used in investing activities NT\$3,903 million was mainly due to capital expenditures and the acquisitions of financial assets.</p> <p>1.3 Cash used in financing activities NT\$4,903 million was mainly for the payment of the cash dividends.</p> <p>2. Remedy for Cash Shortfall and Liquidity Analysis : Not Applicable.</p> <p>3. Cash Flow Projection for Next Year :</p>					
Cash Balance 2019/1/1	Net Cash Provided by Operating Activities	Net Cash Used in Investing and Financing Activities	Cash Balance 2019/12/31	Investing Plan	Financing Plan
14,607	8,394	(14,167)	8,834	None	None
<p>1. Analysis of Cash Flows for Y2019:</p> <p>1.1 Cash provided by operating activities NT\$8,394 million was mainly from net income and depreciation/amortization.</p> <p>1.2 Cash used in investing and financing activities NT\$14,167 million was mainly due to capital expenditures and the payment of the cash dividends.</p>					

D. Major Capital Expenditure

Capital expenditure was approximately NT\$2.2 billion in 2018 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	
				Y2017	Y2018
1 Purchase and renovate facilities and equipments	Own capital	2019.12	15,715	1,768	2,198
					11,749

E. Long-term Investment Policy and Results

VIS's long-term investments were made for strategic purposes. In 2018, the investment loss was mainly due to recognizing the impairment loss of Qromis Inc. Looking forward, VIS will continue to focus on strategic investment.

F. Risk Management

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

Interest rate:

VIS' exposure to interest rate fluctuation relates primarily to long-term liabilities for capital expenditures. Due to small scale of liabilities, no major impact is expected from interest rate fluctuation. VIS' interest income is most 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.

Foreign exchange:

VIS employs natural hedging and forward foreign exchange to avoid risks from exchange rate fluctuations.

Most of VIS' revenues are denominated in US dollar. VIS mainly utilizes spot and forward foreign exchange trading to adjust its foreign exchange position as per the foreign exchange market conditions for the purpose of reducing the impact of exchange rate fluctuation on the company. In addition, VIS' materials and equipments payments are made in US Dollars, Japanese Yens and Euros, among which a substantial portion is in US Dollars. Henceforth, VIS enjoys a certain degree of natural hedge as a result of set-off between account payables and account receivables. But if the U.S. dollar appreciates significantly versus other major currencies, the demand for the products and services of VIS' customers and for its goods and services will likely decrease, which will negatively affect our revenues.

Inflation:

Inflation in Taiwan was 1.35% in Y2018. This inflation rate did not impact on our operation and profit significantly. And we believe the impact will remain insignificant in the future if the inflation rate is similar to that of in the past.

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

VIS focuses on its foundry manufacturing operations and IC wafer production. Accordingly, the company does not engage in high risk/high leveraged investments. In order to control and monitor certain types of 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」. Until now, the company and affiliates have neither lent funds to others, nor provided endorsement or guarantee for others. Financial derivatives transactions that VIS enters into are strictly for hedging purpose and not for trading and speculative purposes.

3. R&D Plan and Progress

In Y2018, VIS capital expenditure is about NT\$2.2 billion, while in Y2019 capital expenditure is planned to be around NT\$11.7 billion. Other than equipment and facility maintaining expense, 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 Y2019, 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 Y2018.

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 Y2017 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 Y2018 to the date of publishing this annual report.

8. Risks from Plant Expansion

To meet customer demand and increase capacity effectively, the company announced to acquire GLOBALFOUNDRIES's Fab 3E in Tampines, Singapore. The transaction includes buildings, facilities, and equipment, as well as IP associated with GF's MEMS business. The relevant prices will be paid according to the contract, whereas the plant, machines and equipment will be delivered by December 31, 2019. The newly added plant and equipment are expected to increase the company's production capacity by 35,000 eight-inch wafers per month, which will further meet customers' demand and increase the company's market share.

No other plant expansion occurred from Y2018 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 Y2017 and Y2018, the top two customers have made around 43% and 35% 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 Y2018 to the date of publishing this annual report.

11. Change of Management

No change of management occurred from Y2018 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 Y2018 to the date of publishing this annual report.

13. Other Material Risks

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 Y2018 to the publishing date of this annual report.

The Policy of the risk management

Vanguard International Semiconductor Corporation adopts professional risk assessment techniques and concepts from local and abroad to facilitate its pro-active risk prevention and loss control. By adopting effective engineering technologies and risk management policies, the Company is able to ensure employees' full participation and ongoing improvements. The Company has incorporated risk management measures into its daily operations. Every department is required to perform regular self assessments on risk control, while the board of directors and the executive management supervise the effectiveness of existing risk management measures and ensure that risks are kept within tolerable levels.

The organization chart of the risk management

Below is a description of the Company's risk management organization:
Board of directors (including the Audit Committee): determines the overall risk management system and monitors to ensure that the system

remains effective.

The executive management (Chairman and President): executes the board's risk management decisions and supervises regional heads and the Health, Safety and Environmental Protection Committee. It is also responsible for identifying risks and monitoring the effectiveness of various control measures.

The management (vice president and the Health, Safety and Environmental Protection Committee): consolidates information regarding the effectiveness of risk management activities; assists and supervises subordinates in identifying risks and implementing proper control.

Risk management and policy execution units: the Company has specialized units responsible for identifying possible risks in daily operations and establishing control measures to address such risks. Their efforts are reviewed and reported to the management on a regular basis.

Responsibilities of risk management and policy execution units are:

Internal Auditing: The overall implementation of the risk management system, risk management guidance for various departments within the Company, progress review and control, ensuring the effectiveness and robustness of current practices, and reporting back their findings to the executive management and board of directors to help improve the risk management system.

Legal: Responsible for managing the legal risks with accordance of laws from government and authorities, handling contract and law suit dispute to lower our legal risk;

Human Resources: Responsible for human resources structure and utilization planning. Enhance man-power efficiency and improve industrial harmony to lower risks in management.

Quality Reliability Assurance Div.: In charge of product inspection, quality control, and promoting quality policy and strategy in VIS to reduce operating risk.

Finance Div: Responsible for establishing the financial operation and planning systems. Evaluate and supervise the long-term investment decisions and executions. Under the risk management monitoring mechanism, conduct safety, liquidity and profitability analysis. Establish hedge process in foreign exchanges to lower the risks in finance.

Operations and Environmental Safety: Corporate Wafer Production, Production Control, Special Project, Risk & Env. Safety Management,

Operation Planning, Computer Int. Mfg., and Product Engineering. Improve operation efficiency, cost control, ensure timely delivery of high quality product to customers and reduce operating risk.

Worldwide Sales and Planning: Oversees customer service planning and management for the purpose of reducing operational risks; explores local and foreign opportunities and gains control of customers' information to reduce market risks; learns the competition and market trends to develop marketing strategies.

Research & Development: Leader to the IP Management, Design Service, Information Tech and eCommerce, and Technology divisions. Responsible for technology development and the provision of technical support to IP resources, Mask, CAD, and layout teams to reduce R&D risk.

ACCT Div: Responsible for the establishment of the accounting system in order to achieve the goal of reliability of financial reporting to lower the risks in finance.

MM Div.: Responsible for materials management, VIS will continue to monitor the inventory and the costs of the materials to reduce operating risk.

ITEC Div.: With information technology and management mechanism to construct a safe and reliable information platform for sustainable corporate operation system and lower information risk.

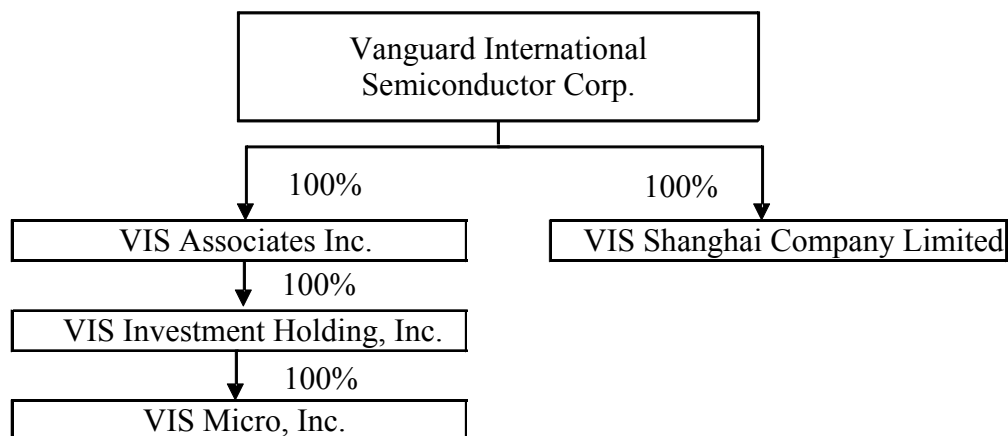
G. Other important matters: None

VIII. SPECIAL NOTES

A. Affiliated Information

1. VIS Affiliated Companies Chart

As of December 31, 2018



2. Business Scope of the Affiliated Companies

As of December 31, 2018

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

3. Affiliates Information

Unit: USD/RMB, in thousands, As of December 31, 2018

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 269,000	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

Note: Foreign exchange rate on balance sheet date is \$1 USD = \$30.74 NTD; \$1 RMB = \$4.475 NTD.

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

5. Directors, Supervisors & Presidents of Affiliates

As of December 31, 2018

Name of Enterprise	Title	Holding Shares	
		Shares (K)	%
VIS Associates Inc.	Director	269	100%
VIS Investment Holding, Inc.	Director	63	100%
VIS Micro, Inc.	Director	200	100%
VIS Shanghai Company Limited	Director / Supervisor	Investment Amount RMB 1,000	100%

6. Operating Highlights of Affiliates

Unit: NT\$, in thousands

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.	\$8,269,635	\$8,676,465	\$0	\$8,676,465	\$0	(\$255)	\$212,061	\$810.44
VIS Investment Holding, Inc.	192,125	84,084	154	83,930	0	(524)	8,434	134.94
VIS Micro, Inc.	6,148	93,838	32,212	61,626	108,888	5,185	3,888	19.44
VIS Shanghai Company Limited	4,556	4,511	92	4,419	912	34	78	None

Note 1: Foreign exchange rate for balance sheet amounts is \$1 USD = \$30.74 NTD; \$1 CNY = \$4.475 NTD.

Note 2: Foreign exchange rate for income statement amounts is \$1 USD = \$30.066 NTD; \$1 CNY = \$4.555 NTD.

B. Private placements Securities

VIS has no private placements securities from Y2018 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 Y2018 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

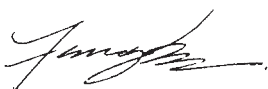
DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

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, 2018 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

January 31, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018. 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, 2018, are described as follows:

Timing of revenue recognition

1. The sales revenue of the Group is material to the Group. Please refer to Note 26. 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 57% 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 22% 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 21% 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 2018. We also traced all of the shipping records at December 31, 2018 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 19.
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, 2018 and 2017 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, 2018 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

January 31, 2019

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
CURRENT ASSETS								
Cash and cash equivalents (Notes 3, 4, 6 and 32)	\$ 14,607,185	39	\$ 15,760,771	46	\$ 4,547	-	\$ 1,310,158	4
Financial assets at fair value through profit or loss - current (Notes 3, 4, 7 and 32)	1,526	-	229,998	1	1,278,483	3	-	-
Held-to-maturity financial assets - current (Notes 3, 4, 5, 12 and 32)	-	-	774,864	2	14,288	-	-	-
Financial assets at amortized cost - current (Notes 3, 4, 5, 9, 10 and 32)	1,600,259	4	-	-	1,192,595	3	685,660	2
Notes and accounts receivable, net (Notes 3, 4, 5, 15 and 32)	5,311,885	14	3,645,633	11	331,272	1	239,185	1
Receivables from related parties (Notes 3, 4, 5, 32 and 33)	416,219	1	427,631	1	2,576,216	7	2,118,089	6
Other receivables (Notes 3, 4 and 32)	280,233	1	178,965	1	10,363	-	77,948	-
Other receivables from related parties (Notes 3, 4, 32 and 33)	3,842	-	8,248	-	1,252,726	3	725,013	2
Inventories (Notes 4 and 16)	3,415,585	9	2,790,970	8	528,840	2	342,060	1
Prepaid expenses	163,520	1	173,422	1	-	-	-	-
Other current assets (Note 21)	2,892	-	3,037	-	7,189,330	19	5,498,113	16
Total current assets	25,803,146	69	23,993,539	70	163,302	1	103,899	1
NON-CURRENT ASSETS								
Financial assets at fair value through other comprehensive income - non-current (Notes 3, 4, 8 and 32)	262,294	1	-	-	804,486	2	777,101	2
Available-for-sale financial assets - non-current (Notes 3, 4, 11 and 32)	-	-	508,516	1	56,788	-	43,209	-
Held-to-maturity financial assets - non-current (Notes 3, 4, 5, 12 and 32)	-	-	2,624,969	8	1,024,576	3	924,209	3
Financial assets at amortized cost - non-current (Notes 3, 4, 5, 9, 10 and 32)	4,246,872	11	-	-	8,213,906	22	6,422,322	19
Financial assets carried at cost - non-current (Notes 3, 4, 14 and 32)	-	-	-	-	16,389,823	43	16,389,823	48
Investments accounted for using equity method (Notes 4 and 18)	238,044	1	85,327	-	856,616	2	856,629	2
Property, plant and equipment (Notes 4, 19 and 33)	6,444,050	17	283,340	1	4,511,070	12	4,060,564	12
Intangible assets (Notes 4 and 20)	25,999	-	6,249,123	18	377,030	1	37,956	-
Deferred income tax assets (Notes 4 and 28)	115,760	-	19,271	-	7,467,301	20	6,908,060	20
Refundable deposits	212,905	-	40,312	-	12,355,401	33	11,006,580	32
Other non-current assets (Notes 3, 4, 21, 32 and 34)	303,959	1	303,831	1	(165,717)	-	(377,050)	(1)
Total non-current assets	11,849,883	31	10,304,785	30	29,439,123	78	27,876,002	81
TOTAL ASSETS	<u>\$ 37,653,029</u>	<u>100</u>	<u>\$ 34,298,324</u>	<u>100</u>	<u>\$ 37,653,029</u>	<u>100</u>	<u>\$ 34,298,324</u>	<u>100</u>
LIABILITIES AND EQUITY								
CURRENT LIABILITIES								
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 32)	-	-	-	-	-	-	-	-
Notes and accounts payable (Note 32)	-	-	-	-	-	-	-	-
Payables to related parties (Notes 32 and 33)	-	-	-	-	-	-	-	-
Accrued employees' compensation and remuneration to directors (Notes 27 and 32)	-	-	-	-	1,192,595	3	685,660	2
Payables to contractors and equipment suppliers (Note 32)	-	-	-	-	331,272	1	239,185	1
Other payables to related parties (Notes 22 and 32)	-	-	-	-	2,576,216	7	2,118,089	6
Other payables to related parties (Notes 32 and 33)	-	-	-	-	10,363	-	77,948	-
Current income tax liabilities (Notes 4 and 28)	-	-	-	-	1,252,726	3	725,013	2
Other current liabilities (Notes 3, 4, 23, 26 and 33)	-	-	-	-	528,840	2	342,060	1
Total current liabilities	-	-	-	-	7,189,330	19	5,498,113	16
NON-CURRENT LIABILITIES								
Deferred income tax liabilities (Notes 4 and 28)	-	-	-	-	163,302	1	103,899	1
Net defined benefit liabilities - non-current (Notes 4 and 24)	-	-	-	-	804,486	2	777,101	2
Other non-current liabilities (Note 33)	-	-	-	-	56,788	-	43,209	-
Total non-current liabilities	-	-	-	-	1,024,576	3	924,209	3
Total liabilities	-	-	-	-	8,213,906	22	6,422,322	19
EQUITY (Notes 3, 4 and 25)								
Capital stock	-	-	-	-	-	-	-	-
Common stock	-	-	-	-	16,389,823	43	16,389,823	48
Capital surplus	-	-	-	-	856,616	2	856,629	2
Retained earnings	-	-	85,327	-	4,511,070	12	4,060,564	12
Legal reserve	-	-	283,340	1	377,030	1	37,956	-
Special reserve	-	-	6,249,123	18	7,467,301	20	6,908,060	20
Unappropriated earnings	-	-	19,271	-	12,355,401	33	11,006,580	32
Total retained earnings	-	-	40,312	-	(165,717)	-	(377,050)	(1)
Other equity	-	-	190,096	1	-	-	-	-
Total equity	-	-	303,831	1	29,439,123	78	27,876,002	81
TOTAL LIABILITIES AND EQUITY	<u>\$ 37,653,029</u>	<u>100</u>	<u>\$ 34,298,324</u>	<u>100</u>	<u>\$ 37,653,029</u>	<u>100</u>	<u>\$ 34,298,324</u>	<u>100</u>

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
NET REVENUE (Notes 4, 13, 26 and 33)	\$ 28,928,094	100	\$ 24,909,613	100
COST OF REVENUE (Notes 4, 16, 27 and 33)	<u>18,759,824</u>	<u>65</u>	<u>16,935,975</u>	<u>68</u>
GROSS PROFIT	<u>10,168,270</u>	<u>35</u>	<u>7,973,638</u>	<u>32</u>
OPERATING EXPENSES (Notes 27 and 33)				
Marketing	340,524	1	271,987	1
General and administrative	1,178,132	4	926,199	4
Research and development	1,494,321	5	1,546,994	6
Expected credit losses (Notes 4, 5 and 15)	<u>585</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>3,013,562</u>	<u>10</u>	<u>2,745,180</u>	<u>11</u>
OPERATING INCOME	<u>7,154,708</u>	<u>25</u>	<u>5,228,458</u>	<u>21</u>
NON-OPERATING INCOME AND EXPENSES (Note 4)				
Interest income (Note 27)	316,624	1	218,252	1
Dividend income (Notes 8 and 27)	27,978	-	25,211	-
Other income (Note 33)	92,043	-	70,494	-
Gain on disposal of property, plant and equipment (Note 33)	610	-	10	-
Net foreign exchange gain (loss) (Note 27)	218,325	1	(356,725)	(2)
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Note 27)	(285,526)	(1)	152,219	1
Share of loss of associates and joint ventures (Note 18)	<u>(52,576)</u>	<u>-</u>	<u>(57,291)</u>	<u>-</u>
Total non-operating income and expenses	<u>317,478</u>	<u>1</u>	<u>52,170</u>	<u>-</u>
INCOME BEFORE INCOME TAX	7,472,186	26	5,280,628	21
INCOME TAX EXPENSE (Notes 4 and 28)	<u>(1,305,917)</u>	<u>(5)</u>	<u>(775,564)</u>	<u>(3)</u>
NET INCOME	<u>6,166,269</u>	<u>21</u>	<u>4,505,064</u>	<u>18</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Notes 4 and 25)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 24)	\$ (20,501)	-	\$ (66,339)	-
Unrealized loss on investment in equity instruments designated as at fair value through other comprehensive income	(23,891)	-	-	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	329,041	1	(346,560)	(2)
Unrealized gain on available-for-sale financial assets	-	-	7,491	-
Share of other comprehensive income (loss) of associates and joint ventures (Note 18)	<u>3</u>	<u>-</u>	<u>(5)</u>	<u>-</u>
Total other comprehensive income (loss)	<u>284,652</u>	<u>1</u>	<u>(405,413)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 6,450,921</u>	<u>22</u>	<u>\$ 4,099,651</u>	<u>16</u>
NET INCOME ATTRIBUTABLE TO				
Owner of the Corporation	\$ 6,166,269	21	\$ 4,505,064	18
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,166,269</u>	<u>21</u>	<u>\$ 4,505,064</u>	<u>18</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Owner of the Corporation	\$ 6,450,921	22	\$ 4,099,651	16
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,450,921</u>	<u>22</u>	<u>\$ 4,099,651</u>	<u>16</u>
EARNINGS PER SHARE (Note 29)				
Basic	<u>\$ 3.76</u>		<u>\$ 2.75</u>	
Diluted	<u>\$ 3.72</u>		<u>\$ 2.73</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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Capital Stock	Capital Surplus	Legal Reserve	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Other Equity		Total Equity
				Special Reserve	Other Comprehensive Income			Unrealized Gain (Loss) on Financial Assets at Fair Value	Unrealized Gain (Loss) on Available-for-sale Financial Assets	
BALANCE, JANUARY 1, 2017	\$ 16,389,823	\$ 862,594	\$ 3,506,771	\$ 115,811	\$ 7,862,220	\$ (38,066)	\$ -	\$ 110	\$ 28,699,263	
Appropriation of prior year's earnings	-	-	-	-	(553,793)	-	-	-	-	
Legal reserve	-	-	553,793	-	(4,916,947)	-	-	-	(4,916,947)	
Cash dividends - 30%	-	-	-	-	77,855	-	-	-	-	
Special reserve reversed	-	-	-	(77,855)	-	-	-	-	-	
Changes in capital surplus from investment in associates and joint ventures accounted for using equity method	-	(6,127)	-	-	-	-	-	-	(6,127)	
Other change in capital surplus	-	162	-	-	-	-	-	-	162	
Net income for the year ended December 31, 2017	-	-	-	-	4,505,064	-	-	-	4,505,064	
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	(66,339)	(346,565)	-	7,491	(405,413)	
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	4,438,725	(346,565)	-	7,491	4,099,651	
BALANCE, DECEMBER 31, 2017	16,389,823	856,629	4,060,564	37,956	6,908,060	(384,631)	-	7,601	27,876,002	
Effect of retrospective application (Note 3)	-	-	-	-	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 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	

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,472,186	\$ 5,280,628
Adjustments for:		
Depreciation	1,811,747	2,017,275
Amortization	11,559	16,633
Expected credit losses/provision of allowance for doubtful accounts	585	1,300
Net loss on financial assets and liabilities at fair value through profit or loss	269	52,031
Interest income	(316,624)	(218,252)
Dividend income	(27,978)	(25,211)
Share of losses of associates and joint ventures	52,576	57,291
Gains on disposal of property, plant and equipment	(610)	(10)
Net losses on foreign currency exchange	643	7,206
Changes in operating assets and liabilities:		
Financial assets held for trading	-	(6,168)
Financial assets mandatorily classified as at fair value through profit or loss	228,203	-
Notes and accounts receivable	(1,682,853)	(298,586)
Receivable from related parties	11,412	185,583
Other receivables	(67,356)	(8,984)
Other receivables from related parties	4,406	(7,424)
Inventories	(624,615)	(591,195)
Prepaid expenses	9,943	17,895
Other current assets	145	(249)
Financial liabilities held for trading	4,547	(43,029)
Notes and accounts payable	(31,675)	179,777
Payable to related parties	14,288	-
Other payables	458,127	(33,393)
Other payables to related parties	(67,585)	(7,722)
Other current liabilities	186,780	(9,160)
Net defined benefit liabilities	6,884	2,409
Accrued employees' compensation and remuneration to directors	506,935	(160,243)
Cash generated from operations	7,961,939	6,408,402
Interest received	292,085	213,440
Income tax paid	(793,810)	(667,032)
Net cash provided by operating activities	<u>7,460,214</u>	<u>5,954,810</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of financial assets at fair value through other comprehensive income	\$ (104,549)	\$ -
Acquisitions of financial assets at amortized cost	(2,826,064)	-
Proceeds from redemption of financial assets at amortized cost	954,951	-
Acquisitions of financial assets designated as fair value through profit or loss	-	(2,902,082)
Proceeds from disposal of financial assets designated as fair value through profit or loss	-	4,054,307
Acquisitions of available-for-sale financial assets	-	(332,794)
Proceed from disposal of available-for-sale financial assets	-	395,382
Acquisitions of held-to-maturity financial assets	-	(2,322,515)
Proceeds from redemption of held-to-maturity financial assets	-	605,997
Acquisitions of investment accounted for using equity method	-	(150,575)
Acquisitions of property, plant and equipment	(1,919,433)	(2,001,154)
Proceeds from disposal of property, plant and equipment	648	10
Increase in refundable deposits	(15,498)	(185,460)
Acquisitions of intangible assets	(20,651)	(6,280)
(Increase) decrease in other non-current assets	(128)	90,983
Dividends received	<u>27,978</u>	<u>25,211</u>
Net cash used in investing activities	<u>(3,902,746)</u>	<u>(2,728,970)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other non-current liabilities	13,579	30,178
Cash dividends	(4,916,947)	(4,916,947)
Unclaimed dividends	<u>115</u>	<u>162</u>
Net cash used in financing activities	<u>(4,903,253)</u>	<u>(4,886,607)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>192,199</u>	<u>(143,365)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,153,586)	(1,804,132)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>15,760,771</u>	<u>17,564,903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,607,185</u>	<u>\$ 15,760,771</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, 2018 AND 2017 (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) GreTai Securities Market 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 January 31, 2019.

3. APPLICATION OF NEW REVISED STANDARDS, AMENDMENTS 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 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$15,760,771	\$15,760,771	
Derivatives	Held for trading	Mandatorily at fair value through profit or loss (FVTPL)	9,729	9,729	
Credit linked structured investment notes	Designated as at FVTPL	Mandatorily at FVTPL	220,269	220,269	(a)
Equity securities	Available for sale	Fair value through other comprehensive income (FVTOCI)	49,153	49,153	(b)
	Financial assets carried at cost	Fair value through other comprehensive income (FVTOCI)	85,327	116,467	(b)
Debt securities	Available for sale	Amortized cost	459,363	457,383	(c)
	Held to maturity	Amortized cost	3,399,833	3,399,833	(c)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	4,260,477	4,260,477	
Other non-current assets	Loans and receivables	Amortized cost	303,831	303,831	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Effect on Retained Earnings as of January 1, 2018	Effect on Other Equity as of January 1, 2018	Remark
FVTPL	\$ 229,998	\$ -	\$ -	\$ 229,998	\$ -	\$ -	
<u>FVTOCI</u>							
Equity instruments	-	-	-	-	-	-	
Add: Reclassification from available for sale (IAS 39)	-	49,153	-	49,153	120,000	(120,000)	(b)
Add: Reclassification from financial assets carried at cost (IAS 39)	-	85,327	31,140	116,467	-	31,140	(b)
	-	134,480	31,140	165,620	120,000	(88,860)	
<u>Amortized cost</u>	-	-	-	-	-	-	
Add: Reclassification from available for sale (IAS 39)	-	459,363	(1,980)	457,383	-	(1,980)	(c)
Add: Reclassification from held to maturity (IAS 39)	-	3,399,833	-	3,399,833	-	-	(c)
	-	3,859,196	(1,980)	3,857,216	-	(1,980)	
	<u>\$ 229,998</u>	<u>\$ 3,993,676</u>	<u>\$ 29,160</u>	<u>\$ 4,252,834</u>	<u>\$ 120,000</u>	<u>\$ (90,840)</u>	

- a) Credit linked structured investment notes were designated as at FVTPL under IAS 39 because they were hybrid instruments. They have been entirely classified as mandatorily measured at FVTPL under IFRS 9 since the host contracts are the financial assets of IFRS 9.
- b) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of \$5,621 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$31,140 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

The Group previously recognized accumulated impairment loss on available-for-sale equity investments in the retained earnings. Since these investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$120,000 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$120,000 thousand in retained earnings on January 1, 2018.

- c) Debt investments previously classified as available-for-sale financial assets and held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9 on January 1, 2018, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows. The related other equity-unrealized gain on available-for-sale financial assets of \$1,980 thousand were reversed.

Hedge accounting

Due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging from January 1, 2018.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

Under IFRS 15, the net amount of revenue recognized and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized or advanced deposit was deducted when revenue was recognized for the contract under IAS 18.

The Group elects only to retrospectively apply IFRS 15 to contracts that subsist as of January 1, 2018.

For all contract modifications that occurred on or before December 31, 2017, the Group did not apply the requirements in IFRS 15 individually to each of the modifications, and identified the performance obligations, determined and allocated transaction price in the manner that reflected the aggregate effect of all modifications that occurred before December 31, 2017. This reduced the complexity and cost of retrospective application, and resulted in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Refund liabilities (Presented under other current liabilities)	\$ -	\$ 229,809	\$ 229,809
Provisions (Presented under other current liabilities)	<u>229,809</u>	<u>(229,809)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 229,809</u>	<u>\$ -</u>	<u>\$ 229,809</u>

Had the Group applied IAS 18 in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15.

Impact on assets, liabilities and equity for current year

	December 31, 2018
Increase in refund liabilities(Presented under other current liabilities)	\$ 389,056
Decrease in provisions (Presented under other current liabilities)	<u>(389,056)</u>
Increase (decrease) in liabilities	<u>\$ -</u>

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Prior to the amendment, in assessing a deferred tax asset, the Group assumed that it will recover the asset at its carrying amount when estimating probable future taxable profit. When the amendments become effective in 2018, the amendments shall be applied retrospectively.

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is

the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 2)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Corporation will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present 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 will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Prior to IFRS 16, cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Corporation anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Group expects to apply the following practical expedients:

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

The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 1,488,345	\$ 1,488,345
Total effect on assets	<u>\$ -</u>	<u>\$ 1,488,345</u>	<u>\$ 1,488,345</u>
Lease liabilities - current	\$ -	\$ 202,323	\$ 202,323
Lease liabilities - non-current	<u>-</u>	<u>1,286,022</u>	<u>1,286,022</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 1,488,345</u>	<u>\$ 1,488,345</u>

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have not impact on the Group's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
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
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendments apply for the acquisition date of the enterprise merge and assets acquisition 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.

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 17, Table 6 and Table 7 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 subsidiaries

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 subsidiaries.

Under the equity method, investment in a subsidiary 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' 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

2018

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 32.

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.

Cash equivalents include time deposits and bonds acquired under resale 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.

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

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

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated 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 32.

- b) Held-to-maturity financial assets

Bond investments that the Group has positive intent and ability to hold to maturity are classified as held-to-maturity financial assets.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

- c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

- d) Loans and receivables

Loans and receivables (including cash and cash equivalent, accounts receivable, other receivables, and other financial assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

2) Impairment of financial assets and contract assets

2018

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.

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.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include: Significant financial difficulty of the debtor; or it becoming probable that the debtor will enter bankruptcy or financial reorganization.; or a default or delinquency in interest or principal payments; or extension of the maturity date; or significant financial difficulty of the final issuer or debtor; or disappearance of an active market for that financial asset because of the issuer's financial difficulties or other reasons.

For financial assets carried at amortized cost, such as accounts receivable, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of accounts receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- a) Significant financial difficulty of the issuer or counterparty; or
- b) Breach of contract, such as a default or delinquency in interest or principal payments; or
- c) It is becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- d) The disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

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.

Before 2017, on derecognition of a financial asset in its entirety, 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 is recognized in profit or loss. From 2018, 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 32.

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.

Before 2017, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, 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.

l. 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.

Before 2017, hedge accounting was discontinued prospectively when the Corporation revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. From 2018, 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.

Before 2017, hedge accounting was discontinued prospectively when the Group revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. From 2018, 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. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

2018

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.

2017

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. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group;
and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because the risks and rewards do not be transferred.

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

o. Leasing

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

p. 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 an expense 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.

q. 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.

a. Business model assessment for financial assets - 2018

The Group determines the business model at a level that reflects how the groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost when assets are derecognized prior to their maturity, in order to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets is proper.

b. Held-to-maturity financial assets - 2017

Management has reviewed the Group's held-to-maturity financial assets in light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity.

c. Estimated impairment of financial assets - 2018

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 15. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

d. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Deposits in bank	\$ 13,531,252	\$ 15,554,271
Cash equivalents		
Bonds acquired under repurchase agreements	<u>1,075,933</u>	<u>206,500</u>
	<u>\$ 14,607,185</u>	<u>\$ 15,760,771</u>

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

	December 31	
	2018	2017
Bank deposits	0%-3.55%	0%-2.30%
Bonds acquired under resale agreements	0.48%-0.55%	0.37%-0.40%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
<u>Financial assets designated as at FVTPL</u>		
Credit linked notes (a)	\$ -	\$ 220,269
<u>Financial assets held for trading</u>		
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	-	1,851
Currency-swap contracts (c)	-	7,878
	<u>-</u>	<u>9,729</u>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	1,275	-
Currency-swap contracts (c)	251	-
	<u>1,526</u>	<u>-</u>
Financial assets at FVTPL-current	<u>\$ 1,526</u>	<u>\$ 229,998</u>
<u>Financial liabilities held for trading</u>		
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	\$ 1,225	\$ -
Currency-swap contracts (c)	3,322	-
Financial liabilities at FVTPL-current	<u>\$ 4,547</u>	<u>\$ -</u>

- a. The Group entered into structured investment contracts with bank in 2017. The structured investment contracts included embedded derivative instruments which were not closely related to the host contracts. The contracts were designated as at FVTPL under IAS 39.

- 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, 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

December 31, 2017

Sell forward exchange contracts	US\$ to NT\$	2018.01.11-2018.01.16	US\$ 6,000
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- 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, 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

December 31, 2017

Sell forward exchange contracts	US\$ to NT\$	2018.01.05-2018.01.19	US\$ 28,700
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The Group entered into foreign exchange forward contracts and currency-swap contracts during the years ended December 31, 2018 and 2017 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 - 2018

	December 31, 2018
Investments in Equity Instruments at FVTOCI - Non-current	
Domestic investments	
Listed shares	\$ 54,053
Unlisted shares	122,368
Foreign investments	
Unlisted shares	<u>85,873</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. These investments in equity instruments were classified as available-for-sale financial

assets and financial assets carried at cost under IAS 39. Refer to Notes 3, 11 and 14 for information relating to their reclassification and comparative information for 2017.

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

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
<u>Current</u>	
Domestic investments	
Financial bonds (a)	\$ 100,261
Foreign investments	
Corporate bonds (b)	<u>1,499,998</u>
	<u>\$ 1,600,259</u>
<u>Non-current</u>	
Domestic investments	
Financial bonds (a)	\$ 354,568
Foreign investments	
Corporate bonds (b)	<u>3,892,304</u>
	<u>\$ 4,246,872</u>

- a. The financial bonds were classified as available-for-sale financial assets under IAS 39. Refer to Notes 3 and 11 for information relating to their reclassification and comparative information for 2017.
- b. The corporate bonds were classified as held-to-maturity financial assets under IAS 39. Refer to Notes 3 and 12 for information relating to their reclassification and comparative information for 2017.

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 - 2018

Investments in debt instruments were classified as at amortized cost.

December 31, 2018

	At Amortized Cost
Gross carrying amount	\$ 5,847,131
Less: Allowance for impairment loss	<u>-</u>
Amortized cost	<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.

The Group considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast to estimate 12-month or lifetime expected credit losses. The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31, 2018
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12-month ECL	0%	\$ 5,847,131

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
<u>Non-current</u>	
Listed stocks	\$ 49,153
Domestic bonds	<u>459,363</u>
	<u>\$ 508,516</u>

12. HELD-TO-MATURITY FINANCIAL ASSETS - 2017

	December 31, 2017
<u>Current</u>	
Foreign corporate bonds	<u>\$ 774,864</u>
<u>Non-current</u>	
Foreign corporate bonds	<u>\$ 2,624,969</u>

13. FINANCIAL INSTRUMENTS FOR HEDGING

For the years ended December 31, 2018

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, 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	\$ -

For the year ended December 31, 2017

The hedging policy for foreign currency risk of 2017 is the same as the aforesaid hedging policy of 2018, as the Group used the following instruments for hedging.

Gains and losses of hedging instruments were reclassified from equity to following item of profit and loss.

	For the Years Ended December 31, 2017
Revenue	<u>\$ (1,766)</u>

14. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT - 2017

	December 31, 2017
Unlisted stocks	<u>\$ 85,327</u>
Classification of financial assets	
Available-for-sale financial assets	<u>\$ 85,327</u>

The management believed that the fair value of the aforementioned unlisted equity investments held by the Group cannot be reliably measured due to the range of reasonable fair value estimates was significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the unlisted stocks were measured at cost less impairment at the end of reporting period

15. NOTES AND ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Notes and accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 5,315,757	\$ 3,648,920
Less: Allowance for impairment loss	<u>(3,872)</u>	<u>(3,287)</u>
	<u>\$ 5,311,885</u>	<u>\$ 3,645,633</u>

For the years ended December 31, 2018

At amortized cost

The average credit period on sales of goods was 30 to 45 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 prospect. 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, 2018

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

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

	December 31, 2018
Balance at January 1, 2018 (IAS 39)	\$ 3,287
Effect of retrospective application of IFRS 9	<u>-</u>
Balance at January 1, 2018 (IFRS 9)	3,287
Add: Net remeasurement of loss allowance	<u>585</u>
Balance at December 31, 2018	<u>\$ 3,872</u>

For the years ended December 31, 2017

The Group applied the same credit policy in 2018 and 2017. In determining the recoverability of a trade receivable, the Group considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts was based on estimated irrecoverable amounts determined by reference to past default experience of the counterparts and an analysis of their current financial position.

For the accounts receivable balance that were past due at the end of the reporting period, the Group had not recognized an allowance for doubtful accounts since there had not been a significant change in the credit quality of its customers and the amounts were still considered recoverable.

The aging analyses of notes and accounts receivable were as follows:

	Past Due Days	December 31, 2017
Not past due and not impaired	0 days	<u>\$ 3,564,166</u>
Past due but not impaired	Less than 60 days	78,247
	61-90 days	2,605
	Over 90 days	<u>615</u>
		<u>81,467</u>
		<u>\$ 3,645,633</u>

The above aging analyses were based on the past due dates.

Movements of the allowance for doubtful accounts were as follows:

	Years Ended December 31, 2017
Balance, beginning of period	\$ 1,987
Add: Provision	<u>1,300</u>
Balance, end of period	<u>\$ 3,287</u>

16. INVENTORIES

	December 31	
	2018	2017
Finished goods	\$ 210,248	\$ 184,492
Work in process	1,707,479	1,574,457
Raw materials	1,044,442	628,689
Supplies and spare parts	<u>453,416</u>	<u>403,332</u>
	<u>\$ 3,415,585</u>	<u>\$ 2,790,970</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	
	2018	2017
Cost of revenue	<u>\$ 18,759,824</u>	<u>\$ 16,935,975</u>
Provision of inventory valuation and obsolescence loss	<u>\$ 71,859</u>	<u>\$ 87,311</u>
Unallocated manufacturing overheads	<u>\$ 32,919</u>	<u>\$ 306,971</u>

17. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

Investor	Investee	Nature of Activities	Proportion of Ownership		Explanation
			December 31		
			2018	2017	
Vanguard International Semiconductor Corporation	VIS Associates Inc.	Investments	100%	100%	
Vanguard International Semiconductor Corporation	VIS Shanghai Company Limited	Marketing service	100%	100%	(1)
VIS Associates Inc.	VIS Investment Holding, Inc.	Investments	100%	100%	
VIS Investment Holding, Inc.	VIS Micro, Inc.	Marketing service	100%	100%	

(1) VIS Shanghai Company Limited was established in August 2017. The Corporation injected capital of RMB 1,000 thousand in October 2017.

18. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

	December 31	
	2018	2017
<u>Associates individually immaterial</u>		
CMSC, Inc.	\$ 50,407	\$ 50,190
Qromis, Inc. (Note)	<u>187,637</u>	<u>233,150</u>
	<u>\$ 238,044</u>	<u>\$ 283,340</u>

Note: Quora Technology, Inc. changed its company name as Qromis, Inc. in October 2017.

Refer to Table 6 “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

	<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
The Corporation’s share of		
Loss from continuing operations	\$ (52,576)	\$ (57,291)
Other comprehensive income (loss)	<u>3</u>	<u>(5)</u>
Total comprehensive loss for the year	<u>\$ (52,573)</u>	<u>\$ (57,296)</u>

In March 2016, the Corporation subscribed 5,000 thousand shares of preferred stocks of Qromis, Inc. in cash amounting to \$166,175 thousand with 31.04% of voting rights and exercised significant influence over Qromis, Inc. In June 2017, the Corporation subscribed 4,832 thousand shares of preferred stocks of Qromis, Inc. amounting to 150,575 thousand. As of December 31, 2018, the Corporation’s percentage of voting rights in Qromis, Inc. was 46.48%.

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 Group’s management considered the use of unreviewed financial statements of the investees did not have material impact on its consolidated financial statements.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Total
<u>Cost</u>					
Balance, January 1, 2017	\$ 15,080,497	\$ 57,303,574	\$ 396,988	\$ 483,354	\$ 73,264,413
Additions	275,794	1,396,087	2,347	307,533	1,981,761
Disposal	-	(2,437)	(769)	-	(3,206)
Reclassified	-	-	658	-	658
Translation adjustments	<u>-</u>	<u>-</u>	<u>(231)</u>	<u>-</u>	<u>(231)</u>
Balance, December 31, 2017	<u>\$ 15,356,291</u>	<u>\$ 58,697,224</u>	<u>\$ 398,993</u>	<u>\$ 790,887</u>	<u>\$ 75,243,395</u>
<u>Accumulated depreciation</u>					
Balance, January 1, 2017	\$ 12,705,146	\$ 53,721,268	\$ 370,397	\$ -	\$ 66,796,811
Depreciation	544,058	1,462,128	11,089	-	2,017,275
Disposal	-	(2,437)	(769)	-	(3,206)
Translation adjustments	<u>-</u>	<u>-</u>	<u>(129)</u>	<u>-</u>	<u>(129)</u>
Balance, December 31, 2017	<u>\$ 13,249,204</u>	<u>\$ 55,180,959</u>	<u>\$ 380,588</u>	<u>\$ -</u>	<u>\$ 68,810,751</u>
<u>Accumulated impairment</u>					
Balance, January 1, 2017 and December 31, 2017	<u>\$ -</u>	<u>\$ 183,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,521</u>
Carrying amounts on December 31, 2017	<u>\$ 2,107,087</u>	<u>\$ 3,332,744</u>	<u>\$ 18,405</u>	<u>\$ 790,887</u>	<u>\$ 6,249,123</u>

(Continued)

	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 on 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> (Concluded)

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

20. INTANGIBLE ASSETS

	Years Ended December 31	
	2018	2017
<u>Computer software</u>		
<u>Cost</u>		
Balance, January 1	\$ 794,605	\$ 788,983
Additions	20,651	6,280
Reclassified to property, plant and equipment	(2,364)	(658)
Balance, December 31	<u>812,892</u>	<u>794,605</u>
		(Continued)

	Years Ended December 31	
	2018	2017
Accumulated amortization		
Balance, January 1	\$ 775,334	\$ 758,701
Amortization	<u>11,559</u>	<u>16,633</u>
Balance, December 31	<u>786,893</u>	<u>775,334</u>
Carrying amount, end of year	<u>\$ 25,999</u>	<u>\$ 19,271</u> (Concluded)

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

Computer software	3 to 5 years
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21. OTHER ASSETS

	December 31	
	2018	2017
Pledged time deposit	\$ 303,959	\$ 303,831
Others	<u>2,892</u>	<u>3,037</u>
	<u>\$ 306,851</u>	<u>\$ 306,868</u>
Current	\$ 2,892	\$ 3,037
Non-current	<u>303,959</u>	<u>303,831</u>
	<u>\$ 306,851</u>	<u>\$ 306,868</u>

22. OTHER PAYABLES

	December 31	
	2018	2017
Bonus	\$ 817,803	\$ 621,686
Maintenance	667,036	535,817
Utilities	133,788	127,234
Others	<u>957,589</u>	<u>833,352</u>
	<u>\$ 2,576,216</u>	<u>\$ 2,118,089</u>

23. OTHER CURRENT LIABILITIES

	December 31	
	2018	2017
Refund liabilities (Provision of sales returns and allowances)	\$ 389,056	\$ 229,809
Contract liabilities - advanced receipts	139,577	-
Advance receipts	-	112,000
Others	<u>207</u>	<u>251</u>
	<u>\$ 528,840</u>	<u>\$ 342,060</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.

24. 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 and VIS Shanghai Company is 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	
	2018	2017
Present value of defined benefit obligation	\$ 1,131,640	\$ 1,107,016
Fair value of plan assets	<u>(327,154)</u>	<u>(329,915)</u>
Net defined benefit liability	<u>\$ 804,486</u>	<u>\$ 777,101</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
Balance at January 1, 2017	\$ <u>1,034,785</u>	\$ <u>(326,432)</u>	\$ <u>708,353</u>
Service cost			
Current service cost	7,681	-	7,681
Interest expense (income)	<u>15,419</u>	<u>(4,903)</u>	<u>10,516</u>
Recognized in profit or loss	<u>23,100</u>	<u>(4,903)</u>	<u>18,197</u>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 1,640	\$ 1,640
Actuarial gain - changes in financial assumptions	(21,662)	-	(21,662)
Actuarial loss - experience adjustments	<u>86,361</u>	<u>-</u>	<u>86,361</u>
Recognized in other comprehensive income	<u>64,699</u>	<u>1,640</u>	<u>66,339</u>
Contributions from the employer	<u>-</u>	<u>(14,699)</u>	<u>(14,699)</u>
Benefits paid	<u>(15,568)</u>	<u>14,479</u>	<u>(1,089)</u>
Balance at December 31, 2017	<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> (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	
	2018	2017
Discount rates	1.25%	1.65%
Expected rates of salary increase	3.25%	3.50%

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	
	2018	2017
Discount rates		
0.50% increase	<u>\$ (41,664)</u>	<u>\$ (68,284)</u>
0.50% decrease	<u>\$ 44,512</u>	<u>\$ 74,471</u>
Expected rates of salary increase		
0.50% increase	<u>\$ 43,443</u>	<u>\$ 72,739</u>
0.50% decrease	<u>\$ (41,107)</u>	<u>\$ (64,445)</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	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 15,804</u>	<u>\$ 15,213</u>
The average duration of the defined benefit obligation	7.6 years	13 years

Maturity analyses of pension benefit were as follows:

	December 31	
	2018	2017
Maturity analysis of undiscounted pension benefit		
No later than 1 year	\$ 58,686	\$ 24,818
Later than 1 year and not later than 5 years	441,008	164,613
Later than 5 years	<u>797,725</u>	<u>1,342,568</u>
	<u>\$ 1,297,419</u>	<u>\$ 1,531,999</u>

25. EQUITY

a. Capital stock

Common stock

	December 31	
	2018	2017
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	
	2018	2017
<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	25,610	25,738
Unclaimed dividends	<u>277</u>	<u>162</u>
	<u>\$ 856,616</u>	<u>\$ 856,629</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

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 27-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 2017 and 2016 have been approved in the shareholders' meeting on June 14, 2018 and June 16, 2017, respectively, were as follows:

	<u>Appropriations of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Provision of legal reserve	\$ 450,506	\$ 553,793	\$ -	\$ -
Provision (reversal) of special reserve	339,074	(77,855)	-	-
Cash dividends	4,916,947	4,916,947	3.00	3.00

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on January 31, 2019. The appropriation and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividend Per Share (NT\$)</u>
Provision of legal reserve	\$ 616,627	\$ -
Reversal of special reserve	(214,313)	-
Cash dividend	5,244,743	3.2

The appropriation of earnings for 2018 is subject to the resolution of the shareholders' meeting to be held on June 14, 2019.

d. Other equity

1) Exchange differences on translation of foreign operations

	<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ (384,631)	\$ (38,066)
Recognized during the period		
Exchange differences on translation of foreign operations	329,041	(346,560)
Share of exchange differences of associates accounted for using equity method	3	(5)
Recognized in other comprehensive income (loss)	<u>329,044</u>	<u>(346,565)</u>
Balance, end of year	\$ <u>(55,587)</u>	\$ <u>(384,631)</u>

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

	Years Ended December 31, 2018
Balance, beginning of year (IAS 39)	\$ -
Effect of retrospective application of IFRS 9	<u>(83,239)</u>
Balance, beginning of year (IFRS 9)	<u>(83,239)</u>
Recognized during the period	
Unrealized loss - equity instruments	<u>(23,891)</u>
Recognized in other comprehensive income	<u>(23,891)</u>
Balance, end of year	<u>\$ (107,130)</u>

3) Unrealized gain (loss) on available-for-sale financial assets

Balance, January 1, 2017	\$ 110
Recognized during the year	
Unrealized gain on revaluation of available-for-sale financial assets	<u>7,491</u>
Recognized in other comprehensive income	<u>7,491</u>
Balance at December 31, 2017	7,601
Effect of retrospective application of IFRS 9	<u>(7,601)</u>
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

Unrealized gains or losses on available-for-sale financial assets represent the cumulative gains or losses arising from the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income netting the amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

26. REVENUE

	Years Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sales of goods	\$ 28,459,367	\$ 24,505,629
Others	<u>403,092</u>	<u>311,522</u>
	<u>28,862,459</u>	<u>24,817,151</u>
Other operating revenue		
Rental income	33,843	37,040
Others	<u>31,792</u>	<u>55,422</u>
	<u>65,635</u>	<u>92,462</u>
	<u>\$ 28,928,094</u>	<u>\$ 24,909,613</u>

Refer to Note 13 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, 2018 and 2017.

a. Disaggregation of revenue

1) Disaggregation of revenue by region

	Years Ended December 31, 2018
<u>Regions</u>	
Asia	\$ 26,011,474
Europe	1,841,180
America	1,074,778
Oceania	625
Africa	<u>37</u>
	<u>\$ 28,928,094</u>

2) Disaggregation of revenue by platform

	Years Ended December 31, 2018
<u>Platforms</u>	
Power Management	\$ 14,226,047
Large panel driver IC	8,841,943
Small panel driver IC	3,331,855
Other platforms	<u>2,059,522</u>
Revenue from sales of goods	28,459,367
Other revenue	<u>468,727</u>
Total revenue	<u>\$ 28,928,094</u>

3) Disaggregation of revenue by Process

	Years Ended December 31, 2018
<u>Processes</u>	
0.18 micron (and) below	\$ 10,559,505
0.25 micron	4,094,829
0.35 micron	6,416,788
0.5 micron (and) above	<u>7,388,245</u>
Revenue from sales of goods	28,459,367
Other revenue	<u>468,727</u>
Total revenue	<u>\$ 28,928,094</u>

b. Contact balances

	December 31, 2018
Notes and accounts receivable, net (Note 15)	\$ 5,311,885
Receivables from related parties (Note 33)	<u>416,219</u>
Trade Receivables	<u>\$ 5,728,104</u>
Contract liabilities	
Contract liabilities - advanced receipts (Other current liabilities) (Note 23)	<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, 2018 were as follow:

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

27. OTHER ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Depreciation and amortization

	Years Ended December 31	
	2018	2017
Classification of depreciation - by function		
Cost of revenue	\$ 1,774,284	\$ 1,942,260
Operating expenses	<u>37,463</u>	<u>75,015</u>
	<u>\$ 1,811,747</u>	<u>\$ 2,017,275</u>
Classification of amortization - by function		
Cost of revenue	\$ 4,033	\$ 7,750
Operating expenses	<u>7,526</u>	<u>8,883</u>
	<u>\$ 11,559</u>	<u>\$ 16,633</u>

b. Employee benefits expense

	Years Ended December 31	
	2018	2017
Post-employment benefits (see Note 24)		
Defined contribution plans	\$ 222,979	\$ 213,226
Defined benefit plans	<u>22,191</u>	<u>18,197</u>
	245,170	231,423
Other employee benefits	<u>7,465,138</u>	<u>6,290,724</u>
Total employee benefits expense	<u>\$ 7,710,308</u>	<u>\$ 6,522,147</u>
Employee benefits expense summarized by function		
Cost of revenue	\$ 5,874,795	\$ 5,151,469
Operating expenses	<u>1,835,513</u>	<u>1,370,678</u>
	<u>\$ 7,710,308</u>	<u>\$ 6,522,147</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, 2018 and 2017, the employees' compensation were \$1,170,000 thousand and \$675,760 thousand, respectively. For the years ended December 31, 2018 and 2017, the remuneration to directors was \$22,195 thousand and \$9,900 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 2018 and 2017 were resolved by the board of directors on January 29, 2019 and February 5, 2018, respectively. The amounts of the employees' compensation and remuneration to directors are disclosed on the table below.

	For the Years Ended December 31			
	2018		2017	
	Cash	Stock	Cash	Stock
Employees' compensation	\$ 1,170,000	\$ -	\$ 675,760	\$ -
Remuneration to directors	22,195	-	9,900	-

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, 2017 and 2016.

Information of the employees' compensation and remuneration to directors resolved by the Corporation's board of directors in 2019 and 2018 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	
	2018	2017
Interest income		
Cash and cash equivalents	\$ 209,416	\$ 155,644
Available-for-sale financial assets	-	6,615
Held-to-maturity financial assets	-	55,674
Financial assets at amortized cost	107,208	-
Other financial assets	-	319
	<u>\$ 316,624</u>	<u>\$ 218,252</u>
Dividends		
Available-for-sale financial assets	\$ -	\$ 244
Financial assets carried at cost	-	24,967
Investments in equity instruments at FVTOCI	27,978	-
	<u>\$ 27,978</u>	<u>\$ 25,211</u>
Net foreign exchange gain (loss)		
Available-for-sale financial assets	\$ -	\$ (1,560)
Held-to-maturity financial assets	-	(5,852)
Financial assets at amortized cost	(753)	-
Other monetary assets and liabilities	219,078	(349,313)
	<u>\$ 218,325</u>	<u>\$ (356,725)</u>
Gain (loss) on financial assets and liabilities at FVTPL		
Financial assets and liabilities mandatorily classified as at FVTPL (2018)		
Forward exchange and currency-swap contracts	\$ (286,058)	\$ -
Credit linked notes	532	-
Financial assets and liabilities held for trading (2017)		
Forward exchange and currency-swap contracts	-	191,593
Funds	-	6
Financial assets designated as at FVTPL (2017)		
Credit linked notes	-	(5,280)
Interest rate linked notes	-	(29,645)
Exchange linked notes	-	(4,455)
	<u>\$ (285,526)</u>	<u>\$ 152,219</u>

28. INCOME TAXES

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

	Years Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 1,513,521	\$ 905,320
Adjustments for prior years' tax	(192,043)	(117,955)
Other	<u>484</u>	<u>(714)</u>
	1,321,962	786,651
Deferred income tax		
In respect of the current year	<u>(16,045)</u>	<u>(11,087)</u>
Income tax expenses recognized in profit or loss	<u>\$ 1,305,917</u>	<u>\$ 775,564</u>

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

	Years Ended December 31	
	2018	2017
Income before income tax	<u>\$ 7,472,186</u>	<u>\$ 5,280,628</u>
Income tax expense calculated at the statutory rate	\$ 1,454,802	\$ 885,978
Additional items in determining taxable income	54,208	18,448
Income tax on unappropriated earnings	-	7,278
The origination and reversal of temporary differences	(10,993)	(13,808)
Effect of tax on loss carryforward	(541)	(3,663)
Adjustments for prior years' tax	(192,043)	(117,955)
Others	<u>484</u>	<u>(714)</u>
Income tax expense recognized in profit or loss	<u>\$ 1,305,917</u>	<u>\$ 775,564</u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Current tax liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 1,252,726</u>	<u>\$ 725,013</u>

c. Deferred income tax assets and liabilities

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

For the year ended December 31, 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>

For the year ended December 31, 2017

Deferred Income Tax Assets	Balance, Beginning of Year	Movements	Balance, End of Year
Loss carryforwards	\$ 5,377	\$ 3,135	\$ 8,512
Temporary differences	<u>2,673</u>	<u>29,127</u>	<u>31,800</u>
	<u>\$ 8,050</u>	<u>\$ 32,262</u>	<u>\$ 40,312</u>

Deferred Income Tax Liabilities	Balance, Beginning of Year	Movements	Balance, End of Year
Temporary differences	<u>\$ 82,723</u>	<u>\$ 21,176</u>	<u>\$ 103,899</u>

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

	December 31	
	2018	2017
Loss carryforwards		
Expire in 2020	\$ 17,867	\$ 21,779
Expire in 2021	419	405
Expire in 2027	226	218
Expire in 2034	2,362	2,275
Expire in 2036	<u>90</u>	<u>87</u>
	<u>\$ 20,964</u>	<u>\$ 24,764</u>
Deductible temporary differences	<u>\$ 195,258</u>	<u>\$ 184,063</u>

- e. Unrecognized deferred income tax liabilities associated with investments

As of December 31, 2018 and 2017, 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 2016 had been examined and cleared by the tax authorities.

29. EARNINGS PER SHARE

Unit: NT\$ Per Share

	Years Ended December 31	
	2018	2017
Basic earnings per share	<u>\$ 3.76</u>	<u>\$ 2.75</u>
Diluted earnings per share	<u>\$ 3.72</u>	<u>\$ 2.73</u>

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	
	2018	2017
Earnings used in computation of basic earnings per share	\$ 6,166,269	\$ 4,505,064
Effect of dilutive potential common stocks:		
Employees' compensation	_____ -	_____ -
Earnings used in the computation of diluted earnings per share	<u>\$ 6,166,269</u>	<u>\$ 4,505,064</u>

Shares

	Years Ended December 31	
	2018	2017
Weighted average number of common stocks used in the computation of basic earnings per share	1,638,982	1,638,982
Effect of dilutive potential common stocks:		
Employees' compensation	<u>20,661</u>	<u>12,108</u>
Weighted average number of common stocks used in the computation of diluted earnings per share	<u>1,659,643</u>	<u>1,651,090</u>

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.

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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 2019, 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.

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Not later than 1 year	\$ 82,339	\$ 75,432
Later than 1 year and not later than 5 years	319,647	306,228
Later than 5 years	<u>451,926</u>	<u>505,471</u>
	<u>\$ 853,912</u>	<u>\$ 887,131</u>

The lease payments recognized as expenses were as follows:

	<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Minimum lease payment	<u>\$ 81,826</u>	<u>\$ 76,534</u>

31. 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.

32. FINANCIAL INSTRUMENTS

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

December 31, 2018

	<u>Carrying Amount</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<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

December 31, 2017

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Held-to-maturity investments	\$ 3,399,833	\$ 3,377,588	\$ -	\$ -	\$ 3,377,588

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

1) Fair value hierarchy

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

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ -	\$ 9,729	\$ -	\$ 9,729
Hybrid financial assets	-	220,269	-	220,269
	<u>\$ -</u>	<u>\$ 229,998</u>	<u>\$ -</u>	<u>\$ 229,998</u>
Available-for-sale financial assets				
Equity instruments				
Domestic listed stocks	\$ 19,153	\$ 30,000	\$ -	\$ 49,153
Debts instruments				
Domestic financial bonds	459,363	-	-	459,363
	<u>\$ 478,516</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 508,516</u>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, 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	
	2018	2017
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ -	\$ 9,729
Designated as at FVTPL	-	220,269
Mandatorily at FVTPL	1,526	-
Held-to-maturity financial assets	-	3,399,833
Loans and receivables (Note 1)	-	20,325,079
Available-for-sale financial assets (Note 2)	-	593,843
Financial assets at amortized cost (Note 3)	26,770,454	-
Financial assets at FVTOCI		
Equity instruments	262,294	-
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	4,547	-
Measured at amortized cost (Note 4)	5,403,217	4,431,040

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

Note 2: The balances included the carrying amount of available-for-sale financial assets measured at cost.

Note 3: 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 4: 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 Group's major financial instruments include equity and bond investments, accounts receivable and accounts payables. 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 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	
	2018	2017
Loss	\$ 129,792	\$ 139,411

	Impact on JPY Items	
	Years Ended December 31	
	2018	2017
Gain	\$ 10,712	\$ 1,895

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 with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 18,707,306	\$ 18,022,023
Cash flow interest rate risk		
Financial assets	2,050,969	2,122,044

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, 2018 and 2017 will increase/decrease \$2,051 thousand and \$2,122 thousand, respectively, resulting from the exposure of the net assets with floating rates.

c) Other price risk

2018

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.

2017

The Group is exposed to price risk arising from its investments in available-for-sale stocks and bonds. 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, 2018 would have an increase/decrease of \$13,115 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If available-for sale stocks and bonds prices had been 5% higher/lower, the other comprehensive income for the years ended December 31, 2017 would have increased/decreased by \$25,426 thousand, respectively, as a result of the changes in fair value of available-for-sale financial investments in stocks and bonds.

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 conditions.

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.

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, 2018

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

December 31, 2017

	Less than 1 Year	More than 1 Year
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	<u>\$ 4,431,040</u>	<u>\$ -</u>

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, 2018

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

December 31, 2017

	Less than 1 Year	More than 1 Year
<u>Gross settled</u>		
Forward exchange and currency-swap contracts		
Inflows	\$ 1,038,896	\$ -
Outflows	<u>(1,029,167)</u>	<u>-</u>
	<u>\$ 9,729</u>	<u>\$ -</u>

33. 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

<u>Name</u>	<u>Relationship with the Group</u>
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
TSMC China Company Limited	Substantial related parties
Systems on Silicon Manufacturing Co. Pte. Ltd.	Substantial related parties
CMSC, Inc.	Associates
Qromis, Inc. (Note)	Associates

Note: Quora Technology, Inc. changed its company name as Qromis, Inc. in October 2017.

b. Operating transactions

	<u>Revenue from Sales of Goods</u>		<u>Purchases</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Investors that have significant influence over the Group				
Taiwan Semiconductor Manufacturing Company Ltd.	<u>\$ 5,098,011</u>	<u>\$ 5,728,778</u>	<u>\$ 56</u>	<u>\$ -</u>
Key management personnel	<u>\$ 236,978</u>	<u>\$ 112,264</u>	<u>\$ -</u>	<u>\$ -</u>
Substantial related parties	<u>\$ 43,885</u>	<u>\$ 42,228</u>	<u>\$ 34,833</u>	<u>\$ -</u>
Associates	<u>\$ 53,242</u>	<u>\$ 37,305</u>	<u>\$ -</u>	<u>\$ -</u>

	Manufacturing Expenses		Research and Development Expenses	
	Years Ended December 31		Years Ended December 31	
	2018	2017	2018	2017
Investors that have significant influence over the Group	\$ 206,121	\$ 358,758	\$ -	\$ 2,334
Substantial related parties	\$ -	\$ 4	\$ -	\$ -
Associates	\$ -	\$ -	\$ -	\$ 275

	Non-operating Income and Gains	
	Years Ended December 31	
	2018	2017
Investors that have significant influence over the Group		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 13,226	\$ 16,124
Key management personnel	12	178
	<u>\$ 13,238</u>	<u>\$ 16,302</u>

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

	Receivables from Related Parties	
	December 31	
	2018	2017
Investors that have significant influence over the Group		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 353,238	\$ 402,422
Key management personnel	33,611	6,217
Associates	14,805	8,172
Substantial related parties	14,565	10,820
	<u>\$ 416,219</u>	<u>\$ 427,631</u>

	Other Receivables from Related Parties	
	December 31	
	2018	2017
Investors that have significant influence over the Group		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 3,842	\$ 7,528
Key management personnel	-	564
Associates	-	156
	<u>\$ 3,842</u>	<u>\$ 8,248</u>

	<u>Payables to Related Parties</u>	
	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Substantial related parties		
Systems on Silicon Manufacturing Co. Pte. Ltd.	\$ 14,228	\$ -
Investors that have significant influence over the Group	<u>60</u>	<u>-</u>
	<u>\$ 14,288</u>	<u>\$ -</u>

	<u>Other Payables to Related Parties</u>	
	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Investors that have significant influence over the Group		
Taiwan Semiconductor Manufacturing Company Ltd.	<u>\$ 10,363</u>	<u>\$ 77,948</u>

	<u>Contract Liabilities - Advanced Receipts (Other Current Liabilities)</u>
	<u>December 31, 2018</u>
Key management personnel	\$ 3,462
Associates	<u>550</u>
	<u>\$ 4,012</u>

	<u>Guarantee Deposits (Other Non-current Liabilities)</u>	
	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Key management personnel		
Shenzhen Winsemi Microelectronics Co., Ltd.	<u>\$ 12,296</u>	<u>\$ -</u>

	<u>Disposal of Property, Plant and Equipment</u>			
	<u>Proceeds</u>		<u>Gain (Loss) on Disposal</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Key management personnel	<u>\$ 236</u>	<u>\$ -</u>	<u>\$ 236</u>	<u>\$ -</u>

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

c. Compensation of key management personnel

	<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 214,932	\$ 148,195
Post-employment benefits	<u>2,940</u>	<u>2,694</u>
	<u>\$ 217,872</u>	<u>\$ 150,889</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.

34. 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:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Pledged time deposits (presented under other non-current assets)	<u>\$ 303,959</u>	<u>\$ 303,831</u>

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The significant commitments of the Group as of December 31, 2018 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.

36. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- a. In response to business growth, the Corporation established a wholly owned subsidiary in Singapore, named VANGUARD INTERNATIONAL SEMICONDUCTOR SINGAPORE PTE. LTD. ("VIS SG"), on January 21, 2019. The initial capital amounted to SGD10 thousand.
- b. On January 31, 2019, the Corporation's board of directors resolved VIS SG to acquire the leasehold property, facilities, tools and equipment and IP of 8-inch Fab (FAB 3E) located in Singapore from GLOBALFOUNDRIES SINGAPORE PTE. LTD. In order to facilitate this investment, the Corporation's board of directors resolved on capital injection to VIS SG amounting to SGD 399,990 thousand, loaning of funds to VIS SG amounting to USD 55,000 thousand and providing VIS SG endorsements and guarantees amounting to USD 236,000 thousand.

37. 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			
	2018		2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 479,258	30.74	\$ 393,797	29.659
EUR	226	35.25	1,194	35.58
JPY	17,976	0.2769	57,491	0.2646
CNY	1,077	4.475	999	4.549
Non-monetary items				
USD	6,293	30.74	8,861	29.659
CNY	17,893	4.475	-	-
Derivative instruments				
USD	4,200	30.74	-	-
EUR	1,300	35.25	-	-
<u>Financial liabilities</u>				
Monetary items				
USD	32,815	30.74	37,307	29.659
EUR	2,141	35.25	1,564	35.58
JPY	325,483	0.2769	200,739	0.2646
CNY	20	4.475	30	4.549
Derivative instruments				
USD	84,490	30.74	34,700	29.659
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, 2018 and 2017, 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.

38. SEPARATELY DISCLOSED ITEMS

Information on significant transactions and information on investees:

- a. Financing provided to others: None.
- b. Endorsements/guarantees provided: None.
- c. Marketable securities held (excluding investment in subsidiaries, associates and jointly ventures): Table 1 (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 2 (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 3 (attached)
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
- i. Trading in derivative instruments: Notes 7 and 13.
- j. Intercompany relationships and significant intercompany transactions: Table 5 (attached)
- k. Information on investees: Table 6 (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 7 (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 5 (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

39. SEGMENT INFORMATION

- a. 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, 2018 and 2017 can be referred to the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017. The segment assets as of December 31, 2018 and 2017 can be referred to the consolidated balance sheets as of December 31, 2018 and 2017.

- b. Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	Years Ended December 31	
	2018	2017
Wafer foundry	\$ 28,459,367	\$ 24,505,629
Others revenue	<u>468,727</u>	<u>403,984</u>
	<u>\$ 28,928,094</u>	<u>\$ 24,909,613</u>

- c. Geographic information

Revenue by region as of December 31, 2018 and 2017, please refer to Note 26.

	Non-current Assets	
	December 31	
	2018	2017
Asia	\$ 6,443,435	\$ 6,248,171
America	<u>615</u>	<u>952</u>
	<u>\$ 6,444,050</u>	<u>\$ 6,249,123</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	
	2018	2017
A	\$ 5,098,011	\$ 5,728,778
B	5,085,112	4,934,838

TABLE 1

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

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

Holding Company Name	Marketable Security Type and Name (Note 1)	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2018			Note	
				Shares/ Units (Thousands)	Carrying Value	% of Ownership		Market Value or Net Asset Value
Vanguard International Semiconductor Corporation	Bonds	-	Financial assets at amortized cost - current	-	\$ 100,261	-	-	
	Shanghai Commercial & Saving Bank 2012 2 nd Subordinated Financial Debentures	-	Financial assets at amortized cost - current	-	-	-	-	
	MEGA Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	101,273	-	-	
	MEGA Bank 2014 2 nd Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	151,931	-	-	
	Taiwan Cooperative Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	101,364	-	-	
	Bank of China Limited, Hong Kong Branch bonds (XSI1371532117)	-	Financial assets at amortized cost - current	-	55,316	-	-	
	Bank of China Limited, Luxembourg Branch bonds	-	Financial assets at amortized cost - current	-	159,828	-	-	
	China Construction Bank (Asia) Co., Ltd. bonds	-	Financial assets at amortized cost - current	-	264,122	-	-	
	Horsepower Finance Ltd. bonds	-	Financial assets at amortized cost - current	-	61,314	-	-	
	HSBC Bank Middle East Ltd. bonds	-	Financial assets at amortized cost - current	-	15,424	-	-	
	Industrial and Commercial Bank of China Limited, Singapore Branch bonds	-	Financial assets at amortized cost - current	-	199,310	-	-	
	Investive Global Investments Ltd. bonds (XSI1528905919)	-	Financial assets at amortized cost - current	-	264,287	-	-	
	Standard Chartered PLC bonds	-	Financial assets at amortized cost - current	-	265,170	-	-	
	SUMIBK bonds	-	Financial assets at amortized cost - non-current	-	215,227	-	-	
	ABN AMRO Bank N.V. bonds (XSI1377968307)	-	Financial assets at amortized cost - non-current	-	61,425	-	-	
	ANZ New Zealand (Int'l) Ltd., London Branch bonds	-	Financial assets at amortized cost - non-current	-	122,492	-	-	
	Bank of China (Hong Kong) Limited bonds	-	Financial assets at amortized cost - non-current	-	287,769	-	-	
	Bank of China Limited, Hong Kong Branch bonds (XSI1371532208)	-	Financial assets at amortized cost - non-current	-	157,944	-	-	
	Bank of China Limited, Hong Kong Branch bonds (XSI1561673804)	-	Financial assets at amortized cost - non-current	-	210,160	-	-	
	China Construction Bank Co., Hong Kong Branch bonds	-	Financial assets at amortized cost - non-current	-	112,656	-	-	
	Credit agricole S.A., London Branch bonds	-	Financial assets at amortized cost - non-current	-	306,822	-	-	
	HSBC Holdings PLC bonds	-	Financial assets at amortized cost - non-current	-	209,676	-	-	
	ICBC, Dubai Branch bonds	-	Financial assets at amortized cost - non-current	-	276,657	-	-	
	Kookmin Bank bonds	-	Financial assets at amortized cost - non-current	-	269,547	-	-	
	Investive Global Investments Ltd. bonds (XSI1683350874)	-	Financial assets at amortized cost - non-current	-	368,762	-	-	
	Mizuho Financial Group Inc. bonds	-	Financial assets at amortized cost - non-current	-	276,326	-	-	
	QNB Finance Ltd. bonds	-	Financial assets at amortized cost - non-current	-	171,531	-	-	
	Standard UK plc. bonds	-	Financial assets at amortized cost - non-current	-	307,400	-	-	
	State Elite Global Ltd. bonds	-	Financial assets at amortized cost - non-current	-	244,395	-	-	
	Westpac Bank Corporation bonds	-	Financial assets at amortized cost - non-current	-	265,235	-	-	
	Stock	-	Financial assets at amortized cost - non-current	-	242,808	-	-	
	Champion Microelectronic Corp.	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	400	18,353	1	-
	Advanced Microelectronic Products Inc.	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	30,000	35,700	9	-
United Industrial Gases Co., Ltd.	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	4,246	113,909	2	-	
Image Match Design Inc.	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	1,400	8,459	4	-	
AnDAPT Inc.	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	1,000	5,432	4	-	
Voltafield Technology Corporation (Cayman)	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	600	371	2	-	
Shenzhen Winsemi Microelectronics Co., Ltd.	Investee	Investee	Financial assets at fair value through other comprehensive income - non-current	-	80,070	10	-	

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, 2018 all the securities were not pledged or restricted.

Note 3: With respect to the information of subsidiaries, associates and joint ventures, please see TABLE 6 and TABLE 7.

TABLE 2

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, 2018
(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		Disposal		Ending Balance			
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Cost	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
Vanguard International Semiconductor Corporation	Stock VIS Associates, Inc.	Investments accounted for using equity method	-	Subsidiaries	222	\$ 6,768,745	47 (Note 1)	\$ 1,373,951	-	\$ -	-	\$ -	269	\$ 8,676,465 (Note 2)

Note 1: Cash injection shares.

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2018

(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
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sales	\$ 5,098,011	18	30 days after closing	\$ -	\$ 353,238	-	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, 2018

(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	\$ 353,238	13.49	\$ -	-	\$ 353,122	\$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			Percentage of Consolidated Net Revenue or Total Assets
				Financial Statement Item	Amount	Terms (Note)	
0	Vanguard International Semiconductor Corporation	VIS Micro, Inc.	Transaction from ultimate parent company to subsidiary	Marketing expenses	\$ 108,888	-	0.38%
		VIS Shanghai Company Limited	Direct held subsidiary	Other payables to related parties	17,277	-	0.05%
				Marketing expenses	966	-	-

Note: For intercompany transactions, the terms were based on related agreements.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018		Net Gain (Loss) of the Investee (Foreign Currencies in Thousands)	Investment Gain (Loss) Recognized (Foreign Currencies in Thousands)	Note
				December 31, 2018 (Foreign Currencies in Thousands)	December 31, 2017 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership			
Vanguard International Semiconductor Corporation	VIS Associates Inc. CMSC, Inc.	British Virgin Islands Hsinchu City, Taiwan	Investments Integrated circuit design services and related businesses	\$ 8,269,635 112,650	\$ 6,895,684 112,650	269 9,902	100 25	\$ 8,676,465 50,407	\$ 212,061 214	Subsidiary Investment accounted for using equity method
VIS Associates Inc.	Qromis, Inc. (Note)	Delaware, USA	Semiconductor research and development related businesses	316,750 (US\$ 10,000)	316,750 (US\$ 10,000)	9,832	46	187,637 (US\$ 6,104)	(52,790) (US\$ 1,753)	Investment accounted for using equity method
VIS Investment Holding, Inc.	VIS Investment Holding, Inc.	Delaware, USA	Investments	192,125 (US\$ 6,250)	192,125 (US\$ 6,250)	63	100	83,930 (US\$ 2,730)	8,434 (US\$ 280)	Subsidiary
VIS Investment Holding, Inc.	VIS Micro, Inc.	California, USA	Marketing services	6,148 (US\$ 200)	6,148 (US\$ 200)	200	100	61,625 (US\$ 2,005)	3,888 (US\$ 129)	Subsidiary

Note : Quora Technology, Inc. changed its company name as Qromis, Inc. in October 2017.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2018

(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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	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)	\$ 78 (RMB 17 thousand)	100	\$ 78 (RMB 17 thousand)	\$ 4,419 (RMB 987 thousand)	\$ -	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$4,556 (RMB 1,000 thousand)	\$4,556 (RMB 1,000 thousand)	\$17,663,474

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 1.

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018. 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, 2018, 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 57% 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 22% 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 21% 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 2018. We also traced all of the shipping records at December 31, 2018, 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 17.
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, 2018 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

January 31, 2019

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
CURRENT ASSETS								
Cash and cash equivalents (Notes 3, 4, 6 and 30)	\$ 11,390,017	30	\$ 12,425,424	36	\$ 4,547	-	\$ 1,310,158	4
Financial assets at fair value through profit or loss - current (Notes 3, 4, 7 and 30)	1,526	-	229,998	1	1,278,483	3	-	4
Financial assets at amortized cost - current (Notes 3, 4, 5, 9, 10 and 30)	100,261	-	-	-	14,288	-	-	-
Notes and accounts receivable, net (Notes 3, 4, 5, 14 and 30)	5,311,885	14	3,645,633	11	1,192,595	3	685,660	2
Receivables from related parties (Notes 3, 4, 5, 30 and 31)	416,219	1	427,631	1	331,272	1	239,185	1
Other receivables (Notes 3, 4 and 30)	215,154	1	148,558	-	2,548,494	7	2,104,378	6
Other receivables from related parties (Notes 3, 4, 30 and 31)	3,842	-	8,248	-	27,640	-	86,321	-
Inventories (Notes 4 and 15)	3,415,585	9	2,790,970	8	1,252,561	3	724,904	2
Prepaid expenses	162,415	1	172,711	1	528,633	2	341,816	1
Other current assets (Note 19)	2,800	-	2,977	-	-	-	-	-
Total current assets	21,019,704	56	19,852,150	58	7,178,513	19	5,492,422	16
NON-CURRENT ASSETS								
Financial assets at fair value through other comprehensive income - non-current (Notes 3, 4, 8 and 30)	262,294	1	-	-	163,302	1	103,899	1
Available-for-sale financial assets - non-current (Notes 3, 4, 11 and 30)	-	-	508,516	1	804,486	2	777,101	2
Financial assets at amortized cost - non-current (Notes 3, 4, 5, 9, 10 and 30)	354,568	1	-	-	56,788	-	43,209	-
Financial assets carried at cost - non-current (Notes 3, 4, 13 and 30)	-	-	-	-	1,024,576	3	924,209	3
Investments accounted for using equity method (Notes 4 and 16)	8,918,928	24	7,056,498	21	8,203,089	22	6,416,631	19
Property, plant and equipment (Notes 4, 17 and 31)	6,443,435	17	6,248,171	18	-	-	-	-
Intangible assets (Notes 4 and 18)	25,999	-	19,271	-	-	-	-	-
Deferred income tax assets (Notes 4 and 26)	100,605	-	28,953	-	-	-	-	-
Refundable deposits	212,720	-	189,916	1	-	-	-	-
Other non-current assets (Notes 3, 4, 19, 30 and 32)	303,959	1	303,831	1	-	-	-	-
Total non-current assets	16,622,508	44	14,440,483	42	(162,717)	-	(377,030)	(1)
TOTAL ASSETS	<u>\$ 37,642,212</u>	<u>100</u>	<u>\$ 34,292,633</u>	<u>100</u>	<u>\$ 37,642,212</u>	<u>100</u>	<u>\$ 34,292,633</u>	<u>100</u>
LIABILITIES AND EQUITY								
CURRENT LIABILITIES								
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 30)	-	-	-	-	-	-	-	-
Notes and accounts payable (Note 30)	-	-	-	-	-	-	-	-
Payables to related parties (Notes 30 and 31)	-	-	-	-	-	-	-	-
Accrued employees' compensation and remuneration to directors (Notes 25 and 30)	-	-	-	-	-	-	-	-
Payables to contractors and equipment suppliers (Note 30)	-	-	-	-	-	-	-	-
Other payables (Notes 20 and 30)	-	-	-	-	-	-	-	-
Other payables to related parties (Notes 30 and 31)	-	-	-	-	-	-	-	-
Current income tax liabilities (Notes 4 and 26)	-	-	-	-	-	-	-	-
Other current liabilities (Notes 3, 4, 21, 24 and 31)	-	-	-	-	-	-	-	-
Total current liabilities	-	-	-	-	-	-	-	-
NON-CURRENT LIABILITIES								
Deferred income tax liabilities (Notes 4 and 26)	-	-	-	-	-	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 22)	-	-	-	-	-	-	-	-
Other non-current liabilities (Note 31)	-	-	-	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-
EQUITY (Notes 3, 4 and 23)								
Capital stock	-	-	85,327	-	16,389,823	43	16,389,823	48
Common stock	-	-	7,056,498	21	856,616	2	856,629	2
Capital surplus	-	-	6,248,171	18	-	-	-	-
Retained earnings	-	-	19,271	-	-	-	-	-
Legal reserve	-	-	28,953	-	4,511,070	12	4,060,564	12
Special reserve	-	-	189,916	1	377,030	1	37,956	-
Unappropriated earnings	-	-	303,831	1	7,467,301	20	6,908,060	20
Total retained earnings	-	-	303,831	1	12,355,401	33	11,006,580	32
Other equity	-	-	14,440,483	42	(162,717)	-	(377,030)	(1)
Total equity	-	-	14,440,483	42	29,439,123	78	27,876,002	81
TOTAL LIABILITIES AND EQUITY	<u>\$ 37,642,212</u>	<u>100</u>	<u>\$ 34,292,633</u>	<u>100</u>	<u>\$ 37,642,212</u>	<u>100</u>	<u>\$ 34,292,633</u>	<u>100</u>

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, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
NET REVENUE (Notes 4, 12, 24 and 31)	\$ 28,928,094	100	\$ 24,909,613	100
COST OF REVENUE (Notes 4, 15, 25 and 31)	<u>18,759,824</u>	<u>65</u>	<u>16,935,975</u>	<u>68</u>
GROSS PROFIT	<u>10,168,270</u>	<u>35</u>	<u>7,973,638</u>	<u>32</u>
OPERATING EXPENSES (Notes 25 and 31)				
Marketing	345,743	1	275,863	1
General and administrative	1,177,353	4	925,467	4
Research and development	1,494,321	5	1,546,994	6
Expected credit loss (Notes 4, 5 and 14)	<u>585</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>3,018,002</u>	<u>10</u>	<u>2,748,324</u>	<u>11</u>
OPERATING INCOME	<u>7,150,268</u>	<u>25</u>	<u>5,225,314</u>	<u>21</u>
NON-OPERATING INCOME AND EXPENSES (Note 4)				
Interest income (Note 25)	111,175	-	143,886	1
Dividend income (Notes 8 and 25)	27,978	-	25,211	-
Other income (Note 31)	92,043	-	70,492	-
Gains on disposal of property, plant and equipment (Note 31)	648	-	10	-
Net foreign exchange gain (loss) (Note 25)	218,325	1	(356,725)	(2)
Share of profit of subsidiaries, associates and joint ventures (Note 16)	159,563	1	23,385	-
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Note 25)	<u>(285,526)</u>	<u>(1)</u>	<u>152,219</u>	<u>1</u>
Total non-operating income and expenses	<u>324,206</u>	<u>1</u>	<u>58,478</u>	<u>-</u>
INCOME BEFORE INCOME TAX	7,474,474	26	5,283,792	21
INCOME TAX EXPENSE (Notes 4 and 26)	<u>(1,308,205)</u>	<u>(5)</u>	<u>(778,728)</u>	<u>(3)</u>
NET INCOME	<u>6,166,269</u>	<u>21</u>	<u>4,505,064</u>	<u>18</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	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)	\$ (20,501)	-	\$ (66,339)	-
Unrealized loss on investment in equity instruments designated as at fair value through other comprehensive income	(23,891)	-	-	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	329,041	1	(346,560)	(2)
Unrealized gain on available-for-sale financial assets	-	-	7,491	-
Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures (Note 16)	3	-	(5)	-
Total other comprehensive income (loss)	<u>284,652</u>	<u>1</u>	<u>(405,413)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 6,450,921</u>	<u>22</u>	<u>\$ 4,099,651</u>	<u>16</u>
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 3.76</u>		<u>\$ 2.75</u>	
Diluted	<u>\$ 3.72</u>		<u>\$ 2.73</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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Capital Stock		Capital Surplus		Retained Earnings		Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Other Equity		
					Legal Reserve	Special Reserve			Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Equity
BALANCE, JANUARY 1, 2017	\$ 16,389,823	\$ -	\$ 862,594	\$ -	\$ 3,506,771	\$ 115,811	\$ 7,862,220	\$ (38,066)	\$ -	\$ 110	\$ 28,699,263
Appropriation of prior year's earnings	-	-	-	-	553,793	-	(553,793)	-	-	-	-
Legal reserve	-	-	-	-	-	-	(4,916,947)	-	-	-	(4,916,947)
Cash dividends - 30%	-	-	-	-	-	(77,855)	77,855	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investment in subsidiaries, associates and joint ventures accounted for using equity method	-	-	(6,127)	-	-	-	-	-	-	-	(6,127)
Other change in capital surplus	-	-	162	-	-	-	-	-	-	-	162
Net income for the year ended December 31, 2017	-	-	-	-	-	-	4,505,064	-	-	-	4,505,064
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	-	(66,339)	(346,565)	-	7,491	(405,413)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	-	4,438,725	(346,565)	-	7,491	4,099,651
BALANCE, DECEMBER 31, 2017	16,389,823	-	856,629	-	4,060,564	37,956	6,908,060	(384,631)	-	7,601	27,876,002
Effect of retrospective application (Note 3)	-	-	-	-	-	-	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	-	(450,506)	-	-	-	-
Legal reserve	-	-	-	-	-	-	(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	\$ (655,587)	\$ (107,130)	\$ -	\$ 29,439,123

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,474,474	\$ 5,283,792
Adjustments for:		
Depreciation	1,811,378	2,016,877
Amortization	11,559	16,633
Expected credit loss/provision of allowance for doubtful accounts	585	1,300
Net losses on financial assets and liabilities at fair value through profit or loss	269	52,031
Interest income	(111,175)	(143,886)
Dividend income	(27,978)	(25,211)
Share of profit of subsidiaries, associates and joint ventures	(159,563)	(23,385)
Gains on disposal of property, plant and equipment	(648)	(10)
Net losses on foreign currency exchange	643	7,206
Changes in operating assets and liabilities:		
Financial assets held for trading	-	(6,168)
Financial assets mandatorily classified as at fair value through profit or loss	228,203	-
Notes and accounts receivable	(1,682,853)	(298,586)
Receivables from related parties	11,412	185,583
Other receivables	(65,953)	(13,385)
Other receivables from related parties	4,406	(7,424)
Inventories	(624,615)	(591,195)
Prepaid expenses	10,296	17,827
Other current assets	177	(254)
Financial liabilities held for trading	4,547	(43,029)
Notes and accounts payable	(31,675)	179,777
Payables to related parties	14,288	-
Other payables	444,116	(29,123)
Other payables to related parties	(58,681)	(8,909)
Other current liabilities	186,817	(9,271)
Net defined benefit liabilities	6,884	2,409
Accrued employees' compensation and remuneration to directors	506,935	(160,243)
Cash generated from operations	7,953,848	6,403,356
Interest received	112,883	150,504
Income tax paid	(792,797)	(666,192)
Net cash provided by operating activities	<u>7,273,934</u>	<u>5,887,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of financial assets at fair value through other comprehensive income	(104,549)	-
Acquisitions of financial assets at amortized cost	(177,749)	-
Proceeds from redemption of financial assets at amortized cost	177,198	-

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Acquisitions of financial assets designated as fair value through profit or loss	\$ -	\$ (2,902,082)
Proceeds from disposal of financial assets designated as fair value through profit or loss	-	4,054,307
Acquisitions of available-for-sale financial assets	-	(332,794)
Proceeds from disposal of available-for-sale financial assets	-	395,382
Acquisitions of held-to-maturity financial assets	-	(613,362)
Proceeds from redemption of held-to-maturity financial assets	-	605,997
Acquisitions of investment accounted for using equity method	(1,373,951)	(4,454,033)
Acquisitions of property, plant and equipment	(1,919,391)	(2,001,154)
Proceeds from disposal of property, plant and equipment	648	10
Increase in refundable deposits	(15,493)	(185,445)
Acquisitions of intangible assets	(20,651)	(6,280)
(Increase) decrease in other non-current assets	(128)	90,983
Dividends received	<u>27,978</u>	<u>25,211</u>
Net cash used in investing activities	<u>(3,406,088)</u>	<u>(5,323,260)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other non-current liabilities	13,579	30,178
Cash dividends	(4,916,947)	(4,916,947)
Unclaimed dividends	<u>115</u>	<u>162</u>
Net cash used in financing activities	<u>(4,903,253)</u>	<u>(4,886,607)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,035,407)	(4,322,199)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>12,425,424</u>	<u>16,747,623</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 11,390,017</u>	<u>\$ 12,425,424</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, 2018 AND 2017 (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) GreTai Securities Market 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 January 31, 2019.

3. APPLICATION OF NEW, AMENDED OR 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 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Corporation has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Corporation's financial assets as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$12,425,424	\$12,425,424	
Derivatives	Held for trading	Mandatorily at fair value through profit or loss (FVTPL)	9,729	9,729	
Credit linked structured investment notes	Designated as at FVTPL	Mandatorily at FVTPL	220,269	220,269	(a)
Equity securities	Available for sale	Fair value through other comprehensive income (FVTOCI)	49,153	49,153	(b)
	Financial assets carried at cost	Fair value through other comprehensive income (FVTOCI)	85,327	116,467	(b)
Debt securities	Available for sale	Amortized cost	459,363	457,383	(c)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	4,230,070	4,230,070	
Other non-current assets	Loans and receivables	Amortized cost	303,831	303,831	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Effect on Retained Earnings as of January 1, 2018	Effect on Other Equity as of January 1, 2018	Remark
<u>FVTPL</u>	\$ 229,998	\$ -	\$ -	\$ 229,998	\$ -	\$ -	
<u>FVTOCI</u>							
Equity instruments	-	-	-	-	-	-	
Add: Reclassification from available for sale (IAS 39)	-	49,153	-	49,153	120,000	(120,000)	(b)
Add: Reclassification from financial assets carried at cost (IAS 39)	-	85,327	31,140	116,467	-	31,140	(b)
	-	134,480	31,140	165,620	120,000	(88,860)	
<u>Amortized cost</u>	-	-	-	-	-	-	
Add: Reclassification from available for sale (IAS 39)	-	459,363	(1,980)	457,383	-	(1,980)	(c)
	-	459,363	(1,980)	457,383	-	(1,980)	
	\$ 229,998	\$ 593,843	\$ 29,160	\$ 853,001	\$ 120,000	\$ (90,840)	

- a) Credit linked structured investment notes were designated as at FVTPL under IAS 39 because they were hybrid instruments. They have been entirely classified as mandatorily measured at FVTPL under IFRS 9 since the host contracts are the financial assets of IFRS 9.
- b) The Corporation elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of \$5,621 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$31,140 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

The Corporation previously recognized accumulated impairment loss on available-for-sale equity investments in the retained earnings. Since these investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$120,000 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$120,000 thousand in retained earnings on January 1, 2018.

- c) Debt investments previously classified as available-for-sale financial assets under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9 on January 1, 2018, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows. The related other equity-unrealized gain on available-for-sale financial assets of \$1,980 thousand were reversed.

Hedge accounting

Due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging from January 1, 2018.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Corporation regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

Under IFRS 15, the net amount of revenue recognized and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized or advanced deposit was deducted when revenue was recognized for the contract under IAS 18.

The Corporation elects only to retrospectively apply IFRS 15 to contracts that subsist as of January 1, 2018.

For all contract modifications that occurred on or before December 31, 2017, the Corporation did not apply the requirements in IFRS 15 individually to each of the modifications, and identified the performance obligations, determined and allocated transaction price in the manner that reflected the aggregate effect of all modifications that occurred before December 31, 2017. This reduced the complexity and cost of retrospective application, and resulted in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Refund liabilities (Presented under other current liabilities)	\$ -	\$ 229,809	\$ 229,809
Provisions (Presented under other current liabilities)	<u>229,809</u>	<u>(229,809)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 229,809</u>	<u>\$ -</u>	<u>\$ 229,809</u>

Had the Corporation applied IAS 18 in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15.

Impact on assets, liabilities and equity for current year

	December 31, 2018
Increase in refund liabilities(Presented under other current liabilities)	\$ 389,056
Decrease in provisions (Presented under other current liabilities)	<u>(389,056)</u>
Increase (decrease) in liabilities	<u>\$ -</u>

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Corporation expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Corporation should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Corporation’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Corporation will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Prior to the amendment, in assessing a deferred tax asset, the Corporation assumed that it will recover the asset at its carrying amount when estimating probable future taxable profit. When the amendments become effective in 2018, the amendments shall be applied retrospectively.

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Corporation applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 2)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Corporation shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations

Definition of a lease

Upon initial application of IFRS 16, the Corporation will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Corporation as lessee

Upon initial application of IFRS 16, the Corporation will recognize 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 and short-term leases will be recognized as expenses on a straight-line basis. On the parent company only statements of comprehensive income, the Corporation will present 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 parent company only statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within

operating activities. Prior to IFRS 16, cash flows for operating leases are classified within operating activities on the parent company only statements of cash flows.

The Corporation anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Corporation expects to apply the following practical expedients:

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

The Corporation as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of 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

Except for the above impacts, as of the date the parent company only financial statements were authorized for issue, the Corporation assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have not impacts on the Corporation's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
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
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendments apply for the acquisition date of the enterprise merge and assets acquisition 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.

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

2018

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.

Cash equivalents include time deposits and bonds acquired under resale 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.

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

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

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated 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) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) Loans and receivables

Loans and receivables (including cash and cash equivalent, accounts receivable, other receivables, and other financial assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

2) Impairment of financial assets and contract assets

2018

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.

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.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include: Significant financial difficulty of the debtor; or it becoming probable that the debtor will enter bankruptcy or financial reorganization.; or a default or delinquency in interest or principal payments; or extension of the maturity date; or significant financial difficulty of the final issuer or debtor; or disappearance of an active market for that financial asset because of the issuer's financial difficulties or other reasons.

For financial assets carried at amortized cost, such as accounts receivable, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience of collecting payments, an increase in the number of delayed

payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- a) Significant financial difficulty of the issuer or counterparty; or
- b) Breach of contract, such as a default or delinquency in interest or principal payments; or
- c) It is becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- d) The disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

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.

Before 2018, on derecognition of a financial asset in its entirety, 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 is recognized in profit or loss. From 2018, 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.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to

those of the host contracts; and the contracts were not measured at FVTPL. From 2018, 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.

Before 2018, hedge accounting was discontinued prospectively when the Corporation revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. From 2018, 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 gain or loss 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 item affects profit or loss. If a hedge of a forecast 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.

Before 2018, hedge accounting was discontinued prospectively when the Corporation revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. From 2018, 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. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

2018

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.

2017

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. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Corporation does not recognize sales revenue on materials delivered to subcontractors because the risks and rewards do not be transferred.

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Corporation and that the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

o. Leasing

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

p. 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 an expense 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.

q. 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 taxes 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.

a. Business model assessment for financial assets - 2018

The Corporation determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Corporation monitors financial assets measured at amortized cost when assets are derecognized prior to their maturity, in order to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Corporation's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets is proper.

b. Estimated impairment of financial assets - 2018

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 14. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

c. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss, the Corporation takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Deposits in bank	\$ 10,314,084	\$ 12,218,924
Cash equivalents		
Bonds acquired under repurchase agreements	<u>1,075,933</u>	<u>206,500</u>
	<u>\$ 11,390,017</u>	<u>\$ 12,425,424</u>

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

	December 31	
	2018	2017
Bank deposits	0%-2.69%	0%-1.12%
Bonds acquired under resale agreements	0.48%-0.55%	0.37%-0.40%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Financial assets designated as at FVTPL</u>		
Hybrid financial assets		
Credit linked notes (a)	\$ -	\$ 220,269
<u>Financial assets held for trading</u>		
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	-	1,851
Currency-swap contracts (c)	-	7,878
	<u>-</u>	<u>9,729</u>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Derivative instruments (not designated for hedging)		
Forward exchange contracts (b)	1,275	-
Currency-swap contracts (c)	251	-
	<u>1,526</u>	<u>-</u>
Financial assets at FVTPL - current	\$ <u>1,526</u>	\$ <u>229,998</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>3,322</u>	<u>-</u>
Financial liabilities at FVTPL - current	\$ <u>4,547</u>	\$ <u>-</u>

The Corporation entered into structured investment contracts with banks in 2017. The structured investment contracts included embedded derivative instruments which were not closely related to the host contracts. The contracts were designated as at FVTPL under IAS 39.

- 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, 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
<u>December 31, 2017</u>			
Sell forward exchange contracts	US\$ to NT\$	2018.01.11-2018.01.16	US\$ 6,000

- 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, 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
<u>December 31, 2017</u>			
Sell forward exchange contracts	US\$ to NT\$	2018.01.05-2018.01.19	US\$ 28,700

The Corporation entered into foreign exchange forward contracts and currency-swap contracts during the years ended December 31, 2018 and 2017 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 - 2018

	December 31, 2018
Investments in Equity Instruments at FVTOCI - Non-current	
Domestic investments	
Listed shares	\$ 54,053
Unlisted shares	122,368
Foreign investments	
Unlisted shares	<u>85,873</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. These investments in equity instruments were classified as available-for-sale financial assets and financial assets carried at cost under IAS 39. Refer to Notes 3, 11 and 13 for information relating to their reclassification and comparative information for 2017.

Dividends from equity investments held at the reporting date were \$27,298 thousand for the year ended December 31, 2018.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
<u>Current</u>	
Domestic investments	
Financial bonds (a)	<u>\$ 100,261</u>
<u>Non-current</u>	
Domestic investments	
Financial bonds (a)	<u>\$ 354,568</u>

The financial bonds were classified as available-for-sale financial assets under IAS 39. Refer to Notes 3 and 11 for information relating to their reclassification and comparative information for 2017.

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 - 2018

Investments in debt instruments were classified as at amortized cost.

December 31, 2018

	At Amortized Cost
Gross carrying amount	\$ 454,829
Less: Allowance for impairment loss	<u>-</u>
Amortized cost	<u>\$ 454,829</u>

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

The Corporation considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast to estimate 12-month or lifetime expected credit losses. The Corporation's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31, 2018
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12-month ECL	0%	\$ 454,829

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
<u>Non-current</u>	
Listed stocks	\$ 49,153
Domestic bonds	<u>459,363</u>
	<u>\$ 508,516</u>

12. FINANCIAL INSTRUMENTS FOR HEDGING

For the year ended December 31, 2018

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, 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	\$ -

For the year ended December 31, 2017

The hedging policy for foreign currency risk of 2017 is the same as the aforesaid hedging policy of 2018, as the Corporation used the following instruments for hedging.

Gains and losses of hedging instruments were reclassified from equity to following item of profit and loss.

	For the Year Ended December 31, 2017
Revenue	<u>\$ (1,766)</u>

13. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT - 2017

	December 31, 2017
Unlisted stocks	<u>\$ 85,327</u>
Classification of financial assets	
Available-for-sale financial assets	<u>\$ 85,327</u>

The management believed that the fair value of the aforementioned unlisted equity investments held by the Corporation cannot be reliably measured due to the range of reasonable fair value estimates was significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the unlisted stocks were measured at cost less impairment at the end of reporting period.

14. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2018	2017
<u>Notes and accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 5,315,757	\$ 3,648,920
Less: Allowance for impairment loss	<u>(3,872)</u>	<u>(3,287)</u>
	<u>\$ 5,311,885</u>	<u>\$ 3,645,633</u>

For the year ended December 31, 2018

At amortized cost

The average credit period on sales of goods was 30 to 45 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 Corporations. 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, 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 follow:

	December 31, 2018
Balance at January 1, 2018 (IAS 39)	\$ 3,287
Effect of retrospective application of IFRS 9	<u>-</u>
Balance at January 1, 2018 (IFRS 9)	3,287
Add: Net remeasurement of loss allowance	<u>585</u>
Balance at December 31, 2018	<u>\$ 3,872</u>

For the year ended December 31, 2017

The Corporation applied the same credit policy in 2018 and 2017.

In determining the recoverability of a trade receivable, the Corporation considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts was based on estimated irrecoverable amounts determined by reference to past default experience of the counterparts and an analysis of their current financial position.

For the accounts receivable balance that were past due at the end of the reporting period, the Corporation had not recognized an allowance for doubtful accounts since there had not been a significant change in the credit quality of its customers and the amounts were still considered recoverable.

The aging analysis of notes and accounts receivable was as follow:

		December 31, 2017
Past Due Days		
Not past due and not impaired	0 days	<u>\$ 3,564,166</u>
Past due but not impaired	Less than 60 days	78,247
	61-90 days	2,605
	More than 90 days	<u>615</u>
		<u>81,467</u>
		<u>\$ 3,645,633</u>

The above aging analysis was based on the past due dates.

Movement of the allowance for doubtful accounts was as follow:

	Year Ended December 31, 2017
Balance, beginning of year	\$ 1,987
Add: Provision	<u>1,300</u>
Balance, end of year	<u>\$ 3,287</u>

15. INVENTORIES

	December 31	
	2018	2017
Finished goods	\$ 210,248	\$ 184,492
Work in process	1,707,479	1,574,457
Raw materials	1,044,442	628,689
Supplies and spare parts	<u>453,416</u>	<u>403,332</u>
	<u>\$ 3,145,585</u>	<u>\$ 2,790,970</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	
	2018	2017
Cost of revenue	<u>\$ 18,759,824</u>	<u>\$ 16,935,975</u>
Provision of inventory valuation and obsolescence loss	<u>\$ 71,859</u>	<u>\$ 87,311</u>
Unallocated manufacturing overheads	<u>\$ 32,919</u>	<u>\$ 306,971</u>

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	\$ 8,680,884	\$ 6,773,158
Investments in associates	<u>238,044</u>	<u>283,340</u>
	<u>\$ 8,918,928</u>	<u>\$ 7,056,498</u>

a. Investments in subsidiaries

	December 31	
	2018	2017
Unlisted stocks		
VIS Associates Inc.	\$ 8,676,465	\$ 6,768,745
VIS Shanghai Company Limited	<u>4,419</u>	<u>4,413</u>
	<u>\$ 8,680,884</u>	<u>\$ 6,773,158</u>

Proportion of Ownership and Voting Rights

	December 31	
	2018	2017
VIS Associates Inc.	100%	100%
VIS Shanghai Company Limited (Note)	100%	100%

Note: VIS Shanghai Company Limited was established in August 2017. The Corporation injected capital of RMB 1,000 thousand in October 2017.

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, 2018 and 2017 were based on the subsidiaries' financial statements audited by the auditors for the same years.

b. Investments in associates

	December 31	
	2018	2017
<u>Associates individually immaterial</u>		
CMSC, Inc.	\$ 50,407	\$ 50,190
Qromis, Inc. (Note)	<u>187,637</u>	<u>233,150</u>
	<u>\$ 238,044</u>	<u>\$ 283,340</u>

Note: Quora Technology, Inc. changed its company name as Qromis, Inc. in October 2017.

Refer to Table 5 "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	
	2018	2017
The Corporation's share of		
Loss from continuing operations	\$ (52,576)	\$ (57,291)
Other comprehensive income (loss)	<u>3</u>	<u>(5)</u>
 Total comprehensive loss for the year	 <u>\$ (52,573)</u>	 <u>\$ (57,296)</u>

In March 2016, the Corporation subscribed 5,000 thousand shares of preferred stocks of Qromis, Inc. in cash amounting to \$166,175 thousand with 31.04% of voting rights and exercised significant influence over Qromis, Inc. In June 2017, the Corporation subscribed 4,832 thousand shares of preferred stocks of Qromis, Inc. amounting to 150,575 thousand. As of December 31, 2018, the Corporation's percentage of voting rights in Qromis, Inc. was 46.48%.

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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and Equipment	Other Equipment	Advance Payments and Construction in Progress	Total
<u>Cost</u>					
Balance, January 1, 2017	\$ 15,080,497	\$ 57,303,574	\$ 393,752	\$ 483,354	\$ 73,261,177
Additions	275,794	1,396,087	2,347	307,533	1,981,761
Disposal	-	(2,437)	(469)	-	(2,906)
Reclassified	<u>-</u>	<u>-</u>	<u>658</u>	<u>-</u>	<u>658</u>
Balance, December 31, 2017	<u>\$ 15,356,291</u>	<u>\$ 58,697,224</u>	<u>\$ 396,288</u>	<u>\$ 790,887</u>	<u>\$ 75,240,690</u>
<u>Accumulated depreciation</u>					
Balance, January 1, 2017	\$ 12,705,146	\$ 53,721,268	\$ 368,613	\$ -	\$ 66,795,027
Depreciation	544,058	1,462,128	10,691	-	2,016,877
Disposal	<u>-</u>	<u>(2,437)</u>	<u>(469)</u>	<u>-</u>	<u>(2,906)</u>
Balance, December 31, 2017	<u>\$ 13,249,204</u>	<u>\$ 55,180,959</u>	<u>\$ 378,835</u>	<u>\$ -</u>	<u>\$ 68,808,998</u>
<u>Accumulated impairment</u>					
Balance, January 1, 2017 and December 31, 2017	<u>\$ -</u>	<u>\$ 183,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,521</u>
Carrying amounts on December 31, 2017	<u>\$ 2,107,087</u>	<u>\$ 3,332,744</u>	<u>\$ 17,453</u>	<u>\$ 790,887</u>	<u>\$ 6,248,171</u>

(Continued)

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

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

18. INTANGIBLE ASSETS

	<u>Years Ended December 31</u>	
	2018	2017
<u>Computer software</u>		
<u>Cost</u>		
Balance, January 1	\$ 794,605	\$ 788,983
Additions	20,651	6,280
Reclassified to property, plant and equipment	<u>(2,364)</u>	<u>(658)</u>
Balance, December 31	<u>812,892</u>	<u>794,605</u>
<u>Accumulated amortization</u>		
Balance, January 1	775,334	758,701
Amortization	<u>11,559</u>	<u>16,633</u>
Balance, December 31	<u>786,893</u>	<u>775,334</u>
Carrying amount, end of year	<u>\$ 25,999</u>	<u>\$ 19,271</u>

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

Computer software 3 to 5 years

19. OTHER ASSETS

	December 31	
	2018	2017
Pledged time deposit	\$ 303,959	\$ 303,831
Others	<u>2,800</u>	<u>2,977</u>
	<u>\$ 306,759</u>	<u>\$ 306,808</u>
Current	\$ 2,800	\$ 2,977
Non-current	<u>303,959</u>	<u>303,831</u>
	<u>\$ 306,759</u>	<u>\$ 306,808</u>

20. OTHER PAYABLES

	December 31	
	2018	2017
Bonus	\$ 793,571	\$ 611,285
Maintenance	667,036	535,817
Utilities	133,788	127,234
Others	<u>954,099</u>	<u>830,042</u>
	<u>\$ 2,548,494</u>	<u>\$ 2,104,378</u>

21. OTHER CURRENT LIABILITIES

	December 31	
	2018	2017
Refund liabilities (Provision of sales returns and allowances)	\$ 389,056	\$ 229,809
Contract liabilities - advanced receipts	139,577	-
Advanced receipts	-	112,000
Others	<u>-</u>	<u>7</u>
	<u>\$ 528,633</u>	<u>\$ 341,816</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	
	2018	2017
Present value of defined benefit obligation	\$ 1,131,640	\$ 1,107,016
Fair value of plan assets	<u>(327,154)</u>	<u>(329,915)</u>
Net defined benefit liability	<u>\$ 804,486</u>	<u>\$ 777,101</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
Balance at January 1, 2017	<u>\$ 1,034,785</u>	<u>\$ (326,432)</u>	<u>\$ 708,353</u>
Service cost			
Current service cost	7,681	-	7,681
Interest expense (income)	<u>15,419</u>	<u>(4,903)</u>	<u>10,516</u>
Recognized in profit or loss	<u>23,100</u>	<u>(4,903)</u>	<u>18,197</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,640	1,640
Actuarial gain - changes in financial assumptions	(21,662)	-	(21,662)
Actuarial loss - experience adjustments	<u>86,361</u>	<u>-</u>	<u>86,361</u>
Recognized in other comprehensive income	<u>64,699</u>	<u>1,640</u>	<u>66,339</u>
Contributions from the employer	<u>-</u>	<u>(14,699)</u>	<u>(14,699)</u>
Benefits paid	<u>(15,568)</u>	<u>14,479</u>	<u>(1,089)</u>
Balance at December 31, 2017	<u>1,107,016</u>	<u>(329,915)</u>	<u>777,101</u>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability
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> (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 significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rates	1.25%	1.65%
Expected rates of salary increase	3.25%	3.50%

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

	<u>December 31</u>	
	2018	2017
Discount rates		
0.50% increase	<u>\$ (41,664)</u>	<u>\$ (68,284)</u>
0.50% decrease	<u>\$ 44,512</u>	<u>\$ 74,471</u>
Expected rates of salary increase		
0.50% increase	<u>\$ 43,443</u>	<u>\$ 72,739</u>
0.50% decrease	<u>\$ (41,107)</u>	<u>\$ (64,445)</u>

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

	<u>December 31</u>	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 15,804</u>	<u>\$ 15,213</u>
The average duration of the defined benefit obligation	7.6 years	13 years

Maturity analysis of pension benefit was as follow:

	<u>December 31</u>	
	2018	2017
Maturity analysis of undiscounted pension benefit		
No later than 1 year	\$ 58,686	\$ 24,818
Later than 1 year and not later than 5 years	441,008	164,613
Later than 5 years	<u>797,725</u>	<u>1,342,568</u>
	<u>\$ 1,297,419</u>	<u>\$ 1,531,999</u>

23. EQUITY

a. Capital stock

Common stock

	<u>December 31</u>	
	2018	2017
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	
	2018	2017
<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	25,610	25,738
Unclaimed dividends	<u>277</u>	<u>162</u>
	<u>\$ 856,616</u>	<u>\$ 856,629</u>

The capital surplus from stocks 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 or transferred to capital, which are limited to a certain percentage of the Corporation's paid-in capital.

c. Retained earnings 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 2017 and 2016 having been approved in the shareholders' meetings on June 14, 2018 and June 16, 2017, respectively, were as follows:

	Appropriations of Earnings		Dividends Per Share (NT\$)	
	2017	2016	2017	2016
Provision of legal reserve	\$ 450,506	\$ 553,793	\$ -	\$ -
Provision (reversal) of special reserve	339,074	(77,855)	-	-
Cash dividends	4,916,947	4,916,947	3.00	3.00

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on January 31, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
Provision of legal reserve	\$ 616,627	\$ -
Reversal of special reserve	(214,313)	-
Cash dividend	5,244,743	3.2

The appropriation of earnings for 2018 is subject to the resolution of the shareholders' meeting to be held on June 14, 2019.

d. Other equity

1) Exchange differences on translation of foreign operations

	Years Ended December 31	
	2018	2017
Balance, beginning of year	\$ (384,631)	\$ (38,066)
Recognized during the period		
Exchange differences on translation of foreign operations	329,041	(346,560)
Share of exchange differences of subsidiaries and associates accounted for using equity method	3	(5)
Recognized in other comprehensive income (loss)	<u>329,044</u>	<u>(346,565)</u>
Balance, end of year	\$ <u>(55,587)</u>	\$ <u>(384,631)</u>

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

	Year Ended December 31, 2018
Balance, beginning of year (IAS 39)	\$ -
Effect of retrospective application of IFRS 9	<u>(83,239)</u>
Balance, beginning of year (IFRS 9)	<u>(83,239)</u>
Recognized during the period	
Unrealized loss - equity instruments	<u>(23,891)</u>
Recognized in other comprehensive income	<u>(23,891)</u>
Balance, end of year	\$ <u>(107,130)</u>

3) Unrealized gain (loss) on available-for-sale financial assets

Balance, January 1, 2017	\$ <u>110</u>
Recognized during the year	
Unrealized gain on revaluation of available-for-sale financial assets	<u>7,491</u>
Recognized in other comprehensive income	<u>7,491</u>
Balance at December 31, 2017	7,601
Effect of retrospective application of IFRS 9	<u>(7,601)</u>
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

Unrealized gains or losses on available-for-sale financial assets represent the cumulative gains or losses arising from the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income netting the amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

24. REVENUE

	Years Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sales of goods	\$ 28,459,367	\$ 24,505,629
Others	<u>403,092</u>	<u>311,522</u>
	<u>28,862,459</u>	<u>24,817,151</u>
Other operating revenue		
Rental income	33,843	37,040
Others	<u>31,792</u>	<u>55,422</u>
	<u>65,635</u>	<u>92,462</u>
	<u>\$ 28,928,094</u>	<u>\$ 24,909,613</u>

Refer to Note 12 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, 2018 and 2017.

a. Disaggregation of revenue

1) Disaggregation of revenue by region

<u>Regions</u>	Year Ended December 31, 2018
Asia	\$ 26,011,474
Europe	1,841,180
America	1,074,778
Oceania	625
Africa	<u>37</u>
	<u>\$ 28,928,094</u>

2) Disaggregation of revenue by platform

	Year Ended December 31, 2018
<u>Platforms</u>	
Power Management	\$ 14,226,047
Large panel driver IC	8,841,943
Small panel driver IC	3,331,855
Other platforms	<u>2,059,522</u>
Revenue from sales of goods	28,459,367
Other revenue	<u>468,727</u>
 Total revenue	 <u>\$ 28,928,094</u>

3) Disaggregation of revenue by Process

	Year Ended December 31, 2018
<u>Processes</u>	
0.18 micron (and) below	\$ 10,559,505
0.25 micron	4,094,829
0.35 micron	6,416,788
0.5 micron (and) above	<u>7,388,245</u>
Revenue from sales of goods	28,459,367
Other revenue	<u>468,727</u>
 Total revenue	 <u>\$ 28,928,094</u>

b. Contact balances

	December 31, 2018
Notes and accounts receivable, net (Note 14)	\$ 5,311,885
Receivables from related parties (Note 31)	<u>416,219</u>
 Trade Receivables	 <u>\$ 5,728,104</u>
 Contract liabilities	
Contract liabilities - advanced receipts (Other current liabilities) (Note 21)	<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 year ended December 31, 2018 were as follow:

	Year Ended December 31, 2018
Revenues from the beginning balance of contract liability	
Sales of goods	<u>\$ 81,350</u>

25. OTHER ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Depreciation and amortization

	Years Ended December 31	
	2018	2017
Classification of depreciation - by function		
Cost of revenue	\$ 1,774,284	\$ 1,942,260
Operating expenses	<u>37,094</u>	<u>74,617</u>
	<u>\$ 1,811,378</u>	<u>\$ 2,016,877</u>
Classification of amortization - by function		
Cost of revenue	\$ 4,033	\$ 7,750
Operating expenses	<u>7,526</u>	<u>8,883</u>
	<u>\$ 11,559</u>	<u>\$ 16,633</u>

b. Employee benefits expense

	Years Ended December 31	
	2018	2017
Post-employment benefits (see Note 22)		
Defined contribution plans	\$ 221,130	\$ 211,573
Defined benefit plans	<u>22,191</u>	<u>18,197</u>
	243,321	229,770
Other employee benefits	<u>7,375,444</u>	<u>6,223,847</u>
Total employee benefits expense	<u>\$ 7,618,765</u>	<u>\$ 6,453,617</u>
Employee benefits expense summarized by function		
Cost of revenue	\$ 5,874,795	\$ 5,151,469
Operating expenses	<u>1,743,970</u>	<u>1,302,148</u>
	<u>\$ 7,618,765</u>	<u>\$ 6,453,617</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, 2018 and 2017, the employees' compensation was \$1,170,000 thousand and \$675,760 thousand, respectively. For the years ended December 31, 2018 and 2017, the remuneration to directors was \$22,195 thousand and \$9,900 thousand, respectively. The above calculation was at a certain percentage of the base income.

If there is any 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 2018 and 2017 were resolved by the board of directors on January 29, 2019 and February 5, 2018, respectively. The amounts of the employees' compensation and remuneration to directors are disclosed on the table below.

	For the Years Ended December 31			
	2018		2017	
	Cash	Stock	Cash	Stock
Employees' compensation	\$ 1,170,000	\$ -	\$ 675,760	\$ -
Remuneration to directors	22,195	-	9,900	-

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, 2017 and 2016.

Information of the employees' compensation and remuneration to directors resolved by the Corporation's board of directors in 2019 and 2018 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	
	2018	2017
Interest income		
Cash and cash equivalents	\$ 104,995	\$ 133,964
Available-for-sale financial assets	-	6,615
Held-to-maturity financial assets	-	2,988
Financial assets at amortized cost	6,180	-
Other financial assets	-	319
	<u>\$ 111,175</u>	<u>\$ 143,886</u>
Dividends		
Available-for-sale financial assets	\$ -	\$ 244
Financial assets carried at cost	-	24,967
Investments in equity instruments at FVTOCI	27,978	-
	<u>\$ 27,978</u>	<u>\$ 25,211</u>

(Continued)

	Years Ended December 31	
	2018	2017
Net foreign exchange gain (loss)		
Available-for-sale financial assets	\$ -	\$ (1,560)
Held-to-maturity financial assets	-	(5,852)
Financial assets at amortized cost	(753)	-
Other monetary assets and liabilities	<u>219,078</u>	<u>(349,313)</u>
	<u>\$ 218,325</u>	<u>\$ (356,725)</u>
Gain (loss) on financial assets and liabilities at FVTPL		
Financial assets and liabilities mandatorily classified as at FVTPL (2018)		
Forward exchange and currency-swap contracts	\$ (286,058)	\$ -
Credit linked notes	532	-
Financial assets and liabilities held for trading (2017)		
Forward exchange and currency-swap contracts	-	191,593
Funds	-	6
Financial assets designated as at FVTPL (2017)		
Credit linked notes	-	(5,280)
Interest rate linked notes	-	(29,645)
Exchange linked notes	<u>-</u>	<u>(4,455)</u>
	<u>\$ (285,526)</u>	<u>\$ 152,219</u> (Concluded)

26. INCOME TAXES

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

	Years Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 1,512,497	\$ 904,460
Adjustments for prior years' tax	<u>(192,043)</u>	<u>(117,955)</u>
	1,320,454	786,505
Deferred income tax		
In respect of the current year	<u>(12,249)</u>	<u>(7,777)</u>
Income tax expenses recognized in profit or loss	<u>\$ 1,308,205</u>	<u>\$ 778,728</u>

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

	Years Ended December 31	
	2018	2017
Income before income tax	<u>\$ 7,474,474</u>	<u>\$ 5,283,792</u>
Income tax expense calculated at the statutory rate	\$ 1,494,895	\$ 898,245
Additional items in determining taxable income	11,894	4,761
Income tax on unappropriated earnings	-	7,278
The origination and reversal of temporary differences	(6,541)	(13,601)
Adjustments for prior years' tax	<u>(192,043)</u>	<u>(117,955)</u>
Income tax expense recognized in profit or loss	<u>\$ 1,308,205</u>	<u>\$ 778,728</u>

In 2017, the applicable corporate income tax rate used by the Corporation entities is 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Current tax liabilities

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Current tax liabilities		
Income tax payable	<u>\$ 1,252,561</u>	<u>\$ 724,904</u>

c. Deferred income tax assets and liabilities

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

For the year ended December 31, 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>

For the year ended December 31, 2017

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

Deferred Income Tax Liabilities	Balance, Beginning of Year	Movements	Balance, End of Year
Temporary differences	<u>\$ 82,723</u>	<u>\$ 21,176</u>	<u>\$ 103,899</u>

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Deductible temporary differences	<u>\$ 195,258</u>	<u>\$ 184,063</u>

- e. Unrecognized deferred income tax liabilities associated with investments

As of December 31, 2018 and 2017, there were no taxable temporary differences associated with investment in subsidiaries for which no deferred income tax liabilities have been recognized.

- h. Income tax assessments

Income tax returns through 2016 had been examined and cleared by the tax authorities.

27. EARNINGS PER SHARE

Unit: NT\$ Per Share

	Years Ended December 31	
	2018	2017
Basic earnings per share	<u>\$ 3.76</u>	<u>\$ 2.75</u>
Diluted earnings per share	<u>\$ 3.72</u>	<u>\$ 2.73</u>

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	
	2018	2017
Earnings used in computation of basic earnings per share	\$ 6,166,269	\$ 4,505,064
Effect of dilutive potential common stocks:		
Employees' compensation	-	-
Earnings used in the computation of diluted earnings per share	<u>\$ 6,166,269</u>	<u>\$ 4,505,064</u>

Shares

	Years Ended December 31	
	2018	2017
Weighted average number of common stocks used in the computation of basic earnings per share	1,638,982	1,638,982
Effect of dilutive potential common stocks:		
Employees' compensation	<u>20,661</u>	<u>12,108</u>
Weighted average number of common stocks used in the computation of diluted earnings per share	<u>1,659,643</u>	<u>1,651,090</u>

Since the Corporation is allowed to settle the 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. OPERATING LEASE ARRANGEMENTS

The Corporation as lessee

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 2019, 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.

The future minimum lease payments of non-cancellable operating leases commitments are as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Not later than 1 year	\$ 82,339	\$ 75,432
Later than 1 year and not later than 5 years	319,647	306,228
Later than 5 years	<u>451,926</u>	<u>505,471</u>
	<u>\$ 853,912</u>	<u>\$ 887,131</u>

The lease payments recognized as expenses were as follows:

	<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Minimum lease payment	<u>\$ 81,826</u>	<u>\$ 76,534</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, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<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, 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

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ -	\$ 9,729	\$ -	\$ 9,729
Hybrid financial assets	-	220,269	-	220,269
	<u>\$ -</u>	<u>\$ 229,998</u>	<u>\$ -</u>	<u>\$ 229,998</u>
Available-for-sale financial assets				
Equity instruments				
Domestic listed stocks	\$ 19,153	\$ 30,000	\$ -	\$ 49,153
Debts instruments				
Domestic financial bonds	459,363	-	-	459,363
	<u>\$ 478,516</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 508,516</u>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, respectively.

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

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

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

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

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

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

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

c. Categories of financial instruments

	<u>December 31</u>	
	2018	2017
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ -	\$ 9,729
Designated as at FVTPL	-	220,269
Mandatorily at FVTPL	1,526	-
Loans and receivables (Note 1)	-	16,959,325
Available-for-sale financial assets (Note 2)	-	593,843
Financial assets at amortized cost (Note 3)	18,095,905	-
Financial assets at FVTOCI		
Equity instruments	262,294	-
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	4,547	-
Measured at amortized cost (Note 4)	5,392,772	4,425,702

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

Note 2: The balances included the carrying amount of available-for-sale financial assets measured at cost.

Note 3: 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 4: 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 and accounts payable. 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 derivative 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 monitorship 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 the 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 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	
	2018	2017
Loss	\$ 129,792	\$ 139,411

	Impact on JPY Items	
	Years Ended December 31	
	2018	2017
Gain	\$ 10,712	\$ 1,895

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 with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 10,482,283	\$ 11,541,581
Cash flow interest rate risk		
Financial assets	1,666,522	1,867,306

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/decreases by 0.1% and all other variables remain constant, the pre-tax profit of the Corporation for the years ended on December 31, 2018 and 2017 will increase/decrease \$1,667 thousand and \$1,867 thousand, respectively, resulting from the exposure of the net assets with floating rates.

c) Other price risk

2018

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.

2017

The Corporation is exposed to price risk arising from its investments in available-for-sale stocks and bonds. 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, 2018 would have an increase/decrease of \$13,115 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If available-for-sale stocks and bonds prices had been 5% higher/lower, the other comprehensive income for the years ended December 31, 2017 would have an increase/decrease of \$25,426 thousand, as a result of the changes in fair value of available-for-sale financial investments in stocks and bonds.

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 customers' financial conditions.

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.

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, 2018

	Less Than 1 Year	More Than 1 Year
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	<u>\$ 5,392,772</u>	<u>\$ -</u>

December 31, 2017

	Less Than 1 Year	More Than 1 Year
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	<u>\$ 4,425,702</u>	<u>\$ -</u>

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, 2018

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

December 31, 2017

	Less Than 1 Year	More Than 1 Year
<u>Gross settled</u>		
Forward exchange and currency-swap contracts		
Inflows	\$ 1,038,896	\$ -
Outflows	<u>(1,029,167)</u>	<u>-</u>
	<u>\$ 9,729</u>	<u>\$ -</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
TSMC China Company Limited	Substantial related parties
Systems on Silicon Manufacturing Co. Pte. Ltd.	Substantial related parties
CMSC, Inc.	Associates
Qromis, Inc. (Note)	Associates
Vis Micro, Inc.	Subsidiaries
VIS Shanghai Company Limited	Subsidiaries

Note: Quora Technology, Inc. changed its company name as Qromis, Inc. in October 2017.

b. Operating transactions

	<u>Revenue from Sales of Goods</u>		<u>Purchases</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	2018	2017	2018	2017
Investors that have significant influence over the Corporation				
Taiwan Semiconductor Manufacturing Company Ltd.	<u>\$ 5,098,011</u>	<u>\$ 5,728,778</u>	<u>\$ 56</u>	<u>\$ -</u>
Key management personnel	<u>\$ 236,978</u>	<u>\$ 112,264</u>	<u>\$ -</u>	<u>\$ -</u>
Substantial related parties	<u>\$ 43,885</u>	<u>\$ 42,228</u>	<u>\$ 34,833</u>	<u>\$ -</u>
Associates	<u>\$ 53,242</u>	<u>\$ 37,305</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Manufacturing Expenses</u>		<u>Research and Development Expenses</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	2018	2017	2018	2017
Investors that have significant influence over the Corporation	<u>\$ 206,121</u>	<u>\$ 358,758</u>	<u>\$ -</u>	<u>\$ 2,334</u>
Substantial related parties	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ -</u>
Associates	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275</u>

	Marketing Expenses	
	Years Ended December 31	
	2018	2017
Subsidiaries		
Vis Micro, Inc.	\$ 108,888	\$ 84,296
VIS Shanghai Company Limited	<u>966</u>	<u>-</u>
	<u>\$ 109,854</u>	<u>\$ 84,296</u>
	Non-operating Income and Gains	
	Years Ended December 31	
	2018	2017
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 13,226	\$ 16,124
Key management personnel	<u>12</u>	<u>178</u>
	<u>\$ 13,238</u>	<u>\$ 16,302</u>
The following balances were outstanding at the end of the reporting period:		
	Receivables from Related Parties	
	December 31	
	2018	2017
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 353,238	\$ 402,422
Key management personnel	33,611	6,217
Associates	14,805	8,172
Substantial related parties	<u>14,565</u>	<u>10,820</u>
	<u>\$ 416,219</u>	<u>\$ 427,631</u>
	Other Receivables from Related Parties	
	December 31	
	2018	2017
Investors that have significant influence over the Corporation		
Taiwan Semiconductor Manufacturing Company Ltd.	\$ 3,842	\$ 7,528
Key management personnel	-	564
Associates	<u>-</u>	<u>156</u>
	<u>\$ 3,842</u>	<u>\$ 8,248</u>
	Payables to Related Parties	
	December 31	
	2018	2017
Substantial related parties		
Systems on Silicon Manufacturing Co. Pte. Ltd.	\$ 14,228	\$ -
Investors that have significant influence over the Corporation	<u>60</u>	<u>-</u>
	<u>\$ 14,288</u>	<u>\$ -</u>

		<u>Other Payables to Related Parties</u>	
		<u>December 31</u>	
		<u>2018</u>	<u>2017</u>
Investors that have significant influence over the Corporation			
Taiwan Semiconductor Manufacturing Company Ltd.		\$ 10,363	\$ 77,948
Subsidiaries			
Vis Micro, Inc.		<u>17,277</u>	<u>8,373</u>
		<u>\$ 27,640</u>	<u>\$ 86,321</u>
			Contract
			Liabilities -
			Advanced
			Receipts (Other
			Current
			Liabilities)
			<u>December 31,</u>
			<u>2018</u>
Key management personnel			\$ 3,462
Associates			<u>550</u>
			<u>\$ 4,012</u>
			Guarantee Deposits (Other
			Non-current Liabilities)
			<u>December 31</u>
		<u>2018</u>	<u>2017</u>
Key management personnel			
Shenzhen Winsemi Microelectronics Co., Ltd.		<u>\$ 12,296</u>	<u>\$ -</u>
		Disposal of Property, Plant and Equipment	
		Proceeds	
		Gain (Loss) on Disposal	
		Years Ended December 31	
		2018	2017
Key management personnel		<u>\$ 236</u>	<u>\$ -</u>
		<u>\$ 236</u>	<u>\$ -</u>

The terms of sales and purchases transactions with related parties were not significantly different from those with third parties. However, for other related-party transactions, license fees, research and development expenses, marketing expenses, 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

	<u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 211,056	\$ 144,746
Post-employment benefits	<u>2,940</u>	<u>2,694</u>
	<u>\$ 213,996</u>	<u>\$ 147,440</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:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Pledged time deposits (presented under other non-current assets)	<u>\$ 303,959</u>	<u>\$ 303,831</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The significant commitments of the Corporation as of December 31, 2018 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

- a. In response to business growth, the Corporation established a wholly owned subsidiary in Singapore, named VANGUARD INTERNATIONAL SEMICONDUCTOR SINGAPORE PTE. LTD. (“VIS SG”), on January 21, 2019. The initial capital amounted to SGD 10 thousand.
- b. On January 31, 2019, the Corporation's board of directors resolved VIS SG to acquire the leasehold property, facilities, tools and equipment and IP of 8-inch Fab (FAB 3E) located in Singapore from GLOBALFOUNDRIES SINGAPORE PTE. LTD. In order to facilitate this investment, the Corporation's board of directors resolved on capital injection to VIS SG amounting to SGD 399,990 thousand, loaning of funds to VIS SG amounting to USD 55,000 thousand, and providing VIS SG endorsements and guarantees amounting to USD 236,000 thousand.

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			
	2018		2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 197,28	30.74	\$ 165,837	29.659
EUR	226	35.25	1,194	35.58
JPY	17,976	0.2769	57,491	0.2646
RMB	70	4.475	-	-
Non-monetary items				
USD	288,546	30.74	237,080	29.659
RMB	18,880	4.475	970	4.549
Derivative instruments				
USD	4,200	30.74	-	-
EUR	1,300	35.25	-	-
<u>Financial liabilities</u>				
Monetary items				
USD	32,473	30.74	37,128	29.659
EUR	2,141	35.25	1,564	35.58
JPY	325,483	0.2769	200,739	0.2646
Derivative instruments				
USD	84,490	30.74	34,700	29.659
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, 2018 and 2017, 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: None.
- b. Endorsements/guarantees provided: None.
- c. Marketable securities held (excluding investment in subsidiaries, associates and joint ventures): Table 1 (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 2 (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 3 (attached)
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
- i. Trading in derivative instruments: Notes 7 and 12.
- j. Information on investees: Table 5 (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 6 (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

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018

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

Holding Company Name	Marketable Security Type and Name (Note 1)	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2018			Note	
				Shares/Units (Thousands)	Carrying Value	% of Ownership		Market Value or Net Asset Value
Vanguard International Semiconductor Corporation	Bonds	-	Financial assets at amortized cost - current	-	\$ 100,216	-	\$ 100,361	-
	Shanghai Commercial & Saving Bank 2012 2 nd Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	101,273	-	101,975	-
	MEGA Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	151,031	-	153,021	-
	MEGA Bank 2014 2 nd Subordinated Financial Debentures	-	Financial assets at amortized cost - non-current	-	101,364	-	101,989	-
	Taiwan Cooperative Bank 2014 1 st Subordinated Financial Debentures	-	Financial assets at fair value through other comprehensive income - non-current	400	18,353	1	18,353	-
	Champion Microelectronic Corp.	Investee	Financial assets at fair value through other comprehensive income - non-current	30,000	35,700	9	35,700	-
	Advanced Microelectronic Products Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	4,246	113,909	2	113,909	-
	United Industrial Gases Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income - non-current	1,400	8,459	4	8,459	-
	Image Match Design Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	1,000	5,432	4	5,432	-
	AnDAPT Inc.	Investee	Financial assets at fair value through other comprehensive income - non-current	600	371	2	371	-
	Voltafield Technology Corporation (Cayman)	Investee	Financial assets at fair value through other comprehensive income - non-current	-	80,070	10	80,070	-
	Shenzhen Winsemi Macroelectronics 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, 2018, all the securities were not pledged or restricted.

Note 3: With respect to the information of subsidiaries, associates and joint ventures, please see TABLE 5 and TABLE 6.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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, 2018
(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		Disposal			Ending Balance		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Cost	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
Vanguard International Semiconductor Corporation	Stock VIS Associates, Inc.	Investments accounted for using equity method	-	Subsidiaries	222	\$ 6,768,745	47 (Note 1)	\$ 1,373,951	-	\$ -	-	\$ -	269	\$ 8,676,465 (Note 2)

Note 1: Cash injection shares.

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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, 2018

(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
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sales	\$ 5,098,011	18	30 days after closing	\$ -	\$ 353,238	6	-

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 DECEMBER 31, 2018

(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	\$ 353,238	13.49	\$ -	-	\$ 353,122	\$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018		Carrying Value (Foreign Currencies in Thousands)	Net Gain (Loss) of the Investee (Foreign Currencies in Thousands)	Investment Gain (Loss) Recognized (Foreign Currencies in Thousands)	Note
				December 31, 2018 (Foreign Currencies in Thousands)	December 31, 2017 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership				
Vanguard International Semiconductor Corporation	VIS Associates Inc. CMSC, Inc.	British Virgin Islands Hsinchu Cty, Taiwan	Investments Integrated circuit design services and related businesses	\$ 8,269,635 112,650	\$ 6,895,684 112,650	269 9,902	100% 25%	\$ 8,676,465 50,407	\$ 212,061 857	\$ 212,061 214	Subsidiary investment accounted for using equity method
	Qromis, Inc. (Note)	Delaware, USA	Semiconductor research and development related businesses	316,750 (USD 10,000)	316,750 (USD 10,000)	9,832	46%	187,637 (USD 6,104)	(113,575) (USD(3,771))	(52,790) (USD(1,753))	

Note: Quora Technology, Inc. changed its company name as Qromis, Inc. in October 2017.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outflow	Inflow							
VIS Shanghai Company Limited	Marketing services	\$ (RMB 4,556 thousand)	Note 1	\$ (RMB 4,556 thousand)	\$ -	\$ -	\$ (RMB 4,556 thousand)	\$ (RMB 78 thousand)	100	\$ (RMB 78 thousand)	\$ (RMB 4,419 thousand)	\$ -	-
Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018				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)	\$17,663,474								

Note 1: Directly invested.

Note 2: Amount was recognized based on the subsidiary's audited financial statements which were audited by the certified public accountant 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 1.

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.