

Advantech 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 10. 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,

ADVANTECH CO., LTD.

By:

K. C. LIU
Chairman

March 8, 2019

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, 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, 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.

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 on the consolidated financial statements for the year ended December 31, 2018 were as follows:

Assessment of Provisions for Inventory Write-downs

Inventories as of December 31, 2018 amounted to NT\$7,557,820 thousand and accounted for 17% of the total assets in the Group's consolidated financial statements, which represented 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 impairment 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. We 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. We understand the internal control, evaluated and tested the design and operating effectiveness of the internal controls over the provisions for inventory write-downs.
3. We 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. We verified the appropriateness of source data, parameters and logic used in the Group's inventory aging analysis reports.

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. We 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. We interviewed 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. We 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. We 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. We 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, 2018 and 2017 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 IFRS, IAS, IFRIC, and 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, 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 Jr-Shian Ke and Meng-Chieh Chiu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2019

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 6,633,161	15	\$ 5,204,219	13
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 33)	2,098,552	5	3,098,846	8
Available-for-sale financial assets - current (Notes 4, 10 and 33)	-	-	229,381	1
Financial assets at amortized cost - current (Notes 4, 9 and 33)	157,426	1	-	-
Debt investments with no active market - current (Notes 4, 12 and 35)	-	-	38,908	-
Notes receivable (Notes 4 and 13)	1,461,404	3	1,255,781	3
Trade receivables (Notes 4 and 13)	6,870,878	16	6,596,030	16
Trade receivables from related parties (Note 34)	18,969	-	14,067	-
Other receivables	45,956	-	75,298	-
Inventories (Notes 4, 5 and 14)	7,557,820	17	6,242,251	15
Other current assets (Note 20)	522,407	1	445,791	1
Total current assets	25,366,573	58	23,200,572	57
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4, 10 and 33)	-	-	1,430,854	4
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 33)	1,300,267	3	-	-
Financial assets measured at cost - non-current (Notes 4 and 11)	-	-	78,518	-
Investments accounted for using the equity method (Notes 4 and 16)	2,431,522	6	1,349,735	3
Property, plant and equipment (Notes 4, 17 and 35)	9,782,781	22	9,967,332	24
Goodwill (Notes 4, 5 and 18)	2,840,001	6	2,727,549	7
Other intangible assets (Notes 4, 5 and 19)	1,095,899	2	1,124,407	3
Deferred tax assets (Notes 4 and 26)	501,260	1	398,441	1
Prepayments for business facilities	273,386	1	68,440	-
Long-term prepayments for leases (Note 20)	297,665	1	312,708	1
Other non-current assets (Note 31)	47,718	-	45,213	-
Total non-current assets	18,570,499	42	17,503,197	43
TOTAL	\$ 43,937,072	100	\$ 40,703,769	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 21)	\$ 87,581	-	\$ 8,400	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 33)	6,139	-	6,226	-
Notes payable and trade payables (Notes 4 and 34)	5,810,904	13	5,280,728	13
Other payables (Note 22)	3,662,199	8	3,624,710	9
Current tax liabilities (Notes 4 and 26)	1,611,886	4	1,269,165	3
Short-term warranty provisions	196,782	1	180,975	-
Current portion of long-term borrowings (Note 21)	9,626	-	-	-
Other current liabilities	761,473	2	676,457	2
Total current liabilities	12,146,590	28	11,046,661	27
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 21)	45,784	-	113,717	-
Deferred tax liabilities (Notes 4 and 26)	1,798,914	4	1,399,013	4
Net defined benefit liabilities (Notes 4 and 23)	255,545	1	237,225	1
Other non-current liabilities	149,653	-	146,713	-
Total non-current liabilities	2,249,896	5	1,896,668	5
Total liabilities	14,396,486	33	12,943,329	32
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	6,982,275	16	6,970,325	17
Advance receipts for share capital	4,680	-	2,500	-
Total share capital	6,986,955	16	6,972,825	17
Capital surplus	7,073,348	16	6,554,842	16
Retained earnings				
Legal reserve	5,655,613	13	5,039,962	13
Special reserve	369,655	1	85,204	-
Unappropriated earnings	10,015,895	23	9,297,896	23
Total retained earnings	16,041,163	37	14,423,062	36
Other equity				
Exchange differences on translation of foreign financial statements	(475,245)	(1)	(463,479)	(1)
Unrealized gain on available-for-sale financial assets	-	-	93,824	-
Unrealized gain on financial assets at fair value through other comprehensive income	(324,254)	(1)	-	-
Other equity - unearned stock-based employee comprehensive	736	-	-	-
Total other equity	(798,763)	(2)	(369,655)	(1)
Total equity attributable to owners of the Company	29,302,703	67	27,581,074	68
NON-CONTROLLING INTERESTS	237,883	-	179,366	-
Total equity	29,540,586	67	27,760,440	68
TOTAL	\$ 43,937,072	100	\$ 40,703,769	100

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 34)				
Sales	\$ 47,495,030	97	\$ 43,367,051	98
Other operating revenue	<u>1,231,488</u>	<u>3</u>	<u>1,007,700</u>	<u>2</u>
Total operating revenue	48,726,518	100	44,374,751	100
OPERATING COSTS (Notes 14, 23, 25 and 34)	<u>30,063,070</u>	<u>62</u>	<u>26,993,793</u>	<u>61</u>
GROSS PROFIT	<u>18,663,448</u>	<u>38</u>	<u>17,380,958</u>	<u>39</u>
OPERATING EXPENSES (Notes 23, 25 and 34)				
Selling and marketing expenses	4,774,069	10	4,400,803	10
General and administrative expenses	2,424,667	5	2,389,863	5
Research and development expenses	<u>3,997,313</u>	<u>8</u>	<u>3,811,815</u>	<u>9</u>
Total operating expenses	<u>11,196,049</u>	<u>23</u>	<u>10,602,481</u>	<u>24</u>
OPERATING PROFIT	<u>7,467,399</u>	<u>15</u>	<u>6,778,477</u>	<u>15</u>
NON-OPERATING INCOME				
Share of the profit of associates accounted for using the equity method (Note 16)	95,635	-	218,651	1
Interest income	38,789	-	16,461	-
Gains on disposal of property, plant and equipment	80,439	-	96,885	-
Gains on disposal of investments	8,012	-	292,441	1
Foreign exchange gains (losses), net (Notes 25 and 36)	16,956	-	(76,098)	-
Gains on financial instruments at fair value through profit or loss (Note 7)	59,322	-	207,795	-
Dividend income	106,315	-	122,220	-
Other income (Note 34)	173,002	1	95,772	-
Finance costs (Note 25)	(4,685)	-	(12,117)	-
Losses on financial instruments at fair value through profit or loss (Note 7)	(39,710)	-	(84,658)	-
Impairment loss	-	-	(112,120)	-
Other losses	<u>(6,985)</u>	<u>-</u>	<u>(10,166)</u>	<u>-</u>
Total non-operating income	<u>527,090</u>	<u>1</u>	<u>755,066</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	7,994,489	16	7,533,543	17
INCOME TAX EXPENSES (Note 26)	<u>1,677,741</u>	<u>3</u>	<u>1,384,254</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>6,316,748</u>	<u>13</u>	<u>6,149,289</u>	<u>14</u>

(Continued)

ADVANTECH 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	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss (Notes 16, 23, 24 and 26):				
Remeasurement of defined benefit plans	\$ (20,858)	-	\$ (23,905)	-
Share of the other comprehensive income (loss) of associates accounted for using the equity method	(14,942)	-	(1,306)	-
Unrealized loss on investments in equity instruments as at fair value through other comprehensive income	(445,333)	(1)	-	-
Income tax related to items that will not be reclassified	6,316	-	4,064	-
Items that may be reclassified subsequently to profit or loss (Notes 16, 23, 24 and 26):				
Exchange differences on translation of foreign financial statements	(30,455)	-	(315,229)	(1)
Unrealized gains (losses) on available-for-sale financial assets	-	-	(18,605)	-
Share of the other comprehensive losses of associates	(11,074)	-	(6,919)	-
Income tax related to items that may be reclassified subsequently to profit or loss	<u>23,883</u>	<u>-</u>	<u>54,450</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(492,463)</u>	<u>(1)</u>	<u>(307,450)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,824,285</u>	<u>12</u>	<u>\$ 5,841,839</u>	<u>13</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 6,294,657	13	\$ 6,156,516	14
Non-controlling interests	<u>22,091</u>	<u>-</u>	<u>(7,227)</u>	<u>-</u>
	<u>\$ 6,316,748</u>	<u>13</u>	<u>\$ 6,149,289</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 5,807,959	12	\$ 5,850,991	13
Non-controlling interests	<u>16,326</u>	<u>-</u>	<u>(9,152)</u>	<u>-</u>
	<u>\$ 5,824,285</u>	<u>12</u>	<u>\$ 5,841,839</u>	<u>13</u>

(Continued)

ADVANTECH 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	%
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 27)				
Basic	<u>\$ 9.02</u>		<u>\$ 8.84</u>	
Diluted	<u>\$ 8.93</u>		<u>\$ 8.77</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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company								Other Equity (Note 24)						
	Issued Capital (Notes 24 and 28)			Capital Surplus (Notes 4, 24 and 28)	Retained Earnings (Notes 4, 23 and 24)				Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain on Available-for-sale Financial Assets	Unearned Stock-based Employee Compensation	Total	Non-controlling Interests (Notes 24, 29 and 30)	Total Equity
	Share Capital	Advance Receipts for Ordinary Shares	Total		Legal Reserve	Special Reserve	Unappropriated Earnings	Total							
BALANCE AT JANUARY 1, 2017	\$ 6,330,741	\$ 100	\$ 6,330,841	\$ 6,058,884	\$ 4,473,276	\$ -	\$ 8,435,785	\$ 12,909,061	\$ (197,633)	\$ -	\$ 112,429	\$ -	\$ 25,213,582	\$ 173,315	\$ 25,386,897
Appropriation of the 2016 earnings	-	-	-	-	566,686	-	(566,686)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	(85,204)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(3,988,367)	(3,988,367)	-	-	-	-	(3,988,367)	-	(3,988,367)
Cash dividends on ordinary shares	633,074	-	633,074	-	-	-	(633,074)	(633,074)	-	-	-	-	-	-	-
Share dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognition of employee share options by the Company	6,510	2,400	8,910	68,510	-	-	-	-	-	-	-	-	77,420	-	77,420
Compensation costs recognized for employee share options	-	-	-	424,637	-	-	-	-	-	-	-	-	424,637	-	424,637
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	2,054	-	-	-	-	-	-	-	-	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	-	757
Net profit 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)	(265,846)	-	(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	(265,846)	-	(18,605)	-	5,850,991	(9,152)	5,841,839
BALANCE AT DECEMBER 31, 2017	6,970,325	2,500	6,972,825	6,554,842	5,039,962	85,204	9,297,896	14,423,062	(463,479)	-	93,824	-	27,581,074	179,366	27,760,440
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	(34,002)	(34,002)	-	123,254	(93,824)	-	(4,572)	-	(4,572)
BALANCE AT JANUARY 1, 2018	6,970,325	2,500	6,972,825	6,554,842	5,039,962	85,204	9,263,894	14,389,060	(463,479)	123,254	-	-	27,576,502	179,366	27,755,868
Appropriation of the 2017 earnings	-	-	-	-	615,651	-	(615,651)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	(284,451)	(284,451)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(4,600,414)	(4,600,414)	-	-	-	-	(4,600,414)	-	(4,600,414)
Cash dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognition of employee share options by the Company	11,950	2,180	14,130	104,246	-	-	-	-	-	-	-	-	118,376	-	118,376
Compensation costs recognized for employee share options	-	-	-	341,624	-	-	-	-	-	-	-	-	341,624	-	341,624
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	2,660	-	-	-	-	-	-	-	736	3,396	-	3,396
Associates using equity methods	-	-	-	-	-	-	(14,716)	(14,716)	-	-	-	-	(14,716)	-	(14,716)
Difference between consideration paid and carrying amount of subsidiaries acquired or disposed of	-	-	-	70,716	-	-	-	-	-	-	-	-	70,716	41,385	112,101
Recognized for employee by subsidiaries	-	-	-	(740)	-	-	-	-	-	-	-	-	(740)	806	66
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	6,294,657	6,294,657	-	-	-	-	6,294,657	22,091	6,316,748
Other comprehensive income (loss) for year ended December 31, 2018, net of income tax	-	-	-	-	-	-	(15,687)	(15,687)	(11,766)	(459,245)	-	-	(486,698)	(5,765)	(492,463)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	-	6,278,970	6,278,970	(11,766)	(459,245)	-	-	5,807,959	16,326	5,824,285
Associates disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	(11,737)	(11,737)	-	11,737	-	-	-	-	-
BALANCE AT DECEMBER 31, 2018	\$ 6,982,275	\$ 4,680	\$ 6,986,955	\$ 7,073,348	\$ 5,655,613	\$ 369,655	\$ 10,015,895	\$ 16,041,163	\$ (475,245)	\$ (324,254)	\$ -	\$ 736	\$ 29,302,703	\$ 237,883	\$ 29,540,586

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,994,489	\$ 7,533,543
Adjustments to reconcile profit (loss):		
Depreciation expenses	567,706	587,293
Amortization expenses	165,406	228,062
Amortization expenses for prepayments of lease obligations	8,844	8,741
Impairment loss recognized (reversed) for trade receivables	-	3,030
Expected loss on credit impairment	19,432	-
Net gain on financial assets or liabilities at fair value through profit or loss	(19,612)	(123,137)
Compensation costs of employee share options	341,624	424,637
Finance costs	4,685	12,117
Interest income	(38,789)	(16,461)
Dividend income	(106,315)	(122,220)
Share of profit of associates accounted for using the equity method	(95,635)	(218,651)
Gain on disposal of property, plant and equipment	(80,439)	(96,885)
Gain on disposal of investments	(8,012)	(292,441)
Impairment loss	-	112,120
Changes in operating assets and liabilities		
Financial assets held for trading	967,642	(2,866,686)
Notes receivable	(205,623)	(290,700)
Trade receivables	(278,370)	(193,567)
Trade receivables from related parties	(4,902)	(110)
Other receivables	29,342	(61,523)
Inventories	(1,310,932)	(614,558)
Other current assets	(76,001)	40,203
Notes payable and trade payables	510,358	270,599
Net defined benefit liabilities	(2,538)	960
Other payables	(3,165)	(280,286)
Short-term warranty provisions	15,807	13,853
Other current liabilities	84,143	15,583
Other non-current liabilities	<u>2,940</u>	<u>5,115</u>
Cash generated from operations	8,482,085	4,078,631
Interest received	38,789	16,461
Dividends received	106,315	122,220
Interest paid	(3,093)	(9,620)
Income tax paid	<u>(1,198,350)</u>	<u>(1,196,403)</u>
Net cash generated from operating activities	<u>7,425,746</u>	<u>3,011,289</u>

(Continued)

ADVANTECH 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		
Purchase of financial assets at fair value through other comprehensive income	\$ (41,168)	\$ -
Purchase of financial assets at amortized cost	(116,998)	-
Purchase of available-for-sale financial assets	-	(6,589,478)
Proceeds from sale of available-for-sale financial assets	-	9,872,540
Proceeds from sale of debt investments with no active market	-	26,485
Purchase of financial assets measured at cost	-	(77,333)
Purchase of investments accounted for using the equity method	(1,081,527)	(615,000)
Net cash flow on the acquisition of subsidiaries	(60,322)	(118,847)
Dividends received from associates	146,250	75,026
Payments for property, plant and equipment	(574,229)	(533,741)
Proceeds from disposal of property, plant and equipment	189,061	146,582
Decrease (increase) in refundable deposits	(2,151)	6,858
Payments for intangible assets	(111,209)	(76,167)
Decrease (increase) in prepayments for equipment	<u>(116,865)</u>	<u>12,820</u>
Net cash generated from (used in) investing activities	<u>(1,769,158)</u>	<u>2,129,745</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease (increase) in short-term loans	79,481	(456,480)
Repayments of long-term borrowings	(54,245)	(22,733)
Increase in guarantee deposits received	-	200
Payments of cash dividends	(4,600,414)	(3,988,367)
Exercise of employee share options	118,376	77,420
Increase in non-controlling interests	<u>104,910</u>	<u>757</u>
Net cash used in financing activities	<u>(4,351,892)</u>	<u>(4,389,203)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>124,246</u>	<u>(185,189)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,428,942	566,642
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>5,204,219</u>	<u>4,637,577</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 6,633,161</u>	<u>\$ 5,204,219</u>

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

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Advantech Co., Ltd. (the “Company”) is a listed company that was established in September 1981. It manufactures and sells embedded computing boards, industrial automation products and applied and industrial computers.

The Company’s shares have been listed on the Taiwan Stock Exchange since December 1999.

To improve the entire operating efficiency of the Company and its subsidiaries (collectively referred to as the “Group”), the Company’s board of directors resolved on June 30, 2009 to have a short-form merger with Advantech Investment and Management Service (“AIMS”). The effective merger date was July 30, 2009. As the surviving entity, the Company assumed all assets and liabilities of AIMS. On June 26, 2014, the Company’s board of directors resolved to have a whale-minnow merger with Netstar Technology Co., Ltd. (“Netstar”), an indirectly 95.51%-owned subsidiary through a wholly-owned subsidiary, Advantech Corporate Investment. The effective merger date was July 27, 2014. As the surviving entity, the Company assumed all assets and liabilities of Netstar.

The functional currency of the Company is the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on March 8, 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 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) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

The amendments to IAS 28 clarify that when the Group (a non-investment entity) applies the equity method to account for its investment in an associate that is an investment entity, the Group may elect to retain the fair value of the investment interests in subsidiaries of the investment entity associate. The election should be made separately for each investment entity associate, at the later of the date that (a) the investment entity associate is initially recognized, (b) the associate becomes an investment entity, or (c) the investment entity associate first becomes a parent.

2) 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 related to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at 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 at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 5,204,219	\$ 5,204,219	-
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	5,084	5,084	-
Mutual funds	Held-for-trading	Mandatorily at FVTPL	2,794,858	2,794,858	-
Equity securities	Held-for-trading	Mandatorily at FVTPL	101,325	101,325	
	Held-for-trading	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	197,579	197,579	a)
	Available-for-sale	Mandatorily at FVTPL	229,381	229,381	a)
	Available-for-sale	FVTOCI - equity instruments	1,430,854	1,430,854	a)
	Financial assets measured at cost	FVTOCI - equity instruments	78,518	78,518	a)
Time deposits with original maturity of more than 3 months	Loans and receivables	Amortized cost	38,908	38,908	b)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	7,941,176	7,941,176	c)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi- cations	Remea- surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTPL</u>	\$ 3,098,846						
Add: Reclassification from available-for-sale (IAS 39) required reclassification							
Fair value option elected on January 1, 2018	-	\$ 229,381	-				
Less: Reclassification to FVTOCI - equity instruments (IFRS 9)	-	(197,579)	-				
	<u>3,098,846</u>	<u>31,802</u>	<u>-</u>	\$ 3,130,648	\$ 87,115	\$ (87,115)	a)
<u>FVTOCI</u>							
Equity instruments	-						
Add: Reclassification from FVTPL (IAS 39) (including fair value option revoked)	-	197,579	-				
Add: Reclassification from available-for-sale (IAS 39)	-	1,430,854	-				
Add: Financial assets measured at cost (IAS 39)	-	78,518	-				
	<u>-</u>	<u>1,706,951</u>	<u>-</u>	1,706,951	(128,168)	128,168	a)
<u>Amortized cost</u>							
Add: Reclassification from loans and receivables (IAS 39)	-	13,184,303	-	13,184,303	-	-	b), c)
	<u>\$ 3,098,846</u>	<u>\$ 14,923,056</u>	<u>\$ -</u>	<u>\$ 18,021,902</u>	<u>\$ (41,053)</u>	<u>\$ 41,053</u>	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Adjustments Arising from Initial Application	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Investments accounted for using the equity method	<u>\$ 1,349,735</u>	<u>\$ (4,572)</u>	<u>\$ 1,345,163</u>	<u>\$ 7,051</u>	<u>\$ (11,623)</u>	d)

- a) The Group elected to classify all of its investments in equity securities previously classified as available-for-sale and at FVTPL 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 retained earnings and to other equity - unrealized gain (loss) on financial assets at FVTOCI in the amount of \$41,053 thousand.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value.

- b) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as measured 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.
- c) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.
- d) As a result of retrospective application of IFRS 9 by associates, there was a decrease in investments accounted for using the equity method of \$4,572 thousand, a decrease in other equity - unrealized gain (loss) on financial assets at FVTOCI of \$11,623 thousand and an increase in retained earnings of \$7,051 thousand on January 1, 2018.

3) 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 the related disclosures.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

The Group provides service-type warranties in addition to assurance that its products comply with agreed-upon specifications. IFRS 15 requires such service to be considered as a performance obligation. Any transaction price allocated to a service-type warranty is recognized as revenue, and the related costs are recognized when such warranty service is performed.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables and deferred revenue were recognized when revenue was recognized for the contract under IAS 18.

The Group elects to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

For all contract modifications that occurred on or before December 31, 2017, the Group did not apply the requirements in IFRS 15 individually to each of the modifications, and the Group identified the performance obligations and determine and allocated transaction price in a manner that reflected the aggregate effect of all modifications that occurred on or before December 31, 2017. This reduced the complexity and cost of retrospective application and resulted in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

In determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Group assumes it will recover the asset at its carrying amount when estimating probable future taxable profit. The Group applied the above amendments retrospectively in 2018.

5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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, IFRIC 4 and a number of related interpretations.

Definition of a lease

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.

The Group as lessee

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 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 payment for acquiring land use right in China is recognized as long-term prepaid lease. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

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. 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.

The Group as lessor

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.

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
Right-of-use assets	\$ _____ -	\$ <u>683,787</u>	\$ <u>683,787</u>
Total effect on assets	\$ _____ -	\$ <u>683,787</u>	\$ <u>683,787</u>
Lease liabilities - current	\$ -	\$ 38,165	\$ 38,165
Lease liabilities - non-current	_____ -	<u>645,622</u>	<u>645,622</u>
Total effect on liabilities	\$ _____ -	\$ <u>683,787</u>	\$ <u>683,787</u>

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.

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

3) Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate to which the equity method is not applied. These included long-term interests that, in substance, form part of the Group’s net investment in an associate.

Upon initial application of the above amendments, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

4) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

Upon initial application of the above amendments, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

5) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings. Upon initial application of the above amendment, the related borrowing costs will be included in the calculation starting from 2019.

6) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group will apply the above amendment prospectively.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company assesses the significant impact that the application of other standards and interpretations will have no significant influence on the Company’s financial position and financial performance.

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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, 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, 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, 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 over an associate, 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, i.e. the Group’s share of the gain or loss is eliminated.

2) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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 and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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 an 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 statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, 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 15 and Table 7 and Table 8 for the detailed information of subsidiaries (including the percentage of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

f. 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 cases, 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 translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the group entities (including subsidiaries and associates that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and 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).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work in process 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 the weighted-average cost on the balance sheet date.

h. Investments in associates

An associate is an entity over which the Group has significant influence.

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.

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 and 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 is not allocated to any asset, including goodwill, that 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 if that associate had 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 are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Freehold land is not depreciated.

Depreciation of 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 methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates 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.

j. Goodwill

Goodwill arising from the acquisition of a business is measured 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 or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit 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 attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit 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 cash-generating unit 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 pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit 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 cash-generating unit 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 methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) 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 any 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

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 an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss 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 categories

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments 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 or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

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 any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 33.

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, and trade receivables at amortized cost, 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 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.

iii. 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 such financial assets are either held for trading or designated as at fair value through profit or loss.

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 incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 33.

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 amounts 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 the 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.

iii. Loans and receivables

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

Cash equivalents include time deposits 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

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, lease receivables, as well as contract assets.

The Group always recognizes lifetime expected credit losses (i.e. 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, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

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, as a result of one or more events that occurred after the initial recognition of such financial asset, that the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as trade receivables, 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 with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets 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 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.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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, where the carrying amount is reduced through the use of an allowance account. When trade 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 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.

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 that 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 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 that 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 a 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 a group entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company'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, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when such financial liabilities are either held for trading or is designated as at fair value through profit or loss. Fair value is determined in the manner described in Note 33.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

n. Provisions

Provisions are measured at the best estimate of the discounted cash flows 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.

Provisions for the expected cost of warranty obligations are recognized at 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 Contracts applicable to IFRS 15

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

For contracts where the period between the date when the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

1) Revenue from sale of goods

Revenue from sale of goods comes from sales of embedded computing boards, industrial automation products and applied and industrial computers.

Sales of the above products are majorly recognized as revenue under contracts when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and the price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from rendering services

Revenue from rendering services comes from developing products and extended warranty services. Such revenue is recognized when services are provided.

Contracts prior to 2018 without retrospective application of IFRS 15

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. Allowances for sales returns and liabilities 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 the materials' ownership.

2) Rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

3) Dividends and interest income

Dividends income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that 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 a 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 expenses on a straight-line basis over the lease term.

q. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

r. 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 services.

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past 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 or when the plan amendment or curtailment occurs. 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 it occurs. 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.

s. Employee share options

Employee share options granted to employee and others providing similar services.

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 estimates 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 Group 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 expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

t. 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 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. If a temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, 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 and associates, 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 assets 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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, estimates 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Inventory write-downs

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Significant influence over associates

As Note 16 Investments accounted for using the equity method describes that several companies are associates of the Group although the Group only holds less than 20% of the voting power in each of these companies, and the Group has significant influence over these companies as it can obtain its representatives in the board of directors according to the investment contract.

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.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2018	2017
Cash on hand	\$ 76,179	\$ 70,453
Checking accounts and demand deposits	5,350,844	4,942,396
Cash equivalents (time deposits with original maturities less than three months)	<u>1,206,138</u>	<u>191,370</u>
	<u>\$ 6,633,161</u>	<u>\$ 5,204,219</u>

The market rate intervals of cash in bank, at the end of the reporting period were as follows:

	<u>December 31</u>	
	2018	2017
Demand deposits	0%-6.5%	0.0001%-6.9%
Time deposits with original maturities of less than three months	1.0%-5.2%	1.35%-2.3%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2018	2017
<u>Financial assets at FVTPL - current</u>		
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts	\$ -	\$ 5,084
Non-derivative financial assets		
Domestic quoted shares	-	289,570
Foreign quoted shares	-	9,334
Mutual funds	<u>-</u>	<u>2,794,858</u>
	<u>-</u>	<u>3,098,846</u>
		(Continued)

	December 31	
	2018	2017
Financial assets mandatorily classified as at FVTPL		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts	\$ 5,198	\$ -
Non-derivative financial assets		
Domestic quoted shares	202,622	-
Foreign quoted shares	5,270	-
Mutual funds	<u>1,885,462</u>	<u>-</u>
	<u>2,098,552</u>	<u>-</u>
	<u>\$ 2,098,552</u>	<u>\$ 3,098,846</u>
 Financial liabilities at FVTPL - current		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts	\$ -	\$ 6,226
Financial assets mandatorily classified as at FVTPL		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts	<u>6,139</u>	<u>-</u>
	<u>\$ 6,139</u>	<u>\$ 6,226</u>
		(Concluded)

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2018</u>			
Sell	EUR/NTD	2019.01-2019.04	EUR12,600/NTD448,286
	EUR/USD	2019.01-2019.02	EUR400/USD459
	JPY/NTD	2019.01-2019.05	JPY380,000/NTD104,301
	RMB/NTD	2019.01-2019.04	RMB67,000/NTD295,236
 <u>December 31, 2017</u>			
Sell	EUR/NTD	2018.01-2018.05	EUR14,000/NTD499,225
	EUR/USD	2018.01-2018.04	EUR1,500/USD1,805
	JPY/NTD	2018.01-2018.05	JPY500,000/NTD134,549
	RMB/NTD	2018.01-2018.03	RMB77,000/NTD346,212

The Group entered into foreign exchange forward contracts during the years ended December 31, 2018 and 2017 to manage exposures due to exchange rate fluctuations of foreign-currency denominated assets and liabilities. Because these contracts did not meet the criteria for hedge effectiveness, they were not subject to hedge accounting.

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

	December 31, 2018
<u>Non-current</u>	
Investments in equity instruments at FVTOCI	<u>\$ 1,300,267</u>
Investments in equity instruments at FVTOCI:	
	December 31, 2018
<u>Non-current</u>	
Domestic investments	
Listed shares and emerging market shares	
Ordinary shares - ASUSTek Computer Inc.	\$ 955,001
Ordinary shares - Allied Circuit Co., Ltd.	226,501
Unlisted shares	
Ordinary shares - BroadTec System Inc.	3,879
Ordinary shares - BiosenseTek Corp.	-
Ordinary shares - Juguar Technology	4,743
Ordinary shares - Taiwan DSC PV Ltd.	-
	1,190,124
Foreign investments	
Shanghai Shangchuang Xinwei Investment Management Co., Ltd.	107,328
JamaPro Co., Ltd.	2,815
	110,143
	<u>\$ 1,300,267</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments 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. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3, 10 and 11 for information related to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
<u>Current</u>	
Domestic investments	
Time deposits with original maturity of more than 3 months	<u>\$ 157,426</u>

The market interest rates of the time deposits with original maturities of more than three months were 0.2%-2.3%. The time deposits with original maturities of more than 3 months were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 12 for information related to their reclassification and comparative information for 2017.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
<u>Current</u>	
Domestic investments	
Quoted shares	\$ 219,000
Foreign investments	
Quoted shares	<u>10,381</u>
	<u>\$ 229,381</u>
<u>Non-current</u>	
Domestic investments	
Quoted shares	\$ 1,419,479
Unlisted shares	<u>11,375</u>
	<u>\$ 1,430,854</u>

11. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
<u>Non-current</u>	
Private equity	<u>\$ 78,518</u>
Classified according to financial asset measurement categories	
Available-for-sale financial assets	<u>\$ 78,518</u>

The Group measured the private equity with the costs at the end of the reporting period, because there was a significant range of reasonable estimates for fair values and the probability for each estimate cannot be assessed reasonably. Therefore, the management of the Group determined that the fair value of the private equity was not reliably measured.

12. DEBT INVESTMENTS WITH NO ACTIVE MARKET- 2017

**December 31,
2017**

Time deposits with original maturities of more than three months \$ 38,908

The market interest rates of the time deposits with original maturities of more than three months were 1.00%-2.30% per annum as of December 31, 2017.

For information on pledged debt investments with no active market, refer to Note 35.

13. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>December 31</u>	
	2018	2017
<u>Notes receivable - operating</u>	<u>\$ 1,461,404</u>	<u>\$ 1,255,781</u>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 6,958,369	\$ 6,686,485
Less: Allowance for impairment loss	<u>(87,491)</u>	<u>(90,455)</u>
	<u>\$ 6,870,878</u>	<u>\$ 6,596,030</u>

Trade Receivables

For the year ended December 31, 2018

At amortized cost

The average credit period of the sales of goods was 30-90 days. No interest was charged on trade receivables. In order to minimize credit risk, the management of the Group 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 a 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 positions, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery of the receivable, e.g. when the debtor has been placed under liquidation, or when the trade receivables are over 1 year past due, whichever occurs earlier. For trade receivables that have been proposed a full amount of impairment loss, 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	Less than 90 Days	90 to 180 Days	180 to 360 Days	Over 360 Days	Total
Expected credit loss rate	0.41%	0.14%	31.39%	69.02%	100%	%
Gross carrying amount	\$ 5,358,360	\$ 1,488,386	\$ 53,879	\$ 34,029	\$ 23,715	\$ 6,958,369
Loss allowance (Lifetime ECL)	<u>(21,319)</u>	<u>(2,056)</u>	<u>(16,913)</u>	<u>(23,488)</u>	<u>(23,715)</u>	<u>(87,491)</u>
Amortized cost	<u>\$ 5,337,041</u>	<u>\$ 1,486,330</u>	<u>\$ 36,966</u>	<u>\$ 10,541</u>	<u>\$ -</u>	<u>\$ 6,870,878</u>

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

	For the Year Ended December 31, 2018
Balance at January 1, 2018 - per IAS 39	\$ 90,455
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 - per IFRS 9	90,455
Add: Net remeasurement of loss allowance	19,432
Less: Amounts written off*	(21,605)
Foreign exchange gains and losses	<u>(791)</u>
Balance at December 31, 2018	<u>\$ 87,491</u>

* The Group wrote off trade receivables and related loss allowance of \$21,605 thousand due to the fact that the customers' trade receivables have been aged more than 2 years and the legal attest letters were served without receivables collected.

For the year ended December 31, 2017

The Group applied the same credit policy in 2018 and 2017. The Group recognized an allowance for impairment loss of 100% against all receivables over 1 year because historical experience was that receivables that are past due beyond 1 year were not recoverable. Allowance for impairment loss was recognized against trade receivables between 91 days and 1 year based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For some trade receivables balances 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 credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31, 2017
Not overdue	\$ 5,663,891
Overdue	
1 to 90 days	924,551
91 to 360 days	64,669
Over 360 days	<u>33,374</u>
	<u>\$ 6,686,485</u>

The above aging schedule was based on the number of past due days from the end of the credit term.

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

	December 31, 2017
1 to 30 days	\$ 763,822
31 to 60 days	117,935
61 to 90 days	<u>42,794</u>
	<u>\$ 924,551</u>

The above aging schedule was based on the number of past due days from the end of the credit term.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ 13,686	\$ 87,668	\$ 101,354
Add: Impairment losses recognized on receivables	185	2,845	3,030
Less: Amounts written off during the period as uncollectible	(12,158)	(1,575)	(13,733)
Impairment losses recognized from business combination	-	37	37
Foreign exchange translation gains and losses	<u>-</u>	<u>(233)</u>	<u>(233)</u>
Balance at December 31, 2017	<u>\$ 1,713</u>	<u>\$ 88,742</u>	<u>\$ 90,455</u>

14. INVENTORIES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Raw materials	\$ 3,773,265	\$ 3,122,276
Work in process	1,533,978	1,235,097
Finished goods	1,531,644	1,335,817
Inventories in transit	<u>718,933</u>	<u>549,061</u>
	<u>\$ 7,557,820</u>	<u>\$ 6,242,251</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2018 and 2017 were \$29,631,016 thousand and \$26,610,027 thousand, respectively.

The costs of inventories decreased by \$630,341 thousand and \$577,528 thousand as of December 31, 2018 and 2017, respectively, when stated at the lower of cost or net realizable value.

15. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements.

The entities included in the consolidated statements are listed below.

Investor	Investee	Nature of Activities	<u>% of Ownership</u>		Remark
			<u>2018</u>	<u>2017</u>	
The Company	AAC (BVI)	Investment and management service	100.00	100.00	
	ATC	Sale of industrial automation products	100.00	100.00	
	Advanixs Corporation	Production and sale of industrial automation products	100.00	100.00	
	Advantech Corporate Investment	Investment holding company	100.00	100.00	
	AEUH	Investment and management services	100.00	100.00	
	ASG	Sale of industrial automation products	100.00	100.00	a
	AAU	Sale of industrial automation products	100.00	100.00	a
	AJP	Sale of industrial automation products	100.00	100.00	a
	AMY	Sale of industrial automation products	100.00	100.00	a
	AKR	Sale of industrial automation products	100.00	100.00	a
	ABR	Sale of industrial automation products	80.00	80.00	a
	AIN	Sale of industrial automation products	99.99	99.99	a
	AdvanPOS	Production and sale of POS systems	100.00	100.00	a
	LNC	Production and sale of machines with computerized numerical controls	64.10	81.17	l
	AMX	Sale of industrial automation products	100.00	100.00	a
	Advantech Innovative Design Co., Ltd.	Product design	100.00	100.00	a
	BEMC	Sale of industrial network communications systems	-	60.00	m
	B+B	Sale of industrial network communications systems	60.00	-	m
	AiST	Design, develop and sale of intelligent service	100.00	100.00	a
	AKST	Production and sale of intelligent medical displays	76.00	36.00	a, b
	ATH	Production of computers	51.00	-	a, c
AVN	Sale of industrial automation products	60.00	-	a, g	
ARU	Production and sales of industrial automation products	100.00	-	a, n	
AKR	AKST	Production and sale of intelligent medical displays	24.00	24.00	a, b

(Continued)

Investor	Investee	Nature of Activities	% of Ownership		Remark
			2018	2017	
Advantech Corporate Investment	Cermate	Manufacturing of electronic parts, computer, and peripheral devices	55.00	55.00	
	Huan Yan, Jih-Lian Co., Ltd.	Service plan for combination of related technologies of water treatment and applications of Internet of Things	50.00	-	a, d
	Yun Yan, Wu-Lian Co., Ltd.	Industrial equipment Networking in Greater China	50.00	-	a, d
ATC ATC (HK)	ATC (HK)	Investment and management services	100.00	100.00	
	AKMC	Production and sale of components of industrial automation products	100.00	100.00	
AAC (BVI)	Advanixs Kun Shan Corp.	Production and sale of industrial automation products	-	100.00	i
	ANA	Sale and fabrication of industrial automation products	100.00	100.00	
	AAC (HK) SiOT (Cayman)	Investment and management service Design, development and sale of IoT intelligent system service	100.00 100.00	100.00 -	a, h
ANA	BEMC	Sale of industrial network communications	-	40.00	m
	B+B	Sale of industrial network communications	40.00	-	m
AAC (HK)	ACN	Sale of industrial automation products	100.00	100.00	
	AiSC	Production and sale of industrial automation products	100.00	100.00	
SiOT (Cayman)	AXA	Development and production of software products	-	100.00	a, e
	SiOT (China)	Technology development consulting and services in the field of intelligent technology	99.00	-	a, h
	A-DLoG	Design, R&D and sale of industrial automation vehicles and related products	100.00	-	j
ACN	Hangzhou Advantofine Automation Co., Ltd.	Processing and sale of industrial automation products	-	100.00	a, f
	AXA	Development and production of software products	100.00	-	a, e
AiSC	SiOT (China)	Technology development consulting and services in the field of intelligent technology	-	100.00	k
AEUH	AEU	Sale of industrial automation products	100.00	100.00	
	APL	Sale of industrial automation products	100.00	100.00	a
AEU	A-DLoG	Design, R&D and sale of industrial automation vehicles and related products	-	100.00	j
ASG	ATH	Production of computers	49.00	51.00	a, c
	AID	Sale of industrial automation products	100.00	100.00	a
Cermate Land Mark	Land Mark	General investment	100.00	100.00	a
	Cermate (Shanghai)	Sale of industrial electronic equipment	100.00	100.00	a
	Cermate (Shenzhen)	Production of LCD touch panel, USB cable, and industrial computer	90.00	90.00	
LNC Better Auto Famous Now	Better Auto	General investment	100.00	100.00	
	Famous Now	General investment	100.00	100.00	
	LNC Dong Guan Co., Ltd.	Production and sale of industrial automation products	100.00	100.00	
BEMC Avtek B+B	Avtek	General investment	-	100.00	o
	B+B	General investment	-	100.00	o
	BBI	Sale of industrial network communications systems	100.00	100.00	
	Quatech	Sale of industrial network communications systems	-	100.00	o
	IMC	Sale of industrial network communications systems	100.00	100.00	
BBI	B&B Electronics	Sale of industrial network communications systems	100.00	100.00	
	B+B (CZ)	Manufacturing of cellular and automation solutions	99.99	99.99	
	Conel Automation	Sale of industrial network communications systems	1.00	1.00	
	B&B DMCC	Sale of industrial network communications systems	100.00	100.00	
B&B Electronics	B+B (CZ)	Manufacturing of cellular and automation solutions	0.01	0.01	
B+B (CZ)	Conel Automation	Sale of industrial network communications systems	99.00	99.00	

(Concluded)

- Remark a: Not significant subsidiaries and their financial statements had not been audited. Management of the Group believes that there would not be material impacts had the financial statements of these subsidiaries been audited.
- Remark b: In the first quarter of 2017, the Group acquired 60% of the equity of AKST with an acquisition of 24% and 36% of AKST's equity by the Company and AKR, respectively. In the fourth quarter of 2018, the Company acquired 40% of the equity of AKST, which led the Company's equity investment in AKST increase from 36% to 76%.
- Remark c: In the first quarter of 2018, the Group acquired 49% of the equity of ATH, which led the Group's equity investment in ATH increase from 51% to 100%. After the Group increased capital and adjusted its investment structure in ATH, the Company and ASG held 51% and 49% of the equity of ATH, respectively.
- Remark d: In the first quarter of 2018, Advantech Corporate Investment founded Huan Yan, Jih-Lian Co., Ltd. and Yun Yan, Wu-Lian Co., Ltd. and acquired 50% of the equity in each of these subsidiaries.
- Remark e: In the first quarter of 2018, the Group adjusted its investment structure and ACN directly held 100% of the equity of AXA.
- Remark f: In the first quarter of 2018, Hangzhou Advantofine Automation Co., Ltd. was liquidated.
- Remark g: In the second quarter of 2018, the Group acquired 60% of the equity of AVN.
- Remark h: In the second quarter of 2018, the Group founded SIoT (Cayman) and SIoT (China).
- Remark i: In the second quarter of 2018, Advanixs Kun Shan Corp. were merged by AKMC. Advanixs Kun Shan Corp. ceased to exist and is currently carrying out liquidation procedures.
- Remark j: In the third quarter of 2018, the Group adjusted its investment structure and SIoT (Cayman) acquired 100% shares of the equity of A-DloG.
- Remark k: In the third quarter of 2018, AiSC invested SIoT (China) and held 1% of the equity of SIoT (China).
- Remark l: In the first and the third quarters of 2018, the Group sold 1.11% and 15.96% of the equity of LNC, which led the Group's equity investment in LNC to decrease from 81.17% to 64.10%.
- Remark m: In the fourth quarter of 2018, the Group adjusted its investment structure, and BEMC was liquidated. The Company directly holds B+B at the moment.
- Remark n: In the fourth quarter of 2018, the Group founded ARU.
- Remark o: In the fourth quarter of 2018, Avtek and Quatech were in the process of liquidation.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Associates that are not individually material</u>		
Listed companies		
Axiomtek Co., Ltd. (“Axiomtek”)	\$ 619,411	\$ 622,604
Winmate Inc. (“Winmate”)	542,761	544,960
AzureWare Technologies, Inc. (“AzureWare”)	534,780	-
Nippon RAD Inc. (Nippon RAD)	298,700	-
Mildex Optical Inc. (“Mildex”)	183,210	-
Unlisted companies		
AIMobile Co., Ltd. (“AIMobile”)	65,012	84,140
Deneng Scientific Research Co., Ltd. (“Deneng”)	14,100	15,457
Jan Hsiang Electronics Co., Ltd. (“Jan Hsiang”)	8,010	10,447
CDIB Innovation Accelerator Co., Ltd. (“CDIB”)	147,109	72,127
DotZero Co., Ltd. (“DotZero”)	4,629	-
iLink Co., Ltd. (“iLink”)	9,407	-
Shanghai Yanle Co., Ltd. (“Yanle”)	<u>4,393</u>	<u>-</u>
	<u>\$ 2,431,522</u>	<u>\$ 1,349,735</u>

In the fourth quarters of 2017, the Group paid cash \$540,000 thousand for 16.62% of the equity of Winmate. The Group had significant influence over Winmate.

In the first quarter of 2018, the Group subscribed for 19.65% of the equity of AzureWave Technologies, Inc. through a private placement with the approval of the board of directors. The Group has significant influence over AzureWave Technologies, Inc.

In the second quarter of 2018, the Group paid cash of \$299,960 thousand for 19% equity of Nippon RAD. The Group had significant influence over Nippon RAD with the approval of the broad of directors.

In the second quarter of 2018, the Group paid cash of \$10,067 thousand for 25% equity of iLink Co., Ltd. The Group had significant influence over iLink Co., Ltd.

In the third quarter of 2018, the Group paid cash of \$4,392 thousand for 45% equity of Shanghai Yanle Co., Ltd. The Group had significant influence over Shanghai Yanle Co., Ltd.

In the third quarter of 2018, the Group paid cash of \$4,900 thousand for a 49% equity of DotZero Co., Ltd. The Group had significant influence over DotZero Co., Ltd.

In the fourth quarter of 2018, the Group paid cash of \$202,948 thousand for a 15% equity of Mildex Optical Inc. The Group had significant influence over Mildex Optical Inc.

In response to the application of IFRS 9 in 2018, Winmate and Axiomtek applied retroactively on January 1, 2018 and the Group recognized related changes according to ratio of shareholding and thus increased its retained earnings by \$7,051 thousand and decreased unrealized gain on financial assets at fair value through other comprehensive income by \$11,623 thousand.

Aggregate information of associates that are not individually material

For the Year Ended December 31
2018 **2017**

The Group's share of:

Profit from continuing operations	\$ 95,635	\$ 218,651
Other comprehensive income (loss)	<u>(26,016)</u>	<u>(8,225)</u>
 Total comprehensive income (loss) for the year	 <u>\$ 69,619</u>	 <u>\$ 210,426</u>

Except for financial statements of Axiomtek and Nippon RAD which have been audited or reviewed, investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have not been audited. Management believes there is 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 above companies which have not been audited.

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Office Equipment	Other Facilities	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 2,948,580	\$ 7,080,989	\$ 1,631,738	\$ 862,409	\$ 1,605,230	\$ 43,289	\$ 14,172,235
Additions	-	196,264	48,483	60,256	143,068	85,670	533,741
Disposals	(22,017)	(13,424)	(120,407)	(93,374)	(46,807)	(1,387)	(297,416)
Acquisitions through business combinations	29,007	44,460	24,903	6,163	4,952	-	109,485
Reclassifications	-	6,716	55,809	6,002	39,873	(123,521)	(15,121)
Effect of foreign currency exchange differences	<u>(11,590)</u>	<u>(40,459)</u>	<u>(5,601)</u>	<u>(10,833)</u>	<u>(16,734)</u>	<u>206</u>	<u>(85,011)</u>
Balance at December 31, 2017	<u>\$ 2,943,980</u>	<u>\$ 7,274,546</u>	<u>\$ 1,634,925</u>	<u>\$ 830,623</u>	<u>\$ 1,729,582</u>	<u>\$ 4,257</u>	<u>\$ 14,417,913</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2017	\$ -	\$ 1,228,673	\$ 1,155,669	\$ 644,435	\$ 1,053,622	\$ -	\$ 4,082,399
Depreciation expenses	-	193,563	115,809	86,120	191,801	-	587,293
Disposals	-	(5,741)	(111,114)	(85,344)	(45,520)	-	(247,719)
Acquisitions through business combinations	-	741	15,453	4,671	3,948	-	24,813
Reclassifications	-	5,295	5,571	7,724	1,506	-	20,096
Impairment losses	-	-	7,183	1,031	542	-	8,756
Effect of foreign currency exchange differences	<u>-</u>	<u>(7,835)</u>	<u>(2,077)</u>	<u>(7,393)</u>	<u>(7,752)</u>	<u>-</u>	<u>(25,057)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,414,696</u>	<u>\$ 1,186,494</u>	<u>\$ 651,244</u>	<u>\$ 1,198,147</u>	<u>\$ -</u>	<u>\$ 4,450,581</u>
Carrying amounts at December 31, 2017	<u>\$ 2,943,980</u>	<u>\$ 5,859,850</u>	<u>\$ 448,431</u>	<u>\$ 179,379</u>	<u>\$ 531,435</u>	<u>\$ 4,257</u>	<u>\$ 9,967,332</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 2,943,980	\$ 7,274,546	\$ 1,634,925	\$ 830,623	\$ 1,729,582	\$ 4,257	\$ 14,417,913
Additions	-	18,769	166,934	88,061	158,409	180,634	612,807
Disposals	(15,930)	(54,831)	(92,652)	(46,949)	(59,958)	(7,287)	(277,607)
Acquisitions through business combinations	-	-	57	524	1,483	-	2,064
Reclassifications	-	-	14,212	(19,262)	(76,318)	(170,403)	(251,771)
Effect of foreign currency exchange differences	<u>6,077</u>	<u>(42,752)</u>	<u>(13,540)</u>	<u>(2,976)</u>	<u>(9,935)</u>	<u>(4,716)</u>	<u>(67,842)</u>
Balance at December 31, 2018	<u>\$ 2,934,127</u>	<u>\$ 7,195,732</u>	<u>\$ 1,709,936</u>	<u>\$ 850,021</u>	<u>\$ 1,743,263</u>	<u>\$ 2,485</u>	<u>\$ 14,435,564</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2018	\$ -	\$ 1,414,696	\$ 1,186,494	\$ 651,244	\$ 1,198,147	\$ -	\$ 4,450,581
Depreciation expenses	-	199,740	110,418	75,835	181,713	-	567,706
Disposals	-	(7,147)	(65,293)	(44,304)	(52,241)	-	(168,985)
Acquisitions through business combinations	-	-	5	151	738	-	894
Reclassifications	-	-	(50,630)	(26,094)	(86,966)	-	(163,690)
Effect of foreign currency exchange differences	<u>-</u>	<u>(16,007)</u>	<u>(8,381)</u>	<u>(2,086)</u>	<u>(7,249)</u>	<u>-</u>	<u>(33,723)</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 1,591,282</u>	<u>\$ 1,172,613</u>	<u>\$ 654,746</u>	<u>\$ 1,234,142</u>	<u>\$ -</u>	<u>\$ 4,652,783</u>
Carrying amounts at December 31, 2018	<u>\$ 2,934,127</u>	<u>\$ 5,604,450</u>	<u>\$ 537,323</u>	<u>\$ 195,275</u>	<u>\$ 509,121</u>	<u>\$ 2,485</u>	<u>\$ 9,782,781</u>

As a result of the actual sales growth post the business combination of AKST, a subsidiary of the Company, missed expectations, AKST had continuous losses for the year ended December 31, 2017. In addition, the future operations of AKST are not forecasted to be optimistic. Hence, the future cash flows are estimated to decrease. The Company carried out a review of the recoverable amount of that related assets and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss of \$8,756 thousand, which was recognized in other gains and losses for the year ended December 31, 2017.

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

Buildings	
Main buildings	20-60 years
Electronic equipment	5 years
Engineering systems	5 years
Equipment	2-8 years
Office equipment	2-8 years
Other facilities	2-10 years

Property, plant and equipment pledged as collateral for borrowings are set out in Note 35.

18. GOODWILL

	For the Year Ended December 31	
	2018	2017
<u>Cost</u>		
Balance at January 1	\$ 2,828,958	\$ 2,845,831
Additional amounts recognized from business combinations occurring during the year (Note 29)	65,207	79,713
Adjustments for goodwill after acquisition (Note 29)	-	18,075
Effect of foreign currency exchange differences	<u>43,624</u>	<u>(114,661)</u>
Balance at December 31	<u>\$ 2,937,789</u>	<u>\$ 2,828,958</u>
<u>Accumulated impairment losses</u>		
Balance at January 1	\$ (101,409)	\$ -
Impairment losses recognized during the year	-	(97,788)
Effect of foreign currency exchange differences	<u>3,621</u>	<u>(3,621)</u>
Balance at December 31	<u>\$ (97,788)</u>	<u>\$ (101,409)</u>
Carry amount at December 31	<u>\$ 2,840,001</u>	<u>\$ 2,727,549</u>

The Group acquired AKST in January 2017. In the second quarter of 2017, after obtaining the audited financial statements of AKST for the year ended December 31, 2016, the Group paid the remaining installment of US\$600 thousand and adjusted the goodwill on the acquisition based on those audited financial statements. The actual sales growth post the business combination of AKST, a subsidiary of the Company, did not turn out as expected; AKST had continuous losses for the year ended December 31, 2017. An impairment loss for goodwill amounted to \$97,788 thousand and was recognized for the year ended December 31, 2017.

19. OTHER INTANGIBLE ASSETS

	Trademarks	Client Relationships	Technology Licenses	Others	Total
<u>Cost</u>					
Balance at January 1, 2017	\$ 525,656	\$ 522,604	\$ 435,473	\$ 617,967	\$ 2,101,700
Additions	-	-	-	77,986	77,986
Disposals	-	-	-	(211,991)	(211,991)
Acquisitions through business combinations	-	-	-	9,921	9,921
Effect of foreign currency exchange differences	<u>(31,152)</u>	<u>(26,027)</u>	<u>(20,595)</u>	<u>(37,243)</u>	<u>(115,017)</u>
Balance at December 31, 2017	<u>\$ 494,504</u>	<u>\$ 496,577</u>	<u>\$ 414,878</u>	<u>\$ 456,640</u>	<u>\$ 1,862,599</u>
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2017	\$ -	\$ 124,345	\$ 186,118	\$ 473,797	\$ 784,260
Amortization expenses	-	29,259	58,825	139,978	228,062
Disposals	-	-	-	(211,707)	(211,707)
Impairment losses recognized	-	-	-	5,576	5,576
Effect of foreign currency exchange differences	<u>-</u>	<u>2,936</u>	<u>(2,642)</u>	<u>(68,293)</u>	<u>(67,999)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 156,540</u>	<u>\$ 242,301</u>	<u>\$ 339,351</u>	<u>\$ 738,192</u>
Carrying amounts at December 31, 2017	<u>\$ 494,504</u>	<u>\$ 340,037</u>	<u>\$ 172,577</u>	<u>\$ 117,289</u>	<u>\$ 1,124,407</u>
<u>Cost</u>					
Balance at January 1, 2018	\$ 494,504	\$ 496,577	\$ 414,878	\$ 456,640	\$ 1,862,599
Additions	-	-	-	111,209	111,209
Disposals	-	-	-	(20,427)	(20,427)
Acquisitions through business combinations	-	-	-	70	70
Effect of foreign currency exchange differences	<u>12,543</u>	<u>10,886</u>	<u>8,721</u>	<u>5,566</u>	<u>37,716</u>
Balance at December 31, 2018	<u>\$ 507,047</u>	<u>\$ 507,463</u>	<u>\$ 423,599</u>	<u>\$ 553,058</u>	<u>\$ 1,991,167</u>
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2018	\$ -	\$ 156,540	\$ 242,301	\$ 339,351	\$ 738,192
Amortization expenses	-	29,147	43,708	92,551	165,406
Disposals	-	-	-	(20,427)	(20,427)
Effect of foreign currency exchange differences	<u>-</u>	<u>1,649</u>	<u>4,003</u>	<u>6,445</u>	<u>12,097</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 187,336</u>	<u>\$ 290,012</u>	<u>\$ 417,920</u>	<u>\$ 895,268</u>
Carrying amounts at December 31, 2018	<u>\$ 507,047</u>	<u>\$ 320,127</u>	<u>\$ 133,587</u>	<u>\$ 135,138</u>	<u>\$ 1,095,899</u>

Other intangible assets were amortized on a straight-line basis over their estimated useful lives as follows:

Customers relationships	4-15 years
Technology licenses	5-8 years
Others	1-5 years

The actual sales growth post the business combination of AKST, a subsidiary of the Company, did not turn out as expected; AKST had continuous losses for the year ended December 31, 2017. An impairment loss for intangible assets amounted to \$5,576 thousand and was recognized for the year ended December 31, 2017.

20. PREPAYMENTS FOR LEASES

	<u>December 31</u>	
	2018	2017
Current assets (included in other current assets)	\$ 8,673	\$ 8,854
Non-current assets	<u>297,665</u>	<u>312,708</u>
	<u>\$ 306,338</u>	<u>\$ 321,562</u>

Lease prepayments are for the Group's land-use right in mainland China.

21. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2018	2017
Secured borrowings		
Bank loans	\$ -	\$ 8,400
Unsecured borrowings		
Line of credit borrowings	<u>87,581</u>	<u>-</u>
	<u>\$ 87,581</u>	<u>\$ 8,400</u>

The weighted average effective interest rates on bank loans was 1.38%-3.15% and 2.87% per annum as of December 31, 2018 and 2017, respectively.

b. Long-term borrowings

	<u>December 31</u>	
	2018	2017
<u>Secured borrowings</u>		
Bank loans	\$ -	\$ 50,258
Other loans	<u>55,410</u>	<u>63,459</u>
	55,410	113,717
Less: Current portions	<u>(9,626)</u>	<u>-</u>
Long-term borrowings	<u>\$ 45,784</u>	<u>\$ 113,717</u>

The long-term borrowings are borrowings of the subsidiary AKST. The effective interest rate of line of secured borrowings was 1.60%-2.75% per annum as of December 31, 2017.

Other borrowings are loans from the government. As of December 31, 2017, the effective interest rate was 2.91%-3.16% per annum.

With demand of borrowings, the Group pledged time deposits, freehold land and buildings refer to Note 35.

22. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Other payables		
Payables for salaries or bonuses	\$ 2,143,770	\$ 2,324,441
Payables for employee benefits	207,175	180,617
Payables for royalties	107,409	118,347
Others (Note)	<u>1,203,845</u>	<u>1,001,305</u>
	<u>\$ 3,662,199</u>	<u>\$ 3,624,710</u>

Note: Including marketing expenses and freight expenses.

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company and its domestic subsidiaries of the Group adopted a pension plan under the Labor Pension Act (the “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.

For certain subsidiaries with a few or no employees, they have not established a set of policies for employee retirement and therefore not recognized related retirement expenses.

Except for those aforementioned subsidiaries, the rest of overseas subsidiaries recognized retirement expenses when making contribution to the retirement plan in accordance with local laws.

b. Defined benefit plans

The defined benefit plan adopted by the Company and Cermate of the Group in accordance with the Labor Standards Law, is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and Cermate Technologies Inc. each contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by pension fund monitoring committees. Pension contributions are deposited in the Bank of Taiwan in the committees’ name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group 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 were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 394,616	\$ 373,581
Fair value of plan assets	<u>(139,071)</u>	<u>(136,356)</u>
Deficit	<u>255,545</u>	<u>237,225</u>
Net defined benefit liabilities	<u>\$ 255,545</u>	<u>\$ 237,225</u>

Movements in net defined benefit liabilities were 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	\$ 347,702	\$ (135,342)	\$ 212,360
Service cost			
Current service cost	2,137	-	2,137
Past service cost	4,589	-	4,589
Net interest expense (income)	<u>4,787</u>	<u>(1,920)</u>	<u>2,867</u>
Recognized in profit or loss	<u>11,513</u>	<u>(1,920)</u>	<u>9,593</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	542	542
Actuarial loss			
Changes in demographic assumptions	20,380	-	20,380
Experience adjustments	<u>2,983</u>	<u>-</u>	<u>2,983</u>
Recognized in other comprehensive income	<u>23,363</u>	<u>542</u>	<u>23,905</u>
Contributions from the employer	-	(8,633)	(8,633)
Benefits paid	<u>(8,997)</u>	<u>8,997</u>	<u>-</u>
Balance at December 31, 2017	373,581	(136,356)	237,225
Service cost			
Current service cost	2,400	-	2,400
Net interest expense (income)	<u>5,143</u>	<u>(1,893)</u>	<u>3,250</u>
Recognized in profit or loss	<u>7,543</u>	<u>(1,893)</u>	<u>5,650</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,673)	(3,673)
Actuarial gain or loss			
Changes in demographic assumptions	6,812	-	6,812
Changes in financial assumptions	11,527	-	11,527
Experience adjustments	<u>6,192</u>	<u>-</u>	<u>6,192</u>
Recognized in other comprehensive income	<u>24,531</u>	<u>(3,673)</u>	<u>20,858</u>
Contributions from the employer	-	(8,188)	(8,188)
Benefits paid	<u>(11,039)</u>	<u>11,039</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 394,616</u>	<u>\$ (139,071)</u>	<u>\$ 255,545</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 1,372	\$ 1,192
Selling and marketing expenses	905	1,464
General and administrative expenses	1,436	1,452
Research and development expenses	<u>1,937</u>	<u>5,485</u>
	<u>\$ 5,650</u>	<u>\$ 9,593</u>

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 and 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 for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the 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 by 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 were as follows:

	December 31	
	2018	2017
Discount rate(s)	1.125%-1.375%	1.375%-1.500%
Expected rate(s) of salary increase	3.000%-3.250%	3.000%-3.250%

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	<u>\$ (11,723)</u>	<u>\$ (11,389)</u>
0.25% decrease	<u>\$ 12,218</u>	<u>\$ 11,878</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 11,770</u>	<u>\$ 11,472</u>
0.25% decrease	<u>\$ (11,358)</u>	<u>\$ (11,062)</u>

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.

	<u>December 31</u>	
	2018	2017
Expected contributions to the plan for the next year	\$ 9,477	\$ 1,945
Average duration of the defined benefit obligation	12.5-15.4 years	12.6-15.5 years

24. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2018	2017
Number of shares authorized (in thousands)	<u>800,000</u>	<u>800,000</u>
Shares authorized	<u>\$ 8,000,000</u>	<u>\$ 8,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>698,696</u>	<u>697,283</u>
Shares issued	<u>\$ 6,986,955</u>	<u>\$ 6,972,825</u>

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

The changes in shares are due to employees' exercise of their employee share options.

b. Capital surplus

	<u>December 31</u>	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	\$ 3,396,888	\$ 3,396,888
Conversion of bonds	931,849	931,849
The difference between consideration received or paid and the carrying amount of subsidiaries' net assets during actual disposal or acquisition	88,560	17,844
Share of changes in capital surplus of associates	55	-
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interests in subsidiaries (2)	4,263	5,003
Employee share options	1,519,818	1,241,557
Employees' share compensation	78,614	78,614
Share of changes in capital surplus of associates	27,890	25,285
<u>May not be used for any purpose</u>		
Employee share options	<u>1,025,411</u>	<u>857,802</u>
	<u>\$ 7,073,348</u>	<u>\$ 6,554,842</u>

- 1) 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 to once a year).
- 2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary resulting from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing 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 after amendment, refer to employees' compensation and remuneration of directors in Note 25, d.

The Company operates in an industry related to computers, and its business related to network servers is new but with significant potential for growth. Thus, in formulating its dividends policy, the Company takes into account the overall business and industry conditions and trends, its objective of enhancing the shareholders' long-term interests, and the sustainability of the Company's growth. The policy also requires that share dividends be less than 75% of total dividends to retain internally generated cash within the Company in order to finance future capital expenditures and working capital requirements.

An appropriation of earnings to a legal reserve should be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. 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 and Rule No. 1010047490 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriation of earnings for 2017 and 2016 have been approved in the shareholders' meetings on May 24, 2018 and May 26, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share	
	For the Year Ended		(NT\$)	
	December 31		For the Year Ended	
	2017	2016	2017	2016
Legal reserve	\$ 615,651	\$ 566,686	\$ -	\$ -
Special reserve	284,451	85,204	-	-
Cash dividends	4,600,414	3,988,367	6.6	6.3
Share dividends	-	633,074	-	1.0

The appropriations of earnings for 2018, which have been proposed by the Company's board of directors on March 8, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 629,466	\$ -
Special reserve	429,108	-
Cash dividends	4,751,129	6.8

The appropriations of earnings for 2018 are subject to the resolution of the shareholders in their meeting to be held on May 28, 2019.

d. Special reserves

	<u>For the Year Ended December 31</u>	
	2018	2017
Beginning at January 1	\$ 85,204	\$ -
Appropriations in respect of Debits to other equity items	<u>284,451</u>	<u>85,204</u>
Balance at December 31	<u>\$ 369,655</u>	<u>\$ 85,204</u>

e. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

	<u>For the Year Ended December 31</u>	
	2018	2017
Balance at January 1	\$ (463,479)	\$ (197,633)
Effect of change in tax rate	<u>16,752</u>	<u>-</u>
Recognized during the period		
Exchange differences arising on translating the financial statements of foreign entities	(19,659)	(260,103)
Share of those of associates accounted for using the equity method	<u>(8,859)</u>	<u>(5,743)</u>
Other comprehensive income recognized for the period	<u>(11,766)</u>	<u>(265,846)</u>
Balance at December 31	<u>\$ (475,245)</u>	<u>\$ (463,479)</u>

2) Unrealized gain (loss) from available-for-sale financial assets

Balance at January 1, 2017	\$ 112,429
Recognized during the period	
Unrealized gain arising on revaluation of available-for-sale financial assets	163,398
Share from subsidiaries accounted for using the equity method	(16,927)
Reclassification adjustment	
Disposal of available-for-sale financial assets	<u>(165,076)</u>
Other comprehensive income recognized for the period	<u>(18,605)</u>
Balance at December 31, 2017	93,824
Adjustment on initial application of IFRS 9	<u>(93,824)</u>
Balance at January 1, per IFRS 9	<u>\$ -</u>

3) Unrealized gain or loss on Financial Assets at FVTOCI

	For the Year Ended December 31, 2018
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	<u>123,254</u>
Balance at January 1 per IFRS 9	<u>123,254</u>
Recognized during the period	
Unrealized loss - equity instruments	(445,333)
Share of those of associates accounted for using the equity method	<u>(13,912)</u>
Other comprehensive income recognized for the period	(459,245)
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>11,737</u>
Balance at December 31	<u>\$ (324,254)</u>

4) Unearned employee benefits compensation

	For the Year Ended December 31, 2018
Balance at January 1	\$ -
Share from associates accounted for using the equity method	<u>736</u>
Balance at December 31	<u>\$ 736</u>

f. Non-controlling interests

	<u>For the Year Ended December 31</u>	
	2018	2017
Balance at January 1	\$ 179,366	\$ 173,315
Share of profit (loss) for the year	22,091	(7,227)
Other comprehensive income during the year		
Exchange difference on translation of foreign financial statements	(5,880)	(1,852)
Remeasurement on defined benefit plans	115	(73)
Non-controlling interests arising from decreasing investment in subsidiaries (Note 30)	56,829	-
Non-controlling interests arising from increasing investment in subsidiaries (Note 30)	(22,701)	-
Non-controlling interests arising from acquisition of subsidiary, AKST (Note 29)	-	15,203
Non-controlling interests arising from acquisition of subsidiary, AVN (Note 29)	7,257	-
Employees' holding outstanding vest share option related non-controlling interests issued by subsidiaries	<u>806</u>	<u>-</u>
Balance at December 31	<u>\$ 237,883</u>	<u>\$ 179,366</u>

25. NET PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	\$ 2,237	\$ 7,193
Others	<u>2,448</u>	<u>4,924</u>
	<u>\$ 4,685</u>	<u>\$ 12,117</u>

b. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
An analysis of depreciation by function		
Operating costs	\$ 151,782	\$ 148,165
Operating expenses	<u>415,924</u>	<u>439,128</u>
	<u>\$ 567,706</u>	<u>\$ 587,293</u>
An analysis of amortization by function		
Operating costs	\$ 831	\$ 5,011
Selling and marketing expenses	292	196
General and administrative expenses	131,465	191,842
Research and development expenses	<u>32,818</u>	<u>31,013</u>
	<u>\$ 165,406</u>	<u>\$ 228,062</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term benefits	\$ 8,319,973	\$ 7,913,000
Post-employment benefits		
Defined contribution plans	316,488	284,432
Defined benefit plans (Note 23)	<u>5,650</u>	<u>9,593</u>
	322,138	294,025
Share-based payments		
Equity-settled	341,624	424,637
Other employee benefits	<u>736,112</u>	<u>604,702</u>
Total employee benefits expense	<u>\$ 9,719,847</u>	<u>\$ 9,236,364</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 2,076,967	\$ 2,052,280
Operating expenses	<u>7,642,880</u>	<u>7,184,084</u>
	<u>\$ 9,719,847</u>	<u>\$ 9,236,364</u>

d. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at the rates of no less than 5% and remuneration of directors at the rates of no higher than 1%, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2018 and 2017, which have been approved by the Company's board of directors on March 8, 2019 and March 2, 2018, respectively, were as follows:

	For the Year Ended December 31	
	2018	2017
Employees' compensation	\$ 275,000	\$ 273,000
Remuneration of directors	10,600	10,600

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 is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors 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.

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	\$ 1,088,910	\$ 871,608
Foreign exchange losses	<u>(1,071,954)</u>	<u>(947,706)</u>
Net losses	<u>\$ 16,956</u>	<u>\$ (76,098)</u>

26. INCOME TAXES

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 1,540,532	\$ 1,284,064
Income tax on unappropriated earnings	64,158	37,047
Adjustments for prior year	<u>(254,230)</u>	<u>(3,954)</u>
	<u>1,350,460</u>	<u>1,317,157</u>
Deferred tax		
In respect of the current year	143,835	15,786
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>183,446</u>	<u>51,311</u>
	<u>327,281</u>	<u>67,097</u>
Income tax expense recognized in profit or loss	<u>\$ 1,677,741</u>	<u>\$ 1,384,254</u>

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	<u>\$ 7,994,489</u>	<u>\$ 7,533,543</u>
Income tax expense calculated at the statutory rate	1,923,694	1,691,459
Nondeductible expenses in determining taxable income	713	544
Tax-exempt income	(83,676)	(264,323)
Income tax on unappropriated earnings	64,158	37,047
Land value increment tax	4,562	7,733
Investment credits in the current year	(158,726)	(86,891)
Loss carryforwards in the current year	(260)	(7,859)
Unrecognized deductible temporary differences	(1,137)	11,174
Adjustments for prior years' tax	(254,230)	(3,954)
Effect of tax rate changes	183,446	-
Others	<u>(803)</u>	<u>(676)</u>
Income tax expense recognized in profit or loss	<u>\$ 1,677,741</u>	<u>\$ 1,384,254</u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. 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 will be reduced from 10% to 5% while the applicable tax rate used by subsidiaries in China is 25%, except for subsidiaries qualified for 15% preferential tax rate for Hi-Tech Industries. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2019 appropriations of earnings is uncertain, the potential income tax consequences of 5% income tax rate of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred tax</u>		
Effect of change in tax rate	\$ (18,897)	\$ -
In respect of the current year		
Translation of foreign operations	(4,171)	(54,450)
Remeasurement on defined benefit plans	<u>(7,131)</u>	<u>(4,064)</u>
	<u>\$ (30,199)</u>	<u>\$ (58,514)</u>

c. Current tax liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 1,611,886</u>	<u>\$ 1,269,165</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized gross profit	\$ 75,876	\$ 60,150	\$ -	\$ 136,026
Unrealized loss on inventory write-downs	49,176	24,939	-	74,115
Exchange differences on translation of foreign financial statements	95,080	-	23,883	118,963
Loss carryforwards	45,472	53	-	45,525
Defined benefit obligation	15,423	2,294	-	17,717
Unrealized exchange losses (gains)	3,007	(2,447)	-	560
Unrealized warranty liabilities	24,072	1,221	-	25,293
Remeasurement of defined benefit plans	15,544	-	6,915	22,459
Allowance for impaired receivables	4,504	(690)	-	3,814
Sales allowance	-	3,090	-	3,090
Others	70,287	(16,589)	-	53,698
	<u>\$ 398,441</u>	<u>\$ 72,021</u>	<u>\$ 30,798</u>	<u>\$ 501,260</u>

Deferred tax liabilities

Temporary differences				
Undistributed earnings of subsidiaries	\$ 1,170,423	\$ 418,232	\$ -	\$ 1,588,655
Remeasurement of defined benefit plans	3,391	-	599	3,990
Financial assets -FVTPL	-	87	-	87
Exchange differences arising on translating of the financial statements of foreign entities	12,853	(9,177)	-	3,676
Unrealized exchange gains	384	2,196	-	2,580
Property, plant and equipment	5,849	(696)	-	5,153
Intangible assets and goodwill	205,258	(11,436)	-	193,822
Others	855	96	-	951
	<u>\$ 1,399,013</u>	<u>\$ 399,302</u>	<u>\$ 599</u>	<u>\$ 1,798,914</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Business Combination	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized gross profit	\$ 44,996	\$ 30,880	\$ -	\$ -	\$ 75,876
Unrealized loss on inventory write-downs	74,052	(24,876)	-	-	49,176
Exchange differences arising on translating of the financial statements of foreign entities	45,115	(4,485)	54,450	-	95,080
Loss carryforwards	88,481	(43,009)	-	-	45,472
Defined benefit obligation	16,524	(1,101)	-	-	15,423
					(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Business Combination	Closing Balance
Unrealized exchange losses (gains)	\$ 1,615	\$ 1,392	\$ -	\$ -	\$ 3,007
Unrealized warranty liabilities	20,618	3,454	-	-	24,072
Remeasurement of defined benefit plans	11,544	(64)	4,064	-	15,544
Allowance for impaired receivables	436	4,068	-	-	4,504
Others	<u>65,775</u>	<u>305</u>	<u>-</u>	<u>4,207</u>	<u>70,287</u>
	<u>\$ 369,156</u>	<u>\$ (33,436)</u>	<u>\$ 58,514</u>	<u>\$ 4,207</u>	<u>\$ 398,441</u>
Deferred tax liabilities					
Temporary differences					
Undistributed earnings of subsidiaries	\$ 990,571	\$ 179,852	\$ -	\$ -	\$ 1,170,423
Remeasurement of defined benefit plans	3,646	(255)	-	-	3,391
Exchange differences arising on translating of the financial statements of foreign entities	-	12,853	-	-	12,853
Unrealized exchange losses (gains)	2,827	(2,443)	-	-	384
Property, plant and equipment	9,783	(3,934)	-	-	5,849
Intangible assets and goodwill	355,416	(150,158)	-	-	205,258
Others	<u>444</u>	<u>(2,254)</u>	<u>-</u>	<u>2,665</u>	<u>855</u>
	<u>\$ 1,362,687</u>	<u>\$ 33,661</u>	<u>\$ -</u>	<u>\$ 2,665</u>	<u>\$ 1,399,013</u>

(Concluded)

- e. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2018	2017
Loss carryforwards		
Expire in 2024	\$ -	\$ 3,056
Expire in 2026	<u>20,415</u>	<u>24,165</u>
	<u>\$ 20,415</u>	<u>\$ 27,221</u>

- f. Information about unused investment credits

As of December 31, 2018, investment tax credits comprised:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	<u>\$ 1,459</u>	2020

- g. Income tax assessments

The Company's tax returns through 2014 have been assessed by the tax authorities.

27. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2018	2017
Basic earnings per share	<u>\$ 9.02</u>	<u>\$ 8.84</u>
Diluted earnings per share	<u>\$ 8.93</u>	<u>\$ 8.77</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2018	2017
Earnings used in the computation of basic earnings per share	<u>\$ 6,294,657</u>	<u>\$ 6,156,516</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 6,294,657</u>	<u>\$ 6,156,516</u>

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

	<u>For the Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	697,744	696,802
Effect of potentially dilutive ordinary shares:		
Employee share options	5,797	3,949
Employees' compensation	<u>1,501</u>	<u>1,479</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>705,042</u>	<u>702,230</u>

If the Group offered to settle compensation paid to employees in cash or shares, the Group 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.

28. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of the Company and its subsidiaries were granted 8,000 options in 2018, 6,500 options in 2016 and 5,000 options in 2014. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The holders of these shares include employees whom meet certain criteria set by the Company, from both domestic and overseas subsidiaries in which the Company directly or indirectly invests over 50%. Options issued in 2018, 2016 and 2014 are all valid for six years. All are exercisable at certain percentages after the second anniversary year from the grant date. The exercise prices granted in 2018 was the share price on the exercise date; the exercise prices of those granted in 2016 and 2014 were both NT\$100 per share. For any subsequent changes in the Company's capital surplus, the exercise price and the number of options will be adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2018		2017	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	9,378	\$ 95.15	10,269	\$ 98.20
Options granted	8,000	202.50	-	-
Options exercised	<u>(1,413)</u>	83.78	<u>(891)</u>	86.89
Balance at December 31	<u>15,965</u>	143.64	<u>9,378</u>	95.15
Options exercisable, end of year	<u>7,965</u>	84.53	<u>2,878</u>	84.20
Weighted-average fair value of options granted (NT\$)	<u>\$ 49.15</u>		<u>\$ -</u>	

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2018 and 2017 were from NT\$196 to NT\$226 and from NT\$204 to NT\$266, respectively.

Information about outstanding options as of December 31, 2018 and 2017 was as follows:

	For the Year Ended December 31			
	2018		2017	
	Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)	Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)
Issuance in 2018	\$ 202.5	5.58	\$ -	-
Issuance in 2016	85.6	3.45	88.5	4.45
Issuance in 2014	81.5	1.63	84.2	2.63

Options granted were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	2018	2017	2015
Grant-date share price (NT\$)	\$202.5	\$235	\$239.5
Exercise price (NT\$)	\$202.5	\$100	\$100
Expected volatility	28.42%-28.73%	31.42%-32.48%	28.18%-29.19%
Expected life (in years)	4-4.5	4-5.5	4-5.5
Expected dividends yield	0%	0%	0%
Risk-free interest rate	0.67%-0.69%	0.52%-0.65%	1.07%-1.30%

Expected volatility was based on the historical share price volatility over the past 5 years.

Compensation costs recognized were \$341,624 thousand and \$424,637 thousand for the years ended December 31, 2018 and 2017, respectively.

Qualified employees of the subsidiary, LNC, were granted 108 options in May 2018 and 1,092 options in June 2017. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The holders of these shares include employees whom meet certain criteria set by the subsidiary, LNC. The options granted are valid for 5 years and exercisable at certain percentages after the one anniversary from the grant date.

Information on employee share options was as follows:

	2018		2017	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Employee Share Options				
Balance at January 1	980	\$ 20	-	\$ -
Options granted	108	20	1,092	20
Options exercised	<u>(274)</u>	-	<u>(112)</u>	-
Balance at December 31	<u>814</u>	20	<u>980</u>	20
Options exercisable, end of the year	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (NT\$)	\$ <u>2.17</u>		\$ <u>2.07</u>	

Information about outstanding options as of December 31, 2018 was as follows:

	December 31			
	2018		2017	
Employee Share Options	Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (Years)	Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (Years)
Issuance in 2018	\$ 20	3.53	\$ -	-
Issuance in 2017	20	2.42	20	3.42

Options granted were priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

	2018	2017
Grant-date share valuation (NT\$)	\$17.29	\$16.11
Exercise price (NT\$)	\$20	\$20
Expected volatility	21.36%-25.43%	25.6%-29.45%
Expected life (in years)	2.5-4	2.5-4
Expected dividend yield	1.04	-
Risk-free interest rate	0.60%-0.67%	0.64%-0.74%

In August 2018, the Company modified all of its outstanding options. The valid life was adjusted from 4 to 5 years. The incremental fair values of NT\$0.38 in June 2017 and NT\$0.34 in May 2018 will be recognized as expenses in the rest of each of their vesting period within 2.42 and 3.33 years. LNC used the inputs noted above to measure the fair value of the old and new options.

Issuance in 2018

	Before Adjustment	After Adjustment
Grant-date share valuation (NT\$)	\$17.86	\$17.86
Exercise price (NT\$)	\$20	\$20
Expected volatility	20.04%-23.67%	21.57%-24.70%
Expected life (in years)	2.17-3.67	2.67-4.17
Expected dividend yield	1.01	1.01
Risk-free interest rate	0.57%-0.65%	0.61%-0.67%

Issuance in 2017

	Before Adjustment	After Adjustment
Grant-date share valuation (NT\$)	\$17.86	\$17.86
Exercise price (NT\$)	\$20	\$20
Expected volatility	19.35%-21.61%	19.89%-23.34%
Expected life (in years)	1.38-2.76	1.88-3.26
Expected dividend yield	-	-
Risk-free interest rate	0.49%-0.61%	0.54%-0.64%

29. BUSINESS COMBINATIONS

a. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Kostec Co., Ltd. ("AKST")	Production and sale of intelligent medical display	January 20, 2017	60	<u>\$ 120,592</u>
Advantech Vietnam Technology Company Limited (AVN)	Sales of industrial computer	June 6, 2018	60	<u>\$ 76,092</u>

The Group's market strategy is to develop R&D technology of global medical displays. The Group acquired 60% of the share equity of Kostec Co., Ltd. ("AKST") to expand its global intelligent medical market.

The Group acquired 60% of the shares of Advantech Vietnam Technology Company Limited (AVN) in order to expand its industrial automation products sales in the Vietnam market.

b. Consideration transferred

	AVN	AKST
Cash	\$ 76,092	\$ 120,592
Contingent consideration arrangement (2), (3)	<u>-</u>	<u>30,420</u>
	<u>\$ 76,092</u>	<u>\$ 151,012</u>

- 1) The Group acquired 60% in AVN in the second quarter of the year ended 2018.
- 2) The Group acquired 60% equity in AKST with a partial payment of \$102,517 thousand in the first quarter of the year ended December 31, 2017. Subsequently, after obtaining the audited financial statements of AKST for the year ended December 31, 2016, the Group made an additional payment of \$18,075 thousand (US\$600 thousand) for the full amount of the investment. In addition, the Group adjusted the goodwill based on the identifiable net assets and liabilities in AKST's audited financial statements.
- 3) Under a contingent consideration arrangement, the Group is required to pay the seller an additional US\$500 thousand in 2017 and 2018, respectively, if AKST's revenue exceeds the agreed amount.

c. Assets acquired and liabilities assumed at the dates of acquisitions

	AVN	AKST
Current assets		
Cash and cash equivalents	\$ 15,770	\$ 1,745
Trade receivables	16,701	20,426
Inventories	4,637	30,457
Debt investments with no active market - current	-	54,324
Other current assets	615	2,877
Non-current assets		
Plant and equipment	1,170	84,672
Intangible assets	70	9,921
Deferred tax assets	-	4,207
Other non-current assets	354	926
Current liabilities		
Short-term borrowings	-	(8,100)
Trade and other payables	(20,302)	(26,748)
Current portion of long-term borrowings	-	(22,733)
Other current liabilities	(873)	(1,646)
Non-current liabilities		
Long-term borrowings	-	(109,656)
Deferred tax liabilities	-	(2,665)
	<u>\$ 18,142</u>	<u>\$ 38,007</u>

d. Non-controlling interests

The non-controlling interest (40% ownership interest in AVN and AKST) recognized at the acquisition date was measured by reference to the identifiable net assets of the non-controlling interest and amounted to \$7,257 thousand and \$15,203 thousand for each.

e. Goodwill recognized on acquisitions

	AVN	AKST
Consideration transferred	\$ 76,092	\$ 120,592
Less: Fair value of identifiable net assets acquired	<u>(10,885)</u>	<u>(22,804)</u>
Goodwill recognized on acquisitions	<u>\$ 65,207</u>	<u>\$ 97,788</u>

The goodwill recognized in the acquisitions of AVN and AKST mainly represents the control premium included in the costs of the combinations. In addition, the consideration paid for the combinations effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforces of AVN and AKST. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

f. Net cash outflow on acquisitions of subsidiaries

	AVN	AKST
Consideration paid in cash	\$ 76,092	\$ 120,592
Less: Cash and cash equivalent balances acquired	<u>(15,770)</u>	<u>(1,745)</u>
	<u>\$ 60,322</u>	<u>\$ 118,847</u>

g. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition dates included in the consolidated statements of comprehensive income were as follows:

	For the Year Ended December 31	
	2018	2017
	AVN	AKST
Revenue	<u>\$ 52,048</u>	<u>\$ 147,194</u>
Profit (loss)	<u>\$ 1,793</u>	<u>\$ (45,988)</u>

30. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

- a. In the first and third quarters of 2018, the Group sold 1.11% and 15.96% of the equity in LNC, respectively, decreasing the Group's equity interest from 81.17% to 64.10%.
- b. In the first quarter of 2018, the Group acquired 49% of the equity in ATH, increasing the Group's equity interest from 51% to 100%.
- c. In the fourth quarter of 2018, the Group acquired 40% of the equity of AKST, increasing the Group's equity interest in AKST from 36% to 76%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	For the Year Ended December 31, 2018		
	ATH	LNC	Total
Cash consideration received (paid)	\$ (21,926)	\$ 126,770	\$ 104,844
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	<u>22,701</u>	<u>(56,829)</u>	<u>(34,128)</u>
Differences recognized from equity transactions	<u>\$ 775</u>	<u>\$ 69,941</u>	<u>\$ 70,716</u>

(Continued)

	For the Year Ended December 31, 2018		
	ATH	LNC	Total
<u>Line items adjusted for equity transactions</u>			
Capital surplus - difference between consideration received or paid and carrying amount of the subsidiaries' net assets during actual disposal or acquisition	\$ 775	\$ 69,941	\$ 70,716 (Concluded)

31. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

Lease arrangements

The Group leased offices in the U.S.A., Europe and Japan from third parties; the lease contracts, which will end between 2012 and 2017, are renewable upon expiry.

As of December 31, 2018 and 2017, refundable deposits (recognized as other non-current assets) for the operating leases were \$36,303 thousand and \$25,812 thousand, respectively.

Recognized as expenses

	For the Year Ended December 31	
	2018	2017
Rental expenses	\$ 186,068	\$ 147,187

32. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in both 2018 and 2017.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings, other equity, and non-controlling interests).

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued, and the amount of new debt issued.

33. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments 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				
Derivative financial assets	\$ -	\$ 5,198	\$ -	\$ 5,198
Securities listed in ROC	202,622	-	-	202,622
Securities listed in other country	5,270	-	-	5,270
Mutual funds	<u>1,885,462</u>	<u>-</u>	<u>-</u>	<u>1,885,462</u>
	<u>\$ 2,093,354</u>	<u>\$ 5,198</u>	<u>\$ -</u>	<u>\$ 2,098,552</u>
Financial assets at FVTOCI				
Investments in equity instruments at FVTOCI				
Securities listed in ROC	\$ 1,181,502	\$ -	\$ -	\$ 1,181,502
Unlisted securities - ROC	-	-	8,622	8,622
Unlisted shares in other country	<u>-</u>	<u>-</u>	<u>110,143</u>	<u>110,143</u>
	<u>\$ 1,181,502</u>	<u>\$ -</u>	<u>\$ 118,765</u>	<u>\$ 1,300,267</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 6,139</u>	<u>\$ -</u>	<u>\$ 6,139</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 5,084	\$ -	\$ 5,084
Non-derivative financial assets held for trading	298,904	-	-	298,904
Mutual funds	<u>2,794,858</u>	<u>-</u>	<u>-</u>	<u>2,794,858</u>
	<u>\$ 3,093,762</u>	<u>\$ 5,084</u>	<u>\$ -</u>	<u>\$ 3,098,846</u>
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	\$ 1,638,479	\$ -	\$ -	\$ 1,638,479
Unlisted securities - ROC	-	-	11,375	11,375
Equity securities	<u>10,381</u>	<u>-</u>	<u>-</u>	<u>10,381</u>
	<u>\$ 1,648,860</u>	<u>\$ -</u>	<u>\$ 11,375</u>	<u>\$ 1,660,235</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 6,226</u>	<u>\$ -</u>	<u>\$ 6,226</u>

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

	Financial Assets at Fair Value Through Other Comprehensive Income	
	Equity Instruments	Total
<u>Financial assets</u>		
Balance at January 1, 2018	\$ -	\$ -
Reclassification	89,893	89,893
Recognized in other comprehensive income	<u>28,872</u>	<u>28,872</u>
Balance at December 31, 2018	<u>\$ 118,765</u>	<u>\$ 118,765</u>

For the year ended December 31, 2017

	Available-for-sale Financial Assets	
	Equity Instruments	Total
<u>Financial assets</u>		
Balance at January 1, 2017	\$ 9,375	\$ 9,375
Purchase	<u>2,000</u>	<u>2,000</u>
Balance at December 31, 2017	<u>\$ 11,375</u>	<u>\$ 11,375</u>

3) Valuation techniques and inputs applied for Level 2 fair value measurement

Derivatives held by the Group were foreign currency forward contracts, whose fair values were calculated using discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

The fair values of unlisted equity securities - ROC were using income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.

b. Categories of financial instruments

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ -	\$ 303,988
Designated as at FVTPL	-	2,794,858
Mandatorily at FVTPL	2,098,552	-
Loans and receivables (Note 1)	-	13,184,303
Available-for-sale financial assets (Note 2)	-	1,738,753
Financial assets at amortized cost (Note 3)	15,187,794	-
Financial assets at FVTOCI equity instrument	1,300,267	-
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	-	6,226
Mandatorily at FVTPL	6,139	-
Measured at amortized cost (Note 4)	9,616,094	9,027,555

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market - current, notes receivable, trade receivables, trade receivables from related parties and other receivables.

Note 2: The balances include the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost - current, notes receivable, trade receivables, trade receivables from related parties, and other receivables.

Note 4: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable and trade payables, other payables, current portion of long-term borrowings and long-term borrowings.

c. Financial risk management objectives and policies

The Group's major financial instruments included 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 foreign 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, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the board of directors on the Group's current derivative instrument management.

1) Market risk

The Group's activities exposed it primarily to financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Group entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group undertook operating activities and investment of foreign operations denominated in foreign currencies, which exposed it to foreign currency risk. The Group manages the risk that fluctuations in foreign currency could have on foreign-currency denominated assets and future cash flow by using forward exchange contracts, which allow the Group to mitigate but not fully eliminate the effect.

The maturities of the Company's forward exchange contracts were less than six months and these contracts did not meet the criteria for hedge accounting.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) are set out in Note 36. As for the carrying amounts of derivatives exposing to foreign currency risk at the end of the reporting period, refer to Note 7.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar, Euro and Renminbi.

The following table details the Group's sensitivity to a 5% increase in the New Taiwan dollar (i.e. the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 5%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 5% change in exchange rates. The range of the sensitivity analysis included cash and cash equivalents, trade receivables and trade payables. A positive number below indicates an increase in pre-tax profit associated with the New Taiwan dollar weakening 5% against the relevant currency. For a 5% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

	<u>U.S. Dollar Impact</u>		<u>Euro Impact</u>		<u>Renminbi Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>		<u>December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Profit or loss	\$ 86,067 (Note 1)	\$108,887 (Note 1)	\$ 48,477 (Note 2)	\$ 57,967 (Note 2)	\$ 40,381 (Note 3)	\$ 23,642 (Note 3)

Note 1: This was mainly attributable to the exposure outstanding on U.S. dollar-denominated cash, trade receivables, and trade payables, which were not hedged at the end of the reporting period.

Note 2: This was mainly attributable to the exposure outstanding on Euro-denominated cash, trade receivables, and trade payables, which were not hedged at the end of the reporting period.

Note 3: This was mainly attributable to the exposure outstanding on Renminbi-denominated cash, trade receivables and trade payables, which were not hedged at the end of the reporting period.

b) Interest rate risk

The Group's floating-rate bank savings and borrowings are exposed to risk of changes in interest rates. The Group does not operate hedging instruments for interest rates. The Group's management monitors fluctuations in market interest rates regularly. If it is needed, the management might perform necessary procedures for significant interest rate risks to control the risks from fluctuations in market interest rates.

The Group's fixed-rate bank deposits and borrowings are exposed to fair value interest rate risk; however, the only fixed-rate bank deposits expected risk is insignificant.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 1,363,564	\$ 230,278
Financial liabilities	-	42,698
Cash flow interest rate risk		
Financial assets	4,527,415	4,452,477
Financial liabilities	142,991	79,419

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50-basis point increase or decrease was 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 50 basis points higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would have increased by \$21,922 thousand and \$21,865 thousand, respectively. Had interest rates been 50 basis points lower for the same years, the Group's pre-tax profit would have decreased by the same respective amounts. The source of the negative effects would have been mainly the floating-interest rates on bank savings.

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. The Group manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk was mainly concentrated on equity instruments trading in the Taiwan Stock Exchange.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher, pre-tax profits for the years ended December 31, 2018 would have increased by \$2,079 thousand, as a result of changes in the fair value of held-for-trading investments and the pre-tax other comprehensive income for the years ended December 31, 2018 and 2017 would have increased by \$13,002 thousand, as a result of changes in fair value of financial assets at fair value through other comprehensive income. Had equity prices been 1% lower for the same years, the pre-tax profit and other comprehensive income for would have decreased by the same respective amounts.

If equity prices had been 1% higher, pre-tax profits for the years ended December 31, 2017 would have increased by \$2,989 thousand as a result of the changes in fair value of held-for-trading investments, and the pre-tax other comprehensive income for the years ended December 31, 2017 would have increased by \$16,602 thousand as a result of the changes in fair value of available-for-sale investments. Had equity prices been 1% lower for the same period, the pre-tax profit and other comprehensive income would have decreased by the same respective amounts.

The Group had lower sensitivity toward equity prices mainly because it disposed of partial shares in 2017.

2) Credit risk

Credit risk refers to the risk that 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 would cause a financial loss to the Group due to failure of counterparties to discharge an obligation provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

In order to minimize credit risk, the management of the Group 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 are made for irrecoverable amounts. In this regard, the management believes the Group's credit risk as significantly reduced.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas and, thus, no concentration of credit risk was observed.

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. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. The Group had available unutilized short-term bank loan facilities set out in section (c) below.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on agreed repayment dates.

To the extent that interest flows are at floating rate, the undiscounted amounts was derived from the interest rate curve at the end of the reporting period.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Over 1 Year- 5 Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing Variable interest rate liabilities	\$ 7,036,567	\$ 1,601,148	\$ 835,388	\$ -
	<u>337</u>	<u>20,649</u>	<u>70,407</u>	<u>67,039</u>
	<u>\$ 7,036,904</u>	<u>\$ 1,621,797</u>	<u>\$ 905,795</u>	<u>\$ 67,039</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Over 1 Year- 5 Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing Variable interest rate liabilities	\$ 6,683,438	\$ 1,170,810	\$ 1,051,190	\$ -
	192	8,777	1,543	86,001
Fixed interest rate liabilities	<u>66</u>	<u>132</u>	<u>592</u>	<u>43,280</u>
	<u>\$ 6,683,696</u>	<u>\$ 1,179,719</u>	<u>\$ 1,053,325</u>	<u>\$ 129,281</u>

The amounts included above for variable interest rate instruments for non-derivative financial assets and liabilities were subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Liquidity and interest risk rate table for derivative financial liabilities

The following tables detailed the Group's liquidity analysis for its derivative financial instruments. The tables were based on the undiscounted contractual net cash inflows and outflows on derivative instruments that require gross settlement.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Total
<u>Gross settled</u>				
Foreign exchange forward contracts				
Inflows	\$ 245,998	\$ 410,248	\$ 205,677	\$ 861,923
Outflows	<u>245,440</u>	<u>410,296</u>	<u>207,128</u>	<u>862,864</u>
	<u>\$ 558</u>	<u>\$ (48)</u>	<u>\$ (1,451)</u>	<u>\$ (941)</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Total
<u>Gross settled</u>				
Foreign exchange forward contracts				
Inflows	\$ 264,246	\$ 488,029	\$ 281,423	\$ 1,033,698
Outflows	<u>263,570</u>	<u>489,905</u>	<u>281,365</u>	<u>1,034,840</u>
	<u>\$ 676</u>	<u>\$ (1,876)</u>	<u>\$ 58</u>	<u>\$ (1,142)</u>

c) Financing facilities

	<u>December 31</u>	
	2018	2017
Unsecured bank overdraft facilities, reviewed annually and payable on demand		
Amount used	\$ 67,581	\$ -
Amount unused	<u>3,955,919</u>	<u>4,034,100</u>
	<u>\$ 4,023,500</u>	<u>\$ 4,034,100</u>
Secured bank overdraft facilities		
Amount used	<u>\$ 55,410</u>	<u>\$ 122,117</u>

34. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which 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. Names and categories of related parties

Name	Related Party Category
Axiomtek Co., Ltd.	Associate
AIMobile Co., Ltd.	Associate
Deneng Scientific Research Co., Ltd.	Associate
Jan Hsiang Electronics Co., Ltd.	Associate
Winmate Inc.	Associate
AzureWave Technologies, Inc.	Associate
i-Link Co., Ltd.	Associate
Mildex Optical Inc.	Associate
Nippon RAD Inc.	Associate
Advantech Foundation	Other related party
K&M Investment Co., Ltd.	Other related party
AIDC Investment Corp.	Other related party
Ke Chang Liu	Other related party (chairman's second immediate family)
Li Ting Huang	Other related party (spouse of chairman's second immediate family)

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31	
	2018	2017
Associates	\$ <u>109,246</u>	\$ <u>64,487</u>

c. Purchases of goods

Related Party Category/Name	For the Year Ended December 31	
	2018	2017
Associates	\$ <u>148,410</u>	\$ <u>66,871</u>

d. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	December 31	
		2018	2017
Trade receivables from related parties	Associates	\$ <u>18,969</u>	\$ <u>14,067</u>

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

e. Payables to related parties (excluding loans from related parties)

Line Item	Related Party Category/Name	December 31	
		2018	2017
Trade payables	Associates	\$ <u>27,653</u>	\$ <u>19,499</u>

The outstanding trade payables to related parties are unsecured.

f. Acquisitions of property, plant and equipment

Related Party Category/Name	Purchase Price	
	For the Year Ended December 31	
	2018	2017
Associates	\$ <u>-</u>	\$ <u>8,381</u>

g. Disposal of property, plant and equipment

Related Party Category/Name	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2018	2017	2018	2017
Other related parties	\$ <u>-</u>	\$ <u>74,397</u>	\$ <u>-</u>	\$ <u>66,531</u>

h. Other transactions with related parties

Related Party Category/Name	Operating Expenses	
	For the Year Ended December 31	
	2018	2017
Research and development expenses		
Associates	\$ <u>11,672</u>	\$ <u>23,709</u>

Research and development expenses incurred between the Group and its associates were charged according to the agreed remuneration and payment terms on the contracts. For the rest of transactions with related parties, since normal payment terms with related parties were not stipulated, the payment terms were based on mutual agreement.

Related Party Category/Name	Other Income	
	For the Year Ended December 31	
	2018	2017
Rental income		
Other related parties	\$ <u>60</u>	\$ <u>60</u>
Other		
Other related parties	\$ <u>2,702</u>	\$ <u>2,702</u>

Lease contracts formed between the Group and its associates were based on market rental prices and had normal payment terms. Revenue contracts for technical services formed between the Company and its associates were based on market prices and had payment terms on the contracts. For the rest of transactions with related parties, since normal payment terms with related parties were not stipulated, the payment terms were based on mutual agreement.

i. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 45,159	\$ 46,617
Post-employment benefits	199	201
Share-based payments	<u>32,568</u>	<u>9,653</u>
	<u>\$ 77,926</u>	<u>\$ 56,471</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

35. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of AKST were provided as collateral for bank borrowings:

	December 31	
	2018	2017
Pledge deposits (recognized as debt investments with no active market)	\$ -	\$ 29,982
Property, plant and equipment	<u>67,068</u>	<u>69,552</u>
	<u>\$ 67,068</u>	<u>\$ 99,534</u>

36. 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 foreign currencies and respective functional currencies were as follows:

December 31, 2018

Unit: In Thousands for Currencies, Except Exchange Rates

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 211,836	30.715 (USD:NTD)	\$ 6,506,543
RMB	493,302	4.472 (RMB:NTD)	2,206,044
EUR	24,059	35.200 (EUR:NTD)	846,877
USD	15,998	6.8683 (USD:RMB)	<u>491,378</u>
			<u>\$ 10,050,842</u>
			(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 142,257	30.715 (USD:NTD)	\$ 4,369,424
RMB	246,686	4.472 (RMB:NTD)	1,103,178
USD	29,534	6.8683 (USD:RMB)	<u>907,135</u>
			<u>\$ 6,379,737</u> (Concluded)

December 31, 2017

Unit: In Thousands for Currencies, Except Exchange Rates

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 204,045	29.760 (USD:NTD)	\$ 6,072,379
RMB	370,046	4.5650 (RMB:NTD)	1,689,260
EUR	32,336	35.5770 (EUR:NTD)	1,150,192
USD	18,340	6.5192 (USD:RMB)	<u>545,801</u>
			<u>\$ 9,457,632</u>
<u>Financial liabilities</u>			
Monetary items			
USD	120,900	29.760 (USD:NTD)	\$ 3,597,984
RMB	190,006	4.5650 (RMB:NTD)	867,377
USD	28,310	6.5192 (USD:RMB)	<u>842,512</u>
			<u>\$ 5,307,873</u>

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains (losses) were \$16,956 thousand and \$(76,098) 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.

37. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. information on investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsement/guarantee provided. (Table 2)
- 3) Marketable securities held. (Table 3)

- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 4)
 - 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 5)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
 - 9) Trading in derivative instruments. (Notes 7 and 33)
 - 10) Significant transactions between the Company and subsidiaries. (Table 10)
 - 11) Name, locations, and other information of investees. (Table 7)
 - 12) Organization chart. (Table 9)
- c. 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 8)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, their prices, payment terms, and unrealized gains or losses. (Tables 1, 5 and 6)

38. SEGMENT INFORMATION

Information reported to the chief operating decision maker (“CODM”) for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Group’s segment information which is disclosed is as follows:

- Industrial internet of things services (IIoT): Focus on the market of industry internet-of-things;
- Embedded board and design-in services (EIoT): Provide services involving embedded boards, systems and peripheral hardware and software;
- Allied design manufacture services (Allied DMS): Including Networks and Communications, data acquisition and control, and provide the customized collaboration designs and services;
- Intelligent services (SIoT): Provide services involving digital logistic, digital healthcare and intelligent retail;
- Global customer services (AGS &APS): Global repair, technical support and warranty services.

The CODM considers each service as a separate operating segment. But for financial statements presentation purposes, these individual operating segments have been aggregated into a single operating segment, taking into account the following factors:

- These operating segments have similar long-term gross profit margins; and
- The nature of the products and production processes are similar.

Segment Revenue and Results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Industrial Internet of Thing Services (IIoT)	Embedded Boards and Design-in Services (EIoT)	Allied Design Manufacture Services (Allied DMS)	Intelligent Services (SIoT)	Global Customer Services (AGS & APS)	Others	Total
<u>For the year ended December 31, 2018</u>							
Revenue from external customers	\$ 16,653,946	\$ 13,253,892	\$ 8,099,529	\$ 4,373,806	\$ 6,333,069	\$ 12,276	\$ 48,726,518
Inter-segment revenue	-	-	-	-	-	-	-
Segment revenue	<u>\$ 16,653,946</u>	<u>\$ 13,253,892</u>	<u>\$ 8,099,529</u>	<u>\$ 4,373,806</u>	<u>\$ 6,333,069</u>	<u>\$ 12,276</u>	<u>48,726,518</u>
Eliminations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Consolidated revenue	-	-	-	-	-	-	-
Segment income	<u>\$ 3,667,801</u>	<u>\$ 2,162,092</u>	<u>\$ 1,226,964</u>	<u>\$ 260,715</u>	<u>\$ 713,496</u>	<u>\$ (5,196)</u>	<u>8,025,872</u>
Other revenue							318,106
Other unamortized expense							(558,473)
Other income and expense							118,034
Finance costs							(4,685)
Share of profits of associates accounted for using the equity method							<u>95,635</u>
Profit before tax (continuing operations)							<u>\$ 7,994,489</u>
<u>For the year ended December 31, 2017</u>							
Revenue from external customers	\$ 14,763,233	\$ 11,906,429	\$ 9,005,011	\$ 3,092,256	\$ 5,543,311	\$ 64,511	\$ 44,374,751
Inter-segment revenue	-	-	-	-	-	-	-
Segment revenue	<u>\$ 14,763,233</u>	<u>\$ 11,906,429</u>	<u>\$ 9,005,011</u>	<u>\$ 3,092,256</u>	<u>\$ 5,543,311</u>	<u>\$ 64,511</u>	<u>44,374,751</u>
Eliminations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Consolidated revenue	-	-	-	-	-	-	<u>44,374,751</u>
Segment income	<u>\$ 3,137,326</u>	<u>\$ 1,970,685</u>	<u>\$ 1,426,348</u>	<u>\$ (67,163)</u>	<u>\$ 696,162</u>	<u>\$ (994)</u>	<u>7,162,364</u>
Other revenue							234,453
Other unamortized expense							(383,887)
Other income and expense							314,079
Finance costs							(12,117)
Share of profits of associates accounted for using the equity method							<u>218,651</u>
Profit before tax (continuing operations)							<u>\$ 7,533,543</u>

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' and supervisors' salaries, share of profits of associates, gain recognized on the disposal of interest in former associates, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gains or losses on disposal of financial instruments, exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Revenue from Major Products and Services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Embedded boards and Chassis	\$ 21,354,713	\$ 20,973,947
Industrial computer and industrial control	21,099,031	17,896,638
After-sales service and others	<u>6,272,774</u>	<u>5,504,166</u>
	<u>\$ 48,726,518</u>	<u>\$ 44,374,751</u>

Geographical Information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31 2018	2017	For the Year Ended December 31 2018	2017
Taiwan	\$ 3,600,680	\$ 3,454,198	\$ 7,763,053	\$ 7,837,025
Asia	20,014,992	18,696,453	3,156,225	2,746,244
USA	14,211,217	13,277,208	2,992,980	2,984,579
Europe	8,485,831	7,170,151	421,419	674,970
Others	<u>2,413,798</u>	<u>1,776,741</u>	<u>3,773</u>	<u>2,831</u>
	<u>\$ 48,726,518</u>	<u>\$ 44,374,751</u>	<u>\$ 14,337,450</u>	<u>\$ 14,245,649</u>

Non-current assets exclude financial instruments and deferred tax assets.

Information about Major Customers

No customers contributed 10% or more to the Group's revenue for both years ended December 31, 2018 and 2017.

ADVANTECH 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. (Note A)	Lender	Borrower	Financial Statement Account	Related Parties	Credit Line (Note D)		Actual Borrowing	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 Limits
					Highest Balance for the year	Ending Balance	Ending Balance						Item	Value		
1	B+B (CZ)	Conel Automation	Trade receivables - related parties	Yes	\$ 17,184 (CZK 12,000 thousand)	\$ 16,392 (CZK 12,000 thousand)	\$ 16,392 (CZK 12,000 thousand)	2	Short-term financing	\$ -	Financing need	\$ -	None	None	\$ 116,545 (Note C)	\$ 116,545 (Note C)
2	B+B (CZ)	Conel Automation	Trade receivables - related parties	Yes	6,830 (CZK 5,000 thousand)	6,830 (CZK 5,000 thousand)	6,830 (CZK 5,000 thousand)	2	Short-term financing	-	Financing need	-	None	None	116,545 (Note C)	116,545 (Note C)
3	LNC	LNC Dong Guan	Trade receivables - related parties	Yes	30,000	30,000	-	-	Short-term financing	-	Financing need	-	None	None	32,308 (Note D)	129,232 (Note D)
4	B+B (CZ)	Conel Automation	Trade receivables - related parties	Yes	4,098 (CZK 3,000 thousand)	4,098 (CZK 3,000 thousand)	4,098 (CZK 3,000 thousand)	2	Short-term financing	-	Financing need	-	None	None	116,545 (Note C)	116,545 (Note C)

Note A: Investee companies are numbered sequentially from 1.

Note B: The exchange rates as of December 31, 2018 were CZK1=NT\$1.366.

Note C: The financing limit for each borrower and for the aggregate financing were both 40%, of the B+B (CZ)'s net asset values, and were supervised by the Company.

Note D: The financing limit for each borrower and for the aggregate financing were 10% and 40%, respectively, of the LNC's net asset values.

Note E: The maximum balance for the year and ending balance are approved by the board of directors of financiers.

Note F: All intercompany financing has been eliminated from consolidation.

TABLE 2

ADVANTECH CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/ Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note A)	Maximum Amount Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note B)	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										
0	The Company	ANA	Subsidiary	\$ 2,930,270	\$ 928,650 (US\$ 30,000 thousand)	\$ 921,450 (US\$ 30,000 thousand)	\$ -	\$ -	3.14	\$ 8,790,811	Y	N	N
		B+B	Subsidiary	2,930,270	308,002 (US\$ 9,950 thousand)	305,614 (US\$ 9,950 thousand)	-	-	1.04	8,790,811	Y	N	N
		B+B (CZ)	Subsidiary	2,930,270	1,548 (US\$ 50 thousand)	1,536 (US\$ 50 thousand)	-	-	0.01	8,790,811	Y	N	N
		AKST	Subsidiary	2,930,270	123,820 (US\$ 4,000 thousand)	122,860 (US\$ 4,000 thousand)	67,581	-	0.42	8,790,811	Y	N	N
		AVN	Subsidiary	2,930,270	30,955 (US\$ 1,000 thousand)	30,715 (US\$ 1,000 thousand)	-	-	0.10	8,790,811	Y	N	N
		AKMC	Subsidiary	2,930,270	185,730 (US\$ 6,000 thousand)	184,290 (US\$ 6,000 thousand)	-	-	0.63	8,790,811	Y	N	Y
		Advanixs Corp.	Subsidiary	2,930,270	49,528 (US\$ 1,600 thousand)	49,144 (US\$ 1,600 thousand)	-	-	0.17	8,790,811	Y	N	N
		Cermate	Subsidiary	2,930,270	30,955 (US\$ 1,000 thousand)	30,715 (US\$ 1,000 thousand)	-	-	0.10	8,790,811	Y	N	N
		AiST	Subsidiary	2,930,270	4,643 (US\$ 150 thousand)	4,607 (US\$ 150 thousand)	-	-	0.02	8,790,811	Y	N	N
		AdvanPOS	Subsidiary	2,930,270	30,955 (US\$ 1,000 thousand)	30,715 (US\$ 1,000 thousand)	-	-	0.10	8,790,811	Y	N	N

(Continued)

No.	Endorser/ Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note A)	Maximum Amount Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note B)	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										
		A-DLoG	Subsidiary	\$ 2,930,270	\$ 35,890 (EUR 1,000 thousand)	\$ 35,200 (EUR 1,000 thousand)	\$ -	\$ -	0.12	8,790,811	Y	N	N
		ABR	Subsidiary	2,930,270	46,433 (US\$ 1,500 thousand)	46,073 (US\$ 1,500 thousand)	-	-	0.16	8,790,811	Y	N	N
		AAU	Subsidiary	2,930,270	6,191 (US\$ 200 thousand)	6,143 (US\$ 200 thousand)	-	-	0.02	8,790,811	Y	N	N
		AKR	Subsidiary	2,930,270	1,548 (US\$ 50 thousand)	1,536 (US\$ 50 thousand)	-	-	0.01	8,790,811	Y	N	N
		Shenzhen Cermate Technologies Inc.	Subsidiary	2,930,270	17,025 (US\$ 550 thousand)	16,893 (US\$ 550 thousand)	-	-	0.06	8,790,811	Y	N	Y
		ATJ	Business relationship	2,930,270	278,000 (JPY 1,000,000 thousand)	278,000 (JPY 1,000,000 thousand)	-	-	0.95	8,790,811	N	N	N

Note A: The limit on endorsements or guarantees provided on behalf of the respective party is 10% of the Company's net asset value.

Note B: The maximum collateral or guarantee amount allowable is 30% of the Company's net asset value.

Note C: The exchange rates as of December 31, 2018 were US\$1=NT\$30.715, EUR1=NT\$35.20 and JPY1=NT\$0.278.

Note D: The latest net equity is from the Group's consolidated financial statements for the year ended December 31, 2018.

(Concluded)

TABLE 3

ADVANTECH CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Holding Company Name	Type and Name of Marketable Securities (Note E)	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
The Company	<u>Stock</u> ASUSTek Computer Inc.	-	Financial assets at fair value through other comprehensive income or loss - non-current	4,739,461	\$ 955,001	0.64	\$ 955,001	Note A
	Allied Circuit Co., Ltd.	-	"	1,200,000	73,440	2.41	73,440	Note A
	<u>Fund</u> Mega Diamond Money Market	-	Financial assets at fair value through profit or loss - current	97,030,420	1,215,005	-	1,215,005	Note B
	Capital Money Market	-	"	8,702,880	140,209	-	140,209	Note B
Advantech Corporate Investment	<u>Share</u> HwaCom System Inc.	-	Financial assets at fair value through profit or loss - current	5,175,000	60,806	5.00	60,806	Note A
	Phison Electronics Corporation	-	"	622,000	141,816	0.32	141,816	Note A
	Contec	-	"	15,500	5,270	0.23	5,270	Note A
	Allied Circuit Co., Ltd.	-	Financial assets at fair value through other comprehensive income or loss - non-current	2,501,000	153,061	5.03	153,061	Note A
	BroadTec System Inc.	-	"	225,000	3,879	7.50	3,879	Note C
	BiosenseTek Corp.	-	"	37,500	-	1.79	-	Note C
	Juguar Technology	-	"	500,000	4,743	16.67	4,743	Note C
	Taiwan DSC PV Ltd.,	-	"	160,000	-	3.20	-	Note C
	<u>Fund</u> Mega Diamond Money Market	-	Financial assets at fair value through profit or loss - current	11,354,027	142,174	-	142,174	Note B
	Advanixs Corporate	<u>Fund</u> Jih Sun Money Market	-	"	1,212,495	17,937	-	17,937
Mega Diamond Money Market		-	"	9,243,362	115,744	-	115,744	Note B
AiST	<u>Fund</u> Jih Sun Money Market	-	"	1,243,566	18,397	-	18,397	Note B

(Continued)

Holding Company Name	Type and Name of Marketable Securities (Note E)	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
AdvanPOS	<u>Fund</u> Mega Diamond Money Market	-	Financial assets at fair value through profit or loss - current	1,139,989	\$ 14,275	-	\$ 14,275	Note B
Advantech Innovative Design Co., Ltd.	<u>Fund</u> Capital Money Market	-	"	628,613	10,127	-	10,127	Note B
Cermate	<u>Fund</u> Mega Diamond Money Market	-	"	1,766,484	22,120	-	22,120	Note B
SIoT (Cayman)	<u>Fund</u> FSITC Money Market	-	"	975,831	173,821	-	173,821	Note B
AiSC	<u>Fund</u> Shanghai Shangchuang Xinwei Investment Management Co., Ltd.	-	Financial assets at fair value through other comprehensive income or loss	-	107,328	9.14	107,328	Note C
	Jama Pro Co., Ltd.	-	"	583,300	2,815	10.00	2,815	Note C
Huan Yan, Jihh-Lian Co., Ltd.	<u>Fund</u> FSITC Money Market	-	Financial assets at fair value through profit or loss - current	33,258	5,924	-	5,924	Note B
Yun Yan, Wu-Lian Co., Ltd.	<u>Fund</u> FSITC Money Market	-	"	54,616	9,729	-	9,729	Note B

Note A: Market value was based on the closing price on December 31, 2018.

Note B: Market value was based on the net asset values of the open-ended mutual funds on December 31, 2018.

Note C: The fair values are estimated from the latest net equity from the financial statements.

Note D: Securities comprise shares, beneficiary certificates, and securities derived from the shares and beneficiary certificates under IFRS 9 "Financial Instruments".

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares	Amount (Cost)	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount (Cost)
The Company	<u>Fund</u> Mega Diamond Money Market	Financial assets at fair value through profit or loss	-	-	28,879,553	\$ 360,000	227,347,469	\$ 2,840,000	159,196,602	\$ 1,990,000	\$ 1,987,181	\$ 2,819	97,030,420	\$ 1,212,819
	Capital Money Market	Same as above	-	-	-	-	112,460,931	1,807,000	103,758,051	1,668,523	1,667,000	1,523	8,702,880	140,000
	FSITC Money Market	Same as above	-	-	1,578,638	280,000	4,675,444	830,000	6,254,082	1,111,781	1,110,000	1,781	-	-
Advantech Corporate Investment	<u>Fund</u> FSITC Money Market	Financial assets at fair value through profit or loss	-	-	2,926,124	519,001	112,606	20,000	3,038,730	539,603	539,001	602	-	-
	Mega Diamond Money Market	Same as above	-	-	49,657,452	619,000	4,959,289	62,000	43,262,714	541,000	539,415	1,585	11,354,027	141,585
Advanixs Corporate	<u>Share</u> AzureWave Technologies, Inc.	Investments accounted for using the equity method	-	Associate	5,492,000	90,439	24,107,000	488,124	-	-	-	-	29,599,000	578,563
	<u>Fund</u> Jih sun Money Market	Financial assets at fair value through profit or loss	-	-	40,686,999	599,197	7,224,680	106,501	46,699,184	689,000	687,839	1,161	1,212,495	17,859

ADVANTECH 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	
The Company	AAU	Subsidiary	Sale	\$ 233,477	0.66	60-90 days	Contract price	No significant difference in terms for related parties	\$ 40,945	0.57	Note A
	B+B	Subsidiary	Sale	152,070	0.43	45 days after month-end	Contract price	No significant difference in terms for related parties	19,051	0.26	
	AEU	Subsidiary	Sale	4,889,200	13.82	30 days after month-end	Contract price	No significant difference in terms for related parties	952,721	13.20	
	AJP	Subsidiary	Sale	905,025	2.56	60-90 days	Contract price	No significant difference in terms for related parties	154,814	2.14	
	ACN	Subsidiary	Sale	7,382,801	20.87	45 days after month-end	Contract price	No significant difference in terms for related parties	1,492,606	20.68	
	AKR	Subsidiary	Sale	997,566	2.82	60 days after invoice date	Contract price	No significant difference in terms for related parties	64,983	0.90	
	ANA	Subsidiary	Sale	9,347,710	26.42	45 days after month-end	Contract price	No significant difference in terms for related parties	1,906,993	26.42	
	ASG	Subsidiary	Sale	276,045	0.78	60-90 days	Contract price	No significant difference in terms for related parties	53,788	0.75	
	Advanixs Corp.	Subsidiary	Sale	805,007	2.28	60-90 days	Contract price	No significant difference in terms for related parties	139,159	1.93	
	A-DLoG	Subsidiary	Sale	608,339	1.72	30 days after invoice date	Contract price	No significant difference in terms for related parties	54,615	0.76	
	AIN	Subsidiary	Sale	114,063	0.32	60 days after month-end	Contract price	No significant difference in terms for related parties	53,791	0.75	
	SloT (Cayman)	Subsidiary	Sale	320,260	0.91	Usual trade terms	Contract price	No significant difference in terms for related parties	266,621	3.69	
	ABR	Subsidiary	Sale	121,745	0.34	90 days after month-end	Contract price	No significant difference in terms for related parties	24,379	0.34	
	AMY	Subsidiary	Sale	139,369	0.39	45 days after month-end	Contract price	No significant difference in terms for related parties	11,028	0.15	
	AKMC	Subsidiary	Purchase	(11,974,220)	(48.41)	Usual trade terms	Contract price	No significant difference in terms for related parties	(1,533,444)	27.10	
	A-DLoG	Subsidiary	Purchase	(181,902)	(0.74)	Usual trade terms	Contract price	No significant difference in terms for related parties	(20,746)	0.37	
	AKMC	The Company	Parent company	Sale	11,974,220	14.28	Usual trade terms	Contract price	No significant difference in terms for related parties	1,533,444	
A-DLoG	The Company	Parent company	Sale	181,902	58.06	Usual trade terms	Contract price	No significant difference in terms for related parties	20,746	12.99	
AAU	The Company	Parent company	Purchase	(233,477)	(88.51)	60-90 days	Contract price	No significant difference in terms for related parties	(40,945)	83.71	
B+B	The Company	Parent company	Purchase	(152,070)	(18.02)	45 days after month-end	Contract price	No significant difference in terms for related parties	(19,051)	50.77	
AEU	The Company	Parent company	Purchase	(4,889,200)	(74.34)	30 days after month-end	Contract price	No significant difference in terms for related parties	(952,721)	64.68	
AJP	The Company	Parent company	Purchase	(905,025)	(90.22)	60-90 days	Contract price	No significant difference in terms for related parties	(154,814)	92.26	
ACN	The Company	Parent company	Purchase	(7,382,801)	(77.59)	45 days after month-end	Contract price	No significant difference in terms for related parties	(1,492,606)	83.69	
AKR	The Company	Parent company	Purchase	(997,566)	(62.8)	60 days after invoice date	Contract price	No significant difference in terms for related parties	(64,983)	49.84	
ANA	The Company	Parent company	Purchase	(9,347,710)	(88.14)	45 days after month-end	Contract price	No significant difference in terms for related parties	(1,906,993)	84.04	
ASG	The Company	Parent company	Purchase	(276,045)	(79.42)	60-90 days	Contract price	No significant difference in terms for related parties	(53,788)	79.25	
Advanixs Corp.	The Company	Parent company	Purchase	(805,007)	(98.71)	60-90 days	Contract price	No significant difference in terms for related parties	(139,159)	97.57	

(Continued)

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	
A-DLoG	The Company	Parent company	Purchase	\$ (608,339)	(75.41)	30 days after invoice date	Contract price	No significant difference in terms for related parties	\$ (54,615)	67.49	
AIN	The Company	Parent company	Purchase	(114,063)	(92.75)	60 days after invoice date	Contract price	No significant difference in terms for related parties	(53,791)	94.41	
SIoT (Cayman)	The Company	Parent company	Purchase	(320,260)	(48.26)	Usual trade terms	Contract price	No significant difference in terms for related parties	(266,621)	70.29	
ABR	The Company	Parent company	Purchase	(121,745)	(67.12)	90 days after invoice date	Contract price	No significant difference in terms for related parties	(24,379)	89.29	
AMY	The Company	Parent company	Purchase	(139,369)	(77.71)	45 days after month-end	Contract price	No significant difference in terms for related parties	(11,028)	100.00	
Cermate	Shenzhen Cermate Technologies Inc.	Related enterprise	Sale	112,581	42.63	Usual trade terms	Contract price	No significant difference in terms for related parties	18,789	48.23	
AKMC	ACN SIoT (Cayman)	Related enterprise	Sale	445,324	3.51	Usual trade terms	Contract price	No significant difference in terms for related parties	52,060	3.21	
		Related enterprise	Sale	510,175	4.02	Usual trade terms	Contract price	No significant difference in terms for related parties	125,335	7.74	
LNC	LNC Dong Guan	Related enterprise	Sale	295,203	68.04	Usual trade terms	Contract price	No significant difference in terms for related parties	209,533	93.88	
ACN	AiSC	Related enterprise	Sale	171,787	1.59	Usual trade terms	Contract price	No significant difference in terms for related parties	42,659	1.89	
B+B (CZ)	AEU	Related enterprise	Sale	246,655	60.80	Usual trade terms	Contract price	No significant difference in terms for related parties	45,091	100.00	
APL	AEU	Related enterprise	Sale	106,733	97.67	Usual trade terms	Contract price	No significant difference in terms for related parties	10,013	88.31	
SIoT (Cayman)	AEU ANA	Related enterprise	Sale	211,059	39.78	Usual trade terms	Contract price	No significant difference in terms for related parties	85,087	34.88	
		Related enterprise	Sale	235,886	44.45	Usual trade terms	Contract price	No significant difference in terms for related parties	125,737	25.78	
Shenzhen Cermate Technologies Inc.	Cermate	Related enterprise	Purchase	(112,581)	(38.62)	Usual trade terms	Contract price	No significant difference in terms for related parties	(18,789)	74.84	
ACN	AKMC	Related enterprise	Purchase	(445,324)	(4.68)	Usual trade terms	Contract price	No significant difference in terms for related parties	(52,060)	2.92	
SIoT (Cayman)	AKMC	Related enterprise	Purchase	(510,175)	(128.23)	Usual trade terms	Contract price	No significant difference in terms for related parties	(125,335)	4.39	
LNC Dong Guan	LNC	Related enterprise	Purchase	(295,203)	(77.47)	Usual trade terms	Contract price	No significant difference in terms for related parties	(209,533)	92.32	
AiSC	ACN	Related enterprise	Purchase	(171,787)	(61.89)	Usual trade terms	Contract price	No significant difference in terms for related parties	(42,659)	78.96	
AEU	B+B (CZ)	Related enterprise	Purchase	(246,655)	(4.43)	Usual trade terms	Contract price	No significant difference in terms for related parties	(45,091)	3.51	
	APL	Related enterprise	Purchase	(106,733)	(1.92)	Usual trade terms	Contract price	No significant difference in terms for related parties	(10,013)	0.78	
	SIoT (Cayman)	Related enterprise	Purchase	(211,059)	(3.79)	Usual trade terms	Contract price	No significant difference in terms for related parties	(85,087)	6.62	
ANA	SIoT (Cayman)	Related enterprise	Purchase	(235,886)	(2.22)	Usual trade terms	Contract price	No significant difference in terms for related parties	(125,737)	5.54	

Note A: Unrealized gain for the period was \$2,883 thousand.

Note B: All intercompany gains and losses from investment have been eliminated from consolidation.

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance (Note A)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	ACN	Subsidiary	\$ 1,492,606	6.01	\$ -	-	\$ 617,135	\$ -
	AEU	Subsidiary	952,721	4.22	-	-	463,454	-
	SIoT (Cayman)	Subsidiary	266,621	4.56	-	-	124,703	-
	AJP	Subsidiary	154,814	5.91	-	-	33,479	-
	AKMC	Subsidiary	409,917	Note 1	-	-	173,925	-
	ANA	Subsidiary	1,906,993	0.57	-	-	860,020	-
	Advanixs Corp.	Subsidiary	139,159	5.76	-	-	122,290	-
	AKMC	The Company	Parent company	1,533,444	9.90	-	-	1,067,271
LNC	LNC Dong Guan	Related enterprise	209,533	1.53	-	-	11,323	-
SIoT (Cayman)	ANA	Related enterprise	125,737	0.65	-	-	40,997	-
AKMC	SIoT (Cayman)	Related enterprise	125,335	8.14	-	-	15,866	-

Note A: Sales revenue on materials delivered to subcontractors have been eliminated from consolidation.

Note B: All intercompany gains and losses from investment have been eliminated from consolidation.

ADVANTECH CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars/Foreign Currency, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note A)	Note	
				December 31, 2018	December 31, 2017	Shares	Percentage of Ownership	Carrying Value				
The Company	AAC (BVI)	BVI	Investment and management service	\$ 2,332,397	\$ 1,000,207	29,623,834	100.00	\$ 5,932,170	\$ 482,772	\$ 460,156	Subsidiary	
	ATC	BVI	Sale of industrial automation products	998,788	998,788	33,850,000	100.00	3,718,200	310,451	313,722	Subsidiary	
	Advantix Corporate	Taipei, Taiwan	Production and sale of industrial automation products	226,000	486,000	36,000,000	100.00	237,593	53,065	104,313	Subsidiary	
	Advantech Corporate Investment	Taipei, Taiwan	Investment holding company	1,400,000	1,400,000	150,000,000	100.00	1,590,325	39,830	39,752	Subsidiary	
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	249,059	249,059	20,537,984	25.76	619,411	406,923	105,097	Equity-meth investee	
	AdvanPOS	Taipei, Taiwan	Production and sale of POS system	266,192	460,572	1,000,000	100.00	297,296	(370)	895	Subsidiary (Note A)	
	LNC	Taichung, Taiwan	Production and sale of machines with computerized numerical control	304,865	431,634	19,230,000	64.10	433,078	4,061	3,069	Subsidiary	
	Jan Hsiang	Taipei, Taiwan	Electronic parts and components manufacturing	3,719	3,719	655,500	28.50	8,010	54	54	Equity-meth investee (Note A)	
	AMX	Mexico	Sale of industrial automation products	4,922	4,922	-	100.00	222	639	639	Subsidiary (Note A)	
	AEUH	Helmond, the Netherlands	Investment and management service	1,219,124	1,219,124	25,961,250	100.00	900,798	101,355	101,355	Subsidiary	
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	108,015	18,154	18,154	Subsidiary (Note A)	
	ATH	Thailand	Production of computers	47,701	-	51,000	51.00	6,184	6,184	2,394	Subsidiary (Note A)	
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	36,226	(4,729)	(4,729)	Subsidiary (Note A)	
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	332,224	50,427	50,427	Subsidiary (Note A)	
	AMY	Malaysia	Sale of industrial automation products	35,140	35,140	2,000,000	100.00	68,499	16,937	16,937	Subsidiary (Note A)	
	AKR	Seoul, Korea	Sale of industrial automation products	73,355	73,355	600,000	100.00	322,524	99,992	99,992	Subsidiary	
	ABR	Sao Paulo, Brazil	Sale of industrial automation products	43,216	43,216	1,794,996	80.00	67,328	18,354	14,683	Subsidiary (Note A)	
	Advantech Innovative Design Co., Ltd.	Taipei, Taiwan	Product design	10,000	10,000	1,000,000	100.00	10,066	25	25	Subsidiary (Note A)	
	AiST	Taipei, Taiwan	Design, develop and sale of intelligent services	81,837	157,915	10,000,000	100.00	96,183	458	458	Subsidiary (Note A)	
	BEMC	Delaware, USA	Sale of industrial network communications systems	-	1,968,044	-	-	-	-	-	Subsidiary (Note B)	
	B+B	Delaware, USA	Sale of industrial network communications systems	1,968,044	1,968,044	230,647	60.00	1,951,772	12,367	4,646	Subsidiary (Note B)	
	AIN	India	Sale of industrial automation products	19,754	19,754	3,999,999	99.99	10,714	5,249	5,249	Subsidiary (Note A)	
	AIMobile Co., Ltd.	Taipei, Taiwan	Design and manufacture of industrial mobile systems	135,000	135,000	13,500,000	45.00	65,012	(42,506)	(19,128)	Equity-meth investee (Note A)	
	AKST	Gangwon-do, Korea	Production and sale of intelligent medical display	83,313	83,313	69,740	36.00	(27,036)	(48,434)	(27,036)	Subsidiary (Note A)	
	Winmate	Taipei, Taiwan	Embedded System Modules	540,000	540,000	12,000,000	16.62	542,761	8,562	33,812	Equity-meth investee (Note A)	
	AVN	Hanoi, Vietnam	Sale of industrial automation products	76,092	-	8,100	60.00	76,539	2,385	1,076	Subsidiary (Note A)	
	Nippon RAD Inc.	Tokyo, Japan	R&D of IoT intelligent system	251,915	-	850,000	16.08	252,967	38,277	1,556	Equity-meth investee	
	ARU	Moscow, Russia	Production and sale of industrial automation products	23,822	-	500,000	100.00	21,402	(655)	(655)	Subsidiary (Note A)	
	AKR	AKST	Gangwon-do, Korea	Production and sale of intelligent medical display	55,579	55,579	22,023	24.00	-	(48,434)	-	Subsidiary (Note A)
	Advantech Corporate Investment	Cermate	Taipei, Taiwan	Manufacturing of electronic parts, computer, and peripheral devices	71,500	71,500	5,500,000	55.00	128,046	33,408	18,297	Subsidiary
		Deneng	Taichung, Taiwan	Installation and sale of electronic components and software	18,095	18,095	658,000	39.69	14,100	(3,419)	(1,357)	Equity-meth investee (Note A)
		CDIB Innovation Accelerator Co., Ltd.	Taipei, Taiwan	Investment holding company	150,000	75,000	7,500,000	17.86	147,109	(30,213)	(5,395)	Equity-meth investee (Note A)
		AzureWave Technologies, Inc.	Taipei, Taiwan	Wireless communication and digital image module manufacturing and trading	578,563	-	27,810,000	18.42	534,780	(118,427)	(16,323)	Equity-meth investee (Note A)
Huan Yan, Jih-Lian Co., Ltd.		Taipei, Taiwan	Combination of water treatment related technologies and Internet of Things applications	5,000	-	500,000	50.00	4,971	(58)	(29)	Subsidiary (Note A)	
Yun Yan, Wu-Lian Co., Ltd		Taipei, Taiwan	Industrial equipment Networking in Greater China	5,000	-	500,000	50.00	3,066	(3,868)	(1,934)	Subsidiary (Note A)	
Nippon RAD		Tokyo, Japan	R&D of IoT intelligent system	49,733	-	154,310	2.92	45,733	38,277	-	Equity-meth investee	
i-Link Co., Ltd		Taichung, Taiwan	Intelligent medical integration	10,067	-	1,000,000	25.00	9,407	(38,020)	(660)	Equity-meth investee (Note A)	
DotZero Co., Ltd		Taichung, Taiwan	Intelligent metal processing integration	4,900	-	490,000	49.00	4,629	(554)	(271)	Equity-meth investee (Note A)	
Mildex Optical Inc.	Kaohsiung, Taiwan	Manufacturing of electronic parts	202,948	-	15,708,450	15.00	183,210	(43,120)	(1,724)	Equity-meth investee (Note A)		
ATC	ATC (HK)	Hong Kong	Investment and management service	1,212,730	1,212,730	57,890,679	100.00	3,780,776	355,324	358,595	Subsidiary	

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note A)	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of Ownership	Carrying Value			
AAC (BVI)	ANA AAC (HK) SlOT (Cayman)	Sunnyvale, USA Hong Kong Cayman	Sale and fabrication of industrial automation products	\$ 504,179	\$ 504,179	10,952,606	100.00	\$ 2,727,354	\$ 220,598	\$ 221,544	Subsidiary
			Investment and management service	539,146	539,146	15,230,001	100.00	1,893,119	127,611	127,222	Subsidiary
			Design, development and sale of IoT intelligent system services	US\$ 50,000	-	30,000,000	100.00	1,642,558	136,666	121,748	Subsidiary (Note A)
SlOT (Cayman)	A-DLoG	Munich, Germany	Design, R&D and sale of industrial automation vehicles and related products	522,719	-	1	100.00	541,847	81,512	22,574	Subsidiary
ANA	BEMC B+B	Delaware, USA Delaware, USA	Sale of industrial network communications systems	-	1,328,004	-	-	-	-	-	Subsidiary
			Sale of industrial network communications systems	1,328,004	-	153,765	40.00	5,040	12,367	4,947	Subsidiary
AEUH	AEU APL	Eindhoven, The Netherlands Warsaw, Poland	Sale of industrial automation products	431,963	431,963	32,315,215	100.00	1,035,770	96,894	96,894	Subsidiary
			Sale of industrial automation products	14,176	14,176	6,350	100.00	31,731	4,982	4,982	Subsidiary (Note A)
AEU	A-DLoG	Munich, Germany	Design, R&D and sale of industrial automation vehicles and related products	-	553,536	-	-	-	81,512	50,684	Subsidiary
ASG	ATH AID	Thailand Indonesia	Production of computers	7,537	7,537	49,000	49.00	50,412	6,184	3,060	Subsidiary (Note A)
			Sale of industrial automation products	4,797	4,797	300,000	100.00	8,640	3,565	3,565	Subsidiary (Note A)
Cermate	LandMark	BVI	General investment	28,200	28,200	972,284	100.00	109,970	29,488	28,805	Subsidiary (Note A)
LNK	Better Auto	BVI	General investment	244,615	244,615	8,556,096	100.00	36,137	(13,003)	(13,127)	Subsidiary
Better Auto	Famous Now	BVI	General investment	US\$ 4,000	US\$ 4,000	1	100.00	28,875	(12,845)	(12,845)	Subsidiary
BEMC	Avtek	Delaware, USA	Sale of industrial network communications systems	-	US\$ 99,850	-	-	-	-	-	Subsidiary (Note A and B)
Avtek	B+B	Delaware, USA	Sale of industrial network communications systems	-	US\$ 99,850	-	-	-	-	-	Subsidiary (Note A and B)
B+B	BBI IMC	Ireland Delaware, USA	Sale of industrial network communications systems	US\$ 39,481	US\$ 39,481	-	100.00	103,431	(14,936)	(14,936)	Subsidiary
			Sale of industrial network communications systems	-	-	-	100.00	-	-	-	-
BBI	B&B Electronics B+B (CZ) Conel Automation B&B DMCC	Delaware, USA Czech Republic Czech Republic Dubai	Sale of industrial network communications systems	US\$ 1,314	US\$ 1,314	-	100.00	-	-	-	Subsidiary
			Manufacturing automation	-	-	-	99.99	291,364	63,495	63,495	Subsidiary
			Sale of industrial network communications systems	-	-	-	1.00	(85)	(15,773)	(158)	Subsidiary
			Sale of industrial network communications systems	-	-	-	100.00	1,690	1,723	1,723	Subsidiary
B&B Electronics	B+B (CZ)	Czech Republic	Manufacturing automation	-	-	-	0.01	-	63,495	-	Subsidiary
B+B (CZ)	Conel Automation	Czech Republic	Sale of industrial network communications systems	-	-	-	99.00	(8,456)	(15,773)	(15,615)	Subsidiary

Note A: The respective entity is an immaterial subsidiary; its financial statements have not been audited, which does not result in a significant impact on the Group's consolidated financial statements.

Note B: Due to organizational restricting, BEMC has been cleared after liquidation. The parent company will directly hold B+B.

Note C: All intercompany gains and losses from investment have been eliminated from consolidation.

Note D: Refer to Table 8 for investments in mainland China.

(Concluded)

TABLE 8

ADVANTECH CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Advantech Technology (China) Company Ltd. ("AKMC")	Production and sale of components of industrial automation products	US\$ 43,750 thousand (Note F)	Indirect	\$ 1,145,670 (US\$ 37,300 thousand)	\$ -	\$ -	\$ 1,145,670 (US\$ 37,300 thousand)	\$ 365,352	100	\$ 368,623	\$ 3,780,776	\$ -
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. ("ACN")	Sale of industrial automation products	US\$ 4,230 thousand	Indirect	163,772 (US\$ 5,332 thousand)	-	-	163,772 (US\$ 5,332 thousand)	137,418	100	136,986	1,203,575	US\$ 11,232 thousand
Shanghai Advantech Intelligent Services Co., Ltd. ("AiSC")	Production and sale of industrial automation products	US\$ 8,000 thousand	Indirect	245,720 (US\$ 8,000 thousand)	-	-	245,720 (US\$ 8,000 thousand)	(17,003)	100	(16,959)	663,662	-
Xi'an Advantech Software Ltd. ("AXA")	Development and production of software products	US\$ 1,000 thousand	Indirect	(Note C)	-	-	(Note C)	13	100	13 (Note A)	29,887	-
Hangzhou Advantofine Automation Tech. Co., Ltd.	Processing and sale of industrial automation products	RMB 3,000 thousand	Indirect	(Note D)	-	-	(Note D)	(320)	-	(320) (Note A)	-	-
Advanixs Kun Shan Corp.	Production and sale of industrial automation products	RMB 99,515 thousand	Indirect	(Note G)	-	-	(Note G)	-	-	-	-	-
LNC Dong Guan Co., Ltd.	Production and sale of industrial automation products	US\$ 4,000 thousand	Indirect	98,104 (US\$ 3,194 thousand)	-	-	98,104 (US\$ 3,194 thousand)	(13,004)	100	(12,880)	28,993	-
Shenzhen Cermate Technologies Inc.	Production and sale of Human Machine Interface	RMB 2,000 thousand	Indirect	9,460 (US\$ 308 thousand)	-	-	9,460 (US\$ 308 thousand)	29,348	90	27,095	80,552	US\$ 717 thousand RMB 1,743 thousand

(Continued)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Cermate Technologies (Shanghai) Inc. ("Cermate Shanghai")	Sale of Human Machine Interface	US\$ 520 thousand	Indirect	\$ 17,569 (US\$ 572 thousand)	\$ -	\$ -	\$ 17,569 (US\$ 572 thousand)	\$ 3,074	100	\$ 3,074 (Note A)	\$ 30,654	\$ -
Advantech Service-IoT (Shanghai) Co., Ltd. ("SioT (China)")	Development, consulting and services in intelligent technology	RMB 15,000 thousand	Indirect	(Note H)	-	-	(Note H)	(6,584)	100	(6,584) (Note A)	59,919	-
Shanghai Yanlo Co., Ltd. ("Yanlo")	Retail of intelligent technology	RMB 22,000 thousand	Other	(Note I)	-	-	(Note I)	(58)	45	(26) (Note A)	4,393	-

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Allowable Limit on Investment
\$1,686,438 (US\$54,906 thousand) (Note E)	\$2,902,321 (US\$94,492 thousand)	\$17,724,352 (Note K)

Note A: The respective entity is an immaterial subsidiary; its financial statements have not been audited, which does not result in a significant impact on the Group's consolidated financial statements.

Note B: The significant events, prices, payment terms and unrealized gains or losses generated on trading between the Company and its investees in Mainland China are described in Tables 5 and 6.

Note C: Remittance by ACN.

Note D: In the first quarter of 2018, Hangzhou Advantofine Automation Co., Ltd. was liquidated.

Note E: Included is the outflow of US\$200 thousand on the investment in Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd. located in a free trade zone in Guang Zhou. When this investee was liquidated in September 2005, the outward investment remittance ceased upon the approval of the Ministry of Economic Affairs (MOEA). For each future capital return, the Company will apply to the MOEA for the approval of the return as well as reduce the accumulated investment amount by the return amount.

Note F: For AKMC, there was a capital increase of US\$6,450 thousand out of earnings.

Note G: In the second quarter of 2018, Advanix Kun Shan Corp. was acquired by AKMC, Advanix Kun Shan Corp. was liquidated.

Note H: Remittance by AAC (BVI) and AiSC.

Note I: Remittance by AiSC; AiSC's investments in associate accounted for using the equity method.

Note J: The exchange rate was US\$1=NT\$30.715 and RMB1=NT\$4.472.

(Continued)

Note K: The maximum allowable limit on investment was at 60% of the consolidated net asset value of the Company.

Note L: All intercompany gains and losses from investment have been eliminated from consolidation.

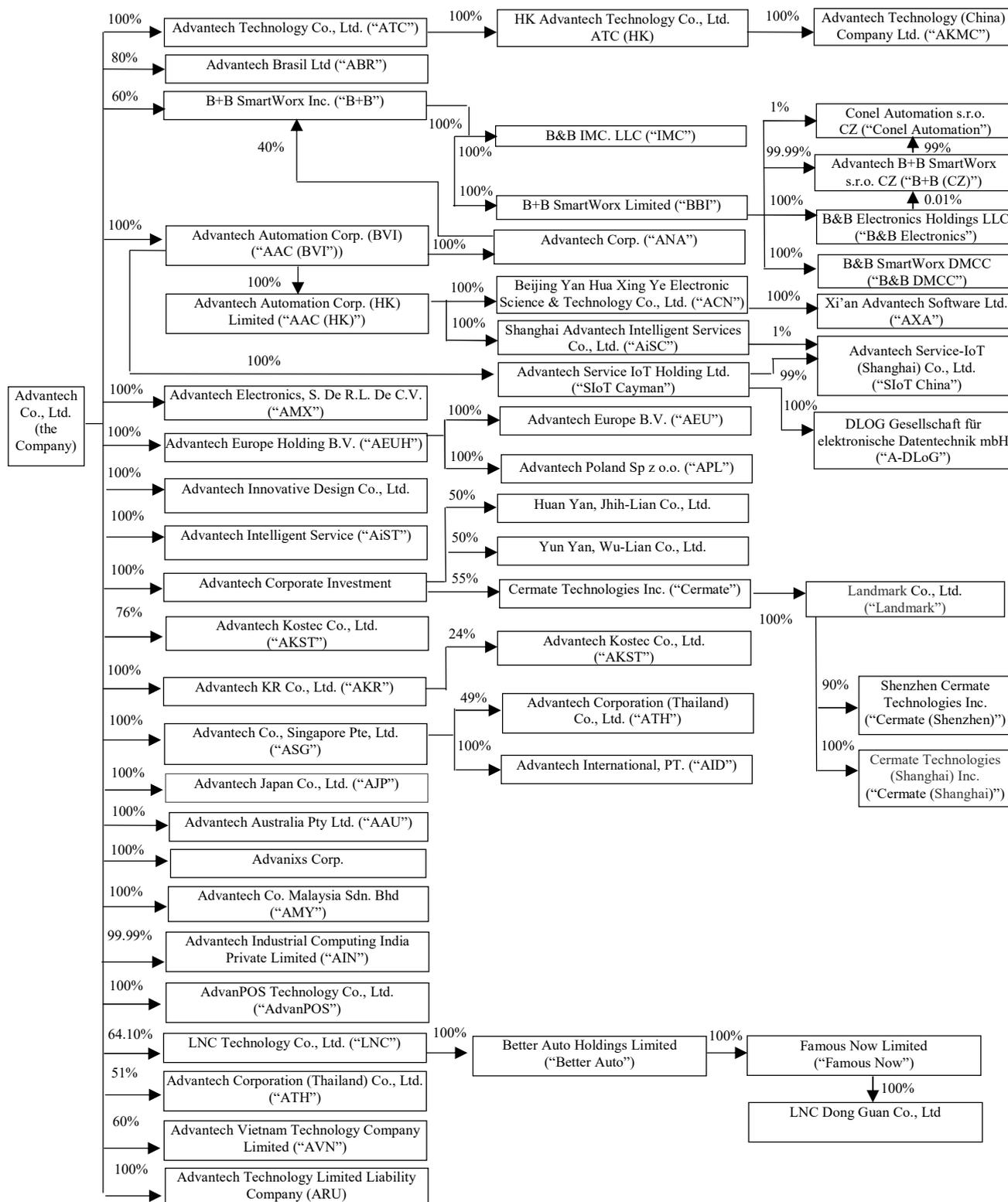
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TABLE 9

ADVANTECH CO., LTD. AND SUBSIDIARIES

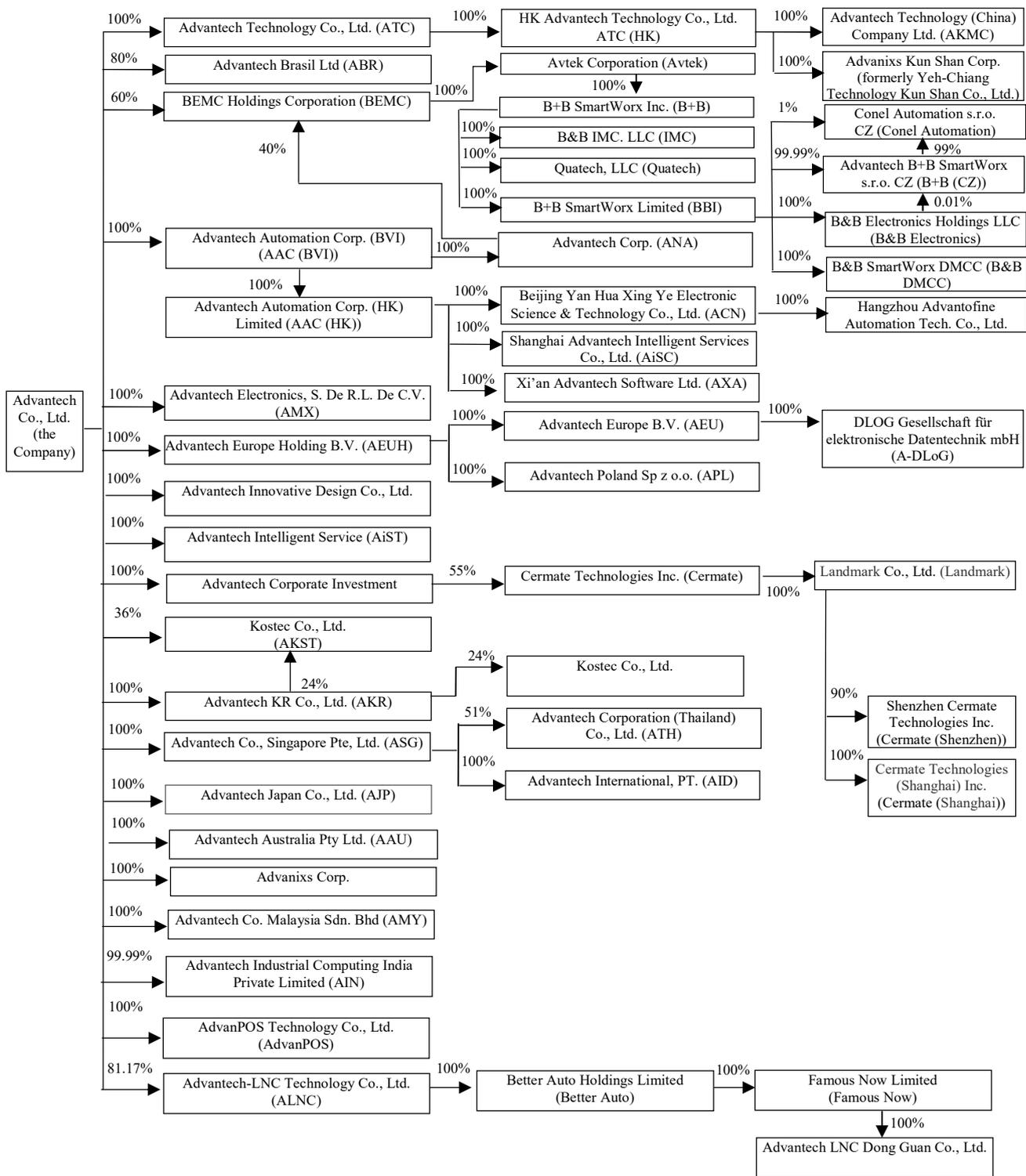
**ORGANIZATION CHART
DECEMBER 31, 2018 AND 2017**

Intercompany relationships and percentages of ownership as of December 31, 2018 are shown below:



(Continued)

Intercompany relationships and percentages of ownership as of December 31, 2017 are shown below:



(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS BETWEEN ADVANTECH CO., LTD. AND SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
0	The Company	AAC (HK)	1	Other receivables from related parties	\$ 48	45 days EOM	-
		AAU	1	Sales revenue	233,477	Normal	-
		AAU	1	Receivables from related parties	40,945	60-90 days	-
		AAU	1	Other revenue	2,372	Normal	-
		AAU	1	Other receivables from related parties	1,012	60-90 days	-
		ABR	1	Sales revenue	121,745	Normal	-
		ABR	1	Receivables from related parties	24,379	90 days EOM	-
		ABR	1	Other revenue	3,641	Normal	-
		ABR	1	Other receivables from related parties	961	90 days EOM	-
		ACN	1	Receivables from related parties	1,492,606	45 days EOM	3
		ACN	1	Other receivables from related parties	92	45 days EOM	-
		ACN	1	Sales revenue	7,382,801	Normal	15
		A-DLoG	1	Sales revenue	608,339	Normal	10
		A-DLoG	1	Receivables from related parties	54,615	30 days after invoice date	-
		A-DLoG	1	Other revenue	4,265	Normal	-
		A-DLoG	1	Other receivables from related parties	1,850	30 days after invoice date	-
		AEU	1	Sales revenue	4,889,200	Normal	10
		AEU	1	Receivables from related parties	952,721	30 days EOM	2
		AEU	1	Other revenue	28,941	Normal	-
		AEU	1	Other receivables from related parties	10,176	30 days EOM	-
		AID	1	Sales revenue	23,731	Normal	-
		AID	1	Receivables from related parties	3,350	45 days after invoice date	-
		AID	1	Other receivables from related parties	151	45 days after invoice date	-
		AID	1	Other revenue	1,279	Normal	-
		AIN	1	Sales revenue	114,063	Normal	-
		AIN	1	Receivables from related parties	53,791	60 days EOM	-
		AIN	1	Other revenue	64	Normal	-
		AIN	1	Other receivables from related parties	38	60 days EOM	-
		AiSC	1	Sales revenue	59,358	Normal	-
		AJP	1	Sales revenue	905,025	Normal	2
		AJP	1	Receivables from related parties	154,814	60-90 days	-
		AJP	1	Other revenue	6,493	Normal	-
		AJP	1	Other receivables from related parties	1,477	60-90 days	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		AKMC	1	Receivables from related parties	\$ 409,917	45 days EOM	1
		AKMC	1	Other receivables from related parties	44	45 days EOM	-
		AKR	1	Sales revenue	997,566	Normal	2
		AKR	1	Receivables from related parties	64,983	60 days after invoice date	-
		AKR	1	Other revenue	8,839	Normal	-
		AKR	1	Other receivables from related parties	2,374	60 days after invoice date	-
		AKST	1	Sales revenue	21,224	30 days EOM	-
		AMX	1	Other revenue	5,975	Normal	-
		AMY	1	Sales revenue	139,369	Normal	-
		AMY	1	Receivables from related parties	11,028	45 days EOM	-
		AMY	1	Other revenue	1,887	Normal	-
		AMY	1	Other receivables from related parties	369	45 days EOM	-
		ANA	1	Receivables from related parties	1,906,993	45 days EOM	4
		ANA	1	Other revenue	38,798	Normal	-
		ANA	1	Other receivables from related parties	14,516	45 days EOM	-
		ANA	1	Sales revenue	9,347,710	Normal	19
		APL	1	Sales revenue	18,137	Normal	-
		APL	1	Receivables from related parties	1,618	45 days EOM	-
		ASG	1	Sales revenue	276,045	Normal	1
		ASG	1	Receivables from related parties	53,788	60-90 days	-
		ASG	1	Other revenue	2,586	Normal	-
		ASG	1	Other receivables from related parties	1,008	60-90 days	-
		ATH	1	Sales revenue	58,501	Normal	-
		ATH	1	Receivables from related parties	5,155	30 days after invoice date	-
		ATH	1	Other revenue	1,753	Normal	-
		ATH	1	Other receivables from related parties	292	30 days after invoice date	-
		AVN	1	Receivables from related parties	6,311	45 days EOM	-
		AVN	1	Sales revenue	21,375	Normal	-
		AVN	1	Other receivables from related parties	8	45 days EOM	-
		B+B	1	Sales revenue	152,070	Normal	-
		B+B	1	Receivables from related parties	19,051	60 days EOM	-
		B+B	1	Other revenue	5,801	Normal	-
		B+B	1	Other receivables from related parties	1,607	60 days EOM	-
		B+B (CZ)	1	Sales revenue	164	Normal	-
		B+B (CZ)	1	Other revenue	311	Normal	-
		B+B (CZ)	1	Other receivables from related parties	154	60 days EOM	-
		BBI	1	Other revenue	348	Normal	-
		BBI	1	Other receivables from related parties	154	45 days after invoice date	-
		SIoT (Cayman)	1	Sales revenue	320,260	Normal	-
		SIoT (Cayman)	1	Receivables from related parties	266,621	30 days EOM	1

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		Cermate Technologies Inc.	1	Other revenue	\$ 1,200	Normal	-
		Cermate Technologies Inc.	1	Sales revenue	4	Normal	-
		Cermate Technologies Inc.	1	Other receivables from related parties	210	30 days EOM	-
		Advantech Corporate Investment	1	Rental revenue	36	Normal	-
		Advansus Corp.	1	Sales revenue	805,007	Normal	2
		Advansus Corp.	1	Receivables from related parties	139,159	60-90 days	-
		Advansus Corp.	1	Rental revenue	3,000	Normal	-
		Advansus Corp.	1	Other receivables from related parties	2,582	60-90 days	-
		LNC	1	Other revenue	1,600	Normal	-
		LNC	1	Other receivables from related parties	440	60-90 days EOM	-
		LNC	1	Receivables from related parties	1,456	60-90 days EOM	-
		LNC	1	Sales revenue	3,957	Normal	-
1	AAC (HK)	The Company	2	Other receivables from related parties	2,033	45 days EOM	-
		The Company	2	Other revenue	7,910	Normal	-
2	AAU	The Company	2	Receivables from related parties	15	60-90 days	-
		The Company	2	Sales revenue	439	Normal	-
3	ABR	The Company	2	Receivables from related parties	678	30 days after invoice date	-
		The Company	2	Sales revenue	175	Normal	-
4	ACN	AEU	3	Receivables from related parties	1,538	30 days EOM	-
		AEU	3	Sales revenue	13,018	Normal	-
		AiSC	3	Sales revenue	171,787	Normal	-
		AiSC	3	Receivables from related parties	42,659	Immediate payment	-
		AKMC	3	Sales revenue	29,142	Normal	-
		AKMC	3	Receivables from related parties	6,676	60-90 days	-
		AKR	3	Receivables from related parties	43	45 days EOM	-
		AKR	3	Sales revenue	77	Normal	-
		ANA	3	Receivables from related parties	63	30 days EOM	-
		ANA	3	Sales revenue	690	Normal	-
		AXA	3	Other receivables from related parties	61	60 days EOM	-
		SIoT (China)	3	Receivables from related parties	63,094	30 days EOM	-
		SIoT (China)	3	Sales revenue	25,902	Normal	-
		The Company	2	Receivables from related parties	5,109	30 days EOM	-
		The Company	2	Sales revenue	6,829	Normal	-
		The Company	2	Other revenue	28,464	Normal	-
5	ADL	A-DLoG	3	Receivables from related parties	4,988	Normal	-
		The Company	2	Other receivables from related parties	36,568	30 days after invoice date	-
		The Company	2	Sales revenue	51,198	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
6	A-DLoG	AAU	3	Receivables from related parties	\$ 7	30 days after invoice date	-
		AAU	3	Sales revenue	1,132	Normal	-
		AEU	3	Receivables from related parties	4	30 days upon delivery	-
		AEU	3	Other revenue	2,353	Normal	-
		AEU	3	Sales revenue	2,421	Normal	-
		AEU	3	Other receivables from related parties	383	30 days EOM	-
		AKMC	3	Receivables from related parties	96	60 days after invoice date	-
		AKMC	3	Sales revenue	706	Normal	-
		AKR	3	Sales revenue	1,319	Normal	-
		AKR	3	Receivables from related parties	79	60 days EOM	-
		ANA	3	Receivables from related parties	1,089	30 days after invoice date	-
		ANA	3	Sales revenue	38,832	Normal	-
		APL	3	Sales revenue	1,199	Normal	-
		The Company	2	Other revenue	129	Normal	-
		The Company	2	Sales revenue	181,902	Normal	-
		The Company	2	Receivables from related parties	20,746	30 days after invoice date	-
The Company	2	Other receivables from related parties	13,672	60 days EOM	-		
7	AEU	AAU	3	Receivables from related parties	4	30 days EOM	-
		AAU	3	Sales revenue	4	Normal	-
		ACN	3	Receivables from related parties	7	30 days after invoice date	-
		ACN	3	Sales revenue	48	Normal	-
		A-DLoG	3	Sales revenue	62,019	Normal	-
		A-DLoG	3	Receivables from related parties	1,776	30 days upon delivery	-
		AIN	3	Sales revenue	19	Normal	-
		AIN	3	Receivables from related parties	14	45 days EOM	-
		AID	3	Sales revenue	31	Normal	-
		AJP	3	Sales revenue	129	Normal	-
		AKMC	3	Sales revenue	100	Normal	-
		AKMC	3	Receivables from related parties	106	30 days EOM	-
		AKR	3	Sales revenue	676	Normal	-
		AKR	3	Receivables from related parties	52	30 days after invoice date	-
		ANA	3	Sales revenue	7,658	Normal	-
		ANA	3	Receivables from related parties	97	30 days after invoice date	-
		APL	3	Sales revenue	4,689	Normal	-
		APL	3	Receivables from related parties	448	30 days after invoice date	-
		B+B	3	Receivables from related parties	35	45 days EOM	-
		BBI	3	Sales revenue	871	Normal	-
BBI	3	Receivables from related parties	152	30 days after invoice date	-		
The Company	2	Sales revenue	27,134	Normal	-		
The Company	2	Receivables from related parties	3,165	30 days EOM	-		
The Company	2	Other revenue	18	Normal	-		

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
10	AID	ASG	3	Receivables from related parties	\$ 399	45 days after invoice date	-
			3	Other revenue	4,291	Normal	-
11	AIN	The Company	2	Receivables from related parties	430	60 days EOM	-
12	AiSC	AAC (HK)	3	Other receivables from related parties	4,488	90 days	-
		ACN	3	Other receivables from related parties	34,454	Immediate payment	-
		ACN	3	Sales revenue	8,239	Normal	-
		ACN	3	Rental revenue	5,975	Normal	-
		ACN	3	Receivables from related parties	2	Immediate payment	-
		AKMC	3	Sales revenue	198	Normal	-
		SIoT (China)	3	Receivables from related parties	823	30 days EOM	-
		SIoT (China)	3	Sales revenue	1,183	Normal	-
		The Company	2	Receivables from related parties	1,094	45 days EOM	-
14	AJP	ACN	3	Sales revenue	81	Normal	-
		ACN	3	Receivables from related parties	62	45 days EOM	-
		AKMC	3	Sales revenue	16,094	Normal	-
		AKMC	3	Other receivables from related parties	2,914	60 days EOM	-
		The Company	2	Receivables from related parties	516	60-90 days	-
		The Company	2	Sales revenue	1,161	Normal	-
		The Company	2	Other revenue	70	Normal	-
15	AKMC	ACN	3	Sales revenue	445,324	Normal	1
		ACN	3	Receivables from related parties	52,060	60-90 days	-
		ACN	3	Rental revenue	3,595	Normal	-
		Advansus Corp.	3	Receivables from related parties	554	30 days EOM	-
		Advansus Corp.	3	Sales revenue	3,704	Normal	-
		AEU	3	Sales revenue	6,194	Normal	-
		AEU	3	Receivables from related parties	627	30 days after invoice date	-
		AiSC	3	Sales revenue	11,631	Normal	-
		AiSC	3	Receivables from related parties	491	Immediate payment	-
		AKST	3	Receivables from related parties	44,243	30 days EOM	-
		AKST	3	Sales revenue	89,380	Normal	-
		ANA	3	Sales revenue	3,643	Normal	-
		ANA	3	Receivables from related parties	313	60-90 days	-
		SIoT (China)	3	Receivables from related parties	6,542	30 days EOM	-
		SIoT (China)	3	Sales revenue	12,039	Normal	-
		SIoT (Cayman)	3	Receivables from related parties	125,335	30 days EOM	-
		SIoT (Cayman)	3	Sales revenue	510,175	Normal	1

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		The Company	2	Sales revenue	\$ 11,974,220	Normal	25
		The Company	2	Receivables from related parties	1,533,444	60 days EOM	3
		Cermate Technologies Inc.	3	Receivables from related parties	180	60 days EOM	-
		Cermate Technologies Inc.	3	Sales revenue	678	Normal	-
		Cermate (Shenzhen)	3	Receivables from related parties	4,015	60 days EOM	-
		Cermate (Shenzhen)	3	Sales revenue	36,153	Normal	-
16	AKR	AKST	3	Sales revenue	18,370	Normal	-
		AJP	3	Sales revenue	88	Normal	-
		ASG	3	Sales revenue	4	Normal	-
		AVN	3	Receivables from related parties	94	30 days EOM	-
		AVN	3	Sales revenue	270	Normal	-
		The Company	2	Receivables from related parties	468	90 days EOM	-
		The Company	2	Sales revenue	590	Normal	-
		The Company	2	Other revenue	866	Normal	-
17	AKST	AEU	3	Sales revenue	8,548	Normal	-
		AKMC	3	Sales revenue	8,446	Normal	-
		AKMC	3	Receivables from related parties	895	30 days EOM	-
		AKR	3	Receivables from related parties	880	30 days EOM	-
		AKR	3	Sales revenue	800	Normal	-
		ANA	3	Sales revenue	8,260	Normal	-
		The Company	2	Receivables from related parties	5,474	30 days EOM	-
		The Company	2	Sales revenue	7,022	Normal	-
18	AMX	The Company	2	Other revenue	5,975	Normal	-
19	AMY	ATH	3	Sales revenue	51	Normal	-
		The Company	2	Receivables from related parties	215	45 days EOM	-
20	ANA	AAU	3	Receivables from related parties	14	60 days after invoice date	-
		AAU	3	Sales revenue	46	Normal	-
		A-DLoG	3	Sales revenue	9	Normal	-
		AEU	3	Receivables from related parties	4,862	60-90 days	-
		AID	3	Sales revenue	9	Normal	-
		AIN	3	Receivables from related parties	58	30 days after invoice date	-
		AIN	3	Sales revenue	57	Normal	-
		AKMC	3	Receivables from related parties	906	30 days EOM	-
		AKR	3	Sales revenue	2,198	Normal	-
		ASG	3	Sales revenue	22	Normal	-
		B+B	3	Rental revenue	145	Normal	-
		B+B	3	Receivables from related parties	730	60-90 days	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		B+B	3	Sales revenue	\$ 6,128	Normal	-
		B+B (CZ)	3	Sales revenue	1,157	Normal	-
		The Company	2	Sales revenue	85,236	Normal	-
		The Company	2	Receivables from related parties	57,612	45 days EOM	-
		The Company	2	Other revenue	997	Normal	-
22	APL	A-DLoG	3	Receivables from related parties	1,405	30 days after invoice date	-
		AEU	3	Sales revenue	106,733	Normal	-
		AEU	3	Receivables from related parties	10,013	30 days after invoice date	-
		The Company	2	Receivables from related parties	446	30 days after invoice date	-
		The Company	2	Other revenue	482	Normal	-
23	ASG	AID	3	Sales revenue	34	Normal	-
		AKR	3	Sales revenue	41	Normal	-
		AMY	3	Sales revenue	8,513	Normal	-
		AMY	3	Receivables from related parties	126	30 days EOM	-
		ATH	3	Sales revenue	6,618	Normal	-
		ATH	3	Other revenue	1,628	Normal	-
		ATH	3	Receivables from related parties	51	30 days EOM	-
		The Company	2	Sales revenue	5	Normal	-
		The Company	2	Receivables from related parties	211	60-90 days	-
		The Company	2	Other revenue	702	Normal	-
25	ATH	ASG	3	Other revenue	4	Normal	-
		The Company	2	Sales revenue	5	Normal	-
26	AUK	The Company	2	Sales revenue	68,524	Normal	-
27	AVN	The Company	2	Sales revenue	487	Normal	-
		AKR	3	Sales revenue	31	Normal	-
28	AXA	ACN	3	Other receivables from related parties	8,944	30 days EOM	-
		ACN	3	Other revenue	822	Normal	-
29	B+B	AEU	3	Sales revenue	69,133	Normal	-
		AEU	3	Receivables from related parties	9,736	90 days EOM	-
		AEU	3	Sales revenue	13,987	Normal	-
		AKMC	3	Sales revenue	75	Normal	-
		ANA	3	Receivables from related parties	867	30 days EOM	-
		BBI	3	Other revenue	8,614	Normal	-
		BBI	3	Receivables from related parties	1,258	45 days EOM	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		The Company	2	Sales revenue	\$ 90,576	Normal	-
		The Company	2	Receivables from related parties	19,241	90 days EOM	-
30	B+B (CZ)	AEU	3	Sales revenue	246,655	Normal	1
		AEU	3	Receivables from related parties	45,091	45 days EOM	-
		AEU	3	Other revenue	4,493	Normal	-
		AEU	3	Other receivables from related parties	1,089	45 days EOM	-
		B+B	3	Sales revenue	40,154	Normal	-
		B+B	3	Receivables from related parties	1,452	45 days EOM	-
		Conel Automation	3	Other revenue	1,108	45 days EOM	-
		Conel Automation	3	Other receivables from related parties	229	45 days EOM	-
		Conel Automation	3	Sales revenue	84	Normal	-
		Conel Automation	3	Interest revenue	117	Normal	-
		Conel Automation	3	Receivables from related parties	20	45 days EOM	-
		The Company	2	Sales revenue	48,036	Normal	-
		The Company	2	Receivables from related parties	4,591	45 days EOM	-
		The Company	2	Other revenue	39	Normal	-
31	BBI	AEU	3	Sales revenue	56,264	Normal	-
		AEU	3	Receivables from related parties	12,612	60 days after invoice date	-
		B+B	3	Sales revenue	8,068	Normal	-
		B+B	3	Receivables from related parties	10,459	60 days after invoice date	-
		B+B	3	Other revenue	34,498	Normal	-
		The Company	2	Sales revenue	5,709	Normal	-
		The Company	2	Receivables from related parties	5,628	60 days after invoice date	-
34	DMCC	The Company	2	Other receivables from related parties	2,310	Immediate payment	-
		The Company	2	Other revenue	5,351	Normal	-
35	SIoT (CN)	ACN	3	Sales revenue	1,649	Normal	-
		AiSC	3	Receivables from related parties	5,790	60 days EOM	-
		AiSC	3	Sales revenue	7,733	Normal	-
		AEU	3	Receivables from related parties	85,087	45 days EOM	-
		AEU	3	Sales revenue	211,059	Normal	-
		ANA	3	Receivables from related parties	125,737	30 days EOM	-
		ANA	3	Sales revenue	235,886	Normal	-
		SIoT (China)	3	Receivables from related parties	8,897	60 days EOM	-
		ACN	3	Receivables from related parties	141	60 days EOM	-
		SIoT (China)	3	Sales revenue	15,870	Normal	-
38	Cermate (Shanghai)	Cermate (Shenzhen)	3	Sales revenue	1,049	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% of Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
39	Cermate Technologies Inc.	AKMC	3	Sales revenue	\$ 6,527	Normal	-
		AKMC	3	Receivables from related parties	8	60 days EOM	-
		The Company	2	Sales revenue	4,345	Normal	-
		The Company	2	Receivables from related parties	699	30-60 days	-
		The Company	2	Other revenue	164	Normal	-
		Cermate (Shenzhen)	3	Receivables from related parties	18,789	30 days EOM	-
		Cermate (Shenzhen)	3	Sales revenue	112,581	Normal	-
		LNC	3	Sales revenue	25	Normal	-
40	Cermate (Shenzhen)	ACN	3	Sales revenue	11	Normal	-
		AKMC	3	Sales revenue	52,308	Normal	-
		AKMC	3	Receivables from related parties	5,102	40 days EOM	-
		Cermate (Shanghai)	3	Sales revenue	35,220	Normal	-
		Cermate Technologies Inc.	3	Sales revenue	33,388	Normal	-
		Cermate Technologies Inc.	3	Receivables from related parties	6,872	60 days EOM	-
41	Advansus Corp.	AKMC	3	Sales revenue	343	Normal	-
		The Company	2	Sales revenue	7,730	Normal	-
		The Company	2	Receivables from related parties	605	60-90 days	-
		Cermate Technologies Inc.	3	Sales revenue	461	Normal	-
42	LNC	The Company	2	Other revenue	74	Normal	-
		The Company	2	Receivables from related parties	861	60 days EOM	-
		The Company	2	Rental revenue	1,009	Normal	-
		The Company	2	Sales revenue	3,266	Normal	-
		LNC Dong Guan Co., Ltd.	3	Receivables from related parties	209,533	90 days EOM	-
		LNC Dong Guan Co., Ltd.	3	Sales revenue	295,203	Normal	1

Note A: The parent company and its subsidiaries are numbered as follows:

1. Advantech Co., Ltd. is numbered "0".
2. Subsidiaries are numbered from "1" onward.

Note B: The flow of related-party transactions is as follows:

1. From the parent company to its subsidiary.
2. From the subsidiary to its parent company.
3. Between subsidiaries.

Note C: For assets and liabilities, amounts are shown as a percentage of the Group's consolidated total assets as of December 31, 2018, while revenue, costs and expenses are shown as a percentage of the Group's consolidated total operating revenue for the year ended December 31, 2018.

Note D: All intercompany transactions have been eliminated from consolidation.

(Concluded)