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MICRO-STAR INTERNATIONAL CO., LTD.

2018 ANNUAL REPORT

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Printed on April 30, 2019

Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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Address : 27F, No.333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City 110
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V. EXCHANGEABLE BOND EXCHANGE MARKETPLACE

None

VI. COMPANY WEBSITE

<http://www.msi.com>

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I .Letter to Shareholders

Dear Shareholders:

Looking back at 2018, business operation was facing adverse challenges against the backdrop of U.S.-China trade tensions and European economic slowdown. The entire PC market was nearing saturation point and slightly declining. However, the demand for gaming continued to grow and the players showed an increased need for high and mid-end PCs as related competition events and live streaming platforms became increasingly popular. Despite the sudden reversal of the demand for graphics cards driven by cryptocurrencies, such fall in the demand for high-end graphics cards, once boosted by the mining rush which caused the products to be in short supply, pushed the demand back to the e-sports market. In addition to the long-term effort in cultivating the high-end gaming market with continuous development of gaming-related PC products to fit the players' needs and responding to the great needs for artwork creation, the Company launched high-end image processing series. Moreover, the Company made a major progress in servers, industrial computers and AIoT for auto electronics, adding impetus to its growth momentum. The Company's consolidated revenues and profits both hit new highs in 2018. Looking ahead to 2019, the Company will continue to show its strength in R&D, production and sales by coming up with all-round gaming series and all types of commercial products and software solutions to create higher values for itself, the clients and the shareholders.

(I) Operating Performance in 2018

1.Consolidated financial results

Unit: NT\$ thousands

Item \ Year	2018	2017	Growth amount	Growth rate
Sales revenue	118,527,273	106,419,905	12,107,368	11.38%
Gross profit	16,129,686	15,031,293	1,098,393	7.31%
After-tax profit	6,041,129	4,937,422	1,103,707	22.35%
Basic earnings per share(After-tax) (NT\$)	7.15	5.84	1.31	22.43%
Diluted earnings per share (After-tax) (NT\$)	7.08	5.79	1.29	22.28%

2. Profitability analysis

Item	Year	Financial Analysis for the Last Two-Years	
		2018	2017
Financial structure(%)	Debt to asset ratio (%)	45.72	43.44
	Long-term capital to property, plant and equipment(%)	641.74	554.91
Solvency(%)	Current ratio(%)	199.30	206.42
	Quick ratio(%)	104.68	122.23
	Interest earned ratio (times) (%)	49,733.08	178,404.56
Profitability (%)	Return on assets (%)	11.60	9.92
	Return on shareholders'equity (%)	20.92	18.05
	Profit ratio (%)	5.10	4.64
	Basic after-tax EPS(NT\$)	7.15	5.84

3. Research and Development Status

As the leading brand in gaming PCs, MSI has always held the belief that it is its responsibility and obligation to develop a product beyond the players' expectation. In addition to the R&D personnel being the players who go to the field to interact directly with the consumer players and listen to them to understand their needs and expectations for the products, whether by working with the pro team leagues or through cross-industry cooperation with world-class makers, the Company provides the users not only with hardware specs, but also a comprehensive all-around gaming ecosystem experience.

The MSI gaming notebook computer is equipped with the latest high-definition graphics card and central processing unit, combining features such as wide viewing angle, wide color gamut, ultra-high update rate, exclusive True Color for accurate color correction, one-button colorful esports keyboard, built-in Hi-Res Audio headphone amplifier and maximized Giant Speaker to provide players with great enjoyment of both vision and hearing. The Prestige series notebooks, specially developed for all types of creators, intelligently detects the editing and drawing software used by creators for system optimization. With continuous commitment to professional mobile workstations, the MSI Mobile Workstation has received a number of ISV certifications, providing the best compatibility experience for ISV software computing in all areas of expertise. The MSI display card comes in the SEA HAWK, VENTUS, and AERO series for different cooling system requirements so that players can get the maximum performance. For the desktop product, the "Trident X" was launched, which is not only the smallest gaming desktop in the industry, but also supports the latest Intel® overclock Core™ i9-9900K series processors that can only be coupled with a large mainframe. It also carries the latest NVIDIA® GeForce® RTX™ 20 Series graphics card and the first-ever interchangeable transparent tempered glass side panel which allows the possibility of maximum and rapid upgrades for users, making it the largest competitor for general game consoles. For the esports screen products, the Company launched the curved "Optix MPG27CQ" for esports, which combines SteelSeries® GameSense's first RGB lighting effects that can be synchronized with the game. It also introduces the industry's first "Gaming OSD APP", which allows users to use the keyboard and mouse in an intuitive way to optimize the settings for the curved gaming screen.

Both the MSI Optix MPG27 series surface esports screen and the MSI GE73 Raider RGB esports notebook won recognition from the jurors in the 2018 Computex; while the FUNTORO smart fleet management and cloud service platform, FUNTORO smart course business service solution claimed major awards, showing the Company's strength and determination to step into the field of software service platforms; and in 2018, a total of 14 products won the Taiwan Excellence Award with an award-winning rate as high as 70%. It is MSI's commitment to continue to concentrate its efforts on innovation, design and performance to bring higher values to e-sports players and all users.

(II) Operating Plan for 2019

To adjust to the future environment, MSI's adopted operation guidelines, estimated goals and important sales strategies for 2018 are as follows:

1. Operation guideline

- (1) Sales and marketing aspect: progressively explore new markets and new customers and establish a long-term entrusted stable business relationship with customers with potentials and sound financial status to create mutual benefits.
- (2) Product R&D aspect: Develop products which meet users' needs.
- (3) Finance aspect: uphold the principle of steady and stable operation, and control various financial risks.
- (4) Manufacturing, quality and service aspect: continue implementing automated manufacturing to increase quality and efficiency. Improve repair and services to enhance customer satisfaction.

2. Expected Sales and Rationales

The Company has a wide range of products. Besides continuing to develop the market for high-end products as it helps with robust growths of various types of products, the Company is also making concurrent efforts in the development and marketing of new products in order to increase the shipment. Room for growth is expected on the market for motherboards, graphic cards, laptops, desktop computers, Gaming monitors, Gaming peripheral products, servers, industrial computers, telematics, among others. MSI will aim to enhance the overall profits by proactively increasing the market shares of respective products. It is expected that up to 20 million pieces are possible for the component products shipment in 2019.

3. Important sales policies

- (1) Production policy aspect: Always paying attention to the global major political and economic situations to respond to the possible change in market demand and the suppliers' productivity. To increase capacity utilization rate by adopting planned procurement of components. To adopt flexible production to reduce stock level yet fulfilling customer's order demand. To observe the dynamic of supply chains and to ensure an effective production of employees, equipment, materials, and manufacturing methods.
- (2) Sales policy aspect: to provide good quality products that fulfill customers' need. To gain a win-win success in sales target with our customers.

Facing the challenge of current global IT industry environment changes and the dynamic, intense competition, MSI will stand by our hardcore RD strength, combining sales and marketing endeavors to achieve the goal of profit increase. We believe with the hard work of all the employees, our overall sales performance will hit continuous growth. I hereby on behalf of the MSI management team express our appreciation to all our shareholders, customers and suppliers. We also appreciate the hard efforts of all employees and directors made during the past year. We hope our shareholders will keep supporting and encouraging us. We will work harder to achieve a greater performance and sales results to share with you.

Sincerely yours,

Chairman: Hsu, Hsiang

II. Introduction of the Company

(I)Establishment date: August 4, 1986

(II)Development history

2019	<ul style="list-style-type: none"> ● MSI's products were favored by CES 2019 jurors with GS65 e-sports notebook, Infinite e-sports desktop, Trident X e-sports desktop, GeForce® RTX™ 2080 Ti GAMING X TR10 e-sports display card, Prestige PS341WU display, Optix MPG341QR smart e-sports display and Optix MAG271QR curved e-sports display claimed a total of 12 major awards for innovation including the CES Computer Hardware and Components Innovation Award, CES E-sports Innovation Award, CES High-performance Home Audio / Video Innovation Award, CES Computer Peripheral Innovation Award, CES e-sports Innovation Award and so forth. ● MSI passed the rigorous tests in the four areas of “Research and Development”, “Design”, “Quality” and “Marketing” with its notebooks, e-sports desktops, e-sports peripherals, industrial computers, automatic electronics, etc.” under the careful evaluation and discussion of more than 90 well-known local experts across the industry, government and academia to win the Taiwan Excellence Award for 21 consecutive years. Not only that, the game linking RGB colorful lighting curved LED e-sports screen Optix MPG27CQ/MPG27C, in addition to being the winner of Taiwan Excellence Awards, won the "Silver Award" for its characteristics of linking with games.
2018	<ul style="list-style-type: none"> ● MSI won the CES 2018 Best E-sports Innovation Gold Award with its powerful and clear-cut Trident 3 Arctic. In addition, along with Trident 3 Arctic, MSI Technology's high-performance Z370 GODLIKE GAMING e-sports motherboard, top GTX 1080Ti Lightning e-sports display card, innovative Optix MPG27CQ curved e-sports display and the new generation Infinite X e-sports desktop also won five CES 2018 Innovation Awards in the computer hardware and component category and the e-sports category. ● MSI passed the rigorous tests in the four areas of “Research and Development”, “Design”, “Quality” and “Marketing” with its products such as notebooks, motherboard, display card, e-sports desktops, e-sports peripherals, industrial computers and servers to win the Taiwan Excellence Award for 20 consecutive years. Not only that, the VR One e-sports backpack, in addition to be the winner of Taiwan Excellence Awards, won the "Silver Award" for its emphasis on the wireless VR e-sports experience. ● Winning the internationally renowned iF Product Design Award, known as the Oscar Award for Product Design, means an exceptional glory of the product for being selected out of thousands of its kind. As the world-leading e-sports brand, MSI shone forth to win 3 major iF awards with its outstanding e-sports GL63 which carries gaming-panel display, the lightest and thinnest backpack e-sports box VR ONE, and the pure white high-quality motherboard X299 TOMAHAWK AC. ● For the 17th COMPUTEX Best Choice Award for Innovative Technology of the Year, MSI's 4 products stood out from the 350 competing items to win 5 awards. The MSI Optix MPG27 series of curved e-sports display won the double champions for "Best Design Award" and "Category Award". MSI has been developing its the automotive electronics brand for many years and its FUNTORO smart fleet management and cloud service platform, with its brilliant performance, won the "Gold Award". The MSI GE73 Raider RGB e-sports notebook, and MSI FUNTORO smart court business service solution, both claimed the "Category Award", once again affirming MSI's leading position in the global e-sports field, as well as its ambition to step into the field of software platform services. ● The Computex Taipei Innovation Design Award was jointly organized by the Taiwan External Trade Development Council (TAITRA) and iF International Forum Design GmbH (Germany). In 2018, MSI once again unveiled the breath-taking next-gen PRO 24X AIO computer to create a new era for the high -tech industry. ● MSI was nominated as one of the “2018 Taiwan Top 20 International Brands” in the “Taiwan International Brand Value Survey” conducted by Interbrand, a global authoritative brand value survey agency which was commissioned by Taiwan Institute of Economic Research under the program sponsored by the Industrial Development Bureau of the Ministry of Economic Affairs.

2017	MSI VR One Backpack PC, GS63VR Stealth Pro gaming laptop and Z270 GAMING M7 gaming motherboard won CES 2017 Innovations Award.
	MSI has been awarded from Taiwan Excellence, including gaming NB, MB, VGA, Desktop and headset products.
	MSI won two iF Design Awards with Z270 TOMAHAWK gaming motherboard and Trident 3 gaming desktop PC.
2016	MSI GS40 Phantom, AIO Gaming 27XT, and Vortex Gaming Tower won CES 2016 Innovations Award.
	GT80 Titan won iF DESIGN AWARD 2016
	MSI GAMING notebook won Readers' Choice Awards 2016
2015	MSI GT72 Dominator Pro laptop, GS30 Shadow, AG240 4K Edition AIO and X99 GAMING 9 are prestigious CES Innovations 2015 honorees.
	MSI has been awarded from Taiwan Excellence for 17 consecutive years. 8 products are awarded, including MB/ VGA/ NB/ AIO products.
	Honored as World's 4th Best Laptop Brand of 2015 and NO.1 in Ranking of Asian Brands by Laptop Magazine.
2014	MSI GS70 laptop and AG2712A gaming All-in-One PC are prestigious CES Innovations 2014 honorees.
	MSI has been awarded from Taiwan Excellence for 16 consecutive years. A total of 13 MSI products are awarded, including the Z87M GAMING motherboard, the GK-601 Dragon Edition gaming keyboard, the ultrathin GS70 laptop, the GT60 3K Edition laptop, the N780 Lightning graphics card, the AG2712A gaming All-in-One PC and the Adora24 ultra-slim All-in-One PC.
	MSI Z97 XPOWER AC won COMPUTEX TAIPEI 2014 d&i and Best Choice Award
2013	The No. 1 and Only Best Choice Golden Awarded Motherboard- MSI Z87-GD65 GAMING
	MSI Taiwan Excellence Award Winner, 15 years of affirmation. Eleven product of the leading company are awarded
	MSI has won the 2013 CES Innovations Awards with the GT70 Dragon Edition notebook and the N680GTX Lightning graphics card.
2012	MSI X79 Series Mainboards break the World Record of 170MHz Base Clock and 5.83GHz CPU Clock of Sandy
	MSI GT70 notebook is the only winner awarded Buyer's Choice, Best Choice, and Media's Choice in Computex 2012.
	15 products of MSI got 2012 Taiwan Excellence Award.
	MSI Z68A-GD80 (G3) and GT780DXR won CES 2012 Innovations Award.
2011	MSI Won one of Top 100 Taiwan Brands Distinguished among 500 brands.
	All the 23 products MSI participated in Taiwan Excellence Award selection won the prize, WindTop AE2420 3D AIO won the Gold Award.
	MSI Z68A-GD80 (G3), GT780DXR and N460GTX Hawk receive CES Innovations Award Honors.
2010	X-Slim X340 was handed the Taiwan Excellence Silver Award and voted second most popular.
	MSI Big Bang-Fuzion mainboard and Telematics both won Best Choice of COMPUTEX.
	MSI participated in 2010 Taiwan Excellence Award selection, and all nominated products won the prize.
2009	MSI has been chosen as one of "2009 Top 50 Corporate Citizens" from CommonWealth Magazine (Issue 416) in Taiwan. MSI has been chosen as one of "2009 Top 70 CSR Excellent Enterprises" from Global Views magazine (Issue 273) in Taiwan.
	MSI Netbook & Car Infotainment product won the Best Choice of COMPUTEX TAIPEI 2009.
	Announced the world's power-saving No. 1 Netbook.
	Announced the 1st Ultra Slim Notebook.
	Announced the 1st All-in-One PC
2008	Announced the world's 1st Hybrid Storage Netbook.
	MSI has been ranked No. 19 of the Top 20 Taiwan Global Brands
	MSI has been awarded "16th Industrial Technology Advancement Awards" by the Ministry of Economic Affairs. "Excellent Enterprise Innovation Award" & "Individual Achievement Award" affirmed the MSI R&D innovation strategy and management.
	MSI is the only one winner of Best Enterprise of COMPUTEX TAIPEI 2008; MSI mainboard & notebook were honored to receive the "Best Choice of COMPUTEX TAIPEI 2008".
	Announced the 1st Car Infotainment product.

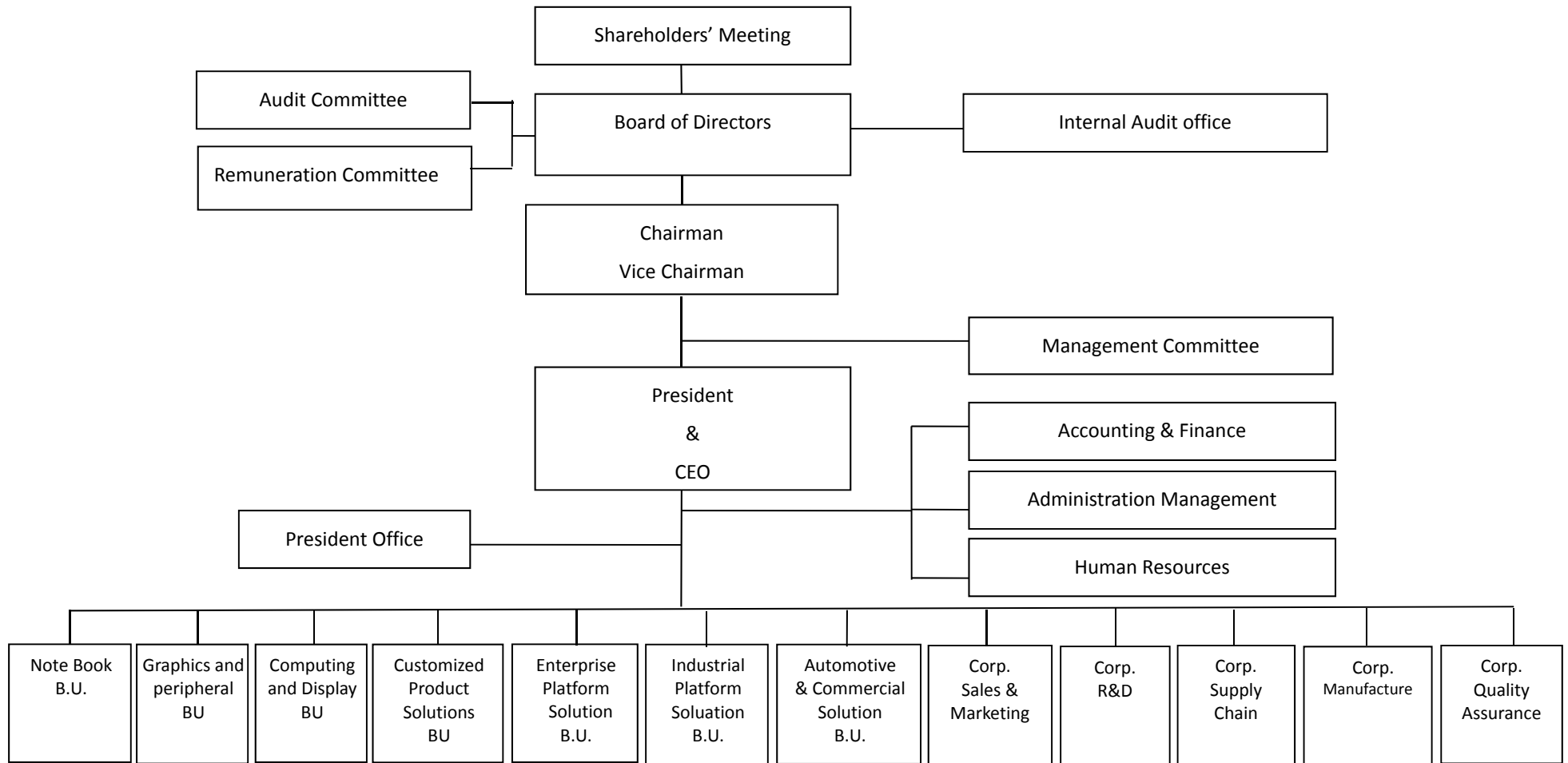
	Announced the world's 1st 10" Netbook product.
2007	Announced the 1st double-wheel and smart video & music interactive navigation service robot.
	The only one mainboard won the Best Choice of COMPUTEX 2007 award.
	Announced the world's 1st overclocking notebook.
	MSI Notebook (PR200) won the "Red Dot Award: Product Design 2007".
	Announced the world's 1st Crystal Collection Notebook product.
	Announced the world's 1st HATO Notebook (Concept Product).
2006	MSI CE products won the iF Design Award in Germany.
	MSI is the only one winner in Tom's Hardware Guide (Worldwide No. 1 online IT Media) Both "Editor's Choice awards for Intel® P975 and P965 platform.
	Announced the world's 1st Pocket Size DTV.
	Obtained UL QC 080000 hazardous substance process management system certification.
	Announced the world's 1st solar-powered notebook and MP3 Player product (Concept Product).
2005	MSI CE products won the iF Design Award in Germany.
2004	Announced the 1st Portable Multimedia Player product.
	MSI CE products won the Good Design Awards in Japan.
2003	Announced the 1st Notebook product.
	Obtained BVQI OHSAS 18000:1999 occupational health and safety management system certification.
	Announced the 1st Pen Tablet PC product
	Obtained UL QS 9000:1998 quality management system certification.
2002	Announced the world's 1st PC2PC WLAN mainboard.
	Announced the 1st MSI communication product.
	Announced the world's 1st PC2PC Bluetooth mainboard.
	Inaugurated its EU Hub in Netherlands.
2001	Established MSI Electronics (Kunshan) Co., Ltd.
	Established China service center in Shanghai.
	Announced the 1st Optical Device product.
	Inaugurated the MSI Plant III in Jung-He, Taipei County.
2000	Announced the 1st Server product.
	Established MSI Computer (Shenzhen) Co., Ltd.
1999	Obtained BVQI ISO 14001:1996 environmental management system certification.
1998	MSI became a public company as it went on IPO (Initial Public Offering) on the Taiwan Stock Exchange (TAIEX).
	Announced the industry's 1st mainboard designed for Socket 7 processor, which supports 100MHz FSB.
	Announced industry's 1st mainboard designed to support Dual PentiumR II processor.
1995	Inaugurated the MSI Plant I in Jung-He, the suburb of Taipei.
	Obtained TUV ISO 9001:1994 quality management system certification.
1991	Announced the 1st Graphics Card product.
1989	Announced the 1st Barebone product.
1988	Obtained TUV ISO 9002:1994 quality management system certification.
1986	Announced the 486 and 586 mainboards.
	MSI was established, focusing on the design and manufacture of Mainboards and Add-on Cards.
	Announced the 386DX mainboards.
	Announced the 1st overclocking 286 mainboards.

1. The most recent fiscal year as well as the current fiscal year up to the date of publication of the annual report, include information on the following, Investment, merger and acquisition activities, corporate reorganization : None.
 - (1) The most recent fiscal year as well as the current fiscal year up to the date of publication of the annual report, include information on the following, merger and acquisition activities, corporate reorganization : None.
 - (2) Investment in affiliates in the past year and up to the date of report :
For investments in affiliated enterprises, please see page 87~88 of this report.

2. Instances in which a major quantity of shares belonging to directors, supervisors, or shareholders holding greater than a 10 percent stake in the company is transferred or otherwise changes hands; any change in managerial control; any material change in operating methods or type of business; and any other matters of material significance that could affect shareholders' equity. This section shall further explain how the above matters will affect the company:None.

III. Corporate governance report

(I)Corporate Organization
1. Organization Chart



2. Major Corporate Function

Department	Functions
Internal Audit Office	To investigate and assess the soundness, suitability, adequacy, status of implementation, and operating performance of departmental internal controls.
President & CEO	To manage the corporate operation and development affairs, to set development and operational goals, and to supervise implement process.
President Office	To offer the general manager suggestions on policy decisions based on affair statistics with regard to organizational operations and development, including labor safety and health, legal affairs, intellectual property management, IT system development, corporate sustainable development plan, the use and maintenance of hardware and system software etc.
Each Products B.U.	Product development, sales and related business.
Corp.Sales & Marketing	PO management, market cultivation, business information collection, and customer credit investigation.
Corp.R&D	Design, development and quality control of products; process enhancement; and technology improvement.
Corp.Supply Chain	Procurement, control and management of raw materials, and production scheduling and management.
Corp. Manufacture	Product manufacturing.
Corp.Quality Assurance	Quality assurance, quality control, customer complaints, and post-delivery service.
Finance & Accounting Division	(A) Accounting Division: Accounting and billing affairs, voucher preparation, receipt review, and financial reports' preparation and analysis. (2)Finance Division: Fund dispatch, risk management, investment management, and registrar and transfer operation.
Administration Management Division	General affairs, public works, and asset management.
Human Resources Division	Personnel administration, employee benefits, health, training and education, and human resources development.

(II) Directors, Supervisors, President, Vice President, Assistant VP, and department heads

1. Directors and Supervisors

As of: April 16, 2018 Unit: Shares

Title	Nationality/ Country of Origin	Name	Gender	Date elected	Term (Years)	Date of first elected	Shareholding when elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Executives, Directors or Supervisors who are spouses or within two degrees		
							Shares	%	Shares	%	Shares	%	Shares	%	Title	Name	Relation
Chairman. (Note 1)	R.O.C	Hsu,Hsiang	Male	2018.06.15	3	1986.07.23	51,983,151	6.15%	51,983,151	6.15%	18,864,257	2.23%	9,376,328	1.11%	—	—	—
Vice Chairman		Huang,Chin-Ching	Male	2018.06.15	3	1986.07.23	20,937,377	2.48%	20,937,377	2.48%	2,148,564	0.25%	7,521,761	0.89%	Director	Liao,Chun-Keng	2nd consanguinity
Director		Lin,Wen-Tung	Male	2018.06.15	3	1986.07.23	25,672,499	3.04%	25,672,499	3.04%	62,895	0.01%	—	—	—	—	—
Director		Yu, Hsien-Neng	Male	2018.06.15	3	1986.07.23	17,892,824	2.12%	17,892,824	2.12%	184,922	0.02%	—	—	—	—	—
Director (Note 1.2)		Chiang,Sheng-Chang	Male	2018.06.15	3	2009.06.16	1,117,074	0.13%	1,117,074	0.13%	0	0.00%	—	—	—	—	—
Director		Kuo,Hsu-Kuang	Male	2018.06.15	3	2018.06.15	0	0.00%	50,000	0.01%	0	0.00%	—	—	—	—	—
Director		Liao,Chun-Keng	Male	2018.06.15	3	2018.06.15	35,000	0.00%	35,000	0.00%	0	0.00%	—	—	Vice Chairman	Huang,Chin-Ching	2nd consanguinity
Director		Hung,Yu-Sheng	Male	2018.06.15	3	2018.06.15	306,660	0.04%	306,660	0.04%	0	0.00%	—	—	—	—	—
Independent Director (Note2)		Wang,Sung-Chou	Male	2018.06.15	3	2003.05.28	0	0.00%	0	0.00%	468	0.00%	—	—	—	—	—
Independent Director		Liu ,Cheng-Yi	Male	2018.06.15	3	2012.06.15	0	0.00%	0	0.00%	0	0.00%	—	—	—	—	—
Independent Director (Note2)		Hsu,Kao-Shan	Male	2018.06.15	3	1998.02.28	418,686	0.05%	418,686	0.05%	220,924	0.03%	—	—	—	—	—

Note 1 : To follow the instructions of the competent authority in conducting to promote corporate governance.

Retiring : President : Mr.Hsu,Hsiang ; new appointments : President & CEO : Mr. Chiang,Sheng-Chang

Note2 : Mr. Chiang, Sheng-Chang, existing director between June 16, 2009 and June 15, 2012, was elected again on June 12, 2015; Mr. Wang, Sung-Chou, existing director between May 28, 2003 and June 14, 2006 and independent director between June 14, 2006 and June 16, 2009, was elected again as independent director on June 15, 2012 and June 12, 2015; Mr.Hsu,Kao-Shan, existing director between Feb 28, 1998 and June 14, 2006, was elected as supervisor between June 14, 2006 and June 12, 2015 ,resigned on May 20, 2016.

Title	Name	Education	Current Job	
		Experience	Title	Representative
Chairman	Hsu,Hsiang	The electronic engineering from National Cheng Kung University. The engineer of Sony Industries Taiwan Co., Ltd.	The Chairman of MSI Director & President of MICRO-STAR NETHERLANDS HOLDING B. V.	MICRO STAR INTERNATIONAL CO., LTD.
Vice Chairman	Huang,Chin-Ching	The electronics from Chung Yuan Christian University. The engineer of Sony Industries Taiwan Co., Ltd.	The Vice Chairman and Senior Vice President of MSI Director & President of the following companies: MSI COMPUTER (AUSTRALIA) PTY. LTD. MSI COMPUTER CAYMAN CO., LTD. Director of the following companies: MSI COMPUTER CORP. LLC"MSI Computer" Executive Director & President of the following company: MSI ELECTRONIC (KUNSHAN) CO., LTD.	MICRO STAR INTERNATIONAL CO., LTD. MICRO STAR INTERNATIONAL CO., LTD. MICRO STAR INTERNATIONAL CO., LTD. MSI (HOLDING) MICRO ELECTRONICS
Director	Lin,Wen-Tung	The electronic engineering from the Lien Ho Industrial and Technological Junior College. The engineer of Sony Industries Taiwan Co., Ltd.	The Senior Vice President of MSI Director & President of MSI COMPUTER JAPAN CO., LTD. Director of the following company: MSI COMPUTER (AUSTRALIA) PTY. LTD.	MICRO STAR INTERNATIONAL CO., LTD. MICRO STAR INTERNATIONAL CO., LTD.
Director	Yu,Hsien-Neng	The electronics from Feng Chia University. The engineer of Sony Industries Taiwan Co., Ltd.	The Senior Vice President of MSI Director & President of the following companies: MICRO-STAR INTERNATIONAL (B.V.I) HOLDING CO., LTD. MSI POLSKA SP. Z O.O Director of MSI COMPUTER CORP. Executive Director & President of the following company: MSI COMPUTER (SHENZHEN) CO., LTD. SHENZHEN MEGA INFORMATION CO., LTD.	MSI PACIFIC MSI HOLDING MICRO STAR INTERNATIONAL CO., LTD. MSI(B.V.I.) MEGA INFORMATION
Director	Chiang,Sheng-Chang	The institute of electronics from National Chiao Tung University. The assistant vice president of ALI Corporation.	The President & Chief Executive Officer of MSI	
Director	Kuo,Hsu-Kuang	The master of business administration from University of Southern Queensland The manager of Chun-Sheng Computer	The Executive Vice President & NB BU GM of MSI	
Director	Liao,Chun-Keng	The master of business administration from University of South Australia The sales manager of Magic Systech Inc	The Executive Vice President & GNP BU GM of MSI	
Director	Hung,Yu-Sheng	ITI International Business Administration Program Shih Chien College of Design and Management MA of Pou Chen Group	The Executive Vice President & CND BU GM of MSI Director & President of the following companies: LLC "MSI COMPUTER" The Executive Director of the following companies: MSI (Shenzhen) Co., Ltd. MSI (Shanghai) Co., Ltd.	MSI HOLDING STAR INFORMATION HOLDING CO., LTD MSI PACIFIC
Independent Director	Wang,Sung-Chou	The master of business administration from National Chengchi University. Director of the KGI INVESTMENT ADVISORY CORPORATION China Securities Co., Ltd. (now KGI Securities Co., Ltd.) Supervisor of the GARND PACIFIC PETROCHEMICAL CORPORATION	Independent Director of MICRO STAR INTERNATIONAL CO., LTD. Director of the following companies: Kae Lee Investment Co., Ltd. Supervisor of the following companies: Videoland Inc. · KK Enterprise Co., Ltd. · Taiwan Sports Lottery Company	
Independent Director	Liu ,Cheng-Yi	The master of science in finance from The City University of New York. Director of Administration Division of Micro Star International Co., Ltd. Supervisor of TXC CORPORATION Independent Director of Jochu Technology Co., Ltd. The Assistant Manager of Twin Head International Corp.	None	
Independent Director	Hsu,Kao-Shan	Criminal investigation of Central Police University Supervisor of Micro Star International Co., Ltd. Attorney of Yung Jan Attorneys-At-Law	Li Tsai Attorneys-At-Law	

Criteria Name	With over five years of job experience and the following business qualification			Independence Criteria(Note)										Also an independent director of other public company
	Teachers of public or private colleges for the subject of commerce, law, finance, accounting, or business	Judge, prosecutor, attorney, accountant, or business salespersons passed national exam & certified specialists or technicians	With job experience in commerce, law, finance, accounting, or business	1	2	3	4	5	6	7	8	9	10	
Hsu,Hsiang			v					v		v	v	v	v	0
Huang,Chin-Ching			v				v	v		v		v	v	0
Lin,Wen-Tung			v				v	v		v	v	v	v	0
Yu, Hsien-Neng			v				v	v		v	v	v	v	0
Chiang,Sheng-Chang			v		v	v	v	v	v	v	v	v	v	0
Kuo,Hsu-Kuang			v				v	v	v	v	v	v	v	0
Liao,Chun-Keng			v		v	v	v	v	v	v		v	v	0
Hung,Yu-Sheng			v		v	v	v	v	v	v	v	v	v	0
Wang,Sung-Chou		v	v		v	v	v	v	v	v	v	v	v	0
Liu ,Cheng-Yi			v		v	v	v	v	v	v	v	v	v	0
Hsu,Kao-Shan		v	v		v	v	v	v	v	v	v	v	v	0

Note: Directors and supervisors who have qualified the following conditions two years before being elected and during the term are to tick the box of the corresponding condition.

1. Not an employee of the company or any related party;
2. Not a director or supervisor of the company or any related party (except for being an independent director of the company or any related party, or, the subsidiary that is with over 50% shareholding with voting rights held directly or indirectly by the company);
3. Does not hold more than 1% of total stock issued directly or indirectly nor a natural shareholder on the top-ten shareholdings list;
4. Not the spouse nor a relative within two degrees of lineal consanguinity of an individual falling in the first three categories;
5. Not a Director, Supervisor, or employee of the legal shareholder that holds over 5% of total stock issued directly or indirectly; or on the top-five shareholdings list of the Company;
6. Not a Director (executive), Supervisor, management, or a shareholder with over 5% shareholdings of accompany or organization that is in business with the Company;
7. Not an owner, partner, Director, Supervisor, management of a partnership or institution and his/her spouse that provides commerce, law, finance, accounting and consulting service to the Company or related party. Including but not limited to Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded Over the Counter and the Remuneration Committee in accordance with the Power Exercise described in Article.
8. Not the spouse nor a relative within two degrees of lineal consanguinity of an individual;
9. Free of any of the behaviors as defined in Article 30 of Company Act;
10. Not a governmental officer, juridical person or its representative as defined in Article 27 of Company Act.

2. Information of the management

Base Date: April 16, 2018 Unit: Shares

Title	Nationality /Country of Origin	Name	Gender	Date Elected	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Shareholding Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
					President (Note1)	R.O.C	Hsu,Hsiang	Male	1994.4	51,983,151			6.15%	18,864,257	2.23%
President & Chief Executive Officer (Note1)	Chiang,Sheng-Chang	Male	2010.3	1,117,074	0.13%		0	0.00%	—	—	The institute of electronics from National Chiao Tung University. The assistant vice president of ALi Corporation.	None	—	—	—
Senior Vice President of Management Committee	Huang,Chin-Ching	Male	2001.7	20,937,377	2.48%		2,148,564	0.25%	7,521,761	0.89%	The electronics from Chung Yuan Christian University. The engineer of Sony Industries Taiwan co., Ltd.	Refer to page11	SVP	Liao,Chun-Keng	2nd consanguinity
Senior Vice President of Management Committee	Lin,Wen-Tung	Male	2001.7	25,672,499	3.04%		62,895	0.01%	—	—	The electronic engineering from the Lien Ho Industrial and Technological Junior College. The engineer of Sony Industries Taiwan co., Ltd.	Refer to page 11	—	—	—
Senior Vice President of Management Committee	Yu,Hsien-Neng	Male	2001.7	17,892,824	2.12%		184,922	0.02%	—	—	The electronics from Feng Chia University. The engineer of Sony Industries Taiwan co., Ltd.	Refer to page 11	—	—	—
Senior Vice President of Management Committee	Lu,Chi-Long	Male	2001.7	18,650,835	2.21%		1,965,350	0.23%	—	—	The electronics from National Taiwan University of Science and Technology. The engineer of Sony Industries Taiwan co., Ltd.	None	—	—	—
Executive Vice President & NB BU GM	Kuo,Hsu-Kuang	Male	2013.4	50,000	0.01%		0	0.00%	—	—	The master of business administration from University of Southern Queensland The manager of Chun-Sheng Computer	None	—	—	—
Executive Vice President& GNP BU GM	Liao,Chun-Keng	Male	2014.4	35,000	0.00%		0	0.00%	—	—	The master of business administration from University of South Australia The Sales Manager of Magic Systech Inc.	None	EVP & GNP BU GM	Huang,Chin-Ching	2nd consanguinity
Executive Vice President & CND BU GM	Hung,Yu-Sheng	Male	2012.4	306,660	0.04%		0	0.00%	—	—	ITI International Business Administration Program Shih Chien College of Design and Management MA of Pou Chen Group	Refer to page 11	—	—	—
President of the EPS B.U.	Tsai,Rong-Fong	Male	2010.3	297,647	0.04%		297,646	0.04%	—	—	The electronics from Chung Yuan Christian University. The General Manager of DTK Technology (Hong Kong).	None	—	—	—

President of IPS B.U.	R.O.C	Lu,Hui-Chang	Male	2012.4	1,000	0.00%	13,188	0.00%	—	—	The master of business administration from Macau University of Science and Technology International Currency Technology Corp. Special Assistant	None	—	—	—
Vice President & CPS BU GM		Wu,Ta-Hsin	Male	2019.1	0	0.00%	0	0.00%	—	—	Communications, University of the Pacific. FICA Sales Director	None	—	—	—
Vice President of Corp. R&D		Teng,Chi-Hung	Male	2010.3	543,183	0.06%	1,124	0.00%	—	—	The institute of electronics from National Chiao Tung University. Ali Corporation Technical Manager	None	—	—	—
Vice President of Corp. Manufacture & Quality Assurance		Li,Chao-Ming	Male	2010.3	11,498	0.00%	0	0.00%	—	—	The master of mechanical system from University of Liverpool ACER INCORPORATED Manager	None	—	—	—
Vice President of Corp. Sales & Marketing		Chiu,Chih-Keng	Male	2015.4	152,925	0.02%	0	0.00%	—	—	Institute of Technology and Industrial Engineering from St. John's & St. Mary's College DTK Computer M.D.	Director on behalf of MSI HOLDING & President of the following companies: MSI COMPUTER SARL MSI COMPUTER EUROPE B.V. MYSTAR COMPUTER B.V. MSI COMPUTER (UK) LTD. MSI ITLAY S.R.L.	—	—	—
Vice President of Corp. Sales & Marketing		Tung,Ti-Chun	Male	2019.4	0	0.00%	0	0.00%	—	—	University of Phoenix DFI-ITOX Inc. Tech Support & MIS	Director & President of MSI COMPUTER CORP. (MICRO-STAR INTERNATIONAL CO., LTD. representative)	—	—	—
Vice President of Corp. Supply Chain		Chen,Te-Ling	Female	2019.1	0	0.00%	0	0.00%	—	—	Department of Foreign Languages and Literatures,National Taiwan University . D-LINK CORPORATION Administrator	None	—	—	—
Vice President of NB BU R&D Division		Lin,Chin-Kuan	Male	2014.4	370,375	0.04%	0	0.00%	—	—	Institute of Electrical and Control Engineering from National Chiao Tung University Wistron Corporation Manager	None	—	—	—
Vice President of NB Product Mgt. Division		Peng,Jen-Fang	Male	2017.4	159,671	0.02%	0	0.00%	—	—	National Taiwan University of Science and Technology	None	—	—	—
Vice President of NB BU R&D Division		Lu,Kuo-Huang	Male	2017.4	0	0.00%	0	0.00%	—	—	Hwa Hsia Institute of Agricultural Technology	None	—	—	—
Vice President of NB Operations Mgt. Division		Pan,Tsai-Yu	Male	2019.4	0	0.00%	0	0.00%	—	—	National Taiwan University Of Science and Technology Askey Computer Corporation. Manager	None	—	—	—
Vice President of EPS BU Sales & Marketing Division		Lu,Cheng-Lung	Male	2015.4	91,555	0.01%	0	0.00%	—	—	Department of Business Administration, Tamkang University JUMBO POWER TRADING CO., LTD. Special Assistant	None	—	—	—
Vice President of ACS ODM R&D Division		Huang,Wen-Shan	Male	2019.4	723	0.00%	0	0.00%	—	—	The electronics from National Taiwan University of Science and Technology. Twinhead International Corp. Assistant Manager	None	—	—	—
Vice President of Corp. Marketing Division		Cheng,Hui-Cheng	Male	2019.4	0	0.00%	0	0.00%	—	—	Fu Jen Catholic University Wistron Corporation. Product manager	None	—	—	—
Senior Special Assistant of President Office Business Planning	R.O.C	Tsai,Wei-Hsin	Male	2010.3	77	0.00%	0	0.00%	—	—	Chinese Culture University Department of International Business Administration LITE-ON TECHNOLOGY CORP. Communications Group Accounting Department Assistant Vice President	None	—	—	—

Vice President of Finance & Accounting Division	Hung,Pao-Yu	Female	2016.4	343,218	0.04%	0	0.00%	—	—	Finance MBA, National Taiwan University President Securities Corp. Underwriting Department Manager	Supervisor of the following companies: MSI COMPUTER (SHENZHEN) CO., LTD. (MSI(B.V.I.)Representative) SHENZHEN MEGA INFORMATION CO., LTD. (MEGA INFORMATION Representative) MSI TRADING (SHENZHEN) CO., LTD. (MEGA TECHNOLOGY HOLDING CO., LTD. Representative) MSI (Shenzhen) Co., Ltd. (STAR INFORMATION Representative) MSI (Shanghai) Co., Ltd. (MSI PACIFIC Representative) Director on behalf of MICRO STAR of the following company: MSI PACIFIC INTERNATIONAL HOLDING CO., LTD. Director on behalf of MSI PACIFIC of the following companies: MICRO ELECTRONICS HOLDING CO., LTD. MEGA INFORMATION HOLDING CO., LTD. MEGA TECHNOLOGY HOLDING CO., LTD. MEGA COMPUTER CO., LTD. MHK INTERNATIONAL CO., LTD. STAR INFORMATION HOLDING CO., LTD. LINKING FUTURE CO., LTD. Director on behalf of MEGA TECHNOLOGY of the following company: RAIDEALS INC.	—	—	—
Assistant Vice President of Internal Auditing Office	Liu,Chu-Hao	Male	2010.3	10,000	0.00%	19,609	0.00%	—	—	Department of Accounting, Tamkang University Mag Technology Co., Ltd. Audit Assistant Manager	The Executive Director of MSI TRADING (SHENZHEN) CO., LTD.(MEGA TECHNOLOGY HOLDING CO., LTD. Representative) Supervisor of MSI ELECTRONIC (KUNSHAN) CO., LTD (MICRO ELECTRONICS Representative) Supervisor of MSI KOREA CO., LTD.(MSI PACIFIC Representative) Supervisor of MSI COMPUTER JAPAN CO., LTD. (MICRO STAR Representative)	—	—	—

Note1 : To follow the instructions of the competent authority in conducting to promote corporate governance.

Retiring : President : Mr. Hsu,Hsiang ; new appointments : President & CEO : Mr. Chiang,Sheng-Chang

(III) Remuneration paid during the most recent fiscal year to directors, supervisors, president and vice presidents

1. Remuneration of Directors, Supervisors

(1) Remuneration of Directors (including Independent Directors)

Unit : NT\$

Title	Name	Remuneration of Directors							Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Remuneration received by Directors who are also employees						Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary			
		Base Compensation(A)		Severance Pay(B)		Remuneration to Directors (C)		Allowances(D)		Salary, Bonuses, and Allowances(E)		Severance Pay (F)		Remuneration to Employee(G)				MSI		Companies in the consolidated financial statements		
		MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI		Companies in the consolidated financial statements						
Chairman	Hsu,Hsiang																					
Vice Chairman	Huang,Chin-Ching																					
Director	Lin,Wen-Tung																					
Director	Yu, Hsien-Neng																					
Director	Chiang,Sheng-Chang																					
Director	Kuo,Hsu-Kuang																					
Director	Liao,Chun-Keng	0	0	0	0	49,500,000	49,500,000	0	0	0.82%	0.82%	103,091,664	103,091,664	175,500	175,500	38,500,000	0	38,500,000	0	3.17%	3.17%	None
Director	Hung,Yu-Sheng																					
Independent Director	Wang,Sung-Chou																					
Independent Director	Liu,Cheng-Yi																					
Independent Director	Hsu,Kao-Shan																					

*Remuneration received in the most recent year by the director of the company for rendering services (such as serving as a non-employed consultant) to any company listed in the Financial Report : None.

Range of Remuneration	Remuneration Bracket				Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)		Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	MSI	Companies in the consolidated financial statements H	MSI	Companies in the consolidated financial statements (I)	MSI	Companies in the consolidated financial statements H	MSI	Companies in the consolidated financial statements (I)
Below 2,000,000								
2,000,000 ~ 5,000,000	Hsu,Hsiang 、 Huang,Chin-Ching 、 Lin,Wen-Tung 、 Yu, Hsien-Neng 、 Chiang,Sheng-Chang 、 Kuo,Hsu-Kuang 、 Liao,Chun-Keng 、 Hung,Yu-Sheng 、 Wang,Sung-Chou 、 Liu ,Cheng-Yi 、 Hsu,Kao-Shan	Hsu,Hsiang 、 Huang,Chin-Ching 、 Lin,Wen-Tung 、 Yu, Hsien-Neng 、 Chiang,Sheng-Chang 、 Kuo,Hsu-Kuang 、 Liao,Chun-Keng 、 Hung,Yu-Sheng 、 Wang,Sung-Chou 、 Liu ,Cheng-Yi 、 Hsu,Kao-Shan	Wang,Sung-Chou 、 Liu ,Cheng-Yi 、 Hsu,Kao-Shan	Wang,Sung-Chou 、 Liu ,Cheng-Yi 、 Hsu,Kao-Shan				
5,000,000 ~ 10,000,000								
10,000,000 ~ 15,000,000								
15,000,000 ~ 30,000,000					Hsu,Hsiang 、 Huang,Chin-Ching 、 Lin,Wen-Tung 、 Yu, Hsien-Neng 、 Chiang,Sheng-Chang 、 Kuo,Hsu-Kuang 、 Liao,Chun-Keng 、 Hung,Yu-Sheng	Hsu,Hsiang 、 Huang,Chin-Ching 、 Lin,Wen-Tung 、 Yu, Hsien-Neng 、 Chiang,Sheng-Chang 、 Kuo,Hsu-Kuang 、 Liao,Chun-Keng 、 Hung,Yu-Sheng		
30,000,000 ~ 50,000,000								
50,000,000 ~ 100,000,000								
Over 100,000,000								
Total	49,500,000	49,500,000	191,267,164	191,267,164				

(2) Remuneration of Supervisors: The Company established an Audit Committee to replace supervisors on June 15, 2018 and the supervisors are relieved of the position starting on that day.

2. Remuneration of President and Vice Presidents

Unit : NTS

Title	Name	Salary(A)		Severance Pay(B)		Bonuses and Allowances (C)		Remuneration to Employee(D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary
		MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI	Companies in the consolidated financial statements	MSI		Companies in the consolidated financial statements		MSI	Companies in the consolidated financial statements	
								Cash amount	Stock amount	Cash amount	Stock amount			
President (Note)	Hsu,Hsiang													
President & Chief Executive Officer (Note)	Chiang,Sheng-Chang													
Senior Vice President of Management Committee	Huang,Chin-Ching													
Senior Vice President of Management Committee	Lin,Wen-Tung													
Senior Vice President of Management Committee	Yu,Hsien-Neng													
Senior Vice President of Management Committee	Lu,Chi-Long													
Executive Vice President & NB BU GM	Kuo,Hsu-Kuang													
Executive Vice President& GNP BU GM	Liao,Chun-Keng													
Executive Vice President & CND BU GM	Hung,Yu-Sheng													
President of the EPS B.U.	Tsai,Rong-Fong													
President of IPS B.U.	Lu,Hui-Chang													
Vice President & CPS BU GM	Wu,Ta-Hsin													
Vice President of Corp. R&D	Teng,Chi-Hung													
Vice President of Corp. Manufacture & Quality Assurance	Li,Chao-Ming	75,316,293	75,316,293	1,953,000	1,953,000	139,070,050	139,070,050	70,600,000	0	70,600,000	0	4.75%	4.75%	None
Vice President of Corp. Sales & Marketing	Chiu,Chih-Keng													
Vice President of Corp. Sales & Marketing	Tung,Ti-Chun													
Vice President of Corp. Supply Chain	Chen,Te-Ling													
Vice President of NB BU R&D Division	Lin,Chin-Kuan													
Vice President of NB Product Mgt. Division	Peng,Jen-Fang													
Vice President of NB BU R&D Division	Lu,Kuo-Huang													
Vice President of NB Operations Mgt. Division	Pan,Tsai-Yu													
Vice President of EPS BU Sales & Marketing Division	Lu,Cheng-Lung													
Vice President of ACS ODM R&D Division	Huang,Wen-Shan													
Vice President of Corp. Marketing Division	Cheng,Hui-Cheng													
Senior Special Assistant of President Office Business Planning	Tsai,Wei-Hsin													
Vice President of Finance & Accounting Division	Hung,Pao-Yu													

Remuneration Bracket

Range of Remuneration	Name of President and Vice President	
	MSI	Companies in the consolidated financial statements E
Below 2,000,000		
2,000,000 ~ 5,000,000		
5,000,000 ~ 10,000,000	Tsai,Wei-Hsin、Lu,Hui-Chang、Lu,Cheng-Lung、Chiu,Chih-Keng、Peng,Jen-Fang、Lu,Kuo-Huang、Wu,Ta-Hsin、Tung,Ti-Chun、Chen,Te-Ling、Pan,Tsai-Yu、Huang,Wen-Shan、Cheng,Hui-Cheng、Hung,Pao-Yu	Tsai,Wei-Hsin、Lu,Hui-Chang、Lu,Cheng-Lung、Chiu,Chih-Keng、Peng,Jen-Fang、Lu,Kuo-Huang、Wu,Ta-Hsin、Tung,Ti-Chun、Chen,Te-Ling、Pan,Tsai-Yu、Huang,Wen-Shan、Cheng,Hui-Cheng、Hung,Pao-Yu
10,000,000 ~ 15,000,000	Teng,Chi-Hung、Li,Chao-Ming、Tsai,Rong-Fong、Lin,Chin-Kuan、Kuo,Hsu-Kuang、Liao,Chun-Keng、Hung,Yu-Sheng	Teng,Chi-Hung、Li,Chao-Ming、Tsai,Rong-Fong、Lin,Chin-Kuan、Kuo,Hsu-Kuang、Liao,Chun-Keng、Hung,Yu-Sheng
15,000,000 ~ 30,000,000	Hsu,Hsiang、Chiang,Sheng-Chang、Huang,Chin-Ching、Lin,Wen-Tung、Yu,Hsien-Neng、Lu,Chi-Long	Hsu,Hsiang、Chiang,Sheng-Chang、Huang,Chin-Ching、Lin,Wen-Tung、Yu,Hsien-Neng、Lu,Chi-Long
30,000,000 ~ 50,000,000		
50,000,000 ~ 100,000,000		
Over 100,000,000		
Total	286,939,343	286,939,343

Names of managers receiving remuneration to employees, and status of allocation thereof

	Title	Name	Stock Amount	Cash Amount	Total	Ratio of Total Amount to Net Income (%)
Managers	President	Hsu,Hsiang	0	72,000,000	72,000,000	1.19%
	President & Chief Executive Officer	Chiang,Sheng-Chang				
	Senior Vice President of Management Committee	Huang,Chin-Ching				
	Senior Vice President of Management Committee	Lin,Wen-Tung				
	Senior Vice President of Management Committee	Yu,Hsien-Neng				
	Senior Vice President of Management Committee	Lu,Chi-Long				
	Executive Vice President & NB BU GM	Kuo,Hsu-Kuang				
	Executive Vice President & GNP BU GM	Liao,Chun-Keng				
	Executive Vice President & CND BU GM	Hung,Yu-Sheng				
	President of the EPS B.U.	Tsai,Rong-Fong				
	President of IPS B.U.	Lu,Hui-Chang				
	Vice President & CPS BU GM	Wu,Ta-Hsin				
	Vice President of Corp. R&D	Teng,Chi-Hung				
	Vice President of Corp. Manufacture & Quality Assurance	Li,Chao-Ming				
	Vice President of Corp. Sales & Marketing	Chiu,Chih-Keng				
	Vice President of Corp. Sales & Marketing	Tung,Ti-Chun				
	Vice President of Corp. Supply Chain	Chen,Te-Ling				
	Vice President of NB BU R&D Division	Lin,Chin-Kuan				
	Vice President of NB Product Mgt. Division	Peng,Jen-Fang				
	Vice President of NB BU R&D Division	Lu,Kuo-Huang				
	Vice President of NB Operations Mgt. Division	Pan,Tsai-Yu				
	Vice President of EPS BU Sales & Marketing Division	Lu,Cheng-Lung				
	Vice President of ACS ODM R&D Division	Huang,Wen-Shan				
	Vice President of Corp. Marketing Division	Cheng,Hui-Cheng				
	Senior Special Assistant of President Office Business Planning	Tsai,Wei-Hsin				
	Vice President of Finance & Accounting Division	Hung,Pao-Yu				
Assistant Vice President of Internal Auditing Office	Liu,Chu-Hao					

Note : To follow the instructions of the competent authority in conducting to promote corporate governance. Retiring : President : Mr.Hsu,Hsiang ; new appointments : President & CEO : Mr. Chiang,Sheng-Chang

3. Compare and state the ratio of total remuneration paid to the company's Directors, Supervisors, President, and V.P. by the company and the companies in the consolidated financial statements to net income in the last two years; also, describe the policy, standard, and combination of remuneration paid; moreover, the procedure of defining remuneration and its relation to business performance and future risks.

(1) Analyze the ratio of the total remuneration paid to the company's Directors, Supervisors, President, and V.P. in the last two years to net income:

Year Item	Directors & Supervisors		President and Vice President	
	Ratio of the total remuneration paid to the company's Directors, Supervisors in the last two years to net income		Ratio of the total remuneration paid to the President, and V.P. in the last two years to net income	
	2018	2017	2018	2017
	0.82%	0.87%	4.75%	4.79%
1. Policies of remuneration	<p>Articles 19-1 of Incorporation of Micro-Star International Co., Ltd. The pre-tax income of the current fiscal year shall first offset the accumulated deficits. If the balance is positive, then the Company shall allocate the remuneration to be distributed to employees, directors and supervisors in accordance with the following ratio. Employee remuneration in the percentage of 6% to 10%. Individuals eligible for employee remuneration include the Company's employees and the employees of the Company's subsidiaries meeting certain requirements. Such requirements are to be set by the Board of Directors. Remuneration to be distributed to directors and supervisors shall not exceed 1%. The decision of the percentage of remuneration to be distributed to employees, directors and supervisors set forth in the preceding Paragraph, the forms of distribution (cash or stock dividends) and the amounts and shares thereof shall be made through the special resolutions of the Board of Directors and reported to the shareholders' meeting.</p> <p>(The Company established an Audit Committee to replace supervisors on June 15, 2018)</p>		<p>Carried out in accordance with the Company's Remuneration Management Regulations, Performance Review Regulation, Employee Bonus Evaluation and Distribution Rules.</p>	
2. Criteria and composition of remuneration	The remunerations of directors are distributed based on the number of directors and considering the contribution of individual directors to the Company.		Includes base salary, Duty allowance and performance bonuses.	
3. Procedures to fix remuneration	Resolved by the board meeting, and approved by the general meeting of shareholders.		Based on their educational and professional backgrounds.	
4. Interrelationship with MSI business	Based on the Company's performance and profitability.		Remuneration is paid based on target achievement rate, performance, profitability and contribution of the respective.	

(2) Except for the Company, all the other companies included in the Consolidated Statement did not pay remunerations for the directors, supervisors, president, and vice presidents of the Company.

(IV) Corporate governance

1. Board of Directors

The Board had 11 (A) meetings during 2018/1/1~2019/4/30:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Chairman	Hsu,Hsiang	11	0	100.00%	
Vice Chairman	Huang,Chin-Ching	8	3	72.73%	
Director	Lin,Wen-Tung	10	1	90.91%	
Director	Yu, Hsien-Neng	8	3	72.73%	
Director	Chiang,Sheng-Chang	9	2	81.82%	
Director	Kuo,Hsu-Kuang	8	0	100.00%	Note1
Director	Liao,Chun-Keng	8	0	100.00%	Note1
Director	Hung,Yu-Sheng	8	0	100.00%	Note1
Independent Director	Wang,Sung-Chou	11	0	100.00%	Note2
Independent Director	Liu,Cheng-Yi	11	0	100.00%	Note2
Independent Director	Hsu,Kao-Shan	8	0	100.00%	Note1、Note2

Note1: June 15,2018 Newly appointed.

Note2: Independent directors attended in person in 2018 and up to date till the Annual Report printed (with an attendance rate of 100%).

Other mentionable items:

1. Where one of the following circumstances apply for the operations of the Board of Director meetings, the date, session, topic discussed, opinions of every independent directors, and actions of the independent directors' opinions shall be explained:

- (1) The Board of Director meetings, the date, session, topic discussed, opinions of every independent directors, and this Corporations' handling of the opinions of the independent directors shall be explained, please see page 39~41 of this report.
- (2) Any one of the matters listed in Article 14-3 of the Securities and Exchange Act: For resolutions of this Corporation on matters listed in Article 14-3 of the Securities and Exchange Act, there are no dissenting or qualified opinions from the independent director.
- (3) In addition to the aforementioned matters, any other resolutions from the Board of Directors where an independent director expressed dissenting or qualified opinions that have been recorded or stated by writ: None

2.If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

(1)Date : 2018.2.2、2018.3.23

Directors' names : Hsu,Hsiang、Huang,Chin-Ching、Lin,Wen-Tung、Yu, Hsien-Neng、Chiang,Sheng-Chang、Tsai,Rong-Fong、Lu,Chi-Long
Proposal: Remuneration Proposal.

Reason for recusal upon conflicts of interest and voting status: The Board reminded in advance, due to conflicts of interest, should not provide each directors' remuneration at the meeting.

Hsu,Hsiang、Huang,Chin-Ching、Lin,Wen-Tung、Yu, Hsien-Neng、Chiang,Sheng-Chang、Tsai,Rong-Fong、Lu,Chi-Long did not take part in the discussions and the voting session, due to conflictsof interest.

(2)Date : 2018.7.27、2018.10.4、2019.1.25、2019.3.21

Directors' names : Hsu,Hsiang、Huang,Chin-Ching、Lin,Wen-Tung、Yu, Hsien-Neng、Chiang,Sheng-Chang、Kuo,Hsu-Kuang、Liao,Chun-Keng、Hung,Yu-Sheng

Proposal: Remuneration Proposal.

Reason for recusal upon conflicts of interest and voting status: The Board reminded in advance, due to conflicts of interest, should not provide each directors' remuneration at the meeting.

Hsu,Hsiang、Huang,Chin-Ching、Lin,Wen-Tung、Yu, Hsien-Neng、Chiang,Sheng-Chang、Kuo,Hsu-Kuang、Liao,Chun-Keng、Hung,Yu-Sheng

3.Measures taken to strengthen the functionality of the board: The Board of Directors has established a Remuneration Committee to assist the board in carrying out its various duties.

- (1) Voluntarily to establish Independent directors in 2012.
- (2) To accommodate electronic voting during shareholders' meetings, the Articles of Incorporation were revised on June 17, 2014, and the nomination system is adopted for the election of Board members.
- (3) Proposals in shareholders' meetings between 2014 to 2016 were voted on one by one and recorded the results of agree, against, and given up of each proposal in the meeting minutes.
- (4) The average attendance rate of all directors at this period (from June 15, 2018 up to date Annual Report printed) was 94.32%。

2. Audit Committee or Attendance of Supervisors at Board Meetings:

(1) Attendance of Supervisors at Board Meetings: The Company established an Audit Committee to replace supervisors on June 15, 2018 and the supervisors are relieved of the position starting on that day.

(2) Operation of the Audit Committee:

4(A) Audit Committee meetings in 2018, the attendance of the independent directors is as follows:

Title	Name	Attendance in Person (B)	Attendance Rate (%) 【 B/A 】	Remarks
Independent director	Wang,Sung-Chou	4	100.00%	June 15,2018 Newly appointed
Independent director	Liu,Cheng-Yi	4	100.00%	June 15,2018 Newly appointed
Independent director	Hsu,Kao-Shan	4	100.00%	June 15,2018 Newly appointed

Other items that shall be recorded:

1. If any of the following applies to the operations of the Audit Committee, the date and session of the Board of Directors' Meeting, as well as the resolutions, resolutions of the Audit Committee and the corporation's actions in response to the opinions of the Audit Committee should be stated.

(1) Items listed in Article 14(5) of the Securities and Exchange Act.

(2) Except the items in the preceding issues, other resolutions approved by two-thirds of all directors but yet to be approved by the Audit Committee: None.

2. Execution process where the independent director abstain from begin a stakeholder, the name of the director, the content of proposal, the reason of abstinence and the results of the voting should be stated: None

Audit Committee Meeting Date	Agenda	Audit Committee Resolution Results	Audit Committees' opinions			Corporation's responses to the comments of the Audit Committee	Execution process where the independent director abstain from begin a stakeholder	
			Wang,Sung-Chou	Liu,Cheng-Yi	Hsu,Kao-Shan		The reason of abstinence	The results of the voting should be stated
2018.08.09 (2018/1)	(1) Financial Report of second quarter, 2018 (2) Evaluated the report concerning the independence of this Company's CPA. (3) Revise the corporation's "Internal Control System", "Implementation Rules for Internal Auditing"	Proposal approved	None	None	None	None	None	None
2018.11.09 (2018/2)	(1) Financial Report of third quarter, 2018	Proposal approved	None	None	None	None	None	None
2019.03.21 (2019/1)	(1) 2018 Financial Statement of this Company. (2) The Statement on Internal Control System of 2018 of this Company. (3) Amendments to Procedure for the Endorsement and Guarantee Operations Procedure, Operations Procedure for Loaning of Funds to Other Parties, Acquisition and Disposal of Assets	Proposal approved	None	None	None	None	None	None
2019.04.30 (2019/2)	(1) Business Performance Report - First Quarter 2019	Proposal approved	None	None	None	None	None	None

3. Communication between directors and head of internal audit and CPA (including material issues, audit methods and results relating to the corporation's finances and business).

(1) The internal audit supervisor submits an audit summary report to the Audit Committee on a monthly basis in accordance with the annual audit plan.

(2) The Company convenes an audit committee, and invites the accounting and auditing supervisors attend and invites relevant supervisors as needed.

(3) The independent directors of the Company and the internal audit supervisors and certified accountants can communicate with each other directly and exchange opinions efficiently.

(4) The independent directors and accountants or internal audit supervisors hold communication meetings on an irregular basis. For the communication details, please refer to the Company's website. <https://tw.msi.com/about/company/>

3. Corporate Governance Implementation Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons																																																																																																																								
	Y	N	Abstract Illustration																																																																																																																									
1. If the Company established and disclosed Corporate Governance Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company has established the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles has been disclosed on the Company’s website.	None																																																																																																																								
2. Shareholding Structure & Shareholders’ Rights (1) If the Company established internal procedures to handle shareholder suggestions, proposals, complaints and litigation and execute accordingly?	V		In addition to the existing hotline and email channels, the Company has established an internal operating procedure, and has designated appropriate departments, such as Investor Relations, Public Relations, Legal Department, to handle shareholders’ suggestions, doubts, disputes and litigation.	None																																																																																																																								
(2) If the Company maintained of a list of major shareholders and a list of ultimate owners of these major shareholders?	V		The Finance Dept is responsible for collecting the updated information of major shareholders and the list of ultimate owners of those shares.	None																																																																																																																								
(3) If risk management mechanism and “firewall” between the Company and its affiliates are in place?	V		「Group business management regulations」 are made to strictly regulate the activities of trading, endorsement and loans between the Company and its affiliates. In addition, the “Criteria of Internal Control Mechanism for a Public Company”, outlined by the Financial Supervisory Commission when drafting the guidelines for the “Supervision and Governance of Subsidiaries”, was followed in order to implement total risk control with respect to subsidiaries.	None																																																																																																																								
(4) If the Company established internal policies that forbid insiders from trading based on non-disclosed information?	V		To protect shareholders’ rights and fairly treat shareholders, the Company has established the internal rules to forbid insiders trading on undisclosed information. The Company has also strongly advocated these rules in order to prevent any violations.	None																																																																																																																								
3. Structure of Board of Directors and its responsibility (1) Does the Board of Directors set and implement a diversification policy?	V		<p>The Company has the “Corporate Governance Principles” in place and diversified policies are established with regard to the composition of members of the Board of Directors. The directors (including independent directors) are nominated. The Board of Directors members are nominated according to law by shareholders and naturally elected during a shareholders’ meeting.</p> <p>Member diversification is considered by the Board members. Factors taken into account include, but are not limited to gender, age, cultures, educational background, race, professional experience, skills, knowledge and terms of service. The members of board of directors possess a diveres range of expertise in the fields of Operational Decision Making, Operations Management, Crisis Management, Industry Knowledge, International Market Outlook, Leadership Decision Making, Finance& Accounting and law, can adequately fulfill the Company’s future development needs.</p> <table border="1"> <thead> <tr> <th>Name</th> <th>Gender</th> <th>Operational Decision Making</th> <th>Operation Management</th> <th>Crisis Management</th> <th>Industry Knowledge</th> <th>International Market Outlook</th> <th>Leadership Decision Making</th> <th>Finance& Accounting</th> <th>law</th> </tr> </thead> <tbody> <tr> <td>Hsu,Hsiang</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> </tr> <tr> <td>Huang,Chin-Ching</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Lin,Wen-Tung</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Yu, Hsien-Neng</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Chiang,Sheng-Chang</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Kuo,Hsu-Kuang</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Liao,Chun-Keng</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Hung,Yu-Sheng</td> <td>Male</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> <td></td> </tr> <tr> <td>Wang,Sung-Chou</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td>V</td> <td></td> <td>V</td> <td></td> </tr> <tr> <td>Liu,Cheng-Yi</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td>V</td> <td></td> <td>V</td> <td></td> </tr> <tr> <td>Hsu,Kao-Shan</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td>V</td> <td></td> <td></td> <td>V</td> </tr> </tbody> </table>	Name	Gender	Operational Decision Making	Operation Management	Crisis Management	Industry Knowledge	International Market Outlook	Leadership Decision Making	Finance& Accounting	law	Hsu,Hsiang	Male	V	V	V	V	V	V	V	V	Huang,Chin-Ching	Male	V	V	V	V	V	V			Lin,Wen-Tung	Male	V	V	V	V	V	V			Yu, Hsien-Neng	Male	V	V	V	V	V	V			Chiang,Sheng-Chang	Male	V	V	V	V	V	V			Kuo,Hsu-Kuang	Male	V	V	V	V	V	V			Liao,Chun-Keng	Male	V	V	V	V	V	V			Hung,Yu-Sheng	Male	V	V	V	V	V	V			Wang,Sung-Chou	Male		V		V	V		V		Liu,Cheng-Yi	Male		V		V	V		V		Hsu,Kao-Shan	Male		V		V	V			V	None
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<p>(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?</p>	V	<p>In order for the sound supervision and reinforcement of management, the Company established the Remuneration Committee and Audit Committee. The functional committees shall be responsibilities for the Board of Directors.</p>	<p>The company has not yet established other functional committee. Scheduled to gradually establish according to the laws and regulations as well as the practical requirement of the company.</p>																								
<p>(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis?</p>	V	<p>The Company has the Guidelines for Evaluating Performance of the Board of Directors in place. Self-assessments are organized once a year and cover participation in corporate operation, quality of decisions made by the Board of Directors, the composition and structure of the Board of Directors, the election and continuing education of Board directors, among others. The questionnaires were sent out in November 2018 to respective directors. The 2018 Board of Directors self-assessment was completed on December 31, 2018 and the results are disclosed on the website of the Company.</p>	None																								
<p>(4) If the Company assess the independence of CPA periodically?</p>	V	<p>The Board has reviewed the qualification of CPA's independency on August 9, 2017. The review includes the evaluation, as below items:</p> <table border="1" data-bbox="1070 810 2056 1295"> <thead> <tr> <th data-bbox="1070 810 1805 863">Assessment</th> <th data-bbox="1805 810 1917 863">assessment result(Y/N)</th> <th data-bbox="1917 810 2056 863">Independence (Y/N)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1070 863 1805 916">The designated accountant does not have direct or indirect financial interest relationship with the Company.</td> <td data-bbox="1805 863 1917 916" style="text-align: center;">N</td> <td data-bbox="1917 863 2056 916" style="text-align: center;">Y</td> </tr> <tr> <td data-bbox="1070 916 1805 968">The designated accountant does not have a financing or guarantee relationship with the Company or any director of the Company.</td> <td data-bbox="1805 916 1917 968" style="text-align: center;">N</td> <td data-bbox="1917 916 2056 968" style="text-align: center;">Y</td> </tr> <tr> <td data-bbox="1070 968 1805 1021">The designated accountant does not have close business relationship or potential employment relationship with the Company.</td> <td data-bbox="1805 968 1917 1021" style="text-align: center;">N</td> <td data-bbox="1917 968 2056 1021" style="text-align: center;">Y</td> </tr> <tr> <td data-bbox="1070 1021 1805 1074">The designated accountant does/did not currently/ in the recent two years serve as a director, supervisor, or manager of the Company or play a role having significant influence on the audit case.</td> <td data-bbox="1805 1021 1917 1074" style="text-align: center;">N</td> <td data-bbox="1917 1021 2056 1074" style="text-align: center;">Y</td> </tr> <tr> <td data-bbox="1070 1074 1805 1126">The designated accountant does not promote or act as an intermediate for the shares or other securities issued by the Company.</td> <td data-bbox="1805 1074 1917 1126" style="text-align: center;">N</td> <td data-bbox="1917 1074 2056 1126" style="text-align: center;">Y</td> </tr> <tr> <td data-bbox="1070 1126 1805 1179">The designated accountant does not serve as the advocate of the Company nor as the representative of the Company to mediate the dispute between the Company and any third party.</td> <td data-bbox="1805 1126 1917 1179" style="text-align: center;">N</td> <td data-bbox="1917 1126 2056 1179" style="text-align: center;">Y</td> </tr> <tr> <td data-bbox="1070 1179 1805 1232">The designated accountant does not have kinship with any directors or managers of the Company or the person having significant influence on the audit service.</td> <td data-bbox="1805 1179 1917 1232" style="text-align: center;">N</td> <td data-bbox="1917 1179 2056 1232" style="text-align: center;">Y</td> </tr> </tbody> </table> <p data-bbox="1070 1295 2056 1347">The assessment results show that the declaration of independence has not been breached in the relationship between the Company and the CPAs; independence disqualified.</p>	Assessment	assessment result(Y/N)	Independence (Y/N)	The designated accountant does not have direct or indirect financial interest relationship with the Company.	N	Y	The designated accountant does not have a financing or guarantee relationship with the Company or any director of the Company.	N	Y	The designated accountant does not have close business relationship or potential employment relationship with the Company.	N	Y	The designated accountant does/did not currently/ in the recent two years serve as a director, supervisor, or manager of the Company or play a role having significant influence on the audit case.	N	Y	The designated accountant does not promote or act as an intermediate for the shares or other securities issued by the Company.	N	Y	The designated accountant does not serve as the advocate of the Company nor as the representative of the Company to mediate the dispute between the Company and any third party.	N	Y	The designated accountant does not have kinship with any directors or managers of the Company or the person having significant influence on the audit service.	N	Y	None
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<p>4. Should the listed company establish a department dedicated to corporate governance on a part-time basis, or assign the responsibility of monitoring corporate governance and related affairs to a person (including but not limited to providing directors and supervisors with the necessary materials for executing their business responsibilities, handling of matters related to the Board of Directors Meeting and the Shareholders' Meeting pursuant to the relevant laws and regulations, handling of company registration and changes in registration status, and preparation of the meeting minutes of the Board of Directors Meeting and the Shareholders' Meeting etc.)?</p>	V	<p>The Financial Department of the Company is set up with dedicated corporate governance personnel who have more than 3 years of experience in the managerial work such as corporate finance, stock affairs and meeting proceedings with the scope of duties as follows: providing the information required by the directors to conduct business, propagating the regulations related to the operation, assisting the directors with compliance with laws and regulations arranging for directors for further study, handling matters related to the board of directors and shareholders' meeting, changing registration and corporate governance, etc. The board of directors pass the resolution on March 21st, 2019 to have these personnel supervised by a corporate governance supervisor who is qualified as a manager and reports the implementation to the board of directors at least once a year.</p> <p>Business execution in the most recent year is as follows: (1) Corporate governance and securities-related acts promotion (2) Assistance with the convening of Board of Directors and Shareholders Meetings (3) Preparation of the Board's agenda, provision of meeting materials and delivery of notices, reminding of avoidance of conflict of interests, production and mailing of the proceedings (4) Publication of the Company's major news (5) Arrangement of the annual training of the directors (6) Registration of the shareholders' meeting, and production of the meetings notice, the annual report, the handbooks within the statutory time limit (7) Change registration with the Ministry of Economic Affairs after amendment of the by-laws or re-election of directors.</p>	None										
<p>5. If the Company established communication channel with interested parties (Including but not limited to shareholders, employees, customers and suppliers, etc.) and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of the corporate website?</p>	V	<p>The Company's website has a "Stakeholder Section" under Corporate Social Responsibility, which provides information including investors/shareholders, customers/consumers, suppliers/contractors, employees, government agencies and the media to the stakeholders who are responsible for verification. The information is compiled through public information observatories, the Company's website, financial reports, corporate social responsibility reports and online questionnaires to confirm the issues concerned by the stakeholders on MSI and degree and importance of the concerns, and prioritize or incorporate the issues of concern into the Company's annual goals. In addition, the company's website discloses the information of the "Stakeholders' Complaints Channel" and provides the information to the responsible units through the contact window as the communication channel for the stakeholders and the Company responds to the important issues of concern to stakeholders by meetings, phone calls and emails to protect the rights and interests of all stakeholders. Relevant chapters on stakeholder concerns, communication methods and frequency, and information on topics of concern are disclosed at http://tw.msi.com/Corporate Governance/Corporate Social Responsibility/Corporate Social Responsibility Report. The information is reported to the Board of Directors at least once a year.</p> <table border="1" data-bbox="1055 890 2022 991"> <thead> <tr> <th colspan="2">Disclosure of Information</th> </tr> </thead> <tbody> <tr> <td>Market Observation Post System</td> <td>http://mops.twse.com.tw (Stock Code:2377)</td> </tr> <tr> <td>MSI Investor Information</td> <td>https://tw.msi.com/about/investor/</td> </tr> <tr> <td>MSI Corporate Governance</td> <td>https://tw.msi.com/about/company/</td> </tr> <tr> <td>MSI Corporate Social Responsibility</td> <td>https://tw.msi.com/html/popup/csr_tw/index.html</td> </tr> </tbody> </table>	Disclosure of Information		Market Observation Post System	http://mops.twse.com.tw (Stock Code:2377)	MSI Investor Information	https://tw.msi.com/about/investor/	MSI Corporate Governance	https://tw.msi.com/about/company/	MSI Corporate Social Responsibility	https://tw.msi.com/html/popup/csr_tw/index.html	None
Disclosure of Information													
Market Observation Post System	http://mops.twse.com.tw (Stock Code:2377)												
MSI Investor Information	https://tw.msi.com/about/investor/												
MSI Corporate Governance	https://tw.msi.com/about/company/												
MSI Corporate Social Responsibility	https://tw.msi.com/html/popup/csr_tw/index.html												
<p>6. If the Company engaged professional transfer agent to host annual general shareholders' meeting?</p>	V	<p>The Company has delegated the share administrations agency of Chinatrust Commercial Bank to handle shareholder meetings and related services.</p>	None										
<p>7. Information Disclosure (1) If the Company set up a corporate website to disclose information regarding the Company's finance, business and corporate governance?</p>	V	<p>The Company has a section on its website to disclose related information of its finance, operation, and corporate governance. Investors may also obtain information about the Company through the Market Observation Post System http://mops.twse.com.tw.</p>	None										
<p>(2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?</p>	V	<p>The Company has websites in 20 languages, including Chinese and English, such as http://tw.msi.com/ (Chinese) and http://www.msi.com/about/investor (English) and dedicated employees to take charge of the Company's information collection and disclosure. The spokesperson system is established and implemented.</p>	None										
<p>8. If the Company had other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</p>	V	<p>1. Employees' remuneration policy is regulated the distribution ratio in the Company's Articles of Incorporation and is handled according to the "Remuneration Guidelines", "the Employee Performance Regulations", and "the Employee Remuneration Distribution and Stock Option Regulations". Operation profits are shared with employees according to the fulfillment rate of business target, performance, and contribution.</p> <p>2. The Company has an Employee Welfare Committee with steady funds coming from the Company holding events and providing benefit programs for employees.</p>	None										

(1) Employee rights			3. Besides having employees covered by Labor Insurance and National Health Insurance as required by law so that they can be assured safety while at work, the Company also offers the group insurance for extra protection to employees and their family.	
(2) Employee care employee wellness	V		The Company was certified by OHSAS18001 (Occupation Health and Safety Assessment Series Certification) in December 2003 and received the "health promotion symbol for spontaneous healthy workplace certification". Besides periodical employee health examinations, the Company has a employee clinic, nursing room, various health-related tests, workshops, and training from time to time, there are also diversified society events and employees are provided with related consultation services and help solutions on issues such as career, workplace inter-person relationship, emotions at work, work management, physical and mental stress, communications between husband and wife, child care and education, gender relations, laws in life, wealth management, and tax reduction so that the health of employees in all aspects, physical, mental, and spiritual, is taken well care of.	None
(3) Investor relations	V		The Company discloses information from time to time through the Market Observation Post System and the Company's website, and has the "Investor Relations Contact Window" available for the shareholders to contact by phone or through email in order to maintain the investor relationship.	No Deviation
(4) Supplier Relations	V		1. In order to protect the rights of suppliers, as long as not against regulatory requirements and damage to our shareholders' rights, financial information required by the suppliers for the Company's creditline evaluation will be provided. 2. In order to accomplish sustainable management for the Company and for all suppliers, suppliers continue to be asked to promise compliance with regulations concerning health and safety, the environment, labor, and ethics as well as guidelines for the management system and risk control and suppliers will receive educational training and periodic audits, among other related auxiliary measures, to help them keep enforcing and improving the said regulations and guidelines.	None
(5) Stakeholder rights	V		1. The Company discloses on its website information on corporate governance, finance, sustainability, and products and also related information on the Market Observation Post System for the stakeholders' reference. 2. The Company has a section "Contact MSI" on website. If stakeholders have issues about economy, environment, and society, they can communicate the issues with the Company through the said channel; this helps protect the rights of respective stakeholders.	None
(6) Further education status of directors and supervisors	V		The Company's directors, supervisors, and high-ranking managers receive continuing education as required by "the Directions for the Implementation of Continuing Education for Directors and Supervisors" of TWSE Listed and TPEX Listed Companies on a yearly basis. The continuing education programs are listed below.	None
(7) Risk management policy and risk measurement measures	V		The Company's policy towards risk management is to set various rules and regulations in order to weigh and evaluate possible impacts of the various risk matters on the profits and losses of the Company and to stipulate respective response policies accordingly. For the analysis and evaluation of risk matters, other important risks and response measures, please refer to Page 83~85	None
(8) Implementation of customer policy	V		Regulations to be followed are established in the Company's internal control system to ensure fulfillment of customer service and product protection and the responsible unit is available for real-time communication during transaction with customers in order to ensure that customers' rights are protected.	None
(9) Purchase of liability insurance for directors and supervisors	V		Directors are covered by the Company's D&O insurance. (And disclosed in the Market Observation Post System http://mops.twse.com.tw)	None
9. Please describe the improvements of the corporate governance evaluation results released by the corporate governance center of the Taiwan Stock Exchange Corporation in the last year, and propose priority matters or measures to strengthen areas yet unimproved. Reasons for failure to get scores during corporate governance rating:				

- (1) To improve information disclosure of the English version materials, the English version meeting notice and meeting handbook were produced for the 2017 shareholders meeting and English version meeting notice, meeting handbook and annual report were produced in the 2018 shareholders meeting, both of which were required to be uploaded within a specified period.
- (2) The Company set up the Audit Committees to replace the responsibilities of the supervisors.
- (3) To follow the instructions of the competent authority in conducting to promote corporate governance. Retiring : President : Mr.Hsu,Hsiang ; new appointments : President & CEO : Mr. Chiang,Sheng-Chang

Continuing Education/Training of Directors 、 Supervisors and Managements

Year	Training Course	Host by	Duration	Attendees
2003	Corporate Governance	Fu Jen Catholic University	3 hours	All Directors 、 Supervisors and Managements
2004	Corporate Governance and Risk Management	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2005	Use financial statements to analyze and improve business performance	Securities & Futures Institute	3 hours	Directors 、 Supervisors and Managements
2006	Directors, Supervisors and Senior Managers' Responsibilities for Financial Reporting	Securities & Futures Institute	3 hours	All Directors 、 Supervisors and Managements
2007	Audit Strategy of Corporate Governance and Enterprise Tax Planning	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2008	Business Transformation and Change Management	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2009	Brand Management and Innovation	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2010	Corporate Governance under International Taxation	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2011	Financial statements and analysis of trends in the industry	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2012	Disputes and Risks Caused by Taiwan Enterprises' Investment in China	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2013	Financial thinking of business transformation	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2014	New Trend of Internal Control Practice - Corporate Social Responsibility and Risk Management	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Supervisors and Managements
2015	Comprehensively improve adaptability - Enterprise crisis management	The Taiwan Corporate Governance Association	6 hours	All Directors 、 Hsu,Fen-Lan 、 Hsu,Gau-Shan and Managements
2015	In 2015, the latest tax update issued the latest information analysis	Taiwan CPA Association, ROC	6 hours	Hsu,Jun-Shyan (National Association of Certified Public Accountants lecturer)
2016	The reform and sustainable management of the board of directors; the key strategies and practices of breakthroughs in business innovation	The Taiwan Corporate Governance Association	6 hours	All Directors 、 Supervisors and Managements
2017	Big Data Analysis and Corporate Fraud Detection	The Taiwan Corporate Governance Association	3 hours	All Directors(except Tsai,Rong-Fong) 、 Supervisors and Managements
2017	Reconstruction of IT Security Strategy from Cyber Crime View	The Taiwan Corporate Governance Association	3 hours	All Directors(except Tsai,Rong-Fong) 、 Supervisors and Managements
2017	Corporate Governance Forum series-sustainable operation	Taiwan academy of Banking and Finance	3 hours	Tsai,Rong-Fong
2017	2017 Insider Trading and Corporate Social Responsibility Forum	Securities & Futures Institute	3 hours	Tsai,Rong-Fong
2018	The introduction for the latest income tax or value-added tax reforms in China and the United States and the trend and impact of global anti-tax avoidance regulations.	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Managements and Corporate overnance Officer
2018	Global Economic Outlook	The Taiwan Corporate Governance Association	3 hours	All Directors 、 Managements and Corporate overnance Officer
2018	The 12 th Taipei Corporate Governance Forum	Financial Supervisory Commission	6 hours	Liao,Chun-Keng
2018	The 12 th Taipei Corporate Governance Forum	Financial Supervisory Commission	3 hours	Hung,Yu-Sheng
2018	2018 Forbid Insider Trading Promotion Meeting	Taiwan Stock Exchange Corporation	3 hours	Hung,Yu-Sheng 、 Kuo,Hsu-Kuang
2018	Discussion on fraud cases of corporate financial statements	Securities & Futures Institute	3 hours	Kuo,Hsu-Kuang

4. Professional Qualifications and Independence Analysis of Remuneration Committee Members

(1) Established : The Board of directors of the company set up the Remuneration Committee on December 18, 2011.

A. Remuneration Committee members information :

Title	Criteria Name	Meets one of the following professional qualification requirements, together with at least five years' work experience			Independence Criteria (Note)								Number of other public companies in which the individual is concurrently serving as an Compensation Committee member	Remarks
		An instructor of higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, CPA, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the areas of commerce, law, finance, accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8		
Independent Director	Hsu,Kao-Shan		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Wang,Sung-Chou		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Liu,Cheng-Yi			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note : During the 2 years before being appointed or during the term of office, a remuneration committee member shall have been or be any of the following:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

B. Attendance of Members at Remuneration Committee Meetings

- ① There are 3 members in the Remuneration Committee.
- ② Tenure of the current of Remuneration committee is from June 15, 2018 to June14, 2021. A total of 4 (A) meetings of the Remuneration Committee were held in 2018, The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) B/A	Remarks
Convener	Hsu,Kao-Shan	4	0	100%	June 15,2018 Newly appointed
Member	Wang,Sung-Chou	4	0	100%	
Member	Liu,Cheng-Yi	4	0	100%	

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

(2)Scope of duties :

A.

- ① Establishing and periodically reviewing the annual and long-term performance goals for the directors, supervisors, and managerial officers of this Corporation and the policies, systems, standards, and structure for their compensation.
- ② Periodically assessing the degree to which performance goals for the directors, supervisors, and managerial officers of this Corporation have been achieved, and setting the types and amounts of their individual compensation.

B. Execution in the most recent year

Remuneration Committee Meeting Date	Session	Agenda	Remuneration Committee Resolution Results	Corporation's responses to the comments of the Remuneration Committee
2018.01.24	2018/1	(1) Distribution of year-end bonus for managers of the Company.	Proposal approved	None
2018.03.15	2018/2	(1) Proposed distribution of 2017 compensation for employees, directors and supervisors. (2) Adjustment of the salaries of the Company's managers and distribution of performance bonus.	Proposal approved Proposal approved	None
2018.07.27	2018/3	(1) Distribution of 2017 compensation for the Company's managers, directors and supervisors.	Proposal pproved	None
2018.10.04	2018/4	(1) Distribution of performance bonus of the Company's managers.	Proposal approved	None
2019.01.25	2019/1	(1) Amendment of various compensation measures of the Company. (2) Promotion of managers and review of their salary structure. (3) Distribution of year-end bonus of the Company's managers.	Proposal approved Proposal approved Proposal approved	None None None
2019.3.13	2019/2	(1) Proposed distribution of 2018 compensation of employees and directors. (2) Adjustment of the salary of the Company's managers and distribution of their performance bonus.	Proposal approved Proposal approved	None None

5.Implementation of Corporate Social Responsibility

Item	Implementation Status		Summary	Different from “the CSR best practice principles” issued by TWSE and its reason(s)
	Y	N		
1. Exercising Corporate Governance (1)If the Company established corporate social responsibility (“CSR”) policy or system and reviewed its implementation and effectiveness?	V		The Company has established its Corporate Social Responsibilities to be followed and discloses them on the Company’s website and the Market Observation Post System according to the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies. The substantial implementation and enforcement efficacy discussions are described in the following.	None
(2)If the Company conducted CSR related trainings?	V		Besides educational training on social responsibilities for new hires, the Company also holds educational training and meetings to communicate to existing employees from time to time. For suppliers, the Company holds supplier conferences and field audits periodically.	None
(3)If the Company set up a unit exclusively or concurrently to execute CSR policies and if the Board appointed member(s) of management team to supervise and report its implementation status to the Board?	V		With regard to the framework of corporate social responsibilities promoted by the Company, the Board of Directors authorizes the general manager to command respective full-time (part-time) units to establish and discuss corporate social responsibilities-related policies and the enforcement of systems. Meanwhile, the sustainable development office is available to take charge of organizing related matters on corporate social responsibilities and to periodically report to the Board of Directors. For the operation and implementation status, refer to the Company’s Corporate Social Responsibility Report for details http://tw.msi.com .	None
(4)If the Company adopted appropriate remuneration policies, integrated employee performance appraisal with CSR policies, and established a clear and effective incentive and discipline system ?	V		The Company has remuneration policies in place. Reasonable salaries and remunerations are given to employees according to their responsibilities and contribution at work as determined by the performance evaluation. Various remuneration regulations are approved by the Remuneration Committee. Meanwhile, the “Work Rules” of the Company clearly specify employee behavior and discipline, award/punishment are given according to employee performance.	None
2.Fostering a Sustainable Environment (1)If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have a lower impact on the environment?	V		Based on the requirements of international regulations, customer requests and eco-labels, we identify related environmental aspects and impacts according to the standard process to discover significant influences as priorities for improvement. With technology and cost feasibility, we establish rigorous requirements for design management and implement them on product life cycle by considering resource conservation, recycling and reuse, energy saving, pollution prevention and other environmental impacts. 1. The packaging materials are designed in a way that they can be decomposed by hand without using tools for reduced consumption of composite materials. 2. The instruction manuals are electronized to realize paperless product publications for reduced use of pulp. 3. Modular design is adopted for products to improve recycling efficiency. 4.Soy ink is used for packaging and printing pigments to improve the recycling rate of packaging materials when discarded.	None

(2)If the Company established proper environment management system based on the characteristics of the industry where the Company belongs to?	V	We establish related environmental management methods according to the operating and production characteristics. MSI have passed the certifications of ISO 14001、IECQ/QC 080000、ISO14064-1 & 2、ISO 14006 and ISO 14072.	None
(3)If the Company monitored the impact of climate change on the Company's business operations, checked greenhouse gas inventory and established corporate strategies on energy conservation and reduction on carbon and greenhouse gas emission?	V	The probability and severity of natural disasters (including drought, mites, snowstorms, high temperature/heat waves, typhoons/strong rainfall) brought about by extreme weathers may affect the Company's production and operations. The risks may include production constraints, operations, equipment, and investment cost rise and inefficiency, etc. By including the issue of climate change in the risk management of sustainable business operations. MSI aims to implement climate change management mechanism through "mitigation" and "adaption" for reduction of the magnitude of impact of climate change on businesses. The Company also strengthens its resilience through the risk through adoption of the carbonation measures of feasibility assessment through the management mechanism of climate change in the two directions of "mitigation" and "adjustment". Continue to pay attention to changes in relevant domestic and international regulations after the Paris Climate Agreement and evaluate the internal response of the company. The Company strengthens its resilience through appropriate regulatory measures with the specific mehods as follows: (1)Regularly check and update the organization's carbon footprint to achieve the goal of organizing greenhouse gas reduction. (2)Evaluate feasible technologies and materials for product design and reduce energy loss of products. (3)Save water, improve the reuse rate of rainwater and wastewater, and establish emergency measures for water resources.	None
3.Preserving Public Welfare (1)If the Company followed relevant labor laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?	V	MSI is a melting pot of talents from different ethnic groups all from over the world. Therefore, we treat employees in the same way without distinction of any kind, such as race, color, sex, age, religion, political or other opinions, national or social origins, or other status. All the employees are treated equally with regard to their opportunities in employment, appraisal, promotion, salary, benefits and training to ensure equality of their rights. We ensure to respect labor rights and the implementation of equal treatment.	None
(2)If the Company established grievance channel for employees and handled complaints appropriately?	V	The Company has the employee assistance plan (EAP) and audit office mailbox available for employees to file a complaint anonymously or non-anonymously.	None

<p>(3)If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?</p>	V	<p>The Company has established labor safety and health management units, environmental safety and health management committees, food committees and medical offices and other related units and regular safety and health education for employees and contractors to provide a safe working environment and ensure the physical and mental health of employees.</p> <p>The company has received the OHSAS18001 Occupational Safety and Health Management System Certification and the "Healthy Workplace Self-certified Health Promotion Label". In order to promote the safety of the working environment and physical protection of employees, the company continues to carry out related equipment maintenance and safety testing.</p> <table border="1" data-bbox="1128 363 2024 746"> <thead> <tr> <th>Item</th> <th>Equipment Maintenance(Safety Test)</th> <th></th> </tr> </thead> <tbody> <tr> <td>Firefighting (fire extinguisher, smoke detector)</td> <td>Once/Monthly, quarterly</td> <td></td> </tr> <tr> <td>Air conditioning (heat dissipation, blower, ice water host)</td> <td>Once/Monthly, quarterly</td> <td>None</td> </tr> <tr> <td>Electricity (generator, power outage maintenance)</td> <td>Once/Monthly, quarterly</td> <td></td> </tr> <tr> <td>Carbon dioxide</td> <td>Once/Biannually (Test)</td> <td></td> </tr> <tr> <td>Noise</td> <td>Once/Biannually (Test)</td> <td></td> </tr> <tr> <td>Illuminance</td> <td>Once/Annually (Test)</td> <td></td> </tr> <tr> <td>Wind speed control (laboratory local exhaust)</td> <td>Once/ Annually (Test)</td> <td></td> </tr> <tr> <td>Organic solvent (isopropyl alcohol, methanol, n-hexane)</td> <td>Once/Biannually (Test)</td> <td></td> </tr> <tr> <td>Lead, tin</td> <td>Once/Biannually (Test)</td> <td></td> </tr> <tr> <td>Drinking water</td> <td>Biannually (Sampling test)</td> <td></td> </tr> <tr> <td>Employee cafeteria food ingredients and tableware</td> <td>Bi-monthly (Sampling test)</td> <td></td> </tr> </tbody> </table>	Item	Equipment Maintenance(Safety Test)		Firefighting (fire extinguisher, smoke detector)	Once/Monthly, quarterly		Air conditioning (heat dissipation, blower, ice water host)	Once/Monthly, quarterly	None	Electricity (generator, power outage maintenance)	Once/Monthly, quarterly		Carbon dioxide	Once/Biannually (Test)		Noise	Once/Biannually (Test)		Illuminance	Once/Annually (Test)		Wind speed control (laboratory local exhaust)	Once/ Annually (Test)		Organic solvent (isopropyl alcohol, methanol, n-hexane)	Once/Biannually (Test)		Lead, tin	Once/Biannually (Test)		Drinking water	Biannually (Sampling test)		Employee cafeteria food ingredients and tableware	Bi-monthly (Sampling test)		
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<p>(4)If the Company established a periodical communication mechanism to employees and notified employees of significant changes that may impact the Company's operation in a proper manner?</p>	V	<p>In order to maintain sound communication channels with its employees, the Company also encourages employees to make suggestions. There are the internal portal website and the email where the Company completely discloses employee information, management guidelines, and operational announcements so that employees know in real time major changes in operations.</p>	None																																				
<p>(5)If the Company provided career planning, relevant training and skill development for employees?</p>	V	<p>The Company highly values training and career developments for its employees. In order to continue promoting quality talent cultivation and key skills management, there are the Regulations Governing Educational Training that address continuing education and training for employees. Meanwhile, budget is appropriated on a yearly basis to facilitate organization of various types of educational training. Lecturers are hired periodically or from time to time to hold workshops. Reflective of the different rankings and levels of professionalism, internal or external educational training is provided to help employees form complete professional skills and inspire them to seek self-growth.</p>	None																																				
<p>(6) If the Company established any consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?</p>	V	<p>Besides purchasing appropriate product liability insurance in order to protect the rights of customers and consumers, global service systems are created in countries and regions such as Taiwan, Europe, America, Japan, Korea, and China, including self-operated or outsourced maintenance sites and customer service centers and websites that have multiple language options. Downloading and updates online, after-sales service, product maintenance and repairs, technical support, and complaint procedures are available for consumers as well.</p>	None																																				
<p>(7)If the Company followed relevant laws and regulations and international guidelines on marketing and labeling of products and services?</p>	V	<p>Products by Micro-Star are marketed and labeled in compliance with applicable laws and regulations and industrial standards and there are dedicated departments to make sure that requirements are fulfilled according to internal operating and regulatory documents. Product verification, quality control, and third-party testing help ensure that products are marketed and labeled in compliance of applicable standards.</p>	None																																				

(8) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record of negative impact on the environment and society?	V	The Company has established the Supplier Management Guidelines. New suppliers go through evaluation that covers human rights, the environmental and social responsibilities. For existing suppliers, there are also supplier evaluations from time to time in order to ensure that suppliers comply with corporate social responsibilities. It also reduces losses in bilateral transactions or good will because of the environmental or social responsibilities.	None																						
(9) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?	V	The Company specifies in the supplier procurement contract that if suppliers violate its corporate social responsibility policy and the violation has a significant influence on the environment and the society, Micro-Star may terminate or dismiss the terms and conditions in the contract at any time. The Company also enforces the policy that requires all suppliers to sign its custom procurement contract.	None																						
4. Enhancing Information Disclosure If the Company disclosed CSR report and other relevant information on its corporate website and MOPS?	V	Through the Chinese and English web pages of the corporate social responsibility section on the Company's website: http://tw.msi.com/ , the Company updates related information on its corporate social responsibilities in real time and discloses it in the Market Observation Post System.	None																						
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation: None. Pursuant to the "Listed Company Corporate Governance Best Practice Principles" and passed by the Board of Directors, the Company has established the "MSI Corporate Governance Best Practice Principles", of which the Board of Directors.																									
<p>6. Other material information that helps to understand the operation of corporate social responsibility: MSI continues to engage the community and participate in education, charity auction and environmental protection activities through sponsorship and employee volunteers. In Taiwan, we not only get involved in public services through investment of our internal resources, but also joined in the activities of charity groups. Through the process of service to and in the communities, we expand our love and care into the world and unify our employees' values and commitment towards MSI's corporate social responsibilities. MSI will continue to make its presence in services for the rural areas and disadvantaged groups.</p> <p>(1) Education Care</p> <p>A. Support for Education</p> <table border="1" data-bbox="241 788 1055 842"> <thead> <tr> <th>Year</th> <th>The benefited schools (Total)</th> <th>The benefited students (Total)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>57</td> <td>6,812</td> </tr> </tbody> </table> <p>B. Tutor Service for Disadvantaged Students</p> <p>① Education Assistance Program</p> <p>For a long time, MSI has been paying attention to the education of children from disadvantaged families. Therefore, we continue to provide tutor services to schools in the North Coast Area. This program aims to help the students develop the foundation skills for learning, help the children from disadvantaged families build self-confidence, develop their potential and create a caring and loving community with the value of mutual help.</p> <table border="1" data-bbox="241 975 1317 1029"> <thead> <tr> <th>Year</th> <th>The benefited schools</th> <th>The benefited class</th> <th>The benefited students</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>33</td> <td>113</td> <td>2,044</td> </tr> </tbody> </table> <p>② MSI English Enhancement Program for Students from Disadvantaged Families</p> <p>MSI teamed up with Hsinchu County Government to launch the MSI English Enhancement Program. This program was designed to boost students' willingness to learn English through reading English stories and illustrated story books. The goals are to develop the children's abilities in reading and build the foundation skills for learning of English. This program is expected to close the rural-urban gap in distribution of learning resources and English learning brought about by socio-economic disadvantages.</p> <table border="1" data-bbox="241 1137 1261 1192"> <thead> <tr> <th>Year</th> <th>The benefited schools</th> <th>The benefited class</th> <th>The benefited students</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>23</td> <td>2,873</td> <td>360</td> </tr> </tbody> </table>				Year	The benefited schools (Total)	The benefited students (Total)	2018	57	6,812	Year	The benefited schools	The benefited class	The benefited students	2018	33	113	2,044	Year	The benefited schools	The benefited class	The benefited students	2018	23	2,873	360
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2018	57	6,812																							
Year	The benefited schools	The benefited class	The benefited students																						
2018	33	113	2,044																						
Year	The benefited schools	The benefited class	The benefited students																						
2018	23	2,873	360																						

C. Technological Creation

MSI PowerTech Creative Technology Program for Youth

Arising from the global maker fever and the education ideology of STEAM – science, technology, engineering, art and math – MSI advocates hands-on and creative science learning. MSI sponsored the fund for a one-year program. The sponsorship extends to summer PowerTech Camps for elementary and junior high schools in New Taipei City and PowerTech clubs, as well as competitions and training courses. This program aims to boost students' interest in exploring science, develop the potential for technology and cultivate new-generation technology talents. This industrial-academic collaboration consolidates corporate and education resources to advocate the idea of creative and innovative science and technology. This program is targeted at enhancing the maker skills of participating students and teachers, as well as learning of general science.

Year	The benefited schools (Total)	The benefited students (Total)
2018	25	1,271

D. New Taipei City Family Day for Children in Special Education

The New Taipei City Government Bureau of Education has a wealth of life experience for special education programs students. For each second half of the year, students will have a special school day for family education. They can arrange activities through the Bureau of Education and traffic pick up service to ease the burden of many parents. It will make it easier for children to experience different life experiences. The children are more willing to go outdoors to feel comfortable learning and happy growth.

Year	Location
2018	Leofoo Village (Hsinchu City)

- E. Sistema Taiwan Program: Sponsored Sistema Taiwan Charity Music Education Program to help disadvantaged children learn music and develop their potential through art. Under this program, a total of 138 course sessions were organized with 2,484 people served.
- F. Toy Bank Program: Sponsored the Toy Bank Logistics Center and the toy truck of the Social Welfare Department, New Taipei City Government and organized the toy flagship store to provide service in various ways. By combining and distributing various resources, MSI is able to network with social service units and volunteer manpower to enrich the resources for young children and elderly care in New Taipei City.

(2) Assistance with the underprivileged

- A. Dream-come-true Scholarship Fund: Provided the “Dream-come-true Scholarship Fund” to help the students in New Taipei City who live in poverty or are challenged by sudden domestic calamity but strive to complete their study so they can be free from the difficulties caused by their family or personal conditions and focus on their study with a peace of mind.
- B. High-risk care receivers caring program: Sponsored the MSI Care Program of the Hongdao Senior Citizens’ Welfare Foundation to provide All-in-One service to high-risk families, home caretaking service, respite care service and value-added service with a total of 369 people/times served in two months.
- C. Donation of active and passive limbs training machine: Donated the active and passive trainers to the New Taipei City Hospital to provide limbs treatment to the handicapped and the elderly people. with needs for upper and lower limbs of vulnerable groups such as the disabled and the elderly.

(3) Corporate volunteering: The clubs formed by the employees of MSI are always enthusiastic in organizing or participating in various charity activities as they pursue their personal growth or indulge themselves in leisure.

- A. Invoices for New Year couplets: MSI invited its employees to engage in charity work at the end of the lunar year by donating their uniform invoices in exchange for the New Year Couplets. A total of 1,355 invoices were donated to the Taiwan Fund for Children and Families.
- B. Northeastern Region Cheerleaders of the Intellectually Disabled: MSI volunteers participated the “Cheerleaders Contest of the Intellectually Disabled” to serve as the sharers and helpers for guiding the teams from the schools throughout the contest process. Ya Te Cup Sports Games for the Intellectually Disabled: MSI volunteers participated in the Ya Te Cup Sports Games for the Intellectually Disabled to provide service.
- C. Tatung Orphanage volunteers: The MSI golf club volunteers assists the Tatung Orphanage with charity service activities such as cleaning, tidying and wall paintings.
- D. Gardening charity: The MSI gardening club held a Valentine Day bonsai DIY activity and donated the sign-up fee of 2,700 NTD to the Taiwan Fund for Children and Families.
- E. Charity donation: The dance club held a charity donation activity through viewing the performance by the IfKids Theatre Studio with the sign-up fee of 6,300 NTD donated to the Child Welfare League Foundation.
- F. Charity walking: To care for women’s health and promote the awareness of prevention against breast cancer, the MSI jogging club invited the colleagues to participate in a walking activity held by the Formosa Cancer Foundation and donated all the sign-up fee to the organization.
- G. Badge charity sale : The photography club invited colleagues to make magnetic badges for charity sale. The badges can be placed on the chest or be attached to screens, iron cabinets and refrigerators for display and commemorative purposes. The income from the sale, a total of 10,000 NTD was donated to the ST. Camillus Center for Intellectual Disability.

(IV) Medical Assistance

Blood Donation: Since 2002, MSI infirmary in Taipei has invited the local blood center of Taiwan Blood Services Foundation to organize the Fraternity Grows. Besides, MSI Shenzhen periodically holds blood donation activities as well. Many employees roll up sleeves and donate their blood to help patients who are in need to express their fraternity.

Year	The number of Employees	Bags(250ml)
2018	371	624

(V) Benefit the community

1. The Groundskeeper God Cultural Festival : Sponsored the two-day Groundskeeper God Cultural Festival organized by the Zhonghe District Office, New Taipei City.
2. Environmental adoption: Adopted the afforested slope beside the Huazhong Bridge and the afforested strip along the Qiaohe Road to beautify the streets and benefit the community.

(VI) Computer donation

1. Walk Beside You Social Care Association in Hualien County: Donated 12 desktops to the Hualien County Walk Beside You Social Care Association with the students of the National Dong Hwa University being teachers to provide one-on-one instruction on English, Chinese and mathematics to the children who are falling behind in their academic study three times a week.
2. Children and Youth Section, Social Welfare Department: Donated 10 desktops to the Young Youth Base of Children and Youth Section, Social Welfare Department, New Taipei City Government- development of the youth's ability to participate in various issues as citizens, social care, provision of occupation training, counseling, job seeking service platform, referral service.
3. Shi Fu Elementary School in Hualien County: Donated 3 desktops to the "MSI Hope Project" of the Shi Fu Elementary School in Hualien County- a remedial teaching workshop and digital experimental teaching program.
4. Rock Social Welfare Foundation: Donated 8 desktops to the Rock Social Welfare Foundation to enhance brain and muscle activity of children with cerebral palsy and reduce or delay their muscle atrophy and cultivate their life and work skills for them to learn basic typing and clerical skills and acquire job skills and enhance their chance for finding a job in the future.
5. ROC Federation of Spinal Cord Injury: Donated 1 desktop to the ROC Federation of Spinal Cord Injury to help promote prevention education of spinal cord injury.

(VII) Environmental protection events

1. Planting trees in Jinshan: The Company took part in the Arbor Day coastal forestation at Zhongjiaoshazhu Bay of Jinshan District, New Taipei City. The saplings have been cared by the Tse-Xin Organic Agriculture Developmental Fund thereafter so that they could continue to grow strong and exercise the functions of preventing against wind, fixating sand, protecting the coast, reducing flying sand, preventing against invasion by strong wind, and improving the micro-climate.
2. Safeguarding wetland ecology: The Company sponsored the wetland rehabilitation plan in Wugu of the Society of Wilderness so that the latter can conduct a wetland ecology census, create a waterfowl beach, have volunteers to take part, and promote environmental education, among others.
3. Adopting and growing organic rice: The Company adopted 4850 square meters of natural agricultural field in Nanao and harvested the rice before donating it to the Food Bank of the Social Welfare Department, New Taipei City Government to be the food for minority groups.
4. Beach cleaning: MSI's swimming club held a beach cleaning activity in the northern coast for a more sustainable beach environment.

(VIII) Emergency relief

1. Donated 5 million NTD to the Hualien County social relief account to help the earthquake victims recover after the disaster.

7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization:

The MSI 2018 CSR Report is in compliance with the core options in the GRI Standard (2018 version), and has attained assurance from third party (BSI Taiwan) as part of Moderate Assurance Level in AA1000AS-2008 Type MSI 2018 CSR report will be released by June 29, 2019 and can be found on Market Observation Post System.

6.Implementation of Ethical Practice :

Indicator	Operation			Variation from Corporate Governance Best Practice Principles and Reason
	Yes	No	Summary	
1.Codify Ethical Management Policies and Plans (1)Does the Company demonstrate its ethical management policies in its regulations and documents communicating with external parties, and do the Board and management actively fulfill their commitments through business policy ?	V		The Company's Board of Directors and management are proactively fulfilling its commitment demonstrated in its operation policy. The "EICC Electronics Industry Code of Conduct" was introduced in 2008. Both the Company and suppliers must follow high-standard ethical requirements, including ethical management and absence of illegitimate income, among others.	None
(2)Does the Company have safeguards against unethical behavior in place including clear procedures, code of conduct, penalties for violations and a grievance mechanism? Are these enforced ?	V		In order to prevent against dishonest behavior that occurs during operations, the Company's Board of "Directors Rules of Procedure" require that directors recuse themselves in proposals concerning their own interest and there are the "Corporate Governance Principles", "Ethical Management Principles", "Code of Moral Conduct", and "Work Rules" in place to govern the moral behavior of directors, supervisors, managers, and employees, punishment upon violation, and appeal systems, respectively and they are precisely enforced.	None
(3)Does the Company have safeguards against business activities identified as being at higher risk of unethical behavior in "Article 7 Paragraph 2 or other sections" of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" ?	V		According to regulatory requirements, the Company does not allow bribery or acceptance of bribery, political contributions or improper charity donations, offering or acceptance of unreasonable gifts, hospitality or other illegitimate interest and has reinforced its internal control system in order to protect against possible dishonest behavioral risks.	None
2.Implementing ethical management (1)Does the Company evaluate the ethical record of its transaction parties and explicitly include clauses on ethical behavior in contracts ?	V		The Company has articles about honest behavior in its business contract and avoids doing business with people with records of dishonest behavior.	None
(2)Does the Company have a dedicated corporate ethics unit that is overseen and regularly reports to the Board of Directors ?	V		In order to prevent against conflicts of interest and to offer channels for proper statements, independent directors form the part-time unit in charge of ethical management at the Company in order to promote and consolidate honest operations and the unit reports to the Board of Directors periodically.	None
(3)Does the Company have a conflict-of-interest prevention policy with suitable channels for reporting such conflicts, and enforces such a policy ?	V		In case of any illegal condition in violation of honest operation, complaints may be filed with or the condition may be reported to the Company's supervisors or the Internal Audit Office.	None
(4)Does the Company have an effective accounting system and internal control system for ensuring ethical management that is regularly audited by an internal audit unit or public auditor ?	V		The Internal Audit Office audits the Company's accounting system, internal control system, and fulfillment of honest operations on a yearly basis according to the Regulations Governing Establishment of Internal Control Systems by Public Companies and the Ethical Management Principles.	None
(5)Does the Company regularly host internal and external training on ethical management?	V		The Company communicates the belief in ethical management on its website and holds internal and external educational training sessions for its employees periodically.	None
3.Operation of the corporate whistleblower system (1)Does the Company have an explicit whistleblower and incentive scheme in place that protects whistleblowers and assigns appropriate personnel for investigating the target of the whistleblower complaint ?	V		In the event that stakeholders discover that the Company's directors and Independent directors, managers, and employees are engaged in illegal behavior in violation of ethical management (including corruption and immoral behavior), they may file a complaint with or report to the Company's supervisors or Internal Audit Office. If it is found to be true, punishment will be imposed according to the internal rules and applicable laws and regulations.	None
(2)Does the Company have a standard operating procedure for investigating whistleblower complaints and the related mechanism for ensuring confidentiality ?	V		The Company's Procedures of Whistleblower stipulate the standard investigation procedure and related confidentiality mechanism through which matters reported are processed.	None

(3)Does the Company have measures to protect whistleblowers against retaliation ?	V	The reporter and the receiving head shall assist the audit unit in conducting an investigation. No unilateral investigation, comments, transcribing the case and the reporter is allowed. No inquiry about or release of the true identity of the reporter or disciplining the reporter and the reported party is allowed, either.	None
4.Greater disclosure (1)Does the Company disclose is ethical management principles and progress on its promotion through its website or the Market Observation Post System website ?	V	Besides in the Market Observation Post System, the contents of the Company's Ethical Management Principles and the promotion efficacy are disclosed on the Company's website http://tw.msi.com/ .	None
5.If the Company has drafted an ethical management principle according to "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies," the operation of the principle and the deviation from the principle should be clearly stated: The Company has established "Code of Ethical" based on TWSE/GTSM's "Ethical Corporate Management Principles".			
6.Other material information that helps to understand the operation of the Company's ethical management (such as the Company's declaration of its resolve and policies to its business partners; the Company's invitation of training to its partners; and the Company's revision of its ethical management principles) : None			

7. How to search for the Corporate Governance Principles and applicable rules:

In order to create a corporate culture of ethical management and normalize its development, the Company has established the Ethical Management Principles, Code of Moral Conduct, and also the Board of Directors Rules of Procedure, Scope of Responsibilities of Independent Directors, and Corporate Governance Principles in compliance with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies (all are disclosed on the Market Observation Post System website <http://mops.twse.com.tw>) in order to promote the operating efficiency, decision-making ability of the Board of Directors and the moral standards.

8. Other Information:

(1)Continuing education for directors: The Company holds seminars on topics relating corporate governance from time to time for directors to attend. The status of continuing education is disclosed on the Market Observation Post System website as required.

For detailed continuing education received by directors and high-ranking managers of the Company over the past few years, refer to Page **26**.

(2) Coverage of directors by liability insurance: The Company revised its Articles of Incorporation on June 9, 2004 that the Board of Directors may be authorized to decide to purchase liability insurance for all directors and supervisors to cover liability risk within the scope of their operation when duty. The Company purchases liability insurance for directors every year and disclose the information on the Market Observation Post System website.

(3) Presence of absence of an operating procedure for handling significant information: The Company has an operating procedure for handling information in place as part of its internal control system and periodically audits it.

(4)The selection and remuneration of the company's senior executives were approved by the board of directors and the remuneration committee. In order to implement the succession plan of key management and cooperate with the competent authorities to promote corporate governance. The succession plan was drafted several years ago, including assessment of current high-ranking managers based on their professionalism, performance, and personality traits, continuous cultivation of successors at all levels within the organization and recruitment of excellent talents when needed to achieve internal benign competition and succession.

On June 16, 2009, Mr. Chiang Shengchang, an excellent manager, was recruited into the board of directors and was promoted to be the executive vice president and general manager of the Desktop Platform Division in March 2010 so that he can have a complete experience. With the internal organization adjustment on Jan.1, 2019, the succession plan was formally launched as Mr. Hsu Hsiang becoming the chairman of the company and Mr. Chiang Shengchang the general manager and CEO of the Company, adhering to the practice that the chairman and general manager of the Company are not the same person. In the future, the board of directors and management committee will continue to advance the succession plan, implement corporate governance and realize sustainable operation.

(5) Annual work focuses and operational situation of the Audit Committee:

Annual work focuses		Operational situation	
1.	Main items reviewed by the audit committee:	Frequency	The first audit committee of the Company was established on June 15, 2018. It consists of three independent directors and Mr. Wang, Sung-Chou was elected as the convener. The current audit committee has held four meetings as of Apr.30, 2019 and operates smoothly.
	(1)Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act.	Depends on actual needs	
	(2)Assessment of the effectiveness of the internal control system.	Once per year	
	(3)Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act., of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.	Depends on actual needs	
	(4)A matter bearing on the personal interest of a director.	Depends on actual needs	
	(5)A material asset or derivatives transaction.	Depends on actual needs	
	(6)A material monetary loan, endorsement, or provision of guarantee.	Depends on actual needs	
	(7)The offering, issuance, or private placement of any equity-type securities.	Depends on actual needs	
	(8)The hiring or dismissal of an attesting CPA, or the compensation given thereto.	Once per year	
	(9)The appointment or discharge of a financial, accounting, or internal auditing officer.	Personnel change	
	(10)Annual and semi-annual financial reports.	Once per quarter	
(11)Any other material matter so required by the company or the Competent Authority.	Depends on the situation		
2.	Communication with internal audit supervisors	Once per quarter	Communicate with the audit supervisor on the following matters: the annual audit plan, the implementation of the audit plan for the previous year, internal control deficiencies and the improvement of anomalies, the audit report and the follow-up report, etc.
	Communication with CPA	Twice a year	Communicate with CPA on the following matters: allowable expression of the financial statements, the annual financial statement check plan, the group's appointed checking individuals and the key check.

9. Internal Control System

(1) Statement of Internal Control System

Micro Star International Co., Ltd.
Statement of Internal Control System

March. 21, 2019

Based on the findings of self-assessment, the company states the following with regard to its internal control system in 2018:

1. The company is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency, and regulatory compliance of reporting and compliance with applicable laws, regulations, and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of the company contains self-monitoring mechanism and the company takes corrective actions whenever a deficiency is identified.
3. The company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (A) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities. Each component further contains several items. Please refer to the Regulations for details.
4. The company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the assessment mentioned in the preceding paragraph, the company believes that, as of December 31, 2018, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning effectiveness and efficiency of operations, reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be integral part of the company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
7. This Statement has been passed by the Board of Directors in their meeting held on March. 21, 2019 with zero of eleven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Micro Star International Co., Ltd.

Chairman : HSU,HSIANG

President : Chiang,Sheng-Chang

(2) If the Company is requested by the SEC to retain CPA'S service for examining internal control system, the Independent Auditor's Report must be disclosed: None

10. The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent year and up to the date of the annual report: None.

11. The Major Resolutions of Shareholders' Meeting and Board Meetings in the most recent year and up to the date of the annual report:

(1)Major Resolutions of Shareholders' Meeting

Meeting date	Abstract of important proposals	Execution situation
2018.06.15	<p>1. Report Item :</p> <p>(1)Business report of 2017. (2)Supervisors' review report of 2017. (3)Report of Employees' Compensation and Directors and Supervisors' Compensation for 2017. (4)Report of Amendments to Code of Ethical Conduct.</p> <p>2. Adoption Items :</p> <p>(1)To adopt 2017 Business Report and Financial Statements. (2)To adopt the proposal for distribution of 2017 profits.</p> <p>3. Discussion Items :</p> <p>(1)Amendment to the "Articles of Incorporation" (2)Amendment to the "Rules Governing the Election of Directors and Supervisors". (3)Amendment to the "Operational Procedures for Loaning of Company Funds". (4)Amendment to the "Operational Procedures for Endorsements and Guarantees". (5)Amendment to the "Operational Procedures for Acquisition and Disposal of Assets". (6)Amendment to the "Operational Procedures for Trading Derivatives". (7)Election of Directors. (8)Proposal of Release the Prohibition on Directors from Participation in Competitive Business.</p>	<p>1. The 2018 shareholders' meeting minutes were disclosed on the Market Observation Post System website on June 26, 2018.</p> <p>2. Remunerations for employees, directors, and supervisors were issued on August 3, 2018.</p> <p>3. Distribution of 2017 earnings: Shareholders' bonus - dividend in the value of \$4.5 per share; August 28, 2018 was set to be the record date and the dividends were issued on September 20, 2018.</p> <p>4. Revising the "Rules Governing the Election of Directors and Supervisors" and renamed to "Rules for Election of Directors" "Operational Procedures for Loaning of Company Funds" "Operational Procedures for Endorsements and Guarantees" "Operational Procedures for Acquisition and Disposal of Assets" "Operational Procedures for Trading Derivatives" and the information was disclosed on the Market Observation Post System website on June 15, 2018.</p> <p>5. In line with the establishment of the Audit Committee to replace the supervisors, the shareholders meeting in 2018 passed the resolution to amend the articles of incorporation and elected directors (including independent directors). Directors elected: Hsu,Hsiang、Huang,Chin-Ching、Lin,Wen-Tung、Yu,Hsien-Neng、Chiang,Sheng-Chang、Kuo,Hsu-Kuang、Liao,Chun-Keng、Hung,Yu-Sheng; Independent directors elected: Wang,Sung-Chou、Liu,Cheng-Yi、Hsu,Kao-Shan They convened a board of directors meeting and elected Hsu-hsiang as Chairman and Mr. Huang, Chin-ching as vice chairman on June 15, 2018. The Ministry of Economic Affairs approved the registration change at on July 31, 2018.</p>

(2)Major Resolutions of Board Meetings

Board of Directors Meeting	Session	Contents proposed	Opinion of independent director		The company's handling of independent director's opinion
			Independent Director		
			Wang,Sung-Chou	Liu,Cheng-Yi	
2018.02.02	2018/1	<p>1.Report Item: (1)Derivative product undertaking.</p> <p>2.Adoption and Discussion Items : (1)Salary Compensation Committee Recommendation (2)Self-Evaluation or peer Evaluation of the Board of this Company. (3)Approved the Business Plan of 2018 for this Company.</p>	None	None	None
2018.03.23	2018/2	<p>1.Report Items : (1)Audit reports (2)Derivative product undertaking.</p> <p>2.Adoption and Discussion Items : (1)Approved the 2017 Financial Statement of this Company. (2)Approved The Statement on Internal Control System of 2017 of this Company. (3)Salary Compensation Committee Recommendation (4)Bank credit line approval. (5)Approved the stipulation of Audit Committee Charter. of this Company. (6)Matters related to the convening of the 2018 shareholders' meeting. (7)Matters related to the shareholders' general meeting acceptance of shareholder proposals.</p>	None	None	None

		<p>(8)Approved the Election of directors. and Matters related to the shareholders' general meeting acceptance of directors (independent directors) candidates nominated by shareholders.</p> <p>(9)Approved amendments to Standards for Ethical Conduct.</p> <p>(10)Approved the amendments to the Articles of Incorporation of this Company.</p> <p>(11)Approved title change and amendments to Regulations for the Election of Directors and Supervisors of this Company.</p> <p>(12)Approved amendments to Procedure for the Endorsement and Guarantee Operations Procedure, Operations Procedure for Loaning of Funds to Other Parties, Acquisition and Disposal of Assets, Procedure for Handling Derivatives Trading of this Company.</p> <p>(13)Approved amendments to Procedure for the Rules of Procedure for Board of Directors Meetings, Rules Governing the Scope of Powers of Independent Directors, Remuneration Committee Charter of this Company.</p> <p>(14)Import International Financial Reporting Standard No. 16 "Lease"</p> <p>(15)Capital decrease of the subsidiaries.</p>			
2018.05.03	2018/3	<p>1.Report Items :</p> <p>(1)Business Performance Report - First Quarter 2018.</p> <p>(2)Audit reports</p> <p>(3)Derivative product undertaking.</p> <p>2.Adoption and Discussion Items :</p> <p>(1)Prepare the 2017 surplus distribution proposal of the Company.</p> <p>(2)Review and approval directors (independent directors) candidates nominated by shareholders.</p> <p>(3)Eliminated an anti-competition restriction for newly appointed directors and their representatives.</p>	None	None	None

Board of Directors Meeting	Session	Contents proposed	Opinion of independent director			The company's handling of independent director's opinion
			Independent Director			
			Wang,Sung-Chou	Liu ,Cheng-Yi	Hsu,Kao-Shan	
2018.06.15	2018/4	<p>1.Report Items:None.</p> <p>2.Adoption and Discussion Items :</p> <p>(1)Election of new chairman and vice chairman.</p> <p>(2)Establishment of The Audit Committee.</p> <p>(3)Board of Directors approved to appoint the Remuneration Committee members.</p>	None	None	None	None
2018.07.27	2018/5	<p>1.Report Items:</p> <p>(1)Derivative product undertaking.</p> <p>(2)Liability insurance for Directors and Supervisors of this Company.</p> <p>2.Adoption and Discussion Items :</p> <p>(1)Approved the proposition to determine the base date for the distribution of cash dividend to shareholders.</p> <p>(2)Salary Compensation Committee Recommendation.</p>	None	None	None	None
2018.08.09	2018/6	<p>1.Report Items:</p> <p>(1)Report Items: Financial Report of second quarter, 2017.</p> <p>(2)Audit reports</p> <p>2.Adoption and Discussion Items :</p> <p>(1)Evaluated the report concerning the independence of this Company's CPA.</p> <p>(2)Approved amendments to "Internal Control System" , "Implementation Rules for Internal Auditing".</p> <p>(3) Approved amendments to "Corporate Governance Best Practice Principles","Corporate Social Responsibility Best Practice Principles","Ethical Corporate Management Best Practice Principles","Procedures for halt and resumption applications".</p>	None	None	None	None

2018.10.04	2018/7	1.Report Items: (1)Derivative product undertaking. 2.Adoption and Discussion Items : (1)Salary Compensation Committee Recommendation	None	None	None	None
2018.11.09	2018/8	1.Report Items: (1)Financial Report of third quarter, 2017. (2)Audit reports (3)Derivative product undertaking. (4)Implemented the audit report for Corporate Social Responsibility. (5)Implemented the audit report for ethical corporate management. 2.Adoption and Discussion Items : (1)Approved the 2018 audit plan. (2)Approve the appointment of President of the Company.	None	None	None	None
2019.01.25	2019/1	1.Report Items: (1)Derivative product undertaking. 2.Adoption and Discussion Items : (1)Salary Compensation Committee Recommendation (2)Approved the Business Plan of 2019 for this Company.	None	None	None	None
2019.03.21	2019/2	1.Report Items : (1)Audit reports (2)Derivative product undertaking. 2.Adoption and Discussion Items : (1)Approved the 2018 Financial Statement of this Company. (2)Approved The Statement on Internal Control System of 2018 of this Company. (3)Salary Compensation Committee Recommendation (4)Matters related to the convening of the 2018 shareholders' meeting. (5)Matters related to the shareholders' general meeting acceptance of shareholder proposals. (6)Approved the amendments to the Articles of Incorporation of this Company. (7)Approved amendments to Procedure for the Operations Procedure for Loaning of Funds to Other Parties,Endorsement and Guarantee Operations Procedure, Acquisition and Disposal of Assets of this Company. (8)Appointed Corporate Governance Officer. (9)Approved amendments to Procedure for the Rules of Procedure for Board of Directors Meetings. (10)Bank credit line approval.	None	None	None	None
2019.04.30	2019/3	1.Report Items: (1)Business Performance Report - First Quarter 2019 (2)Audit reports (3)Derivative product undertaking. 2.Adoption and Discussion Items : (1)Prepare the 2018 surplus distribution proposal of this Company. (2)Approval of the Company's cash distribution with capital reserve.	None	None	None	None

12. Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors in most recent year and up to date of the annual report: None.

13. Resignation or Dismissal of Personnel Involved in the Company:

To follow the instructions of the competent authority in conducting to promote corporate governance. Retiring :
President : Mr.Hsu,Hsiang ; new appointments : President & CEO : Mr. Chiang,Sheng-Chang

(V) CPAs Fees

Accounting Firm	Name of CPA		Period Covered by CPAs' Audit	Remarks
PricewaterhouseCoopers, Taiwan	Liang, Hua-Ling	Lai, Chung-Hsi	2018	

Unit: NT\$ thousands

Fee Range	Fee Items	Auditing Fees	Non-Auditing Fees	
			Amount	Items
1	Below 2,000 thousand		1,676	BEPS Project and Transfer pricing fee
2	2,000 thousand (included) ~4,000 thousand	3,986		
3	4,000 thousand (included) ~6,000 thousand			
4	6,000 thousand (included) ~8,000 thousand			
5	8,000 thousand (included) ~10,000 thousand			
6	Over 10,000 thousand (included)			

1. In case the non-auditing fees paid to CPAs, CPA firm and the CPA firm's related party account for over a quarter of the total auditing fees, the auditing amount and non-auditing amount; also, the non-auditing service must be disclosed: The non-audit service project is the BEPS project consultant fee and transfer pricing report.
2. In case the auditing fee paid in the year retaining service from another CPA firm is less than the auditing fee paid in the year before, the amount of auditing fee before / after the change of CPA Firm and the reasons for the said change must be disclosed: None.
3. Reduction of auditing fees by more than 15% compared to the previous year: None.

(VI)CPA's Information:None.

(VII)MSI's chairman, president, and managers in charge of its finance and accounting operations did not hold any positions within MSI's independent audit firm or its affiliates in the most recent year.

(VIII)Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Department Heads, and Shareholders of 10% shareholding or more

1.Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders:

Unit: shares

Title	Name	2018 (Note)		2019/1/1~2019/04/16 (Note)	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Hsu,Hsiang	0	0	0	0
Vice Chairman & Senior Vice President of Management Committee	Huang,Chin-Ching	0	0	0	0
Director & Senior Vice President of Management Committee	Lin,Wen-Tung	0	0	0	0
Director & Senior Vice President of Management Committee	Yu, Hsien-Neng	0	0	0	0
Director & President & Chief Executive Officer	Chiang,Sheng-Chang	0	0	0	0
Director & Executive Vice President & NB BU GM	Kuo,Hsu-Kuang	50,000	0	0	0
Director & Executive Vice President & GNP BU GM	Liao,Chun-Keng	0	0	0	0
Director & Executive Vice President & CND BU GM	Hung,Yu-Sheng	0	0	0	0
Independent Director	Wang,Sung-Chou	0	0	0	0
Independent Director	Liu ,Cheng-Yi	0	0	0	0
Independent Director	Hsu,Kao-Shan	0	0	0	0
Senior Vice President of Management Committee	Lu,Chi-Long	0	0	0	0
		(155,000)			
President of the EPS B.U.	Tsai,Rong-Fong	0	0	0	0
President of IPS B.U.	Lu,Hhi-Chang	0	0	0	0
Vice President & CPS BU GM(Note1)	Wu,Ta-Hsin	0	0	0	0
Vice President of Corp. R&D	Teng,Chi-Hung	0	0	0	0
		(10,000)			
Vice President of Corp. Manufacture & Quality Assurance	Li,Chao-Ming	0	0	0	0
Vice President of Corp. Sales & Marketing	Chiu,Chih-Keng	0	0	0	0
Vice President of Corp. Sales & Marketing(Note2)	Tung,Ti-Chun	0	0	0	0
Vice President of Corp. Supply Chain(Note1)	Chen,Te-Ling	0	0	0	0
Vice President of NB BU R&D Division	Lin,Chin-Kuan	0	0	0	0
Vice President of NB Product Mgt. Division(Note2)	Peng,Jen-Fang	0	0	0	0
Vice President of NB BU R&D Division	Lu,Kuo-Huang	0	0	0	0
Vice President of NB Operations Mgt. Division	Pan,Tsai-Yu	0	0	0	0
Vice President of EPS BU Sales & Marketing Division	Lu,Cheng-Lung	0	0	0	0
Vice President of ACS ODM R&D Division(Note2)	Huang,Wen-Shan	0	0	0	0
Vice President of Corp. Marketing Division(Note2)	Cheng,Hui-Cheng	0	0	0	0
Senior Special Assistant of President Office Business Planning	Tsai,Wei-Hsin	0	0	0	0
Vice President of Finance & Accounting Division	Hung,Pao-Yu	0	0	0	0
Assistant Vice President of Internal Auditing Office	Liu,Chu-Hao	9,000	0	0	0
		(9,000)			

Note1: January 1,2019 Newly appointed.

Note2: April 1,2019 Newly appointed.

2.Information of Shares Transferred: Not transferred to related parties.

3.Information of Equity Pledged: None.

(IX) Relationship among the Top Ten Shareholders

2019/04/16 Unit : Share : %

Name	Shareholding		Spouse and Minor		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remark
	Shares	%	Shares	%	Shares	%	Name	Relations	
Hsu,Hsiang	51,983,151	6.15%	18,864,257	2.23%	9,376,328	1.11%	Hsu,Fen-Lan	Spouse	
Fubon Life Insurance Co., Ltd.	32,599,000	3.86%	-	-	-	-			
Cathay Life insurance fully authorizes HSBC Global Asset management (Taiwan) Ltd. Investment Account	27,631,000	3.27%	-	-	-	-			
Lin,Wen-Tung	25,672,499	3.04%	62,895	0.01%	-	-	-	-	
Huang,Chin-Ching	20,937,377	2.48%	2,148,564	0.25%	7,521,761	0.89%	-	-	
Nan Shan Life Insurance Company, Ltd.	19,125,000	2.26%	-	-	-	-			
Lu,Chi-Lung	18,650,835	2.21%	1,965,350	0.23%	-	-	-	-	
Yu,Hsien-Neng	17,892,824	2.12%	184,922	0.02%	-	-	-	-	
INVESTEK GLOBAL STRATEGY FUND-ASIAN EQUITY FUND	16,329,000	1.93%	-	-	-	-	-	-	
Hsu,Fen-Lan	13,408,517	1.59%	57,438,891	6.80%	9,376,328	1.11%	Hsu,Hsiang	Spouse	

(X) Ownership of Shares in Affiliated Enterprises :

As of Dec. 31, 2018 Unit : Share : %

Long-Term Investment (Note)	Ownership by MSI		Ownership by Directors, Management or Direct/Indirect affiliates		Total	
	Shares	%	Shares	%	Shares	%
MICRO-STAR INTERNATIONAL (B.V.I.) HOLDING CO., LTD.	0	0%	47,465,071	100%	47,465,071	100%
MSI COMPUTER CORP.	575,458	100%	0	0%	575,458	100%
MYSTAR COMPUTER B.V.	0	0%	0	100%	0	100%
MSI COMPUTER (AUSTRALIA) PTY. LTD.	221,836	100%	0	0%	221,836	100%
MICRO-STAR NETHERLANDS HOLDING B.V.	424,000	100%	0	0%	424,000	100%
MSI COMPUTER JAPAN CO., LTD.	1,400	100%	0	0%	1,400	100%
MSI COMPUTER SARL	0	0%	0	100%	0	100%
MSI COMPUTER (SHENZHEN) CO., LTD.	0	0%	0	100%	0	100%
MSI COMPUTER (CAYMAN) CO., LTD.	50,000	100%	0	0%	50,000	100%
MSI COMPUTER (UK) LTD.	0	0%	0	100%	0	100%
MSI ELECTRONIC (KUNSHAN) CO., LTD	0	0%	0	100%	0	100%
MSI COMPUTER EUROPE B.V.	0	0%	0	100%	0	100%
STAR INFORMATION HOLDING CO., LTD.	0	0%	4,502,601	100%	4,502,601	100%
MICRO ELECTRONICS HOLDING CO., LTD.	0	0%	33,315,472	100%	33,315,472	100%
MSI PACIFIC INTERNATIONAL HOLDING CO., LTD.	30,204,118	100%	0	0%	30,204,118	100%
MSI KOREA CO., LTD.	0	0%	80,000	100%	80,000	100%
MEGA INFORMATION HOLDING CO., LTD.	0	0%	0	100%	0	100%
SHENZHEN MEGA INFORMATION CO., LTD.	0	0%	0	100%	0	100%
MSI POLSKA SP. Z O.O.	0	0%	0	100%	0	100%
MEGA TECHNOLOGY HOLDING CO., LTD.	0	0%	3,050,000	100%	3,050,000	100%
MSI TRADING (SHENZHEN) CO., LTD.	0	0%	0	100%	0	100%
MEGA COMPUTER CO., LTD.	0	0%	1	100%	1	100%
LLC“ MSI COMPUTER”	0	0%	0	100%	0	100%
MSI COMPUTER TECHNOLOGIES LIMITED COMPANY	0	0%	0	100%	0	100%
MSI ITALY S.R.L.	0	0%	0	100%	0	100%
MHK INTERNATIONAL CO., LTD.	0	0%	1	100%	1	100%
MSI (SHENZHEN) Co., LTD.	0	0%	0	100%	0	100%
LINKING FUTURE CO., LTD.	0	0%	1	100%	1	100%
MSI (SHANGHAI) CO., LTD.	0	0%	0	100%	0	100%
RAIDEALS INC.	0	0%	0	100%	0	100%

Note: Long-term investment accounted for using equity method.

IV. Capital Overview

(I)Capital and Shares 1.Capital and Shares

Unit:1,000 Shares ; NT\$ thousands

Month /Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark	Capital Increased by Assets Other than Cash	Other
		Shares	Amount (NT\$1,000)	Shares	Amount (NT\$1,000)			
1986.08	—	500	5,000	500	5,000	Incorporation	None	—
1990.06	10	3,000	30,000	3,000	30,000	Issuance of Shares for cash 25,000	None	—
1991.08	10	6,000	60,000	6,000	60,000	Issuance of Shares for cash 30,000	None	—
1994.05	10	10,000	100,000	10,000	100,000	Issuance of Shares for cash 40,000	None	—
1995.07	10	18,000	180,000	18,000	180,000	Issuance of Shares for cash 80,000	None	—
1996.10	16	60,000	600,000	40,750	407,500	Issuance of Shares for cash 137,500 and Capitalization of retained earnings 90,000	None	JUL 10,1996 Taiwan-Finance-Securities-I-NO.41320
1997.06	30	100,000	1,000,000	70,800	708,000	Issuance of Shares for cash 48,280 and Capitalization of retained earnings 244,500 and Capitalization of employees' bonuses 7,720	None	APR 28,1997 Taiwan-Finance-Securities-I-No.32301
1998.04	—	126,000	1,260,000	109,200	1,092,000	Capitalization of retained earnings 283,200, Capitalization of reserves 70,800 and Capitalization of employees' bonuses 30,000	None	MAR 9, 1998 Taiwan-Finance-Securities-I- No.23751
1999.03	108	126,000	1,260,000	136,800	1,368,000	Issuance of Shares for cash 276,000	None	DEC 17,1998 Taiwan-Finance-Securities-I- No.98986
1999.07	—	320,000	3,200,000	196,376	1,963,760	Capitalization of retained earnings 547,200 and Capitalization of employees' bonuses 48,560	None	JUN 10,1999 Taiwan-Finance-Securities-I- No. 54332
2000.07	—	320,000	3,200,000	291,000	2,910,000	Capitalization of retained earnings 883,692 and Capitalization of employees' bonuses 62,548	None	MAY 26,2000 Taiwan-Finance-Securities-I- No.45969
2001.01	—	320,000	3,200,000	291,914	2,919,136	Conversion of bonds 9,136	None	—
2001.05	—	680,000	6,800,000	376,582	3,765,818	Capitalization of retained earnings 729,784 and Capitalization of employees' bonuses 116,898	None	MAY 23,2001 Taiwan-Finance-Securities-I-No.132149
2002.01	—	680,000	6,800,000	386,027	3,860,270	Conversion of bonds 94,451	None	—
2002.03	—	680,000	6,800,000	395,283	3,952,834	Conversion of bonds 92,564	None	—
2002.07	—	680,000	6,800,000	555,632	5,556,326	Capitalization of retained earnings 1,383,492 and Capitalization of employees' bonuses 220,000	None	MAY 28,2002 Taiwan-Finance-Securities-I-No.129029
2003.09	—	960,000	9,600,000	660,477	6,604,775	Capitalization of retained earnings 833,448 and Capitalization of employees' bonuses 215,000	None	JUL 17,2003 Taiwan-Finance-Securities-I-No.0920132258
2003.11	—	960,000	9,600,000	670,395	6,703,956	Conversion of bonds 99,181	None	—
2004.09	—	960,000	9,600,000	756,435	7,564,351	Capitalization of retained earnings 670,395 and Capitalization of employees' bonuses 190,000	None	JUN 28 ,2004 Taiwan-Finance-Securities-I- No.0930128388
2005.07	—	1,020,000	10,200,000	782,128	7,821,282	Capitalization of retained earnings 226,931 and Capitalization of employees' bonuses 30,000	None	JUL 11,2005 Taiwan-Finance-Securities-I- No.0940127923
2006.07	—	1,500,000	15,000,000	880,562	8,805,624	Capitalization of retained earnings 860,341 and Capitalization of employees' bonuses 124,000	None	JUL 21,2006 Financial-Supervisory-Securities-I No.0950132069
2007.07	—	1,500,000	15,000,000	882,447	8,824,474	Employee stock option exercise 18,850	None	—

2007.09	—	1,500,000	15,000,000	947,781	9,477,811	Capitalization of retained earnings 528,337 and Capitalization of employees' bonuses 125,000	None	JUL 9,2007 Financial-Supervisory-Securities-I No.0960035165
2007.10	—	1,500,000	15,000,000	950,277	9,502,770	Employee stock option exercise 24,960	None	—
2008.02	—	1,500,000	15,000,000	950,754	9,507,540	Employee stock option exercise 4,770	None	—
2008.05	—	1,500,000	15,000,000	950,937	9,509,372	Employee stock option exercise 1,831	None	—
2008.08	—	1,500,000	15,000,000	951,304	9,513,040	Employee stock option exercise 3,669	None	—
2008.09	—	1,500,000	15,000,000	951,459	9,514,590	Employee stock option exercise 1,550	None	—
2008.10	—	1,500,000	15,000,000	1,007,696	10,076,965	Capitalization of retained earnings 380,374 and Capitalization of employees' bonuses 182,000	None	JUL 1,2008 Financial-Supervisory-Securities-I No.0970032658
2008.10	—	1,500,000	15,000,000	1,008,028	10,080,285	Employee stock option exercise 3,320	None	—
2009.02	—	1,500,000	15,000,000	1,008,074	10,080,745	Employee stock option exercise 460	None	—
2009.04	—	1,500,000	15,000,000	1,008,246	10,082,455	Employee stock option exercise 1,710	None	—
2009.07	—	1,500,000	15,000,000	1,008,742	10,087,416	Employee stock option exercise 4,961	None	—
2009.09	—	1,500,000	15,000,000	1,067,626	10,676,262	Capitalization of retained earnings 504,123 and Capitalization of employees' bonuses 79,533 Employee stock option exercise 5,190	None	JUL 1,2009 Financial-Supervisory-Securities-I No. 0980032766
2009.10	—	1,500,000	15,000,000	1,068,132	10,681,322	Employee stock option exercise 5,060	None	—
2010.01	—	1,500,000	15,000,000	1,068,667	10,686,672	Employee stock option exercise 5,350	None	—
2010.05	—	1,500,000	15,000,000	1,069,191	10,691,912	Employee stock option exercise 5,240	None	—
2010.07	—	1,500,000	15,000,000	1,069,249	10,692,492	Employee stock option exercise 580	None	—
2010.11	—	1,500,000	15,000,000	1,069,347	10,693,472	Employee stock option exercise 980	None	—
2011.01	—	1,500,000	15,000,000	1,070,225	10,702,252	Employee stock option exercise 8,780	None	—
2011.04	—	1,500,000	15,000,000	1,071,223	10,712,232	Employee stock option exercise 9,980	None	—
2011.09	—	1,500,000	15,000,000	996,157	9,961,572	Treasury stock cancellation 750,660	None	JUL 4,2011 Financial-Supervisory-Securities-I No. 1000031682 AUG 26,2011 Financial-Supervisory-Securities-I No. 1000040409
2011.11	—	1,500,000	15,000,000	964,157	9,641,572	Treasury stock cancellation 320,000	None	OCT 28,2011 Financial-Supervisory-Securities-I No. 1000052520
2012.02	—	1,500,000	15,000,000	924,856	9,248,562	Treasury stock cancellation 393,010	None	FEB 13,2012 Financial-Supervisory-Securities-I No. 1010004861
2012.04	—	1,500,000	15,000,000	884,856	8,848,562	Treasury stock cancellation 400,000	None	APR 18,2012 Financial-Supervisory-Securities-I No. 1010016081
2012.07	—	1,500,000	15,000,000	844,856	8,448,562	Treasury stock cancellation 400,000	None	JUL 18,2012 Financial-Supervisory-Securities-I No.1010033145

(1)Type of shares

As of APR 16,2019 Unit : Shares

Type of shares	Authorized Capital			Remarks
	Issued Shares (Note)	Un-issued Shares	Total Shares	
Common stock	844,856,199	655,143,801	1,500,000,000	Authorized capital stock, of which, 150,000 thousand shares are reserved for exercising Conversion of bonds and 80,000 thousand shares are reserved for employee stock options.

Note : Listed stock.

(2)Information for Shelf Registration: None.

2.Status of Shareholders

As of APR 16,2019 Unit : Shares

Status of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
QTY						
Number of Shareholders	0	30	222	46,638	624	47,514
Shareholding (shares)	0	103,509,940	79,869,768	358,683,140	302,793,351	844,856,199
%	0.00%	12.25%	9.45%	42.46%	35.84%	100.00%

3.Shareholding Distribution Status

(1)Common Shares

As of APR 16,2019Unit : Shares

Class of Shareholding	Number of Shareholders	Shareholding (Shares)	%
1~ 999	21,860	3,571,496	0.42%
1,000~ 5,000	20,229	40,055,491	4.74%
5,001~ 10,000	2,727	20,665,744	2.45%
10,001~ 15,000	832	10,323,807	1.22%
15,001~ 20,000	413	7,585,149	0.90%
20,001~ 30,000	404	10,253,106	1.21%
30,001~ 40,000	209	7,418,797	0.88%
40,001~ 50,000	110	5,048,904	0.60%
50,001~ 100,000	261	18,950,866	2.24%
100,001~ 200,000	144	20,404,507	2.42%
200,001~ 400,000	107	30,870,174	3.65%
400,001~ 600,000	60	29,224,563	3.46%
600,001~ 800,000	21	14,383,742	1.70%
800,001~1,000,000	17	15,147,557	1.79%
1,000,001 or over	120	610,952,296	72.32%
Total	47,514	844,856,199	100.00%

(2)Preferred share : The company did not issue any preferred share.

4. List of Major Shareholders

As of APR 16, 2019 Unit : Shares

Holder's Name	Share holding	Shares	%
Hsu, Hsiang		51,983,151	6.15%
Fubon Life Insurance Co., Ltd.		32,599,000	3.86%
Cathay Life insurance fully authorizes HSBC Global Asset management (Taiwan) Ltd. Investment Account		27,631,000	3.27%
Lin, Wen-Tung		25,672,499	3.04%
Huang, Chin-Ching		20,937,377	2.48%
Nan Shan Life Insurance Co., Ltd.		19,125,000	2.26%
Lu, Chi-Lung		18,650,835	2.21%
Yu, Hsien-Neng		17,892,824	2.12%
INVESTEC GLOBAL STRATEGY FUND-ASIAN EQUITY FUND		16,329,000	1.93%
Hsu, Fen-Lan		13,408,517	1.59%

5. Market Price, Net Worth, Earnings, and Dividends per Share

Unit: Shares; NT\$

Items			Year	2018	2017	As of April 30, 2019
Market price per Share	Highest Market Price			131.00	82.00	89.80
	Lowest Market Price			63.50	59.10	71.80
	Average Market Price			92.03	71.69	81.78
Net worth per share	Before Distribution			35.44	32.91	37.14 (Note2)
	After Distribution			(Note1)	28.41	(Note1)
Earnings per share	Weighted average shares		Basic	844,856,199	844,856,199	844,856,199 (Note2)
			Diluted	852,782,222	852,219,286	852,397,983 (Note2)
	Earnings per share	Before adjustment	Basic	7.15	5.84	1.55 (Note2)
			Diluted	7.08	5.79	1.53 (Note2)
		After adjustment	Basic	(Note1)	5.84	-
			Diluted	(Note1)	5.79	-
Dividends per share	Cash dividends	Dividends from Retained earnings	(Note1)	NT\$4.5/Share	-	
		Dividends from Capital Surplus	(Note1)	-	-	
	Stock dividends	Dividends from Retained earnings	-	-	-	
		Dividends from Capital Surplus	-	-	-	
	Accumulated undistributed dividends			-	-	-
Analysis of return on investment	Price/Earning Ratio	Basic	12.81	12.19	-	
		Diluted	12.94	12.29	-	
	Price/Dividend Ratio			(Note1)	15.82	-
	Cash dividends yield rate			(Note1)	6.32%	-

Note1: Subject to the approval of 2019 annual shareholders' meeting.

Note2: 2019Q1 financial report was reviewed by CPA.

6.Dividend policy of the company and its implementation

(1)Dividend Policy

The Company is in a highly changeable industry. Many high-end lucrative products are in growth. The distribution of dividends shall be made taking into consideration the needs of Company future development and operation, and the interests of shareholders. If the annual results shall have profit, such profits should first pay all taxes and reimburse accumulative loss, then take 10% legal reserve and special reserve according to the Company Act. After previous deductions and reserves, the Company can take 10% to 90% of the distributable earnings plus undistributed retained earnings as bonus. The Board of Directors shall propose profit distribution plan to be approved by the shareholders' meeting.

Shareholders' bonus shall be distributed in accordance with the percentage of the shares owned among the total outstanding shares of the Company. Shareholders' bonus will be distributed through the forms of both cash and stock dividends. In such distribution combination, cash dividends shall take no less than 30% of the total distributed bonus.

In the event there are deductions under the account of shareholders' equity which cannot be allocated from after-tax profits of the current fiscal year, whether accumulated from previous year or occurred in the current year, the Company shall allocate sufficient special reserves from the beginning aggregate balance of undistributed earnings and subtract such shareholders' equity deductions before profits distribution.

(2)Proposed Distribution of Dividend :

2018	
Cash dividend from retain earnings	NT\$4.5(per Share)
Cash dividend from capital reserve	NT\$0.5(per Share)
Total	NT\$5.0(per Share)

(3)Any expected major changes in the dividend policy: None

7.Impact to the company's business performance and earnings per share (EPS) for free shares allotment proposed by this shareholders' meeting: Not applicable.

8.Compensation for employees and directors

(1)Quantity or scope of compensation for employees, directors as prescribed by the articles of association (Article 19-1)

The pre-tax income of the current fiscal year shall first offset the accumulated deficits. If the balance is positive, then the Company shall allocate the remuneration to be distributed to employees and directors in accordance with the following ratio.

A. Employee remuneration in the percentage of 6% to 10%. Individuals eligible for employee remuneration include the Company's employees and the employees of the Company's subsidiaries meeting certain requirements. Such requirements are to be set by the Board of Directors.

B. Remuneration to be distributed to directors shall not exceed 1%.

The decision of the percentage of remuneration to be distributed to employees, directors set forth in the preceding Paragraph, the forms of distribution (cash or stock dividends) and the amounts and shares thereof shall be made through the special resolutions of the Board of Directors and reported to the shareholders' meeting.

(2) Accounting methods for the differences between the remunerations' provision amount and actual distribution amount:

The remunerations provision for employees, directors in 2018 is according to contemporary profits and with reference to the distribution ratio from the year before and the percentage specified in the Articles of Incorporation. In case of any difference between the actual distributed value decided by the Board of Directors, it will be handled as changes in accounting estimates.

(3)Situation of the Board of Directors' passing remuneration distribution :

A. The amount of employee, director remuneration in cash or stock distribution. If it differs from the estimated amount in the recognized expense year, the balance, reason, and handling situation shall be disclosed:

The Board of Directors passed a resolution, determining that the remuneration of employees in 2018 is NTD515,000,000, and the remuneration of directors in 2018 is NTD 49,500,000, which are the same as the recognized expense amount in 2018.

B. The proportion of employee remuneration amount in stock distribution based on the net profit after tax from stand alone financial statements of this period and the total employee remuneration: None

(4) For the actual distribution situation of employees, directors and supervisors remuneration last year (including distributed shares, amount, and stock price), if it differs from the recognized employees, directors and supervisors remuneration, the balance, reason, and handling situation shall be specified:

In 2017, the relevant information on the employees, directors and supervisors remuneration is summarized below:

Employees bonus distribution: NTD 448,000,000; directors and supervisors remuneration distribution: NTD 42,900,000. It is the same as the recognized expense amount in 2017.

9. Repurchase by the company of its own shares: None.

(II) Corporate bond: None.

(III) Preferred shares: None.

(IV) Overseas depositary receipt: None.

(V) Employee stock warrant: None.

(VI) Restricted Employee Shares: None.

(VII) The section on issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies shall specify the following matters:

1. If, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the company has completed any issuance of new shares in connection with a merger or acquisition or with acquisition of shares of any other company : None.

2. Where the board of directors has, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, adopted a resolution approving any issuance of shares in connection with a merger or acquisition or with acquisition of shares of any other company : None.

(VIII) The status of implementation of capital allocation plans :

1. A description of the plan

Where various issuance or private placement of securities have yet to be completed, or have been completed in the most recent 3 years but where the benefits of the plan have yet to be realized :

All securities of the Company have been issued and no unrealized benefits.

2. Status of implementation: Not Applicable

V. Operation summary

(I)Business content

1.Scope of business

(1)The purpose for which the Company is formed shall be as follows:

1. Design of various computer hardware and software and manufacture, sale and purchase of computer products, parts and components;
2. Manufacture and sale of electronic components and parts;
3. Import-export trading business in relation of the foregoing businesses;
4. Agency business for quotation, bid and distribution of related products;
5. CC01030 Manufacturing business of electric appliances;
6. CC01060 Manufacturing business of wired communications equipments;
7. CC01070 Manufacturing business of wireless communications equipments;
8. CE01030 Manufacturing business of optical devices;
9. CH01040 Manufacturing business of toys;
10. F109040 Wholesale business of toys and entertainment products;
11. F113020 Wholesale business of electric appliances;
12. F113050 Wholesale business of office machines and equipments;
13. F113070 Wholesale business of telecommunications equipments and materials;
14. F209030 Retail business of toys and entertainment products;
15. F213030 Retail business of office machines and equipments;
16. F213060 Retail business of telecommunications equipments and materials;
17. F213010 Retail business of electric appliances;
18. CC01101 Manufacturing business of regulated RF telecommunications equipments and materials;
19. F401021 Import business of regulated RF telecommunications equipments and materials;
20. CF01011 Manufacturing business of medical equipments;
21. F108031 Wholesale business of medical equipments;
22. F208031 Retail business of medical equipments;
23. CE01010 Manufacturing business of general equipments; and
24. ZZ99999 All other businesses not prohibited or restricted by laws and regulations except businesses requiring special permits.

(2)Proportion of each business

2018

Unit: NT\$ thousands

Major product	Sales revenue	%
Computer and peripherals	118,527,273	100%

(3) Current products and services of the Company

- A. Motherboard: Intel® and AMD® platform Gaming and Content Creation motherboards
- B. Professional Graphics Card: NVIDIA® and AMD® platform graphics cards ; Professional Gaming Gears: Keyboard, Mouse, Headset, Control Devices
- C. Server: Server system, Workstation, Storage system, Network application system, Intrusion prevention system (IPS) & Unified threat management (UTM), Telecom next generation firewall (NGFW), IoT edge server and gateway, IoT facial recognition gateway.
- D. Desktop computer: Gaming Desktops, Mini Desktops, Desktops, All-in-One, Gaming ALL-in-One
- E. Industrial computer: Industrial computer motherboard, industrial computer system, POS, PPC, industrial hand-held tablet, High-end Harsh Environment Products, Industrial 4.0 and AIoT.
- F. Telematics and Automotive Electronics: FMS Solution, Telematics Solution and Interactive Infotainment Solution.
- G. Laptop: High-performance flagship gaming laptops, Ultra-thin and light gaming laptops, High-performance multimedia laptops, Content Creation laptops, Mobile workstations
- H. Monitors: Gaming Monitors for high-end gamers
- I. Case: RGB Gaming Cases and Content Creation Cases

(4) New products (services) planned to be developed

A. Motherboard:

- Development of motherboard with multi-core processors for better performance.
- Development of motherboard utilizing the latest AI and human-computer interaction technology, for better user experience
- Development of motherboard with better thermal solution and more durable components.
- Improvement of the RGB LED effects and better synchronization with other peripherals.

B. Professional Graphics Cards:

- Development of graphics card and thermal modules with better performance and lower energy consumption.
- Development of overclocking graphics card with the latest technology and components.
- Development of fans with better heat dissipation and lower noise.
- Development of graphics card with improved RGB lighting effects and functions.
- Continuous improvement and integration of graphics card applications.
- Development of graphics card with “Real-Time Ray Tracing” and “AI deep learning” technologies.

Professional Gaming Gears:

- Catering to the gamers’ needs, we plan to develop professional “Gaming Keyboard”, “Gaming Mouse”, “Gaming Headset” with innovative functions and effects.
- Development of professional gaming peripherals, like “Gaming control devices”, “Gaming mouse pad”, etc.

C. Server:

- Development of the new generation Server & Workstation for Intel® Whitley & Tatlow platform.
- Development of the new generation Network application system for Intel® Whitley & Tanner Ridge platform.
- Development of the new generation multi-function IoT facial recognition gateway
- Development of the multi-function IoT edge server and gateway
- Development of the next generation Telecom firewall (NGFW) 16U system
- Development of the high-density Unified threat management (UTM) for Intel® Whitley platform
- Enhancement of the new generation Intrusion prevention system (IPS) for Intel® Mehlow platform

D. Desktop computer:

- Development of the gaming desktop series for the newest Intel® 400 platform.
- Innovating the Cubi mini computer series for the newest Intel® CML-U series platform.
- Continuing the development of the All-in-One products for the Intel® platform.
- Continuing the development of the high-end gaming desktop with the exclusive Silent Storm cooling design.
- Innovating flagship gaming desktop with the industry’s leading skills and technology.
- Continuing the development of desktop computers that caters to the need of the LAN Party gamers.
- Development of a technology that can deeply integrate gaming monitors with gaming desktops.
- Applying AI technology to gaming desktops.

- Innovating desktops that are suitable for professionals within the Multimedia and Content Creation industry.

E. Industrial computer:

- Development of the Intel® Coffee Lake fan-free and expandable PCI Express and PCI Express robust system.
- Development of wide Temperature/Voltage product series which can comply with EN50155/IEC61373 in vehicle Transportation market.
- Development of expansion cards for add-on values and functionalities.
- Development of industrial M12 connector waterproof and dust-proof high-performance system.
- Development of the Intel® Whiskey Lake low-power consumption and high-performance fanless super thin digital electronic bulletin board system that includes the HDMI 2.0 high-resolution image processing feature.
- Development of the newest generation thin high-performance image processing motherboard with over-voltage and over-current protection.
- Development of the changeable-structured products with an expandable I/O module motherboard integrated with the system.
- Development of the IoT system with a total package solution.
- Development of the single unit digital electronic bulletin board and a beginner's simple editing software to provide a quick and easy advertisement managing solution.
- Development of the Pico-ITX broad-temperature small low power-consumption CPU module product
- Development of the broad temperature small IoT fanless embedded system supporting railway regulations.
- Development of a system that can support two sets of PoE and CAN Bus at the same time.
- Development of an automobile embedded system supporting broad temperature and broad pressure specifications.

F. Telematics and Automotive Electronics:

- FUNTORO FMS Solution focus on fleet efficiency, driver performance, driving safety and cost reduction into one stop total solution for fleet owner combine with hardware, software and cloud-based services.
- FUNTORO Telematics Solution focus on vehicle management and tracking, driving safety and passenger safety, passenger information/station and route information/public address system integration, interactive advertising and sensor data processing and cloud analyzing with embedded AIoT technology.
- FUNTORO Infotainment Solution focuses on integration with passenger information/CCTV/LED and LCD display/interactive multimedia/smart advertising/passenger load/on-line shopping. This is ideal for operator making creative cash flow and new business models to get the competitive advantage. With this solution, we provide passengers with new experiences different from traditional multimedia function and operator reaps the benefits from enhanced brand image, increased passenger load and revenue.

G. Laptop:

- Breaking boundaries in design, and leading the advancements in the gaming notebook industry, MSI introduced the first ever thin bezel gaming notebook to the market. Even with reduced dimensions and lightweight, the notebook is still capable of high-performance and high heat dissipation, bringing the best user experience to users.
- Development of high-end gaming notebooks with latest graphic cards and CPUs, wide-view, wide color gamut, high refresh rates, High-Res Audio for headsets, and single/multi-colored backlit gaming keyboards. MSI gaming notebooks also come with MSI exclusive features to provide the best visual and auditory user experience, including True Color, for accurate color display, and Giant speaker, for immersive sound.
- MSI worked with famous App emulator Developer to provide MSI App Player, an emulator that can enable users to play mobile games on PCs, to enjoy bigger screen and better performance. It also supports multiple sessions, allowing multiple games/Apps to run smoothly at the same time.
- MSI Prestige Series are developed especially for content creators, and capable of auto-detecting content creator-related software and optimize system performance accordingly. Considering creators' needs for mobility and long-work hours, Prestige Series are designed to be light weight with long battery life.
- MSI has been dedicated to develop mobile workstations that have been certified by various ISVs to have the best compatibility for their software. MSI has also spent much effort in creating thinner and lighter workstations with higher performance, better heat dissipation capabilities, and best mobility.

H. Monitors:

- Development of the high-end curved gaming monitors with features such as wide screen size, 4K and WQHD high resolution.
- Continuing the development of the gaming monitors that adhere to the standard of eSports tournaments.
- Continuing the development of gaming monitors that can show game-related status and information on the monitor panel
- Applying AI technology to gaming monitors.
- Innovating monitors that are suitable for professionals within the multimedia and content creation industry.

I. Case:

- Development of the gaming cases focused on the RGB LED effects and can utilize 3D printing technology for personalization.
- Development of the content creation workstation case focused on airflow and space.

2. Industry Overview

(1) Current Status and Development of the Industry

According to the IDC data, overall PC shipments in 2018 are still showing a decline. However, continuous introduction of new technologies by the upstream semiconductor industry continues to introduce new technologies, innovation of e-sports related products, booming development of e-sports events and broadcast platforms, users' increased demand for high-end PCs and emerging applications such as internet of things will help increase sales opportunities for related products. The current status of the relevant business development of the company is summarized as follows:

A. Parts and components:

For the overview of the global motherboard market in 2018, the total amount shows a slight decline. However, the booming development of global e-sports related industries and users' increasing need for high-end computing have powered up the demand for the middle and high-level e-sports dedicated motherboards and the display card. Looking forward to 2019, Intel, AMD and NVIDIA will all have new products launched, and the innovation of many game masterpieces is believed to stimulate PC platform users to upgrade or complete system replacement, the segmentation of demand will continue to be the trend. This will also drive users to choose products that better suit their needs. Considering these two factors, it is expected that MSI motherboards and display cards will have further growth in the middle and high-end computer market in 2019.

B. Systematic products:

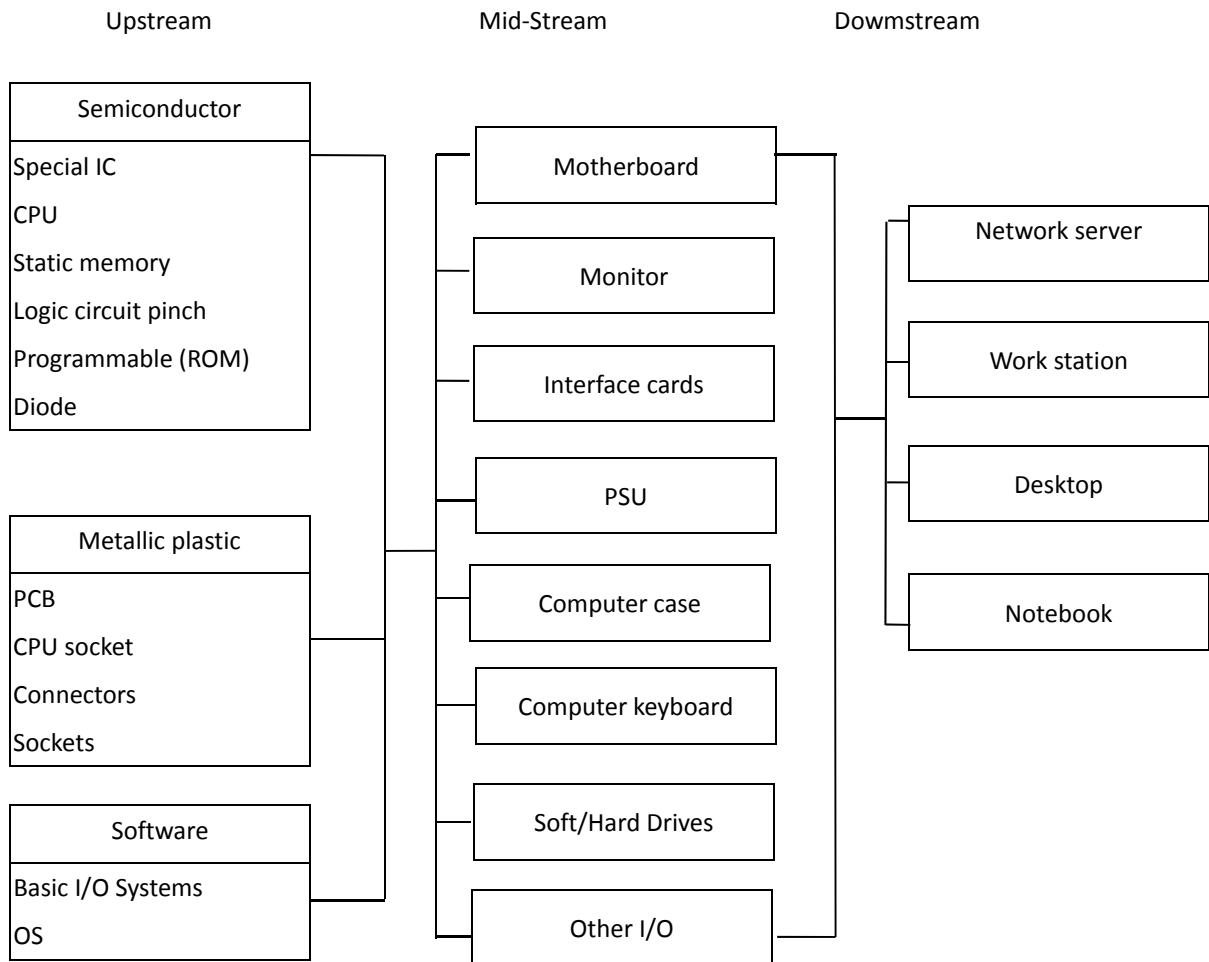
The current global PC market has reached saturation point. High-end PCs such as e-sports ones have become the way out for manufacturers to seek transformation and growth, whether they produce desktops or notebooks. Moreover, the booming development of e-sports-related industries, the engagement of many operators and the continuous launch of various PC games are conducive to the expansion of the gaming and e-sports market. MSI has been deeply involved in the field of e-sports for many years with the system product development centered around users and software and hardware highly integrated as it continues to develop more user-friendly new functions. In the high-end PC markets such as e-sports, MSI has become the first choice for players. In addition, MSI has also created a new high-performance thin and light notebook for the creators, which adheres to the Company's tradition of basing the design on the needs of creators with an aim to become the best partner of the creators.

C. Servers, industrial computers, and automobile electronics:

Industrial PCs are mainly applied in different industries and in a variety of special purposes; their design and functions are mostly tailored to different customer needs, which belongs to a business model of diverse products in small quantities. Customization and specialty also bring higher gross profits, and the average gross profit margin of global industrial computer manufacturers can reach as high as 30% to 40%. According to IDC statistics, 2018 global server shipments were forecast to grow by 18% to a total of 12 million units. In 2019, shipments are forecast to grow by 2.6% to a total of 12.32 million units. According to the survey by the Topology Research Institute, the global automobile sales volume only increased by 1% in 2019 as compared with 2018, however, the proportion of automotive electronic components is gradually rising. The Industrial Technology Research Institute (IEK) estimates that the global automotive

electronics market will reach US\$360 billion by 2025. The business opportunities are huge. However, as vehicles need to face various weather and terrain challenges, electronic components must pass strict certification, making the technical threshold high and difficult to enter. Once the client's certification is passed, a long-term stable suppliership can be established.

(2)Correlation of the upstream, midstream, and downstream of the industry:



(3)Product development trends :

A. Parts and components:

Intel, AMD and NVIDIA are major chip suppliers with new products launched in 2019, of which the specifications and performance will surpass existing products. With the trend of blockchain technology being applied to digital currencies has fading, the demand e-sports players can finally be met for the market to return to a healthy state; a new wave of high-end computer markets is expected to grow more significantly as more games become available. As for the manufacturing of PC components, Taiwanese manufacturers such as MSI are still in a leading position.

B. Systematic products:

The computer industry is gradually entering a stage featuring diversified changes. The development of products is no longer limited to the hardware itself; rather, it is the integration of software and hardware platforms. Starting off with the deep demand of users, with regard to systematic products such as laptops and desktop computers, MSI is devoted to integrating hardware and software, addition of new features, and enhancement of audio-visual experiences. With the addition of Gaming screens to the product line, the PC and the screen are integrated at a depth and features of new software and hardware are re-defined from the perspective of players so that the two are mutually complementary and players are able to enjoy unprecedented experiences.

C. Servers, industrial computers, and automobile electronics:

Industrial computers are developing toward total solutions from hardware to software and from the front end to the back end. Vertical integration of services and applications requires the capability to develop the firmware and the technicality for vertical integration so that high-performance, integrative, expansive, and highly compatible system platforms may be applied to a variety of sectors. Therefore, individual manufacturers are developing the vertical integration application market and expediting their technicality required for a high level of integration. A flexible operational pattern and cost leadership will be the new wave of challenges. Cloud computing has brought about structural changes for the server market. The large data center increases the shipment and revenue for server suppliers on the one hand yet the demand for new servers from the business circle will be decreased as businesses are using server applications in a virtual way or using services provided by cloud service providers directly on the other hand. For the server business, MSI's server business continues to have a strategic presence in both ODM and SI operations with the mainstream x86 architecture being the strength for transition to the new platform. The Company also made inroads into the Power architecture market with small shipments and engages in the ODM of global Unified Threat Management (UTM) to provide a comprehensive solution for all-around security.

In the development of automobile electronics, smart safety is the mainstream, including telematics, self-driving cars, and the Internet of vehicles, among others. With foreign heavyweight manufacturers putting in resources, Taiwan telematics suppliers are following suit and entering the automobile electronic field. MSI is a long-term investigator of telematics systems and has built a deep and solid R&D foundation. Certified by related international standards, it will continue to apply its robust capabilities in integrating software and hardware to contribute to total solutions such as FMS.

3. Overview of Technology and Research and Development

Research and development expenses and technologies or products successfully developed in the most recent year and up to the date the annual report was printed

Unit: NT\$thousands

Annual research and development expenditure	Research and development outcome
2018.1.1~2018.12.31 3,347,836	<p>A. Motherboard</p> <ul style="list-style-type: none"> ● Intel® 300 series motherboards support the 9th generation core processors. ● AMD® 400 series motherboards supports the 2nd generation Ryzen™ processors ● The M.2 Xpander Aero card is the PCI-E to M.2 add-on card with the best thermal solution in the market for user to adopt four M.2 SSD with Raid settings. ● The Streaming Boost card is the capture card solution for gamer to get the content from mobile devices and console. It is also a great bridge among PC, console and mobile game market and satisfies the demands from gamers. ● The OLED Dynamic Dashboard is an on-board panel for gamer to monitor all the status. It even allows gamers to put customized logo by themselves. ● The pre-installed I/O Shielding gives end users a better DIY experience via pre-installed components and prevents users from damaging their motherboard while building the desktop and decreasing the RMA issue. ● The Audio Boost HD is the latest sound technology, which enhances the bass effect with powerful sound experience. The Audio Boost HD also received the Hi-Res Audio certification for its perfect sound performance. ● The System Save adopts the special integrated IC and optimized BIOS for end users. It provides user an easy way to reset the default setting or update the latest BIOS to avoid system crash. ● Next generation of M.2 Shield Frozr adopts the new improved “sandwich structure” to ensure the M.2 SSD is always in a good temperature environment even under full loading. <p>B. Professional Graphics Cards</p> <ul style="list-style-type: none"> ● Utilized the latest thermal module and GPU to develop graphics card with better performance and lower energy consumption. ● Developed graphics card with “Real-Time Ray Tracing” , “AI deep learning” and “graphic acceleration” technologies, for a new gaming experience. ● Developed a total S/W and H/W solution which utilized the latest GPU and visualization software for accelerated operation, to provide stunning images. ● Developed professional graphics cards dedicated for block chain application ● Developed high-end graphics card with both water-cooling and fan-cooling based thermal solution. The new water-cooling architecture helps improved overall thermal efficiency for the chipset, memory and power module. ● Developed new graphics card with the MSI exclusive patented “TriFrozr” thermal design. This design utilized the latest Torx fan, a huge heatsink and numerous heat pipes to provide the maximum thermal efficiency. The graphics card also provides the cool MSI dragon RGB lighting system for visual satisfaction. ● Enhanced the MSI exclusive “TWIN FROZR” thermal module, letting the airflow steering control technology to be more refined, allowing the airflow to be redirected towards the SuperSU heat pipes. ● MSI exclusive design of square thermal conduction surface, combined with large super heat pipes, to greatly improve thermal conductivity. ● MSI exclusive patented “HybridFrozr” energy-saving low-noise technology provides temperature monitoring function, which automatically adjusts fan speed based on actual usage. ● Developed the new generation of MSI exclusive patented “Torx Fan 3.0” technology, with a further breakthrough of combining traditional and drainage fan blades, and utilizing a curve shape design, to increase the angle of wind direction and decrease fan noise. ● Developed new generation of high-speed graphics card using the NVLink GPU bridge which can seamlessly connect 2 high end NVIDIA® RTX™graphics cards, to precisely show 4K high-definition/
2019.1.1~2019.3.31 781,550	

high-resolution and high-speed screen update frequency, eliminate screen aliasing, slow display and input delay, for a smoother gaming experience.

- Continuous improvement of MSI exclusive “Afterburner” application, which can accurately monitor and adjust clock, voltage and related parameters.

Professional Gaming Gears

- Developed Vigor gaming mechanical keyboards for gamers who utilized introverted aluminum dark metal brushed top cover and 4 interchangeable metal key caps. The metal keys caps provide better “feedback feeling” and also prevent key cap printing wear. Vigor keyboard have numerous multimedia control keys, which user can customize for any application.
- Developed the first gaming mouse specifically designed for shooting game. This gaming mouse utilized the latest gaming induction motor and Japan-made gaming micro-switch, designed specifically for right hand user. It uses the intensive asymmetric mouse foot design, combined with gold plated USB connector and braided cable, to create a Clutch USB Ergonomic Design Gaming Grade Mouse.

C. Servers

- Development of the new generation Server and Workstation to support latest Intel’s processors to improve computing capability and performance.
- Development of the new generation Network application system for Intel® Purley & Mehlow platform to fulfill multi-application at SDN/NFV and SD-WAN/vCPE.
- Development of the new generation multi-function IoT facial recognition gateway, and focus on slim and wide-range application.
- Development of IoT edge server and gateway and integrated LPWAN solution to fulfill wireless environment and demand.
- Development of the high-density 6U/4U Unified threat management (UTM).
- Development of the new generation Intel® FPGA DDoS attack defense equipment.
- Development of the new generation Intrusion prevention system (IPS) for Intel® Mehlow platform

D. Desktop computers

- Development of the gaming desktops series for the newest Intel® 400 platform, providing the newest products in the industry for the customers.
- Innovating the Cubi mini computer series for the newest Intel® CML-U series platform, combining the fanless design to provide the best user experiences while promoting the life-span of the products.
- Continuing the development of the All-in-One products for the Intel® platform, following the beautiful, thin, bezel-less design trend and supporting the 10 point touch technology, creating an office hardware that is both decorative and convenient for business and personal purposes.
- Continuing the development of high-end gaming desktop with the exclusive Silent Storm cooling design, refining the product lines and establishing the leading position with the industry.
- Innovating flagship gaming desktop with leading skills in the industry, providing powerful and noise-free gaming powerhouse.
- Continuing the development of desktop computer that caters to the need of LAN Party gamers, providing both powerful hardware spec and eye-catching ID design that can take the LAN party by storm.
- Development of a technology that can deeply integrate gaming monitors with gaming desktops and achieve best integral experience.
- Applying AI technology to gaming desktops. With the information captured in big data, gaming desktops now offers more personal applications.
- Innovating desktops that are suitable for professionals within the multimedia and content creation industry, taking in more niche market within the field of desktops.

E. Industrial computers

- The highly expandable and robust fanless system is researched and developed. The integration ability is higher and it effectively addresses cooling issues.
- Development of expansion cards for add-on values and functionalities, and flexible upgrade.

- The HDMI 2.0 high-resolution image and the SPDIF digital sound effects are integrated for added value to the audio-visual digital electronic bulletin board system.
- The low power consumption and low profile are further developed with 2 LVDS dual-output high performance industrial products.
- Developed Industrial M12 connector waterproof and dust-proof high-performance systems to address the user demand on the outdoor application market.
- The user-friendly operation is upgraded with reinforced Easy Maintenance and the mechanism designed for the maintenance.
- The changeable-structured products with an expandable I/O module motherboard integrated with the system is researched and developed to effectively address the demand on the diversified application market for a versatile unit.
- Developed the fanless diversified expandable assembly application system.
- Developed the broad temperature small IoT fanless embedded system
- Developed the built-in PoE and CAN Bus interfacing inside the embedded system.
- Developed the high performance Coffee Lake CPU module.
- Continuously developing COM Express product line to fulfill the demands of Industrial market application.

F. Telematics and Automotive Electronics

- FUNTORO Sleeper Bus Solution focuses on specific area to solve the MOD solution weakness. It also integrates the advertising/LBS/remote cloud management to expand the value added function.
- FUNTORO WiFi Streaming MOD Solution focuses on infotainment for bus and coach. It integrates passenger internet access/vehicle information/navigation/advertising/LBS/remote cloud management function.
- FUNTORO Sightseeing Solution focuses on tourism oriented bus operator. It integrates interactive multimedia platform with LBS/backend cloud management system.
- FUNTORO Hybrid Stadium & Arena Solution focuses on sports related activity with wire and wireless multimedia function. It also integrates live event/highlight moment/instant message announcement/F&B ordering and on-line shopping for stadium or arena owner running new business models.

G. Laptops

- MSI has been dedicated in gaming notebook for more than 10 years. Through professional gaming experience sharing, sponsoring gaming events, and absorbing gaming enthusiasts into the company, MSI understands gamers' needs and design products that satisfy gamers' dreams.
- Incorporated latest technologies, including Intel® 8th Gen. CPUs, in all gaming notebook products
- First to bring gaming notebooks with NVIDIA® RTX™ 20 Series Graphic cards to the market, while added multiple gaming features such as Overclocking, auto/manual temperature control, and gaming environment optimization.
- MSI is the only company to design different gaming notebooks targeting at different player segments: those who desire extreme performance and those who prioritize mobility. Customers in each segments group are free to pick the gaming notebook that is most suitable for their user behaviors.
- Continued partnership with top Gaming brand Steel Series® to improve backlit gaming keyboard and software. Per-key gaming keyboard allows users to adjust backlight color for each individual key. Moreover, keyboard backlights can be linked to designated games to provide different effects based on users' settings.
- In recent years, social media and self-media flourished, and the needs for graphics and video editing grew accordingly. For these creators, MSI designed the Prestige Series, focused on panel color saturation and accuracy. It also comes with specially-designed management software that can be used for system optimization and battery life management. MSI is also the first to bring Quick Charging, supporting Qualcomm® QC 3.0, to notebooks. MSI has been dedicated to provide low-noise products as well. As a result, MSI's Prestige became the first and only notebook ever to receive Quiet Mark certification, an international approval program awarding designs with minimal noises in its category.

	<ul style="list-style-type: none"> ● Expanding market for professional high-end mobile workstations that are designed for high-performance graphics cards specialized in computer-aided design and imagery. ● MSI notebooks' recognition has reached a new height, maintaining the position of gamers' favorite gaming notebook brand. <p>H. Monitors</p> <ul style="list-style-type: none"> ● Development of the high-end curved gaming monitor with features such as wide screen size, and 4K and WQHD high resolution. ● Continuing the development of the gaming monitors that adhere to the standard of eSports tournaments and expanding the product coverage to the flat screen market. ● Development of a technology that can deeply integrate gaming monitors with gaming desktops and achieve the best gaming experience. ● Continuing the development of gaming monitors that can show game-related status and information on the monitor panel. Cooperating with multiple gaming companies to promote the interactivity between the user and monitor, making the monitor more than just a display. ● Applying AI technology to gaming monitors. With the information captured in big data, gaming monitors now offers more personal applications. ● Innovating monitors that are suitable for professionals within the multimedia and content creation industry. Fine-tuning the wide color gamut element that all the artists and creators care about.
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4.Short-term and long-term development plan

(1)Short-term development plan :

Brand marketing: Cultivation and management of distribution channels continued and MSI expects itself to become the No. 1 choice of Gaming products. Self-brands are being expanded. The overall steady growths in various types of products such as laptops, desktop computers, motherboards, display cards, industrial computers, servers, automobile electronics, among others are the primary development focus in current-stage business marketing.

OEM: The Company works closely with international heavyweights in order to find out profitable commercial models. The economics of scale approach is adopted to continue bring down the production cost and to enhance the overall profits for the customers and the company.

Research and development, manufacturing, and service: From research and development of products to manufacturing, and mass production, customers are provided with high-quality products and after-sales services.

(2)Long-term development plan :

The Company builds on its solid R&D capabilities and has been well received among customers and users with its outstanding quality of products and optimal services. In the future, it will continue to be devoted to creating instant competitive advantages for its core capabilities and seeking opportunities to diversify its operations. Besides motherboards, display cards, laptops, servers, and desktop computers that it specializes in, it will also work hard to gradually become a profitable leader in other products such as industrial computers and automobile electronics.

(II) Market Analysis and The Conditions of Sales and Production:

1. Market Analysis

(1) Sales Regions:

Unit: NT\$ thousands

Sales Region	Year	2018		2017	
		Net Sales	%	Net Sales	%
Export sales	Europe	31,237,944	26.36	31,205,584	29.32
	Asia	53,313,499	44.98	45,529,098	42.78
	America	28,327,803	23.90	24,797,274	23.30
	Others	1,972,387	1.66	1,942,280	1.83
Subtotal		114,851,633	96.90	103,474,236	97.23
Domestic sales		3,675,640	3.10	2,945,669	2.77
Total		118,527,273	100.00	106,419,905	100.00

(2) Market share and market demand and supply and market growth

A. Market Share

The Company is one of the heavyweight PC manufacturers in the world, with product lines including motherboards, display cards, desktop computers, laptops, and other commercial products. Because of its continuous devotion to increasing investment in research and development and brand management and focus on high-end markets with high gross profits such as that for Gaming, the Company is able to secure a steady leading position in terms of the sales and market shares of laptops and display cards. The motherboards, on the other hand, remain steady as one of the Top 3 on the market.

B. Supply

PCs are a mature sector. With respective suppliers paying increased attention to the market for high-end Gaming, competition is turning more and more fierce as well. Estimated by the survey and investigation institute IDC, the global NB shipment in 2019 is expected to consist of around 165 million units, remaining flattish with 2018. As far as desktop computers are concerned, on the other hand, the shipment in 2018 consists of nearly 90 million units, a decline of 5% and a 5% decline is expected for 2019 as well. On emerging markets, however, business opportunities keep growing for Gaming. Multiple brands continue to invest in the research and development as well as marketing of Gaming-related products. Despite the competition, the Company will continue listening to the users in order to know their needs and will create products that meet users' needs with its professional R&D capabilities and production technology so as to become the No. 1 high-end brand referred by users.

C. Demand

According to a survey conducted by IDC (International Data Corporation) and Newzoo, the e-sports industry is booming as the PC market output value and the number of effective players continue to rise. At the same time, the thrive of many live broadcast platforms has also led to the growth of the viewership of the e-sports games and triggered the interest of more live gaming broadcasters. Therefore, given the two major demands of games and live broadcasts, the performance of low-cost computers can no longer satisfy players who pursue high performance. The players' crave for performance has directly pumped up their demand for middle and high-end personal computers, motherboards and display cards. The significant growth of revenues from gaming of NVIDIA in recent years is also an evidence that the demand for personal computers is moving towards medium and high-end ones.

D. Competitive niche and advantageous and disadvantageous factors for future developments as well as response measures

① Competitive niche and advantageous factors for future developments

a. Outstanding product development capabilities

The Company has a management team with more than 20 years of experiences in research and development and technical experiences. The members are heads of respective business groups and supervisors at the main office. As such, they have a deep understanding of promising technologies and are efficient in making decisions. Meanwhile, they can combine numerous technical trends to make the best of teamwork. Research and development staff, on the other hand, are highly experienced professionals; they contribute to the outstanding R&D accomplishments of the Company and the award-winning stream of its products over the past years. The excellent rating with regard to its performance by professional media and user referral on respective major markets are the best proof.

b. Productivity featuring high quality and flexibility

From design, development, to mass production, the Company is known for its quality mass production technology and highly efficient productivity. Meanwhile, the Company constantly introduces and

updates automatic and smart equipment in order to improve production quality and to bring down the cost. In addition, the Company has a systematic management process and complete educational training programs for operators so that the product yield rate exceeds 99%, which contributes significantly to both improved quality and product image.

c. Outstanding management capability

Information technology products are known for their short life cycle and fast changing prices. Potential competitors do not necessarily come from the same sector. In response to the quick changes in competition on the market, the Company pays attention to market dynamics at all times in order to respond quickly and to reduce the inventory stress. Risk management is concerned, the Company adheres to its credit policy for the security of outstanding accounts receivable to keep the actual bad debt amount low. Therefore, its management capability demonstrated through both its management of the inventory and accounts receivable is highly recognized.

d. Sound management system and outstanding product quality

The Company is certified by ISO9001 Quality Management Systems, ISO14001 Environmental Management Systems, OHSAS18001 Occupational Health and Safety Assessment Series, IECQ QC 080000 Hazardous Substance Process Management System Requirements, IATF Automotive Quality Management System, and TL 9000 Telecommunications Quality Management System.

Order processing, material preparation, production control, field management, shipment and environmental protection, safety and health, risk management, and quality assurance are all included as part of standard and specification management. Engineering staff for research and development and manufacturing, among others, are also constantly devoted to the improvement of reasonable and automatic processes and reducing impacts on the environment as well as investigating alternative materials in order to improve the yield rate while at the same time bringing down the cost.

e. Pursuit of satisfying services for customers

Customers have increased demand for technical support and after-sales service. In order to increase customer satisfaction, the Company has after-sales service centers and online customer service available on major markets so that real-time assistance can be provided to customers and customers are entitled to convenient and quick services and technical support. The Company can also quickly keep track of market and user dynamics and investigate customer satisfaction to be the basis for quality advancement.

f. Flourishing developments of the Gaming and gaming sectors

Statistics of the market survey institute Newzoo show that Gaming games are growing at a two-digit rate each year. The production value of global Gaming games in 2018 totaled around USD 870 million and it is expected to reach USD 1.1 billion in 2019. Digi Capital also estimates that the income from hardware and software in the global gaming industry will reach USD 230 billion by 2022. Governments around the world are paying increased attention to the Gaming industry and recognition of the industry in society is on the rise, too. There are large Gaming games organized and broadcast both domestically and internationally. The market for the Gaming industry is constantly expanding. The enormous business opportunities deriving from Gaming are a focus of the Company's products.

② Disadvantageous factors for future developments

a. Short life span of information technology products. Spearheaded by main suppliers that have an effect on product development, downstream manufacturers can only follow market trends or the footsteps of international heavyweights in producing homogeneous products, which tends to result in price cut competition on the market and the difficulty to maintain reasonable profits. Many manufacturers in the industry try to secure their market share by reducing their prices, which, however, also squeezes the room for profitability.

b. Sectors accounting for a higher ratio in exportation is more easily affected by the volatility of exchange rate. Drastic changes in the exchange rate will affect their profitability.

③ Countermeasures

a. Reinforced collaboration with key part suppliers in the upstream to develop competitive new products early on; devotion to R&D to help improve product efficacy and create high value-added and touching products for strengthened brand value and for creating reasonable profits for the Company; maintaining sufficient throughput to be capable of accepting ODM/OEM orders from international heavyweight clients and to improve income; and introduction of automatic and smart manufacturing to deal with diversification of products in small quantities and to more flexibly meet customers' demand by adjusting the production lines.

b. Increased ratio of paying in foreign currencies to bring up the natural hedging ratio to counterbalance assets and liabilities in foreign currencies and continued adoption of hedging measures such as foreign exchange hedging transactions to reduce risks associated with the volatility in exchange rate along with close attention paid to impacts of various policies of major countries, including tax reform and balance sheet reduction in the US and the changes in regional political and economic situations as a result of emerging trade protectionism and cautious response to impacts caused by capital flows in Asian and Central American countries, global exchange rates, and financial credit.

2. Important purposes and production/preparation processes of primary products

(1) Purposes of main products

The Company mainly manufactures and sells computers, motherboards, and interface cards. Motherboards are important components of computers that are responsible for output and input features, including sending images, controlling the network, sound effects, and other multi-media features; they are indispensable for computers.

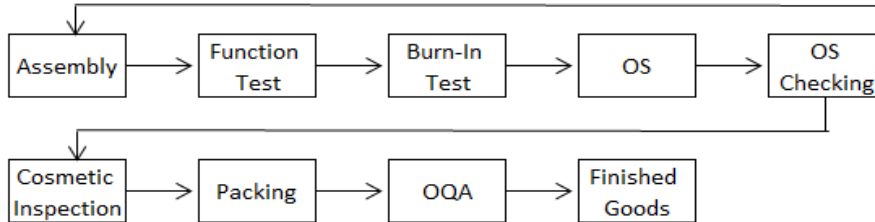
Name of product	Purpose
Motherboard	Important component of personal computers, taking care of internal computing, output, and input features of a computer system, the backbone of a computer
Laptop	A mobile PC with high-performance calculation.
Interface card	One of the important components of a PC, which converts the display information required by the computer system, drives and controls the display to present correct information, and an important component for human-machine dialogue.

(2) Production processes

PCBA:



Assembly:



3. Supply of Major Raw Materials:

Major Products	Major Raw Materials	Suppliers	Supply Status
Motherboard	Integrated Circuit	B	Stable supply available
		C	Stable supply available
	Printed Circuit Board	Global Brands Manufacture Ltd.	Stable supply available
		APCB Electronics (S.Z.)co., Ltd.	Stable supply available

Note: Due to confidential business information and nondisclosure agreement concerns, some real vendors' names are substituted with codes.

4. Major Customers with over 10% Net Sales and Suppliers with over 10% total Purchases of the Last Two Fiscal Years:

(1) Purchases

Major Suppliers of the Last Two Fiscal Years

Unit: NT\$ thousands

Year	2018				2017				2019Q1			
Item	Name	Amount	Percentage of net annual purchase [%]	Relation with issuer	Name	Amount	Percentage of net annual purchase [%]	Relation with issuer	Name	Amount	Percentage of net purchase of Q1 [%]	Relation with issuer
1	B	23,647,793	22.73	None	B	20,947,946	23.84	None	B	6,629,747	29.61	None
	Others	80,404,710	77.27		Others	66,931,982	76.16		Others	15,760,299	70.39	
	Net purchase amount	104,052,503	100.00		Net purchase amount	87,879,928	100.00		Net purchase amount	22,390,046	100.00	

Note1: Due to confidential business information and nondisclosure agreement concerns, some real vendors' names are substituted with codes.

Note2: Causes of increase and decrease – Supply chain diversification.

(2) Sales: Not Applicable.

5. Production Quantities and Values of the Last Two Fiscal Years:

Unit: 1000 pieces; NT\$ thousands

Year Product	2018			2017		
	Capacity	Output	Amount	Capacity	Output	Amount
Computer and peripherals	38,689	25,199	98,609,096	47,632	25,654	85,705,873

6. Sales Quantities and Values of the Last Two Fiscal Years:

Unit: 1000 pieces; NT\$ thousands

Year Product	2018				2017			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	QTY	Amount	QTY	Amount	QTY	Amount	QTY	Amount
Computer and peripherals	410	3,675,640	19,250	114,851,633	409	2,945,669	20,771	103,474,236

(III)Employees

Status of employees over the past two years and up to the date of the report printed

Year		2018	2017	As of April 30,2019
Item				
Employee	Sales & Management	996	925	1,011
	Technician	1,374	1,401	1,356
	Total	2,370	2,326	2,367
Average age(years)		37.80	37.18	38.00
Average years of service(years)		8.48	8.01	8.70
Education (%)	Ph.D	0.17	0.17	0.17
	Masters	22.07	22.53	22.31
	College/University	73.50	74.38	73.29
	Senior High School	3.76	2.68	3.76
	Junior High School and below	0.50	0.24	0.47
	Total	100.00	100.00	100.00

(IV)Environmental expenditures information

The company's operating activities are mainly about the production, assembly, research and development, sales of electronic products and related administrative operations as it belongs to the non-high pollution and high energy consumption industry, but the MSI is still committed to improving environmental protection and green product management. The relevant performance is as follows:

1.The total value of losses or dispositions borne due to polluting the environment, the countermeasures, and possible expenditure in the most recent year and up to the date the Annual Report was printed: None.

2. The management performance of the green products:

(1) The total amount of fines or derivative losses incurred in the most recent year due to product violations of international environmental laws or clients' requirements on hazardous substances: None.

(2) Issued "Green Product Control Regulations" and regularly revises them according to the latest international environmental protection laws and clients' requirements as the basis for the management of hazardous substances in the supply chain, as well as the internal green product design and selection criteria.

(3)MSI completed component qualification management more than130,000 parts/components.

3.Environmental Management Performance:

The MSI operating activities are based on compliance with environmental laws 、continuous improvement of processes 、work environment and equipment to reduce pollutant emissions 、energy consumption and safety and health risks. Each environmental performance has a dedicated unit responsible for management and regular monitoring. The following will describe the status of various environmental performances during the reporting period.

(1) Passed the ISO 14001 environmental management system certification.

(2) Passed the 14064-1 Greenhouse Gas Accounting and Verification Certification for continuous improvement of greenhouse gas reduction.

(3) Waste disposal and management of organizations and products met environmental protection requirements in 2018.

(4) The air/noise/sewage test results in compliance with the requirements of the regional regulatory authority in 2018.

4. Greenhouse Gas Management:

(1) The Company has carried out verification of greenhouse gas emission data since 2008 and has continually and actively implemented energy conservation practices.

(2) In 2010, the Company began to be surveyed for the Carbon Disclosure Project (CDP).

(3)MSI is committed to managing carbon emission and greenhouse gas emission. We pledge to achieve the following before 2025: 50% reduction in greenhouse gas emissions (2007 base).

(4)Greenhouse Gas Emission of the reporting period(2018) : 62,713.95 tons.

(5)Greenhouse gas emission record has been verified by Bureau Veritas Certification Taiwan ("BVC").

Unit : CO2 t CO2e/Year

2018	2017	+/-	Verified by third party
62,713.95	69,557.12	-6843.17	ISO 14064-1 VERIFICATION STATEMENT GREENHOUSE GAS EMISSIONS

5. The electricity saving measures management:

Since the Company deals mainly with factory assemblies and office R&D processes, there are no highly energy-consuming operations at all. Water and electricity account for the majority of our consumption. As such, we are promoting water conservation, electricity saving, and improved power efficiency as part of our energy-saving efforts. Related measures are described below:

- (1) Opening hours of boilers in the factory regulated living areas: Hot water usage is controlled by the IC card to reduce the use of fuels.
- (2) Use of the air-compressor residual heat recycle system: Heat generated by the air compressor is recycled and re-heated to reduce the use of fuels.
- (3) Air-cooling efficiency regulation: By means of regular inspections, hot spots for air-conditioning and areas with relatively few people go through proper temperature regulation to reduce the use of electricity resources.
- (4) Zoned electricity consumption control: Electricity meters are installed in respective segments of production lines throughout the factory to control the electricity consumed for air-conditioning, lighting, and power. This is also enforced for the public cold-water machine room and nitrogen air compressor machine room.
- (5) Lighting modification: Office spaces of Micro-Star have all been switched to use LED lights, which does not only increase the required lighting intensity in workplaces but also is more effective in terms of energy-saving.

6. Waste Electrical and Electronic Equipment Management:

- (1) EU zone: entered into recycling system or undertaken waste product recycling plans according to EU's Waste Electrical and Electronic Equipment (WEEE) Directive and legal requirements in various EU nations. Products sold in EU zones should be entered into local recycling systems, and products need to be labeled with WEEE recycle bin to clearly ensure that we are in full compliance with WEEE Directive's regulations.
- (2) Taiwan: recycling process of waste IT products is primarily handled by the Environmental Protection Administration (EPA) in Taiwan. The Company pays fees pertaining to recycle processing according to regulations for imported products, and these fees will be used toward recycling, issuing subsidies, audit approval for quantities processed, management of recycling firms, and administration duties by the EPA.
- (3) Other zones: the Company undertakes relevant procedures and registers at qualified recycling systems according to local governmental requirements at different regions.

7. Corporate environmental protection expenditure and investments in 2017 are described as follows:

Item	Amount (NTD)	The goal and benefits
The total expenditure on environmental protection	14,824,333	Includes waste disposal, sewage control and inspection, external environment management services, management system verification etc.
The total amount of investments in environmental protection	119,120,494	The company's environmental equipment operation and maintenance cost ensure that the equipment is working properly.

(V) Employer-employee relations

1. The various employee benefits, continuing education, training, retirement system available at the Company and their implementation and the agreement between the employer and employees as well as protection of the various rights of employees

(1) Employee benefits:

The Company believes in sharing its operational accomplishments with its employees. We have the Employee Welfare Committee in place and we plan benefits for employees according to the Employee Welfare Guidelines so that our employees have a steady life and their rights are protected. The various benefits we offer to employees include group insurance, birthday giftfund, child birth and wedding giftfund, funeral and illness consolationfund, gifts (vouchers) on Labor Day and Mid-autumn Festival, arts and cultural events, society activities, periodic health examinations, travel subsidies, employee restaurants, cafeteria, dormitory, subsidies for gatherings, library, medical assistance room, nursery room, outstanding performance reward, year-end bonus, employee rewards, and other preferred solutions from time to time.

(2) Employee health management:

The Company cares about the health of its employees. There are professional medical assistance rooms available on respective premises and health examinations are organized periodically in order to keep track of and care about employees with abnormal health conditions. During flue seasons, there are reminders for employees so that they

reduce visiting public areas and pay closer attention to personal hygiene. The Company also reinforce cleaning and disinfection of office areas and pay for the French trivalent Pasteur flu vaccine that it arranges for staff to receive. If a rapid screen is determined by the physician that finds a positive flu result, the employee will be entitled to 3 consecutive days off on official leave so that he/she can stay home and get well soon.

(3)Employee Assistance Program (EAP) :

The Employee Assistance Project (EAP) was initiated on 1 November, 2011. By dialing 8585 (help me, help me in Taiwanese), employees can get help for the following issues: work stress, emotional problems, tax, legal affairs, medical care, and others. By combing internal and external services, EAP helps employees to solve related problems and release work stress and emotions to regain mental health, so that their family will not need to worry about their physical and mental condition.

(4)Employee Development:

Employee development is our focus. Given employees are indispensable from the future development of MSI; therefore, we begin with the selection, education, and retention of employees. As for employee education, we start from plan and implement internal and external training for employees. We have also established the Training and Education Management Regulations as the reference of continuing education and internal training of employees. Employees at MSI can receive continuing education and seek self-development through comprehensive learning channels and resources, such as internal training, external training, and expatriation.

A.Newcomer general education

Regularly held newcomer consensus trainings with contents including work rules, employees' rights and related channels, the introduction to the MSI management system, green product concept, and corporate laws, general education of hazardous substance, business continuity management, first-aid knowledge, introduction of infirmary, fire safety, labor safety and health education, IT Center, and other trainings with basic concepts and case studies of current events. The training ratio for newcomers is 100%.

B.MSI University

We began planning the MSI University (MSIU) in 2009 to cope with the highly competitive business environment in the electronics industry with talent cultivation. By improving the R&D and innovation capacity in key technology and with the improvement of managerial competency and efficiency, we aim to enhance MSI employees' competitiveness in the electronics industry.

① Leadership College

This is a complete set of courses on the leadership and management skills needed to become a supervisor. All supervisor-level employees are required to complete this set of courses. This series of courses aims to reinforce supervisors' awareness and knowledge of the Company's internal system and operating procedures and provides supervisors the opportunities to learn leadership and management skills. The design of these courses allows supervisors to reinforce their weak areas and refresh the skills they have acquired and enables new supervisors to learn new skills quickly.

②Sales and Marketing College This series of courses include semi-annually skill development activities aimed at reinforcing the sales and management skills of overseas managers. A series of courses is also planned for sales executives overseas and at the head office to reinforce their abilities in market information surveying, selling and management and marketing. These courses simulate actual market scenarios in Europe and the US, and cover product knowledge, surveying customer needs, and actual selling at different stages. They focus on hands-on skills that can be directly applied to everyday operations.

③R & D College : Focuses on helping the staff expand their research and development vision and think about breakthrough methods. At the same time, the Company will study the application and development of artificial intelligence (AI), and continue to strengthen R&D management capabilities such as market analysis and product planning and problem analysis and resolution. At the same time, our internal R&D Technology Committee hosts R&D Managers' Conference quarterly to enable sharing and discussion of technology resources and applications through a cross-division information exchange platform for new technologies

④Technical Skills College Technical skills courses are designed to enable continuous development of manufacturing technology and mapping out of future directions.

2017	Educational training	Total	Headcount	Total hours
External training	Professional technical training	515,307	37	499
External training	Management skills training, professional training, general education	2,780,453	2,973	23,465

(5) Pension plan:

The wage and pension system at MSI complies with local laws and regulations. The employee pension benefit plans are constituted precisely and apply to the length of service for all formal employees before the implementation of Labor Pension Act in July 1, in 2005. The plans are also applied to the seniority of those who choose to fall under the Labor Standards Act after the implementation of Labor Pension Act. In the name of Supervisory Committee of Business Entities Labor Retirement Reserve, retirement accounts are opened in Bank of Taiwan. In accordance with the old-age insurance system in the P.R.C., the MSIS and MSIK allocate pension premium for local workers based on a certain proportions of their payroll every month. The pensions of all staff would be made overall arrangements by the government. Please refer to page **129~132 & 192~195**.

(6) Since MSI was first established, in addition to constructing a positive, fair work environment and planning comprehensive employee benefits, we have also established the "Work Protocols" as the basic set of behavioral guide for employees to comply with. This is to clearly state the rights and obligations of both that the employees and the management, as well as employee behavior and ethics. The content of which is as follows:

- A. Employees should abide by the law and the Articles of Association and to abide by the supervision of their supervisors.
- B. Employees should not harm the good name and reputation of the Company, nor should employees use their positions to receive gifts.
- C. Employees shall not disclose the company's business, technical, and other confidential information.
- D. Establish the standards of employee salaries, cash rewards, bonuses, retirement, leaves, and standards of incentives and disincentives.
- E. Sexual harassment prevention.

2. Losses borne due to employer-employee conflicts in the most recent year and up to the date the annual report was printed, possible estimated values at present and in the future, and countermeasures: There were no major employer-employee conflicts in the most recent year and up to the date the annual report was printed.

(VI)Material Contracts

Important contracts that remained effective as of the date the annual report was printed and expired in the most recent year on supply and distribution, technical collaboration, engineering projects, long-term loans and that are sufficient to impact shareholders' equities:

Nature of contract	Contracting Party	Term of Agreement	Main contents	Restrictions
Large authorization contract	Microsoft Corporation	From Aug.1, 2018 till termination by either party	GLOBAL PARTNER AGREEMENT Windows, Office, Apps & DSB software licensing	Non-negotiable

VI. Financial Information

(I) Five-Year Financial Summary

1. Condensed Balance Sheet

(1) Condensed Balances Sheet (Consolidated)

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years (Note1)					As of March 31,2019 (Note2)
		2018	2017	2016	2015	2014	
Current assets		49,356,897	43,185,288	44,556,225	40,285,522	39,750,040	49,448,511
Property, plant and equipment (Note3)		4,738,544	5,087,802	5,092,392	5,432,454	5,848,330	4,743,551
Intangible assets		-	-	-	-	-	-
Other assets		1,078,732	880,299	819,167	812,893	826,444	1,382,033
Total assets		55,174,173	49,153,389	50,467,784	46,530,869	46,424,814	55,574,095
Current liabilities	Before distribution	24,765,061	20,920,657	23,193,111	20,542,332	21,550,152	23,547,898
	After distribution	(Note4)	24,722,509	26,994,964	23,499,328	24,084,721	(Note4)
Non-current liabilities		463,251	429,462	384,175	246,520	342,126	645,322
Total liabilities	Before distribution	25,228,312	21,350,119	23,577,286	20,788,852	21,892,278	24,193,220
	After distribution	(Note4)	25,151,971	27,379,139	23,745,848	24,426,847	(Note4)
Equity attributable to shareholders of the parent		29,945,861	27,803,270	26,890,498	25,742,017	24,532,536	31,380,875
Share capital		8,448,562	8,448,562	8,448,562	8,448,562	8,448,562	8,448,562
Capital surplus	Before distribution	1,226,049	1,225,615	2,070,471	2,920,142	2,920,142	1,226,049
	After distribution	(Note4)	1,225,615	1,225,615	2,075,286	2,920,142	(Note4)
Retained earnings	Before distribution	20,777,216	18,550,908	16,601,625	13,843,360	12,692,518	22,083,626
	After distribution	(Note4)	14,749,056	13,644,628	11,731,220	10,157,949	(Note4)
Other equity interest		(505,966)	(421,815)	(230,160)	529,953	471,314	(377,362)
Treasury shares		-	-	-	-	-	0
Non-controlling interests		-	-	-	-	-	0
Total equity	Before distribution	29,945,861	27,803,270	26,890,498	25,742,017	24,532,536	31,380,875
	After distribution	(Note4)	24,001,418	23,088,645	22,785,021	21,997,967	(Note4)

Note1: The above financial information for each year was audited by CPA.

Note2: 2019Q1 financial report was reviewed by CPA.

Note3: MSI did not carry out asset revaluation from 2014 to 2019Q1.

Note4: Subject to the approval of annual shareholders' meeting 2019.

(2) Condensed Balance Sheet (Separate)

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years (Note1)				
		2018	2017	2016	2015	2014
Current assets		47,717,145	41,279,986	42,260,743	38,064,588	37,135,495
Property, plant and equipment (Note2)		2,363,138	2,373,408	2,399,128	2,420,844	2,432,630
Intangible assets		-	-	-	-	-
Other assets		7,497,489	7,685,025	8,724,428	9,084,023	8,733,147
Total assets		57,577,772	51,338,419	53,384,299	49,569,455	48,301,272
Current liabilities	Before distribution	27,296,657	23,228,722	26,262,842	23,643,667	23,594,700
	After distribution	(Note3)	27,030,574	30,064,695	26,600,663	26,129,269
Non-current liabilities		335,254	306,427	230,959	183,771	174,036
Total liabilities	Before distribution	27,631,911	23,535,149	26,493,801	23,827,438	23,768,736
	After distribution	(Note3)	27,337,001	30,295,654	26,784,434	26,303,305
Equity attributable to shareholders of the parent		29,945,861	27,803,270	26,890,498	25,742,017	24,532,536
Share capital		8,448,562	8,448,562	8,448,562	8,448,562	8,448,562
Capital surplus	Before distribution	1,226,049	1,225,615	2,070,471	2,920,142	2,920,142
	After distribution	(Note3)	1,225,615	1,225,615	2,075,286	2,920,142
Retained earnings	Before distribution	20,777,216	18,550,908	16,601,625	13,843,360	12,692,518
	After distribution	(Note3)	14,749,056	13,644,628	11,731,220	10,157,949
Other equity interest		(505,966)	(421,815)	(230,160)	529,953	471,314
Treasury shares		-	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	29,945,861	27,803,270	26,890,498	25,742,017	24,532,536
	After distribution	(Note3)	24,001,418	23,088,645	22,785,021	21,997,967

Note1 : The above financial information for each year was audited by CPA.

Note2 : MSI did not carry out asset revaluation from 2014 to 2018.

Note3 : Subject to the approval of annual shareholders' meeting 2019.

2. Condensed Statement of Comprehensive Income

(1) Condensed Statement of Comprehensive Income (Consolidated)

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years (Note1)					As of March 31, 2019 (Note2)
		2018	2017	2016	2015	2014	
Sales revenue		118,527,273	106,419,905	102,190,503	85,294,794	84,901,773	29,487,921
Net operating margin		16,129,686	15,031,293	14,951,670	12,841,134	11,514,440	3,776,000
Operating profit		6,691,950	5,613,660	5,518,939	4,055,808	3,593,349	1,392,994
Non-operating income and expenses		459,184	364,892	303,233	211,235	(16,179)	154,439
Profit before income tax		7,151,134	5,978,552	5,822,172	4,267,043	3,577,170	1,547,433
Income (Losses) from continuing operations for the year		6,041,129	4,937,422	4,887,942	3,706,456	3,013,861	1,306,410
Losses from discontinued operations		-	-	-	-	-	-
Profit for the year		6,041,129	4,937,422	4,887,942	3,706,456	3,013,861	1,306,410
Other comprehensive income for the year (Net of income tax)		(97,120)	(222,797)	(777,650)	37,594	270,801	128,604
Total comprehensive income for the year		5,944,009	4,714,625	4,110,292	3,744,050	3,284,662	1,435,014
Profit attributable to shareholders of the parent		6,041,129	4,937,422	4,887,942	3,706,456	3,013,861	1,306,410
Profit attributable to non-controlling interests		-	-	-	-	-	-
Total comprehensive income attributable to shareholders of the parent		5,944,009	4,714,625	4,110,292	3,744,050	3,284,662	1,435,014
Total comprehensive income attributable to non-controlling interests		-	-	-	-	-	-
Earnings per share (NT\$)		7.15	5.84	5.79	4.39	3.57	1.55

Note1: The above financial information for each year was audited by CPA.

Note2: 2019Q1 financial report was reviewed by CPA.

Note3: MSI did not capitalize its annual interest expense from 2014 to 2019Q1.

(2) Condensed Statement of Comprehensive Income (Separate alone)

Unit: NT\$ thousands

Item	Financial Summary for The Last Five Years (Note1)				
	2018	2017	2016	2015	2014
Sales revenue	116,988,422	105,404,563	100,749,878	84,096,460	83,596,670
Net operating margin	14,232,111	13,374,882	13,342,413	11,324,106	10,083,017
Operating profit	6,340,116	5,302,969	5,191,871	3,809,214	3,285,667
Non-operating income and expenses	689,118	549,147	542,204	397,125	167,991
Profit before income tax	7,029,234	5,852,116	5,734,075	4,206,339	3,453,658
Income (Losses) from continuing operations for the year	6,041,129	4,937,422	4,887,942	3,706,456	3,013,861
Losses from discontinued operations	-	-	-	-	-
Profit for the year	6,041,129	4,937,422	4,887,942	3,706,456	3,013,861
Other comprehensive income for the year (Net of income tax)	(97,120)	(222,797)	(777,650)	37,594	270,801
Total Comprehensive income for the year	5,944,009	4,714,625	4,110,292	3,744,050	3,284,662
Profit attributable to shareholders of the parent	6,041,129	4,937,422	4,887,942	3,706,456	3,013,861
Profit attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to shareholders of the parent	5,944,009	4,714,625	4,110,292	3,744,050	3,284,662
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share (NT\$)	7.15	5.84	5.79	4.39	3.57

Note1: The above financial information for each year was audited by CPA.

Note2: MSI did not capitalize its annual interest expense from 2014 to 2018.

3. Auditors' Opinions from 2013 to 2018

Auditing Year	Accounting Firm	CPAs	Audit Opinion
2014	PricewaterhouseCoopers	Chou, Hsiao-Tzu Yeh, Tsui-Miao	Modified unqualified
2015	PricewaterhouseCoopers	Chou, Hsiao-Tzu Yeh, Tsui-Miao	Modified unqualified
2016	PricewaterhouseCoopers	Chou, Hsiao-Tzu Lai, Chung-Hsi	Unqualified opinion with other matters paragraphs
2017	PricewaterhouseCoopers	Liang, Hua-Ling Lai, Chung-Hsi	Unqualified opinion with other matters paragraphs
2018	PricewaterhouseCoopers	Liang, Hua-Ling Lai, Chung-Hsi	Unqualified opinion with other matters paragraphs

Note: Due to its internal personal changes, PricewaterhouseCoopers updated the audit partners for MSI in 2016 & 2017.

(II) Five-Year Financial Analysis

1. Financial Analysis for Consolidated Report

Financial Analysis for Consolidated Report

Year		Financial Analysis in the past Five Years (Note1)					As of March 31,2019 (Note2)
		2018	2017	2016	2015	2014	
Financial structure %	Ratio of liabilities to assets	45.72	43.44	46.72	44.68	47.16	43.53
	Ratio of long-term capital to property, plant and equipment	641.74	554.91	535.60	478.39	425.33	675.15
Solvency %	Current ratio	199.30	206.42	192.11	196.11	184.45	209.99
	Quick ratio	104.68	122.23	115.93	117.36	106.33	112.31
	Times interest earned	49,733.08	178,404.56	226,291.61	26,101.12	7,685.82	19,047.39
Operating performance	Accounts receivable turnover (times)	7.59	7.24	7.66	6.82	6.84	7.04
	Average collection period	48	50	48	54	53	52
	Inventory turnover (times)	5.19	5.45	5.42	4.64	5.31	4.58
	Accounts payable turnover (times)	6.61	5.36	5.10	4.63	5.05	6.45
	Average days in sales	70	67	67	79	69	80
	Property, plant and equipment turnover (times)	24.12	20.91	19.42	15.12	14.85	24.88
	Total assets turnover (times)	2.27	2.14	2.11	1.84	1.93	2.13
Profitability	Ratio of return on total assets (%)	11.60	9.92	10.08	8.00	6.93	9.48
	Ratio of return on equity (%)	20.92	18.05	18.57	14.74	12.70	17.04
	Ratio of Profit before tax to paid-in capital (%)	84.64	70.76	68.91	50.51	42.34	73.26
	Profit ratio (%)	5.10	4.64	4.78	4.35	3.55	4.43
	Earnings per share (NT\$)	7.15	5.84	5.79	4.39	3.57	1.55
Cash flow	Cash flow ratio (%)	0.34	11.68	21.72	27.88	5.16	11.55
	Cash flow adequacy ratio (%)	49.76	83.34	94.93	-	-	56.82
	Cash reinvestment ratio (%)	(10.00)	(3.80)	5.97	9.23	(1.74)	7.04
Leverage	Operating leverage	1.64	1.73	1.76	2.05	1.98	1.73
	Financial leverage	1.00	1.00	1.00	1.00	1.01	1.01

Note1: The above financial information for each year was audited by CPA.

Note2: 2019Q1 financial report was reviewed by CPA.

Analysis of financial ratio differences over 20% for the last two years:

Times interest earned	The interest expense in current period increased, causing times interest earned to decrease.
Accounts payable turnover	Cost of goods sold in current period increased while accounts payable decreased, causing the increase in accounts payable turnover.
Earnings per share (NT\$)	Profit before income tax for the year increased, causing earnings per share to increase.
Cash flow ratio	The net cash flow from operating activities this year decreased while current liabilities increased, causing the decrease in cash flow ratio.
Cash flow adequacy ratio	The net cash flow from operating activities this year decreased while the inventory amount increased, causing the decrease in cash flow adequacy ratio.
Cash reinvestment ratio	The net cash flow from operating activities this year decreased while the working capital increased, causing the decrease in cash reinvestment ratio.

2. Financial Analysis for separate report

Financial Analysis for Stand Alone Report

Item		Financial Analysis in the past Five Years(Note)				
		2018	2017	2016	2015	2014
Financial structure %	Ratio of liabilities to assets	47.99	45.84	49.63	48.07	49.21
	Ratio of long-term capital to property, plant and equipment	1,281.39	1,184.36	1,130.47	1,070.94	1,015.63
Solvency %	Current ratio	174.81	177.71	160.91	160.99	157.39
	Quick ratio	89.52	102.11	94.49	94.28	87.25
	Times interest earned	77,951.74	796,306.26	731,487.12	35,981.08	64,945.25
Operating performance	Accounts receivable turnover (times)	7.32	7.03	7.31	6.46	6.57
	Average collection period	50	52	50	57	56
	Inventory turnover (times)	5.20	5.49	5.48	4.72	5.35
	Accounts payable turnover (times)	6.73	5.40	5.15	4.78	5.28
	Average days in sales	70	66	67	77	68
	Property, plant and equipment turnover (times)	49.40	44.17	41.81	34.65	34.45
	Total assets turnover (times)	2.15	2.01	1.96	1.72	1.84
Profitability	Ratio of return on total assets (%)	11.11	9.43	9.50	7.59	6.65
	Ratio of return on equity (%)	20.92	18.05	18.57	14.74	12.70
	Ratio of Profit before tax to paid-in capital (%)	83.20	69.27	67.87	49.79	40.88
	Profit ratio (%)	5.16	4.68	4.85	4.41	3.61
	Earnings per share (NT\$)	7.15	5.84	5.79	4.39	3.57
Cash flow	Cash flow ratio (%)	(3.62)	4.05	15.42	25.57	(0.57)
	Cash flow adequacy ratio (%)	37.15	69.60	84.70	-	-
	Cash reinvestment ratio (%)	(15.44)	(9.91)	3.93	13.12	(7.14)
Leverage	Operating leverage	1.54	1.62	1.65	1.90	1.83
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Note: The above financial information for each year was audited by CPA.

Analysis of financial ratio differences over 20% for the last two years:

Times interest earned	The interest expense in current period increased, causing times interest earned to decrease.
Accounts payable turnover	Cost of goods sold in current period increased while accounts payable decreased, causing the increase in accounts payable turnover.
Ratio of Profit before tax to paid-in capital	Profit before income tax for the year increased, causing the increase in ratio of profit before tax to paid-in capital.
Earnings per share (NT\$)	Profit before income tax for the year increased, causing earnings per share to increase.
Cash flow ratio	The net cash flow from operating activities this year decreased while current liabilities increased, causing the decrease in cash flow ratio.
Cash flow adequacy ratio	The net cash flow from operating activities this year decreased while the inventory amount increased, causing the decrease in cash flow adequacy ratio.
Cash reinvestment ratio	The net cash flow from operating activities this year decreased while the working capital increased, causing the decrease in cash reinvestment ratio.

Glossary:

1. Financial structure

(1) Ratio of liabilities to assets = Total liabilities / Total assets

(2) Ratio of long-term capital to property, plant, and equipment = (Total equity + Non-current liabilities) / Net property, plant, and equipment

2. Solvency

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets - Inventory - Prepaid expenses) / Current liabilities

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Accounts receivable turnover (including accounts receivable and notes receivable derived from business operation) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation).

(2) Average collection period = 365 / Accounts receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Accounts payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Property, plant, and equipment turnover = Net sales / Average net property, plant, and equipment

(7) Total assets turnover = Net sales / Average total assets

4. Profitability

(1) Ratio of return on total assets = [Net income (loss) + Interest expense x (1 - tax rate)] / Average total assets

(2) Ratio of return on Equity = Net income (loss) / Average total equity

(3) Profit ratio = Net income (loss) / Net sales

(4) Earnings per share = (Profit attributable to shareholders of the parent - preferred stock dividend) / Weighted average stock shares issued

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activity / Current liabilities

(2) Net cash flow adequacy ratio = Net cash flow from operating activity in the past five years / (Capital expenditure + Inventory increase + Cash dividend) in the past five years

(3) Cash reinvestment ratio = (Net cash flow from operating activity - Cash dividend) / (Gross property, plant, and equipment + Long-term investment + Other non-current assets + working capital)

6. Leverage

(1) Operating leverage = (Net Sales revenue - Variable operating cost and expense) / Operating profit

(2) Financial leverage = Operating profit / (Operating profit - interest expense)

(III) Audit Committee's Review Report of 2018.

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements, and proposal for allocation of earnings. The CPA firm of PWC was retained to audit MSI's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Micro-Star International Co., Ltd. According to relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

Micro-Star International Co., Ltd.

Chairman of the Audit Committee:
Mr. Wang, Sung-Chou

April 30, 2019

(IV) Financial statements in the most recent years : Please refer to page **94~161**

(V) Corporation-only financial report audited and attested by a CPA from the most recent year: Please refer to page **162~219**

(VI) State the financial position of the Company if any insolvency occurs in the Company or affiliates in the most recent year until the date this report is printed : None

VII. Review of Financial Conditions, Financial Performance, and Risk Management

(I) Analysis of Financial Status

Comparison and Analysis of Financial Status

Unit: NT\$ thousands

Item	Year	2018	2017	Difference	
				Amount	%
Current Assets		49,356,897	43,185,288	6,171,609	14.29%
Property, plant, and equipment		4,738,544	5,087,802	(349,258)	(6.86%)
Intangible assets		-	-	-	-
Other Assets		1,078,732	880,299	198,433	22.54%
Total Assets		55,174,173	49,153,389	6,020,784	12.25%
Current Liabilities		24,765,061	20,920,657	3,844,404	18.38%
Non-current liabilities		463,251	429,462	33,789	7.87%
Total Liabilities		25,228,312	21,350,119	3,878,193	18.16%
Equity attributable to shareholders of the parent		29,945,861	27,803,270	2,142,591	7.71%
Share capital		8,448,562	8,448,562	0	0.00%
Capital surplus		1,226,049	1,225,615	434	0.04%
Retained Earnings		20,777,216	18,550,908	2,226,308	12.00%
Other equity interest		(505,966)	(421,815)	(84,151)	19.95%
Treasury shares		-	-	-	-
Non-controlling interests		-	-	-	-
Total Equity		29,945,861	27,803,270	2,142,591	7.71%

(1) Analysis of significant changes in assets, liabilities and equity for the last two years:

Other assets: The increase was mainly due to increase in deferred income tax assets.

(2) Future plans for the major impact on financial position : The above deviations were caused by general business operations, having no major impact on MSI's financial position.

(II) Analysis of Financial Performance

Comparison and Analysis of Financial Performance

Unit: NT\$ thousands

Item \ Year	2018	2017	Amount	%
Sales revenue	118,527,273	106,419,905	12,107,368	11.38%
Net operating margin	16,129,686	15,031,293	1,098,393	7.31%
Operating profit	6,691,950	5,613,660	1,078,290	19.21%
Non-operating income and expenses	459,184	364,892	94,292	25.84%
Profit before income tax	7,151,134	5,978,552	1,172,582	19.61%
Income (Losses) from continuing operations	6,041,129	4,937,422	1,103,707	22.35%
Losses from discontinued operations	-	-	-	-
Profit for the year	6,041,129	4,937,422	1,103,707	22.35%
Other comprehensive income for the year (Net of income tax)	(97,120)	(222,797)	125,677	56.41%
Total comprehensive income for the year	5,944,009	4,714,625	1,229,384	26.08%
Profit attributable to shareholders of the parent	6,041,129	4,937,422	1,103,707	22.35%
Profit attributable to non-controlling interests	-	-	-	0.00%
Total comprehensive income attributable to shareholders of the parent	5,944,009	4,714,625	1,229,384	26.08%
Total comprehensive income attributable to Non-controlling interests	-	-	-	0.00%
Earnings per share	7.15	5.84	1.31	22.43%

1. Analysis of significant changes in sales revenue, operating profit, and profit before income tax for the last 2 years:

Non-operating income and expenses: The increase was mainly due to increase in other income.

Profit for the year: The increase was mainly due to increases in net operating margin and other income.

Other comprehensive income for the year: The increase was mainly due to decrease of currency exchange differences from foreign currency financial statements.

Earnings per share: The increase was mainly due to increases in net operating margin and other income.

2. Sales volume forecast and related information:

Motherboards and graphic cards shipment forecast in 2019 is twenty million pieces.

3. Possible impact on financial performance and future plans:

Financial ratios in current period are better than the year before, having no disadvantage on future financial performance.

(III) Analysis of Cash Flow

Unit : NT\$ thousands

Beginning cash balance (A)	Net cash flow from operating activities (B)	Cash inflow(outflow) (C)	Cash surplus (deficit) (A)+(B)+(C)	Remedial measures for the expected insufficient cash	
				Investment plan	Financing plan
10,028,064	84,616	(1,297,000)	8,815,680	-	-

1. Analysis of Cash flow change:

- (1) Operating activities: cash inflow 84,616
- (2) Investing activities: cash outflow 452,589
- (3) Financing activities: cash outflow 768,943
- (4) Exchange rate changes: cash outflow 75,468

2. Remedial actions for liquidity shortfall: Not Applicable.

Year	2018	2017	Variance
Cash flow ratio	0.34%	11.68%	(97.09%)
Cash flow adequacy ratio	49.76%	83.34%	(40.29%)
Cash reinvestment ratio	(10.00%)	(3.80%)	(163.16%)

Analysis of financial ratio change:

The net cash flow from operating activities this year decreased due to inventory increased, causing the decrease in cash flow ratio.

3. Cash flow analysis for the coming year:

Unit : NT\$ thousands

Beginning cash balance	Estimated net cash flow from operating activities	Estimated cash inflow(outflow)	Estimated Cash surplus (deficit)	Remedial measures for the expected insufficient cash	
				Investment plan	Financing plan
8,815,680	6,500,000	(5,500,000)	9,815,680	-	-

(1) Analysis of cash flow change in current period:

- A. Operating activities: Cash inflow this year is expected to be due to profit and working capital changes.
- B. Investing and financing activities : Cash outflow this year is expected to be due to the issuance of cash dividend and equipments replacement.

(2) Remedial actions for liquidity shortfall: Not Applicable.

(IV) Recent years major capital expenditures and impact on financial and business: None.

(V) Reinvestment in recent years:

1. The company's reinvestment policy for the most recent fiscal year:

The re-investment policy of the Company is meant mainly to explore overseas markets and provide in-depth services in major countries so that the revenue and worldwide market shares can be increased.

2. The main reasons for the profits/losses generated thereby, the plan for improving re-investment profitability: Income from reinvested businesses of the Company in 2018 totaled NT\$416,401 thousand mainly due to stable global economy, increased consumer demand, growths in sales of overseas subsidiaries, and increased profits.

3. Investment plans for the coming year: Currently, no significant investment plans will be processed this year.

(VI) Risk analysis and evaluation in recent years and up to the date of the annual report printed

1. The impact of interest rate, exchange rate, and inflation on the Company's income and expense and the responsive measures:

(1) Interest rate

The changing interest rate can impact the Company in two parts. As far as assets are concerned, income for the Company from cash and cash equivalents increases or decreases as the interest rate changes. For liabilities, expenditure on interest charged for short-term loans also increases or decreases as the interest rate changes. The impacts on the assets and liabilities from the changing interest rate as described above can be counterbalancing. If it is expected that the interest rate will significantly change, the Company can reduce its impact on the Company's profits and losses by adjusting durations of deposits and borrowings or through interest rate swap.

(2) Exchange rate

Sales of the Company are mainly export-oriented. Among them, more than 80% are priced in USD. Among the materials purchased, also more than 90% are paid in USD. The natural hedging ratio is high. Plus the current exchange rate hedging that is adopted to reduce risks associated with the changing exchange rate, the impacts of changing exchange rate on the Company are not too huge. The Company will continue to reduce the impacts that the changing exchange rate has on profits and losses by undertaking hedging transactions.

(3) Inflation

Generally speaking, inflation affects the purchasing power and willingness of consumers and reduces the demand for consumer products; it will have a negative influence on the overall revenue and profits and losses of the Company. Impacts of inflation, however, are comprehensive; that is, not only individual companies are affected. In other words, the government financial departments shall stipulate related measures with macroeconomics in mind. Nevertheless, the Company will be devoted to bringing down its production cost in order to keep its revenue by introducing products at a price that can better inspire consumers to buy and to accordingly reduce the negative impacts that inflation has on the Company's profits and losses.

2. Conducting high-risk and high-leverage investment, granting loans to others, endorsement & guarantee and directives policy, root cause of profit and loss, and the responsive measures:

The Company's policy is not to undertake high-risk, high-leverage investments and not to lend funds to others or serve as endorser or guarantor. In terms of its policy on derivatives, it only engages itself in hedging transactions. The exchange rate hedging transactions the Company undertook in the most recent year accordingly reduced the impacts of the changing exchange rate on the Company's profits and losses. In the future, such undertaking will keep going in order to reduce the impacts that the volatility in exchange rate on the Company's profitability.

3.R&D plans and budgeted R&D expense :

Products development planned in 2019

(1)Products development

A. Motherboards

- Development of the next generation of Intel® gaming and content creation motherboards.
- Development of the AMD® 500 Series gaming and content creation motherboards for the 3rd generation Ryzen™ processors.
- Development of the better performance and better reliability motherboard for more cores processor.
- Development of better components and latest technology for motherboard.
- Development of better thermal solution and coating for the heatsink on motherboard
- Development of new RGB effect and materials for better gamer experience
- Development of more different function of add-on card
- Improvement of applications which provide better performance and experience.

B. Professional Graphics Card

- Development of graphics card and thermal modules with better performance and lower energy consumption.
- Development of overclocking graphics card with the latest technology and components.
- Development of fans with better heat dissipation and lower noise.
- Development of graphics card with improved RGB lighting effects and functions.
- Continuous improvement and integration of graphics card applications.
- Development of graphics card with “Real-Time Ray Tracing” and “AI deep learning” technologies.

C. Servers

- Development of the new generation Server & Workstation for Intel® Whitley & Tatlow platform
- Development of the new generation Network application system for Intel® Whitley & Tanner Ridge platform
- Development of the new generation multi-function IoT facial recognition gateway
- Development of the multi-function IoT edge server and gateway
- Development of the new generation Telecom firewall (NGFW) 16U system
- Development of the high-density Unified threat management (UTM) for Intel® Whitley platform
- Enhancement of the new generation Intrusion prevention system (IPS) for Intel® Mehlow platform

D. Desktop Computers

- Development of the gaming desktop series for the newest Intel® 400 platform.
- Innovating the Cubi mini computer series for the newest Intel® CML-U series platform.
- Continuing the development of the All-in-One products for the Intel® platform.
- Continuing the development of the high-end gaming desktop with the exclusive Silent Storm cooling design.
- Innovating flagship gaming desktop with the industry’s leading skills and technology.
- Continuing the development of desktop computers that caters to the need of the LAN Party gamers.
- Development of a technology that can deeply integrate gaming monitors with gaming desktops.
- Applying AI technology to gaming desktops.
- Innovating desktops that are suitable for professionals within the Multimedia and Content Creation industry.

E. Industrial Computers

- Further upgrading R&D capabilities to provide broad temperature broad pressure water-proof and dust-proof solutions that can be used under extreme condition.
- In response to Industry 4.0, in-depth cultivation of highly expandable robust fanless systems to make it smaller and further advances the cooling performance.
- Continued development of flexible Mini-PCIe or PCI/PCIe interface cards for add-on values and functionalities.
- Offering the option of expanding the number of independent displays from 3 to 6 or 9 and development of higher-resolution imaging treatment to enhance the efficiency and to satisfy the needs of users on the high-end market.
- Enhanced OCP/OVP and hardware design and protection mechanism in case of possible power issues during harsh operations.
- Compliance with regulations in different countries for safety of products to enhance the ESD design regulations.
- Support of the application of EU IEC-60068-2 international shock regulations for railways and transportation.

- Exchange and integration of IoT (Industrial Internet of Things) full-function system with real-time point-to-point data to plan and operate global smart application management.
- Development of the Apollo Lake broad-temperature small low power-consumption CPU module product.
- Development of the broad temperature small IoT fan-less embedded system supporting railway regulations.
- Development of a system that can support two sets of PoE and CAN Bus at the same time.
- Development of automobile embedded system supporting broad temperature and broad pressure specifications.
- Development of “Email Alert for HIDAC Monitoring Events” function to enhance add-on value.

F. Telematics and Automotive Electronics

- Developed FUNTORO ITS Solution through sensing technology connected to the on-board equipment processing AIOT and cloud-based backend management, creating added value function to improve transportation efficiency.
- Developed FUNTORO PID Solution to provide transportation information/traffic guide/advertising/public policy announcement/cloud-based backend management in various electronic digital signages. Through the AIoT embedded platform, management control center can simultaneously manage the electronic digital signages around the world.
- Developed the FUNTORO Railway PIDS Solution, which is based on transportation vehicles and integrated the on-board computer/CCTV/exterior display/interior display/in-vehicle controller/public address system/intercom system. The management control center can manage the status of the entire vehicle anywhere and in real-time.
- Developed specific field and in-vehicle cloud-based advertising solutions through cloud backend information exchange and management, providing owners with a variety of innovative commercial advertising business models.

G. Laptops

- Designed Gaming laptops with more immersive gaming experience
- Incorporated AI applications into notebooks
- Designed professional notebooks targeting at content creators, aimed to improve work efficiency
- Devoted efforts to develop professional workstations with more linkage to professional ISVs

H. Monitors

- Development of the high-end curved gaming monitors with features such as wide screen size, 4K and WQHD high resolution.
- Continuing the development of the gaming monitors that adhere to the standard of eSports tournaments.
- Continuing the development of gaming monitors that can show game-related status and information on the monitor panel
- Applying AI technology to gaming monitors.
- Innovating monitors that are suitable for professionals within the multimedia and content creation industry.

I. Case

- Development of gaming case with various RGB effect and materials.
- Development of content creation case with better thermal, airflow solution and anti-noise.

(2) Progress of unaccomplished R&D plans: Product design and development stage.

(3) Current progress of R&D projects yet to be completed: The overall progress is about 20% to 80% at present, depending on respective products involved.

(4) Major factors that affect the future success of R&D : A. Market factor B. Delayed key parts and components C. Shortage of parts and components.

(5) R&D budget in 2019 : NT\$3.4 billion

(6) Projection on mass production: 2019~2020 ◦

4. The impact of domestic and international policies and law change on the Company's finance and the responsive measures : None

5. The impact of technology change and industrial change on the Company's finance and the responsive measures : None

6. The impact of industrial image change on business risk management and the responsive measures : None

7. The expected effect, potential risk, and responsive measures of merger : None

8. The expected effect, potential risk, and responsive measures of plant expansion : None

- 9.The risk relating to excessive concentration on procurement and customer : None
 10.The impact of massive stock transfer or change by directors, supervisors, and shareholders with over 10% shareholding, the risk, and the responsive measures : None
 11.The impact of right to operate change on the Company. The risk, and the responsive measures : None
 12.Legal and non-legal events :

- (1)As of the publication date of annual report, whether the directors, supervisors, President, and shareholders with shareholding ratio over ten percent of the Company are involved in any significant litigation, non-litigation or administrative litigation cases, such cases have been sentenced or are currently pending, and the results there of have a significant impact on shareholders' equity or securities price : None
 (2) Significant litigation, non-litigation or administrative litigation cases of the Company in the most recent years and up to the date, such cases that have been sentenced or are currently pending, and the results thereof that have a significant impact on shareholders' equity or securities price : None

13.Other significant risks and responsive measure :

- (1) Risk management policy: The Company's policy towards risk management is to evaluate possible impacts of the various risk matters on the profits and losses of the Company and to stipulate respective response policies accordingly.

Risk assessment	Impacts on profits and losses	Countermeasure
1. Financial risk	The Company has an optimal financial structure; its debt ratio is 46% and net worth reaches 29.9 billion. Financial risk is hence not high.	Continue with the optimal financial structure in order to reduce financial risk
(1) Market risk (including exchange rate and interest rate)	Major products of the Company are sold to Europe, Asia, and America; they are not overly focused on a specific single market. Therefore, market risk is not high.	Continue to diversify areas of distribution in order to reduce market risk
(2) Credit risk	The primary credit risk of the Company comes from accounts receivable from its customers. Insurance has been purchased for the accounts receivable as safety measure to reduce such risk. Therefore, credit risk is not high.	Continue to have accounts receivable covered by insurance as safety measure to reduce credit risk
(3) Liquidity risk	The current ratio of the Company is up to 199%; the liquidity risk is not high.	Continue with the optimal current ratio in order to reduce liquidity risk
(4) For the nature and extent of significant financial risks, refer to Pages 140 ~ 146 , 206 ~ 216 for details.		
2. Legal risk - domestic laws and regulations	The Labor Standards Act was revised on December 21, 2016. (One fixed day off and one flexible rest day)	With the implementation of the new system under the Labor Standards Act, companies follow the Labor Standards Act while calculating the service hours, days available for leave, and overtime for their employees and calculation of overtime for working on days off is added to the revised Act. In addition, service on days off is under strict control in order to meet regulatory requirements.
3. Evaluation of strategic and operational risks	The Company successfully extended its scope of business from core products, such as computer motherboards, display cards, and laptops to servers and automobile electronics, among other diversified fields. As far as operation is concerned, as the management complexity increases, daily response mechanisms need to be developed for the evaluation of strategic and	(1) Periodically review the growths in core sectors Set goals for growth, market share, and profitability that are higher than industrial averages (2) Set reasonable return on investment based on the careful evaluation in advance and the management plan for a new business and demand that profits and losses reach a balance within a given period of time. Set phased

	<p>operational risks.</p> <p>In terms of management, the strategy is to extend core specialties and combine the many technologies researched and developed over the years and to keep track of demand on the market for the industry. The hope is to create another wave of growths for the Company and to bring about maximum benefits for the Company's shareholders.</p> <p>In order for strategic goals to be precisely fulfilled, the Company operates by connecting the value chain through its business departments and the functional main part when it comes to organization and operation. Annual goals are set according to the competition in the industry facing product business departments and managerial meetings are called for periodically to discuss the strategy and operational efficacy in order to adopt immediate countermeasures that help bring down operational risk.</p>	<p>strategic goals reflective of the nature of the sector involved, such as obtaining purchase orders from prospective customers, timely mass production, and securing a certain market share on the strategic target market.</p> <p>(3) Related departments meet on a monthly basis to review the operational efficacy and examine and adjust the strategies on a quarterly basis; related organizational adjustment is made right away for unachievable ones in order to control risk.</p> <p>(4) Keep timely track of daily operations around the world through the real-time information system, including shipment, stock, purchase order, operating fund, among others, and set the alert criteria.</p> <p>(5) Gather managers around the world periodically to discuss management strategies that concern where the Company will go next. High-ranking management is to adjust strategies taking into consideration resources available throughout the Company and the operational status.</p> <p>In light of the rapidly changing operating environment for the high-tech industry, the Company proactively invests in information technology and the required talent internally and keeps track of changes in customers, products, and techniques externally. It will constantly review strategic and operational risks and adjust the Company resources in order to continue bringing about accomplishments and profits.</p>
4. Information security risk	<p>The Company has completed the business continuous operation management exercise, covering topics such as natural disasters, biological hazards, supplier management, labor disputes and information system risks. Among them, for the information security management and control, the "information security incident notification and response management procedures" have been established. The cyber security inspection is also included in the audit of the annual audit plan and is evaluated by external experts. There is no significant impact at present.</p>	<p>In addition to improving the deficiencies assessed by external experts, the Company's specific measures to strengthen the security are as follows:</p> <p>(1) Control the contingency of the information system interruption event.</p> <p>(2) Ensure that preventive measures such as backup of information systems effectively.</p> <p>(3) Confirm whether external resources can be in place as scheduled.</p>
5. Climate risks	<p>The probability and severity of natural disasters (including drought, mites, snowstorms, high temperature/heat waves, typhoons/strong rainfall) brought about by extreme weathers</p>	<p>By including the issue of climate change in the risk management of sustainable business operations. MSI aims to implement climate change management mechanism through "mitigation" and</p>

	<p>may affect the Company's production and operations. The risks may include production constraints, operations, equipment, and investment cost rise and inefficiency, etc.</p>	<p>“adaption” for reduction of the magnitude of impact of climate change on businesses. The Company also strengthens its resilience through the risk through adoption of the carbonation measures of feasibility assessment through the management mechanism of climate change in the two directions of “mitigation” and “adjustment”. The Company strengthens its resilience through appropriate regulatory measures with the specific mehods as follows:</p> <ol style="list-style-type: none"> (1) Continue to pay attention to changes in relevant domestic and international regulations after the Paris Climate Agreement and evaluate the internal response of the company. (2) Regularly check and update the organization's carbon footprint to achieve the goal of organizing greenhouse gas reduction. (3) Evaluate feasible technologies and materials for product design and reduce energy loss of products. (4) Save water, improve the reuse rate of rainwater and wastewater, and establish emergency measures for water resources. (5) Reduce the risk of natural disasters through commercial insurance and production emergency procedures.
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(2) Organizational structure of risk management

The Company has the “Continued Operational Management Procedure” in place to help reduce impacts and damages derived from emergency events facing the organization and to ensure normal operations of the Company for the sake of sustainable management.

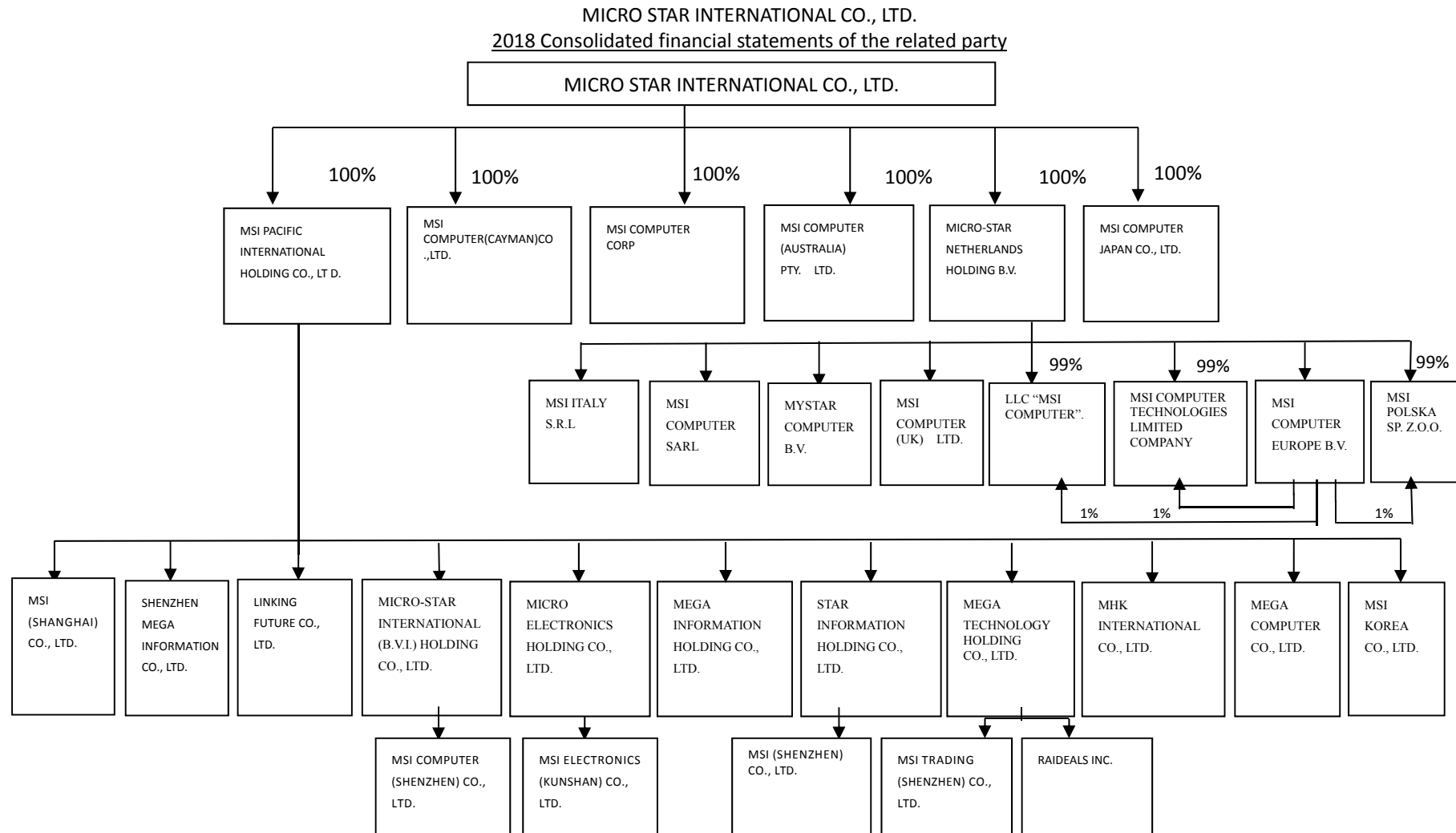
The organization structure of the Company's risk management is promoted and operated by the President who coordinates and directs the risk management plan. The businesses and units responsible for management under the President are responsible for assessing the operational risks, production risks, environmental safety risks, information security risks, climate change risks, etc. and executes daily risk management. The President reports to the board of directors at least once a year.

(VII) Other material events : None

VIII.Special disclosures

(I)Related party

1、Organizational structure of related party:



2. Company profile of related party

(Unit: thousands)

Name of corporation	Date of Establishment	Address	Capital	Major Business Scope
MICRO-STAR INTERNATIONAL (B.V.I.) HOLDING CO., LTD.	1998.02.04	TORTOLA, BRITISH VIRGIN ISLANDS	USD 47,521	Holding company
MSI COMPUTER CORP.	1998.03.25	CA, U.S.A.	USD 460	Sales and maintenance of computers and electronic components
MYSTAR COMPUTER B.V.	1998.05.28	EINDHOVEN, THE NETHERLANDS	EUR 2,027	Sales support of computers and electronic components
MSI COMPUTER (AUSTRALIA) PTY. LTD.	1998.07.31	NSW, AUSTRALIA	AUD 222	Sales and maintenance of computers and electronic components
MICRO-STAR NETHERLANDS HOLDING B.V.	1998.12.21	EINDHOVEN, THE NETHERLANDS	EUR 1,102	Holding company
MSI COMPUTER JAPAN CO., LTD.	1999.01.21	TOKYO, JAPAN	JPY 20,000	Sales support and maintenance of computers and electronic components
MSI TECHNOLOGY GMBH	1999.03.01	FRANKFURT, GERMANY	-	In November 2018, this subsidiary has completed the liquidation process.
MSI COMPUTER SARL	1993.10.01 (1999.6.30 purchase)	BUSSY SAINT GEORGES, FRANCE	EUR 730	Sales support of computers and electronic components
MSI COMPUTER (SHENZHEN) CO., LTD.	2000.04.12	SHENZHEN, CHINA	USD 51,800	Sales and manufacture of computers and electronic components
MSI COMPUTER (CAYMAN) CO., LTD.	2001.02.13	GEORGE TOWN, CAYMAN ISLANDS	USD 3,040	Holding company
MSI COMPUTER (UK) LTD.	2000.10.12	STAINES, UK	EUR 1,130	Sales support of computers and electronic components
MSI ELECTRONICS (KUNSHAN) CO., LTD.	2001.12.18	KUNSHAN, CHINA	USD 51,000	Sales and manufacture of computers and electronic components
MSI COMPUTER EUROPE B.V.	2002.04.09	EINDHOVEN, THE NETHERLANDS	EUR 1,149	Logistic
STAR INFORMATION HOLDING CO., LTD.	2002.06.14	TORTOLA, BRITISH VIRGIN ISLANDS	USD 4,503	Holding company
MICRO ELECTRONICS HOLDING CO., LTD.	2002.06.14	TORTOLA, BRITISH VIRGIN ISLANDS	USD 33,315	Holding company
MSI PACIFIC INTERNATIONAL HOLDING CO., LTD.	2002.06.18	GEORGE TOWN, CAYMAN ISLANDS	USD 30,204	Holding company
MSI KOREA CO., LTD.	2002.12.27	SEOUL, KOREA	KRW800,000	Sales and maintenance of computers and electronic components
MEGA INFORMATION HOLDING CO., LTD.	2003.09.19	TORTOLA, BRITISH VIRGIN ISLANDS	USD -	Holding company
SHENZHEN MEGA INFORMATION CO., LTD.	2003.11.19	SHENZHEN, CHINA	USD 700	Examines and maintenance of computers and electronic components
MSI POLSKA SP. Z O.O.	2006.04.24	WROCLAWSKIE, POLAND	EUR1,171	Sales and maintenance of computers and electronic components
MEGA TECHNOLOGY HOLDING CO., LTD.	2008.04.01	TORTOLA, BRITISH VIRGIN ISLANDS	USD3,050	Holding company
MSI TRADING (SHENZHEN) CO., LTD.	2008.04.01	SHENZHEN, CHINA	USD3,000	Sales and maintenance of computers and electronic components

MEGA COMPUTER CO., LTD.	2008.02.25	HONG KONG	HKD	Sales support of computers and electronic components
LLC "MSI COMPUTER"	2009.10.09	MOSCOW,RUSSIA	EUR1,647	Sales support and maintenance of computers and electronic components
MSI COMPUTER TECHNOLOGIES LIMITED COMPANY	2010.11.04	ISTANBUL,TURKEY	EUR77	under liquidation
MSI ITALY S.R.L.	2010.11.12	MILANO,ITALY	EUR50	Sales support of computers and electronic components
MHK INTERNATIONAL CO., LTD.	2013.02.01	HONG KONG	HKD	Sales support of computers and electronic components
MSI (SHENZHEN) CO., LTD.	2013.09.02	SHENZHEN,CHINA	USD1,000	Sales and maintenance of computers and electronic components
LINKING FUTURE CO., LTD.	2008.02.25	HONG KONG	HKD	under deregistration
MSI (SHANGHAI) CO., LTD.	2017.12.12	SHANGHAI, CHINA	USD 1,000	Sales and maintenance of computers and electronic components
RAIDEALS INC.	2018.03.23	CA, U.S.A.	USD 50	Sales and maintenance of computers and electronic components

3.A controlling and hierarchical relationship according to Article 369.3 of Company Law : None

4.Business scope of MSI Group:

MICRO-STAR NETHERLANDS HOLDING B.V. MICRO-STAR INTERNATIONAL (B.V.I.)HOLDING CO.,LTD. MSI COMPUTER (CAYMAN)CO.,LTD. STAR INFORMATION HOLDING CO., LTD. MICRO ELECTRONICS HOLDING CO., LTD. MSI PACIFIC INTERNATIONAL HOLDING CO., LTD. MEGA INFORMATION HOLDING CO.,LTD. MEGA TECHNOLOGY HOLDING CO., LTD. are holding and investment company. MSI headquarter and rest of affiliated companies are focused in IT industry. MSI Headquarter is focused on manufacturing and sales, MSI COMPUTER (SHENZHEN) CO., LTD. and MSI ELECTRONICS (KUNSHAN) CO., LTD. are MSI's contract manufacturer, SHENZHEN MEGA INFORMATION CO., LTD. is worldwide repair center, rest overseas companies are focus in sales and marketing, selling MSI own brand products.

5.Directors, Supervisors and Presidents of related party

Unit : shares

Name of corporation	Title	Name of representative	Shareholding	
			Shares	%
MICRO STAR INTERNATIONAL (B.V.I.) HOLDING CO., LTD.	Director & President	MICRO STAR INTERNATIONAL CO., LTD. Representative : Yu,Hsien-Neng	0	0%
			0	0%
MSI COMPUTER CORP.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Tung,Ti-Chun	575,458	100%
	Director	Huang,Chin-Ching	0	0%
	Director	Yu,Hsien-Neng	0	0%
MYSTAR COMPUTER B.V.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0	0%
	Director	Huang,Chin-Ching	0	0%
	Director	Wang,Ming-Jung	0	0%
MSI COMPUTER (AUSTRALIA) PTY. LTD.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Huang,Chin-Ching	221,836	100%
	Director	Lin,Wen-Tung	0	0%
	Director	Chen,Yuan-Kang	0	0%
MICRO-STAR NETHERLANDS HOLDING B.V.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hsu,Hsiang	424,000	100%
			0	0%
MSI COMPUTER JAPAN CO., LTD.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Lin,Wen-Tung	1,400	100%
	Supervisor	Liu, Chu-Hao	0	0%
MSI TECHNOLOGY GMBH	liquidated	-	-	-
MSI COMPUTER SARL	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0	0%
	Director	Huang,Chin-Ching	0	0%
	Director	Wang,Ming-Jung	0	0%
MSI COMPUTER (SHENZHEN) CO., LTD.	Executive Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Yu,Hsien-Neng	0	0%
	Supervisor	HUNG,PAO-YU	0	0%
MSI COMPUTER (CAYMAN) CO., LTD.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Huang,Chin-Ching	50,000	100%
			0	0%
MSI COMPUTER (UK) LTD.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0	0%
	Director	Huang,Chin-Ching	0	0%
	Director	Wang,Ming-Jung	0	0%
MSI ELECTRONICS (KUNSHAN) CO., LTD.	Executive Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Huang,Chin-Ching	0	0%
	Supervisor	Liu,Chu-Hao	0	0%
MSI COMPUTER EUROPE B.V.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0	0%
			0	0%

STAR INFORMATION HOLDING CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
MICRO ELECTRONICS HOLDING CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
MSI PACIFIC INTERNATIONAL HOLDING CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	30,204,118 0	100% 0%
MSI KOREA CO., LTD.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Kung,Fan-Shu	0 0	0% 0%
	Supervisor	Liu, Chu-Hao	0	0%
MEGA INFORMATION HOLDING CO.,LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
SHENZHEN MEGA INFORMATION CO., LTD.	Executive Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Yu,Hsien-Neng	0 0	0% 0%
	Supervisor	Hung, Pao-Yu	0	0%
MSI POLSKA SP. Z O.O.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Yu,Hsien-Neng	0 0	0% 0%
MEGA TECHNOLOGY HOLDING CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
MSI TRADING (SHENZHEN) CO., LTD.	Executive Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Liu,Chu-Hao	0 0	0% 0%
	Supervisor	Hung, Pao-Yu	0	0%
MEGA COMPUTER CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
LLC "MSI COMPUTER"	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0 0	0% 0%
	Director	Huang,Chin-Ching	0	0%
	Director	Wang,Ming-Jung	0	0%
MSI COMPUTER TECHNOLOGIES LIMITED COMPANY	liquidator	Cevat Binici	0	0%
MSI ITALY S.R.L.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0 0	0% 0%
	Director	Huang,Chin-Ching	0	0%
	Director	Wang,Ming-Jung	0	0%
MHK INTERNATIONAL CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
MSI (SHENZHEN) CO., LTD.	Executive Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0 0	0% 0%
	Supervisor	Hung, Pao-Yu	0	0%
LINKING FUTURE CO., LTD.	Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%
MSI (SHANGHAI) CO., LTD.	Executive Director	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung,Yu-Sheng	0 0	0% 0%
	Supervisor	Hung,Pao-Yu	0	0%
RAIDEALS INC.	Director & President	MICRO STAR INTERNATIONAL CO.,LTD. Representative : Hung, Pao-Yu	0 0	0% 0%

6. Business operation of the related party

Expressed in thousands of NTD
(Except as otherwise indicated)

Name of corporation	Capital (unit: thousands)	Total Assets	Total Liabilities	Net Worth	Revenue	Operating Income (Loss)	Net Income (Loss)	Earning(Loss) (Per Share NTD)
MICRO-STAR INTERNATIONAL (B.V.I.) HOLDING CO., LTD.	USD 47,521 (Rate 30.715)	3,777,677	21,061	3,756,616	0	(14,621)	252,772	0.17 (NOTE 2)
MSI COMPUTER CORP.	USD 460 (Rate 30.715)	7,937,746	7,902,184	35,562	16,741,218	6,638	(17,931)	(1.27) (NOTE 2)
MYSTAR COMPUTER B.V.	EUR 2,027 (NOTE 1) (Rate 35.20)	455,846	320,756	135,090	2,060,780	23,452	15,699	0.22 (NOTE 2)
MSI COMPUTER (AUSTRALIA) PTY.LTD.	AUD 222 (Rate 21.665)	8,311	1,785	6,526	23,501	618	(189)	(0.04) (NOTE 2)
MICRO-STAR NETHERLANDS HOLDING B.V.	EUR 1,102 (NOTE 1) (Rate 35.20)	589,044	(7,808)	596,852	41,011	(4,647)	5,495	0.14 (NOTE 2)
MSI COMPUTER JAPAN CO., LTD.	JPY 20,000 (Rate 0.2782)	19,094	6,140	12,954	65,114	1,629	910	0.16 (NOTE 2)
MSI TECHNOLOGY GMBH	EUR - (NOTE 1) (Rate 35.20)	-	-	-	0	(726)	(872)	- (NOTE 3)
MSI COMPUTER SARL	EUR 730 (NOTE 1) (Rate 35.20)	69,428	19,367	50,061	98,591	4,739	4,796	0.19 (NOTE 2)
MSI COMPUTER (SHENZHEN) CO., LTD.	USD 51,800 (Rate 30.715)	5,161,507	1,567,002	3,594,505	3,054,219	218,523	252,687	0.16 (NOTE 2)
MSI COMPUTER (CAYMAN) CO., LTD.	USD 3,040 (Rate 30.715)	145,747	18,616	127,131	10,128	(9,212)	(877)	(0.01) (NOTE 2)
MSI COMPUTER (UK) LTD.	EUR 1,130 (NOTE 1) (Rate 35.20)	15,328	2,822	12,506	32,508	1,548	1,618	0.04 (NOTE 2)
MSI ELECTRONIC (KUNSHAN) CO., LTD.	USD 51,000 (Rate 30.715)	2,884,515	716,831	2,167,684	1,537,258	111,005	197,093	0.13 (NOTE 2)
MSI COMPUTER EUROPE B.V.	EUR 1,149 (Rate 35.20)	138,330	94,654	43,676	205,349	6,098	4,880	0.12 (NOTE 2)
STAR INFORMATION HOLDING CO., LTD.	USD 4,503 (Rate 30.715)	35,870	0	35,870	0	(47)	3,204	0.02 (NOTE 2)
MICRO ELECTRONICS HOLDING CO., LTD.	USD 33,315 (Rate 30.715)	2,389,380	115,335	2,274,045	0	(15,305)	198,217	0.19 (NOTE 2)

MSI PACIFIC INTERNATIONAL HOLDING CO., LTD.	USD 30,204 (Rate 30.715)	11,227,519	4,907,473	6,320,046	4,288,312	(661)	412,993	0.45 (NOTE 2)
MSI KOREA CO., LTD.	KRW 800,000 (Rate 0.0276)	454,969	179,965	275,004	3,715,782	40,761	35,890	1.63 (NOTE 2)
MEGA INFORMATION HOLDING CO., LTD.	USD - (Rate 30.715)	0	0	0	0	0	1,063	- (NOTE 2)
SHENZHEN MEGA INFORMATION CO., LTD.	USD 700 (Rate 30.715)	29,587	7,448	22,139	47,048	1,677	1,062	0.05 (NOTE 2)
MSI POLSKA SP. Z O.O.	EUR1,171 (NOTE 1) (Rate 35.20)	46,956	14,218	32,738	162,718	3,727	2,322	0.06 (NOTE 2)
MEGA TECHNOLOGY HOLDING CO., LTD.	USD 3,050 (Rate 30.715)	0	6,090	(6,090)	0	0	(1,831)	(0.02) (NOTE 2)
MSI TRADING (SHENZHEN) CO., LTD	USD 3,000 (Rate 30.715)	4,890	12,479	(7,589)	0	(2,049)	(1,795)	(0.02) (NOTE 2)
MEGA COMPUTER CO., LTD.	HKD - (Rate 3.921)	1,573,389	1,566,739	6,650	6,135,760	(1,133)	(575)	- (NOTE 2)
LLC "MSI COMPUTER"	EUR 1,647 (Rate 35.20)	35,552	4,546	31,006	72,522	2,685	2,680	0.05 (NOTE 2)
MSI COMPUTER TECHNOLOGIES LIMITED COMPANY	EUR 77 (Rate 35.20)	13	76	(63)	0	0	0	0 (NOTE 4)
MSI ITALY S.R.L.	EUR 50 (Rate 35.20)	12,365	10,814	1,551	37,522	1,970	971	0.55 (NOTE 2)
MHK INTERNATIONAL CO., LTD.	HKD - (Rate 3.921)	53,156	39,769	13,387	130,870	6,697	6,297	- (NOTE 2)
MSI (SHENZHEN) Co., LTD.	USD 1,000 (Rate 30.715)	45,144	22,972	22,172	3,929,108	4,131	2,983	0.10 (NOTE2)
LINKING FUTURE CO., LTD.	HKD - (Rate 3.921)	-	-	-	-	-	-	- (NOTE5)
MSI (SHANGHAI) Co., LTD.	USD 1,000 (Rate 30.715)	1,426,677	1,466,886	(40,209)	3,437,193	(70,469)	(68,625)	(2.23) (NOTE2)
RAIDEALS INC.	USD 50 (Rate 30.715)	2,875	1,375	1,500	7,943	(12)	(35)	(0.02) (NOTE2)

Note1 : Capital includes surplus.

Note2 : Earnings per share was calculated based on each NTD of capital instead of each share.

Note 3: In November 2018, MSI TECHNOLOGY GMBH has completed the liquidation process.

Note 4: MSI COMPUTER TECHNOLOGIES LIMITED COMPANY is under liquidation.

Note 5: LINKING FUTURE CO., LTD. is under deregistration.

7. Consolidated Financial Statements of the parent company and subsidiaries : Please refer to page **94~161**

8. Related Party Report : Not Applicable

9. Affiliated companies' transaction on guarantee, endorsement, loans to others and derivatives: please refer to page **148**.

(II) Subscription of marketable securities privately in the most recent years and up to the date of the report printed : None

(III) Status of MSI Common Shares Acquired, Disposed of, and Held by Subsidiaries: None

(IV) Other Necessary Supplement: None.

(V) Occurrence of events defined in Securities Transaction Law Article 36.2.2 that has great impact on shareholders' equity or security price in the most recent years and up to the date of the report printed : None

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

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

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	%	
Current assets						
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	Total current assets		<u>49,356,897</u>	<u>89</u>	<u>43,185,288</u>	<u>88</u>
Non-current assets						
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	Total non-current assets		<u>5,817,276</u>	<u>11</u>	<u>5,968,101</u>	<u>12</u>
1XXX	Total assets		<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	%	
Current liabilities						
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	Total current liabilities		<u>24,765,061</u>	<u>45</u>	<u>20,920,657</u>	<u>42</u>
Non-current liabilities						
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	Total non-current liabilities		<u>463,251</u>	<u>1</u>	<u>429,462</u>	<u>1</u>
2XXX	Total liabilities		<u>25,228,312</u>	<u>46</u>	<u>21,350,119</u>	<u>43</u>
Equity attributable to owners of parent						
Share capital						
3110	Share capital - common stock	6(14)	8,448,562	15	8,448,562	17
Capital surplus						
3200	Capital surplus	6(15)	1,226,049	2	1,225,615	3
Retained earnings						
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
Other equity interest						
3400	Other equity interest		(505,966)	(1)	(421,815)	(1)
31XX	Equity attributable to owners of the parent		<u>29,945,861</u>	<u>54</u>	<u>27,803,270</u>	<u>57</u>
3XXX	Total equity		<u>29,945,861</u>	<u>54</u>	<u>27,803,270</u>	<u>57</u>
3X2X	Total liabilities and equity		<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		\$	118,527,273	100	\$	106,419,905	100
5000		(	102,397,587)	(86)	(	91,388,612)	(86)
5900			16,129,686	14		15,031,293	14
6100		(	5,166,468)	(4)	(	5,308,799)	(5)
6200		(	921,767)	(1)	(	907,941)	(1)
6300		(	3,347,836)	(3)	(	3,200,893)	(3)
6450		(	1,665)	-	(-	-
6000		(	9,437,736)	(8)	(	9,417,633)	(9)
6900			6,691,950	6		5,613,660	5
7010			655,733	-		386,275	-
7020		(	182,141)	-	(	18,030)	-
7050		(	14,408)	-	(	3,353)	-
7000			459,184	-		364,892	-
7900			7,151,134	6		5,978,552	5
7950		(	1,110,005)	(1)	(	1,041,130)	(1)
8200		\$	6,041,129	5	\$	4,937,422	4
8311		(\$	21,430)	-	(\$	37,520)	-
8349			8,461	-		6,378	-
8310		(	12,969)	-	(	31,142)	-
8361		(	84,151)	-	(	191,655)	-
8360		(	84,151)	-	(	191,655)	-
8300		(\$	97,120)	-	(\$	222,797)	-
8500		\$	5,944,009	5	\$	4,714,625	4
8610		\$	6,041,129	5	\$	4,937,422	4
8710		\$	5,944,009	5	\$	4,714,625	4
9750		\$		7.15	\$		5.84
9850		\$		7.08	\$		5.79

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)

	Equity attributable to owners of the parent										
	Notes	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
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
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

(Continued)

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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
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)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
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)	\$ 8,815,680	\$ 10,028,064

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:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 assume 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	\$ 5,555	\$ 24,448

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:

	<u>December 31, 2018</u>		
	<u>Contract Amount</u>		
	<u>Notional Principal</u>		
<u>Derivative Financial Assets</u>	<u>(In thousands)</u>		<u>Contract period</u>
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
	<u>Contract Amount</u>		
	<u>Notional Principal</u>		
<u>Derivative Financial Liabilities</u>	<u>(In thousands)</u>		<u>Contract period</u>
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)	\$ 4,578,978
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

	<u>Land</u>	<u>Buildings</u>	<u>Machineries</u>	<u>Others</u>	<u>Total</u>
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	\$ 81,899	\$ 92,600

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	\$ 3,000,000	0.94%~0.99%	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:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<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:

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<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
	<u>\$ 560,608</u>

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:

	2016	
	Amount	Dividends per share (dollar)
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

	<u>2018</u>	<u>2017</u>
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:

	<u>2018</u>	<u>2017</u>
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:

	<u>2018</u>	<u>2017</u>
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)	-	(
Others	(	715)	173	-	(
Subtotal	(	16,967)	14,670	-	(
Total	\$	331,052	\$ 96,394	\$ 8,461	\$ 435,907
		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)	-
Allowance for bad debts		3,019	(	1,858)	-
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
-Deferred tax liabilities:					
Unrealised exchange gain	(	8,105)	(	8,147)	-
Unrealized losses on forward exchange contract	(	10,583)	10,583	-	-
Others	(	510)	(	205)	-
Subtotal	(	19,198)	2,231	-	(
Total	\$	324,122	\$ 552	\$ 6,378	\$ 331,052

- 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>	<u>Retroactively adjusted weighted-average outstanding ordinary shares (in thousands)</u>	<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>	<u>Retroactively adjusted weighted-average outstanding ordinary shares (in thousands)</u>	<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

(4) Contingencies : None.

(5) 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	\$ -	\$ 5,555	\$ -	\$ 5,555
December 31, 2017	<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				
-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	\$ -	\$ 24,448	\$ -	\$ 24,448

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	December 31, 2017
Up to 75 days	\$ 3,235,573

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	459,184	364,892
Income before tax from continuing operations	\$ 7,151,134	\$ 5,978,552

(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	\$ 118,527,273	\$ 106,419,905

(5) Geographical information

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

	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
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	1,972,387	417	1,942,280	507
	<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/(p ayable)	
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
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
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	\$,726,857	Note 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

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

Company name
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	<u>Sales/ (Purchase)</u>		<u>Property transaction</u>		<u>Accounts receivable/ (payable)</u>		<u>Amount of endorsements/guarantees secured with collaterals</u>		<u>Accommodation of funds</u>				
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Balance as of December 31, 2018</u>	<u>%</u>	<u>Balance as of December 31, 2018</u>	<u>Purpose</u>	<u>Ceiling amount</u>	<u>Balance of December 31, 2018</u>	<u>Interest rate range</u>	<u>Interest expense</u>	<u>Others (Note)</u>
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.

MICRO-STAR INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY FINANCIAL

STATEMENTS AND REPORT OF INDEPENDENT

ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

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

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

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 Parent Company Only Financial Statements* section of our report. We are independent of the Company 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 judgment, were of most significance in our audit of the parent company only financial statements of the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only 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 Company’s parent company only 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(22) for accounting policies on revenue recognition. Other than international brands, the Company sells its products to customers in various countries. With the Company 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 abovementioned 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 recognized.

Estimation of allowance for inventory valuation losses

Description

Please refer to Note 4(9), 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\$22,794,251 thousand and NT\$627,200 thousand, respectively.

The Company 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 Company 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 at the balance sheet date are subject to management's judgement and contain a high level of uncertainty and have material effects of 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 relating to the provision of allowance for inventory valuation losses and procedures based on our understanding of the Company'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 Company's policies.
- C. Validated the appropriateness of estimation basis for net realisable value of inventories and inspected respective supporting documents, including sale prices or purchase prices, reperformed the calculation of the report and assessed the reasonableness of management's determination of net realizable value of inventories.

Other matter-Reference to audits of other independent accountants

We did not audit the financial statements of certain investments accounted for under the equity method that are included in the parent company only 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 investees (including investments accounted for under the equity method) amounted to NT\$1,054,586 thousand and NT\$1,128,075 thousand as at December 31, 2018 and 2017, constituting 1.83% and 2.20% of total assets, respectively. Comprehensive income of the abovementioned investees amounted to NT\$28,776 thousand and NT\$106,659 thousand, for the years ended December 31, 2018 and 2017, constituting 0.48% and 2.26% of total comprehensive income, respectively.

Responsibilities of management and those charged with governance for the parent company only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Company’s financial reporting process.

Independent accountant's responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only 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 parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our

auditor's report to the related disclosures in the parent company only 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 Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the 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 parent company only 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

The accompanying parent company only 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 parent company only 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.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 6,979,442	12	\$ 8,220,379	16
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		14,332	-	20,916	-
1150	Notes receivable, net	6(3)	2,377	-	21	-
1170	Accounts receivable, net	6(3)	10,736,410	19	9,860,662	19
1180	Accounts receivable - related	7				
	parties		5,881,877	10	5,465,125	11
1200	Other receivables		91,329	-	75,344	-
1210	Other receivables - related parties	7	-	-	6,488	-
130X	Inventories	6(4)	22,167,051	39	16,416,662	32
1410	Prepayments		1,115,391	2	1,145,554	2
1476	Other current financial assets		728,936	1	68,835	-
11XX	Current Assets		<u>47,717,145</u>	<u>83</u>	<u>41,279,986</u>	<u>80</u>
Non-current assets						
1550	Investments accounted for under	6(5)				
	equity method		7,099,071	12	7,380,758	14
1600	Property, plant and equipment	6(6)	2,363,138	4	2,373,408	5
1840	Deferred income tax assets	6(19)	392,815	1	300,381	1
1900	Other non-current assets		5,603	-	3,886	-
15XX	Non-current assets		<u>9,860,627</u>	<u>17</u>	<u>10,058,433</u>	<u>20</u>
1XXX	Total assets		<u>\$ 57,577,772</u>	<u>100</u>	<u>\$ 51,338,419</u>	<u>100</u>

(Continued)

MICRO-STAR INTERNATIONAL CO., LTD.
PARENT COMPANY ONLY 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	%	
Current liabilities						
2100	Short-term borrowings	6(7)	\$ 3,000,000	5	\$ -	-
2120	Financial liabilities at fair value through profit or loss - current	6(2)	5,555	-	24,448	-
2150	Notes payable		200	-	-	-
2170	Accounts payable		14,658,805	25	15,864,494	31
2200	Other payables	6(8)	2,754,512	5	2,670,177	5
2220	Other payables - related parties	7	3,671,761	6	3,405,827	7
2230	Current income tax liabilities		961,026	2	740,703	1
2250	Provisions for liabilities - current	6(10)	514,601	1	454,744	1
2365	Refund liabilities-current		1,702,658	3	-	-
2399	Other current liabilities, others		27,539	-	68,329	-
21XX	Current Liabilities		<u>27,296,657</u>	<u>47</u>	<u>23,228,722</u>	<u>45</u>
Non-current liabilities						
2570	Deferred income tax liabilities	6(19)	1,755	-	16,252	-
2640	Accrued pension liabilities	6(9)	217,609	1	202,757	1
2670	Other non-current liabilities, others		115,890	-	87,418	-
25XX	Non-current liabilities		<u>335,254</u>	<u>1</u>	<u>306,427</u>	<u>1</u>
2XXX	Total Liabilities		<u>27,631,911</u>	<u>48</u>	<u>23,535,149</u>	<u>46</u>
Equity						
Share capital						
3110	Share capital - common stock	6(11)	8,448,562	15	8,448,562	16
Capital surplus						
3200	Capital surplus	6(12)	1,226,049	2	1,225,615	2
Retained earnings						
3310	Legal reserve	6(13)	4,378,464	7	3,884,722	8
3320	Special reserve		421,815	1	389,482	1
3350	Unappropriated retained earnings		15,976,937	28	14,276,704	28
Other equity interest						
3400	Other equity interest		(505,966)	(1)	(421,815)	(1)
3XXX	Total equity		<u>29,945,861</u>	<u>52</u>	<u>27,803,270</u>	<u>54</u>
3X2X	Total liabilities and equity		<u>\$ 57,577,772</u>	<u>100</u>	<u>\$ 51,338,419</u>	<u>100</u>

The accompanying notes are an integral part of these parent company only financial statements.

MICRO-STAR INTERNATIONAL CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31				
		2018		2017		
		AMOUNT	%	AMOUNT	%	
4000	Sales revenue	6(14) and 7	\$ 116,988,422	100	\$ 105,404,563	100
5000	Operating costs	6(4)(17) and 7	(102,756,311)	(88)	(92,029,681)	(87)
5900	Net operating margin		<u>14,232,111</u>	<u>12</u>	<u>13,374,882</u>	<u>13</u>
	Operating expenses	6(17) and 7				
6100	Selling expenses		(4,474,176)	(4)	(4,785,633)	(5)
6200	General and administrative expenses		(445,352)	-	(429,256)	-
6300	Research and development expenses		(2,983,104)	(3)	(2,857,024)	(3)
6450	Expected credit gain		10,637	-	-	-
6000	Total operating expenses		<u>(7,891,995)</u>	<u>(7)</u>	<u>(8,071,913)</u>	<u>(8)</u>
6900	Operating profit		<u>6,340,116</u>	<u>5</u>	<u>5,302,969</u>	<u>5</u>
	Non-operating income and expenses					
7010	Other income	6(15)	401,353	-	150,408	-
7020	Other gains and losses	6(2)(16)	(119,607)	-	16,012	-
7050	Finance costs		(9,029)	-	(735)	-
7070	Share of profit of associates and joint ventures accounted for using equity method, net	6(5)	<u>416,401</u>	<u>1</u>	<u>383,462</u>	<u>-</u>
7000	Total non-operating revenue and expenses		<u>689,118</u>	<u>1</u>	<u>549,147</u>	<u>-</u>
7900	Profit before income tax		<u>7,029,234</u>	<u>6</u>	<u>5,852,116</u>	<u>5</u>
7950	Income tax expense	6(19)	(988,105)	(1)	(914,694)	(1)
8000	Profit for the year from continuing operations		<u>6,041,129</u>	<u>5</u>	<u>4,937,422</u>	<u>4</u>
8200	Profit for the year		<u>\$ 6,041,129</u>	<u>5</u>	<u>\$ 4,937,422</u>	<u>4</u>
	Other comprehensive income					
	Other components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	6(9)	(\$ 21,430)	-	(\$ 37,520)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(19)	<u>8,461</u>	<u>-</u>	<u>6,378</u>	<u>-</u>
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>(12,969)</u>	<u>-</u>	<u>(31,142)</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Other comprehensive income, before tax, exchange differences on translation		(84,151)	-	(191,655)	-
8360	Components of other comprehensive income that will be reclassified to profit or loss		<u>(84,151)</u>	<u>-</u>	<u>(191,655)</u>	<u>-</u>
8300	Other comprehensive loss for the year		<u>(\$ 97,120)</u>	<u>-</u>	<u>(\$ 222,797)</u>	<u>-</u>
8500	Total comprehensive income for the year		<u>\$ 5,944,009</u>	<u>5</u>	<u>\$ 4,714,625</u>	<u>4</u>
	Basic earnings per share	6(20)				
9750	Total basic earnings per share		<u>\$ 7.15</u>		<u>\$ 5.84</u>	
9850	Total diluted earnings per share		<u>\$ 7.08</u>		<u>\$ 5.79</u>	

The accompanying notes are an integral part of these parent company only financial statements.

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

Notes	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			
2017											
		\$ 8,448,562	\$ 1,895,419	\$ 130,592	\$ -	\$ 44,460	\$ 3,395,928	\$ 389,482	\$ 12,816,215	(\$ 230,160)	\$ 26,890,498
		-	-	-	-	-	-	-	4,937,422	-	4,937,422
		-	-	-	-	-	-	-	(31,142)	(191,655)	(222,797)
		-	-	-	-	-	-	-	4,906,280	(191,655)	4,714,625
Appropriations of 2016 earnings (Note):	6(13)										
Legal reserve		-	-	-	-	-	488,794	-	(488,794)	-	-
Cash dividends		-	-	-	-	-	-	-	(2,956,997)	-	(2,956,997)
Cash dividends from capital surplus	6(12)	-	(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
2018											
		\$ 8,448,562	\$ 1,050,563	\$ 130,592	\$ -	\$ 44,460	\$ 3,884,722	\$ 389,482	\$ 14,276,704	(\$ 421,815)	\$ 27,803,270
		-	-	-	-	-	-	-	6,041,129	-	6,041,129
		-	-	-	-	-	-	-	(12,969)	(84,151)	(97,120)
		-	-	-	-	-	-	-	6,028,160	(84,151)	5,944,009
Appropriations of 2017 earnings (Note) :	6(13)										
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

Note: The directors' and supervisors' remuneration were \$40,700 and \$49,500, and employees' bonuses were \$438,000 and \$515,000 in 2016 and 2017, respectively, which had been deducted from net income for the year.

The accompanying notes are an integral part of these parent company only financial statements.

MICRO-STAR INTERNATIONAL CO., LTD.
PARENT COMPANY ONLY 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
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 7,029,234	\$ 5,852,116
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(6)(17)	74,533	68,702
Amortization	6(17)	23	28
Expected credit gain	6(3)	(10,637)	(21,857)
Net (gains) losses on financial assets and liabilities at fair value through profit or loss		(12,309)	65,788
Interest expense		9,029	735
Interest income	6(15)	(69,958)	(58,650)
Share of profit of associates and joint ventures accounted for using equity method		(416,401)	(383,462)
Gain on disposal of property, plant and equipment	6(16)	(300)	(497)
Loss on disposal of investments	6(16)	-	345
Loss on unrealized foreign currency exchange		28,275	34,708
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		(2,356)	8,242
Accounts receivable		831,502	(84,219)
Accounts receivable due from related parties		(416,752)	(721,587)
Other receivables		122,582	75,586
Other receivables - related parties		6,488	100,511
Inventories		(5,750,389)	83,682
Prepayments		30,163	(182,105)
Other current financial assets		(660,101)	(68,835)
Changes in operating liabilities			
Notes payable		200	-
Accounts payable		(1,205,689)	(2,344,565)
Other payables		84,377	(332,346)
Other payables - related parties		265,934	(353,360)
Provisions for liabilities - current		59,857	144,006
Current refund liabilities		6,045	-
Other current liabilities, others		(40,790)	(239,155)
Net defined benefit liability		(6,578)	(6,557)
Cash (outflow) inflow generated from operations		(44,018)	1,637,254
Interest received		(68,609)	69,230
Interest paid		(8,637)	(735)
Income tax paid		(866,252)	(833,909)
Net cash flows (used in) from operating activities		(987,516)	871,840

(Continued)

MICRO-STAR INTERNATIONAL CO., LTD.
PARENT COMPANY ONLY 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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(6)	(\$ 64,263)	(\$ 44,802)
Proceeds from disposal of property, plant and equipment		300	2,317
Increase in refundable deposits		(1,740)	(838)
Proceeds from capital reduction of investments accounted for using equity method	6(5)	613,937	1,072,750
Proceeds from disposal of investments accounted for using equity method		-	149,503
Net cash flows from investing activities		<u>548,234</u>	<u>1,178,930</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(7)	3,000,000	-
Increase in guarantee deposits received		28,472	46,941
Cash dividends paid	6(13)	(3,801,852)	(2,956,997)
Cash distribution from capital reserve	6(12)	-	(844,856)
Net cash flows used in financing activities		<u>(773,380)</u>	<u>(3,754,912)</u>
Effect of exchange rate		<u>(28,275)</u>	<u>(33,847)</u>
Net decrease in cash and cash equivalents		(1,240,937)	(1,737,989)
Cash and cash equivalents at beginning of year	6(1)	<u>8,220,379</u>	<u>9,958,368</u>
Cash and cash equivalents at end of year	6(1)	<u>\$ 6,979,442</u>	<u>\$ 8,220,379</u>

The accompanying notes are an integral part of these parent company only financial statements.

MICRO-STAR INTERNATIONAL CO., LTD.

NOTES TO THE PARENT COMPANY ONLY 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 is 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.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These parent company only financial statements were authorised for issuance by 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 the 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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 Company's financial condition and financial performance based on the Company's assessment.

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 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 Company's financial condition and financial performance based on the Company'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 Company expects to recognise the lease contract of lessees in line with IFRS 16. The Company 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 \$107,669 and \$107,669, respectively.

(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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
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 Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, the parent company only 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 International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company 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) Foreign currency translation

The parent company only financial statements are presented in New Taiwan Dollars, which is the Company's functional and 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 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 Company 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.

(4) 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 Company 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 Company classifies liabilities that do not meet the above criteria as non-current.

(5) 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.

(6) 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 Company measures the financial assets at fair value and recognises the

transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

(7) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company 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.

(8) 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 Company 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 Company recognises the impairment provision for lifetime ECLs.

(9) 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-progress comprises raw materials, direct labour, 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.

(10) Investments accounted for using the equity method / Subsidiaries

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company 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.
- B. Inter-company transactions, balances and unrealised gains or losses on transactions between the Company and its subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise the losses in proportion to the ownership.
- D. 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.

- E. When the Company loses control of a subsidiary, the Company 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 Company 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.
- F. Pursuant to the “Rules Governing the Preparation of Financial Statements by Securities Issuers,” profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners’ equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

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

(12) Operating lease (lessee)

Based on the terms of a lease contract, a lease is classified as an operating lease if the lessee does not assume 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.

(13) Impairment of non-financial assets

The Company 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. 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.

(14) 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.

(15) 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.

(16) 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 Company measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(17) Provisions

Provisions (including warranties and contingent liabilities from business combinations, etc.) are recognised when the Company 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.

(18) Employee benefits

A. Short-term employee benefits

Sort-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 Company 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 Company'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 Company 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 Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(19) 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 parent company only 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 Company 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.

(20) 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.

(21) 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.

(22) Revenue recognition

A. Sales of goods

- (a) The Company 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 the customer has accepted the products in accordance with the sales contract, or the Company 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 Company does not adjust any of the transaction prices for the time value of money.

- (c) The Company'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 Company recognises the incremental costs of obtaining a contract as an expense when incurred although the Company expects to recover those costs.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company'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 Company'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 Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company 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 \$22,167,051.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 2,706	\$ 2,491
Checking accounts and demand deposits	5,468,732	6,454,536
Time deposits	1,508,004	1,763,352
	<u>\$ 6,979,442</u>	<u>\$ 8,220,379</u>

A. The Company 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. The Company has no cash and cash equivalents pledged to others.

(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		
Derivatives – Forward exchange contract	\$ 6,376	\$ 350
Derivatives – Foreign exchange swap	7,956	20,566
	<u>\$ 14,332</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	\$ 5,555	\$ 2,448

A. The Company recognised net gain (loss) of \$103,483 and (\$78,057) for the years ended December 31, 2018 and 2017, respectively.

B. The Company entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

December 31, 2018			
		Contract Amount Notional Principal	
Derivative Financial Assets	(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
		Contract Amount Notional Principal	
Derivative Financial Liabilities	(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			
		Contract Amount Notional Principal	
Derivative Financial Assets	(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
		Contract Amount Notional Principal	
Derivative Financial Liabilities	(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 Company 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 Company 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) Notes and accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ <u>2,377</u>	\$ <u>21</u>
Accounts receivable	\$ 10,736,495	\$ 9,871,384
Less: Loss allowance	(85)	(10,722)
	<u>\$ 10,736,410</u>	<u>\$ 9,860,662</u>

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

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 8,711,108	\$ 2,377	\$ 8,165,970	\$ 21
1 to 75 days	2,025,254	-	1,693,324	-
76 to 365 days	61	-	1,453	-
Over 365 days	72	-	10,637	-
	<u>\$ 10,736,495</u>	<u>\$ 2,377</u>	<u>\$ 9,871,384</u>	<u>\$ 21</u>

The above ageing analysis was based on past due date.

B. Most of the Company's accounts receivable have been insured, and the Company will be able to obtain insurance claims in case these accounts default.

C. The Company does not hold any collateral as security.

D. 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 Company's notes and accounts receivable were \$2,377 and \$21, \$10,736,410 and \$9,860,662, respectively.

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

(4) Inventories

	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 7,536,411	(\$ 325,737)	\$ 7,210,674
Work in progress	1,343,677	(1,987)	1,341,690
Finished goods	13,914,163	(299,476)	13,614,687
	<u>\$ 22,794,251</u>	<u>(\$ 627,200)</u>	<u>\$ 22,167,051</u>

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 4,688,293	(\$ 109,315)	\$ 4,578,978
Work in progress	702,826	(289)	702,537
Finished goods	11,315,365	(180,218)	11,135,147
	<u>\$ 16,706,484</u>	<u>(\$ 289,822)</u>	<u>\$ 16,416,662</u>

The cost of inventories recognised as expense for the year:

	2018	2017
Cost of inventories recognised as expense	\$ 102,756,311	\$ 92,029,681
Losses (gains) on decline or reversal in market value	337,378	(3,524)

The Company 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) Investments accounted for using equity method

	December 31, 2018	December 31, 2017
MSI PACIFIC INTERNATIONAL HOLDING CO., LTD.	\$ 6,320,046	\$ 6,490,907
MICRO-STAR NETHERLANDS HOLDING B.V.	596,852	714,207
MSI COMPUTER (CAYMAN) CO., LTD.	127,131	124,021
MSI COMPUTER CORP.	35,562	33,415
MSI COMPUTER JAPAN CO., LTD.	12,954	11,150
MSI COMPUTER (AUSTRALIA) PTY. LTD.	6,526	7,058
	<u>\$ 7,099,071</u>	<u>\$ 7,380,758</u>

- A. Details of the Company's subsidiaries are provided in Note 4(3) of the Company's consolidated financial statements as of and for the year ended December 31, 2018.
- B. For the years ended December 31, 2018 and 2017, investments accounted for using equity method are MSI COMPUTER CORP. · MICRO-STAR NETHERLANDS HOLDING B.V. · MSI COMPUTER (CAYMAN) CO., LTD. · MSI KOREA CO., LTD. · MEGA COMPUTER CO., LTD. and MHK INTERNATIONAL CO., LTD., such investments are recognised based on the investees' financial statements audited by independent accountants and share of profit of subsidiaries accounted for using equity method was \$28,776 and \$106,659, respectively.
- C. To meet the Group's operation plan and maintain the capital efficiency, the subsidiary of the Company, MSI PACIFIC INTERNATIONAL HOLDING CO., LTD., reduced its capital on May 3, 2018 and March 1, 2017 by USD 7,000 thousand and USD 35,000 thousand, respectively ; the subsidiary of the Company, MICRO-STAR NETHERLANDS HOLDING B.V., reduced its capital on September 24, 2018 by EUR 3,000 thousand.

(6) Property, plant and equipment

	<u>Land</u>	<u>Buildings and structures</u>	<u>Machinery</u>	<u>Other assets</u>	<u>Total</u>
At January 1, 2018					
Cost	\$ 1,331,538	\$ 1,428,338	\$ 400,535	\$ 286,827	\$ 3,447,238
Accumulated depreciation	-	(525,708)	(333,629)	(214,493)	(1,073,830)
	<u>\$ 1,331,538</u>	<u>\$ 902,630</u>	<u>\$ 66,906</u>	<u>\$ 72,334</u>	<u>\$ 2,373,408</u>
<u>2018</u>					
Balance at January 1	\$ 1,331,538	\$ 902,630	\$ 66,906	\$ 72,334	\$ 2,373,408
Additions	-	11,696	18,976	33,591	64,263
Reclassified	-	5,757	-	(5,757)	-
Depreciation charge	-	(28,614)	(16,575)	(29,344)	(74,533)
Balance at December 31	<u>\$ 1,331,538</u>	<u>\$ 891,469</u>	<u>\$ 69,307</u>	<u>\$ 70,824</u>	<u>\$ 2,363,138</u>
At December 31, 2018					
Cost	\$ 1,331,538	\$ 1,445,791	\$ 412,750	\$ 300,924	\$ 3,491,003
Accumulated depreciation	-	(554,322)	(343,443)	(230,100)	(1,127,865)
	<u>\$ 1,331,538</u>	<u>\$ 891,469</u>	<u>\$ 69,307</u>	<u>\$ 70,824</u>	<u>\$ 2,363,138</u>
	<u>Land</u>	<u>Buildings and structures</u>	<u>Machinery</u>	<u>Other assets</u>	<u>Total</u>
At January 1, 2017					
Cost	\$ 1,331,538	\$ 1,427,121	\$ 406,672	\$ 279,024	\$ 3,444,355
Accumulated depreciation	-	(496,554)	(329,825)	(218,848)	(1,045,227)
	<u>\$ 1,331,538</u>	<u>\$ 930,567</u>	<u>\$ 76,847</u>	<u>\$ 60,176</u>	<u>\$ 2,399,128</u>
<u>2017</u>					
Balance at January 1	\$ 1,331,538	\$ 930,567	\$ 76,847	\$ 60,176	\$ 2,399,128
Additions	-	1,217	5,575	38,010	44,802
Disposals	-	-	(275)	(1,545)	(1,820)
Depreciation charge	-	(29,154)	(15,241)	(24,307)	(68,702)
Balance at December 31	<u>\$ 1,331,538</u>	<u>\$ 902,630</u>	<u>\$ 66,906</u>	<u>\$ 72,334</u>	<u>\$ 2,373,408</u>
At December 31, 2017					
Cost	\$ 1,331,538	\$ 1,428,338	\$ 400,535	\$ 286,827	\$ 3,447,238
Accumulated depreciation	-	(525,708)	(333,629)	(214,493)	(1,073,830)
	<u>\$ 1,331,538</u>	<u>\$ 902,630</u>	<u>\$ 66,906</u>	<u>\$ 72,334</u>	<u>\$ 2,373,408</u>

(7) 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 Company did not have any short-term borrowings.

(8) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accrued salary and bonus	\$ 912,204	\$ 942,381
Employee compensation and directors' and supervisors' remuneration	564,500	490,900
Accrued freight	502,979	433,492
Advertising expense payable	273,429	243,872
Accrued molding expense	164,846	186,854
Other accrued expenses	336,554	372,678
	<u>\$ 2,754,512</u>	<u>\$ 2,670,177</u>

(9) 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 contributes 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 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 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:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<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 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 has no right to participate in managing and operating that fund and hence the Company is 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:

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<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 Company for the year ending December 31, 2018 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
	<u>\$</u>	<u>560,608</u>

B. (a) Effective July 1, 2005, the Company has 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 contributes 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 pension costs under defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017, were \$101,745 and \$99,862, respectively.

(10) Provisions

<u>Warranty</u>	<u>2018</u>	<u>2017</u>
At January 1	\$ 454,744	\$ 310,738
Additional provisions	694,401	727,368
Used during the period	(634,589)	(583,363)
Exchange differences	45	1
At December 31	<u>\$ 514,601</u>	<u>\$ 454,744</u>

Analysis of total provisions:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current	<u>\$ 514,601</u>	<u>\$ 454,744</u>

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

(11) 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.

(12) 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.

(13) 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 Company 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 dividends	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(18).

(14) Operating revenue

The Company 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	\$ 116,984,622	\$ 3,800	\$ 116,988,422
Timing of revenue recognition			
At a point in time	\$ 116,984,622	\$ 3,800	\$ 116,988,422

2017	Computer and peripherals segment	General Administration and other segments	Total
Total segment revenue	\$ 105,251,353	\$ 153,210	\$ 105,404,563
Timing of revenue recognition			
At a point in time	\$ 105,251,353	\$ 153,210	\$ 105,404,563

(15) Other income

	2018	2017
Interest income	\$ 69,958	\$ 58,650
Others	331,395	91,758
Total	\$ 401,353	\$ 150,408

(16) Other gains and losses

	2018	2017
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	\$ 103,483	(\$ 78,057)
Net currency exchange (losses) gains	(215,635)	80,041
Gains on disposal of property, plant and equipment	300	497
Losses on disposal of investment	-	(345)
Miscellaneous disbursement	(7,755)	13,876
Total	(\$ 119,607)	\$ 16,012

(17) Expenses by nature

By function \ By nature	2018			2017		
	Operating costs	Operating Expense	Total	Operating costs	Operating Expense	Total
Employee benefit expense	\$ 253,751	\$ 3,496,989	\$ 3,750,740	\$ 245,917	\$ 3,296,160	\$ 3,542,077
Depreciation charges on property, plant and equipment	7,408	67,125	74,533	7,274	61,428	68,702
Amortized charges	-	23	23	-	28	28

(18) Employee benefit expense

By function \ By nature	2018			2017		
	Operating costs	Operating Expense	Total	Operating costs	Operating Expense	Total
Wages and salaries	\$ 227,078	\$ 3,077,748	\$ 3,304,826	\$ 222,482	\$ 2,901,211	\$ 3,123,693
Labour and health insurance fees	11,803	188,064	199,867	11,396	183,608	195,004
Pension costs	6,493	100,246	106,739	6,241	98,601	104,842
Directors' remuneration	3,989	45,511	49,500	1,841	33,259	35,100
Other personnel expenses	4,388	85,420	89,808	3,957	79,481	83,438
Total	\$ 253,751	\$ 3,496,989	\$ 3,750,740	\$ 245,917	\$ 3,296,160	\$ 3,542,077

A. According to the Articles of Incorporation of the Company, a ratio of distributable net 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' and supervisors' remuneration was accrued at \$49,500 and directors' remuneration \$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.

(19) Income tax

A. Income tax expense

(a) Components of income tax expense:

	2018	2017
Current tax:		
Current tax on profits for the period	\$ 1,059,365	\$ 926,743
Prior year income tax overestimation	(169,730)	(24,552)
Total current tax	889,635	902,191
Deferred tax:		
Origination and reversal of temporary differences	76,844	12,503
Impact of charge in tax rate	21,626	-
Income tax expense	\$ 988,105	\$ 914,694

(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 charge in tax rate	4,175	-
	\$ 8,461	\$ 6,378

(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	\$ 1,405,847	\$ 994,860
Effect from items disallowed by tax regulation	(77,194)	(7,970)
Effect from investment tax credits	(250,279)	(190,105)
Additional 10% tax on undistributed earnings	57,835	142,461
Prior year income tax overestimation	(169,730)	(24,552)
Impact of charge in tax rate	21,626	-
Income tax expense	\$ 988,105	\$ 914,694

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

	2018			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Unrealized losses on inventory valuation	\$ 49,270	\$ 76,170	\$ -	\$ 125,440
Unrealized gross profit	162,601	(14,420)	-	148,181
Remeasurement of defined benefit obligations	23,658	-	8,461	32,119
Adjustment to unused paid annual leave	4,942	871	-	5,813
Unrealized exchange loss	-	3,462	-	3,462
Unrealized losses on forward exchange contract	600	(600)	-	-
Others	59,310	18,490	-	77,800
Subtotal	<u>300,381</u>	<u>83,973</u>	<u>8,461</u>	<u>392,815</u>
-Deferred tax liabilities:				
Unrealized exchange gain	(16,252)	16,252	-	-
Unrealized gains on forward exchange contract	-	(1,755)	-	(1,755)
Subtotal	<u>(16,252)</u>	<u>14,497</u>	<u>-</u>	<u>(1,755)</u>
Total	<u>\$ 284,129</u>	<u>\$ 98,470</u>	<u>\$ 8,461</u>	<u>\$ 391,060</u>
	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Unrealised losses on inventory valuation	\$ 49,869	(\$ 599)	\$ -	\$ 49,270
Unrealized gross profit	194,038	(31,437)	-	162,601
Remeasurement of defined benefit obligations	17,280	-	6,378	23,658
Adjustment to unused paid annual leave	4,942	-	-	4,942
Allowance for bad debts	1,959	(1,959)	-	-
Unrealized losses on forward exchange contract	-	600	-	600
Others	40,854	18,456	-	59,310
Subtotal	<u>308,942</u>	<u>(14,939)</u>	<u>6,378</u>	<u>300,381</u>

	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
-Deferred tax liabilities:				
Unrealized exchange gain	(\$ 8,105)	(\$ 8,147)	\$ -	(\$ 16,252)
Unrealized gains on forward exchange contract	(10,583)	10,583	-	-
Subtotal	(18,688)	2,436	-	(16,252)
Total	<u>\$ 290,254</u>	<u>(\$ 12,503)</u>	<u>\$ 6,378</u>	<u>\$ 284,129</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 unrecognized 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 on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(20) Earnings per share

		2018		
		<u>Amount after tax</u>	<u>Retroactively adjusted weighted-average outstanding ordinary shares (in thousands)</u>	<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>	<u>Retroactively adjusted weighted-average outstanding ordinary shares (in thousands)</u>	<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) Parent and ultimate controlling party

The Company's shares are held by public, therefore there is no ultimate parent and controlling party.

(2) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
MSI COMPUTER (AUSTRALIA) PTY. LTD. [MSI (AUSTRALIA)]	Subsidiary
MSI COMPUTER CORP. [MSI (LA)]	Subsidiary
MSI COMPUTER JAPAN CO., LTD. [MSI (JAPAN)]	Subsidiary
MICRO-STAR NETHERLANDS HOLDING B.V. [MSI (HOLDING)]	Subsidiary
MSI PACIFIC INTERNATIONAL HOLDING CO., LTD. [MSI(PACIFIC)]	Subsidiary
MSI COMPUTER SARL [MSI (SARL)]	Second-tier subsidiary
MYSTAR COMPUTER B.V. [MYSTAR]	Second-tier subsidiary
MSI COMPUTER (UK) LTD. [MSI (UK)]	Second-tier subsidiary
MSI KOREA CO., LTD. [MSI (KOREA)]	Second-tier subsidiary
MSI POLSKA SP. Z O.O. [MSI (POLSKA)]	Second-tier subsidiary
MSI ITALY S.R.L. [MSI (ITALY)]	Second-tier subsidiary
MSI COMPUTER EUROPE B.V. [MSI (EUROPE)]	Second-tier subsidiary
LLC MSI COMPUTER [MSI (RUSSIA)]	Second-tier subsidiary
MHK INTERNATIONAL CO., LTD. [MSI (MHK)]	Second-tier subsidiary
MEGA COMPUTER CO., LTD. [MEGA COMPUTER]	Second-tier subsidiary

(3) Significant related party transactions

A. Sales revenue, net

	<u>2018</u>	<u>2017</u>
Sales of goods:		
MSI (LA)	\$ 15,843,711	\$ 14,708,898
Subsidiaries	<u>11,747,224</u>	<u>10,299,276</u>
Total	<u>\$ 27,590,935</u>	<u>\$ 25,008,174</u>

The sales price and payment terms to related parties were not significantly different from those sales to third parties.

B. Manufacturing expense - processing costs

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
MSI (PACIFIC)	\$ <u>4,066,892</u>	\$ <u>3,712,930</u>

The Company subcontracts manufacturing to a second-tier subsidiary through first-tier subsidiaries. The transaction model is that the Company provides raw materials, mutually agreed with the second-tier subsidiary to process the products based on quantities, amounts and lead time of orders. The accounts payable would be paid depending on the cash flow situation of the Company. The manner of carrying out the processing trade with the second-tier subsidiary is in accordance with (1998) Tai-Cai-Zheng (6) Letter No. 00747 of Securities and Futures Commission, Ministry of Finance, R.O.C.

C. Operating expenses - after-sales service and advertisement expense

	<u>2018</u>	<u>2017</u>
Purchases of services:		
Subsidiaries	\$ <u>1,752,337</u>	\$ <u>1,423,103</u>

The Company recognised the operating expenses monthly based on the number of services provided by subsidiaries and second-tier subsidiaries, with the same credit term available to third parties. (The above expenses incurred based on the services provided by the second-tier subsidiary are recognised monthly.)

D. Receivables from related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable		
MSI (LA)	\$ 4,797,787	\$ 4,403,333
Subsidiaries	<u>1,084,090</u>	<u>1,061,792</u>
Subtotal	<u>5,881,877</u>	<u>5,465,125</u>
Other receivables		
Subsidiaries	<u>-</u>	<u>6,488</u>
Total	<u>\$ 5,881,877</u>	<u>\$ 5,471,613</u>

Accounts receivable mainly arises from sales, with the same credit term available to third parties. Other receivables are related to equipment purchases which the Company paid for on behalf of subsidiaries.

E. Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
MSI (PACIFIC)	\$ 3,508,869	\$ 3,280,384
Subsidiaries	<u>162,892</u>	<u>125,443</u>
Total	<u>\$ 3,671,761</u>	<u>\$ 3,405,827</u>

The abovementioned other payables mainly arises from processing costs and purchases of services, with the same credit term available to third parties.

(4) Key management compensation

	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	<u>\$ 317,965</u>	<u>\$ 285,838</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(5) Contingencies : None.

(6) Commitments : None.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

When the Company managing the needs of future working capital, research and development expense and dividends payment based on the factors of its current industrial characteristics and the Company's future development status to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to increase share value on a long-term basis. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares, buyback in cash or repurchasing back company shares.

(2) Financial instrument

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	\$ 14,332	\$ 20,916
Financial assets at amortised cost		
Cash and cash equivalents	6,979,442	8,220,379
Notes receivable	2,377	21
Accounts receivable	16,618,287	15,325,787
Other receivables	91,329	81,832
Other financial assets	728,936	68,835
Guarantee deposits paid	5,592	3,852
	<u>24,440,295</u>	<u>23,721,622</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	14,658,805	15,864,494
Other payables	6,426,273	6,076,004
Guarantee deposits received	115,890	87,418
	<u>\$ 24,206,723</u>	<u>\$ 22,052,364</u>

B. Risk management policies

The Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- viii. The Company 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.
- ix. Management has set up a policy to require the Company's subsidiaries to manage their foreign exchange risk against their functional currency.
- x. The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- xi. The Company hedges foreign exchange rate by using forward exchange contracts. However, the Company does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- xii. The Company'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 (In Thousands)	Exchange rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 600,402	30.7150	\$ 18,441,362
RMB:NTD	681,497	4.4720	3,047,654
EUR: NTD	50,820	35.2000	1,788,876
CAD:NTD	16,264	22.5800	367,252
GBP: NTD	8,128	38.8800	315,999
RUB: NTD	585,694	0.4421	258,935
KRQ:NTD	7,668,444	0.0276	211,649
AUD:NTD	7,743	21.6650	167,749
JPY:NTD	460,616	0.2782	128,144
<u>Non-monetary items</u>			
USD: NTD	211,061	30.7150	6,482,739
EUR: NTD	16,956	35.2000	596,852
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	528,120	30.7150	16,221,204
RMB:NTD	759,944	4.4720	3,398,468
EUR: NTD	11,505	35.2000	404,959

December 31, 2017

<u>(Foreign currency: functional currency)</u>	<u>Foreign Currency (In Thousands)</u>	<u>Exchange rate</u>	<u>Book Value (NTD)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 566,154	29.7600	\$ 16,848,749
RMB:NTD	551,948	4.5650	2,519,643
EUR: NTD	46,138	35.5700	1,641,140
KRQ:NTD	14,046,188	0.0279	392,182
GBP: NTD	5,697	40.1100	228,503
RUB: NTD	416,282	0.5167	215,093
AUD:NTD	5,313	23.1850	123,162
CAD:NTD	5,169	23.7100	122,555
<u>Non-monetary items</u>			
USD: NTD	223,399	29.7600	6,648,343
EUR: NTD	20,079	35.5700	714,207
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	554,619	29.7600	16,505,473
RMB:NTD	546,487	4.5650	2,494,714
EUR: NTD	3,597	35.5700	127,938

- xiii. The exchange (loss) gain arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017, amounted to (\$215,635) and \$80,041, respectively.
- xiv. 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%	\$ 184,414	\$	-
RMB:NTD	1%	30,477		-
EUR: NTD	1%	17,889		-
CAD:NTD	1%	3,673		-
GBP: NTD	1%	3,160		-
RUB: NTD	1%	2,589		-
KRW:NTD	1%	2,116		-
AUD:NTD	1%	1,677		-
JPY:NTD	1%	1,281		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	1%	162,212		-
RMB:NTD	1%	33,985		-
EUR: NTD	1%	4,050		-

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%	\$ 168,487	\$	-
RMB:NTD	1%	25,196		-
EUR: NTD	1%	16,411		-
KRW:NTD	1%	3,922		-
GBP: NTD	1%	2,285		-
RUB: NTD	1%	2,151		-
AUD:NTD	1%	1,232		-
CAD:NTD	1%	1,226		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	1%	165,055		-
RMB:NTD	1%	24,947		-
EUR: NTD	1%	1,279		-

Interest rate risk

The Company 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 Company 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.

(b) Credit risk

- i. 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. 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 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 credit exposures to wholesale and retail customers, including outstanding receivables.
- iii. The Company 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 Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 150 days.
- v. The Company classifies customers' accounts receivable in accordance with sales area. The Company applies the simplified approach using provision matrix, to estimate expected credit loss under the provision matrix basis.
- vi. The Company used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. The Company'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 Company applies the simplified approach to provide loss allowance for accounts receivable that have no significant impact. The Company 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

- iv. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company'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 Company does not breach borrowing limits or covenants on any of its borrowing facilities.
- v. The table below analyses the Company'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	14,658,805	-	-	-
Other payables	6,426,273	-	-	-
Other financial liabilities	21,665	-	-	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	\$ 15,864,494	\$ -	\$ -	\$ -
Other payables	6,076,004	-	-	-
Other financial liabilities	23,185	-	-	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.

- vi. The Company 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 Company'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.

- 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				
-Forward exchange contract	\$ -	\$ 6,376	\$ -	\$ 6,376
-Foreign exchange swap	-	<u>7,956</u>	-	<u>7,956</u>
Total	<u>\$ -</u>	<u>\$ 14,332</u>	<u>\$ -</u>	<u>\$ 14,332</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				
	<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				
-Forward exchange contract	\$ -	\$ 350	\$ -	\$ 350
-Foreign exchange swap	-	<u>20,566</u>	-	<u>20,566</u>
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 Company used to measure fair value are as follows:

- (a) 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 Company 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.
- (b) 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:

	<u>December 31, 2017</u>
<u>Accounts receivable</u>	
Up to 75 days	\$ 1,693,324

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 sales of goods 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, 2017: Please refer to Notes 6(2) and 12(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. OPERATING SEGMENT INFORMATION

Not applicable.

Detailed tables are attached from Page 151 to 161.

Micro Star International Co., Ltd.

Chairman: Hsu, Hsiang