



GUC
Global Unichip Corporation

2017 ANNUAL REPORT

Printed on March 19,2018

Taiwan Stock Exchange Market Observation Post System
mops.twse.com.tw

GUC company website
www.guc-asic.com

I. Spokesperson and Acting Spokesperson Contact Information

Spokesperson

Name : Daniel Chien

Title : Senior Vice President & CFO

Tel : 886-3-5646600

Email: irinfo@guc-asic.com

Acting spokesperson

Name : Asia Lin

Title : Department Manager, Financial Planning & Investor Relations Department

Tel : 886-3-5646600

Email : irinfo@guc-asic.com

II. GUC Address and Telephone Number

Address : No. 10, Li-Hsin 6th Rd., Hsinchu Science Park, Taiwan, R.O.C.

Tel : 886-3-5646600

III. Common Share Transfer Agent and Registrar

Company : the Transfer Agency Department of Chinatrust Commercial Bank

Address : 5F, No. 83, Sec. 1, Chung-Ching S. Rd., Taipei, Taiwan 100, R.O.C.

Website : <http://ecorp.ctcbcbank.com/cts/index.jsp>

Tel : 886-2-66365566

IV. Auditors

Auditors : Cindy Kao, Andy Huang

Company : Deloitte & Touche

Address : 6F, No. 2, Prosperity Rd. I, Hsinchu Science Park, Taiwan, R.O.C.

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

Tel : 886-3-5780899

V. Company Website

Website : <http://www.globalunichip.com/en-global>

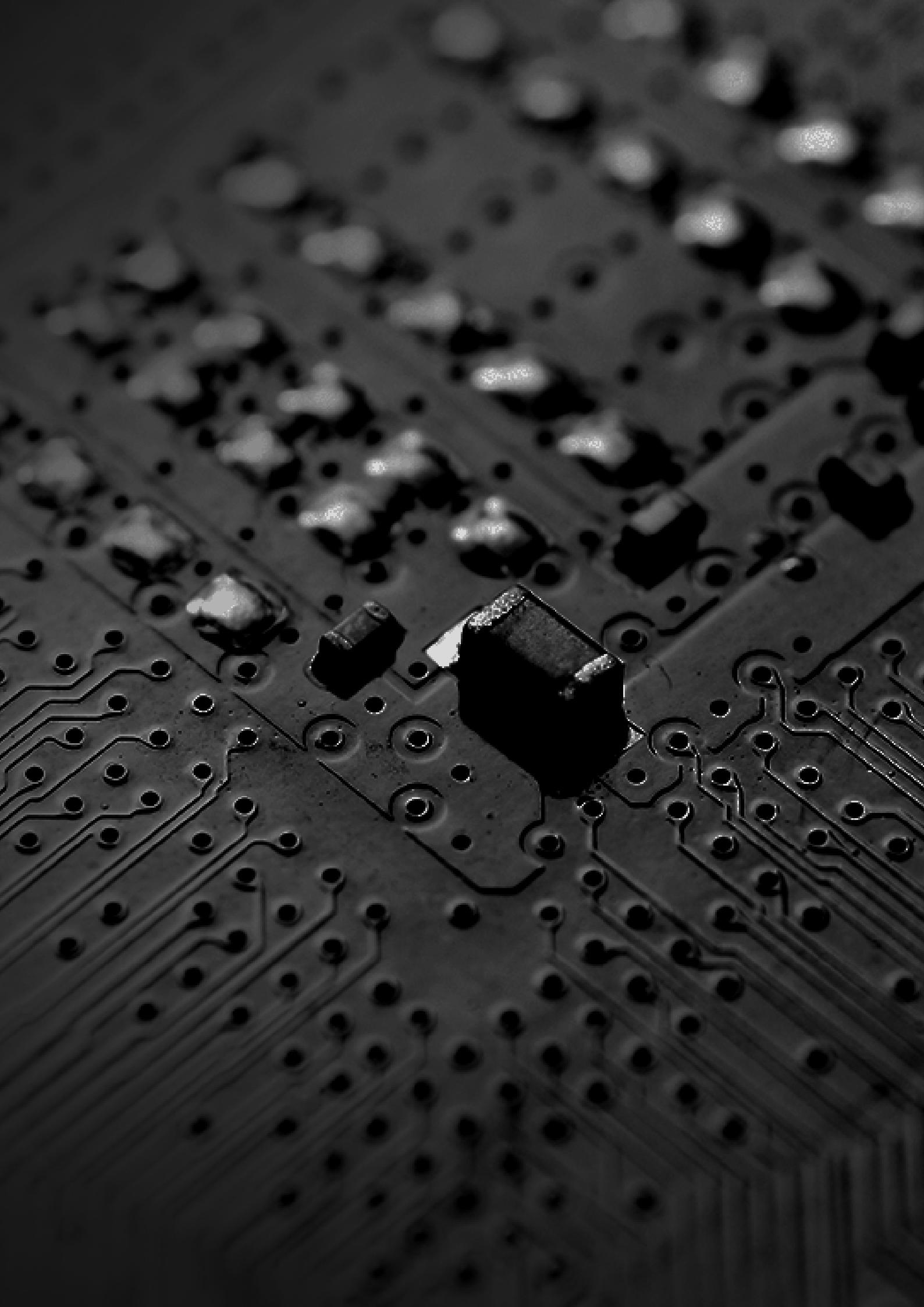
Table of Content

Letter to Shareholders	02
Company Profile	08
Corporate Governance	16
Operation Report	24
Consolidated Financial Highlights	38
Consolidated Financial Statements	42

1

Chapter 1

Letter to Shareholders



Letter to Shareholders

Dear Shareholders,

Global Unichip Corp.(GUC) had an excellent year in 2017, both revenue and profit hit new record highs in this year. GUC benefited from industrial trend driven by strong demand of chip development from system companies and customers in China. And the most demand is from advanced technology nodes, which is in favor of GUC who is continuously focusing on most advanced technology and contributed to GUC's outperformance in 2017. In 2017, not only 7nm getting started contributing NRE revenue, but 16nm already accounts for 28% of ASIC revenue, which is the highest portion of single technology node in ASIC revenue.

GUC's main achievements in 2017 are:

- Both revenue (including NRE and ASIC revenue) and profits hit record highs.
- Revenue and profit continued to grow in four consecutive years.
- GUC was awarded "the Top 5% companies" in the 1st, 2nd and 3rd Information Disclosure Assessment and Evaluation of Listed Companies by Taiwan Stock Exchange Market.

2017 Business Overview

If system designers want to differentiate from others, they will need ASIC instead of ASSP. Hence, GUC sees more business interaction with system houses and expects much more system customers to rely on GUC for IP integration and design service with increasing customer stickiness, which can be proved by revenue contribution from system houses significantly increased in 2017. And China keeps strengthening government support for China's semiconductor industry to cause chip development in China continue to be for the most advanced technology nodes, which also make revenue contribution from China market of GUC to be higher than other regions.

In 2017, Global Unichip Corp's ASIC business mainly benefited from cryptocurrency and Flash controller, and NRE business mainly benefited from Artificial Intelligence (AI), High Performance Computing (HPC) and Networking. Plus, GUC's revenue and profitability both hit record highs, which were driven by strong market demand and the business of ASIC & NRE both are growing simultaneously.

The compound annual growth rate of China IC design industry was more than 20% for last few years. In order to grab rapidly increasing opportunities and provide services to customers in China, GUC set up a new subsidiary in Nanjing China in 2017, and are actively recruiting R&D talent to expand the worldwide chip design team.

2017 Financial Performance

Total revenue for 2017 was NT\$12,160 million, up by 30.9% compared to NT\$9,290 million in 2016. Net income was NT\$855 million, up by 55% compared to the previous year. 2017 EPS was NT\$6.38, up by 55 percent compared to 2016 EPS of NT\$4.11 Gross margin for 2017 was 26.0%, operating margin was 7.7%, and net profit margin was 7.0%.

2017 Technological Development

GUC continued to focus on leading technologies and innovative of strategies in order to deliver a long-term business growth. We made some significant progresses in advanced process technologies. Revenue contributed from advanced process technologies (40nm and below) accounted for 66% of total revenue. And revenue from 12nm/16nm increased 1.3 times than the numbers in 2016. In addition, our patent portfolio consists of 239 patents at the end of 2017 to demonstrate GUC's continued ability to innovate.

To enable the IP ecosystem, GUC has key IPs on 16nm ready in 2017 and will develop IPs on 7nm in 2018. GUC's remarkable technology breakthrough and innovative achievement in 2017 are as follows:

·GUC successfully taped out a 16nm, second-generation HBM PHY and Controller with verified interposer design and CoWoS Package. HBM2 PHY and Controller IP targeting Taiwan Semiconductor Manufacturing Company Limited (TSMC) 7nm process will be taped-out in December.

·GUC announced that low-power PCIe3 PHY IP coupled with an EP Controller from PLDA and designed to TSMC's 28HPC+ process technology has passed the PCI-SIG Compliance Test.

·GUC unveiled solid state drive ASIC capabilities. The portfolio includes in-house IP- 28nm PCIe-3/SAT/SAS PHY, 28/12nm (LP) DDR3/4 controller/PHY, ONFI-4 PHY (Flash Memory Interface) along with NVM-e, LDPC from IP partner.

·GUC successfully taped-out its newest high speed TCAM compiler that targets Taiwan Semiconductor Manufacturing Company Limited (TSMC) 16FFC process technology. The company also said that it will conduct a similar tape out to TSMC's 7nm process in March, 2018.

·GUC achieved SGS-TUV ISO26262 Certification.

·GUC achieved Critical ISO 13485:2016 Certification for Medical Device Components.

2018 Outlook

Increasing interest and activity in AI, IoT, Big Data, Automotive and Cloud are considered as key growth drivers for world-wide semiconductor industry. And technologies like HPC, Sensor, Networking, Wireless and Power Management required for AI applications will derive considerable demand for new chip. GUC has strong design capability to complete complicated, high-efficient and low-power projects and those emerging applications will be a positive trend to GUC.

Expected Sales

In 2018, ASIC revenue will remain optimistic driven by various applications like SSD, Drone and Flash Controller, so total revenue and profit growth of GUC is still can be expected.

Production and Marketing Policy

In 2018, GUC expects to increase profit by improving hit rate of design projects. We will select projects carefully and focus on design projects to enhance stickiness of current customers. In the meantime, GUC will diversify our products to reduce impacts from single customer and economic recession, to continuously increase market share.

In addition, GUC will actively enhance the quality of design services and keep investment in IP for advanced technology and engage in more front-end system design service, which has greater value-add to improve margin rate stably.

The Impact of External Competitiveness, Regulatory, Environment, and Macroeconomics

In addition, to focus on technology development, GUC values corporate governance and has always sought to fulfill our corporate social responsibility. Not only independently but also through close cooperation with our upstream and downstream suppliers. GUC was also awarded "the Top 5% companies" in the 1st, 2nd and 3rd Information Disclosure Assessment and Evaluation of Listed Companies by Taiwan Stock Exchange, and is the only IC design company to have earned this honor.

Innovation leadership is the best strategy to develop design flow for advanced technology nodes at early stage, increase chip efficiency and lower power consumption. And most importantly, help shorten time-to-market for customers. GUC will continue to enhance its core competitiveness with leading technology and focuses on applications as AI/ML, Networking, Data Center Storage, Multimedia and Computing Centric.

Global economic will keep improving according to the most of market forecast, and growth rate of semiconductor industry is expected to outperform the growth of global GDP.

GUC will continue to invest resources and collaborate with world-class partners to enable advanced technology development in order to secure every growth opportunity. Entering our third decade, GUC will continue to invest resources and development on key IPs, and collaborate with world-class partners and customers to enable advanced technology development in order to secure every growth opportunity in the future.

Finally, we would like to express our gratitude to all shareholders, customers, vendors, employees and the society for your continuing support. GUC will persist in strengthening its sustainable business performance to maximize the benefit of corporate value to its shareholders, customers, employees and the society. We wish you all the best of health and prosperity in the year ahead.

Global Unichip Corporation

F. C. Tseng
Chairman

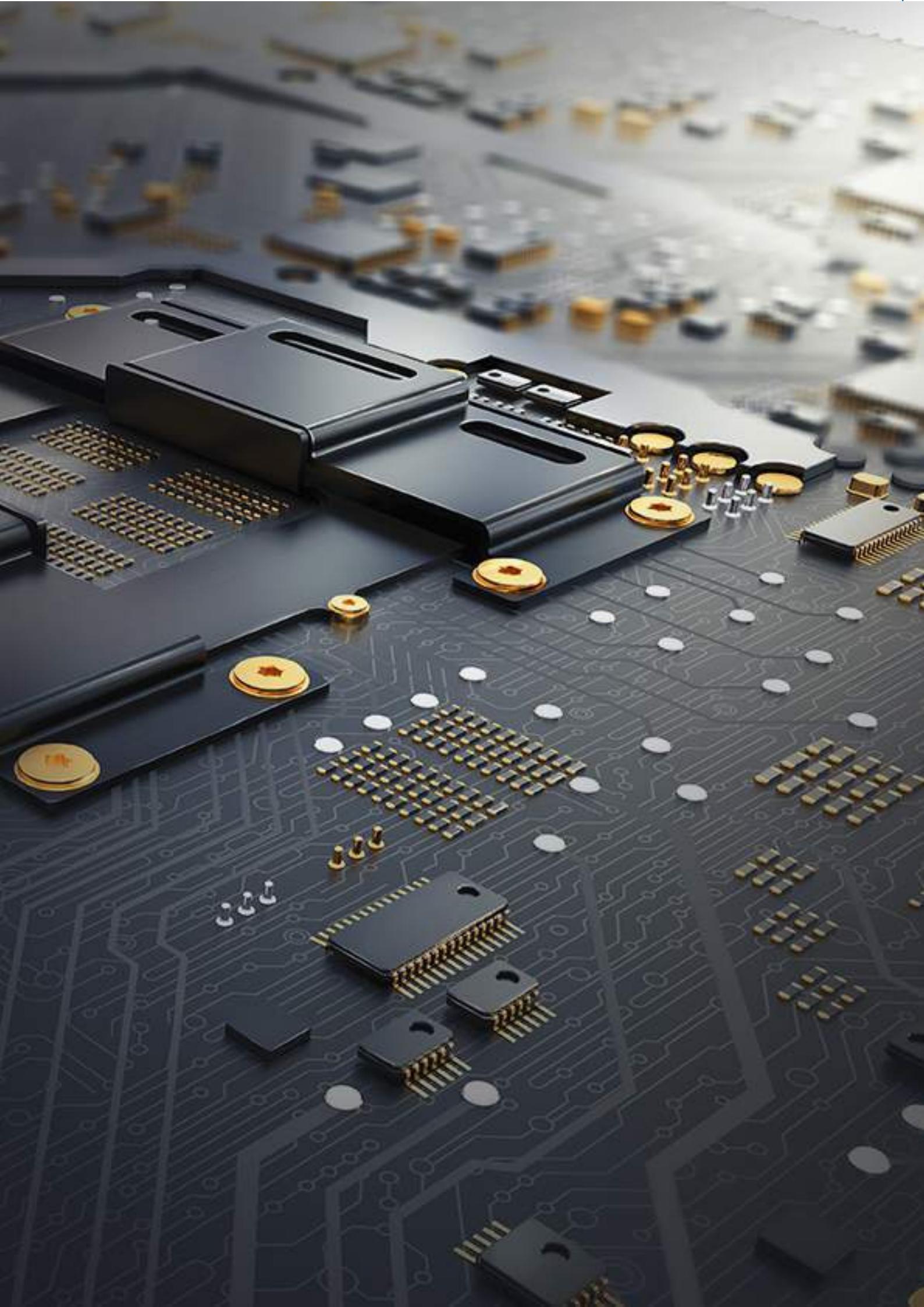
Ken Chen
President

A handwritten signature in blue ink, appearing to read "F. C. Tseng" followed by a stylized surname.

2

Chapter 2

Company Profile

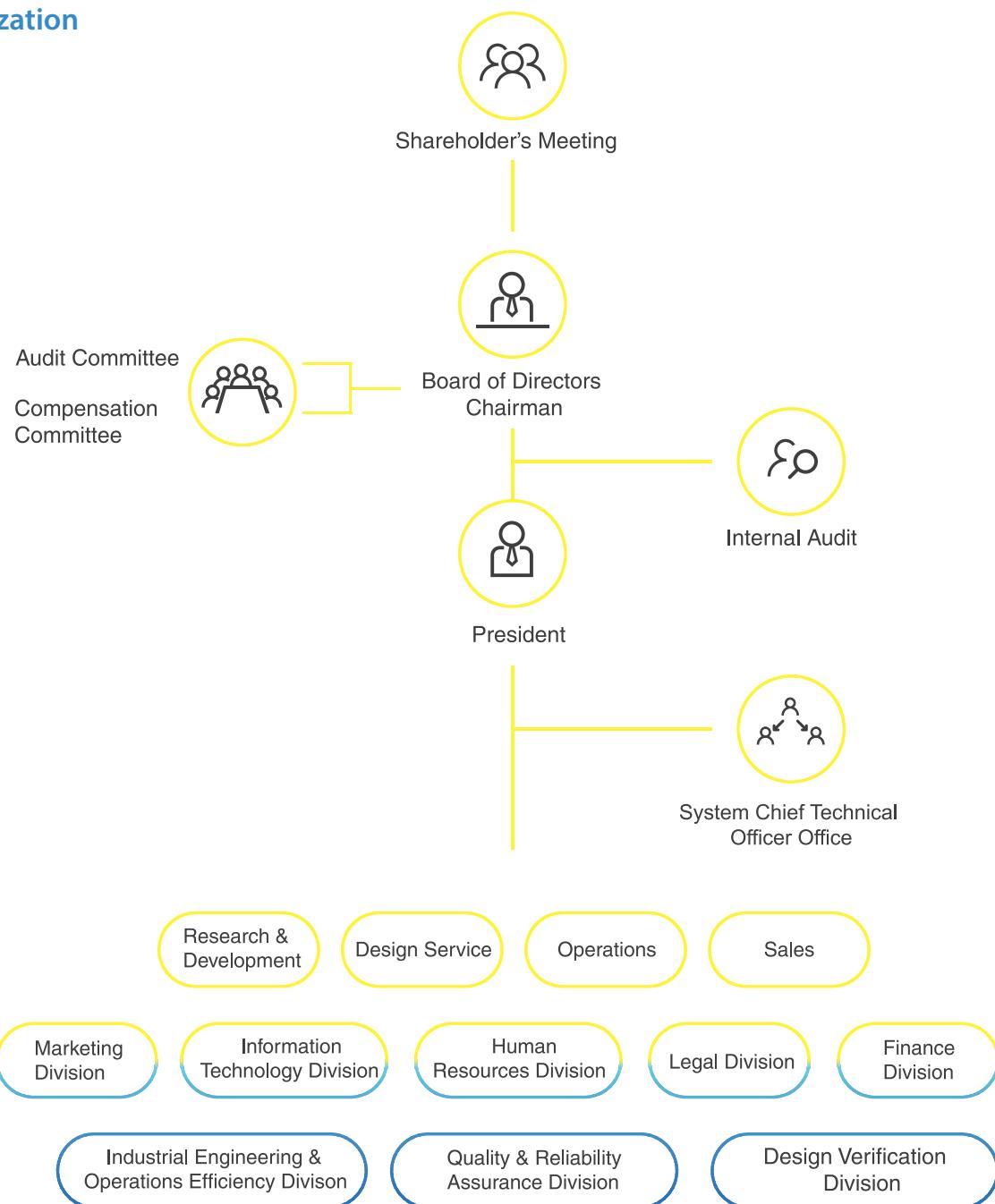


Company Profile

Company Overview

GUC is the Flexible ASIC Leader™ whose customers target IC devices to leading edge computing, communications and consumer applications. Based in Hsin-chu, GUC has developed a global reputation with a presence in China, Europe, Japan, Korea, and North America. GUC is publicly traded on the Taiwan Stock Exchange under the symbol 3443.

Organization



Board Member

Dr. F.C. Tseng

Chairman; Vice Chairman of TSMC



Dr. F.C. Tseng is the Chairman of GUC, Vice Chairman of TSMC, and Chairman of TSMC education and culture foundation. Prior to this post, Dr. Tseng served as Deputy Chief Executive Officer, President, and Senior Vice President of Operations of TSMC. Dr. Tseng spent two years as President of Vanguard International Semiconductor Corporation (VIS), which was derived from the Industrial Technology Research Institute's (ITRI) Sub-micron Process Technology Development Project and was Taiwan's first eight-inch IC facility.

Dr. Tseng led 110 specialists to spin off from ITRI's Electronics Research & Service Organization (ERSO), and in 1987 he co-founded TSMC as a pioneer specializing in the "foundry only" semiconductor manufacturing business. Dr. Tseng established a solid technical base for TSMC's six-inch and eight-inch fabs.

From 1973 to 1986, Dr. Tseng served at ITRI-ERSO, where in 1976 he was one of the pioneers in setting up the IC project in Taiwan. He was responsible for installing the 7.5 mm metal-gate CMOS process into the 3-inch line, which later was converted smoothly to 4-inch under his management. In 1978, Dr. Tseng was promoted to plant manager of the IC demonstration plant, where he was responsible for the production and development of silicon-gate CMOS from 5 mm to 1.2. Under his supervision, he established the capability to develop an advanced CMOS process.

He holds a Ph.D. in Electrical Engineering from National Cheng Kung University in Taiwan. Dr. Tseng was named as one of the "Outstanding Alumni" by National Cheng Kung University in 2000, and one of the "Ten

Outstanding Engineers" in 1991 and "The Excellent Engineers" in 1982 respectively by the Chinese Institute of Engineers and by Electronic Buyer's News as one of the Hot 25-Industry Executives who made a difference in 1999.

Dr. Ken Chen

President



Dr. Ken Chen joined GUC as President in September 2016. He brings to the company a broad range of global semiconductor experiences that span nearly a quarter of a century and covers assignments in three different countries. Dr. Chen came to GUC from TSMC where he served as a Senior Director for Business Development at the company's headquarters in Hsin-Chu, Taiwan. In this role, he was responsible for the company's strategic direction in the networking and consumer electronics segments. He also served as Director for the Mainstream technology platform and for IDM programs, Networking and HDD business development.

Prior to his headquarters assignments, Dr. Chen served in TSMC Japan as the Vice President of Marketing and Sales. He assumed that role after working for five years in TSMC as an account manager and 2 years in North America as a Field Applications Engineer. He joined TSMC from Intel Corporation where he worked as a Senior Process Engineer.

Dr. Chen earned his Ph.D. in Materials Science & Engineering from Stanford University.

Ms. Lora Ho
SVP, CFO, and Spokesperson of TSMC



Lora Ho is Senior Vice President of TSMC, Chief Financial Officer, and Spokesperson.

Prior to joining TSMC in 1999, Ms. Ho served as Vice President of Finance and Chief Financial Officer at Acer Semiconductor Manufacturing, Inc. (formerly known as TI-Acer Inc.) from 1990 to 1999. Before that, Ms. Ho held various positions in the accounting and finance fields that included Financial Controller at Thomas & Betts Industries, Deputy Manager of Finance at Wyse Technology Taiwan Ltd., and Cost Accounting Manager for Cyanamid Taiwan Corporation.

Ms. Ho was awarded "The Outstanding Financial Executive" in 1993, in view of her outstanding contribution to Financial Management during her service at TI-Acer Inc.

Ms. Ho received her EMBA from National Taiwan University in 2003 and her B.A. degree from National Chengchi University in 1978.

Dr. Cliff Hou
Vice President, Research & Development of TSMC



Dr. Cliff Hou is Vice President and Head of Design and Technology Platform of TSMC. Prior to this post, he was the Senior Director of Design Technology Division and Director of Design Methodology Division at TSMC. Dr. Hou established TSMC's Technology Design Kits Development Teams and Reference Flow Development Teams. He also leads Design-for-Manufacturability

(DFM) task force at TSMC.

Dr. Hou received his B. S. degree in 1983 from National Chiao-Tung University, and his Ph.D. degree in Electrical and Computer Engineering from Syracuse University in 1992.

Prior to joining TSMC in 1997, Dr. Hou was an Associate Professor at Kaohsiung Polytechnic Institute in 1992, and prior to that, he worked at ITRI/CCL for front-end design environment development and integration from 1993 to 1995 and at a local consulting company for 0.5µm and 0.35µm physical verification methodology and flow development from 1995 to 1997.

Dr. Hou has 15 U.S. patents and also serves as Technical Committee Member of VLSI Symposium.

Mr. Benson W. C. Liu
Independent Director; Former Chairman and CEO of Bristol-Myers Squibb (Taiwan) Ltd



Mr. Benson W.C. Liu, Independent Director, was the Chairman and General Manager of Bristol-Myers Squibb Taiwan (BMST) from January 1999 through March 2005. Mr. Liu joined BMST in 1978 as Accounting Manager and he progressed within the Company through Finance Manager, Controller, Finance Director, VP Finance and Administration and finally Chairman and General Manager.

Mr. Liu retired from BMST in March 2005 after 28 years of dedicated services to this leading global Pharmaceutical and Health Care Company. Prior to joining BMST, Mr. Liu was an auditor of Deloitte, Taiwan for 5 years. He holds a bachelor degree in Accounting from Soochow University, a master degree in International Business Administration from Northrop University, USA.

Mr. Liu is active in participating public services through NPO organizations like Chinese Corporate Governance Association and Chinese Professional Manager Association. In August 2011, He was appointed by

the Board of Vanguard International Semiconductor Corporation as a board member of Compensation Committee during the period from September 2011 to June 2012. He was awarded Financial Manager of the Year by the Chinese Professional Manager Association in 1985, Outstanding Alumni of the Accounting Department of Soochow University in 1986 and Financial Manager of The Year of Bristol-Myers Squibb Company International Group in 1989.

Dr. Chein-Wei Jen

Independent Director; Former Dean of Institute of Electronics at National Chiao Tung University, Taiwan



Dr. Chein-Wei Jen has retired from the Department of Electronics Engineering, National Chiao Tung University, Taiwan since 2004. During his academic career he also served as the Chairman of the Department of Electronics Engineering, from 1989 to 1991 and the Director of the Institute of Electronics from 1991 to 1994 at the same university.

He has supervised over 25 PhD students and many Master students in the area of System-on-Chip (SoC) design, processor architecture, and multimedia signal processing. Most of his students are now working in the academic and IC Design industry in Taiwan. He holds seven patents and published over 50 journal papers and 100 conference papers in these areas. He has also received numerous research paper awards and service awards from technical societies.

From 2004 to 2007 he was invited to join ITRI which is a government-sponsored R&D organization in Taiwan and served as the Director of SoC Technology Center in ITRI. From 2002 to 2007 he also served as one of the Coordinators of the National SoC Program in Taiwan.

Dr. Jen received his B.S. degree from National Chiao Tung University in 1970, his M.S. degree from Stanford

University in 1977, and his Ph. D. degree from National Chiao Tung University in 1983.

Dr. Wen-Yeu Wang

Independent Director; Ph. D., Stanford Law School, Professor of College of Law at National Taiwan University



Dr. Wang is professor of law and director, Center for Corporate and Financial Law, College of Law, National Taiwan University. He received law degrees from NTU, Columbia (LL.M.) and Stanford (J.S.D.), respectively. During his tenure, he visited and taught at well known law schools, including National University of Singapore and PRC's Peking University. In addition, he was a visiting professor of law at Stanford from 1995-96, teaching a seminar on financial transactions; in fall 2007 he taught "Corporate Governance in Greater China" seminar at Columbia. Principal research subjects include business associations, financial regulations, and law and economics.

Before pursuing an academic career, professor Wang had practiced commercial law at the international law firms of Lee and Li, Taipei (1985-1989), and Sullivan & Cromwell, a Wall Street firm in New York City (1989-1991), respectively. Areas of specialty include corporate law and business transactions.

From 2004 to 2006, professor Wang served as a commissioner at the Fair Trade Commission. In addition, he has served in many important public and private functions, i.e., as director or supervisor of the Taiwan Stock Exchange, Taiwan Futures Exchange, and Taiwan Cooperative Bank. He also served as independent director or reorganization supervisor for Taiwanese public companies; as arbitrators or mediators in various commercial disputes. He has also participated in the drafting or amendment of major economic and financial legislation, such as the Company Law and the Securities and Exchange Law.

Dr. Chung-Yu Wu

Independent Director; Former President of National Chiao Tung University, Taiwan



Dr. Chung-Yu Wu is Professor of Electronics Engineering Department of National Chiao Tung University. He has served different roles at National Chiao Tung University, including President of National Chiao Tung University, Dean of College of Electric Engineering and Computer Science, Dean and Vice for Research and Development, Funding Director of Division of Engineering and Applied Science, Director of Institute of Electronics and Department of Electronics Engineering, Chairman of Department of Electronics Engineering.

Dr. Wu received his B.S. degree from National Chiao Tung University in 1972, his M.S. degree from National Chiao Tung University in 1976, and his Ph. D. degree from National Chiao Tung University in 1980. He did his post-doctor research at EECS from the University of California, Berkeley in 2002.

Dr. Kenneth Kin

Independent Director; Former Senior VP, Worldwide Sales & Services of TSMC



Dr. Kenneth Kin joined IBM Corporation in 1996, and developed Asia Pacific Regional Operation Center in Singapore for its Microelectronics Department. In 2000, Dr. Kenneth Kin was promoted to the position of Vice President of Global Business and Services of IBM Microelectronics, responsible for IBM Microelectronics America, Europe, Asia and Japan business and service, and the average annual revenue of nearly 7 billion US dollars. He was the first Chinese executive in charge of global operations at IBM and was named one of the Senior Leadership Group of the IBM head office.

Dr. Kenneth Kin joined TSMC in 2001 as Senior Vice President of Global Business & Marketing, and was in charge of the America, Japan and Asia Pacific, as well as marketing organization and customer service. He established a professional business and marketing organization for TSMC, strengthen and expand the leading position of TSMC foundry, and expand to new markets in mainland China and South Korea which made TSMC revenue growth nearly doubled from 2001 to 2005 with market share more than 50%.

Since 2001, Dr. Kin has also served as an adjunct professor teaching "Technology Marketing" for eight years in the MBA of technology management, National Tsing Hua University. Areas of expertise are marketing, global operations, brand management and more.

Management Team

Mr. CJ Liang

Senior Vice President

CJ currently serves as Senior Vice President in Research and Development.

Prior to joining GUC in 2013, Mr. Liang served as President of Grain-Media and Executive Vice President of Socle Technology.

Mr. Liang received his Master degree in Department of Electronics Engineering from National Chiao Tung University.

Mr. Daniel Chien

Senior Vice President & CFO

Daniel currently serves as Senior Vice President and CFO in GUC.

Prior to joining GUC in 2006, Mr. Chien served as CFO in ALi Corp.

Mr. Chien received his MBA degree from the University of Texas at Arlington, USA.

Mr. Chiang Fu

Vice President

C. Fu currently serves as Operations Vice President in GUC.

Prior to joining GUC in 2008, Mr. Fu has over 15 years of experience in TSMC 12 inch Fab Product and Process Engineering.

Mr. Fu received his master degree in Electronics Engineering from National Tsing Hua University in 1993 and EMBA degree from National Taiwan University in 2008.

Dr. Louis Lin

Vice President

Louis currently serves as Vice President in Design Service.

Louis joined GUC in 1998 and has over 15 years of experience in various ASIC design fields including design methodology development, low power design, SoC chip implementation, program management, etc.

Dr. Lin received his Ph.D. degree in Electronics Engineering from National Chiao Tung University in 1998.

Dr. Yawlin Hwang

Vice President

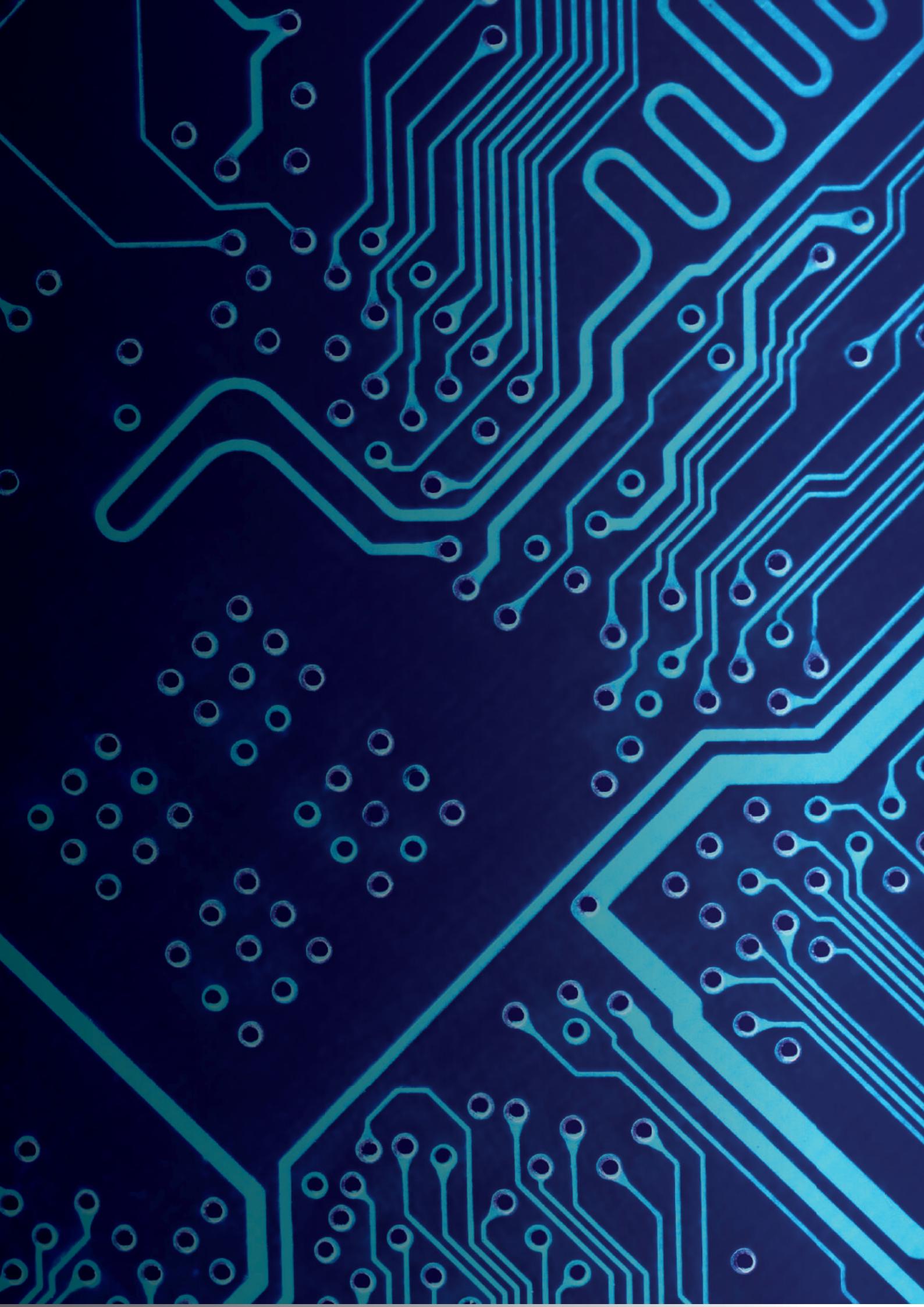
Yawlin currently serves as Sales and Marketing Vice President in GUC. Prior to joining GUC in 2009, he worked for TSMC Marketing and Business Development Division as Senior Manager.

Dr. Hwang received his doctor degree of Material Science and Engineering from North Carolina State University, Raleigh, North Carolina, USA, in 1992, majoring in III-V Compound and solid state devices. Since then, he has been working in semiconductor related field for more than 20 years. During the period, he worked for LSI, Logic, MXIC, and TSMC, mainly in the process technology, manufacturing, sales, and marketing field.

3

Chapter 3

Corporate Governance



Corporate Governance

Global Unichip Corporation Statement of Internal Control System

Date: February 1, 2018

Based on the finding of a self-assessment, GUC states the following with regard to its internal control system during the year of 2017:

1. GUC's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and GUC takes immediate remedial actions in response to any identified deficiencies. ; It should be noted that any internal control system has its limits, no matter how well designed. An effective internal control system serves to provide reasonable assurance of the above-mentioned three objectives, yet the effectiveness may be subject to changes of environment or circumstances. To counter such limits, GUC has adopted an internal control system with self-surveillance mechanism. Thus GUC is able to rectify as soon as a deficiency is identified.

3. GUC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.
4. GUC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, GUC believes that, on December 31, 2017, we have maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of GUC's Annual Report for the year 2017 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on February 1, 2018, with none of the nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Global Unichip Corporation

F. C. Tseng
Chairman

Ken Chen
President



Board and Audit Committee Meeting Status

Seven regular board meetings were convened in 2017. The status of attendance by board members was as following:

Title	Name	Attendance in person	By proxy	Attendance rate (%)
Chairman	Dr. F.C. Tseng Representative of TSMC	7	0	100%
Director	Ken Chen Representative of TSMC	7	0	100%
Director	Lora Ho Representative of TSMC	5	2	71%
Director	Dr. Cliff Hou Representative of TSMC	6	1	83%
Director	K.C. Shih(1) Representative of Global On Investment Corp.	0	3	0%
Independent Director	Benson Liu	7	0	100%
Independent Director	Dr. Chien-Wei Jen	7	0	100%
Independent Director	Dr. Wen-Yeu Wang	7	0	100%
Independent Director	Dr. Chung-Yu Wu	7	0	100%
Independent Director	Dr. Kenneth Kin(2)	4	0	100%

(1) K.C. Shih is a former Board member whose tenures expired on May 17, 2017.

(2) Dr. Kenneth Kin is a new Board member whose tenures starting from May 18, 2017.

Five regular audit committee meetings were convened in 2017. The status of attendance by committee members was as follows:

Title	Name	Attendance in person	By proxy	Attendance rate (%)
Independent Director	Benson Liu	5	0	100%
Independent Director	Dr. Chein-Wei Jen	5	0	100%
Independent Director	Dr. Wen-Yeu Wang	5	0	100%
Independent Director	Dr. Chung-Yu Wu	5	0	100%
Independent Director	Dr. Kenneth Kin(1)	2	0	100%

(1) Dr. Kenneth Kin is a new independent director whose tenures starting from May 18, 2017.

Five regular compensation committee meetings were convened in 2017. The status of attendance by committee members was as follows:

Title	Name	Attendance in person	By proxy	Attendance rate (%)
Independent Director	Benson Liu	5	0	100%
Independent Director	Dr. Chein-Wei Jen	5	0	100%
Independent Director	Dr. Wen-Yeu Wang	5	0	100%
Independent Director	Dr. Chung-Yu Wu	5	0	100%
Independent Director	Dr. Kenneth Kin(1)	2	0	100%

(1) Dr. Kenneth Kin is a new independent director whose tenures starting from May 18, 2017.

Corporate Social Responsibility

As a world-class design and turnkey services company and a good corporate citizen, GUC has always sought to fulfill its corporate social responsibilities (CSR). In this period of volatility for the global economy and environment, fulfilling corporate social responsibility not only supports the fundamentals of our operations and reduces or eliminates risk; it also builds sustainable value for GUC and its stakeholders. This is the right thing to do because we believe our success is deeply entwined with our stewardship of the natural environment, efficient use of resources and meeting the expectations of our shareholders. GUC pledges itself to not only become an indispensable influence in the semiconductor industry, but also to serve as a force for sustainability that pushes society forward, to become a corporate citizen with a positive influence to society, and to build a better future for the next generation.

Moreover, GUC has established the 'Global Unichip Corporate Social Responsibility Best Practice Principles'. This commission is composed of cross-department representatives in order to implement corporate social responsibility initiatives. The Chief Financial Officer is appointed as the Chairman in full charge. The executive performance shall be submitted to the Board of Directors.



Social Commitment

By sharing love and participating in charity activities, we have deepened our ties with local governments, NGOs, charity associations and communities establishing trust and reputation. This friendship can help GUC to develop a positive corporate environment.

- Helped the blind of Hsinchu Blind Welfare Association. In 2017, they offered their professional massage therapy to GUC's employees with the total 331 persons, 147 hours, and the amount of NT\$140,000.
- GUC supported "Accton Cultural & Educational Foundation", contributed to outreach Christmas Project. This also inspires the industry to help children from disadvantaged families and bring them the opportunity to enjoy and experience the merry atmosphere of Christmas.

Safety and Health-related Management

GUC is devoted to achieving "zero accident" and "sustainable environmental development" and to become a world-class benchmarking company of environmental protection, safety and health. To provide a working environment that not only complies with Taiwan's related regulations, GUC is also aggressively geared to international standards. GUC established Health, Safety and Environment.

Committee to carry out the formulation and execution of the following environmental safety policies:

1. Offering educational training programs to improve employees' awareness of safety, health and environmental protection issues.
2. Mapping out various health improvement plans to ensure employees' physical and psychological wellness.
3. Ensuring our operations and services meet or exceed applicable regulations and standards for environment protection, health and safety and safety.
4. Staying abreast of global issues of environment protection, health and safety evaluate risks and take effective risk management measures.
5. Establishing a green supply chain and enhancing performance of environment protection, health and safety with suppliers through experience sharing and collaboration.
6. Laying out environmental inspection procedures and regulations, such as: Management procedures for examining, measuring and testing facilities, Management plans for plant patrolling, maintenance and auto-checking. Common regulations for hazardous products and labelling of hazardous substances, Operating procedures for electrical equipment, Operating standards for warehouses, Operating standards for handling materials, Standard safeguards for physical health and safety, Operating procedures of health and safety in special areas.

Environmental protection

GUC believes its environmental protection should not only comply with domestic legal requirements, but also implement governmental plans for resource recycling, waste disposal and garbage separation. In addition, GUC reduces the usage of paper cups and disposable plastic tableware for environmental protection and the best use of resources. GUC has been committed to prevent pollution, ensure efficient use of resources, prevent accidents, improve employee safety and health and protect property. The aim is to create a work environment that upholds the well-beings of our employees and communities.

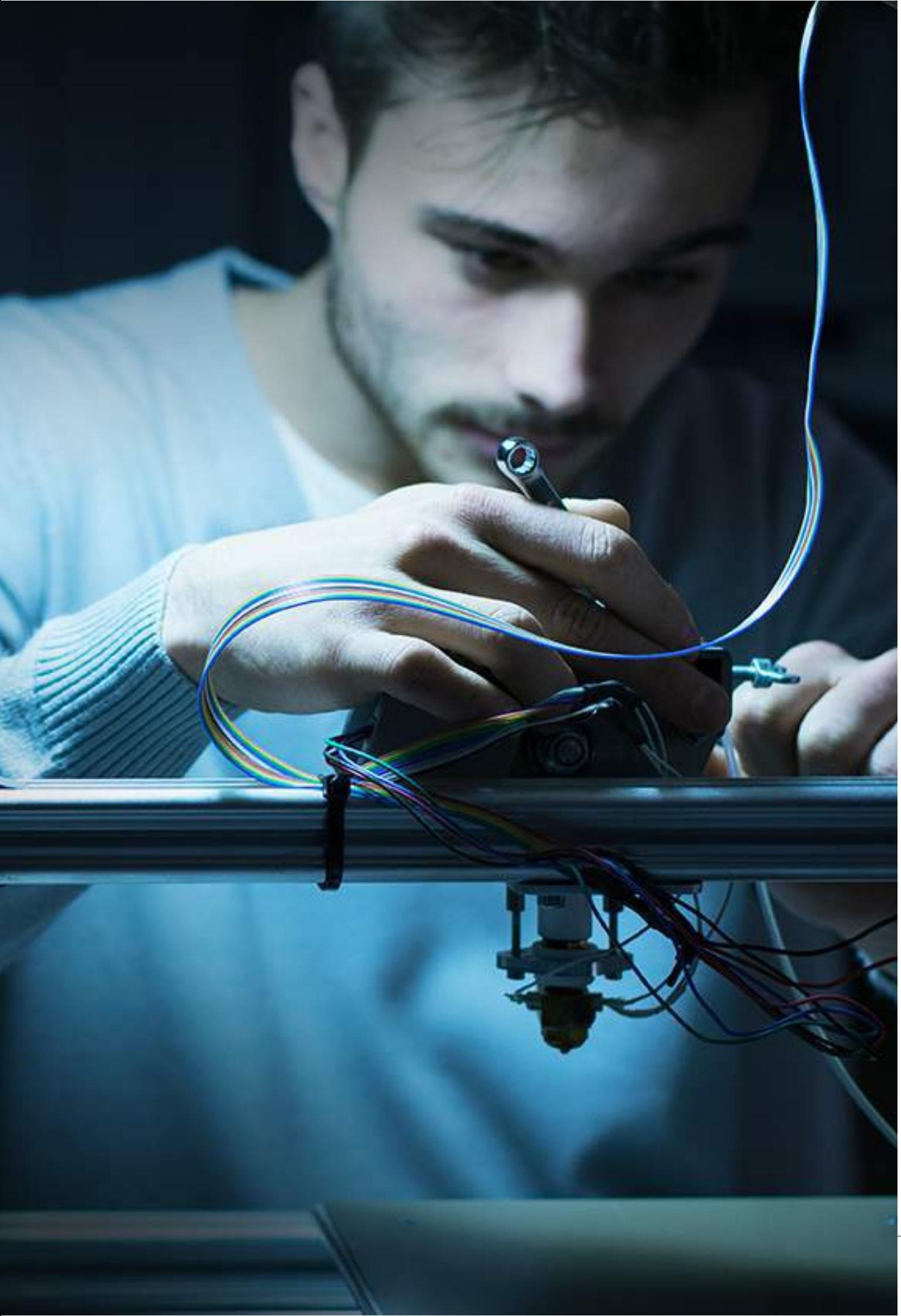
GUC was recognized by the "Most Outstanding Landscape Award" and 'the Best Environmental Protection Award' by Hsinchu Science Park Administration, and was certified as "SONY Green Partner" and compliant with IECQ EV080000 Restriction of Hazardous Substances (RoHS). Our commitments and implementations are as follows:

1. Execute the standards of "Green Energy-saving Design" and provide energy saving products that comply with environmental protection regulations and customers' requirements.
2. Use package materials that comply with environmental protection regulations for waste reduction and resource recycling.
3. Increase employees' fundamental responsibility and awareness of environmental protection, source recycling and energy saving through educational training and propaganda.
4. Continue to execute energy-saving management and resource recycling.
5. Comply with governmental environmental protection regulations and fully assist the authorities in carrying out environmental protection affairs.

4

Chapter 4

Operation Report



Operation Report

1. Business

1-1. Major Business

1-1.1. Main business activities of GUC:

(A) Engage in research & development, production, testing and sales of:

- Embedded memory, logic, and analog components for various application ICs;
- Cell libraries for various application ICs; and
- EDA tools for various application ICs.
- Customization, design, tech support, and licensing of intellectual property (IP).

(B) Provide technological support and consulting services related to the aforementioned products.

1-1.2. Revenue mix

Unit : NT\$ Thousand, except %

Sales breakdown	2016		2017	
	Amount	%	Amount	%
ASIC & Wafers	6,563,686	71%	9,265,856	76%
NRE	2,529,294	27%	2,641,850	22%
Others	197,441	2%	252,900	2%
Total	9,290,421	100%	12,160,606	100%

1-1.3. Main products and services:

- (A) ASIC & wafers: Provide complete services from design, wafer manufacturing to packaging and testing.
- (B) NRE (Non-Recurring Engineering): Provide circuit design cell library and various IPs required in the process of product design; provide circuit layouts needed for mask making; subcontract mask making, wafer manufacturing, dicing and packaging to vendors; conduct final testing to get prototype samples for customers.
- (C) MPW (Multiple-Project Wafer): MPW integrates multiple design projects of different customers on one single mask and by one wafer engineer run. It is an effective and fast time-to-market chip verification service with cost-sharing in masking and wafer engineering run. Design engineers, before the phase of mass production, are able to timely verify their prototype designs with advanced process technologies and much lower costs.
- (D) IP (IP, Intellectual Property): These are silicon-verified reusable IC designs with specific functions. With the rapid advancement of semiconductor processing technologies, the design industry is trending toward multi-functional chips and SoC (System on a Chip). Reusable IP help customers avoid redundant designs and resources.

1-1.4. New product development plan

Besides the continuing development of advanced IP in 16nm, 12nm, and 7nm processing technologies, including high speed interfaces such as 10G/28G/56G KR SerDes, PCIe Gen3/4/5, HBM2 Controller/PHY, USB 3.0/3.1, LVDS, DDR3/4/LPDDR3/4/4X/5 Memory Controller/PHY, our company is moving one step closer to forming a partnership with the TSMC in developing SerDes, PCIe Gen4/5, DDR3/44X/5 on a 7nm process. In addition, existing key components such as voltage regulators, power management solutions, ADC/DAC, data converters, and clock generators are also porting with advanced processing technologies. GUC has formed a research team to develop its own memory IP (TCAM, SRAM) to enrich our IP database and to help our customers reduce the cost of IC design.

1-2. Industry Brief

1-2.1. Current status of the industry and future development

With respect to IC design, since the design cost continues to rise and the trend to incorporate multiple functionalities on a single chip continues to grow, chip design projects are expected to experience a downward trend each year. Despite the decreasing number of ASIC design projects, the rate of decline is slowing down thanks to the market growth of AI, block chains, datacenters, 5G, IoT, automotive electronics, and industrial/medical applications, which will help slow down the pace of decline with respect to ASIC and ASSP chip designs.

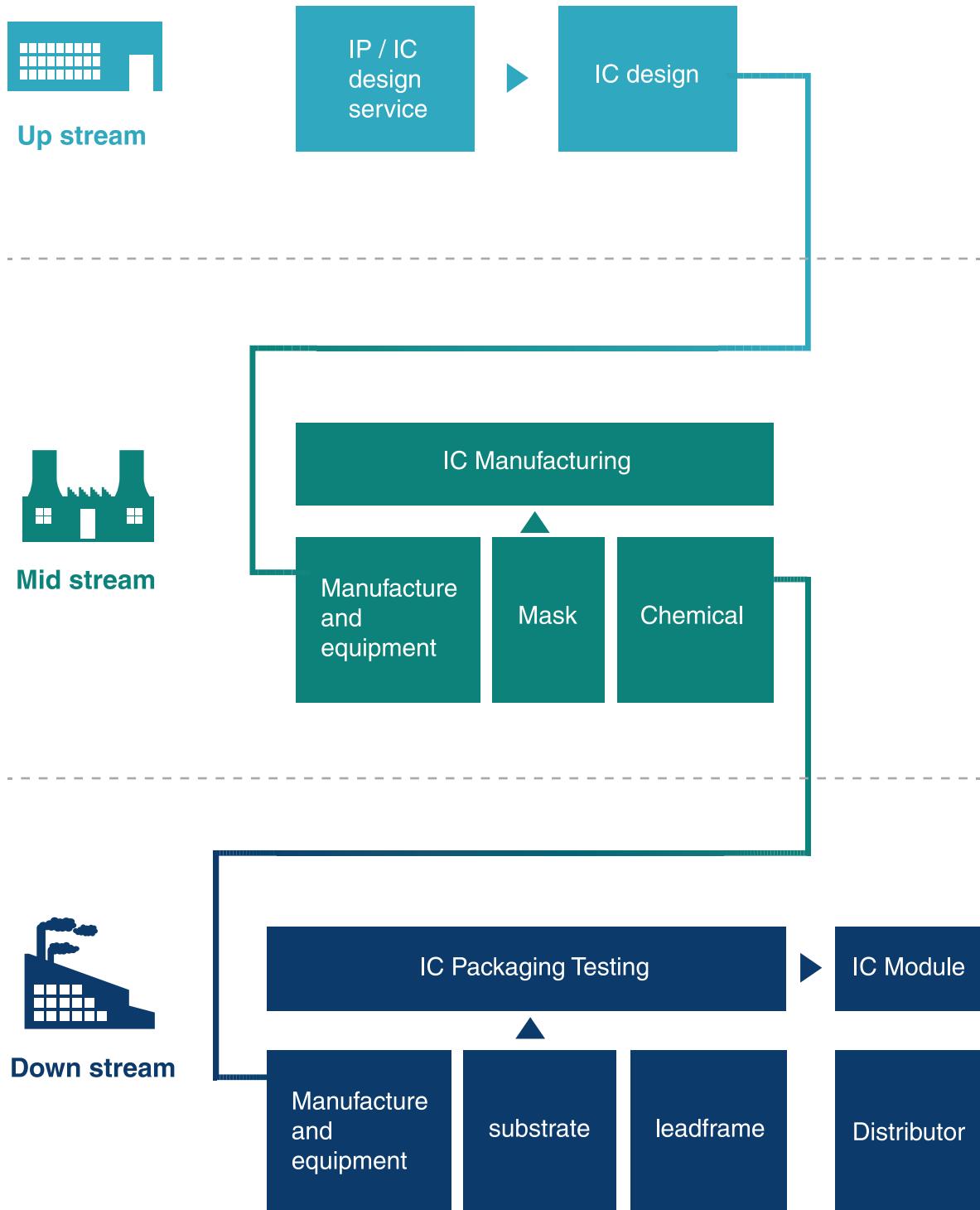
Recently, a consolidation boom is sweeping across the global semiconductor industry. We are faced with challenges from Mainland China's full support for its semiconductor industry and the poaching of top talent from Taiwanese semiconductor factories, along with endless mergers among the world's IC design companies with the aim of strengthening their product lines, minimizing costs, and expanding their economic scale in an attempt to satisfy user demands with advanced semiconductor technologies to maintain market share. Although customers may have fewer choices of vendors in the future, there is still a demand for product diversity. Standard products will no longer be able to satisfy customer needs; in order to create unique features and characteristics, a growing number of the world's leading companies are now seeking to customize their IC designs. For GUC, this means more opportunities in the future.

To keep pace with the rapid changes in the semiconductor industry as well as client requirements, GUC's "Flexible ASIC Services", include robust IP portfolio and design service is able to assist customers entering any part of a semiconductor supply chain in a flexible manner from product concepts, spec definitions, development, verification, mass production, to the creation of a final product. Flexible ASIC services can cover three core elements: IP solutions, chip implementation, and ASIC manufacturing. A precise IP solution will be able to reduce a customer's design time and costs, as well as provide satisfactory offerings of customized ICs. In terms of chip implementation, GUC has formed a close partnership with TSMC for advanced process technology which helps customers move to mass production with high yield rates and strong market competitiveness. GUC also offers ASIC manufacturing to work as the best coordinator between customers and wafer foundry/testing/packaging facilities.

1-2.2. The supply chain of Taiwan semiconductor industry

The top-down supply chain of Taiwan's semiconductor industry is divided into design, wafer manufacturing, packaging and testing.

The up, mid, and down stream of Taiwan semiconductor industry:



1-2.3. Product development trend and competition

The mobile electronics markets are experiencing a slow down during the past few years. Miniaturized tablet PCs, for example, are being replaced by smartphones with larger screens. The increasing popularity of larger tablets is also taking away the market share of notebook; these issues can limit the market for IC service providers.

In the smartphone market, in an attempt to create their unique brand personality, more and more leading smartphone manufacturers are committed to the development and production of application processor (AP) chips, which will open up new opportunities for the design service industry. Many other emerging markets such as IoT, automotive electronics, drones, virtual reality, and robotics, as well as their applications have received wide public attention. The preliminary results of product development also showed great prospects. Although these technologies are still in their early stages, they are already considered as the mainstream of the future technology industry.

Benefiting from China's large domestic demand and the government's promotion of local IC design companies and the semiconductor industry, China's semiconductor sector is growing bigger. This year, China is also investing massive resources in the establishment of its semiconductor industry. For the next ten years, China will become the fastest growing market in the global IC design and semiconductor industry. GUC continues to lead the industry with the development of 16/12/7 nm advanced technology processes; with its impressive technical achievements and mass production experience, GUC is confident in delivering low power consumption, high performance products that suit the needs of our customers to secure the leading position in the highly competitive IC design service domain.

1-3. Technological Research and Development

1-3.1. R&D expenditures

Year Item	2017	2018
R&D expenditures	1,628,373	-

Unit : NT\$ Thousand

1-3.2. Latest technologies and new products

2017	<ul style="list-style-type: none">● The first Customer ASIC Taped-out in 12nm and 7nm Processes● Taped-out 7nm HBM2 PHY● Taped-out a 16nm, HBM2 PHY and controller with verified interposer design and CoWoS Package● Taped-out 16nm TCAM Compiler● Taped-out 12nm LPDDR4X and OnFi-4 PHY● Taped-out 28nm 2.4G high speed ADC, a key technology for 5G applications● Taped-out 28nm 12/16G Serdes for PCIe/SATA/SAS interface
------	---

1-4. Long Term and Short Term Business Development Plan

1-4.1 Short-term

- (A) Promote advanced technology based on MPW in order to lower customers' entry barriers and startup risks.
- (B) Secure the current customer base of 28nm and 16nm, and aggressively seek potential customers for the 12nm and 7nm processes.
- (C) Leverage existing customers and projects; accumulate cross-industry technical expertise with the aim to assist customers in creating a development plan.
- (D) Enhance cooperation with upstream and downstream partners to attract new customers.
- (E) Provide complete SIP solutions and SoC development based on product applications.

1-4.2 Long-term

- (A) Focus on cutting-edge product development to allow not only high product differentiation and low barriers to entry, but also the broad support of 12nm and 7nm advanced technologies.
- (B) Pursue a global strategy to promote brand name and worldwide market share.
- (C) Grasp business opportunities when more and more integrated device manufacturers are going fab-lite.
- (D) Maintain close relationships with wafer foundries and develop 22nm, 7nm and 5nm design processes, as well as provide leading-edge manufacturing processes and products.
- (E) Seek technological corporation with world-wide system companies and focus on core technologies.
- (F) Establish long term strategic alliances and collaborate with silicon IP suppliers.
- (G) Increase front-end SoC design capabilities and develop all kinds of application platform structures to suit different applications, and to reduce system verification and development times.
- (H) Seek out new application markets such as: artificial intelligence, virtual reality, autonomous drive, robot, network communication and automotive electronics etc..., as well as study application-related technologies.

2. Market and Sales Distribution

2-1. Market Analysis

2-1.1 Sales by region:

Revenues by geographic region are allocated to individual countries based on the location to which the products are initially billed instead of the location of end customers of our customers to which revenues are attributable. The following table summarized information pertaining to our revenues from customers based on their headquarters' location:

Region	2017
Asia	68%
North America	21%
Europe	11%
Total	100%

2-1.2 Market share

(A) GUC is the largest design service company in Taiwan and our revenue accounts for more than 50% of the domestic market. Based on Gartner's 2017 worldwide ASIC revenue statistics, global design service revenue grew by 10.3% in 2017, and revenue of GUC for 2017 was approximately US\$400 million, which is a 38% increase from 2016, and the growth is much higher than the revenue growth of global design services.

(B) Future market supply and demand situation

According to forecasts made by IEK in 2017, the total revenue generated by Taiwan's IC industry amounted to nearly NT\$2.4604 trillion, indicating a 0.5% growth compared to 2016. The IC design industry alone amounted to NT\$622.8 billion, showing a 4.6% declined growth rate compared to 2016. According to TrandForce's predictions, in 2017, the total sales generated by China IC design industry will reach RMB\$200.6 billion, with an annual growth rate of 22%. Looking ahead in 2018, benefiting from markets with excellent growth potential such as automotive electronics, China IC design sales are estimated to reach RMB\$240.7 billion; a growth rate of 20%.

Looking into electronics industry in 2018, due to the fact that the 7 nm process has entered mass production, it will increase the sale of products such as flagship smart phones, Bitcoin miner, SSDs, image processing products, as well as tablet computers. A sales boom is expected. In addition, other applications such as servers, automotive electronics, artificial intelligence, and communication infrastructure will also boost the sales volume for global IC design companies.

What sets GUC apart from other domestic service providers is not just that we work closely with upstream wafer foundries, but that we are also actively involved in the development of advanced processes and key silicon IPs. By doing so, GUC hopes to meet market demands as well as distancing itself from the rest of the competition.

2013~2017 Taiwan IC Industry Revenues

Unit : NT\$ 0.1billion

	2013	YoY	2014	YoY	2015	YoY	2016	YoY	2017 (e)	YoY
Industry Revenue	18,886	15.6%	22,033	16.7%	22,640	2.8%	24,328	7.5%	24,604	0.5%
IC Design	4,811	16.9%	5,763	19.8%	5,927	2.8%	6,601	11.4%	6,228	-4.6%
IC Manufacturing	9,965	20.2%	11,731	17.7%	12,300	4.9%	13,117	6.6%	13,606	2.1%
Foundry	7,592	17.1%	9,140	20.4%	10,093	10.4%	11,345	12.4%	11,926	3.8%
DRAM	2,373	31.2%	2,591	9.2%	2,207	-14.8%	1,772	-19.7%	1,680	-8.5%
IC Packaging	2,844	4.6%	3,160	11.1%	3,099	-1.9%	3,220	3.9%	3,332	2.9%
IC Testing	1,266	4.2%	1,379	8.9%	1,314	-4.7%	1,390	5.8%	1,438	2.7%
IC Product Revenue	7,184	21.3%	8,354	16.3%	8,134	-2.6%	8,373	2.9%	7,908	-5.5%
Global Semi Growth Rate	-	4.8%	-	9.9%	-	-0.2%	-	-2.4%	-	17.1%

Note : (e) = estimate

Source : TSIA; IEK(2017/11)

Taiwan 2017 Q3 sales distribution by region (calculated based on revenue)

Unit : %

	Taiwan	North America	Japan	Hong Kong/ China	Korea	South East Asia	Europe	Others	Total
2017 Q3	34.5%	7.8%	3.2%	49.5%	2.0%	0.8%	1.9%	0.3%	100.0%

Source : TSIA; IEK(2017/11)

2016~2018 China IC Industry Revenues

Unit: RMB\$ 0.1billion

	2016	2017(E)	2018(F)
IC Design Revenue	1,644	2,006	2,407
IC Design Revenue growth rate	24.1%	22.0%	20.0%

Source : TrendForce (2017/12)

Note : (E: estimate), (F: forecast)

(C) Potential growth

Advanced processing technologies cause a sharp rise in investment costs. In an effort to keep the focus on core businesses and to maximize cost-savings, some IDMs have turned to the option of outsourcing advanced manufacturing process to professional design service providers. While more IDMs are shifting to a fab-lite model and the system companies' differentiation is becoming a trend, those design service providers can find potential business opportunities in the future.

According to the industry study conducted by SEMI, global revenue generated by the semiconductor industry is expected to over US\$400 billion, a growth rate of 20% in 2017 and will continue to grow at 4%~8% in 2018. By 2019, market scale will reach nearly US\$500 billion. The markets for mobile devices, HPC which supports deep learning and artificial intelligence, the automotive electronics market which is growing steadily each year and currently moving towards automated driving, and the IoT market that connects everything together are the four biggest markets. The HPC market covers applications such as virtual reality, augmented reality, artificial intelligence, data center, and network processors. Demands for products include more advanced technologies, better energy efficiency, and faster processing speed. Only the most advanced process technologies will make these advantages available in customers' products. The Company has been devoted to the most advanced 12nm and 7nm design processes and technologies; these technological improvements are sure to fulfill customers' design project requirements; we also hope that they will continue to grow in the future.

GUC focus on providing more complete application solutions for: automobile electronic, augmented reality(AR), virtual reality(VR):AI and 5G etc... In addition, the Company will focus on system solutions related to ultra-high-speed SIP interfaces such as SerDes, PCIe, SATA/SAS, USB, LVDS, HDMI, ADC/DAC and the development of 2.5D/3D/IPD design processes as well as packaging and testing technologies. By way of developing and introducing the above-mentioned new technologies and applications, GUC is confident that its revenue will steady growth during 2018.

2-1.3. Competitiveness, strength, weaknesses and counter strategies

(A) Competitive advantages

a. Rich experience in IP development and integration

GUC has already successfully developed a series of IP; not only does it license its self-developed IP to IC design houses and system houses at home and abroad, it also provides services in integrating IPs into customer projects. GUC has used the IP over 1,000 times in more than 100 design projects.

b. Mature, complete design and verification processes

GUC's well-developed and comprehensive processes serve to shorten the time needed for IC verification and reducing IC design risks; they can also help customers complete product design within the shortest time frame.

c. Advanced manufacturing processes and design technologies

GUC works closely with TSMC to keep track of and create advanced processing technologies and information, as well as reduce the time required for customers to adopt our advanced manufacturing processes. GUC has successfully completed many 28nm and 16nm projects. During this year, we have successfully taped-out the pioneering design of 10/7nm projects by working with important clients and strategic partners. Our abundant hands-on experience will support and guarantee the realization of our customers' high level manufacturing processes.

d. Technology-oriented R&D team

GUC has always focused on developing its own technologies. Over the years, GUC has formed an experienced R&D team with reliable design resources and support, giving our customers' products more international competitiveness.

e. Complete IP partnership

In order to increase the quantity and types of IP available for customers, in addition to developing home-grown IP, GUC is also collaborating with the world's leading IP vendors such as ARM, Synopsys, Dolphin Technology, SiliconCreation, PLDA, Semtech, eMemory, NSCore, Sidence, Ceva, Elliptic, Imagination, M31, Andes, TCI, AnalogBits, Cadence, and TSMC in order to provide our customers with comprehensive IP solutions.

f. Diversified service models

GUC provides one-stop shopping service to customers with complete SoC solutions, and supports customers from the design phase to the mass production phase. GUC has built up all the important service links throughout the IC manufacturing processes. Customers are free to choose different services and delivery methods based on their technology capacity and needs.

g. Providing IP trading service through IP Mall

GUC offers a trading platform for our IP providers and users. Customers therefore have accesses to information and services of the types of IP they need, as well as the verification information and quality assurance of these IPs through a single contact window.

(B) Strength, weaknesses and counter strategy for long-term development

a. Strength

a-1. Division of labor in the semiconductor industry

Taiwan's IC industry has a unique infrastructure of vertical disintegration, characterized by a cluster of IC designs, advanced IC foundries, and back-end packaging and testing firms. The infrastructure creates an extremely favorable environment for the development of design services. For example, newly developed SIP can be quickly verified by the two world-class IC foundries to minimize failures and risks. With the close cooperation between IC foundries and service foundries, Taiwanese design service firms are able to offer process-verified IP to foreign customers who are highly likely to become a regular client of the two IC foundries in Taiwan, helping Taiwan to become the international SIP trading center.

a-2. Abundant downstream system vendors

There are a huge number of Taiwanese system manufacturers engaged in information and communications applications and consumer electronics. Whether these system manufacturers are OEM vendors or own brand-name developers, large numbers of variety and quantity are available. Their systems are in line with technology trends requiring multiple features integrated into one single chip. The cooperation between system vendors and IC related operators plays a critical role in enhancing Taiwan's SoC industry.

a-3. The IDM Fab-lite trend

In order to focus on the core businesses and save large-scale capacity investment in advanced process nodes, IDMs throughout the world are moving toward the Fab-lite trend; they are starting to outsource various projects to design services providers.

b. Weaknesses and counter measures

b-1. With respect to certain product applications, and the lack of key SIP

Because we are now engaging with customers from data centers and high speed switch applications, key IPs, for example, TCAM, and multi-port memory modules are quite important. Some competitors (such as Avago) have their own solutions.

Countermeasures

GUC has established a memory research team in 2016 and develop customized client-specific memory IPs, such as DDR3/4、LPDDR3/4/4X/5 PHY & Controller. In addition, we seek strategic cooperation with both domestic and foreign top-tier companies to provide key IP solutions in order to satisfy customer needs.

b-2 Need more relevant professional data for diversified customer applications

Because customer applications are varied, such as automotive, datacenter, storage, 5G, BitCoin, solar, drone etc., we need more resources to gain a better understanding of how things work and how to achieve a higher level of service quality.

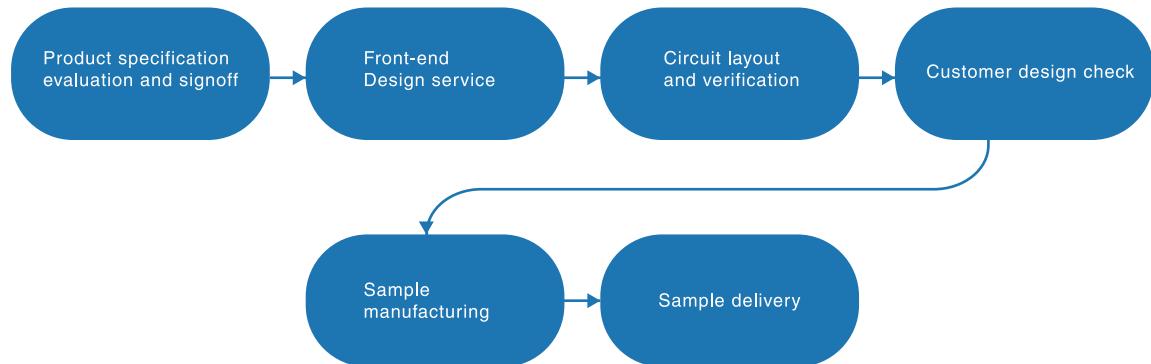
Countermeasures

Before entering new markets and exploring different applications, we will have to evaluate and study a number of factors that will allow the Company to offer the best service quality. In addition to inviting professionals from different domains, we are also working closely with TSMC in order to provide more complete and more professional services for customers from different domains.

2-2. Product Application and Production Flow

The company's production flow includes two major steps: front-end design service and mass production.

STEP1 The process of front end design :



STEP2 Once the sample has been verified by customer, mass production process starts :



Future R&D plans and estimated investments

In order to keep up with the growth, the Company will also keep working in the research and development of the 12nm design process, as well as evaluate and plan for the 7nm process nodes. Moreover, we will focus on the development of 16nm high-speed interface IPs such as SerDes, PCIe Gen4, LPDDR/DDR controller, and PHY technologies.

2-3. Raw Material Supply

GUC products are mainly based on wafer supplied mainly by TSMC, the world's leading silicon foundry as well as GUC's largest shareholder and long-term strategic partner. It goes without saying that upstream supply for GUC is solid and stable.

2-4. Major Customers Contributing More Than 10% of Gross Sales, Years 2016~2017

2-4.1. Major customers contributing more than 10% of gross sales in years 2016 and 2017

Unit : NT\$ Thousand

No.	2016				2017			
	Customer name	Sales amount	% of annual total sales	Connection with company	Customer name	Sales amount	% of annual total sales	Connection with company
1.	(Note)	(Note)	(Note)	None	A	1,786,206	15%	None

Note : Revenues from significant customers those representing not exceed 10% of gross sales in fiscal year of 2016.

2-4.2. Name of suppliers taking 10% or more total purchase share in years 2016 and 2017

Unit : NT\$ Thousand

No.	2016				2017			
	Supplier name	Amount	Percentage	Connection with company	Supplier name	Amount	Percentage	Connection with company
1	TSMC	4,031,166	90%	TSMC, prior to July 2011, TSMC was a parent company. Since July 2011, TSMC has no controlling interest in GUC and accounts for its investment in GUC using the equity method.	TSMC	5,794,950	91%	TSMC, prior to July 2011, TSMC was a parent company. Since July 2011, TSMC has no controlling interest in GUC and accounts for its investment in GUC using the equity method.
2	TSMC, NA	426,369	9%	TSMC's ownership percentage to TSMC, NA is 100%.	TSMC, NA	524,558	8%	TSMC's ownership percentage to TSMC, NA is 100%.

Explanation: GUC buys silicon wafers and mainly from IC foundries.

2-5. Production Output in 2016 and 2017

Units : Chip/Piece and NT\$ Thousand

Major Products	2016		2017	
	Quantity	Amount	Quantity	Amount
ASIC & Wafers	39,100,748	2,860,298	51,071,914	2,745,030
NRE	0	1,526,170	0	1,650,030
Others	936	40,635	480	42,518
Total	N/A	4,427,103	N/A	4,437,578

2-6. Sales Amount in 2016 and 2017

Units : Chip/piece and NT\$ Thousand

Year	2016				2017			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
ASIC & Wafers	6,311,830	1,124,004	30,784,011	5,439,682	7,209,570	1,861,317	42,254,073	7,404,539
NRE	0	294,571	0	2,234,723	0	320,744	0	2,321,106
Others	0	46,806	936	150,635	0	12,488	480	240,412
Total	6,311,830	1,465,381	30,784,947	7,825,040	7,209,570	2,194,549	42,254,553	9,966,057

3. GUC Worldwide Employees

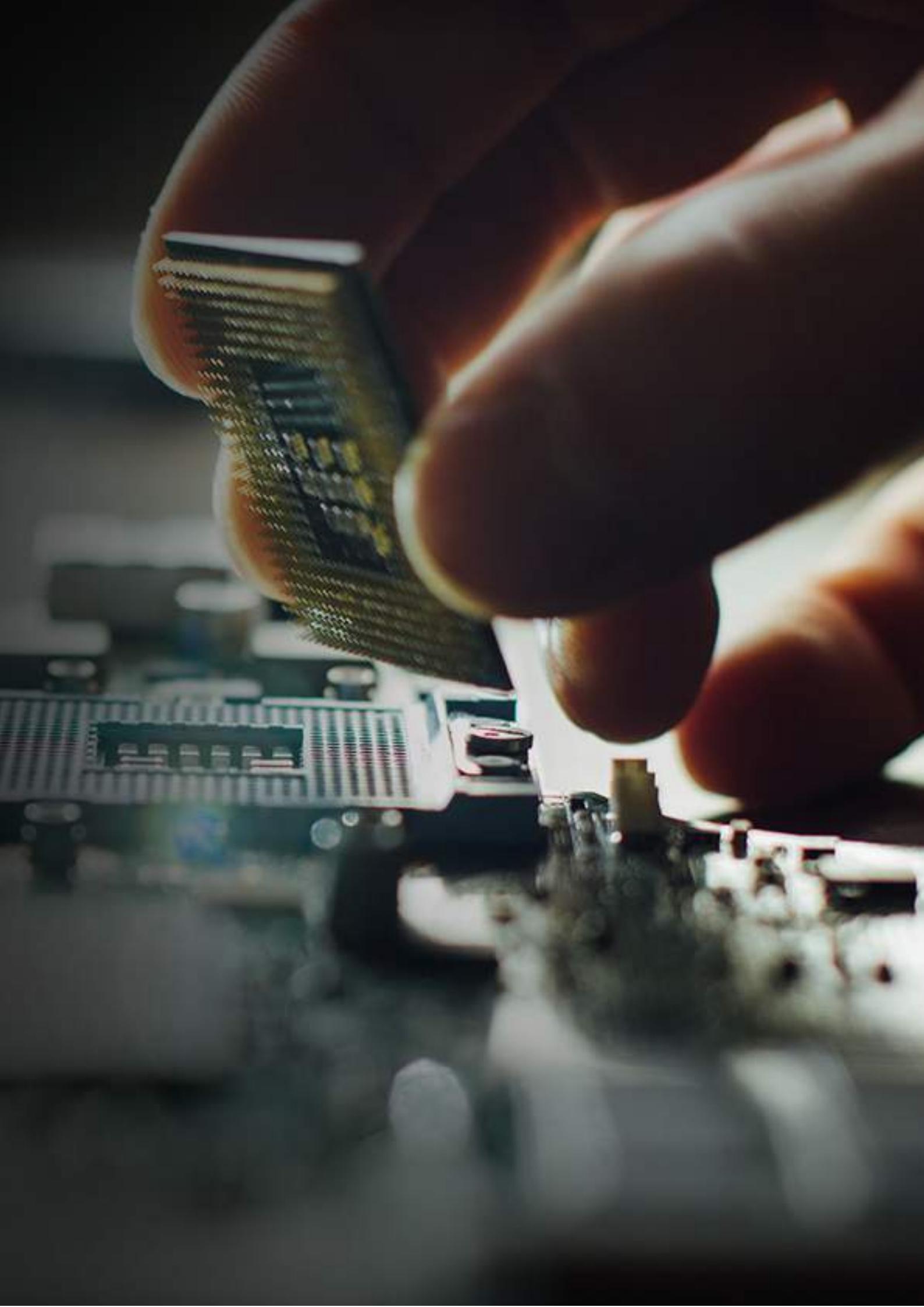
Period		2016	2017	As of 03/19/2018
Function	Managers	7	7	7
	Professionals	519	607	644
Total employees		526	614	651
Average age		38.63	38.9	38.89
Average years of seniority		5.62	5.27	5.11
Education level	Ph. D	3%	3%	3%
	Master	64%	64%	65%
	Bachelor	33%	33%	32%
	High School	0%	0%	0%

Note : Consolidated basis

5

Chapter 5

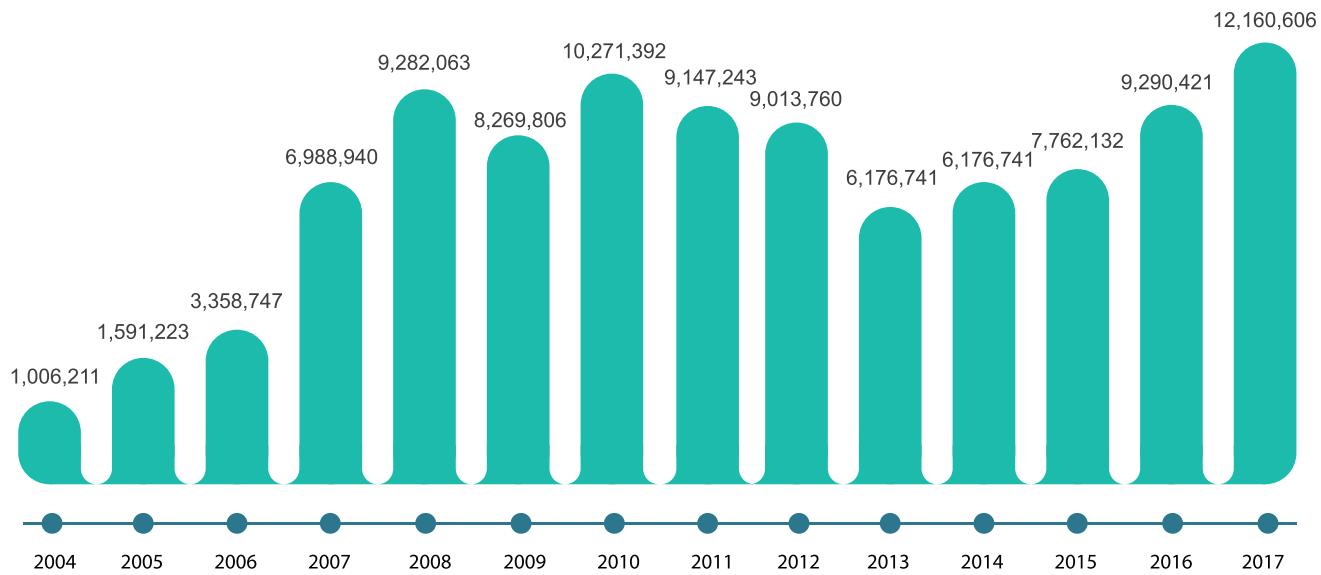
Consolidated Financial Highlights



Consolidated Financial Highlights

Revenues

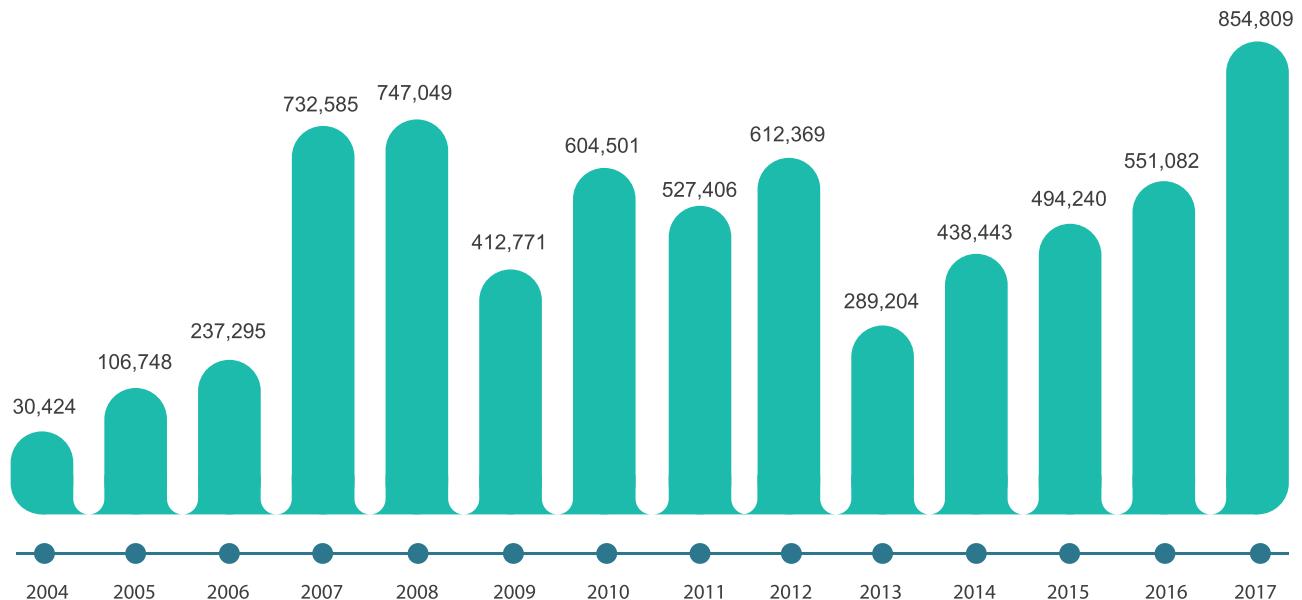
Unit : NT\$ Thousand



Note : R.O.C. GAAP (2011 and before); TIFRS (2012 and after).

Net Income

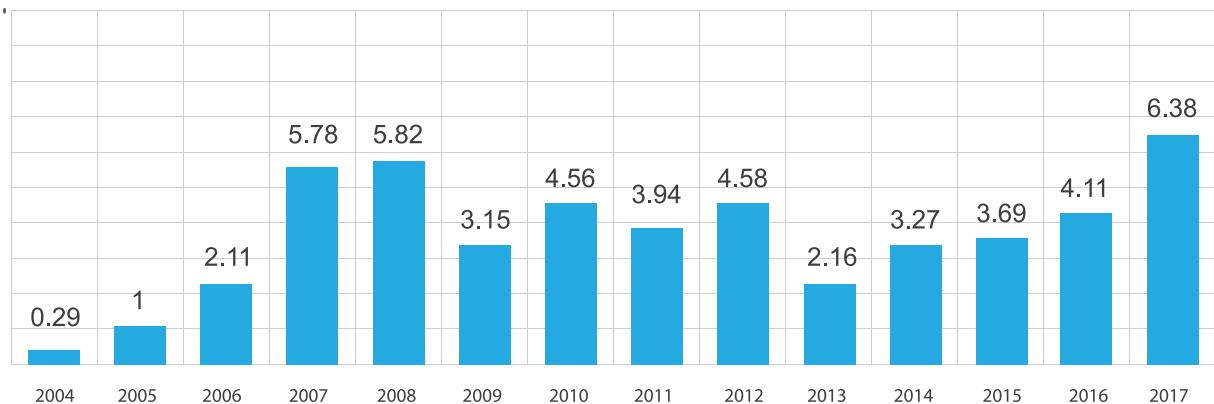
Unit : NT\$ Thousand



Note : R.O.C. GAAP (2011 and before); TIFRS (2012 and after).

Earning Per Share

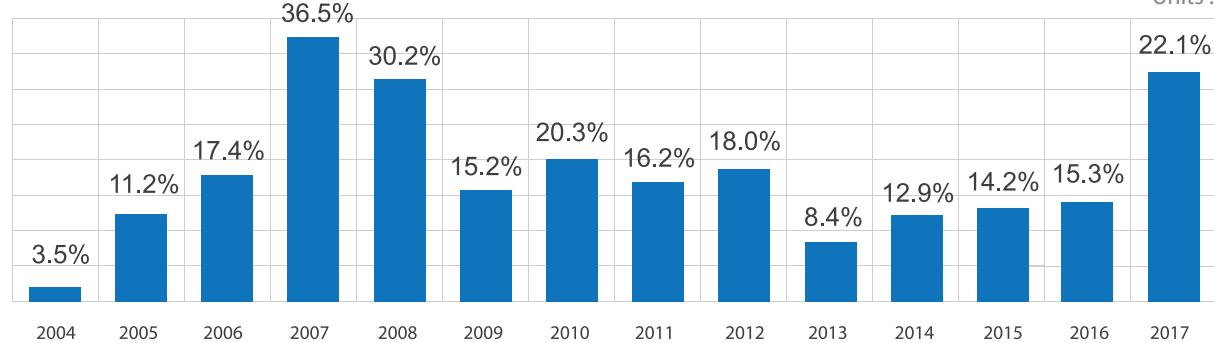
Units : NT\$



Note : R.O.C. GAAP (2011 and before); TIFRS (2012 and after).

Return On Equity

Units :



Note : R.O.C. GAAP (2011 and before); TIFRS (2012 and after).

Global Unichip Corp. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

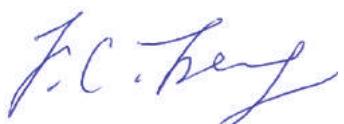
REPRESENTATION LETTER

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, 2017 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 1, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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.

Timing for revenue recognition from the sale of goods

The Company's revenue primarily consists of sale of goods and Non-Recurring Engineering (NRE) services. The Company's net revenue for the year ended December 31, 2017 was NT\$12,160,606 thousand. Please refer to Notes 4, 5 and 15 to the consolidated financial statements for the details of the information and accounting policy about revenue recognition. According to IAS 18, revenue from the sales of goods shall be recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. As some of Company's shipping terms that ownership of goods are not transferred at seller's warehouse, the risks and rewards of ownership are transferred at a different time from revenue recognition. There will be a risk that

revenue close to year-end may not be recognized in the correct period. Consequently, the timing for revenue recognition from the sale of goods was identified as a key audit matter in 2017.

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

1. Understood and tested the design and operating effectiveness of the key controls over the timing for revenue recognition from the sale of goods; and
2. Sampled and performed a detail testing of revenue recorded in the specific-day periods prior to and following the year-end in order to verify the accuracy of the timing for revenue recognition, including inspecting supporting documentation from the Company's warehouse which matched corresponding contractual terms. Obtained audit evidence based on these audit procedures to prove that the risks and rewards of the sales of goods had been transferred properly.

Valuation of inventory

Due to the current rapidly changes in technology and the highly competitive business environment, the price of products fluctuating quickly according to the changes in the net realizable value of inventory could have a material impact on the financial statements. Inventory as of December 31, 2017 was NT\$1,152,514 thousand and accounted for 14% 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, the Company complies with the inventory accounting policy and adjusts the production schedule when determining net realizable value of inventory for obsolescent and unmarketable items. 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 and tested the design and operating effectiveness 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. Understood the process of the Company's warehouse management; reviewed the Company's annual inventory physical count plan; and observed its annual inventory physical count to assess the adequacy of the methods used by management to identify and monitor its obsolescent inventory.
4. Performed a retrospective review to analyze the historical accuracy 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, 2017 and 2016 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 2017 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 1, 2018

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, 2017		December 31, 2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,090,202	62	\$ 3,950,540	61
Accounts receivable, net (Note 6)	907,709	11	740,447	11
Receivables from related parties (Note 24)	9,550	-	44,310	1
Inventories (Note 7)	1,152,514	14	727,500	11
Other financial assets	1,198	-	814	-
Other current assets (Notes 10 and 24)	<u>263,928</u>	<u>3</u>	<u>333,690</u>	<u>5</u>
Total current assets	<u>7,425,101</u>	<u>90</u>	<u>5,797,301</u>	<u>89</u>
NONCURRENT ASSETS				
Property, plant and equipment (Note 8)	473,250	6	385,302	6
Intangible assets (Note 9)	323,533	4	266,357	4
Deferred income tax assets (Note 19)	36,625	-	32,034	1
Refundable deposits (Note 24)	14,787	-	13,555	-
Pledged time deposits (Note 25)	<u>22,200</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
Total noncurrent assets	<u>870,395</u>	<u>10</u>	<u>717,248</u>	<u>11</u>
TOTAL	<u>\$ 8,295,496</u>	<u>100</u>	<u>\$ 6,514,549</u>	<u>100</u>

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

LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Accounts payable	\$ 590,192	7	\$ 397,467	6
Payables to related parties (Note 24)	1,036,014	12	975,973	15
Accrued employees' compensation and remuneration to directors (Note 21)	145,707	2	64,022	1
Payables on machinery and equipment	88,334	1	52,998	1
Current tax liabilities (Note 19)	77,948	1	36,322	1
Provisions (Note 11)	485	-	2,504	-
Customer advances (Note 24)	1,630,281	20	852,003	13
Accrued expenses and other current liabilities (Notes 12 and 24)	<u>577,145</u>	<u>7</u>	<u>346,409</u>	<u>5</u>
Total current liabilities	<u>4,146,106</u>	<u>50</u>	<u>2,727,698</u>	<u>42</u>
NONCURRENT LIABILITIES				
Deferred income tax liabilities (Note 19)	8,031	-	5,533	-
Other long-term payables (Note 12)	64,186	1	82,560	1
Net defined benefit liabilities (Note 13)	26,941	-	23,035	1
Guarantee deposits	<u>2,976</u>	<u>-</u>	<u>3,225</u>	<u>-</u>
Total noncurrent liabilities	<u>102,134</u>	<u>1</u>	<u>114,353</u>	<u>2</u>
Total liabilities	<u>4,248,240</u>	<u>51</u>	<u>2,842,051</u>	<u>44</u>
EQUITY (Note 14)				
Share capital	1,340,119	16	1,340,119	21
Capital surplus	32,513	1	29,853	-
Retained earnings				
Appropriated as legal reserve	578,411	7	523,303	8
Appropriated as special reserve	1,514	-	-	-
Unappropriated earnings	2,105,639	25	1,780,737	27
Others	<u>(10,940)</u>	<u>-</u>	<u>(1,514)</u>	<u>-</u>
Total equity	<u>4,047,256</u>	<u>49</u>	<u>3,672,498</u>	<u>56</u>
TOTAL	\$ 8,295,496	100	\$ 6,514,549	100

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

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

	2017		2016	
	Amount	%	Amount	%
NET REVENUE (Notes 15 and 24)	\$ 12,160,606	100	\$ 9,290,421	100
COST OF REVENUE (Notes 21 and 24)	8,995,509	74	6,900,914	74
GROSS PROFIT	3,165,097	26	2,389,507	26
OPERATING EXPENSES (Notes 21 and 24)				
Sales and marketing	323,785	3	357,588	4
General and administrative	282,307	2	213,703	2
Research and development	1,628,373	13	1,195,562	13
Total operating expenses	2,234,465	18	1,766,853	19
INCOME FROM OPERATIONS	930,632	8	622,654	7
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 16)	22,509	-	21,622	-
Other gains and losses (Note 17)	35,531	-	(10,220)	-
Finance costs (Note 18)	(60)	-	-	-
Total non-operating income and expenses	57,980	-	11,402	-
INCOME BEFORE INCOME TAX	988,612	8	634,056	7
INCOME TAX EXPENSE (Note 19)	133,803	1	82,974	1
NET INCOME	854,809	7	551,082	6
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Note 13)	(4,243)	-	614	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations (Note 14)	(9,426)	-	(4,740)	-
Other comprehensive income for the year, net of income tax	(13,669)	-	(4,126)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 841,140	7	\$ 546,956	6
EARNINGS PER SHARE (Note 20)				
Basic earnings per share	\$ 6.38		\$ 4.11	
Diluted earnings per share	\$ 6.35		\$ 4.09	

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)

	<u>Share Capital - Common Stock</u>		
	<u>Share (In Thousands)</u>	<u>Amount</u>	<u>Capital</u>
BALANCE, JANUARY 1, 2016	134,011	\$ 1,340,119	\$
Appropriation and distribution of prior year's earnings			
Legal reserve	-	-	
Reversal of special reserve	-	-	
Cash dividends to shareholders - NT\$3.00 per share	-	-	
Total	-	-	
Net income in 2016	-	-	
Other comprehensive income in 2016, net of income tax	-	-	
Total comprehensive income in 2016	-	-	
BALANCE, DECEMBER 31, 2016	134,011	1,340,119	
Appropriation and distribution of prior year's earnings			
Legal reserve	-	-	
Special reserve	-	-	
Cash dividends to shareholders - NT\$3.50 per share	-	-	
Total	-	-	
Other changes in capital surplus			
Donations from shareholders	-	-	
Net income in 2017	-	-	
Other comprehensive income in 2017, net of income tax	-	-	
Total comprehensive income in 2017	-	-	
BALANCE, DECEMBER 31, 2017	<u>134,011</u>	<u>\$ 1,340,119</u>	<u>\$</u>

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

Capital Surplus	Retained Earnings				Total	Others Foreign Currency Translation Reserve	Total Equity
	Legal Reserve	Special Reserve	Unappropriated Earnings				
\$ 29,853	\$ 473,879	\$ 352	\$ 1,680,149	\$ 2,154,380	\$ 3,226		\$ 3,527,578
-	49,424	-	(49,424)	-	-	-	-
-	-	(352)	352	-	-	-	-
-	-	-	(402,036)	(402,036)	-	-	(402,036)
-	49,424	(352)	(451,108)	(402,036)	-	-	(402,036)
-	-	-	551,082	551,082	-	-	551,082
-	-	-	614	614	(4,740)		(4,126)
-	-	-	551,696	551,696	(4,740)		546,956
29,853	523,303	-	1,780,737	2,304,040	(1,514)		3,672,498
-	55,108	-	(55,108)	-	-	-	-
-	-	1,514	(1,514)	-	-	-	-
-	-	-	(469,042)	(469,042)	-	-	(469,042)
-	55,108	1,514	(525,664)	(469,042)	-	-	(469,042)
2,660	-	-	-	-	-	-	2,660
-	-	-	854,809	854,809	-	-	854,809
-	-	-	(4,243)	(4,243)	(9,426)		(13,669)
-	-	-	850,566	850,566	(9,426)		841,140
\$ 32,513	\$ 578,411	\$ 1,514	\$ 2,105,639	\$ 2,685,564	\$ (10,940)		\$ 4,047,256

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 988,612	\$ 634,056
Adjustments for:		
Depreciation	89,877	77,797
Amortization	166,409	159,259
Finance costs	60	-
Interest income	(16,857)	(14,312)
Gain on disposal of property, plant and equipment, net	(4,403)	(7,730)
Gain on disposal of available-for-sale financial assets	(1,445)	(1,921)
Impairment loss on financial assets	-	15,746
Gain on foreign exchange, net	(9,378)	(5,396)
Changes in operating assets and liabilities:		
Accounts receivable	(174,653)	(153,019)
Receivables from related parties	34,760	3,974
Inventories	(425,014)	8,696
Other current assets	69,022	(60,677)
Accounts payable	192,725	155,713
Payables to related parties	60,041	662,083
Accrued employees' compensation and remuneration to directors	81,685	5,135
Provisions	(2,019)	(1,722)
Customer advances	778,278	(57,936)
Accrued expenses and other current liabilities	186,252	45,292
Net defined benefit liabilities	(337)	(750)
Cash generated from operations	<u>2,013,615</u>	<u>1,464,288</u>
Income tax paid	<u>(86,084)</u>	<u>(56,239)</u>
Net cash generated from operating activities	<u>1,927,531</u>	<u>1,408,049</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	(2,780,000)	(3,370,000)
Property, plant and equipment	(143,081)	(69,217)
Intangible assets	(188,467)	(158,930)
Proceeds from disposal of:		
Available-for-sale financial assets	2,781,445	3,371,921
Property, plant and equipment	4,495	7,950
Refundable deposits paid	(4,447)	(3,400)
Refundable deposits refunded	2,936	2,701
Increase in pledged time deposits	(2,200)	-
Interest received	<u>16,472</u>	<u>14,466</u>
Net cash used in investing activities	<u>(312,847)</u>	<u>(204,509)</u>

(Continued)

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	\$ (469,040)	\$ (402,036)
Interest paid	(60)	-
Donations from shareholders	<u>2,660</u>	<u>-</u>
Net cash used in financing activities	<u>(466,440)</u>	<u>(402,036)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>(8,582)</u>	<u>(4,288)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,139,662	797,216
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,950,540</u>	<u>3,153,324</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,090,202</u>	<u>\$ 3,950,540</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, 2017 AND 2016 (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 by the Audit Committee and authorized by the Board of Directors for issue on February 1, 2018.

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

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

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

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has transaction. If the transaction or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions were enhanced, please refer to Note 24.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

All recognized financial assets currently in the scope of IAS 39, “Financial Instruments: Recognition and Measurement,” are subsequently measured at amortized cost or the fair value. The classification and measurement requirements in IFRS 9 are stated as follows:

For the debt instruments invested by the Company that have the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, the classification and measurement requirements are stated as follows:

a) If the objective of the Company’s business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss or reversal of impairment loss should be recognized in profit and loss.

- b) If the objective of the Company's business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income and are continuously assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method. A gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss. However, the Company may irrevocably designate an investment in equity instruments that is not held for trading as measured at fair value through other comprehensive income. All relevant gains and losses shall be recognized in other comprehensive income, except for dividends which are recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed an assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Unlisted shares measured at cost will be measured at fair value instead and be classified as at fair value through profit or loss under IFRS 9.
- b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments;

IFRS 9 requires impairment loss on financial assets recognized by using the "Expected Credit Losses Model". The loss allowance is required for financial assets measured at amortized cost, and contract assets arising from IFRS 15 "Revenue from Contracts with Customers". A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Company has performed an assessment that the Company will apply the simplified approach to recognize lifetime expected credit losses for trade receivables and contract assets. In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

The Company elects not to restate prior periods when applying the requirements for the recognition, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, “Revenue,” IAS 11, “Construction Contracts,” and a number of revenue-related interpretations.

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

After application of IFRS15, NRE service is recognized when the NRE service is completed according to the contract which signed with customers. 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. Before application of IFRS15, the company recognized revenue by the stage of completion of the contract.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable will be recognized as a contract asset or a contract liability. Currently, receivable is recognized or deferred revenue is reduced when revenue is recognized for the contract under IAS 18.

Before application of IFRS 15, the company recognize sales discount and return as sales discount and return provisions. After application of IFRS 15, the company recognize sales discount and return as refund liabilities (accrued expenses and other current liabilities).

The Company elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in the retained earnings on January 1, 2018.

In addition, the Company will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Accounts receivable, net	\$ 907,709	\$ (13,392)	\$ 894,317
Contract assets - current (other financial assets)	—	13,392	13,392
Total effect on assets	<u>\$ 907,709</u>	<u>\$ —</u>	<u>\$ 907,709</u>
Contract liabilities - current	\$ —	\$ 1,630,281	\$ 1,630,281
Customer advances	1,630,281	(1,630,281)	—
Refund liabilities - current (accrued expenses and other current liabilities)	—	485	485
Provisions	485	(485)	—
Total effect on liabilities	<u>\$ 1,630,766</u>	<u>\$ —</u>	<u>\$ 1,630,766</u>

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

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

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company continuously assessing the possible impact that the application of other 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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company’s accounting policies, except for the following:

IFRS 16 “Leases”

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset and the

interest expense accrued on the lease liability that is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal of the lease liability and interest expense should present within financing activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company continuously assessing the possible impact that the application of other 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 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 2017	2016	
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%	100%	Note 1
	Global Unichip Corp. Korea (GUC-Korea)	Products consulting, design and technical support service	Korea	100%	100%	Notes 1 & 2
	Global Unichip (Nanjing) Ltd. (GUC-Nanjing)	Products consulting, design and technical support service	Nanjing, China	100%	-	Notes 1 & 3
GUC-BVI	Global Unichip (Shanghai) Company, Limited (GUC-Shanghai)	Products consulting, design and technical support service	Shanghai, China	100%	100%	Note 1

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

Note 2: Upon the approval of the Board of the Directors on August 4 2016, GUC Korea was established by GUC in November 2016.

Note 3: Upon the approval of the Board of the Directors on May 4 2017, GUC-Nanjing was established by GUC in July 2017.

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 Noncurrent 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

Financial assets are classified as available-for-sale financial assets and loans and receivables. Thus are depended at the time of initial recognition's characteristic and purpose. Convention trading of financial assets are recognized and derecognized on a settlement date basis. Convention trading purchases or sales of financial assets require delivery of assets within the time frame established by regulation or convention in the marketplace.

Available-for-sale financial assets

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

Open-end mutual funds held by the Company that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value at the end of each reporting period. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Fair value of open-end mutual funds is determined by the financial institution using the net assets value at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalents, notes and accounts receivable (including related parties) and other receivables are measured at amortized cost using the effective interest method less any impairment, except for those receivables with immaterial discounted effect.

Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by evaluating the current financial condition of customers, historical experience and by performing account aging analysis. In the aging analysis, poor credit quality customers with balances past due for over 90 days should all be recognized an allowance for doubtful receivable.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced by using an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

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 in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity 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 and Assets Leased to Others

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

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 transfer 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.

Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Revenue Recognition

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

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

Rendering of Non-Recurring Engineering (NRE) services

Revenue from a contract to provide NRE services is recognized by reference to the stage of completion of the contract.

Interest Income

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

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

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

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, net operating loss carryforwards and unused R&D tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences 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.

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.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue Recognition

The Company recognizes revenue 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.

Impairment of Accounts Receivable

Accounts receivable are considered to be impaired when there is objective evidence of uncollectibility; the Company will consider the estimated future cash flows to determine the impairment. The Company assesses the collectability of receivables by evaluating the current financial condition of customers, historical experience and by performing account aging analysis; the amount of impairment loss is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate. It might be a critical impairment loss if the actual future cash flows are less than estimated future cash flows. In the aging analysis, poor credit quality customers with balances past due for over 90 days should all be recognized an allowance for doubtful receivable.

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.

6. ACCOUNTS RECEIVABLE, NET

	December 31	
	2017	2016
Accounts receivable	\$ 907,709	\$ 740,447

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 assesses the collectability of receivables by evaluating the current financial condition of customers, historical experience and by performing account aging analysis. In the aging analysis, poor credit quality customers with balances past due for over 90 days, should all be recognized an allowance for doubtful receivable. As of December 31, 2017 and 2016, the Company's allowance for doubtful receivables was zero.

Accounts receivable, aging analysis at the end of the reporting period is summarized in the following table. Accounts receivable include amounts that are past due but for which the Company has not recognized an allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

Aging analysis of accounts receivable

	December 31	
	2017	2016
Neither past due nor impaired	\$ 796,075	\$ 698,989
Past due but not impaired		
Past due within 1-30 days	107,230	38,960
Past due within 31-60 days	4,404	211
Past due within 61-90 days	-	2,287
	<u>\$ 907,709</u>	<u>\$ 740,447</u>

7. INVENTORIES

	December 31	
	2017	2016
Finished goods	\$ 86,932	\$ 133,234
Work in process	912,267	399,995
Raw materials	<u>153,315</u>	<u>194,271</u>
	<u>\$ 1,152,514</u>	<u>\$ 727,500</u>

Write-down of inventories to net realizable value and reversal of inventory losses were included in the cost of revenue, which were as follows.

	Years Ended December 31	
	2017	2016
Reversal of inventory losses (inventory losses)	<u>\$ (7,569)</u>	<u>\$ 3,549</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, 2017	\$ 242,923	\$ 4,499	\$ 609,098	\$ 4,978	\$ 21,161	\$ 273,709	\$ 1,156,368
Additions	-	19,301	126,542	4,412	3,591	24,690	178,536
Disposals	-	(370)	(30,586)	-	(415)	(3,530)	(34,901)
Effect of exchange rate changes	-	-	(345)	-	(130)	(1,204)	(1,679)
Balance at December 31, 2017	<u>\$ 242,923</u>	<u>\$ 23,430</u>	<u>\$ 704,709</u>	<u>\$ 9,390</u>	<u>\$ 24,207</u>	<u>\$ 293,665</u>	<u>\$ 1,298,324</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ 59,031	\$ 2,418	\$ 449,514	\$ 4,506	\$ 19,963	\$ 235,634	\$ 771,066
Depreciation	4,766	1,263	68,219	877	513	14,239	89,877
Disposals	-	(370)	(30,586)	-	(415)	(3,438)	(34,809)
Effect of exchange rate changes	-	-	(315)	-	(133)	(612)	(1,060)
Balance at December 31, 2017	<u>\$ 63,797</u>	<u>\$ 3,311</u>	<u>\$ 486,832</u>	<u>\$ 5,383</u>	<u>\$ 19,928</u>	<u>\$ 245,823</u>	<u>\$ 825,074</u>
Carrying amount at December 31, 2017	<u>\$ 179,126</u>	<u>\$ 20,119</u>	<u>\$ 217,877</u>	<u>\$ 4,007</u>	<u>\$ 4,279</u>	<u>\$ 47,842</u>	<u>\$ 473,250</u>

(Continued)

	Buildings	Machinery and Equipment	Research and Development Equipment	Transportation Equipment	Office Equipment	Miscellaneous Equipment	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 242,923	\$ 3,216	\$ 580,170	\$ 4,978	\$ 20,923	\$ 269,800	\$ 1,122,010
Additions	-	2,052	99,138	-	644	4,306	106,140
Disposals	-	(769)	(70,131)	-	(250)	-	(71,150)
Effect of exchange rate changes	-	-	(79)	-	(156)	(397)	(632)
Balance at December 31, 2016	<u>\$ 242,923</u>	<u>\$ 4,499</u>	<u>\$ 609,098</u>	<u>\$ 4,978</u>	<u>\$ 21,161</u>	<u>\$ 273,709</u>	<u>\$ 1,156,368</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	\$ 54,265	\$ 2,657	\$ 465,177	\$ 4,070	\$ 19,798	\$ 218,700	\$ 764,667
Depreciation	4,766	310	54,525	436	557	17,203	77,797
Disposals	-	(549)	(70,131)	-	(250)	-	(70,930)
Effect of exchange rate changes	-	-	(57)	-	(142)	(269)	(468)
Balance at December 31, 2016	<u>\$ 59,031</u>	<u>\$ 2,418</u>	<u>\$ 449,514</u>	<u>\$ 4,506</u>	<u>\$ 19,963</u>	<u>\$ 235,634</u>	<u>\$ 771,066</u>
Carrying amount at December 31, 2016	<u>\$ 183,892</u>	<u>\$ 2,081</u>	<u>\$ 159,584</u>	<u>\$ 472</u>	<u>\$ 1,198</u>	<u>\$ 38,075</u>	<u>\$ 385,302</u>

(Concluded)

9. INTANGIBLE ASSETS

	Software	Technology License Fees	Patents	Total
<u>Cost</u>				
Balance at January 1, 2017	\$ 594,129	\$ 6,000	\$ 519	\$ 600,648
Additions	223,585	-	-	223,585
Disposals	<u>(130,548)</u>	<u>-</u>	<u>-</u>	<u>(130,548)</u>
Balance at December 31, 2017	<u>\$ 687,166</u>	<u>\$ 6,000</u>	<u>\$ 519</u>	<u>\$ 693,685</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2017	\$ 327,924	\$ 6,000	\$ 367	\$ 334,291
Amortization	166,381	-	28	166,409
Disposals	<u>(130,548)</u>	<u>-</u>	<u>-</u>	<u>(130,548)</u>
Balance at December 31, 2017	<u>\$ 363,757</u>	<u>\$ 6,000</u>	<u>\$ 395</u>	<u>\$ 370,152</u>
Carrying amount at December 31, 2017	<u>\$ 323,409</u>	<u>\$ -</u>	<u>\$ 124</u>	<u>\$ 323,533</u>
<u>Cost</u>				
Balance at January 1, 2016	\$ 544,178	\$ 18,831	\$ 519	\$ 563,528
Additions	270,265	-	-	270,265
Disposals	<u>(220,314)</u>	<u>(12,831)</u>	<u>-</u>	<u>(233,145)</u>
Balance at December 31, 2016	<u>\$ 594,129</u>	<u>\$ 6,000</u>	<u>\$ 519</u>	<u>\$ 600,648</u>

(Continued)

	Software	Technology License Fees	Patents	Total
<u>Accumulated amortization</u>				
Balance at January 1, 2016	\$ 392,958	\$ 14,880	\$ 339	\$ 408,177
Amortization	155,280	3,951	28	159,259
Disposals	(220,314)	(12,831)	-	(233,145)
Balance at December 31, 2016	<u>\$ 327,924</u>	<u>\$ 6,000</u>	<u>\$ 367</u>	<u>\$ 334,291</u>
Carrying amount at December 31, 2016	<u>\$ 266,205</u>	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ 266,357</u> (Concluded)

10. OTHER CURRENT ASSETS

	December 31	
	2017	2016
Tax receivable	\$ 107,070	\$ 67,887
Prepayment for purchases	96,602	208,205
Prepaid expenses	40,161	29,387
Temporary payments	15,478	10,701
Prepaid license fees	4,497	16,670
Prepaid income tax	120	840
	<u>\$ 263,928</u>	<u>\$ 333,690</u>

11. PROVISIONS

	Years Ended December 31	
	2017	2016
Balance, beginning of year	\$ 2,504	\$ 4,226
Additional provisions recognized	485	-
Write off	(2,504)	(1,722)
Balance, end of year	<u>\$ 485</u>	<u>\$ 2,504</u>

Provisions for sales allowances are estimated based on management judgment, historical experience, and any known factors that would significantly affect the allowances, and are recognized as a reduction of revenue in the same year of the related product sales.

12. OTHER LIABILITIES

	December 31	
	2017	2016
<u>Current</u>		
Payable for salaries and bonuses	\$ 184,685	\$ 86,065
License fees payable	149,877	105,395
Payable for royalties	12,749	19,306
Others	<u>229,834</u>	<u>135,643</u>
	<u><u>\$ 577,145</u></u>	<u><u>\$ 346,409</u></u>
<u>Non-current</u>		
License fees payable	<u><u>\$ 64,186</u></u>	<u><u>\$ 82,560</u></u>

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\$42,785 thousand and NT\$38,180 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016, 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	
	2017	2016
Present value of defined benefit obligation	\$ 60,860	\$ 55,001
Fair value of plan assets	<u>(33,919)</u>	<u>(31,966)</u>
Net defined benefit liabilities	<u><u>\$ 26,941</u></u>	<u><u>\$ 23,035</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, 2016	<u>\$ 54,398</u>	<u>\$ (29,999)</u>	<u>\$ 24,399</u>
Service cost			
Current service cost	520	-	520
Net interest expense (income)	<u>952</u>	<u>(540)</u>	<u>412</u>
Recognized in profit or loss	<u>1,472</u>	<u>(540)</u>	<u>932</u>
Remeasurement			
Return on plan assets	-	255	255
Actuarial loss - changes in demographic assumptions	129	-	129
Actuarial loss - changes in financial assumptions	2,112	-	2,112
Actuarial gain - experience adjustments	<u>(3,110)</u>	<u>-</u>	<u>(3,110)</u>
Recognized in other comprehensive income	<u>(869)</u>	<u>255</u>	<u>(614)</u>
Contributions from the employer	-	(1,682)	(1,682)
Balance at December 31, 2016	<u>55,001</u>	<u>(31,966)</u>	<u>23,035</u>
Service cost			
Current service cost	1,021	-	1,021
Net interest expense (income)	<u>825</u>	<u>(494)</u>	<u>331</u>
Recognized in profit or loss	<u>1,846</u>	<u>(494)</u>	<u>1,352</u>
Remeasurement			
Return on plan assets	-	230	230
Actuarial loss - changes in demographic assumptions	1,209	-	1,209
Actuarial loss - changes in financial assumptions	2,214	-	2,214
Actuarial loss - experience adjustments	<u>590</u>	<u>-</u>	<u>590</u>
Recognized in other comprehensive income	<u>4,013</u>	<u>230</u>	<u>4,243</u>
Contributions from the employer	-	(1,689)	(1,689)
Balance at December 31, 2017	<u>\$ 60,860</u>	<u>\$ (33,919)</u>	<u>\$ 26,941</u>

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	
	2017	2016
General and administrative expenses	<u>\$ 1,352</u>	<u>\$ 932</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	
	2017	2016
Discount rate	1.25%	1.50%
Expected rate of salary increase	3.00%	3.00%
Turnover rate	3.06%	3.40%

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	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (2,267)</u>	<u>\$ (2,116)</u>
0.25% decrease	<u>\$ 2,375</u>	<u>\$ 2,218</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 2,325</u>	<u>\$ 2,179</u>
0.25% decrease	<u>\$ (2,233)</u>	<u>\$ (2,090)</u>
Turnover rate		
10% increase	<u>\$ (943)</u>	<u>\$ (1,076)</u>
10% decrease	<u>\$ 964</u>	<u>\$ 1,103</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	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 1,885</u>	<u>\$ 1,865</u>
The average duration of the defined benefit obligation	15 years	16 years

The maturity analysis of undiscounted pension benefit is as follows:

	December 31	
	2017	2016
Later than 1 year and not later than 5 years	\$ 2,493	\$ 1,782
Later than 5 years	<u>\$ 70,091</u>	<u>\$ 83,705</u>
	<u>\$ 72,584</u>	<u>\$ 85,487</u>

14. EQUITY

a. Share capital

	December 31	
	2017	2016
Authorized	\$ 1,500,000	\$ 1,500,000
Issued	<u>\$ 1,340,119</u>	<u>\$ 1,340,119</u>

As of December 31, 2017 and 2016 the authorized shares are 150,000 thousand shares, with par value of \$10 per share is entitled the right to vote and to receive dividends; issued and paid shares were 134,011 thousand shares.

b. Capital surplus

	December 31	
	2017	2016
From merger	\$ 16,621	\$ 16,621
Additional paid-in capital	13,232	13,232
Donations	<u>2,660</u>	—
	<u>\$ 32,513</u>	<u>\$ 29,853</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.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The amendments to GUC's Articles of Incorporation on profits distribution and the employees' compensation and remuneration to directors policy was approved by GUC's shareholders in their meeting held on May 26, 2016. Please refer to the policy of employee compensation and remuneration to directors in Note 21.

GUC's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, GUC shall first offset its losses in previous years and then 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 according to the resolution in the shareholders' meeting.

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 2016 and 2015 were approved in GUC shareholders' meetings held on May 18, 2017 and May 26, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2016	For Fiscal Year 2015	For Fiscal Year 2016	For Fiscal Year 2015
Legal reserve	\$ 55,108	\$ 49,424		
Special reserve (reversal)	1,514	(352)		
Cash dividends to shareholders	<u>469,042</u>	<u>402,036</u>	\$ 3.50	\$ 3.00
	<u><u>\$ 525,664</u></u>	<u><u>\$ 451,108</u></u>		

GUC's appropriations of earnings for 2017 was approved in the Board of Directors meeting held on February 1, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
	For Fiscal Year 2017	For Fiscal Year 2016
Legal reserve	\$ 85,481	
Special reserve	9,426	
Cash dividends to shareholders	<u>670,060</u>	\$ 5.00
	<u><u>\$ 764,967</u></u>	

The appropriations of earnings for 2017 are to be resolved in the GUC shareholders' meeting which is expected to be held on May 17, 2018.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by GUC.

d. Others

Changes in foreign currency translation reserve were as follows:

	Years Ended December 31	
	2017	2016
Balance, beginning of year	\$ (1,514)	\$ 3,226
Exchange differences on translation of foreign operations	<u>(9,426)</u>	<u>(4,740)</u>
Balance, end of year	<u><u>\$ (10,940)</u></u>	<u><u>\$ (1,514)</u></u>

The exchange differences on translation of foreign operation's net assets from its functional currency to the Company'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	
	2017	2016
Net revenue from sale of goods	\$ 9,265,856	\$ 6,563,686
Net revenue from NRE service	<u>2,894,750</u>	<u>2,726,735</u>
	<u><u>\$ 12,160,606</u></u>	<u><u>\$ 9,290,421</u></u>

16. OTHER INCOME

	Years Ended December 31	
	2017	2016
Interest income		
Bank deposits	\$ 16,857	\$ 14,312
Government grants	645	-
Income (expenses) of rental assets		
Rental income	467	467
Depreciation of rental assets	(4)	(4)
Other income	<u>4,544</u>	<u>6,847</u>
	<u><u>\$ 22,509</u></u>	<u><u>\$ 21,622</u></u>

17. OTHER GAINS AND LOSSES

	Years Ended December 31	
	2017	2016
Gain on disposal of property, plant and equipment, net	\$ 4,403	\$ 7,730
Gain on disposal of available-for-sale financial assets	1,445	1,921
Foreign exchange gain (loss), net	29,683	(4,125)
Impairment loss on financial assets - financial assets measured at cost	<u>-</u>	<u>(15,746)</u>
	<u><u>\$ 35,531</u></u>	<u><u>\$ (10,220)</u></u>

18. FINANCE COSTS

	Years Ended December 31	
	2017	2016
Interest expense		
Bank loans	\$ 60	\$ -

19. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	Years Ended December 31	
	2017	2016
Current income tax expense		
Current tax expense recognized in the current period	\$ 126,065	\$ 77,383
Income tax on unappropriated earnings	2,603	4,132
Income tax adjustments on prior years	<u>7,083</u>	<u>(1,503)</u>
	<u>135,751</u>	<u>80,012</u>
Deferred income tax expense (benefit)		
Temporary differences	(57)	2,827
Operating loss carryforwards	<u>(1,891)</u>	<u>135</u>
	<u>(1,948)</u>	<u>2,962</u>
Income tax expense recognized in profit or loss	<u>\$ 133,803</u>	<u>\$ 82,974</u>

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

	Years Ended December 31	
	2017	2016
Income before tax	<u>\$ 988,612</u>	<u>\$ 634,056</u>
Income tax expense at the statutory rate	\$ 178,348	\$ 114,364
Tax effect of adjusting items:		
Nondeductible items in determining taxable income	(6,028)	(4,981)
Tax-exempt income	(34,387)	(20,925)
Investment tax credits used	(13,816)	(8,113)
Additional income tax on unappropriated earnings	2,603	4,132
Income tax adjustments on prior years	<u>7,083</u>	<u>(1,503)</u>
Income tax expense recognized in profit or loss	<u>\$ 133,803</u>	<u>\$ 82,974</u>

The Company applied a tax rate of 17% for entities subject to the Income Tax Law of the Republic of China; for other jurisdictions, the Company measures taxes by using the applicable tax rate for each individual jurisdiction.

In January 2018, it was announced that the Income Tax Law in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by NT\$5,976 thousand and NT\$9,923 thousand, respectively, in 2018.

b. Deferred income tax balance

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

	December 31	
	2017	2016
<u>Deferred income tax assets</u>		
Temporary differences		
Share of loss of subsidiaries accounted for using equity method	\$ 21,122	\$ 20,350
Write-down of inventory	2,322	1,035
Provisions	82	426
Others	11,111	10,126
Operating loss carryforwards	<u>1,988</u>	<u>97</u>
	<u><u>\$ 36,625</u></u>	<u><u>\$ 32,034</u></u>

Deferred income tax liabilities

Temporary differences	\$ (8,031)	\$ (5,533)
Share of profit of subsidiaries accounted for using equity method	<u><u>\$ (8,031)</u></u>	<u><u>\$ (5,533)</u></u>

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

Year ended December 31, 2017

	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	\$ 20,350	\$ 772	\$ -	\$ 21,122
Write-down of inventory	1,035	1,287	-	2,322
Provisions	426	(344)	-	82
Others	10,126	840	145	11,111
Operating loss carryforwards	<u>97</u>	<u>1,891</u>	<u>-</u>	<u>1,988</u>
	<u><u>\$ 32,034</u></u>	<u><u>\$ 4,446</u></u>	<u><u>\$ 145</u></u>	<u><u>\$ 36,625</u></u>

Year ended December 31, 2016

	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	\$ 20,773	\$ (423)	\$ -	\$ 20,350
Write-down of inventory	2,379	(1,344)	-	1,035
Provisions	718	(292)	-	426
Others	16,091	(6,212)	247	10,126
Operating loss carryforwards	<u>246</u>	<u>(142)</u>	<u>(7)</u>	<u>97</u>
	<u>\$ 40,207</u>	<u>\$ (8,413)</u>	<u>\$ 240</u>	<u>\$ 32,034</u>

Year ended December 31, 2017

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred income tax liabilities</u>			
Temporary differences			
Share of profit of subsidiaries accounted for using equity method	<u>\$ (5,533)</u>	<u>\$ (2,498)</u>	<u>\$ (8,031)</u>

Year ended December 31, 2016

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred income tax liabilities</u>			
Temporary differences			
Share of profit of subsidiaries accounted for using equity method	<u>\$ (10,984)</u>	<u>\$ 5,451</u>	<u>\$ (5,533)</u>

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

As of December 31, 2017 and 2016, the aggregate deductible temporary differences for which no deferred income tax assets have been recognized amounted to NT\$1,860 thousand and NT\$257 thousand, respectively.

d. Information about loss carryforwards and tax exemption

As of December 31, 2017, 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 2005 and 2006	2013 to 2017
Construction and expansion of 2007 and 2008	2015 to 2019
Construction and expansion of 2009	2016 to 2020

As of December 31, 2017, operating loss carryforwards of GUC-Nanjing has imputation credits that can be used until 2022.

e. Integrated income tax information

	December 31	
	2017	2016
Balance of the Imputation Credit Account - GUC	\$ <u>185,879</u>	\$ <u>170,179</u>
Years Ended December 31		
	2017 (Expected)	2016
Creditable ratio for distribution of earnings	Note	11.58%

Note: Since the amended Income Tax Act announced in January 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in 2018 is expected.

f. Income tax examination

The tax authorities have examined income tax returns of GUC through 2015.

20. EARNINGS PER SHARE

	Years Ended December 31	
	2017	2016
Basic EPS	\$ <u>6.38</u>	\$ <u>4.11</u>
Diluted EPS	\$ <u>6.35</u>	\$ <u>4.09</u>

EPS is computed as follows:

	Amounts (Numerator)	Number of Shares (Denominator) (In Thousands)	EPS (NT\$)
<u>Year ended December 31, 2017</u>			
Basic EPS			
Net income available to common shareholders	\$ 854,809	134,011	<u>\$6.38</u>
Effect of dilutive potential common stock	<u> </u> -	<u> </u> 603	
Diluted EPS			
Net income available to common shareholders (including effect of dilutive potential common stock)	<u>\$ 854,809</u>	<u>134,614</u>	<u>\$6.35</u>
<u>Year ended December 31, 2016</u>			
Basic EPS			
Net income available to common shareholders	\$ 551,082	134,011	<u>\$4.11</u>
Effect of dilutive potential common stock	<u> </u> -	<u> </u> 840	
Diluted EPS			
Net income available to common shareholders (including effect of dilutive potential common stock)	<u>\$ 551,082</u>	<u>134,851</u>	<u>\$4.09</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	
	2017	2016
a. Depreciation of property, plant and equipment		
Recognized in cost of revenue	\$ 2,814	\$ 1,741
Recognized in operating expenses	87,059	76,052
Recognized in other income - depreciation of rental assets	<u> </u> 4	<u> </u> 4
	<u>\$ 89,877</u>	<u>\$ 77,797</u>

	Years Ended December 31	
	2017	2016
b. Amortization of intangible assets		
Recognized in cost of revenue	\$ 3,090	\$ 2,683
Recognized in sales and marketing expenses	-	-
Recognized in general and administrative expenses	4,995	6,781
Recognized in research and development expenses	<u>158,324</u>	<u>149,795</u>
	<u><u>\$ 166,409</u></u>	<u><u>\$ 159,259</u></u>
c. Research and development costs expensed as occurred	<u><u>\$ 1,628,373</u></u>	<u><u>\$ 1,195,562</u></u>
d. Employee benefits expenses		
Post-employment benefits (Note 13)		
Defined contribution plans	\$ 42,785	\$ 38,180
Defined benefit plans	<u>1,352</u>	<u>932</u>
	<u>44,137</u>	<u>39,112</u>
Other employee benefits	<u>1,588,571</u>	<u>1,279,443</u>
	<u><u>\$ 1,632,708</u></u>	<u><u>\$ 1,318,555</u></u>
Employee benefits expense summarized by function		
Recognized in cost of revenue	\$ 186,979	\$ 145,357
Recognized in operating expenses	<u>1,445,729</u>	<u>1,173,198</u>
	<u><u>\$ 1,632,708</u></u>	<u><u>\$ 1,318,555</u></u>

GUC shall allocate employees' compensation and remuneration to directors of 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 2017 and 2016, GUC accrued employees' compensation and remuneration to directors had been approved in the Board of Directors meeting held on February 1, 2018 and February 9, 2017, respectively, and were based on a 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	
	2017	2016
Employees' compensation	\$ 133,501	\$ 59,705
Remuneration to directors	12,206	4,317

The aforementioned amount is the same as the amount which had been charged against expenses of 2017 and 2016, 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\$55,089 thousand and NT\$3,798 thousand in cash for 2015 was approved by the Board of Directors in their meetings held on February 4, 2016. The employees' compensation and remuneration to directors in cash for 2015 was reported to GUC's shareholders in its meeting held on May 26, 2016, after the amended GUC's Articles of Incorporation had been approved. The aforementioned approved amounts did not have any difference with the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

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

22. 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.

23. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Loans and receivables		
Cash and cash equivalents	\$ 5,090,202	\$ 3,950,540
Accounts receivable, net (including related parties)	917,259	784,757
Other financial assets	1,198	814
Refundable deposits	719	433
Pledged time deposits	<u>22,200</u>	<u>20,000</u>
	<u>\$ 6,031,578</u>	<u>\$ 4,756,544</u>
	(Continued)	

	December 31	
	2017	2016
<u>Financial liabilities</u>		
Measured at amortized cost		
Accounts payable (including related parties)	\$ 1,626,206	\$ 1,373,440
Payables on machinery and equipment	88,334	52,998
Accrued expenses and other current liabilities	252,689	127,357
Other long-term payables	214,063	187,955
Guarantee deposits	<u>2,976</u>	<u>3,225</u>
	<u><u>\$ 2,184,268</u></u>	<u><u>\$ 1,744,975</u></u>
		(Concluded)

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 Audit Committees 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, 2017 and 2016 would have decreased by NT\$43,992 thousand and increased by NT\$22,925 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, 2017 and 2016, the Company's ten largest customers accounted for 70% and 38% 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, 2017 and 2016, the unused financing facilities of the Company amounted to NT\$1,600,000 thousand.

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, 2017</u>				
Accounts payable (including related parties)	\$ 1,626,206	\$ -	\$ -	\$ 1,626,206
Payables on machinery and equipment	88,334	-	-	88,334
Accrued expenses and other current liabilities	252,689	-	-	252,689
Other long-term payables	149,877	64,186	-	214,063
Guarantee deposits	-	-	2,976	2,976
	<u>\$ 2,117,106</u>	<u>\$ 64,186</u>	<u>\$ 2,976</u>	<u>\$ 2,184,268</u>
<u>December 31, 2016</u>				
Accounts payable (including related parties)	\$ 1,373,440	\$ -	\$ -	\$ 1,373,440
Payables on machinery and equipment	52,998	-	-	52,998
Accrued expenses and other current liabilities	127,357	-	-	127,357
Other long-term payables	105,395	82,560	-	187,955
Guarantee deposits	-	-	3,225	3,225
	<u>\$ 1,659,190</u>	<u>\$ 82,560</u>	<u>\$ 3,225</u>	<u>\$ 1,744,975</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.

24. 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

b. Operating transactions

Items	Related Party Name and Categories	Years Ended December 31	
		2017	2016
Net revenue from sale	Investor that have significant influence over the company	\$ 74,330	\$ 150,755
	Other related parties	<u>-</u>	<u>194</u>
		<u><u>\$ 74,330</u></u>	<u><u>\$ 150,949</u></u>
Purchases	Investor that have significant influence over the company		
	TSMC	\$ 5,794,950	\$ 4,031,166
	Other	<u>524,558</u>	<u>426,369</u>
		<u>6,319,508</u>	<u>4,457,535</u>
	Other related parties	<u>42,258</u>	<u>32,552</u>
		<u><u>\$ 6,361,766</u></u>	<u><u>\$ 4,490,087</u></u>
Manufacturing overhead	Investor that have significant influence over the company		
	TSMC	\$ 588,533	\$ 533,714
	TSMC-NA	<u>433,687</u>	<u>334,896</u>
		<u><u>\$ 1,022,220</u></u>	<u><u>\$ 868,610</u></u>
Operating expenses	Investor that have significant influence over the company	<u><u>\$ 11,585</u></u>	<u><u>\$ 10,985</u></u>

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

Items	Related Party Name and Categories	December 31	
		2017	2016
Receivables from related parties	Investor that have significant influence over the company TSMC Other related parties	\$ 9,550 - \$ 9,550	\$ 44,175 135 \$ 44,310
Other current assets	Investor that have significant influence over the company TSMC TSMC-NA	\$ 96,602 - \$ 96,602	\$ 155,010 53,195 \$ 208,205
Refundable deposits	Investor that have significant influence over the company	\$ 438	\$ 474
Payables to related parties	Investor that have significant influence over the company TSMC TSMC-NA Other related parties	\$ 779,361 245,796 1,025,157 10,857 \$ 1,036,014	\$ 931,657 37,224 968,881 7,092 \$ 975,973
Customer advances	Investor that have significant influence over the company	\$ 6,785	\$ 12,338
Accrued expenses and other current liabilities	Investor that have significant influence over the company	\$ 128	\$ 103

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 of 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 of when the invoice is issued.

The Company leased office from related parties. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expense was classified under operating expenses.

c. Compensation of key management personnel:

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

	Years Ended December 31	
	2017	2016
Short-term employee benefits	\$ 79,229	\$ 65,707
Post-employment benefits	<u>540</u>	<u>705</u>
	<u>\$ 79,769</u>	<u>\$ 66,412</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.

25. PLEDGED OR MORTGAGED ASSETS

As of December 31, 2017 and 2016 GUC provided pledged time deposits of NT\$20,000 thousand as collateral for customs clearance, as of December 31, 2017 GUC also provided pledged time deposits of NT\$2,200 thousand as collateral for lease a parcel of land from the Science Park Administration (SPA).

26. OPERATING LEASE ARRANGEMENTS

The Company's major significant operating leases are arrangements on several parcels of land and office premises.

The Company's expenses for lease payments were as follows:

	Years Ended December 31	
	2017	2016
Minimum lease payments	<u>\$ 29,618</u>	<u>\$ 25,851</u>

Future minimum lease payments under the above non-cancellable operating leases are as follows:

	December 31	
	2017	2016
Not later than 1 year	\$ 52,637	\$ 17,138
Later than 1 year and not later than 5 years	<u>112,402</u>	<u>35,234</u>
	<u>\$ 165,039</u>	<u>\$ 52,372</u>

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\$4,000 thousand, US\$2,250 thousand, and US\$9,400 thousand to the counter parties in the period from July 2017 to July 2020, December 2017 to December 2020, and since December 2017, 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, 2017</u>			
Monetary items of financial assets			
USD	\$ 75,036	29.76	\$ 2,233,084
Monetary items of financial liabilities			
USD	59,513	29.76	1,771,116
JPY	55,688	0.2642	14,713
RMB	912	4.5545	4,153
EUR	85	35.57	3,030

December 31, 2016

Monetary items of financial assets			
USD	41,891	32.25	1,350,972
Monetary items of financial liabilities			
USD	48,534	32.25	1,565,206
JPY	35,001	0.2756	9,646
RMB	1,104	4.6490	5,134

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	
		2017	2016
		Net Foreign Exchange Gain (Loss)	Net Foreign Exchange Gain (Loss)
USD	30.4315 (USD:NTD)	\$ 30,125	\$ (6,470)
RMB	4.4952 (RMB:NTD)	633	866
JPY	0.2713 (JPY:NTD)	581	861
KRW	0.02713 (KRW:NTD)	(11)	(121)
EUR	34.3520 (EUR:NTD)	(208)	125
USD	1,118.2816 (USD:KRW)	(125)	-
USD	6.7708 (USD:RMB)	<u>(1,312)</u>	<u>614</u>
		<u>\$ 29,683</u>	<u>\$ (4,125)</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.

a. Geographic information

	Net Revenue from External Customer		Non-current Assets	
	Years Ended December 31		December 31	
	2017	2016	2017	2016
China	\$ 4,062,516	\$ 2,024,953	\$ 8,639	\$ 97
United States	2,518,682	2,178,242	6,466	9,095
Taiwan	2,194,549	1,465,381	776,227	638,340
Europe	1,307,224	1,020,896	1,152	1,373
Korea	1,151,412	1,008,717	1,726	-
Japan	926,223	1,592,232	2,573	2,754
	<u>\$ 12,160,606</u>	<u>\$ 9,290,421</u>	<u>\$ 796,783</u>	<u>\$ 651,659</u>

The geographic information is presented by customer regions. Non-current assets include property, plant and equipment and intangible assets, but exclude financial instrument and deferred income tax assets.

b. Production information

Production	Years Ended December 31	
	2017	2016
ASIC and wafer product	\$ 9,265,856	\$ 6,563,686
NRE	2,641,850	2,529,294
Multiple-Project Wafer	2,474	3,278
Others	<u>250,426</u>	<u>194,163</u>
	<u>\$ 12,160,606</u>	<u>\$ 9,290,421</u>

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

	Years Ended December 31			
	2017	2016	2017	2016
	Amount	%	Amount	%
Customer A	\$ 1,786,206	15	\$ (Note)	-

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, 2017****(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, 2017			Note
				Shares	Carrying Amount	Percentage of Ownership (%)	
GUC	Preferred stock eTopus Technology Inc.	-	Financial assets measured at cost	1,515,151	\$ -	3.0	\$ - Note

Note: The carrying amount has been fully recognized the accumulated impairment loss NT\$15,746 thousand and its fair value is presented at carrying amount.

TABLE 2

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS300 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (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	Shares	Amount
GUC	Jih Sun Money Market Fund	Available-for-sale financial assets	-	-	-	\$ 59,883,830	\$ 880,000	59,883,830	\$ 880,473	\$ 880,000	\$ 473	-
	FSITC Money Market Fund	Available-for-sale financial assets	-	-	-	2,825,765	500,000	2,825,765	500,296	500,000	296	-
	Taishin 1699 Money Market Fund	Available-for-sale financial assets	-	-	-	32,785,872	440,000	32,785,872	440,295	440,000	295	-
	UPAMC James Bond Money Market Fund	Available-for-sale financial assets	-	-	-	25,333,539	420,000	25,333,539	420,156	420,000	156	-

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, 2017
(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Transaction Details			Abnormal Transaction			Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Unit Price	Payment Terms	
GUC	TSMC	TSMC is an investor accounted for using equity method TSMC-NA is a subsidiary of TSMC	Purchases	\$ 5,794,950	91	30 days after monthly closing	Note 24	Note 24	\$ (779,361)	(48)	
	TSMC-NA		Purchases	524,558	8	30 days after invoice date and 30 days after monthly closing	Note 24	Note 24	(245,796)	(15)	

TABLE 4

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions		Percentage to Consolidated Net Revenue or Total Assets
				Financial Statement Account	Amount	
0	GUC	GUC-NA	1	Manufacturing overhead Operating expenses Accrued expenses and other current liabilities	\$ 143,629 199,729 30,543	- - -
		GUC-Japan	1	Manufacturing overhead Operating expenses Accrued expenses and other current liabilities	80,959 68,844 14,713	1% 1% 1%
		GUC-Europe	1	Manufacturing overhead Operating expenses Accrued expenses and other current liabilities	409 17,007 2,414	- - -
		GUC-Korea	1	Manufacturing overhead Operating expenses Accrued expenses and other current liabilities	2,724 3,486 630	- - -
		GUC-Shanghai	1	Manufacturing overhead Operating expenses Accrued expenses and other current liabilities	29,067 30,076 4,153	- - -

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.

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, 2017**
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Balance as of December 31, 2017				Investment Income (Losses)	Investment Income (Losses)
				Original Investment Amount December 31, 2017 (Foreign Currencies in Thousands)	December 31, 2016 (Foreign Currencies in Thousands)	Shares	Percentage of Ownership (%)		
GUC	GUC-NA	U.S.A.	Products consulting, design and technical support service	\$ 40,268 (USS 1,264)	\$ 40,268 (USS 1,264)	800,000	100	\$ 102,974	\$ 8,920
	GUC-BVI	British Virgin Islands	Investing activities	\$ 152,603 (USS 5,050)	\$ 5,050,000 (USS 5,050)	100	32,708	1,220	1,220
	GUC-Japan	Japan	Products consulting, design and technical support service	\$ 15,393 (YEN 55,000)	\$ 15,393 (YEN 55,000)	1,100	100	33,288	5,596
	GUC-Europe	Netherlands	Products consulting, design and technical support service	\$ 8,109 (EUR 200)	\$ 8,109 (EUR 200)	-	100	7,762	711
	GUC- Korea	Korea	Products consulting, design and technical support service	\$ 5,974 (KRW222,545)	\$ 2,964 (KRW110,000)	44,000	100	6,478	179

GLOBAL UNICHIP CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017

(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	Investment Flows		Accumulated Outflow of Investment from Taiwan as of January 1, 2017 (US\$ in Thousands)	Outflow	Inflow	Accumulated Outflow of Investment from Taiwan as of December 31, 2017 (US\$ in Thousands)	Net Income (Losses) of the Investee	Percentage of Ownership	Investment Income (Losses) (Note 3)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
				Outflow	Inflow									
GUC-Nanjing	Products consulting, design and technical support service	\$ 45,417 (US\$ 1,500)	(Note 1)	\$ -	\$ 45,417 (US\$ 1,500)	\$ -	\$ (6,466) (US\$ 1,500)	\$ (6,466) (US\$ 1,500)	\$ 45,417 (US\$ 1,500)	\$ (6,466) (US\$ 1,500)	100%	\$ (6,466) (US\$ 1,500)	\$ 39,139 (US\$ 1,500)	\$ -
GUC-Shanghai	Products consulting, design and technical support service	\$ 31,165 (US\$ 1,000)	(Note 2)	\$ 31,165 (US\$ 1,000)	\$ -	\$ -	\$ -	\$ -	\$ 31,165 (US\$ 1,000)	\$ 31,165 (US\$ 1,000)	100%	\$ 1,268 (US\$ 1,000)	\$ 29,701 (US\$ 1,000)	\$ -

Accumulated Investment in Mainland China as of December 31, 2017 (US\$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on Investment (US\$ in Thousands)
\$ 76,582 (US\$ 2,500)	\$ 121,999 (US\$ 4,000)	\$ 2,428,354 (Note 4)

Note 1: The Company invested the investee directly.

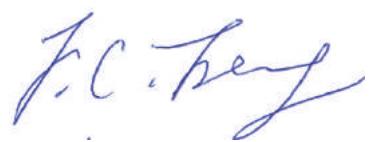
Note 2: The Company's investee with a controlling financial interest; indirectly invested in GUC-Shanghai through GUC-BVI.

Note 3: Investment income (losses) was determined based on unaudited financial statements.

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.

F.C. Tseng

Chairman

A handwritten signature in blue ink that reads "F.C. Tseng". The signature is fluid and cursive, with "F.C." on top and "Tseng" on the bottom, connected by a diagonal line.



Global Unichip Taiwan

No. 10, Li-Hsin 6th Road, Hsinchu Science Park,

Hsinchu City 30078, Taiwan

TEL: +886-3-564-6600

FAX: +886-3-666-8208