

Major Differences between Taiwan-IFRSs and R.O.C. GAAP for GUC and subsidiaries

Starting 2013, Global Unichip Corp. (GUC) prepares consolidated financial statements in accordance with Taiwan-IFRSs (International Financial Reporting Standards as endorsed for use in R.O.C.). According to IFRS 1, "First-time Adoption of International Financial Reporting Standards," GUC is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in its opening balance sheet at the date of transition to IFRSs (January 1, 2012). The major differences between Taiwan-IFRSs and R.O.C. GAAP for GUC and its subsidiaries (together as the "Company") are summarized below:

Consolidated Balance Sheet

a) Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, a deferred tax asset and liability is classified as current or non-current in accordance with the classification of its related asset or liability. Deferred income tax assets and deferred income tax liabilities fall into the same taxable entity; thus, they should be offset on the balance sheet. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under Taiwan-IFRSs, a deferred tax asset and liability is classified as non-current asset or liability and consider the right of offsetting deferred income tax liabilities and deferred income tax assets based on taxation by law before reclassifying.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under Taiwan-IFRSs, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

b) Classification of leased assets

Under R.O.C. GAAP, leased assets are classified under other assets. Under Taiwan-IFRSs, leased assets are classified as property, plant and equipment according to their nature. Leased assets are mainly operating leasing, leasing part of the office. Office leased to others are not considered as investment properties since they cannot be sold separately and comprise only an insignificant portion of the plant.

c) Employee benefits

The Company had previously applied an actuarial valuation on its defined benefit obligation and recognized the related pension cost and retirement benefit obligation in conformity with R.O.C. GAAP. Under Taiwan-IFRSs, the Company should carry out actuarial valuation on defined benefit obligation in accordance with IAS No. 19, "Employee Benefits."

In addition, under R.O.C. GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees.

Under IAS No. 19, "Employee Benefits," the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income, which is classified under retained earnings. Subsequent reclassification to earnings is not permitted.

In addition, under R.O.C. GAAP, the minimum pension liability should be recognized in the balance sheet. If the accrued pension cost is less than the minimum amount, the difference should be recognized as an additional liability. Under Taiwan-IFRSs, there is no aforementioned requirement of minimum pension liability.

Consolidated Statement of Comprehensive Income

d) Non-operating income and expenses

Certain non-operating income and expenses, such as the foreign exchange loss, net gain on disposal of financial assets, and disposal of property, plant and equipment are reclassified as other gains and losses; interest revenue, rental revenue and depreciation of rental assets are reclassified as other income; interest expenses are reclassified as finance cost.

e) Other comprehensive income

Under Taiwan-IFRSs, Income Statement is replaced by "Statement of Comprehensive Income". The key difference is the addition of "Other Comprehensive Income", which is mainly the change in equity resulting from transactions other than those with shareholders. For the Company, the key items in other comprehensive income include exchange differences on translation of foreign operations and actuarial losses on defined benefit plans. Further, other comprehensive income is not included in the calculation of EPS.

Consolidated Statement of Cash Flows

f) Classification of interest received and the interest paid

Using the indirect method to report cash flows under R.O.C. GAAP, cash flows from interest received and paid are classified as operating activities and not disclosed separately. However, according to IAS No. 7 "Statement of Cash Flows," cash flow from interest received shall be disclosed separately and classified under investing activities, and interest paid is classified under financing activities.

g) Income tax paid

Under Taiwan-IFRSs, income tax paid is required to be disclosed separately within operating activities, therefore, the statement of cash flows will start with income before income tax instead of net income.

h) Cash flows denominated in a foreign currency

Under Taiwan-IFRSs, cash flow arising from foreign currency transactions shall be recorded and translated by using the foreign exchange rate at the date of the cash flow occurs, and the resulting exchange gain or loss is presented as a reconciliation item to income before income tax.

Based on the aforementioned description, the differences between GUC's 2012 consolidated financial statements under Taiwan-IFRSs and R.O.C. GAAP are illustrated in the following sections.

I. Consolidated Balance Sheets

(In NT\$ thousands)	Taiwan-IFRSs 2012.12.31	R.O.C. GAAP 2012.12.31	Difference	Note
	Amount	Amount	Amount	
Assets				
Current assets				
Cash and cash equivalents	\$ 2,384,588	\$ 2,384,588	\$ -	
Notes and accounts receivable, net	1,037,793	1,037,793	-	
Receivables from related parties	26,528	26,528	-	
Inventories	556,573	556,573	-	
Other financial assets	941	941	-	
Other current assets	267,543	316,900	(49,357)	1
Total current assets	<u>4,273,966</u>	<u>4,323,323</u>	<u>(49,357)</u>	
Non-current assets				
Property, plant and equipment	369,004	368,832	172	2
Intangible assets	172,979	172,979	-	
Deferred income tax assets	57,027	853	56,174	1
Refundable deposits	9,390	9,390	-	
Pledged time deposits	20,000	20,000	-	
Other non-current assets	-	915	(915)	2 & 3
Total non-current assets	<u>628,400</u>	<u>572,969</u>	<u>55,431</u>	
Total assets	<u>\$ 4,902,366</u>	<u>\$ 4,896,292</u>	<u>\$ 6,074</u>	
Liabilities and equity				
Current liabilities				
Accounts payable	\$ 440,889	\$ 440,889	\$ -	
Payables to related parties	273,359	273,359	-	
Accrued profit sharing to employees and bonus to directors	73,795	73,795	-	
Payables to contractors and equipment suppliers	15,450	15,450	-	
Current tax liabilities	83,948	83,948	-	
Customer advances	217,481	217,481	-	
Accrued expenses and other current liabilities	243,714	243,968	(254)	1
Total current liabilities	<u>1,348,636</u>	<u>1,348,890</u>	<u>(254)</u>	
Non-current liabilities				
Deferred income tax liabilities	7,071	-	7,071	1
Other long-term payables	16,981	16,981	-	
Accrued pension cost	28,201	5,558	22,643	3
Guarantee deposits	2,904	2,904	-	
Total non-current liabilities	<u>55,157</u>	<u>25,443</u>	<u>29,714</u>	
Total liabilities	<u>1,403,793</u>	<u>1,374,333</u>	<u>29,460</u>	
Equity				
Capital stock	1,340,119	1,340,119	-	
Capital surplus	569,623	569,623	-	
Retained earnings				
-Legal reserve	339,878	339,878	-	
-Special reserve	393	393	-	
-Unappropriated earnings	1,256,364	1,282,283	(25,919)	3
Other equity	(7,804)	(10,337)	2,533	3
Total equity	<u>3,498,573</u>	<u>3,521,959</u>	<u>(23,386)</u>	
Total liabilities and equity	<u>\$ 4,902,366</u>	<u>\$ 4,896,292</u>	<u>\$ 6,074</u>	
Key Indices				
A/R turnover days	49	49	-	
Current ratio(%)	316.91	320.51	(3.60)	
Net Working Capital	2,925,330	2,974,433	(49,103)	

1. Classifications of deferred income tax asset/liability and valuation allowance

The amount reclassified from deferred income tax assets to non-current assets was NT\$56,174 thousand, deferred income tax liabilities to non-current liabilities was NT\$7,071 thousand.

2. Classification of leased assets

The amount reclassified from leased assets to property, plant and equipment was NT\$172 thousand.

3. Employee benefits

As of December 31, 2012, accrued pension cost was adjusted for an increase of NT\$22,643 thousand; deferred pension cost was adjusted for a decrease of NT\$743 thousand; and net loss not recognized as pension cost was adjusted for a decrease of NT\$2,533 thousand. For the year ended December 31, 2012, pension cost was also adjusted for a decrease of NT\$1,016 thousand, and actuarial losses on defined benefit plans of NT\$5,717 thousand was recognized in the other comprehensive income.

As a result of aforementioned adjustments from Taiwan-IFRSs adoption, our 2012 net working capital decreased to NT\$2,925,330 thousand and current ratio decreased to 316.91%.

II. Consolidated Statements of Comprehensive Income

(In NT\$ thousands)	Taiwan-IFRSs	R.O.C. GAAP	Difference	Note
	2012	2012		
	Amount	Amount		
Net sales	\$ 9,013,760	\$ 9,013,760	\$ -	
Cost of sales	6,942,459	6,942,459	-	
Gross profit	2,071,301	2,071,301	-	
Operating expenses				
Sales and marketing	265,832	265,832	-	
General and administrative	225,349	226,365	(1,016)	1
Research and development	870,368	870,368	-	
Total operating expenses	1,361,549	1,362,565	(1,016)	
Income from operations	709,752	708,736	1,016	
Non-operating income and expenses				
Other income	13,994	13,994	-	
Other gains and losses	(17,351)	(17,351)	-	
Finance costs	(234)	(234)	-	
Total non-operating income and expenses	(3,591)	(3,591)	-	
Income before income tax	706,161	705,145	1,016	
Income tax	(92,776)	(92,776)	-	
Net income	613,385	612,369	1,016	
Other comprehensive income				
Exchange differences on translation of foreign operations	(7,411)	-	(7,411)	2
Actuarial losses on defined benefit plans	(5,717)	-	(5,717)	2
Comprehensive income	\$ 600,257	\$ 612,369	(\$ 12,112)	

1. Employee benefits

Under Taiwan-IFRSs, actuarial losses on defined benefit plans are no longer amortized as expense. Pension cost for the year ended December 31, 2012 was adjusted for a decrease of NT\$1,016 thousand.

2. Other comprehensive income

Other comprehensive income is mainly comprised of exchange differences on translation of foreign operations of NT\$7,411 thousand and actuarial losses on defined benefit plans of NT\$5,717 thousand.

III. Consolidated Statements of Cash Flows

(In NT\$ thousands)	Taiwan-IFRSs 2012	R.O.C. GAAP 2012	Difference	Note
	Amount	Amount	Amount	
Cash flows from operating activities:				
Income before income tax	\$ 706,161	\$ -	\$ 706,161	1
Net income		612,369	(612,369)	1
Adjustments for:				
Depreciation	80,188	80,188	-	
Amortization	153,393	153,393	-	
Provision for doubtful receivables	19,405	19,405	-	
Interest income	(11,243)	-	(11,243)	2
Interest expense	234	-	234	2
Foreign exchange loss, net	1,402	-	1,402	3
Gain on disposal of property, plant and equipment	(363)	(363)	-	
Gain on disposal of available-for-sale financial assets	(3,379)	(3,379)	-	
Deferred income tax	-	5,337	(5,337)	1
Net changes in operating assets and liabilities	<u>371,760</u>	<u>418,800</u>	<u>(47,040)</u>	1 & 2
Cash generated from operations	1,317,558	1,285,750	31,808	
Income taxes paid	<u>(41,064)</u>	<u>-</u>	<u>(41,064)</u>	1
Net cash provided by operating activities	<u>1,276,494</u>	<u>1,285,750</u>	<u>(9,256)</u>	
Cash flows from investing activities:				
Interest received	10,991	-	10,991	2
Acquisition of:				
Available-for-sale financial assets	(3,305,000)	(3,305,000)	-	
Property, plant and equipment	(81,625)	(81,625)	-	
Intangible assets	(123,299)	(121,897)	(1,402)	3
Proceeds from disposal of:				
Available-for-sale financial assets	3,308,379	3,308,379	-	
Property, plant and equipment	286	286	-	
Decrease in refundable deposits	1,846	1,846	-	
Net cash used in investing activities	<u>(188,422)</u>	<u>(198,011)</u>	<u>9,589</u>	
Cash flows from financing activities:				
Cash dividends paid	(402,036)	(402,036)	-	
Guarantee deposits refunded	(123)	(123)	-	
Interest paid	(234)	-	(234)	2
Net cash used in financing activities	<u>(402,393)</u>	<u>(402,159)</u>	<u>(234)</u>	
Effect of exchange rate changes on cash and cash equivalents				
	<u>(7,217)</u>	<u>(7,118)</u>	<u>(99)</u>	
Net increase in cash and cash equivalents	678,462	678,462	-	
Cash and cash equivalents, beginning of period	<u>1,706,126</u>	<u>1,706,126</u>	<u>-</u>	
Cash and cash equivalents, end of period	<u>\$ 2,384,588</u>	<u>\$ 2,384,588</u>	<u>\$ -</u>	

1. Income tax paid

Under Taiwan-IFRSs, income tax paid is classified as a separate item in the statement of cash flows; therefore, net income is replaced by income before income tax and deferred income tax / income tax payable are removed.

2. Classification of interest received and the interest paid

Interest received of NT\$10,991 thousand is classified as investing activities and interest paid of NT\$234 thousand is classified to financing activities.

3. Foreign exchange gain and loss

The foreign exchange loss of NT\$1,402 thousand related to acquisitions of intangible assets is reclassified to operating activities and recorded as a reconciliation item to income before income tax.