Elitegroup Computer Systems Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard No. 10, "Consolidated Financial Statements". Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

ELITEGROUP COMPUTER SYSTEMS CO., LTD.

By:

March 25, 2019

勤業眾信

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Elitegroup Computer Systems Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Elitegroup Computer Systems Co., Ltd. (the Company) and its subsidiaries (collectively referred to as the Group), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (refer to the Other Matter paragraph), 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the report of other auditors.

Key Audit Matters

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

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

Recognition of Specific Sales Revenue

Refer to Note 4 to the consolidated financial statements for the accounting policy on revenue recognition.

The Company's sales revenue has become more concentrated than 2017. The sales revenue of the five largest customers was in the amount of $23,830,054 thousand, which accounted for 75% of the total sales revenue in 2018. The sales revenue of the customer whose growth rate was higher than the average amounted to $19,588,421 thousand, representing an increase of 42% as compared to 2017, while the growth of sales revenue derived from specific products was $11,723,474 thousand, representing an increase of 183% as compared to 2017； thus, the recognition of these specific products' sales revenue was identified as one of the key audit matters.

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

1. We understood and tested the design and operating effectiveness of the revenue recognition, and evaluated the appropriateness of the accounting policies of revenue recognition used by the management.

2. We sampled from the details of sales revenue from the major growth customers' specific products and inspected the transaction documents to confirm the authenticity of the sales revenue. Not only that, we confirmed whether the timing of transferring risks and rewards was reasonable and in accordance with the trade term.

3. We reviewed the occurrence of subsequent sales returns and allowances and obtained sufficient evidence regarding subsequent cash receipts from the specific sales in identifying the existence of unusual circumstances.

Assessment of Allowance for Inventory Valuation Loss

Refer to Note 4 to the consolidated financial statements for the accounting policy on assessment of allowance for inventory valuation. Refer to Note 13 to the consolidated financial statements for the detailed information on Inventory.

The inventories of the Group were stated at the lower of cost or net realizable value and amounted to $3,351,560 thousand for the year ended December 31, 2018, accounting for 14% of the total assets. Because the margin of the main products was gradually declining and the inventory assessment of net realizable value was subjected to management's subjective judgement and uncertainty in estimation; therefore, the assessment of allowance for inventory loss was identified one of the key audit matters.

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

1. We obtained an understanding of the reasonableness of the Group's policy and methods in the evaluation of allowance for losses on obsolete inventory.

2. We obtained the evaluation documents of the allowance for losses on obsolete inventory from management. Furthermore, we sampled and inspected the latest inventory quotations or sales invoices to verify the basis and appropriateness of evaluation process.

3. We performed a year-end inventory observation to understand the inventory status and evaluated the reasonableness of an allowance for losses on obsolete inventory.

Other Matter

As of and for the year ended December 31, 2018, we did not audit the financial statements of ECS Holding (America) Co., Elitegroup Computer Systems (HK) Co., Ltd., Elitegroup Computer Systems (Korea) Co., Ltd., ECS Holding (HK) Co., Limited, and Alpha Leader Limited. (HK), which were subsidiaries included in the consolidated financial statements of the Group, such statements were audited by the other auditors instead. Also, as of and for the year ended December 31, 2017, we did not audit the financial statements of ECS Holding (America) Co., Elitegroup Computer Systems (HK) Co., Ltd., Elitegroup Computer Systems (Japan) Co., Ltd., Elitegroup Computer Systems (Korea) Co., Ltd., ECS Holding (HK) Co., Limited, and Trid Pacific Inc., which were subsidiaries and affiliates included in the consolidated financial statements of the Group, such statements were audited by the other auditors instead. Our opinion, insofar as it relates to the amounts included for the above-mentioned subsidiaries and affiliates, is based solely on the report of other auditors. The total assets of the above-mentioned subsidiaries were $1,837,730 thousand and $1,395,267 thousand, respectively, which constituted 8% and 6% of the consolidated total assets as of December 31, 2018 and 2017, and total revenues were $1,685,705 thousand and $2,712,280 thousand, respectively, which constituted 5% and 9% of the consolidated total revenues for the years then ended. The accompanying consolidated financial statements of the Group included its investments accounted for using the equity method of $4,396 thousand, constituting 0.02% of the Group's total assets as of December 31, 2018 (2017: Nil), and its share of comprehensive loss of $5,004 thousand, constituting 2% of the Group's consolidated comprehensive loss for the year ended December 31, 2018 (2017: Nil).

We have also audited the parent company only financial statements of Elitegroup Computer Systems Co., Ltd. as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with an other matter paragraph.

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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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 the supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 and appropriate audit evidence regarding the financial information of 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 for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Hsiu-Chun Huang and Shih-Tsung Wu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 25, 2019

<u>*Notice to Readers*</u>

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 4,175,393	18	$ 4,878,768	22
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	663,554	3	484,904	2
Financial assets at amortized cost - current (Notes 3, 4, 9 and 37)	2,803,107	12	-	-
Notes receivable from unrelated parties (Note 12)	12,181	-	-	-
Accounts receivable (Notes 3, 4, 5 ,12 and 35)	4,877,620	21	5,067,832	23
Accounts receivable from related parties (Notes 3, 4, 5 ,12 and 36)	240,004	1	47,384	-
Other receivables (Notes 3, 4, 12, 36 and 37)	127,261	-	1,195,815	6
Inventories (Notes 4 and 13)	3,351,560	14	3,408,302	16
Prepayments	612,496	3	441,986	2
Other current assets - others	33,291	-	57,757	-
Total current assets	16,896,467	72	15,582,748	71
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Notes 3, 4 and 7)	44,118	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Notes 3, 4 and 8)	6,575	-	-	-
Available-for-sale financial assets - non-current (Notes 3, 4 and 10)	-	-	8,283	-
Financial assets measured at cost - non-current (Notes 3, 4 and 11)	-	-	44,105	-
Investments accounted for using the equity method (Notes 4 and 15)	-	-	6,040	-
Property, plant and equipment (Notes 4, 5 and 16)	2,854,471	12	3,020,874	14
Investment properties (Notes 4 and 17)	409,685	2	414,261	2
Goodwill (Notes 4, 5 and 18)	608,748	3	602,085	3
Other intangible assets (Notes 4, 19 and 36)	24,062	-	30,786	-
Deferred tax assets (Notes 4, 5 and 30)	1,476,750	6	1,143,521	5
Prepayments for equipment	113,664	1	6,419	-
Refundable deposits (Note 33)	236,812	1	232,983	1
Overdue receivables (Notes 4 and 12)	46,103	-	44,670	-
Net defined benefit assets (Notes 4, 5 and 26)	111,485	-	95,179	1
Prepayments for lease - non-current (Notes 4 and 20)	618,182	3	630,109	3
Other non-current assets	53,261	-	58,656	-
Total non-current assets	6,603,916	28	6,337,971	29
TOTAL	$ 23,500,383	100	$ 21,920,719	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 21)	$ 1,474,320	6	$ 1,488,000	7
Accounts payable (Notes 22 and 35)	4,630,213	19	5,292,133	24
Other payables (Notes 24 and 36)	1,379,807	6	1,462,846	7
Current tax liabilities (Notes 4, 5 and 30)	186,306	1	44,329	-
Provisions - current (Notes 4, 5 and 25)	247,861	1	1,085,116	5
Other advances received (Note 24)	2,751,737	12	-	-
Finance lease payables - current (Notes 3, 4 and 23)	1,464	-	1,460	-
Other current liabilities (Note 24)	1,173,702	5	257,957	1
Total current liabilities	11,845,410	50	9,631,841	44
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4, 5 and 30)	171,861	1	160,420	1
Finance lease payables - non-current (Notes 3, 4 and 23)	2,796	-	4,373	-
Guarantee deposits received (Note 33)	19,487	-	16,123	-
Unrealized gain on sale and leaseback (Notes 3, 4 and 16)	289,465	1	347,640	1
Total non-current liabilities	483,609	2	528,556	2
Total liabilities	12,329,019	52	10,160,397	46
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 3, 4, 27, 30 and 33)				
Share capital				
Common shares	5,574,030	24	5,574,030	26
Capital surplus	5,881,933	25	6,427,295	29
Retained earnings				
Legal reserve	22,176	-	-	-
Special reserve	185,310	1	-	-
Unappropriated earnings	20,610	-	207,486	1
Total retained earnings (accumulated deficits)	228,096	1	207,486	1
Other equity	(673,354)	(3)	(602,478)	(3)
Total equity attributable to owners of the Company	11,010,705	47	11,606,333	53
NON-CONTROLLING INTERESTS (Notes 4 and 27)	160,659	1	153,989	1
Total equity	11,171,364	48	11,760,322	54
TOTAL	$ 23,500,383	100	$ 21,920,719	100

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

(With Deloitte & Touche auditors' report dated March 25, 2019)

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4, 5, 25, 28 and 36)	$ 31,796,016	100	$ 29,947,340	100
OPERATING COSTS (Notes 13, 29 and 36)	29,279,029	92	26,913,857	90
GROSS PROFIT	2,516,987	8	3,033,483	10
OPERATING EXPENSES (Notes 4, 5, 26, 29 and 36)				
Marketing	650,117	2	826,348	3
General and administrative	1,124,862	4	1,096,213	3
Research and development	1,065,592	3	1,113,767	4
Total operating expenses	2,840,571	9	3,036,328	10
LOSS FROM OPERATIONS	(323,584)	(1)	(2,845)	-
NON-OPERATING INCOME AND EXPENSES (Notes 4, 15, 16, 27, 29 and 36)				
Other gains and losses	116,851	-	233,320	1
Finance costs	(77,500)	-	(56,750)	-
Interest income	124,023	-	69,815	-
Other income	203,573	1	142,111	-
Share of loss of associates	(14,063)	-	(9,850)	-
Total non-operating income and expenses	352,884	1	378,646	1
PROFIT BEFORE INCOME TAX	29,300	-	375,801	1
INCOME TAX EXPENSE (Notes 4, 5 and 30)	7,286	-	151,682	-
NET PROFIT	22,014	-	224,119	1
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 24, 27 and 30)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	11,885	-	(5,762)	-
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	(2,087)	-	-	-
Income tax benefit related to items that will not be reclassified subsequently	(1,721)	-	980	-
	8,077	-	(4,782)	-

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ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	$ (108,245)	-	$ (310,341)	(1)
Unrealized gain on available-for-sale financial assets	-	-	(165,783)	(1)
Income tax relating to components of other comprehensive income	44,524	-	51,012	-
	(63,721)	-	(425,112)	(2)
Other comprehensive loss for the year, net of income tax	(55,644)	-	(429,894)	(2)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (33,630)	-	$ (205,775)	(1)
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 20,412	-	$ 221,761	1
Non-controlling interests	1,602	-	2,358	-
	$ 22,014	-	$ 224,119	1
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ (40,300)	-	$ (197,867)	(1)
Non-controlling interests	6,670	-	(7,908)	-
	$ (33,630)	-	$ (205,775)	(1)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 31)				
Basic	$ 0.04		$ 0.40	
Diluted	$ 0.04		$ 0.39	

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

(With Deloitte & Touche auditors’ report dated March 25, 2019) (Concluded)

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent (Notes 4, 26, 27, 29 and 31)										
			Retained Earnings (Accumulated Deficits)			Other Equity					
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Deficits to Be Offset)	Exchange Differences on Translating Foreign Operations	Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total	Non-controlling Interests (Notes 4 and 25)	Total Equity
BALANCE AT JANUARY 1, 2017	$ 5,574,030	$ 6,461,410	$ 910,053	$ -	$ (944,168)	$ (355,755)	$ -	$ 168,123	$ 11,813,693	$ 161,897	$ 11,975,590
Appropriation of the 2016 earnings											
Legal reserve used to offset accumulated deficits	-	-	(910,053)	-	910,053	-	-	-	-	-	-
Other changes in capital surplus											
Capital surplus used to offset accumulated deficits	-	(34,115)	-	-	34,115	-	-	-	-	-	-
Actual disposals or acquisitions of interests in investments accounted for using the equity method	-	-	-	-	(9,493)	-	-	-	(9,493)	-	(9,493)
Net profit for the year ended December 31, 2017	-	-	-	-	221,761	-	-	-	221,761	2,358	224,119
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(4,782)	(249,063)	-	(165,783)	(419,628)	(10,266)	(429,894)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	216,979	(249,063)	-	(165,783)	(197,867)	(7,908)	(205,775)
BALANCE AT DECEMBER 31, 2017	5,574,030	6,427,295	-	-	207,486	(604,818)	-	2,340	11,606,333	153,989	11,760,322
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	2,340	(2,340)	-	-	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	5,574,030	6,427,295	-	-	207,486	(604,818)	2,340	-	11,606,333	153,989	11,760,322
Appropriation of the 2017 earnings											
Legal reserve	-	-	22,176	-	(22,176)	-	-	-	-	-	-
Special reserve	-	-	-	185,310	(185,310)	-	-	-	-	-	-
Other changes in capital surplus											
Cash dividends distributed from capital surplus	-	(557,403)	-	-	-	-	-	-	(557,403)	-	(557,403)
Other changes in capital surplus - dividends unclaimed by shareholders	-	12,041	-	-	-	-	-	-	12,041	-	12,041
Changes in investments in associates accounted for using the equity method	-	-	-	-	(9,966)	-	-	-	(9,966)	-	(9,966)
Net profit for the year ended December 31, 2018	-	-	-	-	20,412	-	-	-	20,412	1,602	22,014
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	10,164	(68,789)	(2,087)	-	(60,712)	5,068	(55,644)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	30,576	(68,789)	(2,087)	-	(40,300)	6,670	(33,630)
BALANCE AT DECEMBER 31, 2018	$ 5,574,030	$ 5,881,933	$ 22,176	$ 185,310	$ 20,610	$ (673,607)	$ 253	$ -	$ 11,010,705	$ 160,659	$ 11,171,364

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

(With Deloitte & Touche auditors' report dated March 25, 2019)

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 29,300	$ 375,801
Adjustments for:		
Depreciation expenses	400,427	410,583
Amortization expenses	90,668	78,386
Expected credit loss recognized(reversed) on accounts/other/overdue receivables	11,806	(1,910)
Net loss on fair value changes of financial assets at fair value through profit or loss	16,328	6,652
Finance costs	77,500	56,750
Interest income	(124,023)	(69,815)
Share of loss of associates accounted for using the equity method	14,063	9,850
(Gain) loss on disposal of property, plant and equipment, net	(92,709)	812
Carrying value of property, plant and equipment	-	380
Gain on disposal of available-for-sale financial assets, net	-	(160,541)
Loss on disposal of associates	332	-
Impairment loss recognized on non-financial asset	64,701	-
Reversal of impairment loss on non-financial assets	-	(47,310)
Unrealized net loss on foreign currency exchange	22,505	11,157
Amortization of unrealized gain on sale and leaseback	(58,175)	(58,175)
Amortization of prepayments for long-term lease	17,675	17,648
Net changes in operating assets and liabilities		
Financial assets held for trading	-	226,102
Increase in financial assets mandatorily classified as at fair value through profit or loss	(194,991)	-
Notes receivable	(12,181)	-
Accounts receivable	(17,650)	111,135
Other receivables	130,155	323,652
Inventories	31,125	204,252
Prepayments	(186,210)	(70,066)
Other current assets	1,277	(12,198)
Overdue receivables	20,067	1,167
Net defined benefit assets	(4,421)	(4,564)
Accounts payable	(769,891)	(316,682)
Other payables	(128,372)	(217,143)
Provisions	(59,486)	125,917
Other current liabilities	137,851	45,393
Cash (used in) generated from operations	(582,329)	1,047,233
Interest received	114,309	67,464
Interest paid	(67,978)	(56,635)
Income tax paid	(186,947)	(239,227)
Net cash (used in) generated from operating activities	(722,945)	818,835

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ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Financial assets at amortized cost	$ (1,698,162)	$ -
Proceeds from sale of available-for-sale financial assets	-	273,636
Payments for investments accounted for using the equity method	(18,763)	(24,580)
Net cash inflow on disposal of associates	341	-
Payments for property, plant and equipment	(281,933)	(177,219)
Proceeds from disposal of property, plant and equipment	106,052	115,561
Increase in other advances received	2,751,737	-
Increase in refundable deposits	(7,448)	(153)
Decrease in refundable deposits	3,190	12,817
Payments for intangible assets	(14,229)	(34,891)
Payments for investment properties	-	(250)
Increase in other non-current assets	(32,983)	(43,571)
Increase in prepayments for equipment	(115,379)	(199,776)
Net cash generated from (used in) investing activities	692,423	(78,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(43,186)	(466,973)
Guarantee deposits received	6,449	108
Guarantee deposits refunded	(2,869)	(4,018)
Decrease in finance lease payables	(1,572)	(1,591)
Cash dividends paid to owners of the Company	(557,403)	-
Dividends unclaimed by shareholders recognized as the capital reserve	12,041	-
Net cash used in financing activities	(586,540)	(472,474)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(86,313)	(443,654)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(703,375)	(175,719)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	4,878,768	5,054,487
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 4,175,393	$ 4,878,768

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

(With Deloitte & Touche auditors' report dated March 25, 2019) (Concluded)

1. GENERAL INFORMATION

Elitegroup Computer Systems Co., Ltd. (the "Company") was established in May 1987 and began operations in June 1987. The Company designs, develops, and sells motherboards, desktop computers, notebook computers, tablet computers, barebone systems and add-on cards.

The common shares of the Company have been listed on the Taiwan Stock Exchange since September 21, 1994.

The consolidated financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors and authorized for issue on March 25, 2019.

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

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

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

   1) IFRS 9 "Financial Instruments" and related amendments

      IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

      The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

      Classification, measurement and impairment of financial assets

      On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 4,878,768	$ 4,878,768	(a)
Equity securities	Available-for-sale	Fair value through other comprehensive income (FVTOCI) - equity instruments	8,283	8,283	(b)
	Available-for-sale	FVTPL	44,105	44,105	(b)
Mutual funds	Held-for-trading	FVTPL	484,904	484,904	
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	944,872	944,872	(a)
Repurchase agreements collateralized by bonds with original maturities of more than 3 months	Loans and receivables	Amortized cost	130,044	130,044	(a)
Pledge time deposits	Loans and receivables	Amortized cost	25,359	25,359	(a)
Notes receivable, trade receivables (including related parties) and other receivables (excluding income tax refund receivables)	Loans and receivables	Amortized cost	6,252,397	6,252,397	(a)
Refundable deposits	Loans and receivables	Amortized cost	32,583	32,583	(a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remeasure-ments	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL - non-current	$ -	$ -	$ -	$ -	$ -	$ -	
Add: Reclassification from available-for-sale (IAS 39)							
Fair value option elected at January 1, 2018	-	44,105	-	44,105	-	-	(b)
	-	44,105	-				
FVTOCI							
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	8,283	-				
	-	8,283	-	8,283	-	-	(b)
Amortized cost							
Add: Reclassification from loans and receivables (IAS 39)	-	12,264,023	-				(a)
	-	12,264,023	-	12,264,023	-	-	
	$ -	$ 12,316,411	$ -	$ 12,316,411	$ -	$ -	

a) Cash and cash equivalents, notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

   Time deposits with original maturities of more than 3 months, repurchase agreements collateralized by bonds with original maturities of more than 3 months and pledge time deposits previously classified as other receivables and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

b) The Company elected to designate its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL and FVTOCI under IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of $2,340 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTPL under IFRS 9 and were remeasured at fair value. There was no significant difference between the remeasurement amount and the carrying amount on January 1, 2018.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

For a sale with a right of return, the Group recognizes a refund liability (i.e. other liabilities) when recognizing revenue. Prior to the application of IFRS 15, return provisions were recognized when recognizing revenue.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018.

Impact on assets, liabilities and equity for current year

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Provisions - current	$ 1,085,116	$ (777,895)	$ 307,221
Other current liability	257,957	777,895	1,035,852
Total effect on liabilities	$ 1,343,073	$ -	$ 1,343,073

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

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

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

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

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

<u>Definition of a lease</u>

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

<u>The Group as lessee</u>

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in the factories of Golden Elite Technology (Shenzhen) Co., Ltd. and Elitegroup Computer (Suzhou Industrial Park) Ltd. are recognized as prepayments for leases - non-current, and were amortized over their estimated useful lives, respectively. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

If the Group determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it will be accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Group will recognize only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Currently, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Group will not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee will apply to the leaseback portion. In addition, for the land and building of the Company’s headquarters in Neihu which currently are accounted for as a sale and an operating lease under IAS 17, the Group will adjust the leaseback right-of-use assets for deferred gains recognized on January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Property, plant and equipment	$ 5,167	$ (5,167)	$ -
Right-of-use assets	-	1,386,842	1,386,842
Refundable deposits	200,400	(10,412)	189,988
Prepayments for leases - non-current	618,182	(618,182)	-
Total effect on assets	$ 823,749	$ 753,081	$ 1,576,830
Lease liabilities - current	$ -	$ 199,398	$ 199,398
Finance lease payables - current	1,464	(1,464)	-
Lease liabilities - non-current	-	847,408	847,408
Finance lease payables - non-current	2,796	(2,796)	-
Unrealized gain on sale and leaseback	289,465	(289,465)	-
Total effect on liabilities	$ 293,725	$ 753,081	$ 1,046,806

The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

The Group subleased its leasehold the land and building of the Company’s headquarters in Neihu to a third party in 2013. Such sublease is classified as an operating lease under IAS 17.

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e. the Group's share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e. the Group's share of the gain or loss is eliminated.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 14 and Tables 6 and 7 for detailed information on subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including the subsidiaries in other countries or subsidiaries that use currencies different from the functional currency of the Company) are translated into the New Taiwan dollar using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate is recognized in the Group's consolidated financial statements only to the extent that interests in the associate is not related to the Group.

h. Property, plant and equipment

Property, plant and equipment (including assets held under finance leases) are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU) or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a CGU was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a CGU and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization method are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

   a) Measurement category

      2018

      Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at FVTOCI.

      i. Financial assets at FVTPL

         Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

         Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 35.

      ii. Financial assets at amortized cost

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

         i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

         ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

         Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes receivables at amortized cost, trade receivables, other receivables and overdue receivables, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

         Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

         i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits and repurchase agreements collateralized by bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iv. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

ii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

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

iii. Loans and receivables

Loans and receivables (including accounts receivables, cash and cash equivalents, other receivables and overdue receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents includes time deposits and repurchase agreements collateralized by bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

<u>2018</u>

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

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

For financial assets carried at amortized cost, such as trade receivables, other receivables and overdue receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and overdue receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables, other receivables and overdue receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables, other receivables and overdue receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

Equity instruments issued by the Group entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 35.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

n. Provisions

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Group's obligations.

o. Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

   Revenue from the sale of goods mainly comes from sales of computer equipment. Sales of computer equipment are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Revenue and trade receivables are recognized concurrently.

2) Revenue from the rendering of services

   Revenue from the rendering of services mainly comes from the maintenance services of computer equipment. The effort of technical personnel is required to perform maintenance services. Since the length of the maintenance service provided to each contract is only for a short duration, the group recognizes revenue when the services are complete.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

   Revenue from the sale of goods is recognized when all the following conditions are satisfied:

   a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

   b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

   c) The amount of revenue can be measured reliably;

   d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

   e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

   The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Specifically, sales of goods are recognized when goods are delivered and titles have been passed.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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

p. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

s. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 12. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

d. Recognition and measurement of defined benefit plans

The net defined benefit liabilities (assets) and the resulting defined benefit costs under the defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rates, rates of employee turnover, future salary increases, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of related expenses and liabilities.

e. Revenue recognition

2018

For every contract, the Group determines whether its performance obligation is satisfied over time or at a point in time based on the conditions in the contract and applicable regulation.

In making the judgment, management considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the Group had transferred control of the goods to the customer. The management is satisfied that control has been transferred and that the recognition of revenue in the current period is appropriate.

2017

Revenue is recognized when the products are delivered and the legal ownership is transferred.

The Group also records a provision for estimated future returns and allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and other known reasons. Any changes of the above estimates and assumptions may have a material impact on recognition of revenue and provision for sales returns and allowances.

f. Income taxes

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. If actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which the reversal takes place.

g. Recognition and measurement of provisions

The Company estimates the cost of product warranties at the time the revenue is recognized, and the estimation is based on the quantities of products still under warranty and those products' historical and expected repair rate, as well as unit repair costs. Management continuously reviews the estimation used and appropriately revises it if needed, any changes of the above assumptions may have a material impact on the estimation of the provision for the expected cost of product warranties.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Petty cash and foreign cash on hand	$ 1,378	$ 1,402
Checking accounts and demand deposits	1,474,932	1,299,989
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	2,430,767	3,358,855
Repurchase agreements collateralized by bonds	268,316	218,522
	$ 4,175,393	$ 4,878,768

The interest rates for time deposits with original maturities of less than three months were ranging from 0.59% to 3.25% and 0.55% to 3.10% as at December 31, 2018 and 2017, respectively.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets at FVTPL - current		
Financial assets held for trading		
Non-derivative financial assets		
Mutual funds	$ -	$ 484,904
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Mutual funds	$ 663,554	$ -
Financial assets at FVTPL - non-current		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Foreign unlisted shares	$ 18	$ -
Domestic unlisted shares	44,100	-
	$ 44,118	$ -

The Company elected to designate its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL and FVTOCI under IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI. Refer to Note 3, Note 10 and Note 11 for reclassification and comparative information for 2017.

Refer to Note 3 for summary information relating to the measurement categories and the carrying amount of financial assets.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME-NON-CURRENT - 2018

Investment in Equity Instruments at FVTOCI

	December 31, 2018
Domestic investments	
Listed shares and emerging market shares	
Ordinary shares - MiTAC Holdings Corporation	$ 6,575

The investment in equity instruments is not held for trading. Instead, it is held for medium to long-term strategic purposes. Accordingly, the management elected to designate the investment in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. The investment in equity instruments was classified as available-for-sale under IAS 39. Refer to Note 3 and Note 10 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Domestic investments	
Time deposits with original maturity of more than 3 months (a)	$ 2,794,038
Repurchase agreements collateralized by bonds with original maturities of more than 3 months (a)	4,675
Pledged time deposits (b)	4,394
	$ 2,803,107

a. Repurchase agreements collateralized by bonds and time deposits with original maturities of more than 3 months were classified as other receivables under IAS 39. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017. The interest rates for time deposits with original maturities of more than 3 months were ranging from 0.6% to 3.5% as at the end of the reporting period.

b. Refer to Note 37 for information relating to investments in financial assets at amortized cost pledged as security.

c. Refer to Note 12 for information relating to their credit risk management and impairment.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT - 2017

	December 31, 2017
Non-current	
Domestic investments	
Listed shares and emerging market shares	$ 8,283

11. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
Domestic unlisted common shares	$ 44,105
Classified according to financial asset measurement categories	
Available-for-sale financial assets	$ 44,105

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

12. NOTES RECEIVABLE, TRADE RECEIVABLES, OTHER RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2018	2017
Notes receivable		
At amortized cost		
Gross carrying amount	$ 12,181	$ -
Trade receivables		
At amortized cost		
Gross carrying amount - third parties - operating	$ 4,915,125	$ 5,073,000
Less: Allowance for impairment loss	(37,505)	(5,168)
	4,877,620	5,067,832
At amortized cost		
Gross carrying amount - related parties - operating	240,004	47,384
	$ 5,117,624	$ 5,115,216
Other receivables		
Time deposits with original maturities of more than 3 months	$ -	$ 944,872
Repurchase agreements collateralized by bonds with original maturities of more than 3 months	-	130,044
Pledged time deposits (Note 37)	-	25,359
Value-added tax refund receivable	-	49,116
Tax refund receivable	47,947	9,518
Others	101,438	58,501
Less: Allowance for impairment loss	(22,124)	(21,595)
	$ 127,261	$ 1,195,815
Overdue receivables		
Overdue receivables	$ 3,213,136	$ 3,145,372
Less: Allowance for impairment loss	(3,167,033)	(3,100,702)
	$ 46,103	$ 44,670

a. Trade receivables

In 2018

Before accepting a new customer, the Group takes both the client evaluation results generated by the internal system and the evaluation report provided by the external hedging institution into consideration to measure the potential customer’s credit quality and define the customer’s credit limit. Customer credit limits and ratings are reviewed twice a year. For fair presentation of the accounts receivable, the Group reviews the aging and recovery of accounts receivable every week.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, and adjusted for general economic conditions of the industry in which the debtors operate. Based on the Group's historical credit loss experience which shows different loss patterns for different customer segments, the provision for loss allowance based on past due status is further distinguished according to the Group's different customer base.

The Group recognized an allowance for impairment loss of 100% against trade receivables when there is information indicating that the debtor is in severe financial difficulty, and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are not recoverable. For the uncollectible trade receivables, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Not Past Due	1 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	Total
Gross carrying amount	$ 4,785,909	$ 332,161	$ 1,233	$ -	$ 35,826	$ 5,155,129
Loss allowance (Lifetime ECL)	-	(1,635)	(44)	-	(35,826)	(37,505)
Amortized cost	$ 4,785,909	$ 330,526	$ 1,189	$ -	$ -	$ 5,117,624

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	$ 5,168
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	5,168
Add: Net remeasurement of loss allowance*	31,872
Foreign exchange gains and losses	465
Balance at December 31, 2018	$ 37,505

* The increase in loss allowance of $31,872 thousand resulted from the adjustment of credit risk assessment on certain customers.

In 2017

The Group applied the same credit policy in 2018 and 2017. For accounts receivable that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in the credit quality of these receivables and the amounts were considered recoverable.

The aging of receivables based on the number of days past due was as follows:

	December 31, 2017
1-60 days	$ 376,833
61-90 days	728
91-180 days	-
Over 180 days	4,464
	$ 382,025

The aging of receivables that were past due but not impaired was as follows:

	December 31, 2017
Less than 30 days	$ 329,968

The above aging schedule was based on the number of days past due.

Movements in the allowance for impairment loss recognized on accounts receivable are as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ -	$ 5,961	$ 5,961
Less: Impairment losses reversed	-	(743)	(743)
Effect of exchange rate changes	-	(50)	(50)
Balance at December 31, 2017	$ -	$ 5,168	$ 5,168

b. Other receivables

In 2018

For other receivables that have indications of impairment, the Group recognizes loss allowance in full amount.

The movements of the loss allowance of other receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	$ 21,595
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	21,595
Add: Net remeasurement of loss allowance	-
Foreign exchange gains and losses	529
Balance at December 31, 2018	$ 22,124

In 2017

Movements in the allowance for impairment loss recognized on other receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ 22,975	$ -	$ 22,975
Effect of exchange rate changes	(1,380)	-	(1,380)
Balance at December 31, 2017	$ 21,595	$ -	$ 21,595

c. Overdue receivables

In 2018

For overdue receivables that have the indications of impairment, the Group recognizes loss allowance at full amount after deducting the value of related collateral.

The movements of the loss allowance of other receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	$ 3,100,702
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	3,100,702
Less: Amounts written off	(4,732)
Less: Net remeasurement of loss allowance	(20,066)
Foreign exchange gains and losses	91,129
Balance at December 31, 2018	$ 3,167,033

In 2017

Movements in the allowance for impairment loss recognized on overdue receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ 3,343,889	$ -	$ 3,343,889
Less: Impairment loss reversed	(1,167)	-	(1,167)
Less: Elimination	(298)	-	(298)
Effect of exchange rate changes	(241,722)	-	(241,722)
Balance at December 31, 2017	$ 3,100,702	$ -	$ 3,100,702

13. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 1,304,092	$ 1,499,976
Work in progress	87,389	88,543
Raw materials	1,960,079	1,819,783
	$ 3,351,560	$ 3,408,302

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017, were $29,279,029 thousand and $26,913,857 thousand, respectively. The cost of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of $27,385 thousand and reversals on inventory write-downs of $47,310 thousand, respectively.

14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

			% of Ownership December 31		
Name of Investor	Name of Subsidiary	Principal Activities	2018	2017	Note
Elitegroup Computer Systems Co., Ltd.	Elitegroup Computer Systems (HK) Co., Ltd.	Sale of motherboards, computer peripheral products and related components	100.00	100.00	
	Elitegroup Computer Systems (Japan) Co., Ltd.	Sale of motherboards, notebook computers, computer peripheral products and related components	100.00	100.00	f
	Elitegroup Computer Systems Holding Co., Ltd. (BVI)	Investment holding	100.00	100.00	
	ECS Holding (America) Co. (USA)	Investment holding	100.00	100.00	
	Elitegroup Computer Systems (Korea) Co., Ltd.	Sale of motherboards, maintenance and intermediary of products	100.00	100.00	
	Dragon Asia Trading Co., Ltd. (BVI)	Investment holding	100.00	100.00	a, b
	Unitop International Corp.	Investment holding	100.00	100.00	c, d
	Unity Investments Limited	Investment holding	100.00	100.00	
	Elitegroup International Holding (HK) Co., Ltd.	Investment holding	100.00	100.00	a
Dragon Asia Trading Co., Ltd. (BVI)	Million Up Finance Limited	Investment holding	100.00	100.00	a, b
Elitegroup Computer Systems Holding Co., Ltd. (BVI)	Venture Well Holdings Ltd. (BVI)	Investment holding	68.45	68.45	
Elitegroup Computer Systems (HK) Co., Ltd.	Xun Rui Electron (Shenzhen) Co., Ltd.	Manufacture and maintenance of electrical equipment and instrument, computer peripheral products and cases	100.00	100.00	
	Beijing Xun Ron Technology Co., Ltd.	Manufacture and maintenance of electrical equipment and instrument, computer peripheral products and cases	100.00	100.00	
ECS Holding (America) Co. (USA)	Super ECS USA, Inc.	Sale of motherboards, computer peripheral products and related components	100.00	100.00	
	Elitegroup Computer Systems Inc. (USA)	Sale of motherboards, notebook computers, computer peripheral products, related components and systems assembled	100.00	100.00	
Unitop International Corp.	Elitegroup Computer (Suzhou Industrial Park) Ltd.	Research, development and manufacture of notebook computers and related components	100.00	100.00	d
Unity Investments Limited	Unique Sino Limited	Investment holding	100.00	100.00	
Million Up Finance Limited	Golden Elite Technology (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Manufacture, research and development of PCBs, motherboards, systems, assembly of notebook computers and peripheral products	100.00	100.00	a, b
	Golden Elite Technology (Shenzhen) Co., Ltd. (興英數位科技(深圳)有限公司)	Manufacture, research and development of PCBs, motherboards, systems, assembly of notebook computers and peripheral products	100.00	-	a, b
Venture Well Holdings Limited (BVI)	Affirm International Limited (BVI)	Investment holding	100.00	100.00	
	Advazone International Limited (BVI)	Investment holding	100.00	100.00	
	Alpha Leader Limited (HK)	Trade of IC and electric components	100.00	100.00	e
Unique Sino Limited	ECS Trading (Shenzhen) Co., Ltd.	Wholesale, trade, maintenance and technical consultation of computers and peripheral products	100.00	100.00	

(Continued)

Name of Investor	Name of Subsidiary	Principal Activities	% of Ownership December 31 2018	2017	Note
Affirm International Limited (BVI)	Protac International Computer, S.L.	Sale of computer peripheral products	100.00	100.00	
Advazone International Limited (BVI)	Beijing Advazone Electronic Co., Ltd.	Wholesale, maintenance and technical consultation of computers and peripheral products and related components	100.00	100.00	
Alpha Leader Limited (HK)	Orbbit International Corp.	Sale of IC and electric components	-	100.00	e
ECS Holding (HK) Co., Ltd.	ECS Digital Technology (Shenzhen) Ltd.	Manufacture, research and development of PCBs, motherboards, systems, assembly of notebook computers and peripheral products	100.00	100.00	a

(Concluded)

The subsidiaries listed above were included in the consolidated financial statements for the years ended December 31, 2018 and 2017. Although the financial statements of some subsidiaries which were undergoing liquidation or whose operations have ceased were not audited by the independent accountants, the conditions would have had no material effect on the Group's consolidated financial statements for the years ended December 31, 2018 and 2017.

Other investment information is as follows:

a. The board of directors of the Company approved the Plan of Activating the Assets Located in People's Republic of China ("Mainland Assets Activation Plan") on April 7, 2017. It was approved by the board of directors that US$101,000 thousand be invested in a 100%-owned subsidiary ECS Holding (HK) Co., Ltd., and through which US$100,000 thousand be invested in ECS Digital Technology (Shenzhen) Ltd. (referred to as "ECS Digital Technology" hereon), a wholly-owned subsidiary of ECS Holding (HK) Co., Ltd. The two aforementioned subsidiaries were legally registered in April and June 2017, respectively. The Company already remitted US$17,000 thousand to ECS Holding (HK) Co., Ltd., and US$5,500 thousand was then remitted to ECS Digital Technology by ECS Holding (HK) Co., Ltd. After finishing the transfer of the operations and related assets and liabilities of Golden Elite Technology (Shenzhen) Co., Ltd. (the "Golden Elite Technology"), a subsidiary of Dragon Asia Trading Co., Ltd. (BVI) (the "Dragon Asia") to ECS Digital Technology, the Company will sell its interest in Dragon Asia to an unrelated party for future business expansion funds.

   In April 2017, the Company entered into a contract with Ever Unicorn Estate Limited (the "Ever Unicorn"), which was to be executed in two sections.

   1) Transfer of interests in Dragon Asia:

      After finishing the transfer of the operations and related assets and liabilities of Golden Elite Technology, Ever Unicorn will make an estimated payment between RMB1,150,000 thousand and RMB1,375,000 thousand for a 100% equity interest in Dragon Asia.

   2) Relocation compensation for ECS Digital Technology's operations:

      ECS Digital Technology is expected to relocate its operations to another site during 2021 to 2023. A compensation of RMB2,500,000 thousand is expected to be paid by Ever Unicorn in accordance with the progress of the relocation.

      The relocation income, after deducting the related relocation costs and expenses, will be used for landscaping, plant constructing, and equipment installing as well as for the funds required for operations.

   Due to the modifications on transaction terms and payment arrangements, the board of directors of the Company approved and entered into a supplementary contract with Ever Unicorn on January 23, 2018.

In accordance with the supplementary contract, the transfer of interests in Dragon Asia was divided into two phases. During phase 1, the Company will complete the transfer of 52% interest in Dragon Asia to Ever Unicorn for RMB600,000 thousand. After the Company completed stripping other non-target assets and liabilities from Golden Elite Technology, with both parties reaching a consensus on the prerequisites, phase 2 of the transaction will thence commence. During phase 2, the Company will complete the transfer of remaining 48% interest in Dragon Asia to Ever Unicorn for RMB550,000 thousand. The Company obtained the phase 1 share price of RMB600,000 thousand, recognized as other advances received (refer to note 24), and finished the 52% share transfer process of Dragon Asia. The foregoing 52% transacted shares of Dragon Asia had received the approval for reference letter from the Investment Commission, Ministry of Economic Affairs.

The terms of the above-mentioned trading contract stipulate that if the buyer or seller are involved in breach of contract, the non-defaulting party shall have the right to decide whether to terminate the contract, in addition to the actual damages and related expenses that the defaulting party should pay to the non-defaulting party.

According to the contract signed with Ever Unicorn, the Company should strip non-target assets and liabilities. The board of directors of subsidiary Golden Elite Technology (興英科技) approved on April 26, 2018 to proceed with the splitting process, by means of dividing non-target assets and liabilities to newly registered company Golden Elite Technology (Shenzhen) Co., Ltd. (興英數位科技(深圳)有限公司) (the “Golden Elite Technology “). Golden Elite Technology (興英科技) and Golden Elite Technology (興英數位科技) will be 100%-owned subsidiary of Million Up Finance Ltd. and the original shareholders rights and interests shall not be affected. As of February 2019, subsidiary Golden Elite Technology (興英科技) had not completed the splitting process.

Golden Elite Technology (興英數位科技) was legally registered on May 17, 2018, and it was expected that Golden Elite Technology (興英科技) would split US$60,500 thousand to Golden Elite Technology (興英數位科技) as capital.
Until the end of 2018, the Company believed that owning to the incompleteness of transferring the significant risks and rewards affiliated to relevant asset ownership, it recognized advances receiving of phrase 1 share price in advance as other advances received.

b. In order to cooperate with Mainland Assets Activation Plan, The board of directors of the Company approved the capital reduction of subsidiary Dragon Asia Trading Co., Ltd.’s by US$69,327 thousand. As of February 2019, these amounts had not been remitted to the Company.

c. The board of directors of Unitop International Corp. approved the reduction of its capital by US$1,000 thousand and the distribution of earnings of US$19,007 thousand in 2017. These amounts were already remitted to the Company in 2017.

d. The board of directors of Elitegroup Computer (Suzhou Industrial Park) Ltd. approved the distribution of earnings of RMB135,000 thousand in May 2017. The amounts of RMB77,778 thousand and RMB57,222 thousand were remitted to its investor, Unitop International Corp., in June and July 2017, respectively.

e. The board of directors of Orbbit International Corp. approved the liquidation plan in June 2017, and completed the liquidation process in March 2018. The liquidation amount of US$464 thousand was remitted to its investor, Alpha Leader Limited, in April 2018.

f. Elitegroup Computer Systems (Japan) Co., Ltd. was an immaterial subsidiary; its financial statements have not been audited, however, the Company’s management believed that no material difference will occur even if its financial statements were audited by the auditor.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31 2018	December 31 2017
Associates that are not individually material		
Trid Pacific Inc.	$ -	$ 4,396
IoTecha Corp.	-	1,644
	$ -	$ 6,040

At the reporting date, the Group's proportion of ownership and voting rights to associates are as follows:

	December 31 2018	December 31 2017
Trid Pacific Inc.	-	29.82%
IoTecha Corp.	23.70%	26.27%

Aggregate information of associates that is not individually material

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
The Group's share of:		
Loss from continuing operations	$ (14,063)	$ (9,850)
Other comprehensive income	-	-
Total comprehensive loss for the year	$ (14,063)	$ (9,850)

a. IoTecha Corp.

IoTecha Corp. is mainly engaged in the design of smart charging systems and software developments, of which 20% equity is held indirectly by the Company through ECS Holding (America) Corporation's investment of US$1,000 thousand in May 2016. After assessing the investee's financial position and company status, ECS Holding (America) Co. (USA) recognized an impairment loss of $25,528 thousand for the year ended December 31, 2016. In September 2017, ECS Holding (America) Co. (USA) further invested US$500 thousand in IoTecha Corp.; after the transaction was completed, the Group's proportion of ownership in IoTecha Corp. had increased to 26.27%. Iotecha Corp. increased capital by cash in the first half of 2018, and ECS Holding (America) Co. (USA) continued its investment in Iotecha Corp. for US$625 thousand in May 2018, therefore the shareholding ratio was raised to 30.49%. ECS Holding (America) Co. (USA) transferred 1,250,005 shares from its originally held ordinary shares into 1,108,942 preferred shares in 2018, thereby altering the shareholding ratio to 23.70%.

b. Trid Pacific Inc.

Trid Pacific Inc., an unrelated party, is mainly engaged in the research, development, design and sales of artificial satellite integration and image data processing. The Company invested $9,450 thousand in March 2017 in Trid Pacific Inc., hence acquiring a 29.53% interest in the aforementioned company. On December 19, 2017, shareholders of Trid Pacific Inc. made a resolution in a special meeting regarding capital reduction plan, whereby the Company's holding interest in Trid Pacific Inc. had been increased from 29.53% to 29.82%.

The Company disposed its 29.82% holding interest, which amounted to 945 thousand shares for a total amount of $341 thousand.

Investments were accounted for using the equity method, the share of profit or loss and other comprehensive income for investments of Iotecha Corp. and Trid Pacific Inc. in 2018 as well as Iotecha Corp. in 2017 were calculated based on financial statements which have not been audited. Management believes there will be no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of Iotecha Corp. and Trid Pacific Inc. in 2018 as well as Iotecha Corp. in 2017.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Improvements	Equipment	Transportation Equipment	Assets under Finance Lease	Other Equipment	Total
Cost						
Balance at January 1, 2018	$ 3,034,789	$ 4,184,009	$ 20,370	$ 6,593	$ 888,982	$ 8,134,680
Additions	44,123	206,343	3,280	-	69,690	323,436
Disposals	(13,491)	(33,238)	(1,608)	-	(18,066)	(66,403)
Effect of foreign currency exchange differences	(41,077)	(76,495)	(291)	(114)	(10,497)	(128,474)
Balance at December 31, 2018	3,024,344	4,280,619	21,688	6,479	930,109	8,263,239
Accumulated depreciation and impairment						
Balance at January 1, 2018	1,669,675	2,710,927	16,155	742	716,307	5,113,806
Depreciation expenses	132,550	210,379	969	594	51,359	395,851
Disposals	(8,383)	(29,835)	(1,447)	-	(13,395)	(53,060)
Impairment losses recognized	-	37,316	-	-	-	37,316
Effect of foreign currency exchange differences	(24,643)	(51,746)	(181)	(24)	(8,551)	(85,145)
Balance at December 31, 2018	1,769,199	2,877,041	15,496	1,312	745,720	5,408,768
Carrying amounts at December 31, 2018	$ 1,255,145	$ 1,403,578	$ 6,192	$ 5,167	$ 184,389	$ 2,854,471
Cost						
Balance at January 1, 2017	$ 3,055,420	$ 4,552,752	$ 30,442	$ 6,730	$ 1,153,005	$ 8,798,349
Additions	-	300,931	1,230	-	51,228	353,389
Disposals	(15,754)	(509,176)	(10,594)	-	(289,415)	(824,939)
Reclassification	71,837	(67,347)	-	-	(4,870)	(380)
Effect of foreign currency exchange differences	(76,714)	(93,151)	(771)	(137)	(20,966)	(191,739)
Balance at December 31, 2017	3,034,789	4,184,009	20,307	6,593	888,982	8,134,680
Accumulated depreciation and impairment						
Balance at January 1, 2017	1,542,082	2,988,152	25,487	151	981,342	5,537,214
Depreciation expenses	129,955	227,900	1,020	587	46,572	406,034
Disposals	(11,596)	(402,659)	(9,688)	-	(288,568)	(712,511)
Reclassification	46,075	(41,784)	-	-	(4,291)	-
Effect of foreign currency exchange differences	(36,841)	(60,682)	(664)	4	(18,748)	(116,931)
Balance at December 31, 2017	1,669,675	2,710,927	16,155	742	716,307	5,113,806
Carrying amounts at December 31, 2017	$ 1,365,114	$ 1,473,082	$ 4,152	$ 5,851	$ 172,675	$ 3,020,874

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Buildings	20 years
Improvements	2 to 15 years
Equipment	3 to 15 years
Transportation	4 to 5 years
Assets under finance lease	5 years
Other equipment	2 to 10 years

There were no capitalization of interests for the years ended December 31, 2018 and 2017.

In the meeting held on June 20, 2013, the Company's shareholders authorized the Board of Directors to sell the headquarters land and building located in Neihu, thus, in December 2013, the Company signed a contract with a third party for the sale of these items and then leased them back under an operating lease. The rental period is 10 years from December 23, 2013 to December 22, 2023. The gain in which the selling price was in excess of fair value amounted to $581,747 thousand and is deferred and amortized periodically over the lease term. The amortized amount of $58,175 thousand was reported as a deduction from rental costs in 2018 and 2017. As of December 31, 2018, the unamortized unrealized gain on this sale and leaseback was $289,465 thousand.

The plant of the subsidiary, Elitegroup Computer (Suzhou Industrial Park) Ltd. is under reorganization by phasing out equipment that is no longer productive. The Group expects the decline of future economic benefits and cash flows of those equipment by recognizing $37,316 thousand as an impairment loss in the consolidated statements of comprehensive income within other gains and losses (2017: Nil).

17. INVESTMENT PROPERTIES

	Land	Buildings and Improvements	Total
Cost			
Balance at January 1, 2018 and December 31, 2018	$ 377,129	$ 154,816	$ 531,945
Accumulated depreciation			
Balance at January 1, 2018		103,011	103,011
Depreciation expense		4,576	4,576
Balance at December 31, 2018		107,587	107,587
Accumulated impairment			
Balances at January 1, 2018 and December 31, 2018	$ 14,673	$ -	$ 14,673
Carrying amounts at December 31, 2018	$ 362,456	$ 47,229	$ 409,685
Cost			
Balance at January 1, 2017	$ 377,129	$ 154,566	$ 531,695
Additions	-	250	250
Balance at December 31, 2017	377,129	154,816	531,945
Accumulated depreciation			
Balance at January 1, 2017		98,462	98,462
Depreciation expense		4,549	4,549
Balance at December 31, 2017		103,011	103,011
Accumulated impairment			
Balances at January 1, 2017 and December 31, 2017	14,673	-	14,673
Carrying amounts at December 31, 2017	$ 362,456	$ 51,805	$ 414,261

The investment properties held by the Group mainly consist of buildings and improvements and are depreciated using the straight-line method over their estimated useful lives of 10 to 45 years and 3 to 20 years, respectively.

The Group's management was unable to reliably measure the fair value of investment properties located at Tamsui and Guandu because the market for comparable properties was inactive and alternative reliable measurements of fair value were not available; therefore, the Group determined that the fair value of these investment properties is not reliably measurable.

18. GOODWILL

	For the Year Ended December 31	
	2018	**2017**
Cost		
Balance at January 1	$ 1,005,582	$ 1,022,955
Effect of foreign currency exchange differences	6,663	(17,373)
Balance at December 31	1,012,245	1,005,582
Accumulated impairment losses		
Balances at January 1 and December 31	(403,497)	(403,497)
Carrying amounts at December 31	$ 608,748	$ 602,085

Goodwill is the premium generated from the business combination or business acquisition of mobile products, motherboard and barebone system businesses.

Cash-generating units (CGUs) to which goodwill has been allocated, such as motherboards, barebone system businesses and mobile product businesses, are tested for impairment annually.

The calculation of the recoverable amount of the goodwill of the Group was based on their value in use. In this calculation, the Group used cash flow projections for a budget period that are based on the key asset's remaining durable year, which is determined as seven years. The cash flows beyond the five-year period have been extrapolated using a steady 2% to 3% per annum growth rate. In impairment tests made on December 31, 2018, the CGUs used discount rates ranging from 9.80% to 10.38% per annum.

Key assumptions and methods used to calculate the major data of the CGUs are as follows:

a. Estimate of the growth rate: The estimation of sales was based on the expected global future growth rate of the market trend for similar products.

b. Estimate of gross margin: The estimate was based on the actual ratio for 2018 and historical operating performance.

c. Estimate of operating profit: The operating expenses were estimated on the basis of the actual ratio of operating expenses to revenue for 2018.

The CGUs used each used the above key assumptions to calculate their recoverable amounts, which were higher than their carrying values as of December 31, 2018; thus, there was no indication of impairment.

The carrying amounts of goodwill allocated to cash-generating units are as follows:

	For the Year Ended December 31	
	2018	2017
Motherboard and barebone system business	$ 214,298	$ 207,635
Mobile product business	394,450	394,450
	$ 608,748	$ 602,085

19. OTHER INTANGIBLE ASSETS

	Trademarks	Computer Software	Total
Cost			
Balance at January 1, 2018	$ -	$ 71,329	$ 71,329
Additions	-	14,229	14,229
Disposals	-	(32,396)	(32,396)
Effect of foreign currency exchange differences	-	(264)	(264)
Balance at December 31, 2018	-	52,898	52,898
Accumulated amortization and impairment			
Balance at January 1, 2018	-	40,543	40,543
Amortization expense	-	20,821	20,821
Disposals	-	(32,396)	(32,396)
Effect of foreign currency exchange differences	-	(132)	(132)
Balance at December 31, 2018	-	28,836	28,836
Carrying amounts at December 31, 2018	$ -	$ 24,062	$ 24,062
Cost			
Balance at January 1, 2017	$ 501	$ 65,263	$ 65,764
Additions	-	34,891	34,891
Disposals	(501)	(28,074)	(28,575)
Effect of foreign currency exchange differences	-	(751)	(751)
Balance at December 31, 2017	-	71,329	71,329
Accumulated amortization and impairment			
Balance at January 1, 2017	468	56,700	57,168
Amortization expense	33	12,590	12,623
Disposals	(501)	(28,074)	(28,575)
Effect of foreign currency exchange differences	-	(673)	(673)
Balance at December 31, 2017	-	40,543	40,543
Carrying amounts at December 31, 2017	$ -	$ 30,786	$ 30,786

The amortization expense is recognized on a straight-line basis per annum at the following useful lives:

Trademarks	10 years
Computer software	1 to 6 years

20. PREPAYMENTS FROM LEASES

	December 31	
	2018	2017
Non-current	$ 618,182	$ 630,109

Prepayments from lease include the factory land use rights of Elitegroup Computer (Suzhou Industrial Park) Ltd. and Golden Elite Technology (Shenzhen) Co., Ltd., and the useful lives were 47 to 50 years.

21. SHORT-TERM BORROWINGS

	December 31	
	2018	2017
Line of credit borrowings	$ 1,474,320	$ 1,488,000

The ranges of interest rate on bank loans were 3.48%-5.43% and 2.18%-4.08% per annum as of December 31, 2018 and 2017, respectively.

22. ACCOUNTS PAYABLE

	December 31	
	2018	2017
Accounts payable		
Third parties - operating	$ 4,630,213	$ 5,292,133

Accounts payable resulted mainly from the purchase of components, including CPUs, IC chip-sets, LCD panels, CD-ROM drives, hard disks, and memory modules.

23. FINANCE LEASE PAYABLES

	December 31	
	2018	2017
Minimum lease payments		
Not later than 1 year	$ 1,568	$ 1,610
Later than 1 year and not later than 5 years	2,874	4,559
	4,442	6,169
Less: Future finance charges	(182)	(336)
Present value of minimum lease payments	$ 4,260	$ 5,833
Present value of minimum lease payments		
Not later than 1 year	$ 1,464	$ 1,460
Later than 1 year and not later than 5 years	2,796	4,373
	$ 4,260	$ 5,833

The Group leased some of its manufacturing equipment under finance leases in September 2016. The average lease term is 5.2 years. The Group owns the leased equipment at the end of the lease terms.

The interest rate underlying all obligations under finance leases at their respective contract dates was 2.89% per annum on December 31, 2018.

24. OTHER LIABILITIES

	December 31	
	2018	2017
Current		
Other payables		
Salaries and bonuses	$ 676,671	$ 743,500
Royalties	176,835	132,837
Service expenses	59,241	61,931
Import and export services	30,197	57,858
Others	436,863	466,720
	$ 1,379,807	$ 1,462,846
Other advances received (a)	$ 2,751,737	$ -
Other liabilities		
Financial guarantee contracts (b)	$ 984,003	$ -
Contract liabilities (c)	148,943	199,842
Temporary credits	28,113	42,082
Others	12,643	16,033
	$ 1,173,702	$ 257,957

a. The Company has completed the transfer of 52% interest in Dragon Asia for an amount of RMB 600,000 thousand according to the Phase 1 of the Mainland Assets Activation Plan. The relevant amount and timing of recognition of the transaction gains will be affected by the actual progress and execution of the contract. For details of the transaction, refer to Note 14.

b. Under IFRS 15, the financial guarantee of quantity discount is not included in the provisions.

c. Contract liabilities are made up of unearned sales revenue.

25. PROVISIONS

	December 31	
	2018	2017
Warranties (a)	$ 247,861	$ 307,221
Customer returns and rebates (b)	-	777,895
	$ 247,861	$ 1,085,116

	Warranties
Balance at January 1, 2018	$ 307,221
Additional provisions recognized	97,798
Usage	(121,798)
Reversing un-usage balances	(35,485)
Effect of foreign currency exchange differences	125
Balance at December 31, 2018	$ 247,861

a. The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under the legislation for the local sale of goods. The estimate has been made on the basis of historical warranty trends and may vary as a result of the use of new materials or altered manufacturing processes as well as other events affecting product quality.

b. The provision for sales returns and allowances is an estimate, based on previous experience and relevant factors, of the possible amounts needed to settle sales returns and allowances and is treated as a reduction of sales revenue in the period when sales are made. Under IFRS 15, the financial guarantee of quantity discount is not included in the provisions but in other current liabilities, refer to Note 24.

26. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans are as follows:

	December 31	
	2018	2017
Present value of the defined benefit obligation	$ (166,918)	$ (184,241)
Fair value of plan assets	278,403	279,420
Net defined benefit assets	$ 111,485	$ 95,179

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2017	$ (180,341)	$ 276,717	$ 96,376
Service cost			
Current service cost	(511)	-	(511)
Net interest (expense) income	(2,479)	3,831	1,352
Recognized in profit or loss	(2,990)	3,831	841
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,129)	(1,129)
Actuarial gain (loss) - changes in demographic assumptions	(10,717)	-	(10,717)
Actuarial gain (loss) - experience adjustments	6,084	-	6,084
Recognized in other comprehensive income	(4,633)	(1,129)	(5,762)
Contributions from the employer	-	3,724	3,724
Benefits paid	3,723	(3,723)	-
Balance at December 31, 2017	(184,241)	279,420	95,179
Service cost			
Current service cost	(424)	-	(424)
Net interest (expense) income	(2,533)	3,868	1,355
Recognized in profit or loss	(2,957)	3,868	911
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	7,391	7,391
Actuarial gain (loss) - changes in demographic assumptions	(5,451)	-	(5,451)
Actuarial gain (loss) - changes in financial assumptions	(2,576)	-	(2,576)
Actuarial gain (loss) - experience adjustments	12,701	-	12,701
Recognized in other comprehensive income	4,494	7,391	11,885
Contributions from the employer	-	3,510	3,510
Benefits paid	15,786	(15,786)	-
Balance at December 31, 2018	$ (166,918)	$ 278,403	$ 111,485

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

1) Investment risk: The plan assets are invested in domestic or foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate of a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated with reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations are as follows:

	December 31	
	2018	**2017**
Discount rate	1.250%	1.375%
Expected rate of salary increase	2.500%	2.500%

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

	December 31	
	2018	**2017**
Discount rate(s)		
0.25% increase	$ (5,611)	$ (6,295)
0.25% decrease	$ 5,867	$ 6,586
Expected rate(s) of salary increase		
0.25% increase	$ 5,699	$ 6,407
0.25% decrease	$ (5,480)	$ (6,157)

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

	December 31	
	2018	**2017**
Expected contributions to the plan for the next year	$ 3,373	$ 3,724
Average duration of the defined benefit obligation	13.7 years	13.9 years

27. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2018	**2017**
Number of shares authorized (in thousands)	1,750,000	1,750,000
Value of shares authorized	$ 17,500,000	$ 17,500,000
Number of shares issued and fully paid (in thousands)	557,403	557,403
Value of shares issued	$ 5,574,030	$ 5,574,030

Fully paid ordinary shares, with a par value of $10, carry one vote per share and a right to receive dividends.

b. Capital surplus

	December 31	
	2018	**2017**
May be used to offset deficit, distributed as cash dividends, or transferred to share capital*		
Share premium	$ 5,614,494	$ 6,171,897
Treasury share transactions	216,663	216,663
May only be used to offset deficit		
Employee share options - expired	38,735	38,735
Dividends unclaimed by shareholders	12,041	-
	$ 5,881,933	$ 6,427,295

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year)

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years (including adjustments to undistributed retained earnings), setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to g. employees' compensation and remuneration of directors and supervisors in Note 29(g).

The Company's dividend policy takes into account the results of the Company's current and future development plans, investment environment, demand for funds, domestic and international competition, and shareholders' benefits, etc. The annual distribution should be at least 50% of distributable earnings although the Company is allowed to make no distribution when the accumulated distributable earnings are less than 10% of the paid-in capital. The Articles also stipulate that the dividends can be distributed in cash or shares, where the cash dividends distributed is no less than 20% of the total dividends distributed.

Appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated or reversed to a special reserve by the Company.

The offset of accumulated deficits for 2016 was approved in the shareholders' meeting on June 22, 2017 by appropriating a legal reserve of $910,053 thousand and capital surplus - employee share options of $34,115 thousand.

The appropriations of earnings for 2017 were approved in the shareholders' meeting on June 25, 2018, and the profit shall be first utilized for paying taxes, offsetting the adjustments relating to undistributed retained earnings, setting aside as legal reserve of $22,176 thousand, and then any remaining profit shall be set aside as a special reserve.

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 22,176	$ -
Special reserve	185,310	-

Cash dividends was distributed from the capital surplus of $557,403 thousand ($1 per share) by using the capital reserve on March 25, 2018.

The appropriations of earnings for 2018 approved in the shareholders' meeting on March 25, 2019 are as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 2,041	$ -
Special reserve	18,569	-

The appropriation of earnings for 2018 are subject to the resolution of the shareholders in their meeting which to be held on June 20, 2019.

d. Unrealized gain (loss) on available-for-sale financial assets

$160,541 thousand (US$5,168 thousand) of unrealized gain on available-for-sale financial assets which was reclassified to profit or loss primarily resulted from the investments had been disposed of by the Group in the amount of $273,636 thousand (US$8,809 thousand).

e. Unrealized gain/(loss) on financial assets at FVTOCI

The equity investments were classified as available-for-sale financial assets under IAS 39, since the equity investments are held for strategic rather than trading purposes, the Group classified the equity investments as financial assets classified as at FVTOCI under IFRS 9, and reclassified other equity-unrealized gain (loss) on available-for-sale financial assets to other equity-unrealized gain/(loss) on financial assets at FVTOCI.

The Group recognized unrealized loss of $2,807 thousand due to change in fair value of financial assets at fair value through other comprehensive income.

f. Non-controlling interests

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ 153,989	$ 161,897
Attributable to non-controlling interests:		
Share of profit for the year	1,602	2,358
Exchange differences on translating the financial statements of foreign entities	5,068	(10,266)
Balance at December 31	$ 160,659	$ 153,989

28. REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sale of goods	$ 31,663,369	$ 29,842,370
Revenue from rendering of services	132,647	104,970
	$ 31,796,106	$ 29,947,340

Under IFRS 15, the Group will recognize revenue at the time of satisfying performance obligations, which consist of contracts entered into with customers for the goods or services delivered or provided.

The Group mainly produces and sells computer equipment. As the market for computer equipment launches new products frequently and the related price is highly volatile, the amount of expected discount is estimated using the most likely amount, by taking into consideration the situation of sales and the range of discount previously given.

Refer to Note 40 for information about segment revenue of the Group.

29. NET PROFIT (LOSS)

The components of net income are as follows:

a. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gains	$ 137,030	$ 85,421
Net gain (loss) on disposal of property, plant and equipment	92,709	(812)
Gain on disposal of subsidiaries	(5,050)	1,752
Net gain arising on financial assets designated as at FVTPL	(6,975)	(551)
Gain on disposal of available-for-sale financial assets	-	160,541
Impairment loss on property, plant and equipment (Note 16)	(37,316)	-
Others	(63,547)	(13,031)
	$ 116,851	$ 233,320

b. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank overdrafts and loans	$ 68,213	$ 56,561
Interest on obligations under finance leases	149	189
Other finance costs	9,138	-
	$ 77,500	$ 56,750

c. Other income

	For the Year Ended December 31	
	2018	2017
Rental income	$ 62,914	$ 66,578
Others	140,659	75,533
	$ 203,573	$ 142,111

d. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	$ 395,851	$ 406,034
Investment properties	4,576	4,549
Prepayments	31,767	27,573
Other intangible assets	20,821	12,623
Other non-current assets	38,080	38,190
	$ 491,095	$ 488,969
An analysis of depreciation by function		
Operating costs	$ 290,380	$ 281,817
Operating expenses	105,471	124,217
Non-operating expenses	4,576	4,549
	$ 400,427	$ 410,583
An analysis of amortization by function		
Operating costs	$ 59,078	$ 57,173
Operating expenses	31,590	21,213
	$ 90,668	$ 78,386

e. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2018	2017
Direct operating expenses from investment properties that generated rental income	$ 5,836	$ 5,842
Direct operating expenses from investment properties that did not generate rental income	-	-
	$ 5,836	$ 5,842

f. Employee benefit expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits (Note 26)		
Defined contribution plans	$ 40,944	$ 41,430
Defined benefit plans	(911)	(841)
	40,033	40,589
Other employee benefits		
Payroll	2,938,648	2,772,165
Labor and health insurance	269,468	270,846
Other employee costs	24,401	23,990
	3,232,517	3,066,911
Total employee benefit expense	$ 3,272,550	$ 3,107,500
An analysis of employee benefit expense by function		
Operating costs	$ 1,832,192	$ 1,667,823
Operating expenses	1,440,358	1,439,677
	$ 3,272,550	$ 3,107,500

g. Employees' compensation and remuneration of directors and supervisors for 2018 and 2017

According to the Articles of Incorporation of the Company, the Company accrued compensation of employees and remuneration of directors and supervisors at rates of 6% and no higher than 0.6%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the year ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 25, 2019 and March 26, 2018, respectively, are as follows:

Accrual rate

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Employees' compensation	6.0%	6.0%
Remuneration of directors and supervisors	0.6%	0.6%

Amount

	For the Year Ended December 31			
	2018		2017	
	Cash	Shares	Cash	Shares
Employees' compensation	$ 1,769	$ -	$ 15,700	$ -
Remuneration of directors and supervisors	177	-	1,570	-

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2017.

The Group accumulated deficits for the year ended December 31, 2016; thus, no compensation of employees and remuneration of directors and supervisors needed to be accrued.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

30. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of income tax expense (benefit) are as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 284,231	$ 179,221
Adjustments for prior years	11,606	(9,151)
Regional income tax	404	88
	296,241	170,158
Deferred tax		
In respect of the current year	(264,518)	(64,526)
Adjustment to deferred tax attributable to changes in tax rates and laws	(18,875)	32,593
Adjustments for prior years	(5,562)	13,457
	(288,955)	(18,476)
Income tax expense recognized in profit or loss	$ 7,286	$ 151,682

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 29,300	$ 375,801
Income tax expense calculated at the statutory rate	$ 14,175	$ 100,552
Tax-exempt income	(803)	(645)
Unrecognized loss carryforwards	5,230	29,763
Tax preferences	(15,297)	(10,382)
Adjustment of deferred tax from the prior years	(5,562)	13,584
Deferred tax effect of earnings of subsidiaries	-	97,193
Effect of tax rates of group entities operating in other jurisdictions	-	32,593
Recognized taxable temporary differences	5,658	(102,593)
Adjustments for prior years' tax	11,606	(8,981)
Regional income tax	404	-
Nondeductible expenses in determining taxable income	1,125	1,107
Effect of tax rate changes	(18,875)	-
Others	9,625	(509)
Income tax expense recognized in profit or loss	$ 7,286	$ 151,682

The applicable tax rate used above is calculated from the corporate tax rate of 17% payable by the Group in the Republic of China ("ROC"). However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%. While the applicable tax rate used by subsidiaries in China is 25%, tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

The Income Tax Act in the United States of America (USA) was amended and became effective in December 2017. The corporate income tax rate was adjusted from 35% to 21%. The income tax expense was adjusted and increased by $32,593 thousand based on the effect of the change in tax rate.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized directly in other comprehensive income

	For the Year Ended December 31	
	2018	**2017**
Deferred tax		
Effect of change in tax rate	$ (22,517)	$ -
In respect of the current year		
Translation of foreign operations	(22,663)	(51,012)
Remeasurement on defined benefit plans	2,377	(980)
	$ (42,803)	$ (51,992)

c. Current income tax assets and liabilities

	December 31	
	2018	**2017**
Current income tax liabilities		
Income tax payable	$ 186,306	$ 44,329

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized loss on inventory	$ 27,945	$ 7,954	$ -	$ (477)	$ 35,422
Provisions	183,059	61,696	-	17	244,772
Gain on disposal of property, plant and equipment	46,740	(954)	-	-	45,786
Loss on investment in equity	11,338	(11,338)	-	-	-
Disposal interest of subsidiary	-	258,138	-	-	258,138
Allowance for impairment loss	675,757	5,917	-	(9,803)	671,871

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Difference in estimated useful lives of property, plant and equipment	$ 9,718	$ (5,226)	$ -	$ (60)	$ 4,432
Effect of foreign currency exchange differences	123,877	-	44,524	-	168,401
Others	39,816	6,348	-	228	46,392
	1,118,250	322,535	44,524	(10,095)	1,475,214
Loss carryforwards	25,271	(23,860)	-	125	1,536
	$ 1,142,521	$ 298,675	$ 44,524	$ (9,970)	$ 1,476,750
Deferred tax liabilities					
Temporary differences					
Goodwill	$ (9,456)	$ 3,893	$ -	$ -	$ (5,563)
Unrealized exchange gain	(7,405)	(16,504)	-	-	(23,909)
Defined benefit plan	(16,180)	(4,396)	(1,721)	-	(22,297)
Allowance for impairment loss	(1)	1	-	-	-
Gain on investment in equity	(127,378)	7,286	-	-	(120,092)
	$ (160,420)	$ (9,720)	$ (1,721)	$ -	$ (171,861)

(Concluded)

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized loss on inventory	$ 41,101	$ (12,230)	$ -	$ (926)	$ 27,945
Provisions	168,794	14,423	-	(158)	183,059
Gain on disposal of property, plant and equipment	54,561	(7,821)	-	-	46,740
Loss on investment in equity	2,806	8,691	-	(159)	11,338
Loss on doubtful accounts	746,777	(52,347)	-	(18,673)	675,757
Difference in estimated useful lives of property, plant and equipment	18,613	(8,411)	-	(484)	9,718
Effect of foreign currency exchange differences	72,865	-	51,012	-	123,877
Others	40,526	406	-	(1,116)	39,816
	1,146,043	(57,289)	51,012	(21,516)	1,118,250
Loss carryforwards	54,574	(28,133)	-	(1,170)	25,271
	$ 1,200,617	$ (85,422)	$ 51,012	$ (22,686)	$ 1,143,521
Deferred tax liabilities					
Temporary differences					
Goodwill	$ (14,184)	$ 4,728	$ -	$ -	$ (9,456)
Unrealized exchange gain	(32,620)	24,267	-	948	(7,405)
Financial assets at fair value through profit or loss	(277)	277	-	-	-
Defined benefit plan	(16,384)	(776)	980	-	(16,180)
Allowance for doubtful accounts	(1)	-	-	-	(1)
Gain on investment in equity	(202,780)	75,402	-	-	(127,378)
	$ (266,246)	$ 103,898	$ 980	$ 948	$ (160,420)

e. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2018	2017
Deductible temporary differences		
Allowance for doubtful accounts	$ 84,624	$ 96,341
Financial assets at FVTPL	70,434	-
Financial assets measured at cost	-	70,434
	$ 155,058	$ 166,775
Loss carryforwards	$ 1,146,007	$ 1,047,962

f. Information about unused loss carryforwards

As of December 31, 2018, loss carryforwards were comprised of:

Elitegroup Computer Systems Inc. (USA), Elitegroup Computer Systems (HK) Co., Ltd., Elitegroup Computer Systems (Korea) Co., Ltd., Elitegroup Computer Systems (Japan) Co., Ltd., Xun Rui Electronic (Shenzhen) Co., Ltd., ECS Trading (Shenzhen) Co., Ltd., Beijing Advazone Electronic Co., Ltd. and Elitegroup Computer (Suzhou Industrial Park) Ltd.

Unused Amount	Expiry Year
$ 810,290	2019-2035
433,356	Unlimited duration
$ 1,243,619	

g. Income tax assessments

The income tax returns of the Company through 2016, except 2015, have been assessed by the tax authorities.

31. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 0.04	$ 0.40
Diluted earnings per share	$ 0.04	$ 0.39

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share are as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2018	**2017**
Profit for the period attributable to owners of the Company	$ 20,412	$ 221,761
Earnings used in the computation of basic and diluted earnings per share	$ 20,412	$ 221,761

Weighted Average Number of Ordinary Shares Outstanding (In Thousands of Shares)

	For the Year Ended December 31	
	2018	**2017**
Weighted average number of ordinary shares used in the computation of basic earnings per share	557,403	557,403
Effect of potentially dilutive ordinary shares:		
Employee's compensation	344	791
Employee share options	-	6,460
Weighted average number of ordinary shares used in the computation of diluted earnings per share	557,747	564,654

If the Company offered to settle the compensation paid to employees in cash or shares, the Company assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

32. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company and its subsidiaries were granted 70,000 options in December 2007. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

Information on employee share options is as follows:

	For the Year Ended December 31, 2017	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	40,660	$ 16.80
Options expired	(40,660)	16.80
Balance at December 31	-	
Options exercisable, end of year	-	
Weighted-average fair value of options granted ($)	$ -	

All the outstanding options were expired as of December 31, 2017.

33. OPERATING LEASE AGREEMENTS

a. The Group as lessee

Operating leases are related to leases of buildings and improvements with lease terms between 11 and 120 months.

As of December 31, 2018 and 2017, the Group's refundable deposits paid resulting from operating lease agreements were $208,246 thousand and $207,097 thousand, respectively.

The Company sold and leased back the headquarters building in Neihu in December 2013 (refer to Note 16), and it was negotiated that the rent be paid by prepaying checks annually. The rental term is 10 years, and if the monthly rent of the first three years aligns with the floating rates of two-year time deposits of Chunghwa Post plus a few percentage points, the rent for the following month will consequentially increase. The monthly rents for the forth to seventh year and the eighth to tenth year are adjusted to increase by a certain multiplier. At the third month before expiration, if the Company intends to continue renting, it has the right of first refusal with the same renting terms, and should negotiate related terms of contract extension. If both of them do not complete the negotiations by one month before the expiration, the Company is regarded as abandoning the right of first refusal, and the rental relations would be terminated automatically upon the completion of the contract.

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

	December 31	
	2018	2017
Not later than 1 year	$ 228,739	$ 227,139
Later than 1 year and not later than 5 years	859,981	860,276
Later than 5 years	-	207,191
	$ 1,088,720	$ 1,294,606

b. The Group as lessor

Operating leases relate to the investment of real estate owned by the Group and the real estate subleased by the Company, which have lease terms between 5 to 7 years. All operating lease contracts do not contain a bargain purchase option to acquire the property at the expiry of the lease period.

As of December 31, 2018 and 2017, the Group's received guaranteed deposits resulting from operating lease agreements were $9,836 thousand and $9,737 thousand, respectively.

The future minimum lease payments of non-cancellable operating leases are as follows:

	December 31	
	2018	**2017**
Not later than 1 year	$ 53,893	$ 53,329
Later than 1 year and not later than 5 years	154,511	65,631
Later than 5 years	-	4,641
	$ 208,404	$ 123,601

34. CAPITAL MANAGEMENT

The policy of the board of directors is to maintain a sound capital structure and the confidence of investors, creditors and market, in order to support the development of future operations.

The gearing ratio at end of the reporting period is as follows:

	December 31	
	2018	**2017**
Debt	$ 12,329,019	$ 10,160,397
Less: Cash and cash equivalents (including cash and cash equivalents in a disposal group held for sale)	(4,175,393)	(4,878,768)
Net debt	8,153,626	5,281,629
Equity	11,171,364	11,760,322
Total capital*	$ 19,324,990	$ 17,041,951
Net debt to equity ratio	42.19%	30.99%

* Total capital is equivalent to total equity which includes capital, reserves, retained earnings, other equity and non-controlling interests of the Group plus net debt.

As of December 31, 2018, the Group's capital management approach had not changed.

35. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

Management believes the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	$ 663,554	$ -	$ -	$ 663,554
Domestic unlisted shares	-	-	44,100	44,100
Foreign unlisted shares	-	-	18	18
	$ 663,554	$ -	$ 44,118	$ 707,672
Financial assets at FVTOCI				
Domestic listed shares - equity securities	$ 6,575	$ -	$ -	$ 6,575

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	$ 484,904	$ -	$ -	$ 484,904
Available-for-sale financial assets				
Domestic listed shares - equity securities	$ 8,283	$ -	$ -	$ 8,283

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

	For the Year Ended December 31, 2018
Balance at January 1, 2018	$ 44,105
Recognized in profit or loss (included in other gains and losses)	13
Balance at December 31, 2018	$ 44,118

3) Valuation techniques and inputs applied for Level 3 fair value measurement

a) The fair value of domestic unlisted shares are determined using the market approach and net value of investees’ major assets. The significant unobservable inputs used by the Company as of December 31, 2018 was 10% of discount rate. If the inputs to the valuation model and discount rate were increased by 1% to reflect reasonably possible alternative assumptions while all other variables were held constant, the fair value of the shares would decrease by 481 thousand dollars.

b) The fair values of unlisted equity securities are determined using the closing price from public trading sessions and net value of investees' major assets. The significant unobservable inputs used by the Company as of December 31, 2018 was 10% of discount rate. If the inputs to the valuation model and discount rate were increased by 10% to reflect reasonably possible alternative assumptions while all other variables were held constant, the fair value of the shares would decrease by 1 thousand dollars.

c. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Financial assets at FVTPL		
Held for trading (1)	$ -	$ 484,904
Designated as at FVTPL - current	707,672	-
Loans and receivables (2)	-	11,163,748
Available-for-sale financial assets (3)	-	52,388
Financial assets at amortized cost (4)	12,216,185	-
Financial assets at FVTOCI- Equity instruments	6,575	-
Financial liabilities		
Amortized cost (5)	6,817,320	7,505,866

1) The balances in 2017 include the carrying amount of held-for-trading financial assets measured at cost.

2) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, accounts receivable (including related parties), other receivables (excluding income tax refund receivables), refundable deposits.

3) The balances include the carrying amount of available-for-sale financial assets and financial assets measured at cost.

4) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, note receivable, accounts receivable (including related parties), other receivables (excluding income tax refund receivables), refundable deposits.

5) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, accounts payable (including related parties) and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables and borrowings. The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments for speculative purposes.

The material financial activities were reviewed by the Group's board of directors in accordance with the internal control system and related rules. The Group should implement the overall financial management objective as well as observe the levels of delegated authority and ensure that those with delegated authorities carry out their duties.

1) Market risk

   The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below).

   a) Foreign currency risk

      The Group was exposed to foreign currency risk because it owned assets and liabilities which were denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters by using financial instruments such as foreign exchange spot transactions, forward exchange contracts, etc.

      For the Group, the main purpose of using forward exchange contracts is to eliminate the financial risks of currency exchange rates.

      The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 38.

      Sensitivity analysis

      The Group measured the risks of financial assets and liabilities with significant influence, and take the net position of outstanding foreign exchange forward contracts into consideration.

      The Group was mainly exposed to the U.S. dollar.

      The following table shows the Group's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency) against the U.S. dollar. The 5% sensitivity rate is used in reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency-denominated monetary items, for which their translation at the end of the reporting period is adjusted for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase in pretax profit and other equity associated with the New Taiwan dollar, strengthening (weakening) by 5% against the relevant currency. For a 5% weakening (strengthening) of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pretax profit and other equity, and the balance below would be negative (positive).

	U.S. Dollars Impact	
	For the Year Ended December 31	
	2018	**2017**
Profit or loss	$ (152,062)	$ 65,816

b) Interest rate risk

The Group was exposed to interest rate risk because the entities borrowed funds at fixed interest rates.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period are as follows.

	December 31	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 5,500,546	$ 4,676,025
Financial liabilities	1,474,320	1,488,000
Cash flow interest rate risk		
Financial assets	1,432,589	1,254,753
Financial liabilities	-	-

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year. A 1 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would increase by $14,326 thousand and $12,547 thousand, respectively. Had market interest rates been 1 basis point lower, the impact would have been negative but at the same amounts.

c) Other price risk

The Group was exposed to equity price risks through its investments in listed companies and mutual funds.

Sensitivity analysis

Sensitivity analysis was used to measure equity price risks at the end of the reporting period. Had the position of domestic and foreign equity investments been 5% higher/lower, the Group's pre-tax profit for the year ended December 31, 2018 would increase/decrease by $35,384 thousand as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by $329 thousand as a result of the changes in fair value of financial assets at FVTOCI, and the pre-tax profit for the year ended December 31, 2017 would have increased/decreased by $24,245 thousand as a result of the changes in fair value of financial assets held for trading, and the pre-tax other comprehensive income for the year ended December 31, 2017, would have increased/decreased by $414 thousand as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from:

a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and

b) The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The evaluation results generated by the internal system and the evaluation report provided by the external hedging institution are both taken into consideration before granting the appropriate credit line to counterparties. The counterparties' transaction type, financial position and collaterals are also taken into consideration. All credit lines have expiration dates and are subject to reexamination before the granting of any extensions.

As of December 31, 2018 and 2017, the Group's five largest customers accounted for 68% and 60% of total accounts receivable, respectively, and the concentration of credit risk was relatively insignificant for the remaining accounts receivable. After considering specific factors and conducting risk evaluation, the credit risks of the Group's five largest customers would not have had any material impact on the Group.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Since the Group has sufficient equity and working capital, which ensure compliance with loan covenants, the Group has no liquidity risk.

The following tables show the Group's remaining contractual maturities for its financial liabilities with agreed-upon repayment periods.

December 31, 2018

	Less than 1 Year	**2 to 3 Years**	**More than 3 Years**	**Total**
Non-derivative financial liabilities				
Short-term debts	$ 1,474,320	$ -	$ -	$ 1,474,320
Long-term debts	-	-	-	-
	$ 1,474,320	$ -	$ -	$ 1,474,320

December 31, 2017

	Less than 1 Year	2 to 3 Years	More than 3 Years	Total
Non-derivative financial liabilities				
Short-term debts	$ 1,488,000	$ -	$ -	$ 1,488,000
Long-term debts	-	-	-	-
	$ 1,488,000	$ -	$ -	$ 1,488,000

e. Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet since the offsetting criteria are met.

The tables below present the quantitative information on financial assets and financial liabilities that have been offset in the balance sheet.

December 31, 2018

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet
Accounts receivable	$ 7,004,747	$ (2,089,622)	$ 4,915,125

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet
Accounts payable	$ 6,719,835	$ (2,089,622)	$ 4,630,213

December 31, 2017

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet
Accounts receivable	$ 7,052,022	$ (1,979,022)	$ 5,073,000

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet
Accounts payable	$ 7,271,155	$ (1,979,022)	$ 5,292,133

36. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries that are related parties of the Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

Related Party Name	Related Party Category
Tatung Co.	Investors with significant influence over the Group
Tatung consumer products (Taiwan) Co., Ltd.	Associates of the investors with significant influence over the Group
Tatung System Technologies Inc.	Associates of the investors with significant influence over the Group
Chunghwa Picture Tubes, Ltd.	Associates of the investors with significant influence over the Group
TATUNG CZECH s.r.o	Associates of the investors with significant influence over the Group
Central Research Technology Co.	Associates of the investors with significant influence over the Group
CPTF Optronics Co., Ltd.	Associates of the investors with significant influence over the Group
TISNet Technology Inc.	Associates of the investors with significant influence over the Group
IoTecha Corp.	Associates

b. Sales of goods

Related Party Category	For the Year Ended December 31 2018	2017
Investors with significant influence over the Group	$ 490,037	$ 50,060
Associates	7,964	6,461
Associates of the investors with significant influence over the Group	24	281
	$ 498,025	$ 56,802

The terms and conditions of sales transactions with related parties were not significantly different from those for third parties.

c. Purchases of goods

Related Party Category	For the Year Ended December 31 2018	2017
Investors with significant influence over the Group	$ 1,631	$ 4
Associates of the investors with significant influence over the Group	31	2,380
	$ 1,662	$ 2,384

d. Receivables from related parties

Line Items	Related Party Category	December 31 2018	2017
Accounts receivable	Investors with significant influence over the Group	$ 239,151	$ 44,703
	Associates	853	2,681
		$ 240,004	$ 47,384
Other accounts receivable	Associates that have significant influence over the Group	$ 527	$ -
	Investors with significant influence over the Group	301	11
		$ 828	$ 11

The outstanding receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for receivables from related parties.

e. Payables to related parties

Line Items	Related Party Category	December 31 2018	2017
Other accounts payable	Investors with significant influence over the Group	$ 1,468	$ 41
	Associates of the investors with significant influence over the Group	77	190
		$ 1,545	$ 231

The outstanding payables from related parties are unsecured and will be settled in cash.

f. Acquisition of other assets

Related Party Category	Purchase Price For the Year Ended December 31 2018	2017
Associates of the investors with significant influence over the Group	$ -	$ 3,600

g. Other operating expenses

Related Party Category	Line Item	For the Year Ended December 31 2018	2017
Associates of the investors with significant influence over the Group	Repair expenses	$ 8,486	$ 8,647
	Service expense	459	479
	Other	-	132
		$ 8,945	$ 9,258
Investors with significant influence over the Group	Service expense Other	$ 85	$ 1,475

h. Other transactions with related parties

Related Party Category	Line Item	For the Year Ended December 31 2018	2017
Associates	Other revenue	$ 215	$ 5
Investors with significant influence over the Group	Other revenue	14	-
		$ 229	$ 5

i. Compensation of key management personnel

The compensation of key management personnel for the year ended December 31, 2018 and 2017 is as follows:

	For the Year Ended December 31 2018	2017
Short-term employee benefits	$ 63,309	$ 70,789
Post-employment benefits	660	614
	$ 63,969	$ 71,403

The remuneration of directors and key executives was determined by the remuneration committee with regard to the performance of individuals and market trends.

37. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as guarantees for the tariff of imported raw materials:

	December 31 2018	2017
Pledge deposits (classified as financial assets at amortized cost)	$ 4,394	$ -
Pledge deposits (classified as other receivables)	$ -	$ 25,359

38. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between the foreign currencies and respective functional currencies are as follows:

December 31, 2018

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 387,597	30.715	$ 11,905,032
HKD	895	3.921	3,511
JPY	5,689	0.2782	1,583
RMB	129	4.475	577
Non-monetary items			
Financial assets held for trading			
USD	2,095	30.715	64,355
Financial liabilities			
Monetary items			
USD	288,582	30.715	8,863,786
HKD	3,272	3.921	12,831
JPY	5,600	0.2782	1,558
RMB	290	4.475	1,299

December 31, 2017

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 286,617	29.76	$ 8,529,713
EUR	7	35.57	244
HKD	893	3.807	3,401
Non-monetary items			
Financial assets held for trading			
USD	2,095	29.76	62,339
Financial liabilities			
Monetary items			
USD	330,848	29.76	9,846,035
HKD	4,503	3.807	17,142
EUR	130	35.57	4,608

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains (losses) were $137,030 thousand and $85,421 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

39. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others (Table 1)

2) Endorsements/guarantees provided (Table 2)

3) Marketable securities held (Table 3)

4) Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital (None)

5) Acquisition of individual real estate at costs of at least NT $300 million or 20% of the paid-in capital (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 4)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 5)

9) Trading in derivative instruments (None)

10) Intercompany relationships and significant intercompany transactions (Table 9)

11) Information on investees (Table 6)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 8):

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

40. SEGMENT INFORMATION

The Group mainly produces and sells computer equipment, chief operating decision maker distributes resources and allocates operating performance depending on financial information. The Group has only one reportable segment and mainly produces and sells computer equipment; thus, based on IFRS 8 “Operating Segments”, there is no need to disclose segment information.

a. Revenue from major products and services:

The Group mainly produces and sells computer equipment; thus, there is no need to disclose additional information.

b. Geographical information:

The Group’s information on its revenue from external customers and non-current assets by location of assets is shown below:

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
Asia	$ 30,109,429	$ 27,727,523	$ 4,909,384	$ 4,986,473
America	1,686,587	2,219,817	55,604	54,370
	$ 31,796,016	$ 29,947,340	$ 4,964,988	$ 5,040,843

Non-current assets exclude financial instruments, deferred tax assets, and net defined benefit assets.

c. Information about major customers:

Single customers which contributed 10% or more to the Group’s revenue are as follows:

	For the Year Ended December 31	
	2018	2017
Customer A	$ 12,793,162	$ 7,725,890
Customer B	3,636,732	3,007,346
Customer C	3,158,528	3,180,404
	$ 19,588,422	$ 13,913,640

TABLE 1

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
1	Elitegroup Computer (Suzhou Industrial Park) Ltd.	Golden Elite Technology (Shenzhen) Co., Ltd. (興英數位科技(深圳)有限公司)	Other receivables	Y	$ 22,505 (RMB 5,000,000) (Note 2)	$ 22,375 (RMB 5,000,000) (Note 3)	$ 22,375	1.755	Short-term financing	$ -	Operational needs	$ -	N/A	$ -	$ 48,424 (Note 4)	$ 193,695 (Note 4)	

Note 1: The nature of financing is provided as follows:

a. Business relationship: 1
b. The invested company was marked from 1 in ascending order of numerals.

Note 2: The calculation of the amount was based on the highest exchange rate during 2018.

Note 3: The calculation of the amount was based on the closing rate on December 31, 2018.

Note 4: The total amount of lending to borrower for funding of short-term period shall not exceed one hundred percent of lender’s net worth. Individale amount of lending shall not exceed five percent of lender’s net worth.

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
1	Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Elitegroup Computer Systems Co., Ltd.	Parent company	$ 11,010,705 (Note 1)	$ 7,739 (US$ 250,000) (Note 3)	$ 7,679 (US$ 250,000) (Note 4)	$ 7,679 (Note 4)	$ -	0.07	$ 11,010,705 (Note 2)	N	Y	N

Note 1: The total amount of the guarantee provided by Elitegroup Computer Systems Co., Ltd. to any individual entity shall not exceed one hundred percent of Elitegroup Computer Systems Co., Ltd.'s net worth.

Note 2: The total accumulated amount of guarantee shall not exceed one hundred percent of Elitegroup Computer Systems Co., Ltd.'s net worth.

Note 3: The calculation of the amount was based on the highest exchange rate during 2018.

Note 4: The calculation of the amount was based on the closing rate on December 31, 2018.

TABLE 3

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018					Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value/ Net Asset Value (Note 1)	Maximum Shares/Units Held During the Year	
Elitegroup Computer Systems Co., Ltd.	Common shares								
	Lu-Chu Development Corporation	No	Financial assets at fair value through profit or loss - non-current	4,410,000	$ 44,100	2.24	$ 44,100	4,410,000	
	Trigem Computer Inc.	No	Financial assets at fair value through profit or loss - non-current	16	18	-	18	16	
	Beneficiary certificate								
	Taishin 1699 Money Market Fund	No	Financial assets at fair value through profit or loss - current	5,924,790	80,029	-	80,029	9,849,610	
	Union Money Market Fund	No	Financial assets at fair value through profit or loss - current	1,517,370	20,004	-	20,004	1,517,370	
	Nomura Global Short Duration Bond Fund-TWD	No	Financial assets at fair value through profit or loss - current	9,461,365	96,308	-	96,308	9,461,365	
	Franklin Templeton Sinoam Money Market Fund	No	Financial assets at fair value through profit or loss - current	14,552,887	150,199	-	150,199	14,583,266	
	Franklin Templeton SinoAm Preferred Securities Income Fund-Accu-TWD	No	Financial assets at fair value through profit or loss - current	2,000,000	19,560	-	19,560	2,000,000	
	Franklin Templeton SinoAm Asia Pacific Balanced Fund-Accu-TWD	No	Financial assets at fair value through profit or loss - current	1,846,722	17,249	-	17,249	1,846,722	
	Prudential Financial Strategic Return ETF Fund of Funds	No	Financial assets at fair value through profit or loss - current	1,989,251	19,181	-	19,181	1,989,251	
	Taishin RMB & USD Money Market Fund	No	Financial assets at fair value through profit or loss - current	5,000,000	50,479	-	50,479	10,000,000	
	JPMorgan (Taiwan) China Income Fund - Accumulation Share Class	No	Financial assets at fair value through profit or loss - current	3,048,869	35,145	-	35,145	3,048,869	
	Fuh Hwa Heirloom Balance II Fund	No	Financial assets at fair value through profit or loss - current	655,658	18,445	-	18,445	1,237,685	
	Fuh Hwa Global Balanced Fund-TWD	No	Financial assets at fair value through profit or loss - current	1,745,081	31,446	-	31,446	1,745,081	
	Fuh Hwa Olympic II Global Fund of Funds-TWD	No	Financial assets at fair value through profit or loss - current	2,790,009	36,214	-	36,214	3,140,394	
	SinoPac Greater China Convertible Bond Fund (Segregated Portfolio) Class A	No	Financial assets at fair value through profit or loss - current	20,339	64,355	-	64,355	20,339	
Elitegroup Computer Systems (HK) Co., Ltd.	Beneficiary certificate								
	SinoPac Greater China Convertible Bond Fund	No	Financial assets at fair value through profit or loss - current	7,882	24,940 (US$ 811,985)	-	24,940 (US$ 811,985)	7,882	
Elitegroup Computer Systems Inc. (USA)	Share								
	MiTAC Holdings Corporation	No	Financial assets at fair value through other comprehensive income - non-current	266,748	6,575 (US$ 214,076)	0.03	6,575 (US$ 214,076)	266,748	
Beijing Advazone Electronic Co., Ltd.	Share								
	Beijing Beareyes Info Systems Co., Ltd.	No	Financial assets at fair value through profit or loss - non-current	-	- (RMB -)	-	- (RMB -)	-	

Note 1: The above marketable securities had not been used as guarantees or collaterals for borrowing and were not subject to other restrictions.

TABLE 4

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Elitegroup Computer Systems Co., Ltd.	Elitegroup Computer Systems Inc. (USA)	Subsidiary of ECS Holding (America) Co. (USA)	Sale	$ 515,897	2	OA 60 days	$ -	-	$ -	-	1
	Super ECS USA Inc.	Subsidiary of ECS Holding (America) Co. (USA)	Sale	1,035,417	4	OA 90 days	-	-	86,991	2	1
	Tatung Co.	Investors with significant influence over the Group	Sale	489,902	2	Open account 90 days	-	-	239,151	5	-
	ECS Trading (Shenzhen) Co., Ltd.	Subsidiary of Unique Sino Limited	Sale	141,167	-	OA 90 days	-	-	116,115	3	1
	Golden Elite (Shenzhen) Co., Ltd.	Subsidiary of Million Up Finance Limited	Purchase	(11,062,367)	(41)	OA 75 days	-	-	(1,392,075)	(49)	1
Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Elitegroup Computer Systems Co., Ltd.	Ultimate parent company	Sale	11,062,367	91	OA 75 days	-	-	1,392,075	69	1
Elitegroup Computer Systems Inc. (USA)	Elitegroup Computer Systems Co., Ltd.	Ultimate parent company	Purchase	(515,897)	(100)	OA 60 days	-	-	-	-	1
Super ECS USA Inc.	Elitegroup Computer Systems Co., Ltd.	Ultimate parent company	Purchase	(1,035,417)	(100)	OA 90 days	-	-	(86,991)	(100)	1
ECS Trading (Shenzhen) Co., Ltd.	Elitegroup Computer Systems Co., Ltd.	Ultimate parent company	Purchase	(141,167)	(69)	OA 90 days	-	-	(116,115)	(100)	1

Note 1: The above transactions and ending balances of accounts receivable (payable) were not included in the consolidated financial statements.

TABLE 5

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Receivables from Related Parties Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note 1)	Allowance for Impairment Loss
					Amount	Actions Taken		
Elitegroup Computer Systems Co., Ltd.	Tatung Co.	Investors with significant influence over the Group	$ 239,452	3.45	$ 49,967	Strengthen the collection	$ 145,385	$ -
	ECS Trading (Shenzhen) Co., Ltd.	Subsidiary of Unique Sino Limited	116,115	2.43	34,462	Strengthen the collection	99,081	-
	Dragon Asia Trading Co., Ltd. (BVI)	Subsidiary of Elitegroup Computer Systems Co., Ltd.	2,129,379 (Note 3)	-	-	-	-	-
Dragon Asia Trading Co., Ltd. (BVI)	Million Up Finance Limited	Subsidiary of Dragon Asia Trading Co., Ltd. (BVI)	2,129,379 (Note 3)	-	-	-	-	-
Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Elitegroup Computer Systems Co., Ltd.	Ultimate parent company	1,392,075	6.46	-	-	1,392,075	-
Elitegroup Computer (Suzhou Industrial Park) Ltd.	Elitegroup Computer Systems Co., Ltd.	Ultimate parent company	304,770	-	304,770	Strengthen the collection	-	-
	Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Subsidiary of Million Up Finance Limited	127,713	0.15	124,758	Strengthen the collection	-	-

Note 1: The subsequent period is between January 1 and February 28, 2018.

Note 2: The above transaction and ending balance of accounts receivable (payable) were not included in the consolidated financial statements.

Note 3: The amount was the capital reduction of Dragon Asia Trading Co., Ltd. (BVI) and Million Up Finance Limited by US$69,327 thousand due to the Mainland Assets Activation Plan.

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount (Note 1)		As of December 31, 2018			Net Income (Loss) of the Investee (Note 2)	Share of Profit (Loss) (Note 2)	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount (Note 1)			
Elitegroup Computer Systems Co., Ltd.	Elitegroup Computer Systems (HK) Co., Ltd.	Hong Kong	Sale of motherboards, computer peripheral products and related components	$ 62,413	$ 62,413	16,560,000	100.00	$ 277,008	$ 4,642	$ 4,642	Note 3
	Elitegroup Computer Systems (Japan) Co., Ltd.	Japan	Sale of motherboards, computer peripheral products and related components	19,078	19,078	1,136	100.00	23,602	715	1,716	Note 3
	Elitegroup Computer Systems Holding Co., Ltd. (BVI)	British Virgin Islands	Investment holding	965,081	965,081	25,225,805	100.00	411,349	(75,086)	(75,086)	Note 3
	ECS Holding (America) Co. (USA)	USA	Investment holding	830,259	830,259	3,362	100.00	750,922	11,254	11,249	Note 3
	Elitegroup Computer Systems (Korea) Co., Ltd.	Korea	Sale motherboards, maintenance and intermediary of products	66,780	66,780	469,000	100.00	8,906	(1,413)	(1,413)	Note 3
	Dragon Asia Trading Co., Ltd. (BVI)	British Virgin Islands	Investment holding	3,611,459	5,628,528	99,635,512	100.00	1,628,787	(50,565)	(51,876)	Notes 3, 6,7 and 8
	Unitop International Corp.	British Virgin Islands	Investment holding	399,151	399,151	2,600	100.00	1,005,600	(37,771)	(37,729)	Note 3
	Unity Investments Limited	Samoa	Investment holding	62,052	62,052	1,905,000	100.00	75,295	3,422	3,422	Note 3
	Trid Pacific Inc.	Taiwan	Research, development, design and sales of artificial satellite integration and image data processing	-	9,450	-	-	-	(12,489)	(3,723)	Note 3
	ECS Holding (HK) Co., Ltd.	Hong Kong	Investment holding	511,599	511,599	17,000,000	100.00	526,886	12,476	12,476	Note 3
Elitegroup Computer Systems Holding Co., Ltd. (BVI)	Venture Well Holdings Limited. (BVI)	British Virgin Islands	Investment holding	674,329 (US$ 21,954,373)	674,329 (US$ 21,954,373)	21,954,373	68.45	348,562 (US$ 11,348,252)	5,076 (US$ 168,125)	3,474 (US$ 115,082)	Note 3
ECS Holding (America) Co. (USA)	Elitegroup Computer Systems Inc. (USA)	USA	Sale of motherboards, notebook computers, computer peripheral products, related components and systems assembled	515,172 (US$ 16,772,643)	515,172 (US$ 16,772,643)	47,552	100.00	610,904 (US$ 19,889,451)	9,785 (US$ 342,125)	9,785 (US$ 324,125)	Note 3
	Super ECS USA, Inc.	USA	Sale of motherboards, computer peripheral products and related components	15,358 (US$ 500,000)	15,358 (US$ 500,000)	2,500,000	100.00	110,927 (US$ 3,611,503)	11,322 (US$ 375,050)	11,322 (US$ 375,050)	Note 3
	IoTecha Corp.	USA	Design and development of intelligent charging system and software	65,269 (US$ 2,125,000)	46,073 (US$ 1,500,000)	3,108,942	23.70	- (US$ -)	(67,104) (US$ -2,222,784)	(10,338) (US$ -342,458)	Notes 3 and 9
Dragon Asia Trading Co., Ltd. (BVI)	Million Up Finance Limited.	British Virgin Islands	Investment holding	1,499,598 (US$ 48,823,000)	3,628,977 (US$ 118,150,000)	29,823,000	100.00	1,429,104 (US$ 46,527,899)	(27,112) (US$ -898,065)	(50,565) (US$ -1,674,960)	Notes 3, 6, 7 and 8
Unity Investments Limited	Unique Sino Limited	Samoa	Investment holding	58,051 (US$ 1,890,000)	58,051 (US$ 1,890,000)	1,890,000	100.00	75,276 (US$ 2,450,775)	3,422 (US$ 113,336)	3,422 (US$ 113,336)	Note 3
Venture Well Holdings Limited. (BVI)	Alpha Leader Limited. (HK)	Hong Kong	Trading of IC and electric components	614,300 (US$ 20,000,000)	614,300 (US$ 20,000,000)	155,600,000	100.00	400,676 (US$ 13,044,948)	4,332 (US$ 143,481)	4,332 (US$ 143,481)	Note 3
	Advazone International Ltd. (BVI)	British Virgin Islands	Investment holding	569,763 (US$ 18,550,000)	569,763 (US$ 18,550,000)	18,550,000	100.00	105,739 (US$ 3,442,600)	761 (US$ 25,204)	761 (US$ 25,204)	Note 3
	Affirm International Ltd. (BVI)	British Virgin Islands	Investment holding	134,532 (US$ 4,380,000)	134,532 (US$ 4,380,000)	4,380,000	100.00	44 (US$ 1,446)	- (US$ 5)	- (US$ 5)	Note 3
Alpha Leader Limited. (HK)	Orbbit International Corp.	Taiwan	Sale of IC and electric components	- (US$ -)	22,173 (US$ 721,881)	-	-	- (US$ -)	136 (US$ 4,617)	136 (US$ 4,617)	Notes 3 and 5
Affirm International Limited. (BVI)	Protac International Computer, S.L.	Spain	Sale of computer peripheral products	- (US$ -)	- (US$ -)	-	100.00	- (US$ -)	- (US$ -)	- (US$ -)	Notes 3 and 4

(Continued)

Note 1: The amount was calculated based on the closing rate on December 31, 2018.

Note 2: The amount was calculated using the average exchange rates from January to December 2018.

Note 3: The financial statements used as a basis for calculating investment income had all been audited, except those of Protac International Computer, S.L., IoTecha Corp., Elitegroup Computer Systems (Japan) Co., Ltd. and Trid Pacific Inc.

Note 4: The Company is in the process of liquidation.

Note 5: Orbbit International Corp. was resolved to be liquidated by its board of directors in June 2018 and had completed the liquidation process in March 2018. The remaining share proceeds of US$464 thousand were remitted to its investor, Alpha Leader Limited in April 2018.

Note 6: The board of directors of the Company approved the capital reduction of its subsidiaries, Dragon Asia Trading., Ltd. and Million Up Finance Limited, in the amount of US$69,327 thousand. As of February 2019, these amounts had not been remitted to the Company.

Note 7: The board of directors of the Company approved the supplementary contract of Mainland Assets Activation Plan, and transferred 52% interest in Dragon Asia according to phase 1 of the contract; however, the equity investment will be derecognized until the Company loses control over Dragon Asia. Refer to Note 14.

Note 8: The transfer amount of 52% interest in Dragon Asia (RMB600,000 thousand) had been remitted to the Company on March 27, 2018 and was included in other advances received item. The transaction was authorized by Investment Commission, MOEA on May 1, 2018.

Note 9: ECS Holding (America) Co. (USA) held 2,000,000 shares (15.25%) of the ordinary shares and 1,108,942 shares (8.45%) of the preference shares of IoTecha Corp. as of December 31, 2018.

(Concluded)

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (Note 2)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (Note 2)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (Note 2)	Net Income (Loss) of the Investee (Note 3)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 1 and 3)	Carrying Amount as of December 31, 2018 (Note 2)	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Xun Rui Electron (Shenzhen) Co., Ltd.	Manufacture and maintenance of electric equipment and instrument, computer peripheral products and cases	$ 32,251 (US$ 1,050,000)	Indirect investment by Elitegroup Computer Systems (HK) Co., Ltd.	$ 24,410 (US$ 794,718)	$ -	$ -	$ 24,410 (US$ 798,718)	$ 1,928 (RMB 422,651)	100.00	$ 1,928 (US$ 63,855)	$ 19,542 (US$ 636,247)	$ -	-
Beijing Xun Ron Technology Co., Ltd.	Manufacture and maintenance of electric equipment and instrument, computer peripheral products and cases	49,144 (US$ 1,600,000)	Indirect investment by Elitegroup Computer Systems (HK) Co., Ltd.	53,431 (US$ 1,739,577)	-	-	53,431 (US$ 1,739,577)	223 (RMB 48,997)	100.00	223 (US$ 7,403)	78,000 (US$ 2,539,491)	-	-
Beijing Advazone Electronic Co., Ltd.	Wholesale, maintenance and technical consultation of computers and peripheral products and related components	494,512 (US$ 16,100,000)	Indirect investment by Advazone International Ltd. (BVI) of Venture Well Holdings Limited. (BVI) of Elitegroup Computer Systems Holding Co., Ltd. (BVI)	342,906 (US$ 11,164,138)	-	-	342,906 (US$ 11,164,138)	828 (RMB 181,549)	68.45	828 (US$ 27,429)	105,526 (US$ 3,435,659)	-	-
ECS Trading (Shenzhen) Co., Ltd.	Wholesale, trade, maintenance and technical consultation of computers and peripheral products	61,430 (US$ 2,000,000)	Indirect investment by Unique Sino Limited of Unity Investments Limited	61,430 (US$ 2,000,000)	-	-	61,430 (US$ 2,000,000)	3,422 (RMB 750,167)	100.00	3,422 (US$ 113,336)	75,273 (US$ 2,450,700)	-	-
Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Manufacture, research and development of PCBs, motherboards, systems, assembly of notebook computers, tablets and peripheral products	3,040,785 (US$ 99,000,000)	Indirect investment by Million Up Finance Limited. of Dragon Asia Trading Co., Ltd. (BVI)	3,626,158 (US$ 118,058,217)	-	2,751,736 (US$ 94,756,753)	715,704 (US$ 23,301,464)	(23,371) (RMB -5,124,012)	100.00 (Notes 5 and 6)	(23,371) (US$ -774,144)	3,111,200 (US$ 101,292,531)	-	-
Golden Elite (Shenzhen) Co., Ltd. (興英數位科技(深圳)有限公司)	Manufacture, research and development of PCBs, motherboards, systems, assembly of notebook computers, tablets and peripheral products	- (US$ -)	Indirect investment by Million Up Finance Limited. of Dragon Asia Trading Co., Ltd. (BVI)	- (US$ -)	-	-	- (US$ -)	(3,767) (RMB -839,587) (Note 8)	100.00 (Note 7)	(3,767) (US$ -122,455) (Note 8)	(3,757) (US$ -122,332)	-	-
Elitegroup Computer (Suzhou Industrial Park) Ltd.	Research, development and manufacture of notebook computers, tablets and related components	798,590 (US$ 26,000,000)	Indirect investment by Unitop International Corp.	798,590 (US$ 26,000,000)	-	-	798,590 (US$ 26,000,000)	(31,156) (RMB -6,830,895)	100.00	(31,156) (US$ -1,032,022)	968,476 (US$ 31,531,038)	539,820 (US$ 18,000,000)	-
ECS Digital Technology (Shenzhen) Ltd.	Manufacture, research and development of PCBs, motherboards, systems, assembly of notebook computers, tablets and peripheral products	168,933 (US$ 5,500,000)	Indirect investment by ECS Holding (HK) Co., Ltd.	168,933 (US$ 5,500,000)	-	-	168,933 (US$ 5,500,000)	5,705 (RMB 1,250,887)	100.00	5,705 (US$ 188,986)	166,311 (US$ 5,414,660)	-	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 4)
$2,165,404 (US$70,499,897) (Note 2)	$6,460,779 (US$210,346,042) (Note 2)	$ -

Note 1: The calculation of investment income (loss) was based on the investees' audited financial statements.

Note 2: The calculation was based on the closing rate as of December 31, 2018.

Note 3: The calculation was based on the average exchange rate from January to December 2018.

Note 4: On March 13, 2018, the Company obtained the certification as being qualified for operating the headquarters, which was issued by the Industrial Development Bureau, MOEA (Letter No. 10620404950), the effective period being from February 23, 2017 to February 22, 2020; thus, the ceiling amount of investment in mainland China is not applicable to the Company.

Note 5: The board of directors of the Company approved the supplementary contract of Mainland Assets Activation Plan, and transferred 52% interest in Dragon Asia according to phase 1 of the contract; however, the equity investment will be derecognized until the Company loses control over Dragon Asia. Refer to Note 14.

Note 6: The transfer amount of 52% interest in Dragon Asia (RMB600,000 thousand) had been remitted to the Company on March 27, 2018. The transaction was authorized by Investment Commission, MOEA on May 1, 2018.

Note 7: The board of directors of the Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司) approved the splitting process of Mainland Assets Activation Plan, which divided non-target assets to Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司). Refer to Note 14.

Note 8: The calculation was based on the average exchange rates from July to December 2018.

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Transaction Type	Purchase/Sale		Comparison of Price with Market	Transaction Details		Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss	Note
		Amount	%		Payment Terms	Comparison with the Market	Ending Balance	%		
Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	Purchase	$ (11,062,367)	(41.00)	No significant difference	OA 75 days	No significant difference	$ (1,392,075)	(49.00)	$ 7,966	Notes 1 and 2
Elitegroup Computer (Suzhou Industrial Park) Ltd.	Purchase	-	-	No significant difference	OA 60 days	No significant difference	(299,173)	(10.00)	-	Note 1
ECS Trading (Shenzhen) Co., Ltd.	Sale	141,167	-	No significant difference	OA 90 days	No significant difference	116,115	3.00	-	Note 1

Note 1: The above transaction and ending balance of accounts receivable (payable) were not included in the consolidated financial statements.

Note 2: Unrealized profit and loss due to upstream transactions.

TABLE 9

ELITEGROUP COMPUTER SYSTEMS CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets (Note 3)
0	Elitegroup Computer Systems Co., Ltd.	Elitegroup Computer Systems Inc. (USA)	a	Sales revenue	$ 515,897	No significant difference	2
		Super ECS USA Inc.	a	Sales revenue	1,035,417	No significant difference	3
		Super ECS USA Inc.	a	Accounts receivable from related parties	86,991	No significant difference	-
		Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	a	Purchases	(11,062,367)	No significant difference	(35)
		Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	a	Accounts payable to related parties	(1,392,075)	No significant difference	(6)
		Elitegroup Computer (Suzhou Industrial Park) Ltd.	a	Accounts payable to related parties	(299,173)	No significant difference	(1)
		Elitegroup Computer (Suzhou Industrial Park) Ltd.	a	Other accounts payable to related parties	(5,597)	No significant difference	-
		Dragon Asia Trading Co., Ltd. (BVI)	a	Other accounts receivable from related parties	2,129,379	No significant difference	9
		ECS Trading (Shenzhen) Co., Ltd.	a	Sales revenue	141,167	No significant difference	-
		ECS Trading (Shenzhen) Co., Ltd.	a	Accounts receivable from related parties	116,115	No significant difference	-
1	Elitegroup Computer (Suzhou Industrial Park) Ltd.	Golden Elite (Shenzhen) Co., Ltd. (興英科技(深圳)有限公司)	c	Other receivable from related parties	127,713	No significant difference	1
2	Dragon Asia Trading Co., Ltd. (BVI)	Million Up Finance Limited	c	Other receivable from related parties	2,129,379	No significant difference	9

Note 1: The information about the transactions between the Company and the subsidiaries should be marked in the note column as follows:

a. The Company: 0.
b. The subsidiaries were marked from 1 in ascending order of numerals.

Note 2: Investment types are marked as follows:

a. The Company to the subsidiaries.
b. The subsidiaries to the Company.
c. Between subsidiaries.

Note 3: The ratio of the transaction amounts accounted for total sales revenue or assets is calculated as follows: (1) Asset or liability: The ratio was calculated based on the ending balance accounted for total consolidated assets; (2) Income or loss: The ratio was calculated based on the midterm accumulated amounts accounted for total consolidated sales revenue.

Note 4: The above transactions were not included in the consolidated financial statements.