

Stock Code: 2395

ADVANTECH

Enabling an Intelligent Planet

Advantech Co.,Ltd.

Annual General Shareholders Meeting for 2018

Meeting Handbook

May 24 , 2018

Advantech Co., Ltd.

Procedure for the 2018 General Shareholders' Meeting

1. Call the Meeting to Order
2. Chairperson Remarks
3. Report Items
4. Acknowledgement Items
5. Discussion Items
6. Other Business and Special Motions
7. Adjournment

I. Agenda of Annual Meeting

Advantech Co., Ltd. Agenda of 2018 General Shareholders' Meeting

Time: 9:00 a.m. on May 24 (Thursday), 2018

Place: (Neihu Headquarters) B1, No. 1, Line 20, Lane 26, Rueiguang Road, Neihu District, Taipei City

1. Call the Meeting to Order

2. Chairperson Remarks

3. Report Items

(1) The 2017 Business Report

(2) The Audit Committee's Review Report on the 2017 Financial Statements

(3) Report of Employees' compensation and Directors' compensation of 2017

(4) The Status of Endorsement and Guarantee in 2017

4. Acknowledgement Items

(1) Adoption of the 2017 Business Report and Financial Statements

(2) Adoption of the Proposal for Distribution of 2017 Earnings

5. Discussion Items

(1) Amendment to the "Articles of Incorporation".

(2) Discussion of the listing plan of the company's subsidiary LNC Technology Co. Ltd. In order to meet the requirements of applicable laws and regulations, we intend to have the shareholders authorize through the meeting that the Board of Directors may handle related capital increase by cash and release of shares within one year for the subsidiary.

6. Other Business and Special Motions

7. Adjournment

1. Report Items

Report No. 1

Cause of action : The 2017 Business Reports.

Explanation : The 2017 Business Report is attached as Attachment I.

Report No. 2

Cause of action : The Audit Committee's Review Report on the 2017 Financial Statements.

Explanation : The 2017 Audit Committee's Review Report is attached as Attachment II.

Report No. 3

Cause of action : Report of Employees' compensation and Directors' compensation of 2017.

Explanation Pursuant to Article 20 of the company's Articles of Incorporation, in consideration of the company's overall business operations and the payment standard of the industry, it is recommended to appropriate an amount of NT\$273,000,000 as bonus to employees (If it includes a performance achievement bonuses, the total amount will be NTD 773,000,000) and NT\$10,600,000 as remuneration to directors paid in cash from the net income of 2017.

1. There is no difference between the amount approved by the Board of Directors and the amount recognized as an expense in 2017.
2. The proposal has passed in the Remuneration Committee meeting.

Report No. 4

Cause of action : The Status of Endorsement and Guarantee in 2017.

Explanation :

1. In compliance with the company's "Procedure for Making of Endorsements and Guarantees".
2. The company issued a letter of guarantee to endorse and guarantee the subsidiaries' purchase of materials and short-term bank loan in response to the subsidiary's business operation. The balance of endorsement and guarantee amounted to NT\$1,688,738 thousand as of December 31, 2017, representing 24.23% of the company's paid-in capital.
3. Please review the statement of endorsement and guaranteed amount enclosed.

Guarantor (Company)	Subsidiary of the guaranteed company	Category	Amount (original currency ___K)	NTD (NTD___K)	Remarks
Advantech (ACL)	Advantech Corporation.	short-term bank loan	USD30,000	\$892,800	Under the limit (Note2)
Advantech (ACL)	B+B SmartWorx Inc.	short-term bank loan	USD10,000	297,600	Under the limit (Note2)
Advantech (ACL)	Cermate Technologies Inc.	short-term bank loan	USD1,000	29,760	Under the limit (Note2)
Advantech (ACL)	Advanixs Corp.	short-term bank loan	USD1,600	47,616	Under the limit (Note2)
Advantech (ACL)	Advantech Technology (China)Company Ltd. (AKMC)	short-term bank loan	USD6,000	178,560	Under the limit (Note2)
Advantech (ACL)	Advantech Intelligent Service.	short-term bank loan	USD150	4,464	Under the limit (Note2)
Advantech (ACL)	LNC Technology Co.,Ltd.	short-term bank loan	USD1,500	44,640	Under the limit (Note2)
Advantech (ACL)	AdvantechPOS Technology Co.,Ltd.	short-term bank loan	USD1,000	29,760	Under the limit (Note2)
Advantech (ACL)	Advantech KR Co., Ltd	short-term bank loan	USD50	1,488	Under the limit (Note2)
Advantech (ACL)	Advantech Australia Pty Limited.	short-term bank loan	USD200	5,952	Under the limit (Note2)
Advantech (ACL)	DLOG Gesellschaft für elektronische Datentechnik mbH	short-term bank loan	EUR1,000	35,570	Under the limit (Note2)
Advantech (ACL)	Advantech Brasil Ltda	short-term bank loan	USD1,500	44,640	Under the limit (Note2)
Advantech (ACL)	Shenzhen Cermate Technologies Inc.	short-term bank loan	USD550	16,368	Under the limit (Note2)
Advantech (ACL)	Advantech LNC Dong Guan Co.,Ltd.	short-term bank loan	USD2,000	59,520	Under the limit (Note2)
Total				\$1,688,738	Under the limit (Note1)

Note: The amount of limit is calculated in accordance with the company's Rules for Making of Endorsements and Guarantees:

- (1) Maximum endorsement and guarantee amounted to NT\$8,274,321 thousand.
- (2) Maximum endorsement and guarantee for one single enterprise amounted to NT\$ 2,758,107thousand.
- (3) The amount of limit referred to above is calculated in accordance with the net value NT\$27,581,074 thousand stated in the 2017 audited financial statements.

2. Acknowledgement Items

Acknowledgement

(Proposed by the Board of Directors)

1:

Cause of action : Adoption of the 2017 Business Report and Financial Statements.

Explanation : 1. The 2017 business report and standalone financial statements. (including consolidated financial statements) were composed by the Board of Directors. The company's financial statements were audited by independent auditors, M.J. Chiou and Jr-Shian Ke, of Deloitte & Touche and were reviewed by the supervisor along with the business report with a written audit report issued.
2. The Business Report, independent auditor's report, and Financial Statements are enclosed as Attachment I and Attachment III.
3. Please acknowledge.

Resolution :

Acknowledgement: 2

(Proposed by the Board of Directors)

Cause of action : Adoption of the Proposal for Distribution of 2017 Earnings.

Explanation : 1. Please refer to the 2017 profit distribution table in Attachment IV.
2. The net income of the company amounted to NT\$6,156,516,726 for 2017. Added the beginning unappropriated earnings of NT\$3,162,453,946 and deducted actuarial loss recognized in retained earnings of NT\$21,073,792, the legal reserve of NT\$615,651,673 and special reserve of NT\$284,451,025, the distributable earnings for 2017 amounted to NT\$8,397,794,182 resulted to be distributed as follows:

- (1) The amounts of NT\$4,600,414,566 out of the 2017 earnings are appropriated for distribution as cash dividends, respectively. There were 697,032,510 shares of common stock outstanding on December 31, 2017 that are entitled to the distribution of shareholder's dividend at NT\$6.6 per share.
- (2) The distribution of cash dividend is calculated to the dollar (round up to the dollar). The total amount of the odd shares with a distribution of less than NT\$1 will be booked as the other income or other expense of the company.
- (3) The current distribution of earnings is scheduled before the dividend benchmark date. If there is any change in the yield rate as a result of any change in the company's outstanding shares, a request is to be made in the shareholders' meeting having the Chairman authorized to handle matters related to the changes.
- (4) Upon the approval of the Annual General Shareholder's Meeting, it is proposed that the Chairman is authorized to resolve the ex-dividend date and other relevant issues.

Resolution :

3. Discussion Items

Discussion 1

(Proposed by the Board of Directors)

- Cause of action : Amendment to the “ Articles of Incorporation ”. Please proceed to discuss.
- Explanation : 1. In order to comply with the laws and relevant regulations and to conform to the needs of commercial practice, the company hereby proposes to amend the Articles of Incorporation. Please refer to Attachment V.
2. Please proceed to discuss.
- Resolution :

Discussion: 2

(Proposed by the Board of Directors)

- Cause of action : Discussion of the listing plan of the company’s subsidiary LNC Technology Co.Ltd. In order to meet the requirements of applicable laws and regulations, we intend to have the shareholders authorize through the meeting that the Board of Directors may handle related capital increase by cash and release of shares within one year for the subsidiary. Please proceed to discuss.
- Explanation : 1 In order to help with the operation and development of the subsidiary LNC Technology Co.Ltd. and help attract and retain required professional talent, listing of stock will be sought for LNC Technology Co.Ltd. in the future. As required under Article 2 Sub-paragraph 5 of the Taipei Exchange Supplemental Rules Governing Applications by Group Enterprises for TPEX Listing of Stock, the shares held by the company and all of its subsidiaries and affiliates may not exceed 70% of the total shares issued by LNC Technology Co.Ltd. Capital increase by cash and release of shares for LNC Technology Co.Ltd. will be conducted as follows:
(1) The price per share in each capital increase by cash conducted by LNC Technology Co.Ltd. in the future may not be lower than the net value per share as is shown in the most recently inspected and signed-off financial report of LNC Technology Co.Ltd. In addition, among the shares issued as a result of the capital increase by cash, except for 10% to 15% that should be retained for subscription by LNC Technology Co.Ltd.'s employees according to laws, if the number of shares that may be subscribed by the company pro rata is given up by the company and will be prioritized for subscription by all shareholders of the company pro rata to the holding ratio as indicated in the shareholders' roster as of the most recent book closure date. Shares to be subscribed yet given up by shareholders of the company or fractional shares will consistently be handled by the chairman upon authorization by the Board of Directors of LNC Technology Co.Ltd., and the chairman will approach specific persons for possible subscriptions. The total number of shares available for subscription by the company's shareholders will be calculated by their respective holding ratios as is shown in the shareholders' roster on the baseline date for capital increase by cash of LNC Technology Co.Ltd.; all shareholders will receive a payment notification sent by the company. We intend to let the shareholders authorize through the meeting that the company's Board of Directors may take charge of handling prioritized subscription by the whole shareholders of the company and other matters with regard to shares given up during LNC Technology Co.Ltd.'s capital increase by cash in order to reduce the options toward LNC Technology Co.Ltd.

(2) In addition, for complying with decentralized standards for the equity of listed OTC, the company may proceed to manage issues related to the sale of stocks of LNC Technology Co. Ltd. The sale price of the stocks shall not be less than NTD 25 per share.

The total number of stocks for sale shall not exceed 8,000,000 shares, with sale procedure available to be conducted in once or in batches. The priority of the initial subscription of stocks would be offered to the overall shareholders of the company based on the percentage of shareholding recorded in the Register of Shareholders after the latest book closure date at the time available for subscription. The Board of Directors of LNC Technology Co. Ltd. has authorized the chairman to negotiate with specific persons to subscribe the odd lots which the company's shareholders give up or insufficiently subscribe.

Additionally, in response to the future application for registration of emerging stock and the related operations for listing registration of LNC Technology Co. Ltd., the company will operate in accordance with related legal regulations on stocks offering for the securities firm to subscribe and over-allotment. The offered number of stocks and prices would be determined jointly with the lead underwriter based on related legal regulations, current market conditions, and the company's profitability.

Resolution :

4. Other Business and Special Motions

5. Adjournment

ATTACHMENTS

II. Attachments

<Attachment I>

Business Report

Dear shareholders:

2017 Summary of Results

In 2017, Advantech reported consolidated revenues of NT\$ 44.4 billion, an increase of ten percent over the NT\$42 billion of 2016. Net income was NT\$6.15 billion and earnings per share were NT\$8.84. Gross profit margin was 39.2 percent, compared with 40.8 percent in 2016, and operating profit margin was 15.3 percent compared with 15.8 percent a year earlier. Net profit margin was 13.86 percent, an increase of 0.32 percentage points from the previous year's 13.54 percent.

Our Development for IoT

Since 2016, Advantech has gradually experienced rising demand in industry 4.0 and smart factory applications. In 2017, Advantech experienced a strong growth demand from the industrial IoT business segment. However, due to a strong NT\$ value appreciation, Advantech only delivered single digit top line growth in 2017. Looking forward, Advantech maintains a positive view on the outlook for industrial IoT application markets. In addition to the more comprehensive internet infrastructure development, the support and acceleration from industrial companies like GE, Schneider, Honeywell, Siemens, and service providers like Microsoft, Amazon, and Google, are essential catalysts for growth in the IoT industry.

Key Strategies in the Three Waves of Growth for the IoT Industry

● The 1st Wave of IoT Growth: Embedded Platforms.

The first wave kicked off in 2010 and will gradually mature in 2020. The major beneficiaries are IoT device providers and IoT embedded system providers like Advantech. Advantech's strong position in embedded platforms will accelerate the deployment of "Machine to Machine" and "Intelligent Equipment" application markets. In addition, Advantech views that a sharing economy is vital for future success and would like to share our accumulated IP database with alliance partners and through our technology service unit (TSU) and allied DMS collaboration.

● The 2nd Wave of IoT Growth (year 2015~2025): WISE-PaaS and Solution Ready Packages (SRP).

The second wave started from 2016 and will accelerate the growth catalysts in 2018~2020. The second wave will mature in 2025 and merge into the third wave of IoT growth. Advantech foresees that companies with the capability to provide hardware and software integration services will be the major beneficiaries in the second wave of IoT growth. Advantech's WISE-PaaS software platform is designed with industrial IoT users in mind. Based on Advantech's niche in edge computing, WISE-PaaS will assist third party partners to develop comprehensive cloud based service platforms and industrial IoT solutions. Our mission is to combine software and hardware solutions to facilitate our customers and IoT cloud service providers in IoT solution deployment.

● The 3rd Wave of IoT Growth: Co-Creation.

System integrators and cloud service providers will be the main beneficiaries in the 3rd wave of IoT

growth. Advantech will focus and strengthen our core competence in industrial IoT applications and embedded systems to empower the 3rd wave of IoT growth through a “co-creation” biz model. Future IoT cloud service providers might not exist right now so Advantech intends to implement a co-creation model to facilitate those start-up companies who would be able to enjoy better growth potential. In the future, Advantech will strengthen our role as the accelerator of the intelligent planet, to facilitate system integrators’ capabilities in each vertical market, and to provide a differentiated customer service to foster a cross-sector alliance and diverse vertical market ecosystem.

2018 Outlook

Advantech reported record high revenues and net income in 2017, but the 5% revenue growth was below Advantech’s past 10 year CAGR growth, due to the impact from a strong NT\$ value appreciation. In the US\$, Advantech achieved US\$1.45M revenue, a 12% YoY revenue growth in 2017. Looking forward in 2018, Advantech expects to achieve a profitable revenue growth target on the back of increasing penetration of IoT adoption, our leadership in intelligent systems, and our differentiated value-added services, which should reduce the uncertainty from macro-economic impacts. In the long run, Advantech is determined to achieve our 2020 vision.

Strengthening Corporate Governance and Business Leadership

Advantech has been marketed as an industrial brand since the company started in 1983 and now Advantech has operations in 23 countries around the world. In 2017, Advantech was recognized in a top international brand award as the only B2B company in the top 10 of Taiwan International Brands. The Advantech brand was valued US\$484M in 2017. To enhance corporate governance and comply with international trends, we transformed our board organization from a supervisory system, to an independent directors system starting in 2017. Our goal is the pursuit of excellence and sustainable operation and Advantech has established its LITA altruistic spirit at the core of its business culture, along with its quest for the best and balanced interests of society, shareholders, customers, and employees.

Advantech Co., Ltd.

Chairman K.C. Liu

President Eric Chen

Miller Chang

Linda Tsai

Chief Financial officer Rorie Kang

Audit Committee's Review Report

The Company's 2017 Financial Statements have been agreed by Audit Committee members of the Company and approved by the by the Board of Directors. The CPA firm of Deloitte & Touche was retained to audit the Company's Financial Statements and has issued an audit report relating to the Financial Statements.

The Board of Directors has prepared the Company's 2017 Business Report and proposal for allocation of profits. The 2017 Business Report and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of the Company.

According with Article 14-4 of the securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Advantech Co., Ltd.

Chairman of the Audit Committee : Benson Liu

March 02, 2018

Advantech Co., Ltd.

Corporate Charter (Articles of Incorporation) Article Amendments Table

No.	After amendment	Before amendment	Remark
Chapter 4	Directors	Directors and supervisors	
Article 20	<p>The company's annual profits, if any, should <u>not be less than 5%</u> appropriated as bonus to employees; also, it is to be resolved in the board meeting with stock dividend or cash distributed to employees, including employees of the subsidiaries that meet certain conditions. The Company's Board of Directors may determine to appropriate an amount less than 1% of the profits referred to above as remuneration to directors. The proposed bonus to employees and remuneration to directors should be presented in the shareholders' meeting for a resolution. If the company is with accumulated losses, an amount for making up the losses should be reserved in advance before appropriating bonus to employees and remuneration to directors according to the ratio referred to above.</p>	<p>The company's annual profits, if any, should be with <u>1~20%</u> appropriated as bonus to employees; also, it is to be resolved in the board meeting with stock dividend or cash distributed to employees, including employees of the subsidiaries that meet certain conditions. The Company's Board of Directors may determine to appropriate an amount less than 1% of the profits referred to above as remuneration to directors and supervisors. The proposed bonus to employees and remuneration to directors and supervisors should be presented in the shareholders' meeting for a resolution. If the company is with accumulated losses, an amount for making up the losses should be reserved in advance before appropriating bonus to employees and remuneration to directors and supervisors according to the ratio referred to above.</p>	According to the actual practice
Article 20.2	<p>The company's annual earnings, if any, are subject to paying taxes, making up losses, appropriating 10% legal reserve thereafter or it can be exempted if the legal reserve amount is equivalent to the company's paid-in capital amount. The remaining balance thereafter should be applied to have the special reserve appropriated or reversed lawfully. The board of directors should present a proposal for the distribution of the remaining amount, if any, plus the accumulated unappropriated earnings as shareholders' dividend and bonus in the shareholders' meeting.</p> <p><u>The company's dividend policy is formed under the consideration of its future funding demands and long-term financial planning as well as the interests of shareholders to distribute at least 30% of available profits for revenue allocation as dividends to shareholders annually; and among them, the distribution of cash dividends shall not be less than 20% of the total dividend distribution amount of that particular year.</u></p>	<p>The company's annual earnings, if any, are subject to paying taxes, making up losses, appropriating 10% legal reserve thereafter or it can be exempted if the legal reserve amount is equivalent to the company's paid-in capital amount. The remaining balance thereafter should be applied to have the special reserve appropriated or reversed lawfully. The board of directors should present a proposal for the distribution of the remaining amount, if any, plus the accumulated unappropriated earnings as shareholders' dividend and bonus in the shareholders' meeting.</p>	According to the actual practice

Article 22	<p>The Corporate Charter (Article of Incorporation) was established on September 25, 1981 (the first time ~ Twentieth are omitted).</p> <p>The 21st amendment of the Corporate Charter (Article of Incorporation) was made on May 2, 2003.</p> <p>The 22nd amendment of the Corporate Charter (Article of Incorporation) was made on May 27, 2003.</p> <p>The 23rd amendment of the Corporate Charter (Article of Incorporation) was made on May 24, 2005.</p> <p>The 24th amendment of the Corporate Charter (Article of Incorporation) was made on November 18, 2005.</p> <p>The 25th amendment of the Corporate Charter (Article of Incorporation) was made on June 16, 2006.</p> <p>The 26th amendment of the Corporate Charter (Article of Incorporation) was made on June 15, 2007.</p> <p>The 27th amendment of the Corporate Charter (Article of Incorporation) was made on June 12, 2008.</p> <p>The 28th amendment of the Corporate Charter (Article of Incorporation) was made on May 15, 2009.</p> <p>The 29th amendment of the Corporate Charter (Article of Incorporation) was made on May 18, 2010.</p> <p>The 30th amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2011.</p> <p>The 31st amendment of the Corporate Charter (Article of Incorporation) was made on June 13, 2012.</p> <p>The 32nd amendment of the Corporate Charter (Article of Incorporation) was made on June 18, 2014.</p> <p>The 33rd amendment of the Corporate Charter (Article of Incorporation) was made on May 28, 2015.</p> <p>The 34th amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2016.</p> <p>The 35th amendment of the Corporate Charter (Article of Incorporation) was made on May 26, 2017.</p> <p><u>The 36th amendment of the Corporate Charter (Article of Incorporation) was made on May 24, 2018.</u></p>	<p>The Corporate Charter (Article of Incorporation) was established on September 25, 1981 (the first time ~ Twentieth are omitted).</p> <p>The 21st amendment of the Corporate Charter (Article of Incorporation) was made on May 2, 2003.</p> <p>The 22nd amendment of the Corporate Charter (Article of Incorporation) was made on May 27, 2003.</p> <p>The 23rd amendment of the Corporate Charter (Article of Incorporation) was made on May 24, 2005.</p> <p>The 24th amendment of the Corporate Charter (Article of Incorporation) was made on November 18, 2005.</p> <p>The 25th amendment of the Corporate Charter (Article of Incorporation) was made on June 16, 2006.</p> <p>The 26th amendment of the Corporate Charter (Article of Incorporation) was made on June 15, 2007.</p> <p>The 27th amendment of the Corporate Charter (Article of Incorporation) was made on June 12, 2008.</p> <p>The 28th amendment of the Corporate Charter (Article of Incorporation) was made on May 15, 2009.</p> <p>The 29th amendment of the Corporate Charter (Article of Incorporation) was made on May 18, 2010.</p> <p>The 30th amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2011.</p> <p>The 31st amendment of the Corporate Charter (Article of Incorporation) was made on June 13, 2012.</p> <p>The 32nd amendment of the Corporate Charter (Article of Incorporation) was made on June 18, 2014.</p> <p>The 33rd amendment of the Corporate Charter (Article of Incorporation) was made on May 28, 2015.</p> <p>The 34rd amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2016.</p> <p>The 35rd amendment of the Corporate Charter (Article of Incorporation) was made on May 26, 2017.</p>	Update the date of the amendment

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Advantech Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Advantech Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters on the consolidated financial statements for the year ended December 31, 2017 were as follows:

Assessment of Provisions for Inventory Write-downs

Inventories as of December 31, 2017 amounted to NT\$6,242,251 thousand and accounted for 15% of the total assets in the Group's consolidated financial statements, which had a material percentage of the total assets.

The inventories of the Group are measured at the lower of cost or net realizable value and according to the ratios of possible obsolescence for aged inventories. Due to the rapid changes in the technological environment and the significant size and variety of inventories, after analyzing the structure of provisions for inventory valuation, we noticed that the provisions were generated from obsolescent inventories which were aged longer. We considered the evaluation of inventory write-downs of aged inventories as having a significant impact on the Group's consolidated financial statements. Therefore, the assessment of provisions for inventory write-downs was deemed to be one of the key audit matters.

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

1. Assessed and analyzed the Group's policies for the inventory write-downs provisions and compared them with other competitors' policies to affirm the reasonableness and consistency of application.
2. Evaluated and tested the design and operating effectiveness of the internal controls over the provisions for inventory write-downs.
3. Reviewed the historical inventory aging reports to trace the process for the usage and scrap of aged inventories in order to assess the reasonableness of percentages for recognizing aged inventories.
4. Verified the appropriateness of logic and parameters used in the Group's inventory aging analysis reports and selected source data to validate the accuracy of the ages of inventories in the system.

Sales Revenue

Since the Group operates in the highly competitive industry, we determined that revenue recognition of the Group carries risk due to the demand for the growth of sales and the need to remain competitive in the industry. Hence, the Group's sales revenue from several product lines and customers whose sales increased materially in numbers and percentages was considered as a key audit matter.

Our audit procedures performed in respect of sales revenue included the following:

1. Analyzed the trend of the industry, categories of revenue, product lines and customer categories for two consecutive years to confirm whether there were any abnormal situations or centralized trading which might put revenue recognition at risk.
2. Interviewed with personnel who operates the control activities and reviewed related internal vouchers to understand the processes of internal controls related to revenue-recognition and evaluate the design, implementation, and operating effectiveness of internal controls over revenue recognition. Tested such internal controls to obtain sufficient and appropriate audit evidence of the effectiveness of key controls.
3. Obtained details of accounts, analyzed balances and confirmed or reconciled them with general ledgers; tested the reconciliation between detailed and general ledgers and traced the reconciliation to acquire sufficient and appropriate evidence.
4. Determined the appropriate methods of sampling and sample sizes and audited sales orders, packing lists and export declarations in order to evaluate whether the amount of revenue is recognized accurately and in accordance with the regulations for the preparation of financial reports.
5. Audited the records and vouchers of collections to evaluate whether the amounts of collections are accurate and the payers of such collections and the recipients of the related orders are consistent in order to attest the reality of sales.

Other Matter

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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 audit committee, 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, 2017 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 Meng-Chieh Chiu and Jr-Shian Ke.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 2, 2018

Notice to Readers

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 5,204,219	13	\$ 4,637,577	12
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 32)	3,098,846	8	113,028	-
Available-for-sale financial assets - current (Notes 4, 8 and 32)	229,381	1	2,956,586	8
Debt investments with no active market - current (Notes 4, 10 and 34)	38,908	-	10,007	-
Notes receivable (Notes 4 and 11)	1,255,781	3	965,081	2
Trade receivables (Notes 4 and 11)	6,596,030	16	6,384,834	17
Trade receivables from related parties (Note 33)	14,067	-	13,957	-
Other receivables	75,298	-	13,775	-
Inventories (Notes 4, 5 and 12)	6,242,251	15	5,597,236	15
Other current assets (Note 18)	445,791	1	489,630	1
Total current assets	<u>23,200,572</u>	<u>57</u>	<u>21,181,711</u>	<u>55</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4, 8 and 32)	1,430,854	4	1,712,578	5
Financial assets measured at cost - non-current (Notes 4 and 9)	78,518	-	-	-
Investments accounted for using the equity method (Notes 4 and 14)	1,349,735	3	598,454	2
Property, plant and equipment (Notes 4, 15 and 34)	9,967,332	24	10,089,836	26
Goodwill (Notes 4, 5 and 16)	2,727,549	7	2,845,831	7
Other intangible assets (Notes 4, 5 and 17)	1,124,407	3	1,317,440	3
Deferred tax assets (Notes 4 and 24)	398,441	1	369,156	1
Prepayments for business facilities	68,440	-	47,578	-
Long-term prepayments for leases (Note 18)	312,708	1	325,224	1
Other non-current assets (Note 28)	45,213	-	51,145	-
Total non-current assets	<u>17,503,197</u>	<u>43</u>	<u>17,357,242</u>	<u>45</u>
TOTAL	<u>\$ 40,703,769</u>	<u>100</u>	<u>\$ 38,538,953</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 19)	\$ 8,400	-	\$ 483,750	1
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 32)	6,226	-	10,231	-
Notes payable and trade payables (Notes 4 and 33)	5,280,728	13	4,983,381	13
Other payables (Note 20)	3,624,710	9	3,902,499	10
Current tax liabilities (Notes 4 and 24)	1,269,165	3	1,229,400	3
Short-term warranty provisions	180,975	-	167,122	1
Other current liabilities	676,457	2	659,228	2
Total current liabilities	<u>11,046,661</u>	<u>27</u>	<u>11,435,611</u>	<u>30</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 19)	113,717	-	-	-
Deferred tax liabilities (Notes 4 and 24)	1,399,013	4	1,362,687	3
Net defined benefit liabilities (Notes 4 and 21)	237,225	1	212,360	1
Other non-current liabilities	146,713	-	141,398	-
Total non-current liabilities	<u>1,896,668</u>	<u>5</u>	<u>1,716,445</u>	<u>4</u>
Total liabilities	<u>12,943,329</u>	<u>32</u>	<u>13,152,056</u>	<u>34</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	6,970,325	17	6,330,741	16
Advance receipts for share capital	2,500	-	100	-
Total share capital	<u>6,972,825</u>	<u>17</u>	<u>6,330,841</u>	<u>16</u>
Capital surplus	<u>6,554,842</u>	<u>16</u>	<u>6,058,884</u>	<u>16</u>
Retained earnings				
Legal reserve	5,039,962	13	4,473,276	11
Special reserve	85,204	-	-	-
Unappropriated earnings	9,297,896	23	8,435,785	22
Total retained earnings	<u>14,423,062</u>	<u>36</u>	<u>12,909,061</u>	<u>33</u>
Other equity				
Exchange differences on translation of foreign financial statements	(463,479)	(1)	(197,633)	-
Unrealized gains on available-for-sale financial assets	93,824	-	112,429	-
Total other equity	<u>(369,655)</u>	<u>(1)</u>	<u>(85,204)</u>	<u>-</u>
Total equity attributable to owners of the Company	27,581,074	68	25,213,582	65
NON-CONTROLLING INTERESTS	<u>179,366</u>	<u>-</u>	<u>173,315</u>	<u>1</u>
Total equity	<u>27,760,440</u>	<u>68</u>	<u>25,386,897</u>	<u>66</u>
TOTAL	<u>\$ 40,703,769</u>	<u>100</u>	<u>\$ 38,538,953</u>	<u>100</u>

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 33 and 37)				
Sales	\$ 43,367,051	98	\$ 40,839,800	97
Other operating revenue	<u>1,007,700</u>	<u>2</u>	<u>1,162,398</u>	<u>3</u>
Total operating revenue	44,374,751	100	42,002,198	100
OPERATING COSTS (Notes 12, 21, 23 and 33)	<u>26,993,793</u>	<u>61</u>	<u>24,884,649</u>	<u>59</u>
GROSS PROFIT	<u>17,380,958</u>	<u>39</u>	<u>17,117,549</u>	<u>41</u>
OPERATING EXPENSES (Notes 21, 23 and 33)				
Selling and marketing expenses	4,400,803	10	4,260,554	10
General and administrative expenses	2,389,863	5	2,576,210	6
Research and development expenses	<u>3,811,815</u>	<u>9</u>	<u>3,649,292</u>	<u>9</u>
Total operating expenses	<u>10,602,481</u>	<u>24</u>	<u>10,486,056</u>	<u>25</u>
OPERATING PROFIT	<u>6,778,477</u>	<u>15</u>	<u>6,631,493</u>	<u>16</u>
NONOPERATING INCOME				
Share of the profit of associates accounted for using the equity method (Note 14)	218,651	1	65,562	-
Interest income	16,461	-	15,989	-
Gains on disposal of property, plant and equipment	96,885	-	289,633	1
Gains (losses) on disposal of investments	292,441	1	(4,873)	-
Foreign exchange losses, net (Notes 23 and 35)	(76,098)	-	(205,812)	-
Gains on financial instruments at fair value through profit or loss (Note 7)	207,795	-	150,982	-
Dividend income	122,220	-	132,472	-
Other income (Notes 8, 27 and 33)	95,772	-	78,855	-
Finance costs (Note 23)	(12,117)	-	(11,556)	-
Losses on financial instruments at fair value through profit or loss (Note 7)	(84,658)	-	(43,324)	-
Impairment loss (Notes 15, 16 and 17)	(112,120)	-	-	-
Other losses	<u>(10,166)</u>	<u>-</u>	<u>(2,056)</u>	<u>-</u>
Total nonoperating income	<u>755,066</u>	<u>2</u>	<u>465,872</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	7,533,543	17	7,097,365	17
INCOME TAX EXPENSES (Note 24)	<u>1,384,254</u>	<u>3</u>	<u>1,408,411</u>	<u>4</u>
NET PROFIT FOR THE YEAR	<u>6,149,289</u>	<u>14</u>	<u>5,688,954</u>	<u>13</u>

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss (Notes 14, 21 and 24):				
Remeasurement of defined benefit plans	\$ (23,905)	-	\$ (31,247)	-
Share of the other comprehensive income (loss) of associates accounted for using the equity method	(1,306)	-	1,574	-
Income tax related to items that will not be reclassified	4,064	-	5,312	-
Items that may be reclassified subsequently to profit or loss (Notes 4, 14, 22 and 24):				
Exchange differences on translation of foreign financial statements	(315,229)	(1)	(576,926)	(1)
Unrealized gains (losses) on available-for-sale financial assets	(18,605)	-	44,164	-
Share of the other comprehensive loss of associates	(6,919)	-	(4,135)	-
Income tax related to items that may be reclassified subsequently to profit or loss	<u>54,450</u>	<u>-</u>	<u>96,161</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(307,450)</u>	<u>(1)</u>	<u>(465,097)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,841,839</u>	<u>13</u>	<u>\$ 5,223,857</u>	<u>12</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 6,156,516	14	\$ 5,666,862	14
Non-controlling interests	<u>(7,227)</u>	<u>-</u>	<u>22,092</u>	<u>-</u>
	<u>\$ 6,149,289</u>	<u>14</u>	<u>\$ 5,688,954</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 5,850,991	13	\$ 5,217,251	12
Non-controlling interests	<u>(9,152)</u>	<u>-</u>	<u>6,606</u>	<u>-</u>
	<u>\$ 5,841,839</u>	<u>13</u>	<u>\$ 5,223,857</u>	<u>12</u>

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 25)				
Basic	<u>\$ 8.84</u>		<u>\$ 8.15</u>	
Diluted	<u>\$ 8.77</u>		<u>\$ 8.09</u>	

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

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company										
	Issued Capital (Note 22)			Capital Surplus (Notes 22, 23 and 26)			Other Equity (Note 22)			Non-controlling Interests (Notes 22, 28 and 29)	
	Share Capital	Advance Receipts for Ordinary Shares	Total	Legal Reserve	Special Reserve	Retained Earnings	Unappropriated Earnings	Total	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total
BALANCE AT JANUARY 1, 2016	\$ 6,318,531	\$ -	\$ 6,318,531	\$ 3,962,842	\$ -	\$ 7,098,449	\$ 11,061,291	\$ 682,665	\$ 23,307,501	\$ 146,276	\$ 23,453,777
Appropriation of the 2015 earnings	-	-	-	510,434	-	(510,434)	-	-	-	-	-
Legal reserve	-	-	-	(3,791,118)	-	(3,791,118)	-	-	(3,791,118)	-	(3,791,118)
Cash dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-
Recognition of employee share options by the Company	12,210	100	12,310	-	-	-	-	-	117,068	-	117,068
Compensation costs recognized for employee share options	-	-	-	-	-	-	-	-	338,194	-	338,194
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	-	-	-	-	-	10,533	-	10,533
Difference between consideration paid and carrying amount of subsidiaries acquired or disposed of	-	-	-	-	-	(3,691)	(3,691)	-	14,153	20,433	34,586
Net profit for the year ended December 31, 2016	-	-	-	-	-	5,666,862	5,666,862	-	5,666,862	22,092	5,688,954
Other comprehensive income (loss) for year ended December 31, 2016, net of income tax	-	-	-	-	-	(24,283)	(24,283)	44,164	(449,492)	(15,486)	(465,092)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	5,642,579	5,642,579	44,164	(469,492)	6,606	5,223,857
BALANCE AT DECEMBER 31, 2016	6,330,741	100	6,330,841	4,473,276	-	8,435,785	12,909,061	112,429	25,213,582	173,315	25,386,897
Appropriation of the 2016 earnings	-	-	-	566,686	-	(566,686)	-	-	-	-	-
Special reserve	-	-	-	85,204	-	(85,204)	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(3,988,367)	(3,988,367)	-	(3,988,367)	-	(3,988,367)
Share dividends on ordinary shares	633,074	-	633,074	-	-	(633,074)	(633,074)	-	-	-	-
Recognition of employee share options by the Company	6,510	2,400	8,910	-	-	-	-	-	77,420	-	77,420
Compensation costs recognized for employee share options	-	-	-	-	-	-	-	-	424,637	-	424,637
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	-	-	-	-	-	2,054	-	2,054
Difference between consideration paid and carrying amount of subsidiaries acquired or disposed of	-	-	-	-	-	-	-	-	-	15,203	15,203
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	757	757
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	-	6,156,516	6,156,516	-	6,156,516	(7,227)	6,149,289
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(21,074)	(21,074)	(18,605)	(305,525)	(1,925)	(307,450)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	6,135,442	6,135,442	(18,605)	5,850,991	(9,152)	5,841,839
BALANCE AT DECEMBER 31, 2017	\$ 6,970,325	\$ 2,500	\$ 6,972,825	\$ 5,039,962	\$ 85,204	\$ 9,297,896	\$ 14,423,062	\$ 93,824	\$ 27,581,074	\$ 179,366	\$ 27,760,440

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,533,543	\$ 7,097,365
Adjustments to reconcile profit (loss):		
Depreciation expenses	587,293	582,040
Amortization expenses	228,062	238,048
Amortization expenses for prepayments of lease obligations	8,741	6,606
Impairment loss recognized (reversed) for trade receivables	3,030	(24,032)
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(123,137)	(107,658)
Compensation costs of employee share options	424,637	338,194
Finance costs	12,117	11,556
Interest income	(16,461)	(15,989)
Dividend income	(122,220)	(132,472)
Share of profit of associates accounted for using the equity method	(218,651)	(65,562)
Gain on disposal of property, plant and equipment	(96,885)	(289,633)
Loss (gain) on disposal of investments	(292,441)	4,873
Impairment loss	112,120	-
Changes in operating assets and liabilities		
Financial assets held for trading	(2,866,686)	174,898
Notes receivable	(290,700)	5,641
Trade receivables	(193,567)	(738,014)
Trade receivables from related parties	(110)	12,807
Other receivables	(61,523)	31,402
Inventories	(614,558)	(446,618)
Other current assets	40,203	(8,478)
Notes payable and trade payables	270,599	1,569,097
Net defined benefit liabilities	960	(2,427)
Other payables	(280,286)	579,312
Short-term warranty provisions	13,853	21,476
Other current liabilities	15,583	112,933
Other non-current liabilities	5,115	(17,857)
Cash generated from operations	4,078,631	8,937,508
Interest received	16,461	15,989
Dividends received	122,220	132,472
Interest paid	(9,620)	(6,285)
Income tax paid	(1,196,403)	(1,086,369)
Net cash generated from operating activities	<u>3,011,289</u>	<u>7,993,315</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(6,589,478)	(6,491,968)
Proceeds from sale of available-for-sale financial assets	9,872,540	5,364,552
Purchase of debt investments with no active market	-	(6,945)
Proceeds from sale of debt investments with no active market	26,485	-
Purchase of financial assets measured at cost	(77,333)	-

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Purchase of investments accounted for using the equity method	\$ (615,000)	\$ (135,000)
Net cash flow on the acquisition of subsidiaries	(118,847)	(1,348,172)
Dividends received from associates	75,026	88,313
Payments for property, plant and equipment	(533,741)	(1,448,423)
Proceeds from disposal of property, plant and equipment	146,582	587,468
Decrease in refundable deposits	6,858	8,038
Payments for intangible assets	(76,167)	(73,435)
Decrease in prepayments for equipment	<u>12,820</u>	<u>46,599</u>
Net cash generated from (used in) investing activities	<u>2,129,745</u>	<u>(3,408,973)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(456,480)	(396,875)
Repayments of long-term borrowings	(22,733)	-
Increase (decrease) in guarantee deposits received	200	(1,540)
Payments of cash dividends	(3,988,367)	(3,791,118)
Exercise of employee share options	77,420	117,068
Increase in non-controlling interests	<u>757</u>	<u>34,586</u>
Net cash used in financing activities	<u>(4,389,203)</u>	<u>(4,037,879)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(185,189)</u>	<u>(267,145)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	566,642	279,318
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>4,637,577</u>	<u>4,358,259</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 5,204,219</u>	<u>\$ 4,637,577</u>

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

(Concluded)

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Advantech Co., Ltd.

Opinion

We have audited the accompanying financial statements of Advantech Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the 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 on the financial statements for the year ended December 31, 2017 were as follows:

Assessment of Provisions for Inventory Write-downs

Inventories as of December 31, 2017 amounted to NT\$2,654,681 thousand and accounted for 7% of the total assets in the Company's financial statements, which had a material percentage of the total assets.

The inventories of the Company are measured at the lower of cost or net realizable value and according to the ratios of possible obsolescence for aged inventories. Due to the rapid changes in the technological environment and the significant size and variety of inventories, after analyzing the structure of provisions for inventory valuation, we noticed that the provisions were generated from obsolescent inventories which were aged longer. We considered the evaluation of inventory write-downs of aged inventories as having a significant impact on the Company's financial statements. Therefore, the assessment of provisions for inventory write-downs was deemed to be one of the key audit matters.

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

1. Assessed and analyzed the Company's policies for the inventory write-downs provisions and compared them with other competitors' policies to affirm the reasonableness and consistency of application.
2. Evaluated and tested the design and operating effectiveness of the internal controls over the provisions for inventory write-downs.
3. Reviewed the historical inventory aging reports to trace the process for the usage and scrap of aged inventories in order to assess the reasonableness of percentages for recognizing aged inventories.
4. Verified the appropriateness of logic and parameters used in the Company's inventory aging analysis reports and selected source data to validate the accuracy of the ages of inventories in the system.

Sales Revenue

Since the Company operates in the highly competitive industry, we determined that revenue recognition of the Company carries risk due to the demand for the growth of sales and the need to remain competitive in the industry. Hence, the Company's sales revenue from several product lines whose sales increased materially in numbers and percentages was considered as a key audit matter.

Our audit procedures performed in respect of sales revenue included the following:

1. Analyzed the trend of the industry, categories of revenue, product lines and customer categories for two consecutive years to confirm whether there were any abnormal situations or centralized trading which might put revenue recognition at risk.
2. Interviewed with personnel who operates the control activities and reviewed related internal vouchers to understand the processes of internal controls related to revenue-recognition and evaluate the design, implementation, and operating effectiveness of internal controls over revenue recognition. Tested such internal controls to obtain sufficient and appropriate audit evidence of the effectiveness of key controls.
3. Obtained details of accounts, analyzed balances and confirmed or reconciled them with general ledgers; tested the reconciliation between detailed and general ledgers and traced the reconciliation to acquire sufficient and appropriate evidence.
4. Determined the appropriate methods of sampling and sample sizes and audited sales orders, packing lists and export declarations in order to evaluate whether the amount of revenue is recognized accurately and in accordance with the regulations for the preparation of financial reports.
5. Audited the records and vouchers of collections to evaluate whether the amounts of collections are accurate and the payers of such collections and the recipients of the related orders are consistent in order to attest the reality of sales.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 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 Meng-Chieh Chiu and Jr-Shian Ke.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 2, 2018

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. 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 financial statements shall prevail.

ADVANTECH CO., LTD.

BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,436,648	7	\$ 2,008,247	6
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 26)	645,100	2	34,348	-
Available-for-sale financial assets - current (Notes 4, 8 and 26)	-	-	700,269	2
Notes receivable (Notes 4 and 9)	62,468	-	67,223	-
Trade receivables (Notes 4 and 9)	1,546,135	4	1,543,604	5
Trade receivables from related parties (Notes 4 and 27)	4,603,076	12	3,908,448	11
Other receivables	143,493	-	105,929	-
Other receivables from related parties (Note 27)	15,569	-	19,002	-
Inventories (Notes 4, 5 and 10)	2,654,681	7	1,935,873	6
Other current assets	46,533	-	38,361	-
Total current assets	12,153,703	32	10,361,304	30
NONCURRENT ASSETS				
Available-for-sale financial assets - noncurrent (Notes 4, 8 and 26)	1,419,479	4	1,694,801	5
Investments accounted for using the equity method (Notes 4 and 11)	16,591,055	44	15,208,839	44
Property, plant and equipment (Notes 4 and 12)	6,865,025	19	6,938,084	20
Goodwill (Notes 4 and 13)	111,599	-	111,599	-
Other intangible assets (Note 4)	75,584	-	78,321	-
Deferred tax assets (Notes 4 and 18)	236,699	1	136,130	1
Prepayments for equipment	20,126	-	22,676	-
Other noncurrent assets	6,755	-	5,661	-
Total noncurrent assets	25,326,322	68	24,196,111	70
TOTAL	\$ 37,480,025	100	\$ 34,557,415	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 26)	\$ 6,226	-	\$ 8,845	-
Notes payable and trade payables	3,459,433	9	1,550,969	4
Trade payables to related parties (Note 27)	1,123,366	3	2,610,642	8
Other payables (Note 14)	2,548,047	7	2,699,374	8
Current tax liabilities (Notes 4 and 18)	1,108,579	3	1,036,650	3
Short-term warranty provisions (Note 4)	53,304	-	49,155	-
Other current liabilities	151,823	-	153,992	-
Total current liabilities	8,450,778	22	8,109,627	23
NONCURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 18)	1,162,514	3	988,099	3
Net defined benefit liabilities (Notes 4 and 15)	236,251	1	211,170	1
Other noncurrent liabilities	49,408	-	34,937	-
Total noncurrent liabilities	1,448,173	4	1,234,206	4
Total liabilities	9,898,951	26	9,343,833	27
EQUITY				
Share capital				
Ordinary shares	6,970,325	19	6,330,741	18
Advance receipts for share capital	2,500	-	100	-
Total share capital	6,972,825	19	6,330,841	18
Capital surplus	6,554,842	18	6,058,884	18
Retained earnings				
Legal reserve	5,039,962	13	4,473,276	13
Special reserve	85,204	-	-	-
Unappropriated earnings	9,297,896	25	8,435,785	24
Total retained earnings	14,423,062	38	12,909,061	37
Other equity				
Exchange differences on translation of foreign financial statements	(463,479)	(1)	(197,633)	-
Unrealized gains on available-for-sale financial assets	93,824	-	112,429	-
Total other equity	(369,655)	(1)	(85,204)	-
Total equity	27,581,074	74	25,213,582	73
TOTAL	\$ 37,480,025	100	\$ 34,557,415	100

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

ADVANTECH CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 27)				
Sales	\$ 30,518,459	99	\$ 30,173,747	99
Other operating revenue	<u>382,118</u>	<u>1</u>	<u>327,352</u>	<u>1</u>
Total operating revenue	30,900,577	100	30,501,099	100
OPERATING COSTS (Notes 10, 17 and 27)	<u>21,520,472</u>	<u>70</u>	<u>21,604,247</u>	<u>70</u>
GROSS PROFIT	9,380,105	30	8,896,852	30
UNREALIZED LOSS ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	(446,326)	(1)	(264,679)	(1)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>264,679</u>	<u>1</u>	<u>330,254</u>	<u>1</u>
REALIZED GROSS PROFIT	<u>9,198,458</u>	<u>30</u>	<u>8,962,427</u>	<u>30</u>
OPERATING EXPENSES (Notes 17 and 27)				
Selling and marketing expenses	683,065	2	659,619	2
General and administrative expenses	832,526	3	884,172	3
Research and development expenses	<u>2,837,185</u>	<u>9</u>	<u>2,641,219</u>	<u>9</u>
Total operating expenses	<u>4,352,776</u>	<u>14</u>	<u>4,185,010</u>	<u>14</u>
OPERATING PROFIT	<u>4,845,682</u>	<u>16</u>	<u>4,777,417</u>	<u>16</u>
NONOPERATING INCOME				
Share of the profit of subsidiaries and associates accounted for using the equity method (Notes 4 and 11)	1,965,070	6	1,581,818	5
Interest income (Note 4)	923	-	539	-
Gains on disposal of property, plant and equipment (Note 4)	99,749	-	146,954	1
Gains on disposal of investments (Notes 4 and 16)	165,076	1	1,431	-
Foreign exchange losses, net (Notes 4, 17 and 28)	(45,802)	-	(140,689)	-
Gains on financial instruments at fair value through profit or loss (Note 4)	65,594	-	121,348	-
Dividend income (Note 4)	89,215	-	98,800	-
Other income (Notes 8, 21 and 27)	109,510	-	101,777	-
Finance costs (Note 17)	-	-	(4,163)	-

(Continued)

ADVANTECH CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
Losses on financial instruments at fair value through profit or loss (Note 4)	\$ (84,455)	-	\$ (41,381)	-
Impairment loss recognized on investments accounted for using the equity method (Note 11)	(66,443)	-	-	-
Other losses	<u>(130)</u>	<u>-</u>	<u>(155)</u>	<u>-</u>
Total nonoperating income	<u>2,298,307</u>	<u>7</u>	<u>1,866,279</u>	<u>6</u>
PROFIT BEFORE INCOME TAX	7,143,989	23	6,643,696	22
INCOME TAX EXPENSE (Notes 4 and 18)	<u>987,473</u>	<u>3</u>	<u>976,834</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>6,156,516</u>	<u>20</u>	<u>5,666,862</u>	<u>19</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 15)	(23,710)	-	(31,039)	-
Share of the other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method (Note 11)	(1,395)	-	1,479	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 18)	4,031	-	5,277	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements (Notes 4 and 16)	(313,377)	(1)	(561,518)	(2)
Unrealized losses on available-for-sale financial assets (Notes 4 and 16)	(1,678)	-	(5,765)	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method (Notes 4, 11 and 16)	(23,846)	-	45,794	-
Income tax relating to item that may be reclassified subsequently to profit or loss (Notes 4, 16 and 18)	<u>54,450</u>	<u>-</u>	<u>96,161</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(305,525)</u>	<u>(1)</u>	<u>(449,611)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,850,991</u>	<u>19</u>	<u>\$ 5,217,251</u>	<u>17</u>

(Continued)

ADVANTECH CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 8.84</u>		<u>\$ 8.15</u>	
Diluted	<u>\$ 8.77</u>		<u>\$ 8.09</u>	

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

(Concluded)

ADVANTECH CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)**

	Issued Capital (Notes 16 and 20)		Capital Surplus (Notes 4, 16 and 20)	Retained Earnings (Notes 4, 16 and 17)		Other Equity (Notes 4 and 16)		Total Equity
	Share Capital	Advance Receipts for Share Capital		Legal Reserve	Special Reserve	Financial Statements	Unrealized Gain (Loss) on Available-for- sale Financial Assets	
BALANCE AT JANUARY 1, 2016	\$ 6,318,531	\$ -	\$ 5,587,555	\$ 3,962,842	\$ -	\$ 271,859	\$ 68,265	\$ 23,307,501
Appropriation of the 2015 earnings	-	-	-	510,434	-	-	-	-
Legal reserve	-	-	-	-	(510,434)	-	-	-
Cash dividends distributed on ordinary shares	-	-	-	-	(3,791,118)	-	-	(3,791,118)
Recognition of employee share options by the Company	12,210	100	104,758	-	-	-	-	117,068
Compensation costs recognized for employee share options	-	-	338,194	-	-	-	-	338,194
Changes in capital surplus from investments in associates accounted for using equity method	-	-	10,533	-	-	-	-	10,533
Difference between considerations and carrying amounts of subsidiaries acquired or disposed of	-	-	17,844	-	(3,691)	-	-	14,153
Net profit for the year ended December 31, 2016	-	-	-	-	5,666,862	-	-	5,666,862
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(24,283)	(469,492)	44,164	(449,611)
Total comprehensive income (loss) for the year ended December 31, 2016	6,330,741	100	6,058,884	4,473,276	8,435,785	(197,633)	112,429	25,213,582
BALANCE AT DECEMBER 31, 2016	6,330,741	100	6,058,884	4,473,276	8,435,785	(197,633)	112,429	25,213,582
Appropriation of the 2016 earnings	-	-	-	566,686	-	-	-	-
Legal reserve	-	-	-	-	(566,686)	-	-	-
Special reserve	-	-	-	85,204	(85,204)	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(3,988,367)	-	-	(3,988,367)
Share dividends on ordinary shares	633,074	-	-	-	(633,074)	-	-	-
Recognition of employee share options by the Company	6,510	2,400	68,510	-	-	-	-	77,420
Compensation costs recognized for employee share options	-	-	424,637	-	-	-	-	424,637
Changes in capital surplus from investments in associates accounted for using equity method	-	-	2,054	-	-	-	-	2,054
Changes in percentage of ownership interests in subsidiaries	-	-	757	-	-	-	-	757
Net profit for the year ended December 31, 2017	-	-	-	-	6,156,516	-	-	6,156,516
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(21,074)	(265,846)	(18,605)	(305,525)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	6,135,442	(265,846)	(18,605)	5,850,991
BALANCE AT DECEMBER 31, 2017	\$ 6,970,325	\$ 2,500	\$ 6,554,842	\$ 5,039,962	\$ 9,297,896	\$ (463,479)	\$ 93,824	\$ 27,581,074

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

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,143,989	\$ 6,643,696
Adjustments to reconcile profit (loss):		
Depreciation expenses	272,639	239,135
Amortization expenses	81,067	78,294
Impairment loss recognized for trade receivables	185	96
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	18,861	(79,967)
Finance costs	-	4,163
Interest income	(923)	(539)
Dividend income	(89,215)	(98,800)
Compensation costs of employee share options	424,637	338,194
Share of profit of subsidiaries and associates accounted for using the equity method	(1,965,070)	(1,581,818)
Gain on disposal of property, plant and equipment	(99,749)	(146,954)
Gain on disposal of investments	(165,076)	(1,431)
Impairment loss recognized on investments accounted for using the equity method	66,443	-
Realized loss (gain) on the transactions with subsidiaries and associates	181,647	(65,575)
Changes in operating assets and liabilities		
Financial assets held for trading	(632,232)	55,503
Notes receivable	4,755	(11,743)
Trade receivables	(2,716)	(408,460)
Trade receivables from related parties	(694,628)	69,551
Other receivables	(37,564)	7,127
Other receivables from related parties	3,433	(3,406)
Inventories	(718,808)	(262,717)
Other current assets	(8,172)	21,957
Notes payable and trade payables	1,908,464	651,489
Trade payables to related parties	(1,487,276)	(76,488)
Other payables	(151,327)	357,649
Short-term warranty provisions	4,149	7,745
Net defined benefit liabilities	1,371	(2,041)
Other current liabilities	(2,169)	81,680
Other noncurrent liabilities	13,655	3,305
Cash generated from operations	4,070,370	5,819,645
Interest received	923	539
Dividends received	89,215	98,800
Interest paid	-	(4,163)
Income tax paid	(783,217)	(653,568)
Net cash generated from operating activities	<u>3,377,291</u>	<u>5,261,253</u>

(Continued)

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	\$ (5,082,000)	\$ (4,128,000)
Proceeds from sale of available-for-sale financial assets	6,220,989	3,429,410
Acquisition of investments accounted for using equity method	(637,500)	(293,281)
Proceeds from disposal of investments accounted for using the equity method	-	336,958
Proceeds of the capital reduction of investments accounted for using the equity method	-	232,330
Payments for property, plant and equipment	(252,269)	(930,598)
Proceeds from disposal of property, plant and equipment	135,528	239,507
Decrease in refundable deposits	(1,094)	5,176
Payments for intangible assets	(76,794)	(76,875)
Proceeds from disposal of intangible assets	-	58
Decrease in prepayments for equipment	17,924	11,809
Dividends received from subsidiaries and associates	<u>636,457</u>	<u>779,257</u>
Net cash generated from (used in) investing activities	<u>961,241</u>	<u>(394,249)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	816	-
Cash dividends paid	(3,988,367)	(3,791,118)
Exercise of employee share options	<u>77,420</u>	<u>117,068</u>
Net cash used in financing activities	<u>(3,910,131)</u>	<u>(3,674,050)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	428,401	1,192,954
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,008,247</u>	<u>815,293</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,436,648</u>	<u>\$ 2,008,247</u>

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

(Concluded)

Advantech Co., Ltd.
2017 Profit Distribution Table

Item	Total
Unappropriated retained earnings - beginning	3,162,453,946
Less: Actuarial loss recognized in retained earnings	(21,073,792)
Add: Net income	6,156,516,726
Less: 10% legal reserve appropriated	(615,651,673)
Less: Special reserve appropriated	(284,451,025)
Current earnings available for distribution	8,397,794,182
Distributions:	
Common stock cash dividend (Dividends Per Share \$6.6)	(4,600,414,566)
Unappropriated retained earnings - ending	3,797,379,616

Chairman: K.C. Liu

President: Eric Chen
 Miller Chang
 Linda Tsai

Chief Financial officer: Rorie Kang

APPENDICES

III. Appendices

< Appendix I >

Current Shareholding of Directors

1. The paid-in capital of the Company is NTD 6,974,575,100 , with a total of 697,457,510 outstanding shares.
2. According to Article 26 of the Securities and Exchange Act, the minimum number of shares to be held by the entire directors is 22,318,640 shares.
3. As of the date for suspending the share transfer for this shareholders meeting, the shareholding of each individual and entire directors stipulated in the shareholders roster is as follows:

March 26, 2018

Title	Name	Representative	Shareholding on the shareholder's registry	
			Shares	% Ratio (%)
Chairman	K.C. Liu		25,620,886	3.67%
Director	Advantech Foundation.	Chaney Ho	20,288,715	2.91%
Director	AIDC Investment Corp.	Donald Chang	82,097,182	11.77%
Director	Ted Hsu		0	0
Independent Director	Jeff Chen		0	0
Independent Director	Joseph Yu		273	0
Independent Director	Benson Liu		0	0
Total			128,007,056	18.35%