

**MICRO-STAR INTERNATIONAL CO., LTD.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## **Representation Letter**

In connection with the Consolidated Financial Statements of Affiliated Enterprises of MICRO-STAR INTERNATIONAL CO., LTD. and its subsidiaries (the “Consolidated FS of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates as of and for the year ended December 31, 2018 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of MICRO-STAR INTERNATIONAL CO., LTD. and its subsidiaries (the “Consolidated FS of the Group”) in accordance with International Financial Reporting Standard 10. Additionally, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, MICRO-STAR INTERNATIONAL CO., LTD. and its subsidiaries do not prepare a separate set of Consolidated FS of Affiliates.

Very truly yours,

MICRO-STAR INTERNATIONAL CO., LTD.

By

Joseph Hsu, Chairman

March 21, 2019

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES

### ***Opinion***

We have audited the accompanying consolidated balance sheets of MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES (the “Group”) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### ***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the audit reports of other independent accountants, 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 judgement, were of most significance in

our audit of the consolidated financial statements of the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the year ended December 31, 2018 are stated as follows:

### **Occurrence of sales revenue from significant customers**

#### Description

Please refer to Note 4(24) for accounting policies on revenue recognition. Other than international brands, the Group sells its products to customers in various countries. With the Group actively developing new products, sales revenue increases progressively every year, and the occurrence of sales revenue is critical to the financial statements. Thus, the occurrence of sales revenue from new significant customers, excluding international brands, was identified as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

- A. Obtained an understanding of and assessed internal controls in relation to sales revenue from new significant customers, and validated the operating effectiveness of those above mentioned internal controls.
- B. Obtained detailed listing of sales revenue from new significant customers in the current year, and validated supporting documents, including sales invoices, customer purchase orders and delivery documents.
- C. Inspected contents and relevant evidences in relation to sales returns and discounts occurring subsequent to the reporting period and assessed the reasonableness of respective sales revenue recognised.

### **Estimation of allowance for inventory valuation losses**

#### Description

Please refer to Note 4(11), for accounting policies on inventory valuation, Note 5(2) for the uncertainty of accounting estimates and assumptions applied on inventory valuation, and Note 6(4)

for details of inventories. As of December 31, 2018, the balances of inventories and allowance for inventory valuation losses are NT\$22,784,575 thousand and NT\$731,713 thousand, respectively.

The Group is primarily engaged in manufacturing and sales of motherboard, interface card, notebook computer and other electronic products. Due to the rapid technological innovations, shorter electronic product life cycles, and the fluctuation of market prices within the industry, there is a higher risk of inventory losses due from market value decline or obsolescence. The Group recognises inventories at the lower of cost and net realisable value. As the monetary values of inventories are material, and there are various types of inventories, the estimation and determination of the net realisable value of inventories as of the balance sheet date are subject to management's judgement and contain a high level of uncertainty and have material effects on the financial statements, and therefore, it was identified as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

- A. Assessed the reasonableness and the consistency of policies in relation to the provision of allowance for inventory valuation losses and procedures based on our understanding of the Group's operations and industry.
- B. Validated the appropriateness of system logic of the report of individually identified obsolete inventory prepared by management and confirmed the consistency with Group's policies.
- C. Validated the appropriateness of estimation basis for net realisable value of inventories and inspected respective supporting documents, including sales prices or purchase prices, reperformed the calculation of the report and assessed the reasonableness of management's determination of net realisable value of inventories.

***Other matter –Reference to audits of other independent accountants***

We did not audit the financial statements of certain consolidated subsidiaries and investments accounted for under the equity method that are included in the consolidated financial statements. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on reports of the other independent accountants. Total assets of the abovementioned entities (including investments accounted for under the equity method) amounted to NT\$9,411,349 thousand and NT\$10,202,580

thousand as of December 31, 2018 and 2017, constituting 17% and 21% of consolidated total assets, respectively. Sales revenue of the above mentioned entities amounted to NT\$22,331,098 thousand and NT\$24,629,128 thousand, for the years ended December 31, 2018 and 2017, constituting 19% and 23% of consolidated total sales revenue, respectively.

***Other matter – Parent company only financial reports***

We have audited and expressed an unmodified opinion with other matter section on the parent company only financial statements of MICRO-STAR INTERNATIONAL CO., LTD. as of and for the years ended December 31, 2018 and 2017.

***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 International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Group’s financial reporting process.

***Independent accountant’s 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 auditor’s

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 ROC GAAS 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 ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Liang, Hua-Ling

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2019

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.



MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 8,815,680	16	\$ 10,028,064	20
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		98,400	-	20,916	-
1150	Notes receivable, net	6(3)	35,183	-	21	-
1170	Accounts receivable, net	6(3)	16,040,189	29	15,108,103	31
1200	Other receivables		159,681	-	340,610	1
1220	Current income tax assets		44,944	-	4,984	-
130X	Inventories, net	6(4)	22,052,862	40	16,321,027	33
1410	Prepayments	6(5)	1,381,022	3	1,292,728	3
1476	Other current financial assets		728,936	1	68,835	-
11XX	<b>Total current assets</b>		<u>49,356,897</u>	<u>89</u>	<u>43,185,288</u>	<u>88</u>
<b>Non-current assets</b>						
1600	Property, plant and equipment	6(6) and 8	4,738,544	9	5,087,802	10
1760	Investment property - net	6(7)	341,241	1	337,892	1
1840	Deferred income tax assets	6(22)	438,204	1	348,019	1
1900	Other non-current assets	6(8) and 8	299,287	-	194,388	-
15XX	<b>Total non-current assets</b>		<u>5,817,276</u>	<u>11</u>	<u>5,968,101</u>	<u>12</u>
1XXX	<b>Total assets</b>		<u>\$ 55,174,173</u>	<u>100</u>	<u>\$ 49,153,389</u>	<u>100</u>

(Continued)

**MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term borrowings	6(9)	\$ 3,000,000	6	\$ -	-
2120	Financial liabilities at fair value through profit or loss - current	6(2)	5,555	-	24,448	-
2150	Notes payable		200	-	-	-
2170	Accounts payable		14,933,624	27	16,032,335	32
2200	Other payables	6(10)	3,418,250	6	3,490,587	7
2230	Current income tax liabilities		1,017,290	2	813,537	2
2250	Provision for liabilities - current	6(13)	501,095	1	454,744	1
2365	Refund liabilities- current		1,796,905	3	-	-
2399	Other current liabilities, others		92,142	-	105,006	-
21XX	<b>Total current liabilities</b>		<u>24,765,061</u>	<u>45</u>	<u>20,920,657</u>	<u>42</u>
<b>Non-current liabilities</b>						
2540	Long-term borrowings	6(11) and 8	16,442	-	16,642	-
2570	Deferred income tax liabilities	6(22)	2,297	-	16,967	-
2640	Net defined benefit liability, non-current	6(12)	217,609	-	202,757	1
2670	Other non-current liabilities, others		226,903	1	193,096	-
25XX	<b>Total non-current liabilities</b>		<u>463,251</u>	<u>1</u>	<u>429,462</u>	<u>1</u>
2XXX	<b>Total liabilities</b>		<u>25,228,312</u>	<u>46</u>	<u>21,350,119</u>	<u>43</u>
<b>Equity attributable to owners of parent</b>						
<b>Share capital</b>						
3110	Share capital - common stock	6(14)	8,448,562	15	8,448,562	17
<b>Capital surplus</b>						
3200	Capital surplus	6(15)	1,226,049	2	1,225,615	3
<b>Retained earnings</b>						
3310	Legal reserve	6(16)	4,378,464	8	3,884,722	8
3320	Special reserve		421,815	1	389,482	1
3350	Unappropriated retained earnings		15,976,937	29	14,276,704	29
<b>Other equity interest</b>						
3400	Other equity interest		( 505,966 )	( 1 )	( 421,815 )	( 1 )
31XX	<b>Equity attributable to owners of the parent</b>		<u>29,945,861</u>	<u>54</u>	<u>27,803,270</u>	<u>57</u>
3XXX	<b>Total equity</b>		<u>29,945,861</u>	<u>54</u>	<u>27,803,270</u>	<u>57</u>
3X2X	<b>Total liabilities and equity</b>		<u>\$ 55,174,173</u>	<u>100</u>	<u>\$ 49,153,389</u>	<u>100</u>

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

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Year ended December 31				
		2018		2017		
		AMOUNT	%	AMOUNT	%	
4000	<b>Sales revenue</b>	6(17)	\$ 118,527,273	100	\$ 106,419,905	100
5000	<b>Operating costs</b>	6(4)(20)	( 102,397,587)	( 86)	( 91,388,612)	( 86)
5900	<b>Net operating margin</b>		<u>16,129,686</u>	<u>14</u>	<u>15,031,293</u>	<u>14</u>
	<b>Operating expenses</b>	6(20)				
6100	Selling expenses		( 5,166,468)	( 4)	( 5,308,799)	( 5)
6200	General and administrative expenses		( 921,767)	( 1)	( 907,941)	( 1)
6300	Research and development expenses		( 3,347,836)	( 3)	( 3,200,893)	( 3)
6450	Expected credit gain		( 1,665)	-	-	-
6000	<b>Total operating expenses</b>		<u>( 9,437,736)</u>	<u>( 8)</u>	<u>( 9,417,633)</u>	<u>( 9)</u>
6900	<b>Operating profit</b>		<u>6,691,950</u>	<u>6</u>	<u>5,613,660</u>	<u>5</u>
	<b>Non-operating income and expenses</b>					
7010	Other income	6(7)(18)	655,733	-	386,275	-
7020	Other gains and losses	6(2)(19)	( 182,141)	-	( 18,030)	-
7050	Finance costs		( 14,408)	-	( 3,353)	-
7000	<b>Total non-operating income and expenses</b>		<u>459,184</u>	<u>-</u>	<u>364,892</u>	<u>-</u>
7900	<b>Profit before income tax</b>		<u>7,151,134</u>	<u>6</u>	<u>5,978,552</u>	<u>5</u>
7950	Income tax expense	6(22)	( 1,110,005)	( 1)	( 1,041,130)	( 1)
8200	<b>Profit for the year</b>		<u>\$ 6,041,129</u>	<u>5</u>	<u>\$ 4,937,422</u>	<u>4</u>
	<b>Other comprehensive income</b>					
	<b>Components of other comprehensive loss that will not be reclassified to profit or loss</b>					
8311	Actuarial loss on defined benefit plan	6(12)	(\$ 21,430)	-	(\$ 37,520)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(22)	<u>8,461</u>	<u>-</u>	<u>6,378</u>	<u>-</u>
8310	<b>Components of other comprehensive loss that will not be reclassified to profit or loss</b>		<u>( 12,969)</u>	<u>-</u>	<u>( 31,142)</u>	<u>-</u>
	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361	Financial statements translation differences of foreign operations		( 84,151)	-	( 191,655)	-
8360	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>		<u>( 84,151)</u>	<u>-</u>	<u>( 191,655)</u>	<u>-</u>
8300	<b>Total other comprehensive loss for the year</b>		<u>(\$ 97,120)</u>	<u>-</u>	<u>(\$ 222,797)</u>	<u>-</u>
8500	<b>Total comprehensive income for the year</b>		<u>\$ 5,944,009</u>	<u>5</u>	<u>\$ 4,714,625</u>	<u>4</u>
	<b>Profit attributable to:</b>					
8610	Owners of the parent		<u>\$ 6,041,129</u>	<u>5</u>	<u>\$ 4,937,422</u>	<u>4</u>
	<b>Comprehensive income attributable to:</b>					
8710	Owners of the parent		<u>\$ 5,944,009</u>	<u>5</u>	<u>\$ 4,714,625</u>	<u>4</u>
	<b>Earnings per share (in dollars)</b>	6(23)				
9750	<b>Basic earnings per share</b>		<u>\$ 7.15</u>		<u>\$ 5.84</u>	
9850	<b>Diluted earnings per share</b>		<u>\$ 7.08</u>		<u>\$ 5.79</u>	

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

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent									
	Capital surplus					Retained earnings			Financial statements translation differences of foreign operations	Total equity
	Share capital - common stock	Total capital surplus, additional paid-in capital	Treasury stock transactions	Capital surplus, Donated assets received	Employee stock warrants	Legal reserve	Special reserve	Unappropriated retained earnings		
<u>2017</u>										
Balance at January 1, 2017	\$ 8,448,562	\$ 1,895,419	\$ 130,592	\$ -	\$ 44,460	\$ 3,395,928	\$ 389,482	\$ 12,816,215	(\$ 230,160 )	\$ 26,890,498
Profit for the year	-	-	-	-	-	-	-	4,937,422	-	4,937,422
Other comprehensive loss for the year	-	-	-	-	-	-	-	( 31,142 )	( 191,655 )	( 222,797 )
Total comprehensive income	-	-	-	-	-	-	-	4,906,280	( 191,655 )	4,714,625
Appropriations of 2016 earnings :	6(16)									
Legal reserve	-	-	-	-	-	488,794	-	( 488,794 )	-	-
Cash dividends	-	-	-	-	-	-	-	( 2,956,997 )	-	( 2,956,997 )
Cash dividends from capital surplus	6(15)	( 844,856 )	-	-	-	-	-	-	-	( 844,856 )
Balance at December 31, 2017	\$ 8,448,562	\$ 1,050,563	\$ 130,592	\$ -	\$ 44,460	\$ 3,884,722	\$ 389,482	\$ 14,276,704	(\$ 421,815 )	\$ 27,803,270
<u>2018</u>										
Balance at January 1, 2018	\$ 8,448,562	\$ 1,050,563	\$ 130,592	\$ -	\$ 44,460	\$ 3,884,722	\$ 389,482	\$ 14,276,704	(\$ 421,815 )	\$ 27,803,270
Profit for the year	-	-	-	-	-	-	-	6,041,129	-	6,041,129
Other comprehensive loss for the year	-	-	-	-	-	-	-	( 12,969 )	( 84,151 )	( 97,120 )
Total comprehensive income	-	-	-	-	-	-	-	6,028,160	( 84,151 )	5,944,009
Appropriations of 2017 earnings :	6(16)									
Legal reserve	-	-	-	-	-	493,742	-	( 493,742 )	-	-
Special reserve	-	-	-	-	-	-	32,333	( 32,333 )	-	-
Cash dividends	-	-	-	-	-	-	-	( 3,801,852 )	-	( 3,801,852 )
Due to donated assets received	-	-	-	434	-	-	-	-	-	434
Balance at December 31, 2018	\$ 8,448,562	\$ 1,050,563	\$ 130,592	\$ 434	\$ 44,460	\$ 4,378,464	\$ 421,815	\$ 15,976,937	(\$ 505,966 )	\$ 29,945,861

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

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2018	2017
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 7,151,134	\$ 5,978,552
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation (including investment properties)		685,785	580,657
Amortization (including long-term prepaid rents)	6(20)	9,188	9,134
Expected credit gain		1,665	( 19,065 )
Net (gains) losses on financial assets and liabilities at fair value through profit or loss		( 70,334 )	47,830
Interest expense		14,408	3,353
Interest income	6(18)	( 88,788 )	( 69,944 )
(Gain) loss on disposal of property, plant and equipment	6(19)	( 46,913 )	933
Loss on disposal of investments		2,849	345
Loss on unrealized foreign currency exchange		28,275	34,708
Changes in operating assets and liabilities			
Changes in operating assets			
Financial asset held for trading		( 26,147 )	129,420
Notes receivable, net		( 35,162 )	8,309
Accounts receivable		899,718	( 984,869 )
Other receivables		182,643	( 17,568 )
Inventories, net		( 5,731,835 )	199,703
Prepayments		( 88,294 )	( 145,320 )
Other current financial assets		( 660,101 )	( 68,835 )
Other non-current assets		3,808	( 19,792 )
Changes in operating liabilities			
Notes payable		200	-
Accounts payable		( 1,098,711 )	( 2,015,491 )
Other payables		( 69,781 )	( 260,187 )
Provision for liabilities - current		46,351	144,006
Current refund liabilities		( 36,726 )	-
Other current liabilities, others		( 12,732 )	( 259,395 )
Net defined benefit liability		( 6,578 )	( 6,557 )
Other non-current liabilities		-	( 27,731 )
Cash inflow generated from operations		1,053,922	3,242,196
Interest received		86,892	80,242
Interest paid		( 13,974 )	( 3,237 )
Income tax paid		( 1,042,224 )	( 943,789 )
Net cash flows from operating activities		84,616	2,375,412

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MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2018	2017
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Acquisition of property, plant and equipment	6(6)	(\$ 450,502 )	(\$ 637,578 )
Proceeds from disposal of property, plant and equipment		50,311	3,319
Acquisition of investment properties	6(7)	( 2,409 )	-
Increase in refundable deposits		( 3,620 )	( 1,315 )
Increase in other financial assets		( 46,369 )	( 34,211 )
Net cash flows used in investing activities		( 452,589 )	( 669,785 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term borrowings	6(9)	3,000,000	-
Payment of long-term borrowings		( 898 )	( 1,004 )
Increase in guarantee deposits received		33,807	46,701
Cash dividends paid	6(16)	( 3,801,852 )	( 2,956,997 )
Cash distribution from capital reserve	6(15)	-	( 844,856 )
Net cash flows used in financing activities		( 768,943 )	( 3,756,156 )
Effect of exchange rate		( 75,468 )	( 188,993 )
Net decrease in cash and cash equivalents		( 1,212,384 )	( 2,239,522 )
Cash and cash equivalents at beginning of year	6(1)	10,028,064	12,267,586
Cash and cash equivalents at end of year	6(1)	<u>\$ 8,815,680</u>	<u>\$ 10,028,064</u>

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

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

MICRO-STAR INTERNATIONAL CO., LTD. (the “Company”) was incorporated as a company limited by shares under the laws of the Republic of China (R.O.C.) in August 1986 and started its operations in the same year. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the manufacture and sale of motherboards and computer hardware. The shares of the Company have been listed on the Taiwan Stock Exchange since October 1998. The Company is the Group’s ultimate parent company.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were reported to the Board of Directors on March 21, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new standards and amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments 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
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised 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
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting Standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, ‘Investments in associates and joint ventures’	January 1, 2018

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
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
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

IFRS 16, 'Leases

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors. The Group expects to recognise the lease contract of lessees in line with IFRS 16. The Group has elected to apply modified retrospective approach and not to restate the financial statements of prior period. On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$433,779 and \$351,880, respectively, and other non-current assets will be reduced by \$81,899.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020



New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

##### (2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

### (3) Basis of consolidation

#### A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (d) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

#### B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of subsidiaries	Main business activities	Ownership(%)		Note
			2018/12/31	2017/12/31	
MICRO-STAR INTERNATIONAL CO., LTD.	MICRO-STAR NETHERLANDS HOLDING B.V. [MSI (HOLDING)]	Investment holding company	100	100	B
"	MSI COMPUTER CORP.[MSI (LA)]	Sales and maintenance of computers and electronic components	100	100	"

Name of Investor	Name of subsidiaries	Main business activities	Ownership(%)		Note
			2018/12/31	2017/12/31	
MICRO-STAR INTERNATIONAL CO., LTD.	MSI PACIFIC INTERNATIONAL HOLDING CO., LTD. [MSI (PACIFIC)]	Investment holding company	100	100	A
"	MSI COMPUTER JAPAN CO., LTD. [MSI (JAPAN)]	Sales support and maintenance of computers and electronic components	100	100	"
"	MSI COMPUTER (AUSTRALIA) PTY. LTD. [MSI (AUSTRALIA)]	Maintenaaance and after-sales services of computers and electronic components	100	100	"
"	MSI COMPUTER (CAYMAN) CO., LTD. [MSI COMPUTER (CAYMAN)]	Investment holding company	100	100	B
"	MYSTAR INVESTMENT HOLDING COMPANY LIMITED [MYSTAR INVESTMENT]	General investment	-	-	D
MSI (HOLDING)	MYSTAR COMPUTER B.V. [MYSTAR]	Sales support of computers and electronic components	100	100	B
"	MSI TECHNOLOGY GMBH [MSI (GMBH)]	"	100	100	B and E
"	MSI COMPUTER SARL [MSI (SARL)]	"	100	100	B
"	MSI COMPUTER (UK) LTD. [MSI (UK)]	"	100	100	"
"	MSI POLSKA SP. Z O. O. [MSI (POLSKA)]	Maintenance and after-sales services of computers and electronic components	99	99	"
"	MSI COMPUTER EUROPE B.V. [MSI (EUROPE)]	Logistics services of computers and electronic components	100	100	"

Name of Investor	Name of subsidiaries	Main business activities	Ownership(%)		Note
			2018/12/31	2017/12/31	
MSI (HOLDING)	LLC MSI COMPUTER [MSI (RUSSIA)]	Sales support and maintenance of computers and electronic components	99	99	B
"	MSI COMPUTER TECHNOLOGIES LIMITED COMPANY [MSI (TURKEY)]	Sales support of computers and electronic components	99	99	B and F
"	MSI ITALY S.R.L [MSI (ITALY)]	"	100	100	B
MSI (EUROPE)	MSI POLSKA SP. Z O. O. [MSI (POLSKA)]	Maintenance and after-sales services of computers and electronic components	1	1	"
"	LLC MSI COMPUTER [MSI (RUSSIA)]	Sales support and maintenance of computers and electronic components	1	1	"
"	MSI COMPUTER TECHNOLOGIES LIMITED COMPANY [MSI (TURKEY)]	Sales support of computers and electronic components	1	1	B and F
MSI (PACIFIC)	MSI KOREA CO., LTD. [MSI (KOREA)]	Sales and maintenance of computers and electronic components	100	100	B
"	STAR INFORMATION HOLDING CO., LTD. [STAR INFORMATION]	Investment holding company	100	100	A
"	MEGA INFORMATION HOLDING CO., LTD. [MEGA INFORMATION]	"	100	100	"
"	MICRO-STAR INTERNATIONAL (B.V.I) HOLDING CO., LTD. [MSI (B.V.I.)]	"	100	100	"
"	MICRO ELECTRONICS HOLDING CO., LTD. [MICRO ELECTRONICS]	"	100	100	"

Name of Investor	Name of subsidiaries	Main business activities	Ownership(%)		Note
			2018/12/31	2017/12/31	
MSI (PACIFIC)	MEGA TECHNOLOGY HOLDING CO., LTD. [MEGA TECHNOLOGY]	Investment holding company	100	100	A
"	MEGA COMPUTER CO., LTD. [MEGA COMPUTER]	Sales support of computers and electronic components	100	100	B
"	MHK INTERNATIONAL CO., LTD. [MSI (MHK)]	"	100	100	"
"	MSI (SHANGHAI)	Sales and maintenance of computers and electronic components	100	-	C and G
"	SHENZHEN MEGA INFORMATION CO., LTD. [SHENZHEN MEGA INFORMATION]	Examination and maintenance of computers, and electronic components	100	-	A and I
"	STAR COMPUTER HOLDINGCO.,LTD. [STAR COMPUTER]	General trade	-	-	J and L
"	MOSA CO., LTD. [MOSA]	"	-	-	"
"	LINKING FUTURE CO.,LTD.[LINKING]	"	-	-	J and N
MEGA INFORMATION	SHENZHEN MEGA INFORMATION CO., LTD. [SHENZHEN MEGA INFORMATION]	Examination and maintenance of computers, and electronic components	-	100	A and I
MICRO ELECTRONICS	MSI ELECTRONICS (KUNSHAN) CO., LTD. [MSI ELECTRONICS (KUNSHAN)]	Sales and manufacture of computers, and electronic components	100	100	A
STAR INFORMATION	MSI (SHENZHEN) CO., LTD. [MSI SHENZHEN]	Sales and maintenance of computers, and electronic components	100	100	"
MSI (B.V.I.)	MSI COMPUTER (SHENZHEN) CO., LTD. [MSI COMPUTER (SHENZHEN)]	Sales and manufacture of computers and electronic components	100	100	"

Name of Investor	Name of subsidiaries	Main business activities	Ownership(%)		Note
			2018/12/31	2017/12/31	
MEGA TECHNOLOGY	MSI COMPUTER TRADING (SHENZHEN) CO., LTD. [MSI TRADING (SHENZHEN)]	Sales and maintenance of computers and electronic components	100	100	A
"	RAIDEALS INC.[RAIDEALS]	Sales computers and electronic components	100	-	C and H
STAR COMPUTER	MIDI CO., LTD.	General trade	-	-	J and L
"	MYSTAR TRADING	"	-	-	J and M
MOSA	CLICK TRADING CO., LTD.	"	-	-	J and L
"	EASYGOLD TRADING CO., LTD.	"	-	-	"
"	MRL TRADING CO., LTD.	"	-	-	"
"	BETTER TECHWIDE CO., LTD.	"	-	-	"
"	LEAD TREND CO., LTD.	"	-	-	"
"	SAILING OCEAN CO., LTD	"	-	-	"
"	MULTI-STAR SHINE CO., LTD.	"	-	-	"
"	WIDE RANGE TRADING CO., LTD.	"	-	-	"
"	IDEAPLUS TRADING CO., LTD.	"	-	-	J and K
"	MAXWIDE TRADING CO., LTD.	"	-	-	"
"	STAR FIRST TRADING CO., LTD.	"	-	-	"

Note A: These investee companies are included in the consolidated financial statement based on their financial statements which were audited by the Group's independent accountants for the corresponding period.

Note B: These investee companies are included in the consolidated financial statement based on their financial statements which were audited by other independent accountants for the corresponding period.

Note C: As of December 31, 2018, these investee companies are included in the consolidated financial statements based on their financial statements which were audited by the Group's independent accountants for the corresponding period.

Note D: In November 2017, this subsidiary has completed the liquidation process.

Note E: In November 2018, this subsidiary has completed the liquidation process.

Note F: The subsidiary is in the process of liquidation.

Note G: MSI (SHANGHAI) received capital infusion from MSI (PACIFIC) on March 7, 2018. Thus, it has been included in the consolidated financial statements from that date.

Note H: RAIDEALS received capital infusion from MEGA TECHNOLOGY on July 2, 2018.

Thus, it has been included in the consolidated financial statements from that date.

Note I: SHENZHEN MEGA INFORMATION has completed a shareholder structure change during the third quarter of 2018. It was changed from its original shareholder of MEGA INFORMATION to MSI (PACIFIC) directly holding the entire equity.

Note J: The company only sets up registration without any capital injection nor has any actual operation.

Note K: On May 1, 2018, this subsidiary has cancelled the registration.

Note L: On November 1, 2018, this subsidiary has cancelled the registration.

Note M: On May 1, 2017, this subsidiary has cancelled the registration.

Note N: The subsidiary is in the process of cancelling the registration.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

The Group classifies assets that do not meet the above criteria as non-current.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settle within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settle within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

The Group classifies liabilities that do not meet the above criteria as non-current.



(6) Cash equivalents

Cash equivalents refer to short-term highly liquid investments that readily convert to known amount of cash and subject to an insignificant effect of value of changes in rate. Time deposits and money market fund that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For financial assets measured at amortised cost including accounts receivable that have a significant financing component , at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(10) Operating lease (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work-in-process comprises raw materials, other direct costs and related production overheads. The item-by-item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Property, plant and equipment

- A Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	5~55 years
Machinery and equipment	2~10 years
Other properties (include transportation equipment, office equipment, and leasehold improvements)	2~10 years

(13) Operating Lease (lessee)

Based on the terms of a lease contract, a lease is classified as an operating lease if the lessee does not assumes substantially all the risks and rewards incidental to ownership of the leased asset. Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 20 years.

(15) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish,

the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(16) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(17) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(18) Financial liabilities at fair value through profit or loss

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(19) Provisions

Provisions (including warranties and contingent liabilities from business combinations, etc.) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(20) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees before twelve months after the end of the annual reporting period, and should be recognized as expense in that period when the employees render service.

## B. Pensions

### (a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

### (b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).
- ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

## C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

## D. Employees' bonus and directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

## (21) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively

enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(22) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(23) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(24) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells motherboards, graphic cards, a variety of computer hardware, and electronic components. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full

discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

- (b) Revenue from the products is recognised based on the price specified in the contract, net of the estimated value added tax, returns and volume discounts and rebates. The volume discounts to the customers are estimated based on the anticipated annual sales quantities and the right of return for defective products is estimated on the basis of historical experience. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. The period between the transfer of the promised goods or services to the customer and payment by the customer does not exceed one year. As a result, the Group does not adjust any of the transaction prices for the time value of money.
- (c) The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
- (d) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### B. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Group recognises the incremental costs of obtaining a contract as an expense when incurred although the Group expects to recover those costs.

#### (25) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

### 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The information is addressed below:

#### (1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation. As of December 31, 2018, the carrying amount of inventories was \$ 22,052,862.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and petty cash	\$ 4,007	\$ 4,211
Checking accounts and demand deposits	6,827,542	7,675,545
Time deposits	1,984,131	2,348,308
	<u>\$ 8,815,680</u>	<u>\$ 10,028,064</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of December 31, 2018 and 2017, cash and cash equivalents amounting to \$ 69,316 and \$36,520, respectively, were pledged to others as collateral and classified as other financial assets.

(2) Financial assets and liabilities at fair value through profit or loss - current

<u>Asset items</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial assets mandatorily measured at fair value through profit or loss		
Stock of publicly traded or listed companies	\$ 125,303	\$ -
Derivatives – Forward exchange contract	6,376	350
Derivatives – Foreign exchange swap	7,956	20,566
	<u>139,635</u>	<u>20,916</u>
Evaluation adjustment	( 41,235)	-
Total	<u>\$ 98,400</u>	<u>\$ 20,916</u>
<u>Liability items</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities held for trading		
Derivatives – Forward exchange contract	<u>\$ 5,555</u>	<u>\$ 24,448</u>

A. The Group recognised net gain (loss) of \$70,334 and (\$60,099) on financial assets held for trading for the years ended December 31, 2018 and 2017, respectively.

B. The non-hedging derivative instrument transactions and contract information are as follows:

December 31, 2018		
Derivative Financial Assets	Contract Amount Notional Principal (In thousands)	Contract period
Forward exchange contracts	EUR 6,000	2018.11.20~2019.01.08
"	GBP 3,500	2018.10.22~2019.02.01
"	AUD 4,200	2018.11.01~2019.02.01
Foreign exchange swap	USD 158,000	2018.11.15~2019.02.25
Derivative Financial Liabilities	Contract Amount Notional Principal (In thousands)	Contract period
Forward exchange contracts	JPY 381,282	2018.11.19~2019.02.01
"	EUR 24,000	2018.11.29~2019.02.11
"	GBP 1,300	2018.12.20~2019.01.24
December 31, 2017		
Derivative Financial Assets	Contract Amount Notional Principal (In thousands)	Contract period
Forward exchange contracts	JPY 224,100	2017.11.22~2018.02.01
"	RUB 57,575	2017.12.27~2018.01.10
"	GBP 1,100	2017.10.26~2018.01.24
Foreign exchange swap	USD 145,000	2017.09.29~2018.03.16
Derivative Financial Liabilities	Contract Amount Notional Principal (In thousands)	Contract period
Forward exchange contracts	RUB 352,359	2017.11.23~2018.02.08
"	EUR 42,000	2017.09.29~2018.03.08
"	GBP 5,000	2017.10.26~2018.02.14
"	CAD 4,000	2017.12.05~2018.02.26
"	AUD 3,500	2017.12.13~2018.03.08

The Group entered into forward foreign exchange contracts to hedge exchange risk. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others.

D. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).



(3) Accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 35,183	\$ 21
Accounts receivable	\$ 16,059,595	\$ 15,125,954
Less: Allowance for doubtful accounts	( 19,406)	( 17,851)
	<u>\$ 16,040,189</u>	<u>\$ 15,108,103</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 12,943,013	\$ 35,183	\$ 11,583,305	\$ 21
1 to 75 days	3,078,726	-	3,492,218	-
76 to 365	37,097	-	39,736	-
Over 365	759	-	10,695	-
	<u>\$ 16,059,595</u>	<u>\$ 35,183</u>	<u>\$ 15,125,954</u>	<u>\$ 21</u>

The above ageing analysis was based on past due date.

B. Most of the Group's accounts receivable have been insured or have collateral as security, and the Group will be able to obtain insurance claims or enforce a collateral in case these accounts default.

C. As of December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$35,183 and \$21, \$16,040,189 and \$15,108,103, respectively.

D. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw material	\$ 7,536,411	(\$ 325,737)	\$ 7,210,674
Work-in-process	1,343,677	( 1,987)	1,341,690
Finished goods	13,904,487	( 403,989)	13,500,498
	<u>\$ 22,784,575</u>	<u>(\$ 731,713)</u>	<u>\$ 22,052,862</u>

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
	Raw material	\$ 4,688,293	(\$ 109,315)
Work-in-process	702,826	( 289)	702,537
Finished goods	11,269,390	( 229,878)	11,039,512
	<u>\$ 16,660,509</u>	<u>(\$ 339,482)</u>	<u>\$ 16,321,027</u>

The cost of inventories recognised as expense for the period:

	2018	2017
Cost of inventories recognised as expense	\$ 102,397,587	\$ 91,388,612
Losses (gains) on decline or reversal in market value	392,240	( 7,199)

The Group recognised a reduction in costs of sales as a result of reversal of net realizable value from sale of inventories that were provisioned losses in market value decline in 2017.

(5) Prepayments

	December 31, 2018	December 31, 2017
Overpaid tax for offsetting the future tax payable	\$ 780,088	\$ 676,566
Office supplies	364,726	323,257
Prepayment for goods	20,507	136,063
Others	215,701	156,842
	<u>\$ 1,381,022</u>	<u>\$ 1,292,728</u>

(6) Property, plant and equipment

	Land	Buildings	Machineries	Others	Total
At January 1, 2018					
Cost	\$ 1,466,996	\$ 5,490,977	\$ 4,502,339	\$ 1,786,429	\$ 13,246,741
Accumulated depreciation	-	( 3,232,185)	( 3,591,934)	( 1,334,820)	( 8,158,939)
	<u>\$ 1,466,996</u>	<u>\$ 2,258,792</u>	<u>\$ 910,405</u>	<u>\$ 451,609</u>	<u>\$ 5,087,802</u>
<u>2018</u>					
Balance at January 1	\$ 1,466,996	\$ 2,258,792	\$ 910,405	\$ 451,609	\$ 5,087,802
Additions	-	65,811	180,812	203,879	450,502
Reclassifications	-	18,121	( 95)	( 146,472)	( 128,446)
Disposals	-	-	( 368)	( 3,030)	( 3,398)
Depreciation charge	-	( 253,551)	( 257,389)	( 124,070)	( 635,010)
Net exchange differences	634	( 19,680)	( 9,365)	( 4,495)	( 32,906)
Balance at December 31	<u>\$ 1,467,630</u>	<u>\$ 2,069,493</u>	<u>\$ 824,000</u>	<u>\$ 377,421</u>	<u>\$ 4,738,544</u>
At December 31, 2018					
Cost	\$ 1,467,630	\$ 5,368,187	\$ 3,713,051	\$ 1,715,434	\$ 12,264,302
Accumulated depreciation	-	( 3,298,694)	( 2,889,051)	( 1,338,013)	( 7,525,758)
	<u>\$ 1,467,630</u>	<u>\$ 2,069,493</u>	<u>\$ 824,000</u>	<u>\$ 377,421</u>	<u>\$ 4,738,544</u>

	<u>Land</u>	<u>Buildings</u>	<u>Machineries</u>	<u>Others</u>	<u>Total</u>
At January 1, 2017					
Cost	\$ 1,467,204	\$ 5,540,609	\$ 4,620,658	\$ 1,727,107	\$ 13,355,578
Accumulated depreciation	-	( 3,105,622)	( 3,797,492)	( 1,360,072)	( 8,263,186)
	<u>\$ 1,467,204</u>	<u>\$ 2,434,987</u>	<u>\$ 823,166</u>	<u>\$ 367,035</u>	<u>\$ 5,092,392</u>
<u>2017</u>					
Balance at January 1	\$ 1,467,204	\$ 2,434,987	\$ 823,166	\$ 367,035	\$ 5,092,392
Additions	-	93,785	318,109	225,684	637,578
Reclassifications	-	( 46,433)	-	( 17,217)	( 63,650)
Disposals	-	-	( 445)	( 3,807)	( 4,252)
Depreciation charge	-	( 206,202)	( 211,813)	( 114,100)	( 532,115)
Net exchange differences	( 208)	( 17,345)	( 18,612)	( 5,986)	( 42,151)
Balance at December 31	<u>\$ 1,466,996</u>	<u>\$ 2,258,792</u>	<u>\$ 910,405</u>	<u>\$ 451,609</u>	<u>\$ 5,087,802</u>
At December 31, 2017					
Cost	\$ 1,466,996	\$ 5,490,977	\$ 4,502,339	\$ 1,786,429	\$ 13,246,741
Accumulated depreciation	-	( 3,232,185)	( 3,591,934)	( 1,334,820)	( 8,158,939)
	<u>\$ 1,466,996</u>	<u>\$ 2,258,792</u>	<u>\$ 910,405</u>	<u>\$ 451,609</u>	<u>\$ 5,087,802</u>

For the amount of borrowing costs capitalised as part of property, plant and equipment, please refer to Note 8.

(7) Investment property

	<u>Buildings</u>
January 1, 2018	
Cost	\$ 957,443
Accumulated depreciation	( 619,551)
	<u>\$ 337,892</u>
<u>2018</u>	
Balance at January 1	\$ 337,892
Additions	2,409
Reclassifications	57,691
Depreciation charge	( 50,775)
Net exchange differences	( 5,976)
Balance at December 31	<u>\$ 341,241</u>
December 31, 2017	
Cost	\$ 1,129,777
Accumulated depreciation	( 788,536)
	<u>\$ 341,241</u>

	<u>Buildings</u>
January 1, 2017	
Cost	\$ 862,379
Accumulated depreciation	( 517,721)
	<u>\$ 344,658</u>
<u>2017</u>	
Balance at January 1	\$ 344,658
Reclassifications	46,291
Depreciation charge	( 48,542)
Net exchange differences	( 4,515)
Balance at December 31	<u>\$ 337,892</u>
December 31, 2017	
Cost	\$ 957,443
Accumulated depreciation	( 619,551)
	<u>\$ 337,892</u>

A. Rental income from the lease of the investment and direct operating expenses arising from the investment property:

	<u>2018</u>	<u>2017</u>
Rental income from the lease of the investment property	\$ <u>97,487</u>	\$ <u>82,274</u>
Direct operating expenses arising from the investment property	\$ <u>69,936</u>	\$ <u>62,438</u>

B. As of December 31, 2018 and 2017, the fair value of the Group's investments in property amounting to \$2,484,968 and \$1,379,037, respectively, as derived from market prices in the nearby area, are included in Level 2.

(8) Long-term prepaid rents (shown as 'Other non-current assets')

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Land use right	\$ <u>81,899</u>	\$ <u>92,600</u>

A subsidiary of the Group signed a land use right contract with the Ministry of Land and Resources of the People's Republic of China for the use of the land at Kunshan City and Shenzhen City with a term of 50 years. The Group recognized rental expenses of \$8,986 and \$8,884 for the years ended December 31, 2018 and 2017, respectively.

(9) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ <u>3,000,000</u>	<u>0.94%~0.99%</u>	None

As of December 31, 2017, the Group did not have any short-term borrowings.

(10) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accrued salary and bonus	\$ 1,319,253	\$ 1,363,045
Directors' and supervisors' remuneration and employees' bonus	564,500	490,900
Accrued freight	502,979	433,492
Advertising expenses payable	273,429	243,872
Accrued molding expense	164,846	186,854
Other accrued expenses	593,243	772,424
	<u>\$ 3,418,250</u>	<u>\$ 3,490,587</u>

(11) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2018</u>
Long-term bank borrowings				
Secured borrowings	Starting from March 24, 2016 to March 24, 2021, repayment of principal and interest of USD 4,307.77 monthly and remaining principal on the due date.	Three month LIBOR plus 1.75%	Land and Building	\$ 17,282
Less: current portion				( 840)
				<u>\$ 16,442</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2017</u>
Long-term bank borrowings				
Secured borrowings	Starting from March 24, 2016 to March 24, 2021, repayment of principal and interest of USD 4,307.77 monthly and remaining principal on the due date.	Three month LIBOR plus 1.75%	Land and Building	\$ 17,614
Less: current portion				( 972)
				<u>\$ 16,642</u>

(12) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension

Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	\$ 502,487	\$ 470,631
Fair value of plan assets	( 284,878)	( 267,874)
Net defined benefit liability	<u>\$ 217,609</u>	<u>\$ 202,757</u>

(c) Movements in net defined benefit liabilities are as follows:

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2018</u>			
Balance at January 1	\$ 470,631	(\$ 267,874)	\$ 202,757
Current service cost	2,764	-	2,764
Interest (expense) income	5,177	( 2,947)	2,230
	<u>478,572</u>	<u>( 270,821)</u>	<u>207,751</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	( 7,679)	( 7,679)
Change in financial assumptions	5,335	-	5,335
Experience adjustments	23,774	-	23,774
	<u>29,109</u>	<u>( 7,679)</u>	<u>21,430</u>
Pension fund contribution	-	( 11,572)	( 11,572)
Paid pension	( 5,194)	5,194	-
Balance at December 31	<u>\$ 502,487</u>	<u>( \$ 284,878)</u>	<u>\$ 217,609</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	\$ 425,511	(\$ 253,717)	\$ 171,794
Current service cost	2,403	-	2,403
Interest (expense) income	6,383	( 3,806)	2,577
	<u>434,297</u>	<u>( 257,523)</u>	<u>176,774</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	1,186	1,186
Change in financial assumptions	20,250	-	20,250
Experience adjustments	16,084	-	16,084
	<u>36,334</u>	<u>1,186</u>	<u>37,520</u>
Pension fund contribution	-	( 11,537)	( 11,537)
Balance at December 31	<u>\$ 470,631</u>	<u>(\$ 267,874)</u>	<u>\$ 202,757</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and its domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and its domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	<u>1.00%</u>	<u>1.10%</u>
Future salary increases	<u>2.75%</u>	<u>2.75%</u>

Assumptions regarding future mortality experience are set based on actuarial advice in

accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	(\$ 13,186)	\$ 13,699	\$ 12,176	(\$ 11,802)
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 12,806)	\$ 13,326	\$ 11,901	(\$ 11,517)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to \$11,579.
- (g) As of December 31, 2018, the weighted average duration of the retirement plan is 11 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	22,110
1-2 year(s)		28,301
2-3 years		30,237
3-4 years		33,522
4-5 years		25,646
6-10 years		118,204
Over 10 years		302,588
	\$	560,608

- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the



pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017, were \$262,954 and \$251,304, respectively.

(13) Provisions for liabilities

<u>Warranty</u>	<u>2018</u>	<u>2017</u>
At January 1	\$ 454,744	\$ 310,738
Additional provisions	680,895	727,368
Used during the period	( 634,589)	( 583,363)
Exchange differences	45	1
At December 31	<u>\$ 501,095</u>	<u>\$ 454,744</u>

Analysis of total provisions:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current	<u>\$ 501,095</u>	<u>\$ 454,744</u>

The Group gives warranties on computer components and personal computers sold. Provision for warranty is estimated based on historical warranty data.

(14) Share capital

As of December 31, 2018, the Company's authorized capital was \$15,000,000 (including 80,000 thousand shares reserved for employee stock options and 150,000 thousand shares reserved for convertible bonds issued by the Company), and the paid-in capital was \$8,448,562 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

(15) Capital surplus

A. Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. On June 15, 2017, the appropriation of cash dividends from capital surplus had been resolved by stockholders during their meeting as follows:

	<u>2016</u>	
	<u>Amount</u>	<u>Dividends per share (dollar)</u>
Cash dividends from capital surplus	\$ 844,856	\$ 1.00

The appropriation of cash dividends from capital surplus is the same as the appropriation resolved by the Board of Directors during their meeting.

(16) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses, then 10% of the remaining amount shall be set aside or reversed as legal reserve. The balance plus unappropriated retained earnings at the beginning of the period shall be appropriated 10%~90% as proposed by the Board of Directors and resolved by the stockholders during their meeting.
- B. The Company's dividend policy is summarized below: as the Company operates in a volatile business environment and is in the stable growth stage, except for the Company's future expansion plans, stockholders' interest is taken into consideration. The Group appropriated dividends in proportion to total number of shares, dividends could be distributed in stock or cash, and cash dividends shall account for at least 30% of the total dividends distributed.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.
- E. The appropriations of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 15, 2018 and June 15, 2017, respectively as follows:

	2017		2016	
	Amount	Dividends per share (dollar)	Amount	Dividends per share (dollar)
Legal reserve	\$ 493,742		\$ 488,794	
Special reserve	32,333		-	
Cash dividend	3,801,852	\$ 4.50	2,956,997	\$ 3.50

The appropriation of 2017 earnings as approved by the stockholders is the same as with the appropriation resolved by the Board of Directors during its meeting on May 3, 2018. Information about earnings appropriation of the Company as resolved by Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(21).

(17) Operating revenue

The Group derives revenue from the transfer of goods at a point in time in the following major segment:

2018	Computer and peripherals segment	General administration and other segments	Total
Total segment revenue	\$ 118,523,473	\$ 3,800	\$ 118,527,273
Timing of revenue recognition At a point in time	\$ 118,523,473	\$ 3,800	\$ 118,527,273

  

2017	Computer and peripherals segment	General administration and other segments	Total
Total segment revenue	\$ 106,266,695	\$ 153,210	\$ 106,419,905
Timing of revenue recognition At a point in time	\$ 106,266,695	\$ 153,210	\$ 106,419,905

(18) Other income

	2018	2017
Interest income	\$ 88,788	\$ 69,944
Rental revenue	97,487	82,423
Others	469,458	233,908
Total	\$ 655,733	\$ 386,275

(19) Other gains and losses

	2018	2017
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	\$ 70,334	(\$ 60,099)
Net currency exchange (losses) gains	( 185,053)	53,480
Gains (losses) on disposal of property, plant and equipment	46,913	( 933)
Other losses	( 114,335)	( 10,478)
Total	(\$ 182,141)	(\$ 18,030)

(20) Expenses by nature

By function By nature	2018			2017		
	Operating costs	Operating Expense	Total	Operating costs	Operating Expense	Total
Employee benefit expense	\$ 2,200,949	\$ 4,852,864	\$ 7,053,813	\$ 2,084,112	\$ 4,668,349	\$ 6,752,461
Depreciation charges on property, plant and equipment	477,940	157,070	635,010	382,210	149,905	532,115
Amortized charges	8,226	962	9,188	7,905	1,229	9,134

(21) Employee benefit expense

	2018	2017
Wages and salaries	\$ 6,083,937	\$ 5,871,129
Labor and health insurance fees	378,343	356,710
Pension costs	267,948	256,284
Other personnel expenses	323,585	268,338
	<u>\$ 7,053,813</u>	<u>\$ 6,752,461</u>

A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall be 6%~10% for employees' compensation and shall not be higher than 1% for directors' remuneration.

B. For the years ended December 31, 2018 and 2017, employees' compensation (bonus) was accrued at \$515,000 and \$448,000, respectively; while directors' remuneration was accrued at \$49,500 and \$42,900, respectively. The aforementioned amounts were recognised in salary expenses and other expenses, respectively.

The employees' compensation and directors' remuneration were estimated and accrued based on distributable profit of the current year for the year ended December 31, 2018.

Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2017 financial statements.

Information about employees' compensation (bonus) and directors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(22) Income tax

A. Income tax expense

(a) Components of income tax expense:

	2018	2017
Current tax:		
Current tax on profits for the period	\$ 1,181,229	\$ 1,065,171
Prior year income tax overestimation	( 167,618)	( 23,489)
Total current tax	<u>1,013,611</u>	<u>1,041,682</u>
Deferred tax:		
Origination and reversal of temporary differences	74,768	( 552)
Impact of change in tax rate	21,626	-
Total deferred tax	<u>96,394</u>	<u>( 552)</u>
Income tax expense	<u>\$ 1,110,005</u>	<u>\$ 1,041,130</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income:

	2018	2017
Remeasurement of defined benefit obligations	\$ 4,286	\$ 6,378
Impact of change in tax rate	4,175	-
	<u>\$ 8,461</u>	<u>\$ 6,378</u>

(c) The income tax charged/(credited) to equity during the period: None.

B. Reconciliation between income tax expense and accounting profit

	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 1,525,635	\$ 1,120,233
Effect from items disallowed by tax regulation	( 77,194)	( 7,970)
Effect from investment tax credits	( 250,279)	( 190,105)
Prior year income tax overestimation	( 167,618)	( 23,489)
Additional 10% tax on undistributed earnings	57,835	142,461
Impact of change in tax rate	21,626	-
Income tax expense	<u>\$ 1,110,005</u>	<u>\$ 1,041,130</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

	2018			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Unrealized gross profit	\$ 162,601	(\$ 14,420)	\$ -	\$ 148,181
Loss on inventory	60,006	87,626	-	147,632
Allowance for bad debts	1,161	96	-	1,257
Unrealized exchange loss	-	3,462	-	3,462
Remeasurement of defined benefit obligations	23,658	-	8,461	32,119
Adjustment to unused paid annual leave	4,942	871	-	5,813
Unrealized losses on forward exchange contract	600	( 600)	-	-
Others	<u>95,051</u>	<u>4,689</u>	<u>-</u>	<u>99,740</u>
Subtotal	<u>348,019</u>	<u>81,724</u>	<u>8,461</u>	<u>438,204</u>

2018				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
-Deferred tax liabilities:				
Unrealised exchange gain	( 16,252)	16,252	-	-
Unrealized gains on forward exchange contract	-	( 1,755)	-	( 1,755)
Others	( 715)	173	-	( 542)
Subtotal	( 16,967)	14,670	-	( 2,297)
Total	<u>\$ 331,052</u>	<u>\$ 96,394</u>	<u>\$ 8,461</u>	<u>\$ 435,907</u>
2017				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Unrealized gross profit	\$ 194,038	(\$ 31,437)	\$ -	\$ 162,601
Loss on inventory	68,894	( 8,888)	-	60,006
Allowance for bad debts	3,019	( 1,858)	-	1,161
Remeasurement of defined benefit obligations	17,280	-	6,378	23,658
Adjustment to unused paid annual leave	4,942	-	-	4,942
Unrealized losses on forward exchange contract	-	600	-	600
Others	55,147	39,904	-	95,051
Subtotal	343,320	( 1,679)	6,378	348,019
-Deferred tax liabilities:				
Unrealised exchange gain	( 8,105)	( 8,147)	-	( 16,252)
Unrealized losses on forward exchange contract	( 10,583)	10,583	-	-
Others	( 510)	( 205)	-	( 715)
Subtotal	( 19,198)	2,231	-	( 16,967)
Total	<u>\$ 324,122</u>	<u>\$ 552</u>	<u>\$ 6,378</u>	<u>\$ 331,052</u>

D. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2018 and 2017, the amounts of temporary difference unrecognised as deferred tax liabilities were \$4,636,390 and \$4,290,328, respectively.

E. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(23) Earnings per share

	2018		
	<u>Amount after tax</u>	Retroactively adjusted weighted-average outstanding ordinary shares (in thousands)	<u>Earnings per share (in NT dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 6,041,129	844,856	\$ 7.15
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 6,041,129	844,856	
Assumed conversion of all dilutive potential ordinary shares			
Employee bonus	-	7,926	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 6,041,129	852,782	\$ 7.08
	2017		
	<u>Amount after tax</u>	Retroactively adjusted weighted-average outstanding ordinary shares (in thousands)	<u>Earnings per share (in NT dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 4,937,422	844,856	\$ 5.84
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 4,937,422	844,856	
Assumed conversion of all dilutive potential ordinary shares			
Employee bonus	-	7,363	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 4,937,422	852,219	\$ 5.79

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

None.

### (2) Significant related party transactions

None.

### (3) Key management compensation

	<u>2018</u>	<u>2017</u>
Salaries and other employee benefits	\$ 343,134	\$ 307,645

## 8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	
Other non-current assets - Other financial assets	\$ 69,316	\$ 36,520	Performance security guarantee
Property, plant and equipment	<u>133,634</u>	<u>133,718</u>	For guarantee of long-term loans
	<u>\$ 202,950</u>	<u>\$ 170,238</u>	

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies : None.

(2) Commitments : None.

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

## 12. OTHERS

### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.



## (2) Financial instruments

### A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 98,400	\$ 20,916
Financial assets at amortised cost		
Cash and cash equivalents	8,815,680	10,028,064
Notes receivable	35,183	21
Accounts receivable	16,040,189	15,108,103
Other receivables	159,681	340,610
Other financial assets	728,936	68,835
Guarantee deposits paid	26,348	22,728
	<u>\$ 25,904,417</u>	<u>\$ 25,589,277</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ 5,555	\$ 24,448
Financial liabilities at amortised cost		
Short-term borrowings	3,000,000	-
Notes payable	200	-
Accounts payable	14,933,624	16,032,335
Other accounts payable	3,418,250	3,490,587
Long-term borrowings (including current portion)	17,282	17,614
Guarantee deposits received	226,903	193,096
	<u>\$ 21,601,814</u>	<u>\$ 19,758,080</u>

### B. Risk management policies

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

### C. Significant financial risks and degrees of financial risks

#### (a) Market risk

##### Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign

exchange risk against their functional currency.

- iii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- iv. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- v. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018			
(Foreign currency: functional currency)	Foreign Currency Amount (In Thousands)	Exchange rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 330,728	30.7150	\$ 10,158,307
RMB:NTD	352,127	4.4720	1,574,712
EUR: NTD	44,719	35.2000	1,574,113
CAD:NTD	15,079	22.5800	340,492
GBP: NTD	8,128	38.8800	315,999
USD: RMB	8,443	6.8683	259,331
RUB: NTD	585,852	0.4421	259,005
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	488,018	30.7150	14,989,481
USD: RMB	22,115	6.8683	679,263
EUR: NTD	10,117	35.2000	356,121
December 31, 2017			
(Foreign currency: functional currency)	Foreign Currency Amount (In Thousands)	Exchange rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 330,436	29.7600	\$ 9,833,771
EUR: NTD	41,733	35.5700	1,484,442
RMB:NTD	205,989	4.5650	940,340
GBP: NTD	5,697	40.1100	228,503
RUB: NTD	416,553	0.5167	215,233
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	466,801	29.7600	13,891,992
USD: RMB	37,746	6.5192	1,123,329

- vi. The exchange (loss) gain arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to (\$185,053) and \$53,480, respectively.
- vii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

		2018		
		Sensitivity analysis		
		Degree of variation	Effect on profit or loss (before tax)	Effect on other comprehensive income
<u>Financial assets</u>				
<u>Monetary items</u>				
USD: NTD	1%	\$	101,583	\$ -
RMB:NTD	1%		15,747	-
EUR: NTD	1%		15,741	-
CAD:NTD	1%		3,405	-
GBP: NTD	1%		3,160	-
USD: RMB	1%		2,593	-
RUB: NTD	1%		2,590	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	1%		149,895	-
USD: RMB	1%		6,793	-
EUR: NTD	1%		3,561	-
		2017		
		Sensitivity analysis		
		Degree of variation	Effect on profit or loss (before tax)	Effect on other comprehensive income
<u>Financial assets</u>				
<u>Monetary items</u>				
USD: NTD	1%	\$	98,338	\$ -
EUR: NTD	1%		14,844	-
RMB:NTD	1%		9,403	-
GBP:NTD	1%		2,285	-
RUB:NTD	1%		2,152	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	1%		138,920	-
USD: RMB	1%		11,233	-

#### Cash flow and fair value interest rate risk

- i. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. For the years ended December 31, 2018 and 2017, the Group borrowings are issued at variable rate denominated in US dollars.
- ii. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.
- iii. At December 31, 2018 and 2017, if interest rates on USD and NTD denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have been \$138 and \$146 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

#### (b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable cash flow based on the agreed terms.
- ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Credit risk arises from credit exposures to wholesale and retail customers, including outstanding receivables.
- iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition. If the contract payments were past due over 90 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 150 days.
- v. The Group classifies customers' accounts receivable in accordance with sales area. The Group applies the simplified approach using provision matrix, to estimate expected credit loss under the provision matrix basis.

- vi. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. The Group's expected credit loss rate of accounts receivable that are not past due are not significant for the year ended December 31, 2018.
- vii. The Group applies the simplified approach to provide loss allowance for accounts receivable that have no significant impact. The Group had not recognized related impact for the year ended December 31, 2018.
- viii. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities.
- ii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

	Less than 1 year	Between 1 to 2 years	Between 2 to 3 years	Over 3 years
December 31, 2018				
Short-term borrowings	\$ 3,000,000	\$ -	\$ -	\$ -
Notes payable	200	-	-	-
Accounts payable	14,933,624	-	-	-
Other payables	3,418,250	-	-	-
Long-term borrowings (including current portion)	1,588	1,588	14,616	-
Other financial liabilities	21,665	110,576	437	94,225

Non-derivative financial liabilities:

	Less than 1 year	Between 1 to 2 years	Between 2 to 3 years	Over 3 years
December 31, 2017				
Accounts payable	\$ 16,032,335	\$ -	\$ -	\$ -
Other payables	3,490,587	-	-	-
Long-term borrowings (including current portion)	1,538	1,538	1,538	14,161
Other financial liabilities	23,185	105,678	-	64,233

Derivative financial liabilities

As of December 31, 2018 and 2017, the derivative financial liabilities are foreign

exchange contracts that mature within 1 year.

- iii. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

- A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an on going basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

- B. Financial instruments not measured at fair value

The Group's cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, guarantee deposits paid, short-term borrowings, notes payable, accounts payable and other payables, guarantee deposits received are approximate to their fair values. The transaction value information is provided in Note 12(2)A. The fair value information of the Group's investments in property is provided in Note 6(7).

- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity security	\$ 84,068	\$ -	\$ -	\$ 84,068
-Forward exchange contract	-	6,376	-	6,376
-Foreign exchange swap	-	7,956	-	7,956
Total	<u>\$ 84,068</u>	<u>\$ 14,332</u>	<u>\$ -</u>	<u>\$ 98,400</u>
Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
-Forward exchange contract	<u>\$ -</u>	<u>\$ 5,555</u>	<u>\$ -</u>	<u>\$ 5,555</u>

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Forward exchange contract	\$ -	\$ 350	\$ -	\$ 350
-Foreign exchange swap	-	20,566	-	20,566
Total	<u>\$ -</u>	<u>\$ 20,916</u>	<u>\$ -</u>	<u>\$ 20,916</u>
Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
-Forward exchange contract	<u>\$ -</u>	<u>\$ 24,448</u>	<u>\$ -</u>	<u>\$ 24,448</u>

D. The methods and assumptions the Group used to measure fair value are as follows:

- (a) The level 1 financial instruments—equity security held by the Group are listed shares, and the market quoted price is determined by the closing price of the security.
- (b) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

E. For the years ended December, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2018 and 2017, there was no transfer in or out from Level 3.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted for financial assets at fair value through profit or loss and accounts receivable in 2017 is as follows:

- (a) Financial assets at fair value through profit or loss
  - i. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
  - ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
  - iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are

subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Receivables

Accounts receivable are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Credit risk information for the year ended December 2017 is as follows:

- (a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The ageing analysis of financial assets that were past due but not impaired is as follows:

Account receivable	<u>December 31, 2017</u>
Up to 75 days	<u>\$ 3,235,573</u>

C. Initial application of IFRS 9 has no significant impact to the Company's financial condition and financial performance based on the Company's assessment as of December 31, 2017.

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

- (a) The Company manufactures and sells motherboards, graphic cards, a variety of computer hardware, and electronic components. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be



measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- (b) The Company offers customers volume discounts and right of return for defective products. The Company estimates such discounts and returns based on historical experience. Provisions are recorded when the sales are recognised. The volume discounts are estimated based on the anticipated annual sales quantities.

B. Initial application of IFRS 15 has no significant impact to the Company's financial condition and financial performance based on the Company's assessment as of December 31, 2017.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 2.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.
- I. Derivative financial instruments undertaken during the year ended December 31, 2018: Please refer to Note 6(2).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

#### (2) Information on investees (not including investees in Mainland China)

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 5.

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 6.
- B. Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas: Please refer to table 7.

#### 14. SEGMENT INFORMATION

##### (1) General information and measurement of segment information

The Group's operating segment profit (loss) is measured by the operating income (loss), which is used as a basis in assessing the performance of operating segments. "Operating Segments," the Group's reportable operating segments are as follows:

Computer and peripherals business group: Mainly engages in development and sale of mother boards, graphic cards, notebooks, and computer peripherals.

General administration and other segments: Mainly engages in development and sale of other products and in charge of general administration department expenses.

There is no material change in the basis for grouping of entities and division of segments in the Group or in the measurement basis for segment information during this period.

##### (2) Information about segment profit or loss, assets and liabilities:

The revenue and segment information provided to the chief operating decision-maker for the reportable segments is as follows:

For the year ended December 31, 2018

	<u>Computer and peripherals segment</u>	<u>General administration and other segments</u>	<u>Total</u>
Total segment revenue	\$ 118,523,473	\$ 3,800	\$ 118,527,273
Operating income (loss)	\$ 6,991,151	(\$ 299,201)	\$ 6,691,950
Other non-operating revenue			459,184
Profit before tax			\$ 7,151,134

For the year ended December 31, 2017

	<u>Computer and peripherals segment</u>	<u>General administration and other segments</u>	<u>Total</u>
Total segment revenue	\$ 106,266,695	\$ 153,210	\$ 106,419,905
Operating income (loss)	\$ 5,880,613	(\$ 266,953)	\$ 5,613,660
Other non-operating revenue			364,892
Profit before tax			\$ 5,978,552

The above revenue was derived from the transactions with external customers. The above amounts are provided to the chief operating decision-maker for allocating resources and assessing performance of operating segments.

##### (3) Reconciliation for segment income

Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.

A reconciliation of reportable segment income to the income before tax from continuing operations for the years ended December 31, 2018 and 2017 is provided as follows:

	<u>2018</u>	<u>2017</u>
Reportable segments income	\$ 6,691,950	\$ 5,613,660
Unappropriated amount:		
Other segments income	<u>459,184</u>	<u>364,892</u>
Income before tax from continuing operations	<u>\$ 7,151,134</u>	<u>\$ 5,978,552</u>

(4) Information on products and services

Revenue from external customers is mainly from the sales of computer and peripherals and related components. Details of revenue are as follows:

	<u>2018</u>	<u>2017</u>
Computer and peripherals sale revenue	<u>\$ 118,527,273</u>	<u>\$ 106,419,905</u>

(5) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Asia	\$ 56,989,139	\$ 5,006,120	\$ 48,474,767	\$ 5,279,062
Europe	31,237,944	175,745	31,205,584	180,622
America	28,327,803	138,585	24,797,274	138,132
Others	<u>1,972,387</u>	<u>417</u>	<u>1,942,280</u>	<u>507</u>
	<u>\$ 118,527,273</u>	<u>\$ 5,320,867</u>	<u>\$ 106,419,905</u>	<u>\$ 5,598,323</u>

(6) Major customer information

The Group had no individual customer whose sales amount accounts for more than 10% of net operating revenue in the consolidated statement of comprehensive income.

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2018

Expressed in thousands of NTD

(Except as otherwise indicated)

Table 1

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
MSI (HOLDING)	CVA ING GROEP	-	Financial assets at fair value through profit or loss - current	80,000	\$ 26,499	-	\$ 26,499	-
MSI (HOLDING)	DAIMLER	-	Financial assets at fair value through profit or loss - current	20,000	32,320	-	32,320	-
MSI (HOLDING)	DEUTSCHE POST	-	Financial assets at fair value through profit or loss - current	30,000	25,249	-	25,249	-

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Expressed in thousands of NTD

(Except as otherwise indicated)

Table 2

Transaction company (Note 4)	Name of the counter party (Note 4)	Relationship with the counterparty	Description of the transaction				Description and reasons of difference in transaction terms compared to third party transactions		Accounts or notes receivable (payable)		Footnote
			Purchases/(Sales)	Amount (Note 3)	% of total purchase (sale)	Credit terms	Unit price	Credit terms	Balance (Note 3)	% of total accounts or notes receivable/(payable)	
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (LA)	Subsidiary	Sales	\$ (15,843,711)	(14)	80~100 days	Insignificant difference	Note 1	\$ 4,797,787	29	-
MICRO-STAR INTERNATIONAL CO., LTD.	MEGA COMPUTER	Subsidiary	Sales	(6,305,267)	(5)	40-70 days	Insignificant difference	Note 1	793,935	5	-
MICRO-STAR INTERNATIONAL CO., LTD.	MYSTAR	Subsidiary	Sales	(1,901,529)	(2)	40-70 days	Insignificant difference	Note 1	292,963	2	-
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (KOREA)	Subsidiary	Sales	(3,530,619)	(3)	50-70 days	Insignificant difference	Note 1	-	-	-
MEGA COMPUTER	MSI (SHENZHEN)	Affiliated company	Sales	(2,833,040)	(45)	40-70 days	Insignificant difference	Note 1	-	-	-
MEGA COMPUTER	MSI (SHANGHAI)	Affiliated company	Sales	(3,295,497)	(55)	40-70 days	Insignificant difference	Note 1	1,516,143	100	-
MSI (PACIFIC)	MSI COMPUTER (SHENZHEN)	Subsidiary	Processing overhead	3,038,535	71	Note 2	Insignificant difference	Note 2	(2,512,173)	(72)	-
MSI (PACIFIC)	MSI ELECTRONICS (KUNSHAN)	Subsidiary	Processing overhead	1,204,305	28	Note 2	Insignificant difference	Note 2	(716,789)	(21)	-
MSI (PACIFIC)	MICRO-STAR INTERNATIONAL CO., LTD.	Ultimate parent company	Revenue from processing	(4,288,312)	(100)	Note 2	Insignificant difference	Note 2	3,475,976	100	-
MSI (SHENZHEN)	MSI (SHANGHAI)	Affiliated company	Sales	(861,526)	(22)	40-70 days	Insignificant difference	Note 2	18,034	100	-

Note 1: The credit terms to third parties are approximately 30 to 120 days.

Note 2: Credit terms depend on the financial condition of the paying firm.

Note 3: Balances after elimination in conformity with regulations.

Note 4: Corresponding transactions are not disclosed.

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
 December 31, 2018

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Table 3

Creditor	Counterparty	Relationship with the counterparty	Balance as of December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (LA)	Subsidiary	\$ 4,797,787	3.59	\$ -	-	\$ 1,574,713	\$ -
MICRO-STAR INTERNATIONAL CO., LTD.	MEGA COMPUTER	Subsidiary	793,935	8.18	-	-	128,023	-
MICRO-STAR INTERNATIONAL CO., LTD.	MYSTAR	Subsidiary	292,963	6.69	-	-	142,176	-
MSI (PACIFIC) (Note)	MICRO-STAR INTERNATIONAL CO., LTD.	Ultimate parent company	3,475,976	1.28	-	-	771,693	-
MSI COMPUTER (SHENZHEN) (Note)	MSI (PACIFIC)	Parent Company	2,512,173	1.25	-	-	565,471	-
MSI ELECTRONICS (KUNSHAN) (Note)	MSI (PACIFIC)	Parent Company	716,789	1.76	-	-	202,445	-
MSI (B.V.I.)	MSI (PACIFIC)	Parent Company	143,539	-	-	-	-	-
MEGA COMPUTER	MSI (SHANGHAI)	Affiliated company	1,516,143	4.35	-	-	111,800	-

Note: Processing overhead receivable.

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES  
Significant inter-company transactions during the year ended December 31, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 4

Number	Company name (Note 4)	Counterparty (Note 4)	Relationship	Transaction			
				General ledger account	Amount (Note 1)	Transaction terms	Percentage of consolidated total operating revenues or total assets
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (KOREA)	Parent company to subsidiary	Sales	\$ 3,530,619	Note 2	2.98%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (LA)	Parent company to subsidiary	Sales	15,843,711	Note 2	13.37%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MEGA COMPUTER	Parent company to subsidiary	Sales	6,305,267	Note 2	5.32%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MYSTAR	Parent company to subsidiary	Sales	1,901,529	Note 2	1.60%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (LA)	Parent company to subsidiary	Accounts receivable	4,797,787	Note 2	8.70%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MEGA COMPUTER	Parent company to subsidiary	Accounts receivable	793,935	Note 2	1.44%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MYSTAR	Parent company to subsidiary	Accounts receivable	292,963	Note 2	0.53%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (PACIFIC)	Parent company to subsidiary	Accrued expenses payable	3,508,869	Note 2	6.36%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (PACIFIC)	Parent company to subsidiary	Processing cost	4,066,892	Note 3	3.43%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (KOREA)	Parent company to subsidiary	Operating expense	56,521	Note 2	0.05%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MEGA COMPUTER	Parent company to subsidiary	Operating expense	363,817	Note 2	0.31%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (PACIFIC)	Parent company to subsidiary	Operating expense	233,152	Note 2	0.20%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (EUROPE)	Parent company to subsidiary	Operating expense	189,609	Note 2	0.16%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MYSTAR	Parent company to subsidiary	Operating expense	168,084	Note 2	0.14%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (POLSKA)	Parent company to subsidiary	Operating expense	151,665	Note 2	0.13%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (MHK)	Parent company to subsidiary	Operating expense	130,578	Note 2	0.11%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (RUSSIA)	Parent company to subsidiary	Operating expense	87,083	Note 2	0.07%

Number	Company name (Note 4)	Counterparty (Note 4)	Relationship	Transaction			
				General ledger account	Amount (Note 1)	Transaction terms	Percentage of consolidated total operating revenues or total assets
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (SARL)	Parent company to subsidiary	Operating expense	\$ 87,102	Note 2	0.07%
0	MICRO-STAR INTERNATIONAL CO., LTD.	MSI (LA)	Parent company to subsidiary	Operating expense	122,733	Note 2	0.10%
1	MSI (PACIFIC)	MICRO ELECTRONICS	Subsidiary to subsidiary	Accrued expenses payable	95,592	Note 3	0.17%
1	MSI (PACIFIC)	MSI (B.V.I.)	Subsidiary to subsidiary	Accrued expenses payable	143,539	Note 3	0.26%
1	MSI (PACIFIC)	MSI ELECTRONICS (KUNSHAN)	Subsidiary to subsidiary	Accrued expenses payable	716,789	Note 3	1.30%
1	MSI (PACIFIC)	MSI COMPUTER (SHENZHEN)	Subsidiary to subsidiary	Accrued expenses payable	2,512,173	Note 3	4.55%
1	MSI (PACIFIC)	MICRO-STAR INTERNATIONAL CO., LTD.	Subsidiary to parent	Accounts receivable	3,475,976	Note 3	6.30%
1	MSI (PACIFIC)	MICRO-STAR INTERNATIONAL CO., LTD.	Subsidiary to parent	Processing Revenue	4,288,312	Note 3	3.62%
1	MSI (PACIFIC)	MSI ELECTRONICS (KUNSHAN)	Subsidiary to subsidiary	Processing overhead	1,204,305	Note 3	1.02%
1	MSI (PACIFIC)	MSI COMPUTER (SHENZHEN)	Subsidiary to subsidiary	Processing overhead	3,038,535	Note 3	2.56%
2	MEGA COMPUTER	MSI (SHANGHAI)	Subsidiary to subsidiary	Sales	3,295,497	Note 2	2.78%
2	MEGA COMPUTER	MSI (SHANGHAI)	Subsidiary to subsidiary	Accounts receivable	1,516,143	Note 2	2.75%
2	MEGA COMPUTER	MSI (SHANGHAI)	Subsidiary to subsidiary	Accrued expenses payable	50,488	Note 2	0.09%
2	MEGA COMPUTER	MSI (SHENZHEN)	Subsidiary to subsidiary	Sales	2,833,040	Note 2	2.39%
3	MSI (SHENZHEN)	MSI (SHANGHAI)	Subsidiary to subsidiary	Sales	861,526	Note 2	0.73%

Note 1: Balances after elimination in conformity with regulations.

Note 2: Transaction terms were approximately the same as those to third parties.

Note 3: Processing overhead was determined based on the quantities, contract amount and delivery time.

Note 4: Individual transactions not exceeding \$50,000 and their corresponding transactions are not disclosed.



MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Information on investees (not including investees in Mainland China)

For the year ended December 31, 2018

Expressed in thousands of NTD

(Except as otherwise indicated)

Table 5

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (LA)	U.S.A	Sales and maintenance of computers, and electronic components	\$ 258,468	\$ 258,468	575,458	100.00	\$ 35,562	\$ (17,931)	\$ (17,931)	Direct subsidiary
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (AUSTRALIA)	Australia	Maintenance and after-sales service of computers and electronic components	57,420	57,420	221,836	100.00	6,526	(189)	(189)	Direct subsidiary
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (JAPAN)	Japan	Sales support and maintenance of computers and electronic components	20,411	20,411	1,400	100.00	12,954	910	910	Direct subsidiary
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (PACIFIC)	Cayman Islands	Holding company	1,511,382	2,016,877	30,204,118	100.00	6,320,046	412,993	428,993	Direct subsidiary
MICRO-STAR INTERNATIONAL CO., LTD.	MSI (HOLDING)	Netherlands	Holding company	45,724	154,166	424,000	100.00	596,852	5,495	5,495	Direct subsidiary
MICRO-STAR INTERNATIONAL CO., LTD.	MSI COMPUTER (CAYMAN)	Cayman Islands	Holding company	99,093	99,093	50,000	100.00	127,131	(877)	(877)	Direct subsidiary
MSI (PACIFIC)	MSI (KOREA)	South Korea	Sales and maintenance of computers and electronic components	24,374	24,374	80,000	100.00	275,004	35,890	-	Indirect subsidiary
MSI (PACIFIC)	MSI (B.V.I.)	British Virgin Island	Holding company	1,784,681	1,784,681	47,465,071	100.00	3,756,616	252,772	-	Indirect subsidiary
MSI (PACIFIC)	MICRO ELECTRONICS	British Virgin Island	Holding company	1,168,593	1,168,593	33,315,472	100.00	2,274,045	198,217	-	Indirect subsidiary
MSI (PACIFIC)	STAR INFORMATION	British Virgin Island	Holding company	144,721	144,721	4,502,601	100.00	35,870	3,204	-	Indirect subsidiary

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
MSI (PACIFIC)	MEGA TECHNOLOGY	British Virgin Island	Holding company	\$ 92,819	\$ 91,296	3,050,000	100.00	\$ (6,090)	\$ (1,831)	-	Indirect subsidiary
MSI (PACIFIC)	MEGA INFORMATION	British Virgin Island	Holding company	-	23,940	-	-	-	1,063	-	Indirect subsidiary
MSI (PACIFIC)	MEGA COMPUTER	Hong Kong	Sales support of computers and electronic components	-	-	1	100.00	6,650	(575)	-	Indirect subsidiary
MSI (PACIFIC)	MSI (MHK)	Hong Kong	Sales support of computers and electronic components	-	-	1	100.00	13,387	6,297	-	Indirect subsidiary
MSI (HOLDING)	MYSTAR	Netherlands	Sales support of computers and electronic components	71,353	71,353	-	100.00	135,090	15,699	-	Indirect subsidiary
MSI (HOLDING)	MSI (RUSSIA)	Russia	Sales support and maintenance of computers and electronic components	68,258	68,258	-	99.00	30,443	2,680	-	Indirect subsidiary
MSI (HOLDING)	MSI (GMBH)	Germany	Sales support of computers and electronic components	71,471	71,471	-	100.00	-	(872)	-	Indirect subsidiary (Note 3)
MSI (HOLDING)	MSI (POLSKA)	Poland	Maintenance and after-sales services of computers and electronic components	46,077	46,077	-	99.00	32,558	2,322	-	Indirect subsidiary
MSI (HOLDING)	MSI (SARL)	France	Sales support of computers and electronic components	26,646	26,646	-	100.00	50,061	4,796	-	Indirect subsidiary
MSI (HOLDING)	MSI (UK)	Britain	Sales support of computers and electronic components	37,226	37,226	-	100.00	12,506	1,618	-	Indirect subsidiary
MSI (HOLDING)	MSI (TURKEY)	Turkey	Sales support of computers and electronic components	3,229	3,229	-	99.00	(90)	-	-	Indirect subsidiary (Note 2)
MSI (HOLDING)	MSI (ITALY)	Italy	Sales support of computers and electronic components	2,153	2,153	-	100.00	1,551	971	-	Indirect subsidiary
MSI (HOLDING)	MSI (EUROPE)	Netherlands	Logistics services of computers and electronic components	37,620	37,620	-	100.00	43,676	4,880	-	Indirect subsidiary
MSI (EUROPE)	MSI (RUSSIA)	Russia	Sales support and maintenance of computers and electronic components	689	689	-	1.00	563	2,680	-	Indirect subsidiary

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
MSI (EUROPE)	MSI (POLSKA)	Poland	Maintenance and after-sales service of computers and electronic components	\$ 467	\$ 467	-	1.00	\$ 180	\$ 2,322	-	Indirect subsidiary
MSI (EUROPE)	MSI (TURKEY)	Turkey	Sales support of computers and electronic components	33	33	-	1.00	27	-	-	Indirect subsidiary (Note 2)
MEGA TECHNOLOGY	RAIDEALS	U.S.A	Sales of computers and electronic components	1,523	-	-	100.00	1,500	(35)	-	Indirect subsidiary

Note 1: The table is presented in New Taiwan dollars. Except for the initial investment amount is valued at historical exchange rate, the others are valued with exchange rate 1USD=30.715 NTD; 1EUR=35.20 NTD on December 31, 2018 and average rate with 1USD=30.1437 NTD; 1EUR=35.6002 NTD for the year ended December 31, 2018.

Note 2: As of December 31, 2018, the liquidation process has not been completed.

Note 3: In November 2018, this subsidiary has completed the liquidation process.

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China - Basic information

For the year ended December 31, 2018

Expressed in thousands of NTD

(Except as otherwise indicated)

Table 6

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
MSI COMPUTER (SHENZHEN)	Sales and manufacture of computers, and electronic components	\$ 1,726,857	Note 1	\$ 1,726,857	\$ -	\$ -	\$ 1,726,857	\$ 252,687	100.00	\$ 252,687	\$ 3,594,505	\$ -	-
MSI ELECTRONICS (KUNSHAN)	Sales and manufacture of computers, and electronic components	1,772,675	Note 1	1,772,675	-	-	1,772,675	197,093	100.00	197,093	2,167,684	-	-
SHENZHEN MEGA INFORMATION	Examination and maintenance of computers, and electronic components	23,940	Note 1	23,940	-	-	23,940	1,062	100.00	1,062	22,139	-	-
MSI COMPUTER TRADING (SHENZHEN)	Sales and maintenance of computers and electronic components	91,296	Note 1	-	-	-	-	(1,795)	100.00	(1,795)	(7,589)	-	Note 3
MSI (SHENZHEN)	Sales and maintenance of computers and electronic components	30,092	Note 1	-	-	-	-	2,983	100.00	2,983	22,172	-	Note 4
MSI (SHANGHAI)	Sales and maintenance of computers and electronic components	29,275	Note 1	-	-	-	-	(68,625)	100.00	(68,625)	(40,209)	-	Note 5

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
MICRO-STAR INTERNATIONAL CO., LTD.	\$ 3,602,547	\$ 3,850,987	\$ 17,967,517

Note 1: The investments were made indirectly through 100% owned subsidiary of the Company.

Note 2: Evaluated based on audited financial statements of the investee companies.

Note 3: The amount of US \$3,000 thousand was remitted by the Company's subsidiary, MSI (Pacific), to MSI COMPUTER TRADING (SHENZHEN).

Note 4: The amount of US \$1,000 thousand was remitted by the Company's subsidiary, MSI (Pacific), to MSI (SHENZHEN).

Note 5: The amount of US \$1,000 thousand was remitted by the Company's subsidiary, MSI (Pacific), to MSI (SHANGHAI).

Note 6: In pursuance of Shen-Zi Letter No.09704604680 from the Ministry of Economic Affairs dated August 29, 2008. The amended "Regulations for examination of investments and technical cooperation in Mainland Area" sets the limitation for investments in Mainland China to be higher of net book value or 60% of consolidated net book value.

Note 7: The table is presented in New Taiwan dollars. Except for the initial investment amount is valued at historical exchange rate, the others are valued with exchange rate 1USD=30.715 NTD on December 31, 2018 and average rate with 1USD=30.1437 NTD for the year ended December 31, 2018.

MICRO-STAR INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China - Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in third areas

For the year ended December 31, 2018

Expressed in thousands of NTD

(Except as otherwise indicated)

Table 7

Investee in Mainland China	Sales/ (Purchase)		Property transaction		Accounts receivable/ (payable)		Amount of endorsements/guarantees secured with collaterals			Accommodation of funds			
	Amount	%	Amount	%	Balance as of December 31, 2018	%	Balance as of December 31, 2018	Purpose	Ceiling amount	December 31, 2018	Interest rate range	Interest expense	Others (Note)
MSI (SHENZHEN)	\$ 2,833,040	45	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -	-	\$ -	-
MSI COMPUTER (SHENZHEN)	-	-	-	-	(2,512,173)	( 72)	-	-	-	-	-	-	3,038,535
MSI ELECTRONICS (KUNSHAN)	-	-	-	-	(716,789)	( 21)	-	-	-	-	-	-	1,204,305
MSI (SHANGHAI)	3,295,497	55	-	-	1,516,143	100	-	-	-	-	-	-	-

Note: Processing overhead.