

**Nuvoton Technology Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Three Months Ended March 31, 2020 and 2019 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Nuvoton Technology Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Nuvoton Technology Corporation and its subsidiaries (collectively, the "Group") as of March 31, 2020 and 2019, the related consolidated statements of comprehensive income, the consolidated statements of changes in equity and cash flows for the three months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies. 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 Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months then ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Shu-Lin Liu and Hung-Bin Yu.

Shu-Lin Liu

Hung-Bin Yu

Deloitte & Touche
Taipei, Taiwan
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April 30, 2020

Notice to Readers

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

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

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	March 31, 2020 (Reviewed)		December 31, 2019 (Audited)		March 31, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 4,470,067	40	\$ 4,859,223	44	\$ 1,410,235	22
Financial assets at fair value through profit or loss - current (Note 7)	-	-	6,037	-	-	-
Notes and accounts receivable, net (Note 8)	877,349	8	1,010,722	9	802,295	12
Accounts receivable from related parties, net (Notes 8 and 27)	40,932	-	67,394	1	47,415	1
Other receivables (Notes 9 and 27)	498,660	4	496,881	4	185,409	3
Inventories (Notes 5 and 10)	1,964,010	18	1,604,658	14	1,554,853	24
Other current assets	145,293	1	142,442	1	168,542	2
Total current assets	7,996,311	71	8,187,357	73	4,168,749	64
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current (Note 11)	1,051,398	9	1,117,410	10	598,700	9
Property, plant and equipment (Note 12)	752,722	7	760,321	7	720,901	11
Right-of-use assets (Notes 13 and 27)	563,754	5	600,288	5	562,014	9
Investment properties (Note 14)	42,598	-	44,207	1	50,568	1
Intangible assets (Note 15)	652,590	6	261,230	2	171,365	3
Deferred tax assets (Note 4)	116,289	1	97,919	1	118,380	2
Refundable deposits (Notes 6 and 27)	87,292	1	86,879	1	84,672	1
Other non-current assets	606	-	618	-	802	-
Total non-current assets	3,267,249	29	2,968,872	27	2,307,402	36
TOTAL	\$ 11,263,560	100	\$ 11,156,229	100	\$ 6,476,151	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Financial liabilities at fair value through profit or loss (Note 7)	\$ -	-	\$ -	-	\$ 448	-
Accounts payable (Note 27)	1,139,742	10	1,129,375	10	766,325	12
Other payables (Notes 17 and 27)	1,113,332	10	951,058	8	707,780	11
Current tax liabilities (Note 4)	100,653	1	78,732	1	100,868	2
Lease liabilities - current (Notes 13 and 27)	111,112	1	114,308	1	90,897	1
Other current liabilities	68,931	1	68,411	1	61,577	1
Total current liabilities	2,533,770	23	2,341,884	21	1,727,895	27
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 16)	500,000	4	500,000	4	-	-
Products guarantee based on commitment	101,891	1	101,891	1	101,891	2
Lease liabilities - non-current (Notes 13 and 27)	422,288	4	452,715	4	434,008	7
Net defined benefit liabilities - non-current (Note 4)	286,940	2	287,565	3	283,628	4
Other non-current liabilities (Note 27)	87,624	1	80,143	1	77,942	1
Total non-current liabilities	1,398,743	12	1,422,314	13	897,469	14
Total liabilities	3,932,513	35	3,764,198	34	2,625,364	41
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 19)						
Share capital	2,875,544	25	2,875,544	26	2,075,544	32
Capital surplus	2,906,976	26	2,906,976	26	63,550	1
Retained earnings						
Legal reserve	541,722	5	541,722	5	470,659	7
Unappropriated earnings	928,444	8	917,229	8	990,290	15
Exchange differences on translating financial statements of foreign operations	(25,171)	-	(18,984)	-	7,988	-
Unrealized gains (losses) on financial assets at fair value through other comprehensive income	103,532	1	169,544	1	242,756	4
Total equity	7,331,047	65	7,392,031	66	3,850,787	59
TOTAL	\$ 11,263,560	100	\$ 11,156,229	100	\$ 6,476,151	100

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

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 20 and 27)	\$ 2,133,155	100	\$ 2,049,821	100
OPERATING COST (Notes 10, 22 and 27)	<u>1,289,092</u>	<u>60</u>	<u>1,257,999</u>	<u>61</u>
GROSS PROFIT	<u>844,063</u>	<u>40</u>	<u>791,822</u>	<u>39</u>
OPERATING EXPENSES (Notes 22 and 27)				
Selling and marketing expenses	52,753	2	56,795	3
General and administrative expenses	127,555	6	94,550	5
Research and development expenses	657,464	31	605,005	29
Expected credit loss (gain)	<u>(3,645)</u>	<u>-</u>	<u>(3,085)</u>	<u>-</u>
Total operating expenses	<u>834,127</u>	<u>39</u>	<u>753,265</u>	<u>37</u>
PROFIT FROM OPERATIONS	<u>9,936</u>	<u>1</u>	<u>38,557</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES (Note 27)				
Finance costs	(4,500)	-	(2,859)	-
Interest income	8,080	-	3,632	-
Other gains and losses	3,022	-	3,635	-
Gains (losses) on disposal of property, plant and equipment	19	-	(16)	-
Foreign exchange gains	7,939	-	2,686	-
Losses on financial assets at fair value through profit or loss	<u>(5,051)</u>	<u>-</u>	<u>(4,921)</u>	<u>-</u>
Total non-operating income and expenses	<u>9,509</u>	<u>-</u>	<u>2,157</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	19,445	1	40,714	2
INCOME TAX EXPENSE (Notes 4 and 21)	<u>(8,230)</u>	<u>(1)</u>	<u>(9,987)</u>	<u>-</u>
NET PROFIT FOR THE PERIOD	<u>11,215</u>	<u>-</u>	<u>30,727</u>	<u>2</u>

(Continued)

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19)				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized gains (losses) on investments in equity instruments at fair value through other comprehensive income	\$ (66,012)	(3)	\$ 67,119	3
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(6,187)</u>	<u>-</u>	<u>18,523</u>	<u>1</u>
Other comprehensive income (loss) for the period, net of income tax	<u>(72,199)</u>	<u>(3)</u>	<u>85,642</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ (60,984)</u>	<u>(3)</u>	<u>\$ 116,369</u>	<u>6</u>
EARNINGS PER SHARE (Note 24)				
From continuing operations				
Basic	<u>\$ 0.04</u>		<u>\$ 0.15</u>	
Diluted	<u>\$ 0.04</u>		<u>\$ 0.15</u>	

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

(Concluded)

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Equity Attributable to Owners of the Company				Other Equity		Total Equity
	Ordinary Share	Capital Surplus	Retained Earnings		Exchange Differences on Translating Financial Statements of Foreign Operations	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income	
			Legal Reserve	Unappropriated Earnings			
BALANCE AT JANUARY 1, 2019	\$ 2,075,544	\$ 63,498	\$ 470,659	\$ 955,346	\$ (10,535)	\$ 179,854	\$ 3,734,366
Net profit for the three months ended March 31, 2019	-	-	-	30,727	-	-	30,727
Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	18,523	67,119	85,642
Total comprehensive income (loss) for the three months ended March 31, 2019	-	-	-	30,727	18,523	67,119	116,369
Unclaimed dividends from claims extinguished by prescriptions	-	52	-	-	-	-	52
Disposals of investments in equity instruments designated as at fair value through other comprehensive income (Notes 11 and 19)	-	-	-	4,217	-	(4,217)	-
BALANCE, MARCH 31, 2019	<u>\$ 2,075,544</u>	<u>\$ 63,550</u>	<u>\$ 470,659</u>	<u>\$ 990,290</u>	<u>\$ 7,988</u>	<u>\$ 242,756</u>	<u>\$ 3,850,787</u>
BALANCE AT JANUARY 1, 2020	\$ 2,875,544	\$ 2,906,976	\$ 541,722	\$ 917,229	\$ (18,984)	\$ 169,544	\$ 7,392,031
Net profit for the three months ended March 31, 2020	-	-	-	11,215	-	-	11,215
Other comprehensive income (loss) for the three months ended March 31, 2020, net of income tax	-	-	-	-	(6,187)	(66,012)	(72,199)
Total comprehensive income (loss) for the three months ended March 31, 2020	-	-	-	11,215	(6,187)	(66,012)	(60,984)
BALANCE, MARCH 31, 2020	<u>\$ 2,875,544</u>	<u>\$ 2,906,976</u>	<u>\$ 541,722</u>	<u>\$ 928,444</u>	<u>\$ (25,171)</u>	<u>\$ 103,532</u>	<u>\$ 7,331,047</u>

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

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 19,445	\$ 40,714
Adjustments for:		
Depreciation expense	82,746	68,310
Amortization expense	27,559	22,406
Finance costs	4,500	2,859
Expected credit loss (gain) recognized on accounts receivable	(3,645)	(3,085)
Interest income	(8,080)	(3,632)
Net (gains) losses on financial assets at fair value through profit or loss	6,037	1,211
(Gains) losses on disposal of property, plant and equipment	(19)	16
Other adjustment to reconcile (profit) loss	(5)	-
Changes in operating assets and liabilities		
(Increase) decrease in notes and accounts receivable	136,976	135,546
(Increase) decrease in accounts receivable from related parties	26,462	14,891
(Increase) decrease in other receivables	(5,660)	2,252
(Increase) decrease in inventories	(359,352)	6,085
(Increase) decrease in other current assets	(2,851)	804
(Increase) decrease in other non-current assets	12	172
Increase (decrease) in accounts payable	10,367	(122,375)
Increase (decrease) in other payables	(168,842)	(183,062)
Increase (decrease) in other current liabilities	520	(1,609)
Increase (decrease) in net defined benefit liabilities	(625)	(10,799)
Increase (decrease) in other non-current liabilities	7,481	6,136
Cash flows from (used in) operations	<u>(226,974)</u>	<u>(23,160)</u>
Income tax paid	(5,151)	(3,154)
Interest received	10,289	1,498
Interest paid	<u>(4,440)</u>	<u>(1,058)</u>
Net cash flows from (used in) operating activities	<u>(226,276)</u>	<u>(25,874)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of intangible assets	(55,549)	(53,314)
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	7,420
Acquisition of property, plant and equipment	(75,780)	(45,454)
Proceeds from disposal of property, plant and equipment	19	45
(Increase) decrease in refundable deposits	(413)	(3,237)
(Increase) decrease in other receivables-time deposits	<u>2,144</u>	<u>(3,366)</u>
Net cash flows from (used in) investing activities	<u>(129,579)</u>	<u>(97,906)</u>

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NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of the principal portion of lease liabilities	\$ (29,794)	\$ (24,052)
Other financing activities	<u>-</u>	<u>52</u>
Net cash flows from (used in) financing activities	<u>(29,794)</u>	<u>(24,000)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(3,507)</u>	<u>14,097</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(389,156)	(133,683)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	<u>4,859,223</u>	<u>1,543,918</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>\$ 4,470,067</u>	<u>\$ 1,410,235</u>

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

(Concluded)

NUVOTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

Nuvoton Technology Corporation (the “Company”) was incorporated in the Republic of China (“ROC”) in April 2008 and commenced business in July 2008. The Company is engaged mainly in the research, design, development, manufacture, and sale of logic integrated circuits (“ICs”) and the manufacturing, testing and OEM of 6-inch wafers.

For the specialization and division of labor and the reinforcement of core competitive ability, the Company’s parent company, Winbond Electronics Corporation (WEC), spun off its Logic IC business into the Company on July 1, 2008 in accordance with the Business Mergers and Acquisitions Act and the Company commenced business in July 2008. WEC held approximately 62%、62% and 61% of the ownership interest in the Company as of March 31, 2020、December 31, 2019 and March 31, 2019, respectively.

The Company’s shares have been listed on the Taiwan Stock Exchange since September 27, 2010.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s Board of Directors and authorized for issue on April 30, 2020.

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

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financing Reporting Interpretation Committee (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group adopted the amendments starting from January 1, 2020. The threshold for materiality influencing users has been changed to “could reasonably be expected to influence” and, therefore, the disclosures in the consolidated financial report have been adjusted and immaterial information that may obscure material information has been deleted.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” endorsed and issued into effect by the FSC. The consolidated financial statements do not present all disclosures required for a complete set of annual consolidated financial statements under the IFRSs endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets, that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Subsidiary included in the consolidated financial statements:

Investor	Investee	Main Business	Percentage of Ownership (%)		
			March 31, 2020	December 31, 2019	March 31, 2019
The Company	Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	Sales of semiconductor	100	100	100
	Marketplace Management Limited ("MML")	Investment holding	100	100	100
	Nuvoton Investment Holding Ltd. ("NIH")	Investment holding	100	100	100
	Song Yong Investment Corporation ("SYI")	Investment holding	100	100	100
	Nuvoton Technology India Private Limited ("NTIPL")	Design, sales and after-sales service of semiconductor	100	100	100
	Nuvoton Technology Corporation America ("NTCA")	Design, sales and after-sales service of semiconductor	100	100	100
	Nuvoton Technology Singapore Pte. Ltd ("NTSPL")	Design, sales and after-sales service of semiconductor	100	-	-
NTHK	Nuvoton Electronics Technology (Shenzhen) Limited ("NTSZ")	Computer software service (except I.C. design), wholesale business for computer, supplement and software	100	100	100
MML	Goldbond LLC ("GLLC")	Investment holding	100	100	100
GLLC	Nuvoton Electronics Technology (Shanghai) Limited ("NTSH")	Provides projects for sale in China and repairing, testing and consulting of software	100	100	100
	Winbond Electronics (Nanjing) Ltd. ("WENJ")	Computer software service (except I.C. design)	100	100	100
NIH	Nuvoton Technology Israel Ltd. ("NTIL")	Design and service of semiconductor	100	100	100

Retirement Benefits

Payments to defined contribution retirement benefit plans are recognized as 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 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 it occurs. 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. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

The Group’s critical accounting judgments and key sources of estimation uncertainty are described below:

Write-down of Inventories

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019	March 31, 2019
Cash and deposits in banks	\$ 3,963,067	\$ 4,650,223	\$ 1,323,235
Repurchase agreements collateralized by bonds	<u>507,000</u>	<u>209,000</u>	<u>87,000</u>
	<u>\$ 4,470,067</u>	<u>\$ 4,859,223</u>	<u>\$ 1,410,235</u>

- a. The Group has time deposits pledged to secure land leases and customs tariff obligations which are reclassified as “refundable deposits” as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Time deposits	<u>\$ 75,988</u>	<u>\$ 75,988</u>	<u>\$ 75,224</u>

- b. The Group has time deposits which are not held for the purpose of meeting short-term cash commitments and are reclassified to “other receivables” as follows (Note 9):

	March 31, 2020	December 31, 2019	March 31, 2019
Time deposits	<u>\$ 445,581</u>	<u>\$ 447,725</u>	<u>\$ 149,020</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets at FVTPL - current</u>			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 6,037</u>	<u>\$ -</u>
<u>Financial liabilities at FVTPL - current</u>			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 448</u>

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2019</u>			
Sell	USD/NTD	2020.01.03-2020.03.05	USD20,000/NTD604,050
<u>March 31, 2019</u>			
Sell	USD/NTD	2019.04.25-2019.05.23	USD11,000/NTD338,054

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. These forward exchange contracts did not meet the criteria for hedge accounting, therefore, the Group did not apply hedge accounting treatment for these forward exchange contracts.

8. NOTES AND ACCOUNTS RECEIVABLE, NET

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Notes receivable</u>	\$ -	\$ 21	\$ -
<u>Accounts receivable (including related parties)</u>			
At amortized cost			
Gross carrying amount	937,244	1,100,661	867,145
Less: Allowance for impairment loss	<u>(18,963)</u>	<u>(22,566)</u>	<u>(17,435)</u>
	<u>\$ 918,281</u>	<u>\$ 1,078,116</u>	<u>\$ 849,710</u>

The average credit period of sales of goods was 30-60 days. No interest was charged on accounts receivable. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by financial department annually.

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 to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all accounts receivable. The expected credit losses on accounts receivable are estimated using a provision matrix by reference to past default experience of the customer and the customer's current financial position, adjusted for economic conditions of the industry in which the customer operates, as well as the GDP forecast and industry outlooks. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

The Group writes off accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For accounts receivable 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 accounts receivable based on the Group's provision matrix.

March 31, 2020

	Not Overdue	Overdue under 30 Days	Overdue 31 to 90 Days	Overdue 91 to 180 Days	Over 180 Days	Total
Expected credit loss rate	2%	2%	10%	20%	50%	
Gross carrying amount	\$ 929,119	\$ 7,212	\$ 913	\$ -	\$ -	\$ 937,244
Loss allowance (Lifetime ECLs)	<u>(18,728)</u>	<u>(144)</u>	<u>(91)</u>	<u>-</u>	<u>-</u>	<u>(18,963)</u>
Amortized cost	<u>\$ 910,391</u>	<u>\$ 7,068</u>	<u>\$ 822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 918,281</u>

December 31, 2019

	Not Overdue	Overdue under 30 Days	Overdue 31 to 90 Days	Overdue 91 to 180 Days	Over 180 Days	Total
Expected credit loss rate	2%	2%	10%	20%	50%	
Gross carrying amount	\$ 1,093,869	\$ 6,813	\$ -	\$ -	\$ -	\$ 1,100,682
Loss allowance (Lifetime ECLs)	<u>(22,430)</u>	<u>(136)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,566)</u>
Amortized cost	<u>\$ 1,071,439</u>	<u>\$ 6,677</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,078,116</u>

March 31, 2019

	Not Overdue	Overdue under 30 Days	Overdue 31 to 90 Days	Overdue 91 to 180 Days	Over 180 Days	Total
Expected credit loss rate	2%	2%	10%	20%	50%	
Gross carrying amount	\$ 846,860	\$ 19,995	\$ 290	\$ -	\$ -	\$ 867,145
Loss allowance (Lifetime ECLs)	<u>(16,989)</u>	<u>(417)</u>	<u>(29)</u>	<u>-</u>	<u>-</u>	<u>(17,435)</u>
Amortized cost	<u>\$ 829,871</u>	<u>\$ 19,578</u>	<u>\$ 261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 849,710</u>

The movements of the loss allowance of notes and accounts receivable were as follows:

	For the Three Months Ended March 31	
	2020	2019
Balance at January 1	\$ 22,566	\$ 20,499
Less: Reversal of loss allowance	(3,645)	(3,085)
Foreign exchange gains and losses	<u>42</u>	<u>21</u>
Balance at March 31	<u>\$ 18,963</u>	<u>\$ 17,435</u>

Compared to January 1, 2020 and 2019, the decrease in loss allowance of NT\$3,645 thousand and NT\$3,085 thousand at March 31, 2020 and 2019, respectively, resulted from the decrease in accounts receivables net of those settled of NT\$163,438 thousand and NT\$150,437 thousand, respectively.

9. OTHER RECEIVABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Time deposits (Note 6)	\$ 445,581	\$ 447,725	\$ 149,020
Business tax refund receivable	38,421	34,611	25,259
Others	<u>14,658</u>	<u>14,545</u>	<u>11,130</u>
	<u>\$ 498,660</u>	<u>\$ 496,881</u>	<u>\$ 185,409</u>

10. INVENTORIES

	March 31, 2020	December 31, 2019	March 31, 2019
Raw materials and supplies	\$ 111,847	\$ 105,937	\$ 140,951
Work in process	1,368,271	1,181,653	1,114,236
Finished goods	480,295	308,869	299,666
Inventory in transit	<u>3,597</u>	<u>8,199</u>	<u>-</u>
	<u>\$ 1,964,010</u>	<u>\$ 1,604,658</u>	<u>\$ 1,554,853</u>

- a. As of March 31, 2020, December 31, 2019 and March 31, 2019, the allowance for inventory value decline was NT\$430,787 thousand, NT\$362,717 thousand and NT\$358,076 thousand, respectively.
- b. The operating costs for the three months ended March 31, 2020 and 2019 was NT\$1,289,092 thousand and NT\$1,257,999 thousand, respectively, including loss on inventory devaluation, obsolescence and scrap of inventories of NT\$68,756 thousand and NT\$28,579 thousand, respectively.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity instruments at FVTOCI:

	March 31, 2020	December 31, 2019	March 31, 2019
Domestic listed shares and emerging market shares			
Nyquest Technology Co., Ltd.	\$ 45,870	\$ 60,720	\$ 129,149
Brightek Optoelectronic Co., Ltd.	463	485	381
Domestic unlisted shares			
United Industrial Gases Co., Ltd.	387,200	440,000	448,800
Yu-Ji Venture Capital Co., Ltd.	13,365	16,605	20,370
Overseas unlisted stocks			
Autotalks Ltd. - Preferred E. Share	<u>604,500</u>	<u>599,600</u>	<u>-</u>
	<u>\$ 1,051,398</u>	<u>\$ 1,117,410</u>	<u>\$ 598,700</u>

These investments in equity instruments 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.

For the three months ended March 31, 2019, the Group sold part of its shares in Nyquest Technology Co., Ltd. in order to manage credit concentration risk. The shares sold had a fair value of NT\$7,703 thousand and its related unrealized valuation gain of NT\$4,217 thousand was transferred from other equity to retained earnings. Please refer to Note 19 for related information.

In August 2019, NTC resolved to invest in the Preferred E Share of the non-related party communication chip maker in Israel, Autotalks Ltd. The entitled rights of the Preferred E Share were as follows:

- a. Each Preferred E Shares grants its holder a number of votes equal to the number of votes per Ordinary Share.
- b. The Preferred E Shares shall be prior to all other equity securities of Autotalks Ltd. In the event of liquidation.
- c. The holders of the Preferred E Shares shall be entitled to receive non-cumulative cash dividends at the rate of eight percent.
- d. The investors shall have the right to appoint one non-voting observer ("Observer") to attend Autotalks Ltd.'s board meetings.
- e. The holders of the Preferred E Shares shall be entitled to preemptive right with respect to future issuance of new securities of Autotalks Ltd.
- f. The investors have the rights to obtain the annual financial statements, quarterly financial statements and etc.

12. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2020	December 31, 2019	March 31, 2019
Buildings	\$ 195,354	\$ 189,755	\$ 193,163
Machinery and equipment	456,682	465,033	418,319
Other equipment	99,951	104,117	107,844
Construction in progress and prepayments for purchase of equipment	<u>735</u>	<u>1,416</u>	<u>1,575</u>
	<u>\$ 752,722</u>	<u>\$ 760,321</u>	<u>\$ 720,901</u>

	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress and Prepayments for Purchase of Equipment	Total
<u>Cost</u>					
Balance at January 1, 2020	\$ 3,662,145	\$ 11,557,247	\$ 405,918	\$ 1,416	\$ 15,626,726
Additions	11,986	26,581	3,788	186	42,541
Disposals	-	(17,689)	-	-	(17,689)
Reclassified	-	867	-	(867)	-
Effect of foreign currency exchange difference	-	(1,251)	(2,554)	-	(3,805)
Balance at March 31, 2020	<u>\$ 3,674,131</u>	<u>\$ 11,565,755</u>	<u>\$ 407,152</u>	<u>\$ 735</u>	<u>\$ 15,647,773</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2020	\$ 3,472,390	\$ 11,092,214	\$ 301,801	\$ -	\$ 14,866,405
Disposals	-	(17,689)	-	-	(17,689)
Depreciation	6,387	35,494	7,113	-	48,994
Effect of foreign currency exchange difference	-	(946)	(1,713)	-	(2,659)
Balance at March 31, 2020	<u>\$ 3,478,777</u>	<u>\$ 11,109,073</u>	<u>\$ 307,201</u>	<u>\$ -</u>	<u>\$ 14,895,051</u>
Carrying amounts at March 31, 2020	<u>\$ 195,354</u>	<u>\$ 456,682</u>	<u>\$ 99,951</u>	<u>\$ 735</u>	<u>\$ 752,722</u>
<u>Cost</u>					
Balance at January 1, 2019	\$ 3,649,663	\$ 11,403,272	\$ 381,190	\$ -	\$ 15,434,125
Additions	794	53,104	7,099	1,575	62,572
Disposals	-	(4,059)	(767)	-	(4,826)
Effect of foreign currency exchange difference	-	2,815	5,706	-	8,521
Balance at March 31, 2019	<u>\$ 3,650,457</u>	<u>\$ 11,455,132</u>	<u>\$ 393,228</u>	<u>\$ 1,575</u>	<u>\$ 15,500,392</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2019	\$ 3,450,850	\$ 11,009,989	\$ 275,369	\$ -	\$ 14,736,208
Disposals	-	(4,059)	(706)	-	(4,765)
Depreciation	6,444	28,852	7,062	-	42,358
Effect of foreign currency exchange difference	-	2,031	3,659	-	5,690
Balance at March 31, 2019	<u>\$ 3,457,294</u>	<u>\$ 11,036,813</u>	<u>\$ 285,384</u>	<u>\$ -</u>	<u>\$ 14,779,491</u>
Carrying amounts at March 31, 2019	<u>\$ 193,163</u>	<u>\$ 418,319</u>	<u>\$ 107,844</u>	<u>\$ 1,575</u>	<u>\$ 720,901</u>

13. LEASE ARRANGEMENTS

a. Right-of-use assets

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Carrying amounts</u>			
Land	\$ 220,266	\$ 226,581	\$ 245,758
Buildings	308,046	333,255	304,530
Other equipment	<u>35,442</u>	<u>40,452</u>	<u>11,726</u>
	<u>\$ 563,754</u>	<u>\$ 600,288</u>	<u>\$ 562,014</u>

	For the Three Months Ended March 31	
	2020	2019
Additions to right-of-use assets	<u>\$ 2,534</u>	<u>\$ -</u>
Depreciation for right-of-use assets		
Land	\$ 6,315	\$ 6,364
Buildings	21,760	16,822
Other equipment	<u>4,568</u>	<u>1,591</u>
	<u>\$ 32,643</u>	<u>\$ 24,777</u>
Income from the subleasing of right-of-use assets (presented in other income)	<u>\$ (1,993)</u>	<u>\$ (1,931)</u>

b. Lease liabilities

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Carrying amounts</u>			
Current	<u>\$ 111,112</u>	<u>\$ 114,308</u>	<u>\$ 90,897</u>
Non-current	<u>\$ 422,288</u>	<u>\$ 452,715</u>	<u>\$ 434,008</u>

Range of discount rate for lease liabilities was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Land	1.76%-2.06%	1.76%-2.06%	1.76%-2.06%
Buildings	1.09%-3.75%	1.09%-3.75%	1.44%-3.69%
Other equipment	0.73%-3.61%	0.73%-3.61%	1.38%-1.44%

For the three months ended March 31, 2020 and 2019, the interest expense under lease liabilities amounted to NT\$2,856 thousand and NT\$2,859 thousand, respectively.

c. Material lease-in activities and terms

The Group leased parcels of land from Science Park Administration, and the lease term will expire in December 2027, which can be extended after the expiration of the lease periods.

The Group leased parcels of land from Taiwan Sugar Corporation under a twenty-year term from October 2014 to September 2034, which is allowed to extend after the expiration of lease. The former chairman of the Company, is a joint guarantor of such lease (refer to Note 27).

The Group leased some of the offices in the United States, China, Israel, India and part in Taiwan, and the lease terms will expire between 2020 and 2026 which can be extended after the expiration of the lease periods.

d. Subleases

The Group subleases its right-of-use assets for buildings under operating leases with lease terms between 1 and 5 years.

The maturity analysis of lease payments receivable under operating subleases is as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Year 1	\$ 6,049	\$ 6,244	\$ 7,500
Year 2	6,047	5,795	5,832
Year 3	5,115	5,881	5,824
Year 4	1,645	1,985	4,849
Year 5	-	-	1,446
Year 6 onwards	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 18,856</u>	<u>\$ 19,905</u>	<u>\$ 25,451</u>

To reduce the residual asset risk related to the subleased asset at the end of the relevant sublease, the lease contract between the Group and the lessee includes the receipt of the deposits and the compensation for damage due to the lack of management and maintenance.

e. Other lease information

	For the Three Months Ended March 31	
	2020	2019
Expenses relating to short-term leases	<u>\$ 1,600</u>	<u>\$ 4,559</u>
Total cash outflow for leases	<u>\$ (34,190)</u>	<u>\$ (29,669)</u>

The Group has elected to apply the recognition exemption for short-term leases and thus, did not recognize right-of-use assets and lease liabilities for these leases.

Lease-out arrangements under operating leases for investment properties are set out in Note 14.

14. INVESTMENT PROPERTIES

	March 31, 2020	December 31, 2019	March 31, 2019
Investment properties, net	<u>\$ 42,598</u>	<u>\$ 44,207</u>	<u>\$ 50,568</u>

The investment properties are located in Shenzhen, China. As of December 31, 2019 and 2018, the fair value of such investment properties was both approximately NT\$200,000 thousand, which used as reference the neighboring area transactions. The Group's management team evaluated the fair value of investment properties and determined that the fair value of the investment properties had not changed significantly, compared to the fair value of the investment properties during the three months ended March 31, 2020 and 2019.

	Investment Properties
<u>Cost</u>	
Balance at January 1, 2020	\$ 98,511
Effect of foreign currency exchange difference	<u>(1,144)</u>
Balance at March 31, 2020	<u>\$ 97,367</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2020	54,304
Depreciation	1,109
Effect of foreign currency exchange difference	<u>(644)</u>
Balance at March 31, 2020	<u>\$ 54,769</u>
Carrying amount at March 31, 2020	<u>\$ 42,598</u>

<u>Cost</u>	
Balance at January 1, 2019	\$ 102,333
Effect of foreign currency exchange difference	<u>2,471</u>
Balance at March 31, 2019	<u>\$ 104,804</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2019	51,806
Depreciation	1,175
Effect of foreign currency exchange difference	<u>1,255</u>
Balance at March 31, 2019	<u>\$ 54,236</u>
Carrying amount at March 31, 2019	<u>\$ 50,568</u>

The investment properties were leased out for 3 years. The lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

The maturity analysis of lease payments receivable under operating leases of investment properties was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Year 1	\$ 6,446	\$ 7,832	\$ 8,831
Year 2	4,072	4,120	3,321
Year 3	1,226	2,270	-
Year 4	-	-	-
Year 5	-	-	-
Year 6 onwards	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,744</u>	<u>\$ 14,222</u>	<u>\$ 12,152</u>

To reduce the residual asset risk related to the subleased asset at the end of the relevant sublease, the lease contract between the Group and the lessee includes the receipt of the deposits and the compensation for damage due to the lack of management and maintenance.

15. INTANGIBLE ASSETS

	March 31, 2020	December 31, 2019	March 31, 2019
Deferred technical assets	\$ 626,849	\$ 260,837	\$ 170,717
Other intangible assets	<u>25,741</u>	<u>393</u>	<u>648</u>
	<u>\$ 652,590</u>	<u>\$ 261,230</u>	<u>\$ 171,365</u>
	Deferred Technical Assets	Other Intangible Assets	Total
<u>Cost</u>			
Balance at January 1, 2020	\$ 1,202,455	\$ 3,426	\$ 1,205,881
Additions	393,632	26,271	419,903
Effect of foreign currency exchange difference	<u>(2,339)</u>	<u>(40)</u>	<u>(2,379)</u>
Balance at March 31, 2020	<u>\$ 1,593,748</u>	<u>\$ 29,657</u>	<u>\$ 1,623,405</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2020	\$ 941,618	\$ 3,033	\$ 944,651
Amortization	26,640	919	27,559
Effect of foreign currency exchange difference	<u>(1,359)</u>	<u>(36)</u>	<u>(1,395)</u>
Balance at March 31, 2020	<u>\$ 966,899</u>	<u>\$ 3,916</u>	<u>\$ 970,815</u>
Carrying amounts at March 31, 2020	<u>\$ 626,849</u>	<u>\$ 25,741</u>	<u>\$ 652,590</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 1,043,189	\$ 3,558	\$ 1,046,747
Additions	48,711	-	48,711
Effect of foreign currency exchange difference	<u>4,970</u>	<u>86</u>	<u>5,056</u>
Balance at March 31, 2019	<u>\$ 1,096,870</u>	<u>\$ 3,644</u>	<u>\$ 1,100,514</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2019	\$ 899,145	\$ 2,848	\$ 901,993
Amortization	22,328	78	22,406
Effect of foreign currency exchange difference	<u>4,680</u>	<u>70</u>	<u>4,750</u>
Balance at March 31, 2019	<u>\$ 926,153</u>	<u>\$ 2,996</u>	<u>\$ 929,149</u>
Carrying amounts at March 31, 2019	<u>\$ 170,717</u>	<u>\$ 648</u>	<u>\$ 171,365</u>

16. BORROWINGS

Long-term Borrowings

	Period	Interest Rate	March 31, 2020	December 31, 2019	March 31, 2019
<u>Unsecured borrowings</u>					
The Export-Import Bank of ROC	2019.09.20- 2026.09.21	1.16%	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>

The proceeds of the Company's unsecured loan from the Export-Import Bank of ROC was invested in Autotalks Ltd. The principal will be repaid every six months from September 20, 2023 until maturity and the interest rate will be reviewed and may be adjusted every six months.

17. OTHER PAYABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Payable for royalties	\$ 492,089	\$ 129,494	\$ 98,634
Payable for salaries or employee benefits	211,704	367,537	212,875
Payable for service	73,703	41,106	71,436
Payable for purchase of equipment	60,380	93,619	87,251
Others	<u>275,456</u>	<u>319,302</u>	<u>237,584</u>
	<u>\$ 1,113,332</u>	<u>\$ 951,058</u>	<u>\$ 707,780</u>

18. RETIREMENT BENEFIT PLANS

Employee benefit expense in respect of the Company's defined benefit retirement plans was calculated using the actuarially determined pension cost discount rate as of December 31, 2019 and 2018, and recognized \$9,802 thousand and \$9,733 thousand, for the three months ended March 31, 2020 and 2019, respectively.

19. EQUITY

a. Share capital

	March 31, 2020	December 31, 2019	March 31, 2019
Shares authorized (in thousands of shares)	<u>500,000</u>	<u>500,000</u>	<u>300,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 3,000,000</u>
Shares issued and fully paid (in thousands of shares)	<u>287,554</u>	<u>287,554</u>	<u>207,554</u>
Shares issued and fully paid	<u>\$ 2,875,544</u>	<u>\$ 2,875,544</u>	<u>\$ 2,075,544</u>
Par value (in New Taiwan dollars)	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 10</u>

On July 25, 2019, the Company's board of directors resolved to issue 80,000 thousand ordinary shares with a par value of NT\$10 to enhance working capital. On August 26, 2019, the resolution was approved by the FSC. The consideration of NT\$45 per share was determined by the chairman which was authorized by the board of directors of the Company, the subscription base date was October 23, 2019, the increase in share capital was fully paid. The associated issuance cost of \$6,494 thousand was deducted from capital surplus - additional paid-in capital.

On December 6, 2019, the extraordinary general shareholders' meeting of the Company resolved to increase its capital by issuing ordinary shares between 60,000 thousand shares and 90,000 thousand shares through the offering of the Global Depository Shares (GDSs) to raise fund for the acquisition of the related business of Panasonic Semiconductor. The offering price for the GDSs was NT\$45 per share. According to the laws, the actual offering price should not be lower than the closing share price of the Company, one of the simple arithmetic averages of the Company's ordinary share closing price for one, three or five business days prior to the pricing data adjusted for any distribution of stock dividends, cash dividends or capital reduction, and 90% of the average price ex-dividends. The total proposed fund amounted to US\$132,787 thousand (at the exchange rate of US\$1:NT\$30.5); the total amount of the actual offering was based on the outstanding unit and price of the GDSs. The chairman was authorized by the board of the Company to set the pricing date and subscription base date after the approval by the FSC. On April 14, 2020, the FSC approved the extension of the offering period of the GDSs to July 13, 2020.

As of March 31, 2020, December 31, 2019 and March 31, 2019, the balance of the Company's capital account amounted to NT\$2,875,544 thousand, NT\$2,875,544 thousand and NT\$2,075,544 thousand, divided into 287,554 thousand ordinary shares, 287,554 thousand ordinary shares and 207,554 thousand ordinary shares with a par value of NT\$10.

b. Capital surplus

	March 31, 2020	December 31, 2019	March 31, 2019
May be used to offset a deficit, distributed as cash dividends, or <u>transferred to share capita*</u>			
Additional paid-in capital	\$ 2,856,991	\$ 2,856,991	\$ 63,485
<u>May only be used to offset a deficit</u>			
Cash capital increase reserved for employee share options	49,920	49,920	-
Overdue dividends unclaimed	52	52	52
<u>May not be used for any purpose</u>			
Employee share options	<u>13</u>	<u>13</u>	<u>13</u>
	<u>\$ 2,906,976</u>	<u>\$ 2,906,976</u>	<u>\$ 63,550</u>

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

c. Retained earnings and dividends policy

The shareholders held their regular meeting on June 24, 2019 and resolved the amendments to the Company's dividend distribution policy in the Company's Articles of Incorporation (the "Articles"). Under the dividends policy as set forth in the amended Articles, where the Company made a 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 a 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 Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The board of directors shall be authorized to distribute the profit, the legal reserve, and the capital plus in cash upon resolution by a majority vote at a board meeting attended by two-thirds or more of the directors, and shall report the same to the shareholders' meeting. In principle, not less than 10% of the total shareholders' bonus shall be distributed in the form of cash. For the policies on the distribution of employees' compensation and remuneration of directors, refer to employees' compensation and remuneration of directors in Note 22.

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

The appropriations of earnings for 2019 and 2018 that were proposed by the board of directors on March 12, 2020 and approved in the shareholders' meetings on June 24, 2019, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share</u> <u>(NT\$)</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Legal reserve	\$ 55,183	\$ 71,063		
Cash dividends	<u>345,065</u>	<u>518,886</u>	\$1.20	\$2.50
	<u>\$ 400,248</u>	<u>\$ 589,949</u>		

The appropriation of earnings for 2019 is subject to the resolution of shareholders' meeting to be held on May 29, 2020.

d. Other equity items

- 1) The exchange differences arising on translation of foreign operations' net assets from its functional currency to the Group's presentation currency (New Taiwan dollar) are recognized directly in other comprehensive income. For the three months ended March 31, 2020 and 2019, other comprehensive (loss) gain was NT\$(6,187) thousand and NT\$18,523 thousand, respectively.

2) Unrealized valuation gains (losses) on financial assets at FVTOCI

	For the Three Months Ended March 31	
	2020	2019
Balance at January 1	\$ 169,544	\$ 179,854
Recognized for the period	(66,012)	67,119
Cumulative unrealized gains (losses) of equity instruments transferred to retained earnings due to disposal	<u>-</u>	<u>(4,217)</u>
Balance at March 31	<u>\$ 103,532</u>	<u>\$ 242,756</u>

20. REVENUE

Refer to Note 33 for the Group's revenue.

21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Three Months Ended March 31	
	2020	2019
Current tax		
In respect of the current year	\$ 26,600	\$ 18,420
Adjustment for prior years' tax	-	157
Deferred tax		
In respect of the current year	<u>(18,370)</u>	<u>(8,590)</u>
Income tax expense recognized in profit or loss	<u>\$ 8,230</u>	<u>\$ 9,987</u>

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Group only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

b. Income tax examination

The income tax returns through 2017 have been assessed by the tax authorities.

22. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION

	For the Three Months Ended March 31				For the Three Months Ended March 31			
	2020		2019		2020		2019	
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non-operating Income and Losses	Total
Employee benefits expense								
Short-term benefits	\$ 174,034	\$ 453,064	\$ -	\$ 627,098	\$ 161,803	\$ 440,483	\$ -	\$ 602,286
Post-employment benefits	7,424	37,737	-	45,161	7,663	42,321	-	49,984
Depreciation	32,668	48,969	1,109	82,746	30,072	37,063	1,175	68,310
Amortization	8,340	19,219	-	27,559	8,370	14,036	-	22,406

According to the Company's Articles, the Company accrued employees' compensation and remuneration of directors at rates of no less than 1% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of director. For the three months ended March 31, 2020 and 2019, the employees' compensation and remuneration of directors were as follows:

	For the Three Months Ended March 31	
	2020	2019
Employees' compensation	<u>\$ 917</u>	<u>\$ 2,305</u>
Remuneration of directors	<u>\$ 153</u>	<u>\$ 384</u>

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

The appropriations of employees' compensation and remuneration to the directors of 2019 and 2018 were resolved by the board of directors on February 6, 2020 and February 1, 2019, respectively, were as below:

	2019		2018	
	Amount	%	Amount	%
Employees' compensation	\$ 40,868	6	\$ 50,428	6
Remuneration of directors	6,811	1	8,405	1

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, 2019 and 2018.

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

23. SHARE-BASED PAYMENT ARRANGEMENTS

The Company's board of directors resolved to reserve 10% of the shares from the issuance of 80,000 thousand shares approved by the FSC on August 26, 2019 to be subscribed for by its employees. The number of shares subscribed for by the employees was affirmed on September 3, 2019. The fair value of such share options subscribed for by the Company's employees on the grant date was measured using the Black-Scholes Option Pricing Model and amounted to NT\$49,920 thousand which was recorded as compensation costs with a corresponding increase in capital surplus.

a. As of December 31, 2019, the Company's Share-based payments agreements are as follows:

Agreement	Grant Date	Number of Shares Grant	Vesting Conditions
Cash capital increase reserved for employee share options	2019.9.3	8,000 thousand shares	Vested immediately

b. The fair value of share options acquired by employees on grant day, September 3, 2019, was measured by using Black-Scholes Option Pricing Model. Relevant information is as follows:

Stock Price (NT\$)	Exercise Price (NT\$)	Expected Price Volatility	Expected Vesting Period	Expected Dividend Yield Rate	Risk-free Interest Rate	Fair Value Per Share (NT\$)
\$50.8	\$45	32.61%	46 days	0.00%	0.43%	\$6.24

24. EARNINGS PER SHARE

	For the Three Months Ended March 31					
	2020			2019		
	Amounts (Numerator) After Income Tax (Attributable to Owners of the Company)	Shares (Denominator) (In Thousands)	Earnings Per Share (NT\$) After Income Tax (Attributable to Owners of the Company)	Amounts (Numerator) After Income Tax (Attributable to Owners of the Company)	Shares (Denominator) (In Thousands)	Earnings Per Share (NT\$) After Income Tax (Attributable to Owners of the Company)
Basic earnings per share						
Net profit attributed to owners of the Company	\$ 11,215	287,554	<u>\$ 0.04</u>	\$ 30,727	207,554	<u>\$ 0.15</u>
Effect of potentially dilutive ordinary shares						
Employees' compensation	-	439		-	446	
Diluted earnings per share						
Net profit attributed to owners of the Company	<u>\$ 11,215</u>	<u>287,993</u>	<u>\$ 0.04</u>	<u>\$ 30,727</u>	<u>208,000</u>	<u>\$ 0.15</u>

If the Company offered to settle the compensation or bonuses paid to employees in cash or shares, the Company assumed that the entire amount of the compensation or bonuses 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 effect is dilutive. The number of shares used in the computation of diluted earnings per share is estimated by the amount of compensation divided by the closing price of the potential common shares at the end of the reporting period. 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 is resolved in the following year.

25. CAPITAL MANAGEMENT

The Group's capital management objective is to ensure it has the necessary financial resources and operational plan so that it can cope with the next twelve months working capital requirements, capital expenditures, research and development expenses, debt repayments and dividends payments.

26. FINANCIAL INSTRUMENT

a. Categories of financial instruments

	March 31, 2020		December 31, 2019		March 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>						
Financial assets at amortized cost (Note 1)	\$ 5,974,300	\$ 5,974,300	\$ 6,521,099	\$ 6,521,099	\$ 2,530,026	\$ 2,530,026
Financial assets at FVTPL						
Derivative financial assets	-	-	6,037	6,037	-	-
Financial assets at FVTOCI						
Investment in equity instruments	1,051,398	1,051,398	1,117,410	1,117,410	598,700	598,700
<u>Financial liabilities</u>						
Financial liabilities at amortized cost (Note 2)	2,798,617	2,798,617	2,618,441	2,618,441	1,510,276	1,510,276
Financial liabilities at FVTPL						
Derivative financial liabilities	-	-	-	-	448	448

Note 1: Including cash and cash equivalents, notes and accounts receivable (including related parties), other receivables and refundable deposits.

Note 2: Including accounts payable, other payables, long-term loans and guarantee deposits.

b. Fair value information

- 1) Fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable and the significance in its entirety, which are described as follows:
 - a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
 - c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- 2) Fair value measurements recognized in the consolidated balance sheets
 - a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed shares and emerging market shares).
 - b) The fair value of the financial instruments at fair value through profit or loss is based on Level 2 inputs, either directly or indirectly. The fair value of foreign-currency derivative financial instrument could be determined by reference to the price and discount rate of currency swap quoted by financial institutions. Foreign exchange forward contracts are measured using individual maturity rate to calculate the fair value of each contract.

- c) Domestic unlisted equity instruments at FVTOCI were all measured based on Level 3 fair value. Fair values of such equity instruments were determined using discounted cash flow of income approach and comparable listed company approach, by referring to strike price of similar business in active market, implied value multiple of the price and relevant information. Significant unobservable inputs included P/E ratio, value multiple and market liquidity discount. As the discounted cash flow method was used, the discount rate used for lack of marketability was 29%; a 1% increase in such discount rate will decrease the fair value of investments by \$9,197 thousand assuming all the other variables are held constant.

3) Fair value of financial instruments not measured at fair value

The Group recognized in the financial statements financial assets and financial liabilities that are not measured at fair value. Management believes the carrying amounts of such financial assets and liabilities approximate their fair values.

4) Fair value of financial instruments measured at fair value on a recurring basis

Fair value hierarchy

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTOCI</u>				
Domestic listed shares and emerging market shares	\$ 46,333	\$ -	\$ -	\$ 46,333
Domestic and overseas unlisted shares	\$ -	\$ -	\$ 1,005,065	\$ 1,005,065
December 31, 2019				
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ -	\$ 6,037	\$ -	\$ 6,037
<u>Financial assets at FVTOCI</u>				
Domestic listed shares and emerging market shares	\$ 61,205	\$ -	\$ -	\$ 61,205
Domestic and overseas unlisted shares	\$ -	\$ -	\$ 1,056,205	\$ 1,056,205
March 31, 2019				
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTOCI</u>				
Domestic listed shares and emerging market shares	\$ 129,530	\$ -	\$ -	\$ 129,530
Domestic unlisted shares	\$ -	\$ -	\$ 469,170	\$ 469,170
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	\$ -	\$ 448	\$ -	\$ 448

5) Reconciliation of Level 3 fair value measurements of financial instruments

The financial assets measured at Level 3 fair value were financial assets at FVTPL and equity investments classified as financial assets at FVTOCI. Reconciliations for the three months ended March 31, 2020 and 2019 were as follows:

	For the Three Months Ended	
	March 31	
	2020	2019
Balance at January 1	\$ 1,056,205	\$ 418,733
Recognized in other comprehensive income	<u>(51,140)</u>	<u>50,437</u>
	<u>\$ 1,005,065</u>	<u>\$ 469,170</u>

c. Financial risk management objectives and policies

The Group seeks to minimize the effects of financial 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 provide written principles on foreign currency risk, and the use of financial derivatives. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into foreign exchange forward contracts to hedge the foreign currency risk arising on the export business.

a) Foreign currency risk

The Group has foreign currency denominated transactions, which expose the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 32.

The sensitivity analysis included only outstanding foreign currency denominated monetary items at the end of the reporting period and an increase in net income and equity if New Taiwan dollars strengthen by 1% against foreign currencies. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be impact on net income in the amounts of NT\$1,296 thousand increase and NT\$1,651 thousand decrease for the three months ended March 31, 2020 and 2019, respectively. The amounts used in the 1% weakening of New Taiwan dollars against the relevant currency did not consider the impact of hedge contracts and hedged item.

b) Interest rate risk

Interest rate risk refers to the risk that the change in market value will influence the fair value of financial instruments. The Group's interest rate risk arises primarily from floating rate deposits and long-term loans.

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

	March 31, 2020	December 31, 2019	March 31, 2019
Cash flow interest rate risk			
Financial assets	\$ 470,213	\$ 284,413	\$ 8,366
Financial liabilities	500,000	500,000	-

The sensitivity analysis below were determined based on the Group's exposure to interest rates for fair value of variable-rate non-derivatives instruments at the end of the reporting period. If interest rates had been higher by one percentage point, the Group's cash inflows for the three months ended March 31, 2020 and 2019 would have decreased by NT\$298 thousand and increased by NT\$84 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In this regard, the management of the Group consider that the Group's credit risk was significantly reduced.

3) Liquidity risk

The Group has enough operating capital to comply with loan covenants; liquidity risk is low.

The Group's non-derivative financial liabilities and their agreed repayment period are as follows:

	March 31, 2020			Total
	Within 1 Year	1-2 Years	Over 2 Years	
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 2,252,547	\$ -	\$ -	\$ 2,252,547
Lease liabilities	121,560	112,363	331,846	565,769
Variable interest rate liabilities	-	-	500,000	500,000
	<u>\$ 2,374,107</u>	<u>\$ 112,363</u>	<u>\$ 831,846</u>	<u>\$ 3,318,316</u>

Additional information about the maturity analysis of lease liabilities:

	Less than 2 Years	2-5 Years	5-10 Years	10-15 Years	Total
	<u>Non-derivative financial liabilities</u>				
Lease liabilities	<u>\$ 233,923</u>	<u>\$ 223,079</u>	<u>\$ 103,040</u>	<u>\$ 5,727</u>	<u>\$ 565,769</u>

	December 31, 2019			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-derivative <u>financial liabilities</u>				
Non-interest bearing Lease liabilities	\$ 2,076,872 126,438	\$ - 115,424	\$ - 360,654	\$ 2,076,872 602,516
Variable interest rate liabilities	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
	<u>\$ 2,203,310</u>	<u>\$ 115,424</u>	<u>\$ 860,654</u>	<u>\$ 3,179,388</u>

	March 31, 2019			
	Within 1 Year	1-2 Years	Over 2 Years	Total
Non-derivative <u>financial liabilities</u>				
Non-interest bearing Lease liabilities	\$ 1,472,170 102,474	\$ - 89,162	\$ - 373,277	\$ 1,472,170 564,913
	<u>\$ 1,574,644</u>	<u>\$ 89,162</u>	<u>\$ 373,277</u>	<u>\$ 2,037,083</u>

27. TRANSACTIONS WITH RELATED PARTIES

a. Related party name and categories

<u>Related Party Name</u>	<u>Related Party Categories</u>
Winbond Electronics Corporation (“WEC”)	The Company’s parent
Winbond Electronics (HK) Limited (“WEHK”)	Associate
Winbond Electronics Corporation America (“WECA”)	Associate
Winbond Electronics Corporation Japan (“WECJ”)	Associate
Techdesign Corporation	Associate
Callisto Holding Limited	Associate
Nyquest Technology Co., Ltd. (“Nyquest”)	Related party in substance
Walton Advanced Engineering Inc.	Related party in substance
Chin Cherng Construction Co., Ltd.	Related party in substance
United Industrial Gases Co., Ltd.	Related party in substance

b. Operating activities

	For the Three Months Ended March 31	
	2020	2019
1) Operating revenue		
Related party in substance	\$ 37,101	\$ 51,471
Associate	<u>21,284</u>	<u>16,226</u>
	<u>\$ 58,385</u>	<u>\$ 67,697</u>

	For the Three Months Ended March 31		
	2020	2019	
2) Purchases of goods			
Parent company	<u>\$ 40,099</u>	<u>\$ 27,095</u>	
3) Manufacturing expenses			
Parent company	<u>\$ 99</u>	<u>\$ -</u>	
4) Selling expenses			
Associate	\$ 210	\$ 220	
Parent company	<u>130</u>	<u>-</u>	
	<u>\$ 340</u>	<u>\$ 220</u>	
5) General and administrative expenses			
Parent company	\$ 2,929	\$ 1,500	
Related party in substance	2,695	2,695	
Associate	<u>252</u>	<u>220</u>	
	<u>\$ 5,876</u>	<u>\$ 4,415</u>	
6) Research and development expenses			
Parent company	\$ 2,320	\$ 53	
Associate	<u>1,469</u>	<u>1,538</u>	
	<u>\$ 3,789</u>	<u>\$ 1,591</u>	
	March 31, 2020	December 31, 2019	March 31, 2019
7) Accounts receivable from related parties			
Related party in substance	\$ 28,343	\$ 45,903	\$ 38,878
Associate	<u>12,589</u>	<u>21,491</u>	<u>8,537</u>
	<u>\$ 40,932</u>	<u>\$ 67,394</u>	<u>\$ 47,415</u>
8) Other receivables			
Associate	<u>\$ 120</u>	<u>\$ 94</u>	<u>\$ 71</u>

	March 31, 2020	December 31, 2019	March 31, 2019
9) Refundable deposits			
Parent company	\$ 1,780	\$ 1,780	\$ -
Related party in substance	<u>1,722</u>	<u>1,722</u>	<u>1,722</u>
	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 1,722</u>
10) Accounts payable to related parties			
Parent company	<u>\$ 29,253</u>	<u>\$ 24,535</u>	<u>\$ 19,304</u>
11) Other payables			
Parent company	<u>\$ 2,603</u>	<u>\$ 2,740</u>	<u>\$ 27,541</u>
12) Guarantee deposits			
Parent company	<u>\$ 545</u>	<u>\$ 545</u>	<u>\$ 545</u>

The sales and purchase prices and collection and payment terms with related parties were not significantly different from those with third parties. For other related party transactions, price and terms were determined in accordance with mutual agreement.

c. Lease arrangements - Group is lessee

	March 31, 2020	December 31, 2019	March 31, 2019
1) Lease liabilities			
Parent company	\$ 56,845	\$ 59,750	\$ -
Related party in substance	30,280	32,869	40,573
Associate	<u>13,868</u>	<u>15,652</u>	<u>21,836</u>
	<u>\$ 100,993</u>	<u>\$ 108,271</u>	<u>\$ 62,409</u>
		For the Three Months Ended March 31	
		2020	2019
2) Interest expense			
Parent company		\$ 154	\$ -
Associate		128	199
Related party in substance		<u>125</u>	<u>167</u>
		<u>\$ 407</u>	<u>\$ 366</u>

d. Lease arrangements - Group is lessor/sublease arrangements

Sublease arrangements under operating leases

For the three months ended March 31, 2020 and 2019, the Group subleases its right-of-use assets to its associate companies WEC and WEHK under operating leases with lease terms between 1 and 3 years.

1) The balance of operating lease receivables was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Associate	\$ 265	\$ 269	\$ 274
Parent company	<u>80</u>	<u>434</u>	<u>391</u>
	<u>\$ 345</u>	<u>\$ 703</u>	<u>\$ 665</u>

2) Future lease payment receivables are as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Parent company	\$ 10,499	\$ 11,430	\$ 14,507
Associate	<u>131</u>	<u>535</u>	<u>1,788</u>
	<u>\$ 10,630</u>	<u>\$ 11,965</u>	<u>\$ 16,295</u>

3) Lease income was as follows:

	For the Three Months Ended March 31	
	2020	2019
Parent company	\$ 983	\$ 1,037
Associate	<u>392</u>	<u>413</u>
	<u>\$ 1,375</u>	<u>\$ 1,450</u>

e. Endorsements and guarantees

As of March 31, 2020, the former chairman of the Company is a joint guarantor of the land-leasing from Taiwan Sugar Corporation. Refer to Note 13.

f. Compensation of key management personnel

	For the Three Months Ended March 31	
	2020	2019
Short-term employee benefits	\$ 28,779	\$ 27,168
Post-employment benefits	<u>647</u>	<u>703</u>
	<u>\$ 29,426</u>	<u>\$ 27,871</u>

The remuneration of directors and key executives, as determined by the remuneration committee, was based on the performance of individuals and market trends.

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

Please refer to Note 6.

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. On March 12, 2020, the Company resolved to increase its working capital by issuing unsecured convertible bonds in Taiwan, with an aggregate principal amount of NT\$2,000,000 thousand. Once the case obtain approval from the government authorities, the issuance will come effective and NTC expect to issue the bond in the second quarter of the year 2020.
- b. Microchip Technology Inc. (listed company in the United States) filed a first amended complaint in January 2019, which alleges that the Company and NTCA infringed six patents of Microchip Technology Inc. the case is proceeding in the United States District Court for the Northern District of California where the Company and NTCA filed their statement of defense. The parties had reached a settlement in March 2020. Microchip Technology Inc. agreed to withdraw the complaint.

30. SIGNIFICANT CONTRACTS

- a. On November 28, 2019, the Company's board of directors resolved to acquire the semiconductor business of Panasonic Corporation. Consequently, the Company and Panasonic Corporation reached an agreement and signed a contract for the Company's acquisition of the semiconductor business of Panasonic Corporation. Both parties will obtain approval from their government authorities and estimate to complete the contract settlement in June 2020. The total contract amount is US\$250,000 thousand (approximately NT\$7,627,500 thousand), which will be adjusted on or after the settlement in accordance with the regulated price formula in the contract.
- b. According to the aforementioned contract signed on November 28, 2019, the Company has the right to decide whether to purchase the PSCS land when received the environmental assessment report within three months. The Company's board of directors resolved to purchase the land for business within US\$50,000 thousand on April 14, 2020. The actual transaction price will be subjected to the resolution by the board of directors.

31. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Please refer to Note 30.

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currency of the entities in the Group and the related exchange rates between foreign currencies and respective functional currency were as follows:

	March 31, 2020		
	Foreign Currencies (Thousand)	Exchange Rate (Note)	New Taiwan Dollars (Thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 35,478	30.225	\$ 1,072,324
ILS	17,550	8.5045	149,251
JPY	9,085	0.2788	2,533
EUR	193	33.24	6,404
<u>Financial liabilities</u>			
Monetary items			
USD	40,004	30.225	1,209,132
ILS	16,317	8.5045	138,767
JPY	46,548	0.2788	12,978
EUR	397	33.24	13,212
	December 31, 2019		
	Foreign Currencies (Thousand)	Exchange Rate (Note)	New Taiwan Dollars (Thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 40,291	29.98	\$ 1,207,919
ILS	14,128	8.6652	122,421
JPY	15,093	0.276	4,166
EUR	27	33.59	891
<u>Financial liabilities</u>			
Monetary items			
USD	26,123	29.98	783,180
ILS	17,812	8.6652	154,348
JPY	62,389	0.276	17,219
EUR	157	33.59	5,281

	March 31, 2019		
	Foreign Currencies (Thousand)	Exchange Rate (Note)	New Taiwan Dollars (Thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 25,702	30.82	\$ 792,138
ILS	19,637	8.4878	166,678
JPY	17,279	0.2783	4,809
EUR	138	34.61	4,761
<u>Financial liabilities</u>			
Monetary items			
USD	20,044	30.82	617,756
ILS	20,759	8.4878	176,199
JPY	27,910	0.2783	7,767
EUR	131	34.61	4,540

Note: The rate foreign currencies are exchanged to New Taiwan dollars and displayed as a rate.

For the three months ended March 31, 2020 and 2019, realized and unrealized net foreign exchange gains were NT\$7,939 thousand and NT\$2,686 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the entities in the Group.

33. SEGMENT INFORMATION

a. Basic information about operating segment

1) Classification of operating segments

The Group's reportable segments under IFRS 8 and IAS 34 were as follows:

a) General IC product segment

The general IC product segment engages mainly in research, design, manufacturing, sale and after-sales service.

b) Foundry service segment

The foundry service segment engages mainly in research, design, manufacturing and sale.

2) Principles of measuring reportable segments profit, assets and liabilities

The significant accounting principles of each operating segment are the same as those stated in Note 4 to the consolidated financial statements. The Group's operating segment profit or loss represents the profit or loss earned by each segment. The profit or loss is controllable by segment managers and is the basis for assessment of segment performance. The Group does not provide information on assets regularly to the Group's chief operating decision maker; thus, the measure of assets is zero. Major liabilities are arranged based on the capital cost and deployment of the whole company, which are not controlled by individual segment managers.

b. Segment revenues and operating results

The following is an analysis of the Group's revenue from continuing operations by reportable segments.

	Segment Revenue		Segment Profit and Loss	
	For the Three Months Ended March 31		For the Three Months Ended March 31	
	2020	2019	2020	2019
General IC products	\$ 1,714,307	\$ 1,682,377	\$ 101,714	\$ 164,224
Foundry service	415,293	364,528	119,374	71,077
Total of segment revenue	2,129,600	2,046,905	221,088	235,301
Other revenue	3,555	2,916	1,950	1,837
Operating revenue	\$ 2,133,155	\$ 2,049,821	223,038	237,138
Unallocated expenditure				
Administrative and supporting expense			(127,555)	(94,550)
Sales and other common expenses			(85,547)	(104,031)
Income from operations			9,936	38,557
Finance costs			(4,500)	(2,859)
Interest income			8,080	3,632
Other gains and losses			3,022	3,635
Gains (losses) on disposal of property, plant and equipment			19	(16)
Foreign exchange gains (losses)			7,939	2,686
Gains (losses) on financial instruments at fair value through profit or loss			(5,051)	(4,921)
Profit before income tax			\$ 19,445	\$ 40,714