

Global Unichip Corp. and Subsidiaries

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

REPRESENTATION LETTER

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are 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 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. Consequently, Global Unichip Corp. and Subsidiaries do not prepare a separate set of consolidated financial statements.

Very truly yours,

GLOBAL UNICHIP CORP.

By

DR. F. C. TSENG
Chairman

February 6, 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Global Unichip Corp.

Opinion

We have audited the accompanying consolidated financial statements of Global Unichip Corp. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of 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 Company as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 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 audit 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 section Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventory

Due to the current rapidly changes in technology and the highly competitive business environment, the price of products fluctuating quickly, evaluating the changes in the net realizable value of inventory could have a material impact on the financial statements. As of December 31, 2019 the carrying amount of inventory was NT\$1,778,484 thousand and accounted for 21% of the total assets in the consolidated balance sheet. Please refer to Notes 4, 5 and 7 to the consolidated financial statements for the details of the information and accounting policy about inventory. As the Company's primary business model is composed of rendering services and the sales of goods and the Company requires that inventories be stated at the lower of cost or net realizable value in accordance with IAS 2, when determining net realizable value of inventory for obsolescent and unmarketable items, the Company should consider the inventory accounting policy and the production schedule at the same time. As uncertainty exists in management's judgment when the determining the loss on inventory, the valuation of inventory has been identified as a key audit matter.

Our key audit procedures performed in respect of this area included the following:

1. Understood the design of the key controls over the valuation of inventory.
2. Verified the reasonableness of the net realizable value of inventory by sampling from the year-end schedule of the raw materials, work in process, and finished goods, respectively, and matching the recent sales information.
3. Performed a retrospective review to analyze the historical reasonableness of judgments with reference to actual amounts of inventory loss.

Other Matter

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company'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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company 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 on the financial information of components constituting the Company 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 statements 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 2019 consolidated financial statements 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 Yih-Shin Kao and Yu Feng Huang.

Deloitte & Touche
Taipei, Taiwan
The Republic of China

February 6, 2020

Notice to Readers

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

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2019		December 31, 2018		LIABILITIES AND EQUITY	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS									
Cash and cash equivalents	\$ 2,541,628	30	\$ 3,906,191	48	CURRENT LIABILITIES			\$ 869,174	11
Contract assets (Note 15)	324,965	4	56,976	1	Contract liabilities (Note 15)	\$ 1,109,042	13		
Accounts receivable, net (Notes 6 and 15)	1,377,203	17	903,168	11	Accounts payable	783,908	9	732,365	9
Receivables from related parties (Note 25)	41,108	-	7,038	-	Payables to related parties (Note 25)	750,637	9	495,380	6
Inventories (Note 7)	1,778,484	21	1,274,954	16	Accrued employees' compensation and remuneration to directors (Note 21)	80,691	1	167,433	2
Other financial assets	342	-	845	-	Payables on machinery and equipment	58,524	1	364,475	4
Other current assets (Notes 11 and 25)	<u>552,198</u>	<u>7</u>	<u>479,487</u>	<u>6</u>	Current tax liabilities (Note 19)	76,627	1	130,395	2
Total current assets	<u>6,615,928</u>	<u>79</u>	<u>6,628,659</u>	<u>82</u>	Lease liabilities - current (Notes 9, 22 and 25)	50,955	-	-	-
NON-CURRENT ASSETS					Accrued expenses and other current liabilities (Notes 12 and 25)	<u>727,853</u>	<u>9</u>	<u>875,634</u>	<u>11</u>
Property, plant and equipment (Note 8)	982,487	12	1,088,524	13	Total current liabilities	<u>3,638,237</u>	<u>43</u>	<u>3,634,856</u>	<u>45</u>
Right-of-use assets (Note 9)	248,327	3	-	-	NON-CURRENT LIABILITIES				
Intangible assets (Note 10)	412,047	5	288,195	4	Deferred income tax liabilities (Note 19)	41,826	1	23,862	-
Deferred income tax assets (Note 19)	38,810	1	60,741	1	Lease liabilities - non-current (Notes 9, 22 and 25)	199,622	3	-	-
Refundable deposits (Note 25)	20,916	-	20,921	-	Other long-term payables (Note 12)	112,877	1	53,239	1
Pledged time deposits (Note 26)	<u>22,200</u>	<u>-</u>	<u>22,200</u>	<u>-</u>	Net defined benefit liabilities (Note 13)	32,104	-	28,233	-
Total non-current assets	<u>1,724,787</u>	<u>21</u>	<u>1,480,581</u>	<u>18</u>	Guarantee deposits (Note 22)	<u>3,075</u>	<u>-</u>	<u>3,146</u>	<u>-</u>
TOTAL	<u>\$ 8,340,715</u>	<u>100</u>	<u>\$ 8,109,240</u>	<u>100</u>	Total non-current liabilities	<u>389,504</u>	<u>5</u>	<u>108,480</u>	<u>1</u>
					Total liabilities	<u>4,027,741</u>	<u>48</u>	<u>3,743,336</u>	<u>46</u>
EQUITY (Note 14)									
Share capital					Share capital	1,340,119	16	1,340,119	17
Capital surplus					Capital surplus	32,578	1	32,543	-
Retained earnings					Retained earnings				
Appropriated as legal reserve					Appropriated as legal reserve	762,708	9	663,892	8
Appropriated as special reserve					Appropriated as special reserve	8,636	-	10,940	-
Unappropriated earnings					Unappropriated earnings	2,189,678	26	2,327,046	29
Others					Others	(20,745)	-	(8,636)	-
TOTAL					Total equity	<u>4,312,974</u>	<u>52</u>	<u>4,365,904</u>	<u>54</u>
TOTAL	<u>\$ 8,340,715</u>	<u>100</u>	<u>\$ 8,109,240</u>	<u>100</u>					

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

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019	2018		
	Amount	%	Amount	%
NET REVENUE (Notes 15 and 25)	\$ 10,710,068	100	\$ 13,459,804	100
COST OF REVENUE (Notes 21 and 25)	<u>7,180,057</u>	<u>67</u>	<u>9,442,762</u>	<u>70</u>
GROSS PROFIT	<u>3,530,011</u>	<u>33</u>	<u>4,017,042</u>	<u>30</u>
OPERATING EXPENSES				
Sales and marketing (Notes 21 and 25)	283,990	2	309,076	2
General and administrative (Notes 21 and 25)	309,356	3	337,899	3
Research and development (Notes 21 and 25)	2,219,515	21	2,273,694	17
Expected credit impairment loss (Note 6)	<u>19,921</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>2,832,782</u>	<u>26</u>	<u>2,920,669</u>	<u>22</u>
INCOME FROM OPERATIONS	<u>697,229</u>	<u>7</u>	<u>1,096,373</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 9, 16 and 25)	94,241	-	37,046	-
Other gains and losses (Note 17)	(5,031)	-	2,065	-
Finance costs (Notes 18 and 25)	<u>(3,337)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>85,873</u>	<u>-</u>	<u>39,111</u>	<u>-</u>
INCOME BEFORE INCOME TAX	783,102	7	1,135,484	8
INCOME TAX EXPENSE (Note 19)	<u>149,635</u>	<u>1</u>	<u>147,328</u>	<u>1</u>
NET INCOME	<u>633,467</u>	<u>6</u>	<u>988,156</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Note 13)	(4,263)	-	(1,782)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations (Note 14)	<u>(12,109)</u>	<u>-</u>	<u>2,304</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(16,372)</u>	<u>-</u>	<u>522</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 617,095</u>	<u>6</u>	<u>\$ 988,678</u>	<u>7</u>
EARNINGS PER SHARE (Note 20)				
Basic earnings per share	<u>\$ 4.73</u>	<u>-</u>	<u>\$ 7.37</u>	<u>-</u>
Diluted earnings per share	<u>\$ 4.71</u>	<u>-</u>	<u>\$ 7.33</u>	<u>-</u>

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

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

	Share Capital - Common Stock							Retained Earnings		Others Foreign Currency Translation Reserve	Total Equity		
	Share (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2018	134,011	\$ 1,340,119	\$ 32,513	\$ 578,411	\$ 1,514	\$ 2,105,639	\$ 2,685,564	\$ (10,940)	\$ 4,047,256				
Appropriation and distribution of prior year's earnings													
Legal reserve	-	-	-	85,481	-	(85,481)	-	-	-				
Special reserve	-	-	-	-	9,426	(9,426)	-	-	-				
Cash dividends to shareholders - NT\$5.00 per share	-	-	-	-	-	(670,060)	(670,060)	-	(670,060)				
Total	-	-	-	85,481	9,426	(764,967)	(670,060)	-	(670,060)				
Dividends from claims extinguished by prescription	-	-	30	-	-	-	-	-	-		30		
Net income in 2018	-	-	-	-	-	988,156	988,156	-	988,156				
Other comprehensive income (loss) in 2018, net of income tax	-	-	-	-	-	(1,782)	(1,782)	2,304	522				
Total comprehensive income in 2018	-	-	-	-	-	986,374	986,374	2,304	988,678				
BALANCE, DECEMBER 31, 2018	134,011	1,340,119	32,543	663,892	10,940	2,327,046	3,001,878	(8,636)	4,365,904				
Appropriation and distribution of prior year's earnings													
Legal reserve	-	-	-	98,816	-	(98,816)	-	-	-				
Reversal of special reserve	-	-	-	-	(2,304)	2,304	-	-	-				
Cash dividends to shareholders - NT\$5.00 per share	-	-	-	-	-	(670,060)	(670,060)	-	(670,060)				
Total	-	-	-	98,816	(2,304)	(766,572)	(670,060)	-	(670,060)				
Dividends from claims extinguished by prescription	-	-	35	-	-	-	-	-	-		35		
Net income in 2019	-	-	-	-	-	633,467	633,467	-	633,467				
Other comprehensive loss in 2019, net of income tax	-	-	-	-	-	(4,263)	(4,263)	(12,109)	(16,372)				
Total comprehensive income (loss) in 2019	-	-	-	-	-	629,204	629,204	(12,109)	617,095				
BALANCE, DECEMBER 31, 2019	134,011	\$ 1,340,119	\$ 32,578	\$ 762,708	\$ 8,636	\$ 2,189,678	\$ 2,961,022	\$ (20,745)	\$ 4,312,974				

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

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 783,102	\$ 1,135,484
Adjustments for:		
Depreciation	345,217	186,767
Amortization	252,857	226,428
Expected credit impairment loss	19,921	-
Gain on financial assets at fair value through profit or loss	(944)	(1,278)
Finance costs	3,337	-
Interest income	(25,397)	(26,557)
Loss on disposal of property, plant and equipment, net	3	4
Loss (gain) on foreign exchange, net	(10,860)	13,581
Gain on lease modification	(26)	-
Changes in operating assets and liabilities:		
Contract assets	(267,989)	(43,584)
Accounts receivable (including related parties)	(543,150)	(8,578)
Inventories	(503,530)	(122,440)
Other financial assets	196	(166)
Other current assets	(51,502)	(21,193)
Contract liabilities	239,868	(761,107)
Accounts payable (including related parties)	292,996	(590,389)
Accrued employees' compensation and remuneration to directors	(86,742)	21,726
Accrued expenses and other current liabilities	(182,745)	322,266
Net defined benefit liabilities	(392)	(490)
Cash generated from operations	264,220	330,474
Income tax paid	<u>(156,267)</u>	<u>(103,416)</u>
Net cash generated from operating activities	<u>107,953</u>	<u>227,058</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at fair value through profit or loss	(2,085,000)	(2,310,000)
Property, plant and equipment	(490,304)	(528,911)
Intangible assets	(271,317)	(240,117)
Proceeds from disposal of:		
Financial assets at fair value through profit or loss	2,085,944	2,311,278
Property, plant and equipment	-	3,305
Refundable deposits paid	(4,797)	(7,349)
Refundable deposits refunded	4,375	1,522
Interest received	<u>25,704</u>	<u>27,076</u>
Net cash used in investing activities	<u>(735,395)</u>	<u>(743,196)</u>

(Continued)

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Guarantee deposits received	\$ 40	\$ 83
Guarantee deposits refunded	(33)	(7)
Repayment of the principal portion of lease liabilities	(53,241)	-
Cash dividends paid	(670,060)	(670,060)
Interest paid	(3,337)	-
Dividends from claims extinguished by prescription reclassified to capital surplus	<u>35</u>	<u>30</u>
Net cash used in financing activities	<u>(726,596)</u>	<u>(669,954)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>(10,525)</u>	<u>2,081</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(1,364,563)</u>	<u>(1,184,011)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,906,191</u>	<u>5,090,202</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,541,628</u></u>	<u><u>\$ 3,906,191</u></u>

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

(Concluded)

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Global Unichip Corp. (GUC), a Republic of China (R.O.C.) corporation, was incorporated on January 22, 1998. GUC is engaged mainly in researching, developing, producing, testing and selling of embedded memory and logic components for various application ICs, cell libraries for various application ICs, and EDA tools for various application ICs. On November 3, 2006, GUC's shares were listed on the Taiwan Stock Exchange (TWSE). The address of its registered office and principal place of business is No. 10 Li-Hsin 6th Rd., Hsinchu Science Park, Taiwan. GUC together with its consolidated subsidiaries are hereinafter referred to collectively as the "Company".

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized by the Audit Committee and the Board of Directors for issue on February 6, 2020.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (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 Company's accounting policies:

- 1) IFRS 16 "Leases"

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

Definition of a lease

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

The Company as lessee

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

The Company elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Company applies IAS 36 to all right-of-use assets.

The Company also applies the following practical expedients:

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

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 1.293%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 122,461
Less: Recognition exemption for short-term leases	<u>(5,573)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 116,888</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 114,855
Add: Adjustments as a result of a different treatment of extension options	<u>108,476</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 223,331</u>

The Company as lessor

The Company subleased its leasehold parking lot to a third party from 2016. Such sublease was classified as an operating lease under IAS 17. The Company determines the sublease is classified as an operating lease on the basis of the contractual terms and conditions of the head lease and sublease on January 1, 2019.

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ _____ -	\$ 223,331	\$ 223,331
Total effect on assets	\$ _____ -	\$ 223,331	\$ 223,331
Lease liabilities - current	\$ _____ -	\$ 51,176	\$ 51,176
Lease liabilities - non-current	_____ -	172,155	172,155
Total effect on liabilities	\$ _____ -	\$ 223,331	\$ 223,331

b. The IFRSs issued by International Accounting Standards Board (IASB) and endorsed by the FSC from the starting day of 2020

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

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

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

Note 3: The Company 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 Company assessed no material the possible impact that the application of above standards and interpretations will have on the Company's financial position and financial performance.

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
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 1: 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 Company is continuously assessing the possible impact that the application of above standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. 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 consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

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.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of Consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of GUC and entities controlled by GUC (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

All intercompany transactions, balances, income and expenses are eliminated in full upon consolidation.

The subsidiaries in the consolidated financial statements

The detail information of the subsidiaries at the end of reporting period was as follows:

Name of Investor	Name of Investee	Main Businesses and Products	Establishment and Operating Location	Percentage of Ownership		Remark
				December 31 2019	2018	
GUC	Global Unichip Corp.-NA (GUC-NA)	Products consulting, design and technical support service	U.S.A.	100%	100%	Note 1
	Global Unichip Japan Co., Ltd. (GUC-Japan)	Products consulting, design and technical support service	Japan	100%	100%	Note 1
	Global Unichip Corp. Europe B.V. (GUC-Europe)	Products consulting, design and technical support service	Netherlands	100%	100%	Note 1
	Global Unichip (BVI) Corp. (GUC-BVI)	Investing activities	British Virgin Islands	-	100%	Notes 1 & 2
	Global Unichip Corp. Korea (GUC-Korea)	Products consulting, design and technical support service	Korea	100%	100%	Note 1
	Global Unichip (Nanjing) Ltd. (GUC-Nanjing)	Products consulting, design and technical support service	Nanjing, China	100%	100%	Note 1
	Global Unichip (Shanghai) Company, Limited (GUC-Shanghai)	Products consulting, design and technical support service	Shanghai, China	100%	100%	Notes 1 & 2

Note 1: The subsidiaries are not significant subsidiaries, their financial statements have not been reviewed except for GUC-NA.

Note 2: In order to restructure organization, GUC acquired all equity interest of GUC-Shanghai from GUC-BVI in August 2019. GUC BVI has been liquidated in November 2019.

Foreign Currencies

The financial statements of each individual consolidated entity were expressed in the currency, which reflected its primary economic environment (functional currency). The functional currency of GUC and presentation currency of the consolidated financial statements are both New Taiwan Dollars (NT\$). In preparing the consolidated financial statement, the operating results and financial positions of each consolidated entity are translated into NT\$.

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (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. Such exchange differences are recognized in profit or loss in the period in which they arise. 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 on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences on 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 in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into NT\$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

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

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

Cash Equivalents

Cash equivalents, for the purpose of meeting short-term cash commitments, consist of highly liquid time deposits and investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial Instruments

Financial assets and liabilities shall be recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially recognized at fair values. 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 fair value through profit or loss) 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 fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

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

- a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss (FVTPL) and financial assets at amortized cost.

1) Financial assets at FVTPL

Financial assets at FVTPL includes the financial assets are mandatorily classified as at FVTPL, which includes investments in equity instruments which are not designated as at fair value through other comprehensive income (FVOCI) and debt instruments that do not meet the amortized cost criteria or the FVOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 24: Financial Instruments.

2) Financial assets at amortized cost

Financial assets that meet the following 2 conditions are subsequently measured at amortized cost:

- a) The financial asset is held within a business model whose objective is collecting contractual cash flows; and
- b) 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, notes and accounts receivable (including related parties) and other receivables), are measured at amortized cost, which equals gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

b. Impairment of financial assets and contract assets

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

The Company always recognizes lifetime Expected Credit Losses (ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs 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 Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

For poor credit rating customers have accounts receivable balances past due over 90 days, the Company recognizes loss allowance at full amount.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

c. Derecognition of financial assets

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

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

Financial Liabilities and Equity Instruments

a. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

b. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

c. Financial liabilities

Financial liabilities are subsequently measured at amortized cost using effective interest method.

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

d. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, 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 necessary selling costs. Inventories are recorded at weighted-average cost on the balance sheet date.

Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment. Costs include any incremental costs that are directly attributable to the construction or acquisition of the item of property, plant and equipment.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives:

Buildings	50 years
Machinery and equipment	4 to 7 years
Research and development equipment	3 to 5 years
Transportation equipment	5 years
Office equipment	3 to 5 years
Miscellaneous equipment	2 to 10 years

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 estimates accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leases

2019

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

a. The Company as lessor

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

When the Company subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Company, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

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

b. The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

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

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments and variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

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

2018

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

Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Intangible Assets

Intangible assets are limited in a certain useful life. The initial book value is recorded on the purchasing cost itself. After that the subsequent book value is measured by cost less accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method over the following estimated useful lives:

Software	2 to 5 years
Technology license fees	The term of the technology authorization contract
Patents	Economic lives of the patents

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognized as an expense when incurred. An internally-generated intangible asset arising from development activities is capitalized and then amortized on a straight-line basis over its useful life if the recognition criteria for an intangible asset have been met; otherwise, the development expenditure is recognized as an expense when incurred.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed 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 immediately in profit or loss.

Revenue Recognition

The Company identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied. Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from sale of goods

Recognized when a customer obtains control of promised goods, at which time the goods are delivered to the customer's specific location and performance obligation is satisfied.

Rendering of Non-Recurring Engineering (NRE) services

Recognized the revenue when the NRE service is completed, which meet the qualifications of customer's contract. If each performance obligation can be measured reasonably by completion stages, the contract is restricted for another use, and the customer would compensate the company to recover the costs incurred plus a reasonable profit margin whenever the contract is terminated by the customer, revenues of the contract service will be recognized over time.

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 under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement is recognized in other comprehensive income in the period in which they occur, and it is reflected in retained earnings immediately and will not be reclassified to profit or loss.

Net defined benefit liability represents the actuarial deficit in the Company's defined benefit plan.

Taxation

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

Current tax

According to the Income Tax Law, an additional income tax on unappropriated earnings is provided for 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.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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 for all deductible temporary differences 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 in subsidiaries, except where the Company 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 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. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and increased to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the 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 liability is settled or the asset 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

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 tax are also recognized in other comprehensive income or directly in equity, respectively.

Government Grants

Government grants are recognized when the Company complies with the conditions attached to them and that the grants will be received.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the directors are 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 to be relevant. Actual results may differ from these estimates.

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

CRITICAL ACCOUNTING JUDGMENTS

Revenue Recognition

The Company evaluates whether its performance obligation is satisfied over time or at a point in time in accordance with respective contract with a customer and applicable regulation when the conditions described in Note 4 are satisfied.

The Company also records a provision for estimated future allowances in the same period the related revenue is recorded. Provision for estimated sales allowances is generally made and adjusted based on management judgement, historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the allowance.

KEY SOURCES OF ESTIMATION AND UNCERTAINTY

Impairment of Financial Assets

The provision for impairment of trade receivables is based on assumptions about the risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Please refer to Note 6 for the details of the key assumptions and inputs used. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Company's subjective judgment and estimation, including the future revenue growth and profitability, tax holidays, the amount of tax credits that can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to deferred tax assets.

Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Company has to determine and estimate to the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

Lessees' Incremental Borrowing Rates - 2019

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

6. ACCOUNTS RECEIVABLE, NET

	December 31	
	2019	2018
At amortized cost of accounts receivable		
Gross carrying amount	\$ 1,397,124	\$ 903,168
Less: Allowance for credit impairment loss	<u>(19,921)</u>	<u>-</u>
	<u><u>\$ 1,377,203</u></u>	<u><u>\$ 903,168</u></u>

In principle, the payment term granted to customers is due 30 days from the invoice date or 30 days from the end of the month the invoice is issued.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past account aging records of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors and an assessment of all the gross domestic product growth rates, unemployment rates and industrial indicators at the reporting date. The Company

estimates expected credit losses based on the number of days for which receivables are past due. As the Company's historical credit losses experience does not show significantly different loss patterns for different customer segments, the provision for losses based on past due status of receivables is not further distinguished between the Company's different customer base; and poor credit rating customers have accounts receivable balances past due over 90 days, should be recognized full amount of loss allowance.

The Company 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 of the receivable. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

Aging analysis of accounts receivable

	December 31	
	2019	2018
Neither past due nor impaired	\$ 1,260,616	\$ 779,713
Past due but not impaired		
Past due within 1-30 days	112,515	106,735
Past due within 31-60 days	4,072	6,676
Past due within 91-120 days	<u>-</u>	<u>10,044</u>
	<u><u>\$ 1,377,203</u></u>	<u><u>\$ 903,168</u></u>

The movement of the loss allowance of accounts receivable was as follows:

	Year Ended December 31, 2019
Balance at January 1	\$ -
Add: Net remeasurement of credit impairment loss allowance	<u>19,921</u>
Balance at December 31	<u><u>\$ 19,921</u></u>

Starting from 2018, the Company applies IFRS 9 to evaluate expected credit losses, the Company's loss allowance for expected credit losses was zero on December 31, 2018.

7. INVENTORIES

	December 31	
	2019	2018
Finished goods	\$ 85,663	\$ 106,745
Work in process	1,244,852	873,531
Raw materials	<u>447,969</u>	<u>294,678</u>
	<u><u>\$ 1,778,484</u></u>	<u><u>\$ 1,274,954</u></u>

Write-down of inventories to net realizable value was included in the cost of revenue, which was as follows.

	Years Ended December 31	
	2019	2018
Write-down of inventories	<u><u>\$ 76,020</u></u>	<u><u>\$ 70,789</u></u>

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and Equipment	Research and Development Equipment	Transportation Equipment	Office Equipment	Miscellaneous Equipment	Total
<u>Cost</u>							
Balance at January 1, 2019	\$ 242,923	\$ 25,907	\$ 1,368,394	\$ 1,375	\$ 29,560	\$ 403,403	\$ 2,071,562
Additions	-	153	151,495	-	456	32,241	184,345
Disposals	-	(1,319)	(13,539)	-	(46)	(4,087)	(18,991)
Effect of exchange rate changes	-	-	(231)	-	(242)	(1,251)	(1,724)
Balance at December 31, 2019	<u>\$ 242,923</u>	<u>\$ 24,741</u>	<u>\$ 1,506,119</u>	<u>\$ 1,375</u>	<u>\$ 29,728</u>	<u>\$ 430,306</u>	<u>\$ 2,235,192</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ 68,564	\$ 6,470	\$ 616,956	\$ 158	\$ 21,425	\$ 269,465	\$ 983,038
Depreciation	4,766	3,409	244,484	266	2,117	34,605	289,647
Disposals	-	(1,319)	(13,539)	-	(43)	(4,087)	(18,988)
Effect of exchange rate changes	-	-	(130)	-	(161)	(701)	(992)
Balance at December 31, 2019	<u>\$ 73,330</u>	<u>\$ 8,560</u>	<u>\$ 847,771</u>	<u>\$ 424</u>	<u>\$ 23,338</u>	<u>\$ 299,282</u>	<u>\$ 1,252,705</u>
Carrying amount at December 31, 2019	<u>\$ 169,593</u>	<u>\$ 16,181</u>	<u>\$ 658,348</u>	<u>\$ 951</u>	<u>\$ 6,390</u>	<u>\$ 131,024</u>	<u>\$ 982,487</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 242,923	\$ 23,430	\$ 704,709	\$ 9,390	\$ 24,207	\$ 293,665	\$ 1,298,324
Additions	-	2,477	685,341	1,327	5,333	110,898	805,376
Disposals	-	-	(21,842)	(9,342)	-	(1,274)	(32,458)
Effect of exchange rate changes	-	-	186	-	20	114	320
Balance at December 31, 2018	<u>\$ 242,923</u>	<u>\$ 25,907</u>	<u>\$ 1,368,394</u>	<u>\$ 1,375</u>	<u>\$ 29,560</u>	<u>\$ 403,403</u>	<u>\$ 2,071,562</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ 63,797	\$ 3,311	\$ 486,832	\$ 5,383	\$ 19,928	\$ 245,823	\$ 825,074
Depreciation	4,767	3,159	151,924	808	1,478	24,631	186,767
Disposals	-	-	(21,842)	(6,033)	-	(1,274)	(29,149)
Effect of exchange rate changes	-	-	42	-	19	285	346
Balance at December 31, 2018	<u>\$ 68,564</u>	<u>\$ 6,470</u>	<u>\$ 616,956</u>	<u>\$ 158</u>	<u>\$ 21,425</u>	<u>\$ 269,465</u>	<u>\$ 983,038</u>
Carrying amount at December 31, 2018	<u>\$ 174,359</u>	<u>\$ 19,437</u>	<u>\$ 751,438</u>	<u>\$ 1,217</u>	<u>\$ 8,135</u>	<u>\$ 133,938</u>	<u>\$ 1,088,524</u>

9. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	Land	Buildings	Transportation Equipment	Total
<u>Cost</u>				
Balance at January 1, 2019	\$ -	\$ -	\$ -	\$ -
Effect of retrospective application of IFRS 16	<u>58,995</u>	<u>158,683</u>	<u>5,653</u>	<u>223,331</u>
Balance at January 1, 2019 (restated)	<u>58,995</u>	<u>158,683</u>	<u>5,653</u>	<u>223,331</u>
Additions	-	84,405	467	84,872
Lease modification	-	-	(1,163)	(1,163)
Effect of exchange rate changes	-	(3,929)	-	(3,929)
Balance at December 31, 2019	<u>\$ 58,995</u>	<u>\$ 239,159</u>	<u>\$ 4,957</u>	<u>\$ 303,111</u>

(Continued)

	Land	Buildings	Transportation Equipment	Total
<u>Accumulated depreciation</u>				
Balance at January 1, 2019	\$ -	\$ -	\$ -	\$ -
Effect of retrospective application of IFRS 16	_____ -	_____ -	_____ -	_____ -
Balance at January 1, 2019 (restated)	-	-	-	-
Depreciation	1,612	52,804	1,374	55,570
Lease modification	-	-	(170)	(170)
Effect of exchange rate changes	_____ -	(616)	_____ -	_____ (616)
Balance at December 31, 2019	<u>\$ 1,612</u>	<u>\$ 51,968</u>	<u>\$ 1,204</u>	<u>\$ 54,784</u>
Carrying amounts at December 31, 2019	<u>\$ 57,383</u>	<u>\$ 187,191</u>	<u>\$ 3,753</u>	<u>\$ 248,327</u> (Concluded)

**Year Ended
December 31,
2019**

Income from the subleasing of right-of-use assets (presented in other income) \$ 299

b. Lease liabilities - 2019

Item	Lease Term	Discount Rate	December 31, 2019
Land	2019.01-2055.07	1.62%	\$ 57,803
Buildings	2019.01-2030.02	0.825%-4.75%	189,006
Transportation equipment	2019.01-2023.08	0.825%	<u>3,768</u>
Total			<u>250,577</u>
Less: Lease liabilities-Current			<u>(50,955)</u>
Lease liabilities-Non Current			<u>\$ 199,622</u>

c. Material lease-in activities and terms

The Company leases land and buildings for the use of plants and offices with lease terms of 1 to 37 years. The lease contract for land located in the ROC. specifies that lease payments will be adjusted on the basis of changes in announced land value prices and other factors at any time. The Company does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Subleases

The other sublease transaction is set out below.

Sublease of right-of-use assets - 2019

The Company subleased its leasehold parking lot under operating leases with lease term of 3 years and with an option to extend for an additional 1 year.

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

	December 31, 2019
Year 1	\$ 299
Year 2	299
Year 3	<u>299</u>
	<u><u>\$ 897</u></u>

e. Other lease information

2019

	Year Ended December 31, 2019
Expenses relating to short-term leases	<u><u>\$ 11,059</u></u>
Expenses relating to low-value asset leases	<u><u>\$ 55</u></u>
Total cash outflow for leases	<u><u>\$ (68,132)</u></u>

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

2018

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

	December 31, 2018
Not later than 1 year	\$ 56,996
Later than 1 year and not later than 5 years	<u><u>65,465</u></u>
	<u><u>\$ 122,461</u></u>

The lease payments recognized in profit or loss was as follows:

	Year Ended December 31, 2018
Minimum lease payments	<u><u>\$ 55,516</u></u>

10. INTANGIBLE ASSETS

	Software	Patents	Total
<u>Cost</u>			
Balance at January 1, 2019	\$ 822,789	\$ 519	\$ 823,308
Additions	376,713	-	376,713
Disposals	(268,763)	-	(268,763)
Effect of exchange rate changes	<u>(9)</u>	<u>-</u>	<u>(9)</u>
Balance at December 31, 2019	<u>\$ 930,730</u>	<u>\$ 519</u>	<u>\$ 931,249</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2019	\$ 534,689	\$ 424	\$ 535,113
Amortization	252,829	28	252,857
Disposals	(268,763)	-	(268,763)
Effect of exchange rate changes	<u>(5)</u>	<u>-</u>	<u>(5)</u>
Balance at December 31, 2019	<u>\$ 518,750</u>	<u>\$ 452</u>	<u>\$ 519,202</u>
Carrying amount at December 31, 2019	<u>\$ 411,980</u>	<u>\$ 67</u>	<u>\$ 412,047</u>
	Software	Technology License Fees	Patents
			Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 687,166	\$ 6,000	\$ 519
Additions	191,099	-	-
Disposals	(55,465)	(6,000)	-
Effect of exchange rate changes	<u>(11)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 822,789</u>	<u>\$ -</u>	<u>\$ 519</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2018	\$ 363,757	\$ 6,000	\$ 395
Amortization	226,399	-	29
Disposals	(55,465)	(6,000)	-
Effect of exchange rate changes	<u>(2)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 534,689</u>	<u>\$ -</u>	<u>\$ 424</u>
Carrying amount at December 31, 2018	<u>\$ 288,100</u>	<u>\$ -</u>	<u>\$ 95</u>
			<u>\$ 288,195</u>

11. OTHER CURRENT ASSETS

	December 31	
	2019	2018
Prepayment for purchases	\$ 205,732	\$ 194,173
Prepaid license fees	172,536	117,641
Tax receivable	100,343	99,618
Prepaid expenses	36,398	39,637
Temporary payments	27,244	25,859
Prepaid income tax	<u>9,945</u>	<u>2,559</u>
	<u><u>\$ 552,198</u></u>	<u><u>\$ 479,487</u></u>

12. OTHER LIABILITIES

	December 31	
	2019	2018
<u>Current</u>		
Payable for salaries and bonuses	\$ 239,236	\$ 251,468
License fees payable	160,579	125,615
Payable for royalties	59,556	31,609
Refund liabilities	621	106,123
Others	<u>267,861</u>	<u>360,819</u>
	<u><u>\$ 727,853</u></u>	<u><u>\$ 875,634</u></u>
<u>Non-current</u>		
License fees payable	<u><u>\$ 112,877</u></u>	<u><u>\$ 53,239</u></u>

Revenue from sale of goods 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 Company recognizes the estimation of refund liabilities based on historical experience and the consideration of varying contractual terms.

The license fees payable are primarily attributable to several agreements that GUC entered into for certain technology license and software.

13. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension mechanism under the Labor Pension Act is deemed a defined contribution retirement plan. Pursuant to the Act, GUC makes monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts. Furthermore, GUC-NA, GUC-Japan, GUC-Korea, GUC-Shanghai and GUC-Nanjing make monthly contributions at certain percentages of the salary of their employees. Accordingly, the Company recognized expenses of NT\$60,024 thousand and NT\$55,076 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018, respectively.

b. Defined benefit plans

GUC has a defined benefit plan under the Labor Standards Act, which provides benefits based on an employee's length of service and average monthly salary of the last six months prior to retirement. GUC contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Fund. If the amount of the balance in the Fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); as such, GUC has no right to influence the investment policy and strategy.

The amounts arising from the defined benefit obligation of GUC under GUC's financial position were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 72,709	\$ 65,279
Fair value of plan assets	<u>(40,605)</u>	<u>(37,046)</u>
Net defined benefit liabilities	<u><u>\$ 32,104</u></u>	<u><u>\$ 28,233</u></u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u><u>\$ 60,860</u></u>	<u><u>\$ (33,919)</u></u>	<u><u>\$ 26,941</u></u>
Service cost			
Current service cost	986	-	986
Net interest expense (income)	<u>761</u>	<u>(436)</u>	<u>325</u>
Recognized in profit or loss	<u><u>1,747</u></u>	<u><u>(436)</u></u>	<u><u>1,311</u></u>
Remeasurement			
Return on plan assets	-	(890)	(890)
Actuarial gain - changes in demographic assumptions	(294)	-	(294)
Actuarial loss - changes in financial assumptions	2,284	-	2,284
Actuarial loss - experience adjustments	<u>682</u>	<u>-</u>	<u>682</u>
Recognized in other comprehensive (income) loss	<u><u>2,672</u></u>	<u><u>(890)</u></u>	<u><u>1,782</u></u>
Contributions from the employer	<u>-</u>	<u>(1,801)</u>	<u>(1,801)</u>
Balance at December 31, 2018	<u><u>65,279</u></u>	<u><u>(37,046)</u></u>	<u><u>28,233</u></u>
Service cost			
Current service cost	1,245	-	1,245
Net interest expense (income)	<u>652</u>	<u>(379)</u>	<u>273</u>
Recognized in profit or loss	<u><u>1,897</u></u>	<u><u>(379)</u></u>	<u><u>1,518</u></u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets	\$ -	\$ (1,270)	\$ (1,270)
Actuarial loss - changes in demographic assumptions	1,271	-	1,271
Actuarial loss - changes in financial assumptions	2,374	-	2,374
Actuarial loss - experience adjustments	<u>1,888</u>	<u>-</u>	<u>1,888</u>
Recognized in other comprehensive (income) loss	<u>5,533</u>	<u>(1,270)</u>	<u>4,263</u>
Contributions from the employer	<u>-</u>	<u>(1,910)</u>	<u>(1,910)</u>
Balance at December 31, 2019	<u><u>\$ 72,709</u></u>	<u><u>\$ (40,605)</u></u>	<u><u>\$ 32,104</u></u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	Year Ended December 31	
	2019	2018
General and administrative expenses	<u><u>\$ 1,518</u></u>	<u><u>\$ 1,311</u></u>

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

- 1) Investment risk: The plan assets are invested in domestic and 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 plan's debt investments.
- 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	
	2019	2018
Discount rate	0.75%	1.00%
Expected rate of salary increase	3.00%	3.00%
Turnover rate	2.44%	2.99%

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

	December 31	
	2019	2018
Discount rate		
0.25% increase	<u>\$ (2,432)</u>	<u>\$ (2,276)</u>
0.25% decrease	<u>\$ 2,539</u>	<u>\$ 2,379</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 2,472</u>	<u>\$ 2,323</u>
0.25% decrease	<u>\$ (2,381)</u>	<u>\$ (2,235)</u>
Turnover rate		
10% increase	<u>\$ (705)</u>	<u>\$ (863)</u>
10% decrease	<u>\$ 720</u>	<u>\$ 883</u>

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

	December 31	
	2019	2018
The expected contributions to the plan for the next year	<u>\$ 2,053</u>	<u>\$ 1,907</u>
The average duration of the defined benefit obligation	13 years	14 years
The maturity analysis of undiscounted pension benefit is as follows:		

	December 31	
	2019	2018
Later than 1 year and not later than 5 years	<u>\$ 6,141</u>	<u>\$ 4,310</u>
Later than 5 years	<u>74,150</u>	<u>69,728</u>
	<u>\$ 80,291</u>	<u>\$ 74,038</u>

14. EQUITY

a. Share capital

	December 31	
	2019	2018
Authorized	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Issued	<u>\$ 1,340,119</u>	<u>\$ 1,340,119</u>

As of December 31, 2019 and 2018 the authorized shares are 150,000 thousand shares, with par value of \$10 per share is entitled to the right to vote and to receive dividends; GUC's issued and paid shares were 134,011 thousand shares.

b. Capital surplus

	December 31	
	2019	2018
From merger	\$ 16,621	\$ 16,621
Additional paid-in capital	13,232	13,232
Donations	2,660	2,660
Dividends from claims extinguished by prescription	<u>65</u>	<u>30</u>
	<u><u>\$ 32,578</u></u>	<u><u>\$ 32,543</u></u>

Under the Company Law, the capital surplus generated from the excess of the issuance price over the par value of capital stock (including the stock issued for new capital and mergers) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be appropriated as cash dividends or stock dividends, which are limited to a certain percentage of GUC's paid-in capital under capital surplus. In addition, the capital surplus from dividends from claims extinguished by prescription may be used to offset a deficit.

c. Retained earnings and dividend policy

According to GUC's Articles of Incorporation when allocating the net profits for each fiscal year, GUC shall offset its losses in previous years before set aside the following items accordingly:

- 1) Legal reserve at 10% of the remaining profit;
- 2) Special reserve in accordance with the resolution in the shareholders' meeting;
- 3) Any balance remaining shall be allocated to shareholders according to the resolution in the shareholders' meeting.

The Articles of Incorporation provide the policy about employee' compensation and remuneration to directors, please refer to Note 21.

GUC's profit distribution, the proportion of cash dividends shall not be lower than 60% of the total dividends, depending on future expansion plans and cash needs.

The appropriation for legal reserve shall be made until the reserve equals GUC's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses to the extent that the portion exceeds 25% of the paid-in capital if GUC incurs no loss.

A special reserve equivalent to the net debit balance of other components of shareholders' equity such as exchange differences on the translation of foreign operations, shall be made from unappropriated earnings. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2018 and 2017 had been approved in GUC's shareholders' meetings held on May 16, 2019 and May 17, 2018, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2018	For Fiscal Year 2017	For Fiscal Year 2018	For Fiscal Year 2017
Legal reserve	\$ 98,816	\$ 85,481		
Special reserve (reversal of special reserve)	(2,304)	9,426		
Cash dividends to shareholders	<u>670,060</u>	<u>670,060</u>	\$ 5.00	\$ 5.00
	<u><u>\$ 766,572</u></u>	<u><u>\$ 764,967</u></u>		

The appropriation of earnings for 2019 had been proposed by GUC's board of directors on February 6, 2020. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 62,920	
Special reserve	12,109	
Cash dividends to shareholders	<u>670,060</u>	\$ 5.00
	<u><u>\$ 745,089</u></u>	

The appropriations of earnings for 2019 are to be resolved in GUC shareholders' meeting which is expected to be held on May 14, 2020.

d. Others

Changes in foreign currency translation reserve were as follows:

	Years Ended December 31	
	2019	2018
Balance, beginning of year	\$ (8,636)	\$ (10,940)
Exchange differences on translation of foreign operations	<u>(12,109)</u>	<u>2,304</u>
Balance, end of year	<u><u>\$ (20,745)</u></u>	<u><u>\$ (8,636)</u></u>

The exchange differences on translation of foreign operation's net assets from its functional currency to GUC's presentation currency are recognized directly in other comprehensive income and also accumulated in the foreign currency translation reserve.

15. NET REVENUE

The analysis of the Company's net revenue was as follows:

	Years Ended December 31	
	2019	2018
Revenue from customer contracts		
Net revenue from sale of goods	\$ 7,188,728	\$ 9,167,596
Net revenue from NRE service	<u>3,521,340</u>	<u>4,292,208</u>
	<u><u>\$ 10,710,068</u></u>	<u><u>\$ 13,459,804</u></u>

Revenue from sale of goods 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 Company recognizes the estimation of refund liabilities based on historical experience and the consideration of varying contractual terms, which is classified under accrued expenses and other current liabilities.

a. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Account receivables	\$ 1,377,203	\$ 903,168	\$ 894,317
Contract assets - current	<u>\$ 324,965</u>	<u>\$ 56,976</u>	<u>\$ 13,392</u>
Contract liabilities - current	<u>\$ 1,109,042</u>	<u>\$ 869,174</u>	<u>\$ 1,630,281</u>

The changes in the contract asset and the contract liability balances primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment.

For the year ended December 31, 2019 and 2018, the Company recognized NT\$756,052 thousand and NT\$1,451,151 thousand in revenue from the beginning balance of contract liability, respectively.

b. Disaggregation of revenue from contracts with customers

Production	Years Ended December 31	
	2019	2018
ASIC and wafer product	\$ 7,188,728	\$ 9,167,596
NRE	3,205,782	4,078,719
Others	<u>315,558</u>	<u>213,489</u>
	<u><u>\$ 10,710,068</u></u>	<u><u>\$ 13,459,804</u></u>

Region	Years Ended December 31	
	2019	2018
United States	\$ 3,752,928	\$ 2,811,100
China	1,622,604	2,300,679
Taiwan	1,543,054	2,792,676
Korea	1,430,262	1,129,735
Japan	1,313,786	3,609,609
Europe	<u>1,047,434</u>	<u>816,005</u>
	<u><u>\$ 10,710,068</u></u>	<u><u>\$ 13,459,804</u></u>

The Company categorized the net revenue mainly based on the country in which the customer's headquartered.

	Years Ended December 31	
	2019	2018
Application Type		
Computer	\$ 4,608,339	\$ 5,619,289
Consumer	3,640,696	5,953,549
Communication	1,175,885	811,023
Others	<u>1,285,148</u>	<u>1,075,943</u>
	<u>\$ 10,710,068</u>	<u>\$ 13,459,804</u>
Customer Type		
System House	\$ 6,688,962	\$ 9,706,104
Fabless	<u>4,021,106</u>	<u>3,753,700</u>
	<u>\$ 10,710,068</u>	<u>\$ 13,459,804</u>
	Year Ended December 31, 2019	
Resolution	Net Revenue from NRE Service	Net Revenue from Sale of Goods
7-nanometer	\$ 267,824	\$ 174,980
16-nanometer	1,354,368	233,805
28-nanometer	1,028,873	2,739,927
40-nanometer	116,640	1,253,001
65-nanometer and above	438,077	2,787,015
Others	<u>315,558</u>	<u>-</u>
	<u>\$ 3,521,340</u>	<u>\$ 7,188,728</u>
	Year Ended December 31, 2018	
	Net Revenue from NRE Service	Net Revenue from Sale of Goods
7-nanometer	\$ 741,655	\$ 1,751,012
16-nanometer	1,527,987	74,632
28-nanometer	1,239,050	2,128,432
40-nanometer	270,101	1,080,987
65-nanometer and above	299,926	4,132,533
Others	<u>213,489</u>	<u>-</u>
	<u>\$ 4,292,208</u>	<u>\$ 9,167,596</u>

16. OTHER INCOME

	Years Ended December 31	
	2019	2018
Government grants	\$ 60,992	\$ 2,864
Interest income		
Bank deposits	25,397	26,557
Income (expenses) of rental assets		
Rental income	299	397
Depreciation of rental assets	-	(2)
Other income	<u>7,553</u>	<u>7,230</u>
	<u>\$ 94,241</u>	<u>\$ 37,046</u>

17. OTHER GAINS AND LOSSES

	Years Ended December 31	
	2019	2018
Gain on financial assets at fair value through profit or loss	\$ 944	\$ 1,278
Gain on lease modification	26	-
Loss on disposal of property, plant and equipment, net	(3)	(4)
Gain (loss) on foreign exchange, net	(5,985)	791
Others	<u>(13)</u>	<u>-</u>
	<u><u>\$ (5,031)</u></u>	<u><u>\$ 2,065</u></u>

18. FINANCE COSTS

	Years Ended December 31	
	2019	2018
Interest on lease liabilities	<u><u>\$ 3,337</u></u>	<u><u>\$ -</u></u>

19. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	Years Ended December 31	
	2019	2018
Current income tax expense		
Current tax expense recognized in the current period	\$ 111,507	\$ 163,147
Income tax adjustments on prior years	<u>(1,950)</u>	<u>(7,518)</u>
	<u><u>109,557</u></u>	<u><u>155,629</u></u>
Deferred income tax expense (benefit)		
Effect of tax rate changes	(633)	4,336
Temporary differences	38,682	(12,569)
Operating loss carryforwards	<u>2,029</u>	<u>(68)</u>
	<u><u>40,078</u></u>	<u><u>(8,301)</u></u>
Income tax expense recognized in profit or loss	<u><u>\$ 149,635</u></u>	<u><u>\$ 147,328</u></u>

A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

	Years Ended December 31	
	2019	2018
Income before tax	<u>\$ 783,102</u>	<u>\$ 1,135,484</u>
Income tax expense at the statutory rate	\$ 177,605	\$ 239,881
Tax effect of adjusting items:		
Nondeductible items in determining taxable income	30,649	12,826
Tax-exempt income	(37,466)	(94,443)
Investment tax credits used	(29,560)	(16,314)
Additional income tax on unappropriated earnings	10,990	8,560
Income tax adjustments on prior years	(1,950)	(7,518)
Effect of tax rate changes	<u>(633)</u>	<u>4,336</u>
Income tax expense recognized in profit or loss	<u>\$ 149,635</u>	<u>\$ 147,328</u>

The Income Tax Act in the ROC was amended in 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%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. GUC has already deducted the amount of capital expenditure from the unappropriated earnings in 2018 that was reinvested when calculating the tax on unappropriated earnings for the year ended December 2019.

b. Deferred income tax balance

The analysis of deferred income tax assets and liabilities in the consolidated balance sheets was as follows:

	December 31	
	2019	2018
<u>Deferred income tax assets</u>		
Temporary differences		
Write-down of inventory	\$ 29,768	\$ 14,706
Allowance for credit impairment loss exceeded	1,106	-
Provisions	124	13,435
Share of loss of subsidiaries accounted for using equity method	-	21,851
Others	7,812	8,728
Operating loss carryforwards	<u>-</u>	<u>2,021</u>
	<u>\$ 38,810</u>	<u>\$ 60,741</u>
	(Continued)	

	December 31	
	2019	2018
<u>Deferred income tax liabilities</u>		
Temporary differences		
Share of profit of subsidiaries accounted for using equity method	\$ (41,127)	\$ (22,141)
Others	<u>(699)</u>	<u>(1,721)</u>
	<u><u>\$ (41,826)</u></u>	<u><u>\$ (23,862)</u></u>
		(Concluded)

Movements of deferred income tax assets and deferred tax liabilities were as follows:

Year ended December 31, 2019

	Balance, Beginning of Year	Recognized in Profit or Loss	Effect of Exchange Rate Changes	Balance, End of Year
<u>Deferred income tax assets</u>				
Temporary differences				
Write-down of inventory	\$ 14,706	\$ 15,062	\$ -	\$ 29,768
Allowance for credit impairment loss exceeded	-	1,106	-	1,106
Provisions	13,435	<u>(13,311)</u>	-	124
Share of loss of subsidiaries accounted for using equity method	21,851	<u>(21,851)</u>	-	-
Others	8,728	<u>(916)</u>	-	7,812
Operating loss carryforwards	<u>2,021</u>	<u><u>(2,029)</u></u>	<u>8</u>	<u><u>-</u></u>
	<u><u>\$ 60,741</u></u>	<u><u>\$ (21,939)</u></u>	<u><u>\$ 8</u></u>	<u><u>\$ 38,810</u></u>

Year ended December 31, 2018

	Balance, Beginning of Year	Recognized in Profit or Loss	Effect of Exchange Rate Changes	Balance, End of Year
<u>Deferred income tax assets</u>				
Temporary differences				
Share of loss of subsidiaries accounted for using equity method	\$ 21,122	\$ 729	\$ -	\$ 21,851
Write-down of inventory	2,322	12,384	-	14,706
Provisions	82	13,353	-	13,435
Others	11,111	<u>(2,402)</u>	19	8,728
Operating loss carryforwards	<u>1,988</u>	<u>68</u>	<u>(35)</u>	<u>2,021</u>
	<u><u>\$ 36,625</u></u>	<u><u>\$ 24,132</u></u>	<u><u>\$ (16)</u></u>	<u><u>\$ 60,741</u></u>

Year ended December 31, 2019

	Balance, Beginning of Year	Recognized in Profit or Loss	Effect of Exchange Rate Changes	Balance, End of Year
<u>Deferred income tax liabilities</u>				
Temporary differences				
Share of profit of subsidiaries accounted for using equity method	\$ (22,141)	\$ (18,986)	\$ -	\$ (41,127)
Others	<u>(1,721)</u>	<u>847</u>	<u>175</u>	<u>(699)</u>
	<u>\$ (23,862)</u>	<u>\$ (18,139)</u>	<u>\$ 175</u>	<u>\$ (41,826)</u>

Year ended December 31, 2018

	Balance, Beginning of Year	Recognized in Profit or Loss	Effect of Exchange Rate Changes	Balance, End of Year
<u>Deferred income tax liabilities</u>				
Temporary differences				
Share of profit of subsidiaries accounted for using equity method	\$ (8,031)	\$ (14,110)	\$ -	\$ (22,141)
Others	<u>—</u>	<u>(1,721)</u>	<u>—</u>	<u>(1,721)</u>
	<u>\$ (8,031)</u>	<u>\$ (15,831)</u>	<u>\$ —</u>	<u>\$ (23,862)</u>

c. Deductible temporary differences for which no deferred tax assets have been recognized in the consolidated balance sheets

As of December 31, 2019 and 2018, the aggregate deductible temporary differences for which no deferred income tax assets have been recognized amounted to NT\$26,550 thousand and NT\$9,517 thousand, respectively.

d. Information about tax exemption

As of December 31, 2019, the profits generated from the following projects of GUC are exempt from income tax for a five-year period:

Tax-exemption Period

Construction and expansion of 2009

2016 to 2020

e Income tax examination

The tax authorities have examined income tax returns of GUC through 2017.

20. EARNINGS PER SHARE

	Years Ended December 31	
	2019	2018
Basic EPS	\$4.73	\$7.37
Diluted EPS	<u>\$4.71</u>	<u>\$7.33</u>

EPS is computed as follows:

	Amounts (Numerator)	Number of Shares (Denominator) (In Thousands)	EPS (NT\$)
<u>Year ended December 31, 2019</u>			
Basic EPS			
Net income available to common shareholders	\$ 633,467	134,011	\$4.73
Effect of dilutive potential common stock	<u>_____ -</u>	<u>377</u>	
Diluted EPS			
Net income available to common shareholders (including effect of dilutive potential common stock)	<u>\$ 633,467</u>	<u>134,388</u>	<u>\$4.71</u>
<u>Year ended December 31, 2018</u>			
Basic EPS			
Net income available to common shareholders	\$ 988,156	134,011	\$7.37
Effect of dilutive potential common stock	<u>_____ -</u>	<u>776</u>	
Diluted EPS			
Net income available to common shareholders (including effect of dilutive potential common stock)	<u>\$ 988,156</u>	<u>134,787</u>	<u>\$7.33</u>

If the Company settles employees' compensation by issuing share or by cash, the Company assumes the entire amount of the compensation will be settled in shares which should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until employees' compensation to be settled in the form of common stocks are approved in the following year.

21. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net income included the following items:

	Years Ended December 31	
	2019	2018
a. Depreciation expenses		
Depreciation of property, plant and equipment		
Recognized in cost of revenue	\$ 5,259	\$ 4,856
Recognized in operating expenses	284,388	181,909
Recognized in other income - depreciation of rental assets	<u>-</u>	<u>2</u>
	<u>289,647</u>	<u>186,767</u>
Depreciation of right-of-use assets		
Recognized in cost of revenue	3,901	-
Recognized in operating expenses	<u>51,669</u>	<u>-</u>
	<u>55,570</u>	<u>-</u>
	<u><u>\$ 345,217</u></u>	<u><u>\$ 186,767</u></u>
b. Amortization of intangible assets		
Recognized in cost of revenue	\$ 193	\$ 2,183
Recognized in operating expenses	<u>252,664</u>	<u>224,245</u>
	<u><u>\$ 252,857</u></u>	<u><u>\$ 226,428</u></u>
c. Research and development costs expensed as occurred	<u><u>\$ 2,219,515</u></u>	<u><u>\$ 2,273,694</u></u>
d. Employee benefits expenses		
Post-employment benefits (Note 13)		
Defined contribution plans	\$ 60,024	\$ 55,076
Defined benefit plans	<u>1,518</u>	<u>1,311</u>
	<u>61,542</u>	<u>56,387</u>
Other employee benefits	<u>1,890,115</u>	<u>2,002,861</u>
	<u><u>\$ 1,951,657</u></u>	<u><u>\$ 2,059,248</u></u>
Employee benefits expense summarized by function		
Recognized in cost of revenue	\$ 166,265	\$ 193,515
Recognized in operating expenses	<u>1,785,392</u>	<u>1,865,733</u>
	<u><u>\$ 1,951,657</u></u>	<u><u>\$ 2,059,248</u></u>

e. Employee's compensation and remuneration to directors

GUC shall allocate employees' compensation and remuneration to directors no less than 2% and no more than 2% of net income before tax which is not deducted from employees' compensation and remuneration to directors, respectively. Directors who also serve as executive officers of GUC are not entitled to receive the remuneration to directors. GUC shall first offset its losses in previous years then allocate employees' compensation and remuneration to directors. GUC may issue stock or cash compensation to employees of an affiliated company upon meeting the conditions set by the Board of Directors.

For 2019 and 2018, GUC accrued employees' compensation and remuneration to directors had been approved in the Board of Directors meeting held on February 6, 2020 and January 31, 2019, respectively, and were based on certain percentage of net income before tax without deduction of the employees' compensation and remuneration to directors. The accrued amounts were as follows:

	Years Ended December 31	
	2019	2018
Employees' compensation	\$ 75,228	\$ 153,240
Remuneration to directors	5,463	14,193

The aforementioned amount is the same as the amount which had been charged against expenses of 2019 and 2018, respectively.

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 the accounting estimate.

GUC's employees' compensation and remuneration to directors in the amounts of NT\$133,501 thousand and NT\$12,206 thousand in cash for 2017 was approved by the Board of Directors in their meetings held on February 1, 2018. The aforementioned approved amounts did not have any difference with the amounts recognized in the consolidated financial statements for the year ended December 31, 2017.

The information about appropriations of GUC's employees' compensation and remuneration to directors is available on the Market Observation Post System website.

22. CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities:

	Balance as of January 1, 2019	Cash Flows	Non-cash Changes			Balance as of December 31, 2019
			Lease Additions	Lease Decrease	Foreign Exchange Movement	
Guarantee deposits	\$ 3,146	\$ 7	\$ -	\$ -	\$ (78)	\$ 3,075
Lease liabilities	223,331	(53,241)	84,872	(1,019)	(3,366)	250,577
			Non-cash Changes		Foreign Exchange Movement	
	Balance as of January 1, 2018	Cash Flows				Balance as of December 31, 2018
Guarantee deposits	\$ 2,976	\$ 76	\$ 94			\$ 3,146

23. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company are able to operate sustainability while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company engages in the semiconductor design services, which is closely tied with customer demand. Business is influenced by the cyclical nature of the semiconductor industry but not significantly. In consideration of the industry dynamics, the Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, dividend payments, debt service requirements and other business requirements associated with its existing operations over the next 12 months. Through capital management, the Company is capable of coping with changes in the industry, striving for improvement, and ultimately creating shareholder value.

24. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Amortized cost		
Cash and cash equivalents	\$ 2,541,628	\$ 3,906,191
Accounts receivable, net (including related parties)	1,418,311	910,206
Other financial assets	342	845
Refundable deposits	1,652	2,475
Pledged time deposits	<u>22,200</u>	<u>22,200</u>
	<u><u>\$ 3,984,133</u></u>	<u><u>\$ 4,841,917</u></u>
<u>Financial liabilities</u>		
Amortized cost		
Accounts payable (including related parties)	\$ 1,534,545	\$ 1,227,745
Payables on machinery and equipment	58,524	364,475
Accrued expenses and other current liabilities	318,196	380,206
Other long-term payables	273,456	178,854
Guarantee deposits	<u>2,998</u>	<u>3,072</u>
	<u><u>\$ 2,187,719</u></u>	<u><u>\$ 2,154,352</u></u>

b. Financial risk management objectives and policies

The Company's objectives of financial risk management are to manage its exposure to market risk, credit risk and liquidity risk related to the operating activities. To reduce the related financial risks, the Company engages in identifying, assessing and avoiding the market uncertainties with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by the Audit Committee and Board of Directors in accordance with procedures required by relevant regulations and internal controls. During the implementation of such plans, the treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

c. Market risk

Foreign currency risk

The Company's operating activities are mainly denominated in foreign currency and exposed to foreign exchange risk. To protect the volatility of future cash flows arising from changes in foreign exchange rates, the Company maintains a balance of net foreign currency assets and liabilities in hedge.

The Company's sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming a 10% strengthening of New Taiwan Dollars against the relevant currencies, the net income before tax for the years ended December 31, 2019 and 2018 would have decreased by NT\$100,111 thousand and NT\$94,389 thousand, respectively.

d. Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily trade receivables, and from investing activities of deposits with banks. Credit risk is managed separately for business related and financial related exposures. As of the balance sheet date, the Company's maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the consolidated balance sheet.

Business related credit risk

The Company has considerable trade receivables outstanding with its customers worldwide. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. While the Company has procedures to monitor and limit exposure to credit risk on trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

As of December 31, 2019 and 2018, the Company's ten largest customers accounted for 69% and 55% of accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

Financial credit risk

The Company monitors and reviews the transaction limit applied to counter parties and adjusts the concentration limit according to market conditions and the credit standing of the counter parties regularly. The Company mitigates its exposure by selecting financial institution with well credit.

e. Liquidity risk management

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements. The Company manages its liquidity risk by maintaining adequate cash and banking facilities.

As of December 31, 2019 and 2018, the unused financing facilities of the Company amounted to NT\$1,600,000 thousand and NT\$1,300,000 thousand, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

Non-derivative Financial Liabilities	Less Than 1 Year	2-3 Years	4+ Years	Total
<u>December 31, 2019</u>				
Accounts payable (including related parties)	\$ 1,534,545	\$ -	\$ -	\$ 1,534,545
Payables on machinery and equipment	58,524	-	-	58,524
Accrued expenses and other current liabilities	318,196	-	-	318,196
Lease liabilities	54,321	100,328	121,364	276,013
Other long-term payables	160,579	112,877	-	273,456
Guarantee deposits	-	-	2,998	2,998
	<u>\$ 2,126,165</u>	<u>\$ 213,205</u>	<u>\$ 124,362</u>	<u>\$ 2,463,732</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 4 Year	4-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	<u>\$ 154,649</u>	<u>\$ 66,118</u>	<u>\$ 11,229</u>	<u>\$ 10,692</u>	<u>\$ 33,325</u>
<u>December 31, 2018</u>					
Non-derivative Financial Liabilities	Less Than 1 Year	2-3 Years	4+ Years	Total	
<u>December 31, 2018</u>					
Accounts payable (including related parties)	\$ 1,227,745	\$ -	\$ -	\$ 1,227,745	
Payables on machinery and equipment	364,475	-	-	364,475	
Accrued expenses and other current liabilities	380,206	-	-	380,206	
Other long-term payables	125,615	53,239	-	178,854	
Guarantee deposits	-	-	3,072	3,072	
	<u>\$ 2,098,041</u>	<u>\$ 53,239</u>	<u>\$ 3,072</u>	<u>\$ 2,154,352</u>	

f. Fair value of financial instruments

The carrying amounts of the Company's financial assets and financial liabilities measured at amortized cost at the end of financial reporting period recognized in the consolidated financial statements approximate their fair values. Further, the Company did not have any financial assets and financial liabilities measured at fair values at the end of the reporting period.

25. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions between GUC and its subsidiaries, which are related parties of GUC, have been eliminated upon consolidation; therefore those items are not disclosed in this note. The following is a summary of transactions between the Company and other related parties:

a. Related party name and categories

Related Party Name	Related Party Categories
Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)	An investor accounted for using equity method
TSMC North America (TSMC-NA)	A subsidiary of TSMC
Vanguard International Semiconductor Corporation (VIS)	An associate of TSMC
TSMC Europe B.V. (TSMC-EU)	A subsidiary of TSMC
VisEra Technologies Co., Ltd. (VisEra)	A subsidiary of TSMC

b. Operating transactions

Items	Related Party Name and Categories	Years Ended December 31	
		2019	2018
Net revenue from sale	Investors with significant influence over the company	\$ 120,699	\$ 87,392
	Other related parties	<u>-</u>	<u>29</u>
		<u><u>\$ 120,699</u></u>	<u><u>\$ 87,421</u></u>
Purchases	Investors with significant influence over the company		
	TSMC	\$ 2,921,516	\$ 5,069,048
	TSMC-NA	<u>1,193,214</u>	<u>1,141,840</u>
		<u>4,114,730</u>	<u>6,210,888</u>
	Other related parties	<u>46,568</u>	<u>43,905</u>
		<u><u>\$ 4,161,298</u></u>	<u><u>\$ 6,254,793</u></u>
Manufacturing overhead	Investors with significant influence over the company		
	TSMC	\$ 736,573	\$ 1,009,087
	TSMC-NA	<u>317,231</u>	<u>358,025</u>
		<u>1,053,804</u>	<u>1,367,112</u>
	Other related parties	<u>567</u>	<u>-</u>
		<u><u>\$ 1,054,371</u></u>	<u><u>\$ 1,367,112</u></u>

(Continued)

Items	Related Party Name and Categories	Years Ended December 31	
		2019	2018
Operating expenses	Investors with significant influence over the company	\$ 15,791	\$ 8,299
Other Income	Investors with significant influence over the company	\$ -	\$ 27

(Concluded)

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

Items	Related Party Name and Categories	December 31	
		2019	2018
Receivables from related parties	Investors with significant influence over the company TSMC	\$ 41,108	\$ 7,038
Other current assets	Investors with significant influence over the company TSMC	\$ -	\$ 1,434
Refundable deposits	Investors with significant influence over the company VisEra Other	\$ 2,832 441 3,273	\$ 2,832 452 3,284
Payables to related parties	Investors with significant influence over the company TSMC TSMC-NA Other related parties	\$ 457,222 283,396 740,618 10,019 750,637	\$ 374,702 106,125 480,827 14,553 495,380
Accrued expenses and other current liabilities	Investors with significant influence over the company	\$ 842	\$ 752

The terms of sales to related parties were not significantly different from those of sales to third parties. For other related party transactions, the terms of transactions were determined in accordance with mutual agreement because there were no comparable terms for third-party transactions. The payment term granted to related parties is due 30 days from the invoice date or 30 days from the end of the month when the invoice is issued, while the payment term granted to third parties is due 30 days from the invoice date or 75 days from the end of the month when the invoice is issued.

c. Lease arrangements

Line Item	Related Party Name and Categories	December 31, 2019
Lease liabilities - current	Investors with significant influence over the company VisEra TSMC-NA	\$ 16,074 <u>7,493</u> <u>\$ 23,567</u>
Lease liabilities - non-current	Investors with significant influence over the company VisEra TSMC-NA	\$ 82,831 <u>1,759</u> <u>\$ 84,590</u>
		Year Ended December 31, 2019
Items	Related Party Name and Categories	
Interest expense	Investors with significant influence over the company VisEra TSMC-NA	\$ 1,079 <u>275</u> <u>\$ 1,354</u>
		Year Ended December 31, 2018
Items	Related Party Name and Categories	
Lease expense	Investors with significant influence over the company VisEra TSMC-NA	\$ 16,992 <u>9,023</u> <u>\$ 26,015</u>

The Company leased server room and office from related parties. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly.

d. Compensation of key management personnel:

The remuneration to directors and other key management personnel were as follows:

	Years Ended December 31	
	2019	2018
Short-term employee benefits	\$ 60,803	\$ 100,644
Post-employment benefits	<u>436</u>	<u>540</u>
	<u><u>\$ 61,239</u></u>	<u><u>\$ 101,184</u></u>

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

26. PLEDGED OR MORTGAGED ASSETS

As of December 31, 2019 and 2018 GUC provided pledged time deposits of NT\$20,000 thousand as collateral for customs clearance and also provided pledged time deposits of NT\$2,200 thousand as collateral for lease a parcel of land from the Science Park Administration (SPA).

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

GUC has entered into license agreements with several companies that own intellectual property rights. According to the agreements, GUC shall pay specific amounts of money to obtain licenses of their intellectual property rights or shall pay royalties at specific percentages of sales amount of identified products. Under the agreements GUC shall pay at least US\$9,400 thousand to the counter parties in the period since December 2017.

GUC has entered into a license agreement, and according to the agreement, GUC shall pay specific amounts of money to obtain license of their intellectual property rights. Under the agreement GUC shall pay at least US\$2,000 thousand to the counter party in the period from December 2019 to March 2022.

GUC also has entered into license agreements, and according to the agreement, GUC shall pay at least US\$5,000 thousand and US\$5,500 thousand to the counter party in the period from May 2019 to April 2022 and October 2021, respectively.

28. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company entities. The significant foreign-currency financial assets and liabilities were as follows:

(Unit: Foreign Currency in Thousands)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount
<u>December 31, 2019</u>			
Monetary items of financial assets			
USD	\$ 94,947	29.98	\$ 2,846,524
Monetary items of financial liabilities			
USD	60,445	29.98	1,812,142
JPY	68,933	0.2760	19,026
RMB	2,781	4.2975	11,953

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount
<u>December 31, 2018</u>			
Monetary items of financial assets			
USD	\$ 74,869	30.715	\$ 2,299,597
EUR	117	35.2	4,103
Monetary items of financial liabilities			
USD	43,490	30.715	1,335,788
JPY	61,326	0.2782	17,061
EUR	152	35.2	5,367
			(Concluded)

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

Foreign Currencies	Exchange Rate	Years Ended December 31		
		2019	2018	
		Net Foreign Exchange Gain (Loss)	Net Foreign Exchange Gain (Loss)	
JPY	0.2837 (JPY:NTD)	\$ 1,093	0.2730 (JPY:NTD)	\$ 781
RMB	4.4934 (RMB:NTD)	251	4.5666 (RMB:NTD)	228
KRW	0.02674 (KRW:NTD)	5	0.02761 (KRW:NTD)	3
EUR	34.6128 (EUR:NTD)	1	35.6055 (EUR:NTD)	137
USD	30.9117 (USD:NTD)	(8,247)	30.1492 (USD:NTD)	(4,397)
USD	1,153.9261 (USD:KRW)	(52)	1,089.2091 (USD:KRW)	(33)
USD	6.8826 (USD:RMB)	964	6.6070 (USD:RMB)	4,072
		<u>\$ (5,985)</u>	<u>\$ 791</u>	

29. OPERATING SEGMENT INFORMATION

The Company operates in individual industry on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. The basis for the measurement of the operating segment profit (loss), assets and liabilities is the same as that for the preparation of financial statements. Please refer to the consolidated financial statements for the related operating segment information and Note 15 for information about disaggregation of revenue.

a. Geographic information

	Non-current Assets	
	December 31	
	2019	2018
Taiwan	\$ 1,548,177	\$ 1,349,035
Europe	28,691	855
China	25,583	14,088
Japan	25,363	2,147
United States	14,744	9,818
Korea	303	776
	<u>\$ 1,642,861</u>	<u>\$ 1,376,719</u>

Non-current assets include property, plant and equipment, right-of-use assets and intangible assets, but exclude financial instrument and deferred income tax assets.

b. Major customers representing at least 10% of net revenue

	Years Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Customer A	\$ 1,176,194	11	(Note)	-
Customer B	(Note)	-	\$ 2,524,693	19
Customer C	(Note)	-	1,442,243	11

Note: The customer did not exceed 10% of net revenue in the current year, the disclosure is not required.

30. ADDITIONAL DISCLOSURES

a. Significant transactions and b. Related information of reinvestment

- 1) Financings provided: None;
- 2) Endorsements/guarantees provided: None;
- 3) Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): Please see Table 1 attached;
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Please see Table 2 attached;
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 7) Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- 9) Information about the derivative instruments transaction: None;
- 10) Others: Intercompany relationships and significant intercompany transactions: Please see Table 4 attached;
- 11) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 5 attached;

c. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, net income (losses) of the investee, investment income (losses), ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 6 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 4 attached.

TABLE 1**GLOBAL UNICHIP CORP. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2019**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2019				Note
				Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
GUC	Preferred stock eTopus Technology Inc.	-	Financial assets at fair value through profit or loss - non-current	1,515,151	\$ -	3.0	\$ -	

TABLE 2**GLOBAL UNICHP CORP. AND SUBSIDIARIES**

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counter party	Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gains on Disposal	Shares	Amount
GUC	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	\$ -	33,231,969	\$ 450,000	33,231,969	\$ 450,369	\$ 450,000	\$ 369	-	\$ -
	Jih Sun Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	30,983,154	460,000	30,983,154	460,250	460,000	250	-	-
	UPAMC James Bond Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	21,849,378	365,000	21,849,378	365,097	365,000	97	-	-
	Fuh Haw Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	38,066,792	550,000	38,066,792	550,077	550,000	77	-	-

TABLE 3**GLOBAL UNICHIP CORP. AND SUBSIDIARIES****TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2019**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Accounts Payable or Receivable Ending Balance	% to Total	Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms			
GUC	TSMC	TSMC is an investor accounted for using equity method	Purchases	\$ 2,921,516	70	30 days after monthly closing	Note 25	Note 25	\$ (437,078)	(28)	
	TSMC-NA	TSMC-NA is a subsidiary of TSMC	Sales Purchases	120,699 1,193,214	1 29	30 days after monthly closing 30 days after invoice date and 30 days after monthly closing	Note 25 Note 25	Note 25 Note 25	41,108 (283,396)	3 (18)	

TABLE 4**GLOBAL UNICHIP CORP. AND SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars)**

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Terms (Note 2)	Percentage to Consolidated Net Revenue or Total Assets
0	GUC	GUC-NA	1	Manufacturing overhead	\$ 69,929	-	1%
				Operating expenses	215,124	-	2%
				Accrued expenses and other current liabilities	18,971	-	-
		GUC-Japan		Manufacturing overhead	158,361	-	1%
				Operating expenses	75,841	-	1%
				Accrued expenses and other current liabilities	19,026	-	-
		GUC-Europe		Manufacturing overhead	5,284	-	-
				Operating expenses	28,227	-	-
				Accrued expenses and other current liabilities	2,648	-	-
		GUC-Korea		Manufacturing overhead	3,412	-	-
				Operating expenses	3,752	-	-
				Accrued expenses and other current liabilities	524	-	-
		GUC-BVI		Investments accounted for using the equity method (Note 3)	35,784	-	-
				Manufacturing overhead	53,065	-	-
				Operating expenses	28,365	-	-
		GUC-Shanghai		Accrued expenses and other current liabilities	6,194	-	-
				Manufacturing overhead	400,188	-	4%
				Operating expenses	21,062	-	-
				Accounts payable	29,168	-	-
		GUC-Nanjing		Accrued expenses and other current liabilities	5,759	-	-

Note 1: No. 1 represents the transactions from parent company to subsidiary.

Note 2: The intercompany transactions, prices and terms are determined in accordance with mutual agreements and no other similar transactions could be compared with.

Note 3: In order to restructure organization, GUC acquired all equity interest of GUC-Shanghai from GUC-BVI in August 2019. GUC BVI has been liquidated in November 2019.

TABLE 5**GLOBAL UNICHIP CORP. AND SUBSIDIARIES**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)
FOR THE YEAR ENDED DECEMBER 31, 2019**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2019			Net Income (Losses) of the Investee	Investment Income (Losses)	Note
				December 31, 2019 (Foreign Currencies in Thousands)	December 31, 2018 (Foreign Currencies in Thousands)	Shares	Percentage of Ownership (%)	Carrying Amount			
GUC	GUC-NA	U.S.A.	Products consulting, design and technical support service	\$ 40,268 (US\$ 1,264)	\$ 40,268 (US\$ 1,264)	800,000	100	\$ 128,110	\$ 12,514	\$ 12,514	Note
	GUC-Japan	Japan	Products consulting, design and technical support service	15,393 (YEN 55,000)	15,393 (YEN 55,000)	1,100	100	50,925	9,431	9,431	
	GUC-BVI	British Virgin Islands	Investing activities	-	152,603 (US\$ 5,050)	-	-	-	1,694	1,694	
	GUC-Europe	Netherlands	Products consulting, design and technical support service	8,109 (EUR 200)	8,109 (EUR 200)	-	100	10,156	1,568	1,568	
	GUC- Korea	Korea	Products consulting, design and technical support service	5,974 (KRW222,545)	5,974 (KRW222,545)	44,000	100	6,704	355	355	

Note: In order to restructure organization, GUC acquired all equity interest of GUC-Shanghai from GUC-BVI in August 2019. GUC BVI has been liquidated in November 2019.

TABLE 6**GLOBAL UNICHIP CORP. AND SUBSIDIARIES****INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019**
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (US\$ in Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2019 (US\$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019 (US\$ in Thousands)	Net Income (Losses) of the Investee	Percentage of Ownership	Investment Income (Losses) (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
GUC-Nanjing	Products consulting, design and technical support service	\$ 90,138 (US\$ 3,000)	(Note 1)	\$ 90,138 (US\$ 3,000)	\$ -	\$ -	\$ 90,138 (US\$ 3,000)	\$ 64,591	100%	\$ 64,591	\$ 150,997	\$ -
GUC-Shanghai (Note 3)	Products consulting, design and technical support service	31,165 (US\$ 1,000)	(Note 1)	31,165 (US\$ 1,000)	-	-	31,165 (US\$ 1,000)	4,200	100%	4,200	35,735	-

Accumulated Investment in Mainland China as of December 31, 2019 (US\$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on Investment (US\$ in Thousands)
\$ 121,303 (US\$ 4,000)	\$ 121,303 (US\$ 4,000)	\$ 2,587,784 (Note 4)

Note 1: The Company invested the investee directly.

Note 2: Investment income (losses) was determined based on unaudited financial statements.

Note 3: In order to restructure organization, GUC acquired all equity interest of GUC-Shanghai from GUC-BVI in August 2019. GUC-BVI has been liquidated in November 2019.

Note 4: Subject to 60% of net asset value of GUC according to the revised "Guidelines Governing the Approval of Investment or Technical Cooperation in Mainland China" issued by the Investment Commission.