ADVANTECH

Enabling an Intelligent Planet

Stock Code:2395

# Advantech Co., Ltd.
# 2016 ANNUAL REPORT


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# Letter to Shareholders

Dear Shareholders,

**2016 Summary of Results**

In 2016, Advantech reported consolidated revenues of NT$ 42 billion, an increase of ten percent over the NT$38 billion of 2015. Net income was NT$5.69 billion and diluted earnings per share were NT$8.96. Gross profit margin was 40.8 percent, compared with 40.4 percent in 2015; and operating profit margin was 15.8 percent, compared with 15.6 percent a year earlier. Net profit margin was 13.54 percent, an increase of 0.05 percentage points from the previous year's 13.49 percent.

**Our Vision for IoT**

Advantech has been looking at Internet of Things (IoT) opportunities since 2010, in addition to our foundation in embedded systems and industrial PC segments. We position ourselves as "The Accelerator of the Intelligent Planet". However, given the complexity of the IoT ecosystem, we believe the broad-based penetration of end-user demands and applications will happen in the next 10 to 15 years, but not today. Since 2016, Advantech has gradually experienced rising demand in industrial IoT and factory applications. Looking forward, in addition to more comprehensive internet infrastructure development, the support and acceleration from industrial companies (like GE, Schneider, Honeywell, Siemens, etc.) and service providers (like Microsoft, Amazon, and Google) are the essential catalysts of the IoT industry.

Advantech recognizes three waves of growth in the IoT industry. The first wave happened in 2010 and will gradually mature in 2020. The major beneficiaries are IoT device providers, such as fabless houses. The second wave began in 2015~2016 and is expected to yield results in 2019~2020. The second wave should mature in 2025, at which time a third wave of IoT growth will begin. Advantech foresees that companies with the capability to provide hardware and software integration services will be the major beneficiaries during the second wave of IoT growth. In the future, Advantech will strengthen its role as an accelerator of the intelligent planet, facilitating system integrators' activities in each vertical market, providing differentiated customer service, and forming cross-sector alliance and vertical market ecosystems.

**Advantech's Key Strategies to Achieve Our 2020 Vision**

- **Develop the WISE-PaaS platform to form a sharing platform.**

  In 2015, Advantech's WISE-PaaS was focused on internal software consolidation and architecture development. In 2016, WISE-PaaS successfully launched Edge Intelligence Server (EIS) and Solution Ready Platform (SRP), and penetrated into several customer IoT projects in different vertical markets. In 2017, Advantech will focus on cloud services for the WISE-PaaS platform to provide a reliable and improved IoT cloud computing platform.

- **Make cross-sector alliances to form a vertical market IoT ecosystem.**

  IoT is an expansion opportunity to Advantech's current specialty in embedded systems and industrial PCs. However, the complexities of the IoT system and vertical markets will drive overall market diversity. Therefore, Advantech intends to form different alliances in focused areas, including "M2.COM" in the Wireless IoT Sensor Nodes Standard, and Embedded Linux & Android Alliance (ELAA) in the embedded OS area, to provide more comprehensive services to our system integrator partners.

- **Invest, incubate, and cooperate to accelerate IoT development and penetration.**

  In our 2020 vision, Advantech also identified external cooperation and investment as another growing arm in the future to fulfill the natural complexity of the IoT market and strengthen our portfolio and service offerings. In January 2016, Advantech fully consolidated B+B SmartWorx into our operations. In January 2017, Advantech announced investment in Kostec, a specialized, Korea-based medical-monitor company. Both investments were in line with Advantech's long term strategy in technology centric and vertical development. Also, Advantech initiated more interactions and sponsorship with industrial partners and academic institutes. In addition to talent recruitment and business engagement, Advantech intends to facilitate the development of Taiwan's IoT supply chain.

**2017 Outlook**

Advantech reported record high revenues and net income in 2016. The 10.5% revenue growth was consistent overall with Advantech's past 10 year CAGR growth. More importantly, Advantech intends to seek sustainable top-line growth in the long run to optimize investor value.

Looking forward in 2017, Advantech expects to achieve its profitable revenue growth target on the back of increasing penetration of IoT adoption, our leadership in intelligent systems, and our differentiated value-added services, which should reduce the uncertainty from macro-economic impacts.

**Strengthening Corporate Governance and Business Leadership**

Advantech has marketed itself as an industrial brand since the beginning and now Advantech has operations in 23 countries around the world. In 2016, Advantech was recognized as a Top 6 Taiwan International Brand, and the only B2B company among the Top 10 Taiwan International Brands. To enhance corporate governance and comply with international trends, Advantech will transform its board organization from supervisory systems to independent directors systems starting from 2017. Our goal is the pursuit of excellence and sustainable operation. Advantech has established its altruistic spirit at the core of its business culture, along with the pursuit of the best and balanced interests of society, shareholders, customers, and employees.

K.C. Liu
Chairman and CEO of Advantech Co., Ltd.

# II. Company Profile

1. Date of incorporation: September 7, 1981
2. Company history

| Year | Important Events |
|---|---|
| 1981 | Decided the official company name as "Advantech Co., Ltd." and established at Sec. 2, Chongqing S. Road, Taipei City to operate the business of Desktop computer module measurement automation system.<br>Invested a capital stock of NT$2,000 thousand. |
| 1985 | Increased the authorized and paid-in capital to NT$5,000 thousand. Reorganized the Company as a company limited and relocated it to the address at 3F, No. 80, Ningbo W. Street, Taipei City.<br>Launched various standardized PC-Based Automatic Test System products. |
| 1987 | Relocated to the address at 2F-1, No. 76, Sec 3, Roosevelt Rd., Taipei City.<br>Developed and produced PC/XT/AT Plug-in Data Acquisition Card (known as "PC-Lab Card Series") and launched domestically and internationally. |
| 1989 | Established Xindian factory at 4F, No. 10/12, Lane 130, Xindian City, Minquan Road, Taipei County.<br>Implemented industrial computer (IPC) product line with smooth production and sales arranged successfully and became the second main product line other than PC-LabCard. |
| 1990 | Increased the authorized and paid-in capital to NT$25,000 thousand.<br>Except for the factory, relocated all departments to the office at 4F, No. 108-3, Minquan Road, Taipei County. |
| 1991 | Increased the authorized and paid-in capital to NT$60,000 thousand.<br>Integrated the in-house developed industrial-grade CPU Card and IPC Chassis into a complete industrial-grade PC. Offered a complete line of products to become a comprehensive PC system component supplier for industrial automation applications and formed an international recognition gradually. |
| 1992 | Introduced Industrial Workstation (industrial monitoring workstation) product series.<br>Successful developed ADAM-4000 Series Remote Data Acquisition Module that became a breakthrough product of distal measurement signal processing and communication. |
| 1993 | Awarded with the 2nd National Award of Small & Medium Enterprise by National Association of Small & Medium Enterprise and received ISO-9001 Quality Management System Certification.<br>Developed AWS-850/860-II Industrial PC Workstation. |
| 1994 | Increased the authorized and paid-in capital to NT$120,000 thousand.<br>Founded Advantech Germany with 100% equity acquired.<br>Developed overseas sales offices.<br>Cooperated with ITRI MIRL to introduce PC and industrial controllers and MotionControl Card. |

| | |
|---|---|
| | Developed the embedded computer modules series. |
| 1995 | Increased the authorized and paid-in capital to NT$190,000 thousand.<br>Established Global Branch Offices – Singapore with 100% equity acquired.<br>Established Global Branch Offices - Budapest, Hungary with 30% equity acquired. |
| 1996 | Awarded with the 4th Award for Industrial Technology Advancement Outstanding Award, the MOEA, Taiwan, ROC<br>Established the QA laboratory to significantly improve product quality.<br>Symbol of Excellence Winner for ADAM-4000 Series, the MOEA, Taiwan, ROC |
| 1997 | Approved for public offering.<br>Increased the authorized capital to NT$1,000,000 thousand and the paid-in capital to NT$475,000 thousand.<br>Established an audit office and internal control and internal audit system.<br>Established subsidiaries in Japan, UK, and France with 100% equity acquired.<br>Merged the US subsidiary with 72.03% equity acquired.<br>Awarded with the 5th Award for Industrial Technology Advancement Most Outstanding Award, the MOEA, Taiwan, ROC<br>Symbol of Excellence Winner for PPC-102 series, the MOEA, Taiwan, ROC |
| 1998 | Increased the paid-in capital to NT$807,500 thousand.<br>Established subsidiaries in the Netherlands, Germany, and the Virgin Islands with 100% equity acquired. Established a joint venture in Italy with 25% equity acquired.<br>The equity of the US subsidiary was increased from 72.03% to 100%.<br>Purchased 834-ping land in Neihu.<br>PPC-102T Panel Computer received the 6th Gold National Award of Excellence, Taiwan, ROC<br>The 7th Symbol of Excellence Winner for PPC-140T Multi-Function Panel PC, Taiwan, ROC<br>PPC-140T Multi-Function Panel PC received the "Singapore Comdex Asia Best Hardware System Award."<br>Symbol of Excellence Winner for ADAM-5000 Series Distributed DA & C System, Taiwan, ROC<br>Received ISO-14001 Environmental Management System Certification.<br>Awarded with the Most Representative Outstanding Company by Industrial Development Bureau, MOEA, Taiwan, ROC |
| 1999 | ADAM Series received the 1st Outstanding Safety Instrument Award of Taiwan.<br>Constructed Advantech Neihu Technology Building that was expected to be completed in the mid-2001.<br>The paid-in capital was increased to NT$1,307,000 thousand.<br>Purchased 2,147-ping land in Donghu and was stationed by the end of September.<br>Completed IPO on Taiwan Stock Exchange on 12/13. |
| 2000 | Increased the paid-in capital to NT$1,745,000 thousand.<br>Purchased additional 1,445-ping land at Donghu Plant.<br>Merged PCS for an amount of US$1.77 million.<br>Established the invested companies of Advantech Investment, Advantech (Guangzhou Bond Zone) Co., ABR, AAC (BVI), AACB, APN, and AKL.<br>Awarded with the 2000 Outstanding Export & Import Performance Award by General Chamber of Commerce of the Republic of China |
| 2001 | Increased the paid-in capital to NT$2,334,294 thousand.<br>Moved into Advantech Headquarters in Neihu District, Taipei in July 2001.<br>Established AHK and AKMC and invested in AAU. |

Symbol of Excellence Winner for WEB-2143 Web Controller, Taiwan, ROC
Symbol of Excellence Winner for EH-760 Home Terminal, Taiwan, ROC
Symbol of Excellence Winner for ES-510 Multimedia Web Payphone, Taiwan, ROC.
Symbol of Excellence Winner for PPC-153T Panel Computer, Taiwan, ROC

2002 Increased the paid-in capital to NT$2,855,291 thousand.
Established AASC and invested in ABB and Axiomtek Co., Ltd.
Received the "2002 Headquarters Operation Certification" from the Industrial Development Bureau, MOEA.
Implemented the "Innovation Center Operations Plan Embedded Systems R&D Center" with the approval of the Department of Industrial Technology, MOEA
Accepted as the one and only Gold-Level Partner in Microsoft's Windows Embedded Partner ODM Category.
Symbol of Excellence Winner for EH-7102G/GH Home Appliance, Taiwan, ROC
Symbol of Excellence Winner for WebLink2059-BAR/CE/SDA/SKT
Web-enabled Device Connection with PC Card, Taiwan, ROC

2003 Increase the paid-in capital to NT$3,413,039 thousand.
Established AEU and invested in Advantech Consulting Co., Ltd.
Received the "2003 Headquarters Operation Certification" from the Industrial Development Bureau, MOEA.
Symbol of Excellence Winner for ADAM-6000 Series of Intelligent data collection network control module, Taiwan, ROC

2004 Increased the paid-in capital to NT$3,742,962 thousand.
Won the 2004 Control Design Reader's Choice Award for "Single Board PC" First Prize.
FPM-3170 17" Flat Panel Monitor received "2004 Editor's Choice Award" First Prize under Human Machine Interface (HMI) category from Control Engineering Magazine (USA).

2005 Increased the paid-in capital to NT$4,489,003 thousand.
Formed strategic alliance with AsusTek to acquire 1.36% equity of AsusTek and AsusTek acquired 15% equity of Advantech through stock swap.
The 2005 Symbol of Excellence Winner for TPC-60S, UNO-3062, and AWS-8100G, Taiwan, ROC
Received the 2005 Readers' Choice Award for the 3rd prize of Industrial Computer from Control's Buyer's Guide, USA
Embedded Control Europe (ECE) magazine readers nominated TREK-755 Sunlight Readable Model for Gold Award of the 13th MOEA "Industrial Technology Advancement Award of Excellence."

2006 Increased the paid-in capital to NT$4,636,295 thousand.
Received Readers' Choice Award for Single Board Computer from Control Designer Magazine, USA
Advantech received the 2nd "Corporate Social Responsibility Award" from Global Views Magazine, Taiwan, ROC.
Advantech received Microsoft's "The Most Growth Award in Asia Award."
Advantech awarded by Intel with the "Intel Associate Partner of the Year" and "Multi-Core Solution Contest Award."

2007 Increased the paid-in capital to NT$4,915,770 thousand.
Advantech received the 3rd "Corporate Social Responsibility Award, Top Honor" in 2006 from Global Views Magazine, Taiwan, ROC
Advantech received the 1st "Corporate Social Responsibility Award from Commonwealth Magazine, Taiwan, ROC
ARK-3381 received Computex Taipei Best Choice Award.

The 15th Symbol of Excellence Winner for UibQ-230/ARK-4170/ADAM-5550KW, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

2008 Increased the paid-in capital to NT$5,113,458 thousand.

Advantech received the 4th prize of the 2nd "Corporate Social Responsibility Award" from Commonwealth Magazine, Taiwan, ROC

The 16th Symbol of Excellence Winner for UbiQ350 / VITA350 / UNO-2182 / TPC-30T / TPC-32T / IPPC-7157A/IPPC-7158B, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

2009 Increased the paid-in capital to NT$5,161,337 thousand.

Established Shanghai Advantech Intelligent Services Co., Ltd. (AiSC).

Established Xi'An Advantech Software Co., Ltd.

Acquired Advantech Yang-Kwong Building as office building in Neihu, Taipei City.

Increased the paid-in capital to NT$5,161,337 thousand.

Awarded by Chinagkong with the "Decade Industrial Contribution" and "Decade Leading Industry."

The 18th Symbol of Excellence Winner for IPPC-8151S/APAX-5000 series / UNO-1100 series / UTC-W101E/ NCP-7560/MIC-5322, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

Advantech and the US subsidiary jointly acquired 60% equity of Advantech Brazil S/A (ABR).

2010 Advantech Co., Ltd. established Advantech Intelligent Co., Ltd.

Decreased the paid-in capital to NT$5,016,337 thousand.

Awarded with the "Taiwan Top 12 Global Brands" Award.

Advantech paid EUR12.85 million to acquire 100% equity of DLoG GmbH Company of Augusta Technologies AG.

Advantech paid 2,668 million Korean Won to acquire 100% equity of Advantech KR Co., Ltd. of SG Advantech Co., Ltd.

Advantech paid ￡3.34 million to acquire 100% equity of Innocore Gaming Ltd.

Increased the paid-in capital to NT$5,517,971 thousand.

2011 Advantech paid NT$93 million to acquire 99.36% equity of ACA.

The 19th Symbol of Excellence Winner for ARK-VH200/ FWA-6500/ NCP-5260/ PC/104 / PCM 9562/PIT-1501W/ SOM-5788/ Advantech Touch Panel Computer / TREK-550, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

Awarded with the "Taiwan Top 10 Global Brands Award."

Increased the paid-in capital to NT$5,639,971 thousand.

2012 Advantech paid NT$306 million to acquire 50% equity of Advansus Corp.

The 20th Symbol of Excellence Winner for TREK-753/ FPM-8151H/ ADAM-6117/ ADAM-6118/ ADAM-6150/ADAM-6151/ ADAM-6156/

ADAM-6160/ SOM-7562/ MIO-5270/ MIO-2260/ PCM-3363/ AIMB-213/ UNO-4600 Series/ ITM-5115R-PA1E/ ARK-DS220/ ARK-DS520/ IPC-6025, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

Ranked the 11th place among the Taiwan Top-20 Global Brand Award in 2012 with a brand value of US$260 million.

Established India subsidiary (AIN).

Increased the paid-in capital to NT$5,652,059 thousand.

2013 Awarded with the 11th place of the "2012 Corporate Citizen Award" by Commonwealth Magazine.

Advantech Industrial Automation Group - Human Machine Interfaces (HMI) TPC and SPC series won Germany iF product design award in 2013.

The 21st Symbol of Excellence Winner for FWA-6510/MIC-5332/ATCA-7310/MIO-5250/MIO-2261/ PCM-9389/ARK-1120/ARK-DS262/ARK-DS762/UBC-D31/ IDS-3115/IDK-2131/TREK-722/TPC-671/1071/1271/1571/ WebOP/BEMG-4110/4220/ADAM-2000/EKI-6340, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

Advantech paid NT$319 million to acquire 70.2% equity of POS maker AdvanPOS.

Advantech paid NT$730 million to acquire 100% equity of the professional controller manufacturer LNC.

Advantech paid ￡5.85 million to acquire 100% equity of the wisdom embedded displays manufacturer GPEG in UK.

Increased the paid-in capital to NT$5,714,511 thousand.

2014 Advantech established Advantech Plus Technology Center (A+TC), Kunshan, China.

Grand Opening of Advantech Linkou IoT Campus.

Advantech received the CSR Best Workplace Excellent Award from Global Views Monthly in 2014.

The 22nd Symbol of Excellence Winner for 16 products, including CGS-6000/ ATCA-9112/ Advantech WebAccess/ APAX-5620/ IDK-2110/TPC-1840WP / TPC-2140WP/SPC-1840WP/FPM-7181W/FPM-7211W/ADAM-6200 Series/EKI-3000 series /SOM-5894/ARK-1122F/UBC-200/ SOM-7567/ SOM-3565/ MIC-5333/ AMiS-50/POC-W181/IPS-M420, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

Formally established "Advantech Investment" Department within the organization to actively deploy smart city and Internet of Things (IoT) market.

Composed Advantech Global smart city case studies for the publication of "Smart City" in the versions of Simplified Chinese and Traditional Chinese.

Composed Advantech Global smart city case studies for the publication of "Smart City" in English.

2015 Increased the paid-in capital to NT$6,318,531 thousand

The 23rd Symbol of Excellence Winner for 19 products, including TREK-674& TREK-306/PWS-870/UTX-3115/DPX-435(with DPX-S1000 chassis)/SOM-5893/SOM-6896/UBC-220/PCIE-181X/ Mic-3100/ARK-2151V/DS-862/MIT-M101/ATCA-9223/EKI-9778/ UNO-2000 Series/IDS-3121W/WebAccess 8.0/Pocket Pad/ARK-5261, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.

MIT-M101 / MICA-071 were nominated for the 23rd "Symbol of Excellence" Award gold and silver medal prize.

2016 Increased the paid-in capital to NT$6,326,091 thousand.

There are 23 products, including ASR-3100/ POC-W242/ TREK-733L/ TREK-973/ DPX-E135/ MIO-3260/ EKI 5 series/ SOM-7568/ TPC/ WISE4 series / WISE-3100/ ARS-2510/ UNO-3483G/TREK-773/ ITA-2230/ROM-7421/IDS-3118W/ AIMB-T1215/ DS-270/APAX-5580/ ARK-2230/ UNO 1 series / IPS-M420S awarded with the 24th "Taiwan Excellence Award" and are entitled to use the "Taiwan Excellence Award Symbol" legally, of which, REK-773 is nominated for the "Taiwan Excellence Award" Gold/Silver Medal.

PWS-870 was awarded with the 2016 iF product design award in Germany.

Advantech Co., Ltd. has a strategic alliance agreement signed with Inventec Corporation to establish the joint venture company "AIMobile Co., Ltd."

The ADVANTECH and its America subsidiary acquired 100% stock right of B+B SmartWorx, Inc. from Graham Partners with US$9.985 million.

The ATC (HK) purchased 100% stock right of Yeh Chiang (Kunshan) Co., Ltd. from Yeh Chiang Technology (Cayman) Corp. with RMB$9.35 million.

2017 Increased the paid-in capital to NT$6,330,741 thousand.

There are 24 products, including DMS-SA21/ ARS-P3800/ AIM-65/ UNO-2271G / IPPC-5211WS / HIT-W101C / SOM-3568/ ARK-2231R/ ARK-2230R / ARK-1124H / ARK-1124U /ARK-1124C / ECU-4784 / AIIS-1200/ AIIS-5410P / MIC-7500/ DS-980/ EPC-T2285/ MVP-3245/ ADAM-3600/ ADAM-3617/ ADAM-3618/ ADAM-3624/ ADAM-3651/ ADAM-3656/ EKI-7700/ Advantech WebAccess/Cloud/ WISE-DK1520 starter kit / development kit for RTX v2.0 CPU Module ROM-3420 awarded with the 25th "Taiwan Excellence Award" and are entitled to use the "Taiwan Excellence Award Symbol" legally, of which, for the "Taiwan Excellence Award" Gold/Silver Medal.

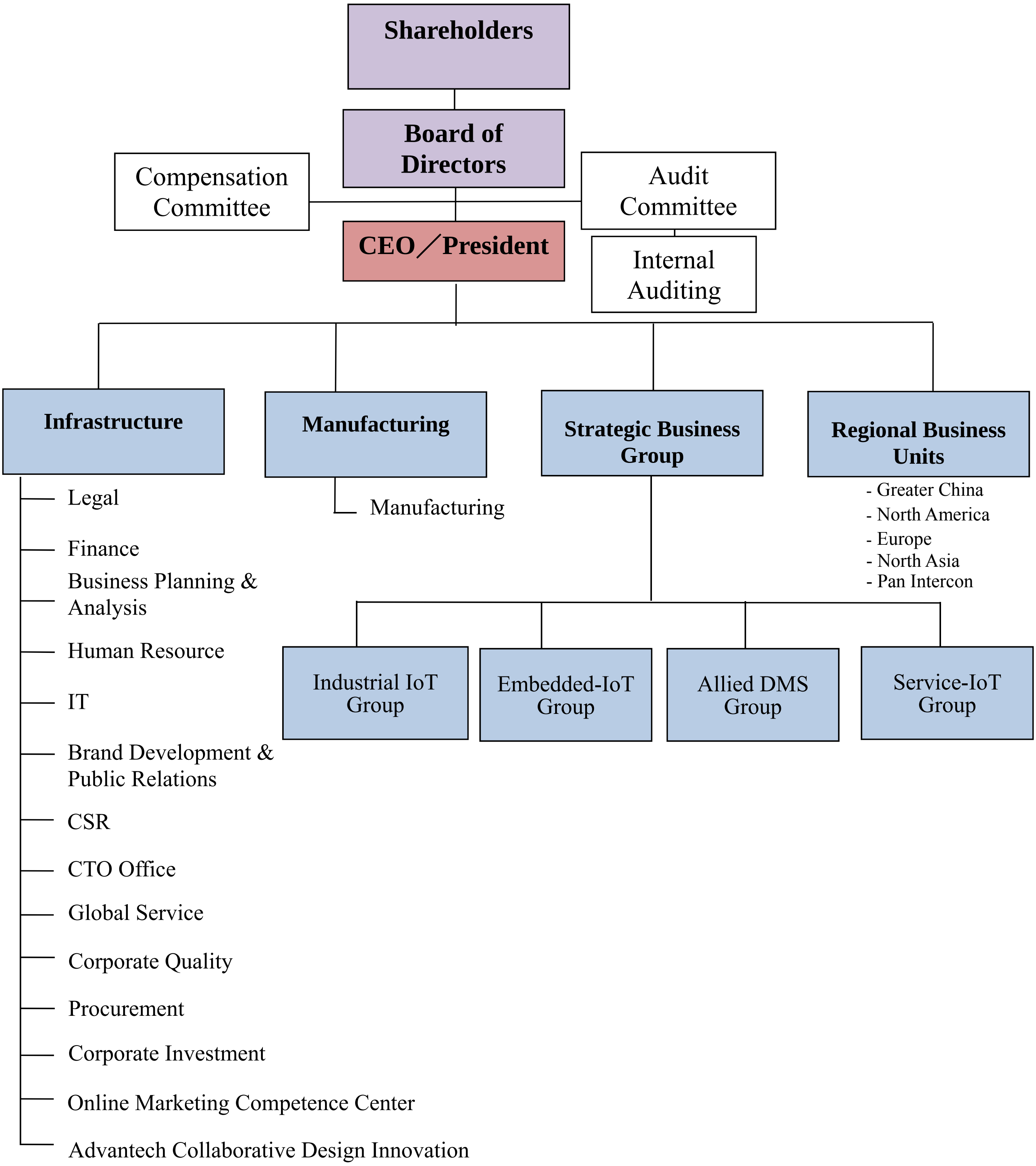
Advantech Linkou Industrial Park Stage II construction will be completed at the end of October officially.

Advantech announced it will acquire a 60% stake in South Korea's medical display company Kostec.

# III. Corporate Government Report

I. Organization

（1） Structure



(2) Responsibilities major functions

| Main Department | Main Responsibilities |
|---|---|
| Internal Auditing | Review the design, operation and effectiveness of the Internal Control System, perform internal audit per approved plan and provide a management view of control status and corporate governance. |
| Legal | 1. Review contracts and agreements<br>2. Handle company's lawsuits and disputes<br>3. Provide internal legal trainings and legal opinions<br>4. Handle company's Intellectual Property Right issue. |
| Finance | 1. Responsible for budgeting, accounting, financial report, variance analysis; planning, management and control of tax administration, finance, and stock affairs.<br>2. Domestic and oversea financial statement preparation and analysis.<br>3. Operating performance of oversea investment<br>4. Cash flow management |
| Business Planning & Analysis | Development and analyzing of a corporate strategy, development and monitoring of business performance indicators and trends, assisting management team to build up annual plans and special projects. |
| Human Resource | 1. Work with corporate and business leaders to develop and execute human resources strategies.<br>2. Enhance employee satisfaction and employer brand.<br>3. Establish human resources policies and compensation structure; develop and execute talent recruiting, training and empowerment.<br>4. Develop employees' core competencies, and enhance organization capability. |
| IT | 1. Information technology execution and management.<br>2. Crucial technology implementation and professional technical services. |
| Brand Development & Public Relations | 1. Global branding promotion and company identity system.<br>2. Global branding marketing campaigns coordination and related marketing collaterals production.<br>3. Company's public relations. |
| CSR | Focus on "Enterprise-academic Collaboration", "Social care" and "employee care" to contribute to the society. |
| CTO Office | Manage innovation platform, build shared software platform and develop core modules. |
| Global Service | Manage Advantech worldwide service centers to provide one-stop global services and total solutions, including design, manufacture, quality management, procurement, logistics, assembly, repair and maintenance. |
| Corporate Quality | 1. Coordinate with related department, including RD, manufacturing, sales and after services, to ensure and enhance product quality, monitor and prevent major quality deviation.<br>2. Develop and implement company quality assurance system, to meet and satisfy the needs of customer and ISO requirements.<br>3. Design process control to assure design quality in product development phase.<br>4. Evaluate and apply product regulations.<br>5. Monitor and enhance quality of products of factory and supply chains.<br>6. Plan and implement customer services, and establish global services strategies to provide real-time service. |
| Procurement | 1. Negotiate and purchase required components and equipment .<br>2. Develop new vendors of components and equipment in response to rapid changing technology evolution. |

| | |
|---|---|
| Corporate Investment | Develop corporate investment roadmap based on corporate strategy, and define project management guidelines. Proactively and passively look for corporate investment and M&A opportunities with discipline and focus, properly execute investment strategy and evaluate the potential targets. The goal is to complete strategic business porfolio and to enhance growth momentum. |
| OMCC (Online Marketing Competence Center) | Expending digital marketing channels and methodologies toward the target sector market communication, and leverage the big data analysis to achieve the automatic marketing intelligence. |
| ACDI (Advantech Collaborative Design Innovation) | 1.Collaboration of corporate design functions to achieve consistent design, style, and image for brand name.<br>2.Integration and optimization of both internal and external design resources. |
| Manufacturing | Setting annual production goal and progress control; manage manufacturing, production, material control and logistic support. |
| Industrial IoT Group | Focus on General IIoT, Industrial Equipment Manufacturing (IEM), Intelligent Factory (iFactory), Energy and Environment (E&E), Transportation and Industrial Networking (iNetworking) sectors and applications to be responsible for the sales of industrial IoT products and solution ready platforms related to marketing, research & development, manufacture and implementation of solutions sales and integrated solutions to clients. |
| Embedded-IoT Group | As a global leader of the embedded computing market, Advantech Embedded-IoT Group not only offers a wide range of embedded design-in services but also provides diverse integrated IoT solutions that assist customers with IoT adoption while minimizing uncertainty and risk. Advantech’s integrated IoT solutions include sensor nodes, gateways, Edge Intelligence Server (EIS), and the WISE-PaaS IoT software platform. |
| Allied DMS Group | Allied Advantech design, manufacture, procurement and supply embedded computing modules and systems to enterprises, system integrators and communication service providers supplying solutions in verticals such as video broadcasting, cybersecurity, enterprise networking, telecommunications, mobile edge computing, healthcare, retail, gaming and fleet management. |
| Service-IoT Group | Provide product development, production, marketing and sales of computers of vertical applications and software integration solutions to clients, in three vertical domains: Digital Healthcare, Intelligent Retail and Hospitality, and Digital Logistics and Fleet management. |

## II、Information regarding directors, supervisors, management team and branch managers

（1）Information regarding directors and supervisors

### Information regarding directors and supervisors

March 28, 2017

| Title | Nationality | Name | Date elected (taken office) | Term of office | First elected | Shareholding when elected | | Current shareholding | | Spouse and minor children's current shareholdings | | Shareholding by nominee arrangement | | Education and selected past positions | Current additional positions | Other heads, directors, or supervisors as spouse or kin within the second degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship |
| Chairman | ROC | K.C. Liu | 06.18.2014 | 3years | 11.11.1985 | 21,185,897 | 3.71 | 23,292,484 | 3.68 | 1,221,672 | 0.19 | 0 | 0 | Founder of Advantech: Former salesman of Instruments Dept. of Hewlett-Packard; Department of Telecommunications Engineering, National Chiao Tung University | Note 1 | None | None | None |
| Director | ROC | Advantech Foundation. | 06.18.2014 | 3years | 06.18.2014 | 16,594,810 | 2.90 | 18,244,889 | 2.88 | 0 | 0 | 0 | 0 | President of Greater China of 3M | None | None | None | None |
| | | Representative Donald Chang | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | |
| Director | ROC | Ted Hsu | 06.18.2014 | 3years | 05.25.2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Chief Strategy Officer of ASUSTeK EMBA，National Chiao Tung University | Note 2 | None | None | None |
| Independent director | ROC | Jeff Chen | 06.18.2014 | 3years | 06.18.2014 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | VP of Stanley Black & Decker and President of Asia Region | None | None | None | None |
| Independent director | ROC | Joseph Yu | 06.18.2014 | 3years | 05.25.2011 | 227 | 0 | 249 | 0 | 0 | 0 | 0 | 0 | PhD of Business Administration, University of Michigan Professor, Department of Business Administration, National Chengchi University | Note 3 | None | None | None |
| Supervisor | ROC | AIDC Investment Coorp. | 06.18.2014 | 3 years | 06.18.2014 | 67,886,113 | 11.88 | 74,636,266 | 11.79 | 0 | 0 | 0 | 0 | Former Finance Officer of TSMC; Finance Officer of Foxconn Electronics University of Missouri – Columbia, MBA | Note 4 | None | None | None |
| | | Representative Gary Tseng | | | | 0 | 0 | 172,326 | 0.03 | 0 | 0 | 0 | 0 | | | | | |
| Supervisor | ROC | Thomas Chen | 06.18.2014 | 3years | 06.18.2014 | 537,516 | 0.09 | 543,963 | 0.09 | 0 | 0 | 0 | 0 | Former President of Advantech, USA; Indiana University MBA | Note 5 | None | None | None |
| Supervisor | ROC | James Wu | 06.18.2014 | 3yearss | 05.24.2005 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Chairman of KPMG Bachelor of Law, Department of Economics, National Chung Hsing University | Note 6 | None | None | None |

**Note 1: Simultaneously act as the chairman of the following companies:**

Advantech Foundation、Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)、Advantech Investment Fund-A Co., Ltd. Representative、Advanixs Corporation.Representative.、Advantech Technology (China) Company Ltd. (AKMC)、Shanghai Advantech Intelligent Services Co., Ltd. (AiSC)、Xi'an Advantech Software Ltd. (AXA)、Advantech Intelligent Service (AiST) Representative、K&M Imvestment Co.,Ltd.、AdvanPOS Technology Co., Ltd. (AdvanPOS) Representative、Advantech-LNC Technology Co., Ltd. (ALNC) Representative、Advanixs Kun Shan Corporation、Aimobile Co., Ltd.、Advantech Japan Co., Ltd. (AJP)、B+B Smartworx Inc.

**Simultaneously act as the director of the following companies:**

AIDC Investment Corp.、Spring Foundation of NCTU、Advantech Europe B.V.(AEU)、DLoG GmbH (DLoG)、ADVANTECH INTERNATIONAL PT. (AID)、Advantech Electronics,S. De R. L. De C. (AMX)、Advantech Technology Co., Ltd. (ATC)、HK Advantech Technology Co., Ltd. (ATC (HK))、Advantech

Automation Corp.(BVI) (AAC(BVI))、Advantech Automation Corp.(HK) Limited.(AAC (HK))、Advantech Co. Singapore Pte, Ltd. (ASG)、Advantech Corp.(ANA)、Advantech Europe Holding B.V.(AEUH)、Advantech Co., Malaysia Sdn.Bhd (AMY)、Advantech KR Co., Ltd. (AKR)、Advantech Corporation (Thailand) Co., Ltd (ATH)、and Advantech Industrial Computing India Private Limited (AIN)、Better Auto Holdings Limited、Famous Now Limited。

**Simultaneously act as the supervisor of the following companies:**

Moxa Technology Co., Ltd.

**Note 2: Simultaneously act as the chairman of the following companies:**

Eeizprise Inc.

**Simultaneously act as the director of the following companies:**

ASUSTeK、Asmedia Technology Inc.、Eusol Biotech Co.,Ltd.

**Note 3: Simultaneously act as the independent director of the following companies:**

Yuanta Securities Co., Ltd. and Yuanta Bank Co., Ltd.

**Note 4: Simultaneously act as the director of the following companies:** XAC Automation Corp., F-Universal Technology Co., Ltd.

**Simultaneously act as the supervisor of the following companies:**

**Note 5: Simultaneously act as the independent director of the following companies:**

SinoPac Holdings and Global Scientech Inc. Eink Holdings Inc.

**Note 6: Simultaneously act as the director of the following companies:** Finance and Economics Research and Education Foundation

**Simultaneously act as the independent director of the following companies:** LiteOn Technology Corp. Wistron Corporation.

(1)Major institutional shareholders

March 28, 2017 (stop transfer date)

| Institutional shareholders | Major shareholders of institutional shareholders (Note) |
|---|---|
| AIDC Investment Corp. | K.C. Liu<br>Mary Chang<br>Advantech Foundation |

Note: Name of the major shareholders of institutional shareholders (Top-10 shareholding ratio)

(2)Major shareholders of institutional shareholders: NA

## Information regarding directors and supervisor (II)

| Requirements / Name | Over five years of experience and the following professional qualifications | | | Independence criteria (Note) | | | | | | | | | | Serving as an independent director of another listed company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | University teaching in areas of commerce, law, finance, accounting or related corporate business | Working as a judge, attorney, lawyer, accountant or other positions that require professional certification | Work experience in commerce, law, finance, accounting or related corporate experiences | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| K.C. Liu | | | ✓ | | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | 0 |
| Donald Chang | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |
| Ted Hsu | | | ✓ | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | 0 |
| Jeff Chen | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Joseph Yu | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| Thomas Chen | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| James Wu | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| Gary Tseng | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 1 |

Note: A "✓" is marked in the space beneath a condition number when a director or supervisor has met that condition during the two years prior to election and during his or her period of service; the conditions are as follows:

(1) Not employed by the company or an affiliated business.

(2) Not a director or supervisor of an affiliated company (this restriction does not apply to independent directors of subsidiaries in which the company or its parent company directly or indirectly holds over 50% of the shareholder voting rights).

(3) Not holding over 1% of company shares or being a top 10 natural person shareholder in one's own name, held by a spouse or underage child, or held by nominee agreement.

(4) Neither a spouse, second-degree relative, nor fifth degree direct relative of the persons listed under the previous three items.

(5) Neither a director, supervisor or employee of an institutional shareholder directly owning more than 5% of the company's outstanding shares, nor one of the company's top five institutional shareholders.

(6) Neither a director, supervisor, manager or shareholder holding more than a 5% stake in certain companies or institutions that have a financial or business relationship with the company.

(7) Does not provide professional commercial, legal, financial, accounting services or consulting to the company or its affiliated companies nor is an owner, partner, director, supervisor, manager in a proprietorship, partnership, company or institution that provides neither such services nor the spouse of such officeholders.

(8) Not a spouse or second-degree relative of any other director.

(9) Standing does not match any of the scenarios described in Article 30 of the Company Law.

(10) Was not elected as the shareholder representative for a government agency or legal person pursuant to Article 27 of the Company Law.

（2）Information regarding the President, Vice President, Assistant Vice Presidents, and department and branch Managers

March 28, 2017

| Title | Nationality | Name | Date elected (taken office) | Shareholding | | Shareholdings by spouse and underage children | | Shareholding by nominee arrangement | | Education and selected past positions | Current additional positions | Spouse or relatives within two degrees who are managers | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship |
| Chairman | ROC | K.C. Liu | 06.01.2003 | 23,292,484 | 3.68 | 1,221,672 | 0.19 | 0 | 0 | Founder of Advantech Co., Ltd.<br>Salesman of Instruments Dept. of Hewlett-Packard<br>Department of Telecommunications Engineering, National Chiao Tung University | Note 1 | None | None | None |
| President | ROC | Chaney Ho | 05.01.2004 | 61,011 | 0.01 | 159,630 | 0.03 | 0 | 0 | President of Li-Wei Company<br>Tatung Institute of Technology | Note 2 | None | None | None |
| Vice President | ROC | Deyu Yin | 09.30.2004 | 0 | 0 | 313,828 | 0.05 | 0 | 0 | Director of Human Resources, Delta Group<br>Bachelor of Economics, National Taiwan University<br>Tulane University EMBA | None 3 | None | None | None |
| Vice President | ROC | Albert Huang | 09.30.2004 | 63,947 | 0.01 | 0 | 0 | 0 | 0 | Project Manager of Ju Teng Technology<br>Institute of Management Science, Tamkang University | None5 | None | None | None |
| Vice President | ROC | Eric Chen | 11.18.2011 | 143,837 | 0.02 | 0 | 0 | 0 | 0 | Elitegroup Computer Systems Co., Ltd.<br>Tai Sen Enterprise Co., Ltd.<br>Department of Computer Science, Tamkang University | Note 4 | None | None | None |
| Accounting Officer | ROC | Rorie Kang | 04.13.2011 | 3,409 | 0 | 0 | 0 | 0 | 0 | Affiliates of Advantech Group Senior Accountant<br>Department of Accounting, Chung Hsing University | None | None | None | None |

**Note 1: Simultaneously act as the chairman of the following companies:**

Advantech Foundation、Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)、Advantech Investment Fund-A Co., Ltd. Representative、 Advanixs Corporation.Representative.、Advantech Technology (China) Company Ltd. (AKMC)、Shanghai Advantech Intelligent Services Co., Ltd. (AiSC)、Xi'an Advantech Software Ltd. (AXA)、Advantech Intelligent Service (AiST) Representative、K&M Imvestment Co.,Ltd.、AdvanPOS Technology Co., Ltd. (AdvanPOS) Representative、Advantech-LNC Technology Co., Ltd. (ALNC) Representative、Advanixs Kun Shan Corporation、Aimobile Co., Ltd.、Advantech Japan Co., Ltd. (AJP)、B+B Smartworx Inc.

**Simultaneously act as the director of the following companies:**

AIDC Investment Corp.、Spring Foundation of NCTU、Advantech Europe B.V.(AEU)、DLoG GmbH (DLoG)、ADVANTECH INTERNATIONAL PT. (AID)、Advantech Electronics,S. De R. L. De C. (AMX)、Advantech Technology Co., Ltd. (ATC)、HK Advantech Technology Co., Ltd. (ATC (HK))、Advantech Automation Corp.(BVI) (AAC(BVI))、Advantech Automation Corp.(HK) Limited.(AAC (HK))、Advantech Co. Singapore Pte, Ltd. (ASG)、Advantech Corp.(ANA)、Advantech Europe Holding B.V.(AEUH)、Advantech Co., Malaysia Sdn.Bhd (AMY)、Advantech KR Co., Ltd. (AKR)、Advantech Corporation (Thailand) Co., Ltd (ATH)、and Advantech Industrial Computing India Private Limited (AIN)、Better Auto Holdings Limited、Famous Now Limited。

**Simultaneously act as the supervisor of the following companies:**

Moxa Technology Co., Ltd.

**Note 2: Simultaneously act as the chairman of the following companies:**

Advantech Innovative Design Co., Ltd.

**Simultaneously act as the director of the following companies:**

Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.(ACN)、Shanghai Advantech Intelligent Services Co., Ltd.(AiSC)、Advantech Technology (China) Company Ltd.(AKMC)、Advantech Co., Malaysia Sdn.Bhd (AMY)、Advantech KR Co., Ltd. (AKR)、Advantech Industrial Computing India Private Limited (AIN)。

**Note 3: Simultaneously act as the director of the following companies:**

Advantech Investment Fund-A Co., Ltd.、Advanixs Corporation.、Advantech InnoCo Design Co., Ltd.

**Simultaneously act as the supervisor of the following companies:** Advantech Intelligent Services Co., Ltd.(AiSC).

**Note 4: Simultaneously act as the director of the following companies:**

Advantech Intelligent Service、Advantech InnoCo Design Co., Ltd.

**Note 5:** Albert Huang has been in October 2016 Position adjustment.

## （3）Remuneration paid to Directors, Supervisors, Presidents, and Vice Presidents in the most recent year

### (1) Remuneration paid to Directors (including Independent Directors)

Unit: NT$ Thousand

| Title | Name | Directors' remuneration | | | | | | | | Combined A, B,C, and D total compensation as % of net income after tax (Note 10) | | Remuneration paid to directors who also employees | | | | | | | | Combined A, B, C, D,E,F, and G total amount as % of net income after tax (Note 10) | | Compensation from non-subsidiary companies (Note11) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Compensation (A) (Note 2) | | Pension upon retirement (B) | | Compensation to Directors(C) | | Business expenses (D)(Note 4) | | | | Salary, bonus and special discretionary allowance (E) (Note 5) | | Pension upon retirement (F) | | Employee profit sharing (G) (Note 6) (proposed) | | | | | | |
| | | | | | | | | | | | | | | | | Advantech | | Consolidated subsidiaries (Note 7) | | | | |
| | | Advantech | Consolidated subsidiaries (Note 7*) | Advantech | Consolidated subsidiaries (Note 7) | Advantech | Consolidated subsidiaries (Note 7) | Advantech | Consolidated subsidiaries (Note 7) | Advantech | Consolidated subsidiaries (Note 7) | Advantech | Consolidated subsidiaries (Note 7) | Advantech | Consolidated subsidiaries (Note 7) | Cash | Stock | Cash | Stock | Advantech | Consolidated subsidiaries (Note 7) | |
| Chairman | K.C.Liu | 0 | 0 | 0 | 0 | 7,687 | 7,687 | 0 | 0 | 0.14% | 0.14% | 3,770 | 3,770 | 0 | 0 | 2,422 | 0 | 2,422 | 0 | 0.24% | 0.24% | 0 |
| Independent Director | Advantech Foundation Representati Donald Chang | | | | | | | | | | | | | | | | | | | | | |
| Director | Ted Hsu | | | | | | | | | | | | | | | | | | | | | |
| Director | Jeff Chen | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Joseph Yu | | | | | | | | | | | | | | | | | | | | | |

## Range of Remuneration

| Range of remuneration paid to Directors of Advantech | Names of Directors | | | |
|---|---|---|---|---|
| | First four categories of remuneration (A+B+C+D) | | First seven categories of remuneration (A+B+C+D+E+F+G) | |
| | Advantech (Note 9) | Consolidated subsidiaries (Note 10) I | Advantech (Note 9) | Consolidated subsidiaries (Note 10) J |
| Less than NT$2,000,000 | Advantech Foundation, Ted Hsu, Jeff Chen, Joseph Yu, Donald Chang | Advantech Foundation, Ted Hsu, Jeff Chen, Joseph Yu, Donald Chang | Advantech Foundation, Ted Hsu, Jeff Chen, Joseph Yu, Donald Chang | Advantech Foundation, Ted Hsu, Jeff Chen, Joseph Yu, Donald Chang |
| NT$2,000,000 (inclusive) – NT$5,000,000 | K.C. Liu | K.C. Liu | - | - |
| NT$5,000,000 (inclusive) – NT$10,000,000 | - | - | K.C. Liu | K.C. Liu |
| NT$10,000,000 (inclusive) – NT$15,000,000 | - | - | - | - |
| NT$15,000,000 (inclusive) – NT$30,000,000 | - | - | - | - |
| NT$30,000,000 (inclusive) – NT$50,000,000 | - | - | - | - |
| NT$50,000,000 (inclusive) – NT$100,000,000 | - | - | - | - |
| More than NT$100,000,000 | - | - | - | - |
| Total | - | - | - | - |
| | 6 | 6 | 6 | 6 |

Note 1: Illustrate the name of each director (the institutional shareholder and its representative should be illustrated separately) and disclose the payment amount in a lump sum. Please fill out this form and form (3-1) or (3-2) for the director who is also the President or Vice President of the Company.

Note 2: Refers to the remuneration (including director salary, duty allowances, severance pay, various bonuses, incentives, etc.) paid to the directors in the most recent year.

Note 3: Refers to the remuneration to directors from the earnings of the most recent year proposed and approved by the board of directors prior to the shareholders' meeting.

Note 4: Refers to the relevant business expenses of the directors in the most recent year (including traveling expenses, special expenses, allowances, dormitories, and transportation vehicles). For the housing, automobiles and other transportation vehicles, or the exclusive personal expenses provided, the nature and cost of the assets, the actual or imputed rent at fair market value, the gasoline expense, and other payments should be disclosed. In addition, for the chauffeur appointed, please explain in the notes regarding the remuneration paid but the amount will not be included in the total remuneration amount.

Note 5: Refers to the salary, job allowance, severance pay, resignation compensation, prize money, incentive payments, traveling expenses, special expenses, allowances, dormitories, and transportation vehicles paid to the directors who are also employees (including concurrent President, Vice President, other managers, and employees) in the most recent year. For the housing, automobiles and other transportation vehicles, or the exclusive personal expenses provided, the nature and cost of the assets, the actual or imputed rent at fair market value, the gasoline expense, and other payments should be disclosed. In addition, for the chauffeur appointed, please explain in the notes regarding the remuneration paid but the amount will not be included in the total remuneration amount.

Note 6: Refers to the employee bonuses (including stock dividend and cash dividend) paid to the directors who are also employees (including concurrent President, Vice President, other managers, and employees) in the most recent year. The employee bonus amount from the earnings of the most recent year proposed and approved by the board of directors prior to the shareholders' meeting should be disclosed. If the distribution amount of the current year cannot be estimated, it is to base on the amount distributed in the prior year proportionally with Table 1-3 filled out.

Note 7: Refers to the number of shares (excluding the portion executed) to be subscribed by the directors who are also employees (including concurrent President, Vice President, other managers, and employees) with stock options in the most recent year and up to the publication of the annual report. In addition to this form, please fill out Table 15.

Note 8: The remuneration amount paid to the board directors of Advantech by the companies (including Advantech) in the consolidated report should be disclosed.

Note 9: Disclose the name of the directors in the respective range of remuneration paid by the Company.

Note 10: Disclose the name of the directors in the respective range of remuneration paid by all the companies (including the Company) in the consolidated financial report.

Note 11: Net income meant for the net profit after tax in the most recent year. For those companies with the international financial reporting standard adopted, net income meant for the net income after tax in the proprietary or individual financial report of the most recent year.

Note 12: a.The remuneration amount received by the board directors from the invested companies other than the subsidiaries should be disclosed in this column.

b.The remuneration amount, if any, received by the board directors from the invested companies other than the subsidiaries should be disclosed in column J of the Range of Remuneration; also, the column should be renamed as "All transfer-investment businesses."

c.Remuneration meant for the relevant reward, income, employee bonus, and business expense collected by the board directors of the Company acted as a director, supervisor, or manager of the invested companies other than the subsidiaries.

Note 13: Refers to the number of news shares with limited rights received by the directors who are also employees (including concurrent President, Vice President, other managers, and employees) up to the publication of the annual report. In addition to this form, please fill out Table 15-1.

∗The remuneration disclosed in the Range of Remuneration differs from the concept of income defined according to Income Tax Law; therefore, the table is for the purpose of information disclosure instead of tax levy.

## (2)Remuneration paid to supervisor

Unit: NT$ Thousand

| Title | Name | Compensation paid to supervisor | | | | | | Combined A, B, and C total amount as % of net income after tax (Note 8) | | Compensation from non-subsidiary companies (Note 9) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remuneration (A) (Note 2) | | Profit distribution (B) (Note 3) | | Business expenses (C)(Note 4) | | | | |
| | | Advantech | Consolidated subsidiaries (Note5) | Advantech | Consolidated subsidiaries (Note 5) | Advantech | Consolidated subsidiaries (Note 5) | Advantech | Consolidated subsidiaries (Note 5) | |
| Supervisor | AIDC Investment Corp. | 0 | 0 | 4,612 | 4,612 | 0 | 0 | 0.08% | 0.08% | 0 |
| | Representative: Gary Tseng | | | | | | | | | |
| Supervisor | Thomas Chen | | | | | | | | | |
| Supervisor | James Wu | | | | | | | | | |

Range of remuneration

| Range of remuneration paid to supervisors of Advantech | Name of supervisors | |
|---|---|---|
| | First three categories of remuneration (A+B+C) | |
| | Advantech (Note 6) | Consolidated subsidiaries (Note 7) D |
| Less than NT$2,000,000 | AIDC Investment Corp, Thomas Chen, James Wu, Gary Tseng | AIDC Investment Corp, Thomas Chen , James Wu ,Gary Tseng |
| NT$2,000,000 (inclusive) – NT$5,000,000 | - | - |
| NT$5,000,000 (inclusive) – NT$10,000,000 | - | - |
| NT$10,000,000 (inclusive) – NT$15,000,000 | - | - |
| NT$15,000,000 (inclusive) – NT$30,000,000 | - | - |
| NT$30,000,000 (inclusive) – NT$50,000,000 | - | - |
| NT$50,000,000 (inclusive) – NT$100,000,000 | - | - |
| More than NT$100,000,000 | - | - |
| Total | 4 | 4 |

Note 1: Illustrate the name of each supervisor (the institutional shareholder and its representative should be illustrated separately) and disclose the payment amount in a lump sum.
Note 2: Refers to the remuneration (including supervisor salary, duty allowances, severance pay, various bonuses, incentives, etc.) paid to the supervisors in the most recent year.
Note 3: Refers to the remuneration to supervisors from the earnings of the most recent year proposed and approved by the board of directors prior to the shareholders' meeting.
Note 4: Refers to the relevant business expenses of the supervisors in the most recent year (including traveling expenses, special expenses, allowances, dormitories, and transportation vehicles). For the housing, automobiles and other transportation vehicles, or the exclusive personal expenses provided, the nature and cost of the assets, the actual or imputed rent at fair market value, the gasoline expense, and other payments should be disclosed. In addition, for the chauffeur appointed, please explain in the notes regarding the remuneration paid but the amount will not be included in the total remuneration amount.
Note 5: The remuneration amount paid to the supervisors of Advantech by the companies (including Advantech) in the consolidated report should be disclosed.
Note 6: Disclose the name of the supervisors in the respective range of remuneration paid by the Company.
Note 7: Disclose the name of the supervisors in the respective range of remuneration paid by all the companies (including the Company) in the consolidated financial report.
Note 8: Net income meant for the net profit after tax in the most recent year. For those companies with the international financial reporting standard adopted, net income meant for the net income after tax in the proprietary or individual financial report of the most recent year.
Note 9:a. The remuneration amount received by the supervisors from the invested companies other than the subsidiaries should be disclosed in this column.
b.The remuneration amount, if any, received by the supervisors from the invested companies other than the subsidiaries should be disclosed in column D of the Range of Remuneration; also, the columnshould be renamed as "All transfer-investment businesses."
c. Remuneration meant for the relevant reward, income, employee bonus, and business expense collected by the supervisors of the Company acted as a director, supervisor, or manager of the invested companies other than the subsidiaries.

＊The remuneration disclosed in the Range of Remuneration differs from the concept of income defined according to Income Tax Law; therefore, the table is for the purpose of information disclosure instead of tax levy.

## (3)Remuneration paid to the presidents and vice presidents

Unit: NT$ Thousand / Thousand units

| Title | Name | Salary (A) (Note 2) | | Pension upon retirement (B) | | Cash incentives and special discretionary allowance etc. (C) (Note 3) | | Employees' Profit Sharing (D) (Note 4) | | | | Combined A, B, C, and D total remuneration in % of net income (Note 9) | | Compensation from non-subsidiary companies (Note 10) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Advantech | Consolidated subsidiaries (Note 6) | Advantech | Consolidated subsidiaries (Note 6) | Advantech | Consolidated subsidiaries (Note 6) | Advantech | | Consolidated subsidiaries (Note 6) | | Advantech | Consolidated subsidiaries (Note 6) | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chairman | K.C. Liu | 14,088 | 14,088 | 0 | 0 | 1,154 | 1,154 | 10,279 | 0 | 10,279 | 0 | 0.45% | 0.45% | 0 |
| President | Chaney Ho | | | | | | | | | | | | | |
| Vice President | Deyu Yin | | | | | | | | | | | | | |
| Vice President | Albert Huang | | | | | | | | | | | | | |
| Vice President | Eric Chen | | | | | | | | | | | | | |

## Range of Remuneration

| Range of remuneration paid to the President and Vice Presidents of Advantech | Name of the President and Vice President | |
|---|---|---|
| | Advantech (Note 6) | Consolidated subsidiaries (Note 7) E |
| Less than NT$2,000,000 | - | - |
| NT$2,000,000 (inclusive) – NT$5,000,000 | - | - |
| NT$5,000,000 (inclusive) – NT$10,000,000 | K .C. Liu, Chaney Ho, Deyu Yin, Albert Huang, Eric Chen | K.C. Liu, Chaney Ho, Deyu Yin, Albert Huang, Eric Chen |
| NT$10,000,000 (inclusive) – NT$15,000,000 | - | - |
| NT$15,000,000 (inclusive) – NT$30,000,000 | - | - |
| NT$30,000,000 (inclusive) – NT$50,000,000 | - | - |
| NT$50,000,000 (inclusive) – NT$100,000,000 | - | - |
| More than NT$100,000,000 | - | - |
| Total | 5 | 5 |

Note 1: Illustrate the name of the President and Vice President and disclose the payment amount itemized. Please fill out this form and form (1-1) or (1-2) for the director who is also the President or Vice President of the Company.

Note 2: Refers to the salary, duty allowances, and severance paid to the President and Vice President in the most recent year.

Note 3: Refers to the reward, incentives, traveling expenses, special expenses, allowances, dormitories, transportation vehicles, and other compensations paid to the President and Vice President in the most recent year. For the housing, automobiles and other transportation vehicles, or the exclusive personal expenses provided, the nature and cost of the assets, the actual or imputed rent at fair market value, the gasoline expense, and other payments should be disclosed. In addition, for the chauffeur appointed, please explain in the notes regarding the remuneration paid but theamount will not be included in the total remuneration amount.

Note 4: Refers to the employee bonus (including stock dividend and cash dividend) to the President and Vice President from the earnings of the most recent year proposed and approved by the board of directors prior to the shareholders' meeting. If the distribution amount of the current year cannot be estimated, it is to base on the amount distributed in the prior year proportionally with Table 1-3 filled out.

Net income meant for the net profit after tax in the most recent year. For those companies with the international financial reporting standard adopted, net income meant for the net income after tax in theproprietary or individual financial report of the most recent year.

Note 5: Refers to the number of shares (excluding the portion executed) to be subscribed by the President and Vice President with stock options in the most recent year and up to the publication of the annual report. In addition to this form, please fill out Table 15.

Note 6: Disclose the itemized amount paid to the President and Vice President by all the companies (including the Company) in the consolidated financial statements.

Note 7: Disclose the name of the President and Vice President in the respective range of remuneration paid by the Company.

Note 8: Disclose the name of the President and Vice President in the respective range of remuneration paid by all the companies (including the Company) in the consolidated financial report.

Note 9: Net income meant for the net profit after tax in the most recent year. For those companies with the international financial reporting standard adopted, net income meant for the net income after tax in the proprietary or individual financial report of the most recent year.

Note 10: a.The remuneration amount received by the President and Vice President from the invested companies other than the subsidiaries should be disclosed in this column.

b.The remuneration amount, if any, received by the President and Vice President from the invested companies other than the subsidiaries should be disclosed in column E of the Range of Remuneration and the column should be renamed as "All transfer-investment businesses."

c. Remuneration meant for the relevant reward, income, employee bonus, and business expense collected by the President and Vice President of the Company acted as a director, supervisor, or manager of the invested companies other than the subsidiaries.

Note 11: Refers to the number of news shares with limited rights received by the directors who are also employees (including concurrent President, Vice President, other managers, and employees) up to the publication of the annual report. In addition to this form, please fill out Table 15-1.

＊he remuneration disclosed in the Range of Remuneration differs from the concept of income defined according to Income Tax Law; therefore, the table is for the purpose of information disclosure instead of tax levy.

<u>Employee Compensation amount paid to managers</u>

March 28, 2017

<table>
<tr><th></th><th>Title (Note 1)</th><th>Name (Note 1)</th><th>Stock bonus amount (proposed)</th><th>Cash bonus amount (proposed)</th><th>Total</th><th>Total as % of net income after tax</th></tr>
<tr><td rowspan="6">Manager</td><td>Chairman</td><td>K.C. Liu</td><td rowspan="6">0</td><td rowspan="6">10,359</td><td rowspan="6">10,359</td><td rowspan="6">0.18%</td></tr>
<tr><td>President</td><td>Chaney Ho</td></tr>
<tr><td>Vice President</td><td>Deyu Yin</td></tr>
<tr><td>Vice President</td><td>Albert Huang (Note 4)</td></tr>
<tr><td>Vice President</td><td>Eric Chen</td></tr>
<tr><td>Accounting Officer</td><td>Rorie Kang</td></tr>
</table>

＊It refers to the employee Compensation (including stock dividend and cash dividend) to the managers from the earnings of the most recent year proposed and approved by the board of directors prior to the shareholders' meeting. If the distribution amount of the current year cannot be estimated, it is to base on the amount distributed in the prior year proportionally. Net income meant for the net profit after tax in the most recent year.

Note 1: Illustrate the name and job title of each manager and disclose the distribution of earnings in a lump sum.

Note 2: Scope of applicability to managers, according to the Tai.Chai.Chen III Tzi No. 0920001301 Letter dated March 27, 2003 by the Commission, is as follows:

(1)President and the equals
(2)Vice President and the equals
(3)Junior VP and the equals
(4)Finance Officer
(5)Accounting Officer
(6)Other authorized personnel for management and signature

Note 3: For the directors, President, and Vice President who have collected employee Compensation (including stock dividend and cash dividend), in addition to Table 1-2 enclosed, please fill out this form.

Note 4:Albert Huang has been in October 2016 position adjustment.

（4）Analyze the ratio of the total remuneration paid to the Company's directors, supervisors, President, and Vice President in the last two years by the Company and all the consolidated subsidiaries to the net income in the proprietary or individual financial report. Explain the remuneration policy, standards, and combinations, remuneration determination procedures, and the relevance of operating performance and future risks.

1.Analysis of total compensation paid to directors, supervisors, presidents, and vice presidents as a percentage of net income in the last two years:

| Job Title | Ratio of 2016 total remuneration to net income (%) | | Ratio of 2015 total remuneration to net income (%) | |
|---|---|---|---|---|
| Directors, supervisor, President, and Vice President | Advantech | All consolidated subsidiaries | Advantech | All consolidated subsidiaries |
| | 0.78% | 0.78% | 0.97% | 0.97% |

2.The Company's remuneration policy, standards, and combinations, remuneration determination procedures, and the relevance of operating performance and future risks.

The Company has the remuneration to the directors, supervisors, and managers paid in accordance with the Company's remuneration policy after the Remuneration Committee's referring to the general standards of the industry, the corporate performance, individual performance, and the connection and reasonability of future risks; also, the Board of Directors' considering the remuneration amount, payment method, the Company's future risks, and presenting for resolutions in the shareholders' meeting.

## III. Corporate governance practices and status of compliance

### (一) Operations of the Board of Directors

The Board held 10 meetings (A) in 2016 with the attendance record of Board members as follows:

| Title | Name (Note 1) | Actual attendance (B) | Attendance by proxy | Actual attendance rate (%) (B/A) | Remarks |
|---|---|---|---|---|---|
| Chairman | K.C. Liu | 10 | 0 | 100% | |
| Director | Advantech Foundation: Representative: Donald Chang | 8 | 2 | 80% | |
| Director | Ted Hsu | 8 | 2 | 80% | |
| Independent director | Joseph Yu | 10 | 0 | 100% | |
| Independent director | Jeff Chen | 10 | 0 | 100% | |

Other required information:

1. Concerning items listed in Article 14-3 of the Securities Exchange Act as well as items in board resolutions regarding which independent directors have voiced opposing or qualified opinions on the record or in writing, the board meeting date, period, content of the resolution, opinions of all independent directors, and the company's handling of the opinions of the independent directors should be clearly stated in the minutes of meeting: None.
2. When a director recuses himself or herself from a resolution, the director's name, content of the resolution, reason for recusal, and participation in voting should be clearly stated in the minutes of meeting: None
3. Assessment of the goals and implementation of strengthening the functions of the board of directors (such as, the establishment of an Audit Committee and increasing information transparency, etc.) during the current year and previous year:

In order to substantiate corporate governance and strengthen the role of the board of directors, the Company had two independent directors appointed in accordance with Article 14-2 of the Securities Exchange Act; also, an Audit Committee was formed in September 2011 to help the board of directors implement the remuneration management function.

(二) Operations of the Audit Committee and the participation of supervisors in the Board operation:

1. Participation of supervisors in the Board operation

The Board held 10 meetings (A) in 2016 with the attendance record of supervisors as follows:

| Title | Name | Actual attendance (B) | Actual attendance rate (%) (B/A) | Remarks |
|---|---|---|---|---|
| Supervisor | AIDC Investment Corp. Representative : Gary Tseng | 9 | 90% | |
| Supervisor | Thomas Chen | 10 | 100% | |
| Supervisor | James Wu | 9 | 90% | |
| Other required information:<br>1. The composition and duties of supervisors:<br>(1) Communication between the supervisors and the staff and shareholders of the Company: Supervisor may communicate to the employees and shareholders directly when it is necessary.<br>(2) Communication between the supervisors and the internal chief auditor and accountant:<br>1) Chief auditor is to present the audit report to the supervisor in the following month of the audit competed.<br>2) Supervisors are to communicate the financial condition with the accountant in person or in writing on a quarterly basis.<br>2. Concerning the statement made by the supervisors in the board meeting, the board meeting date, period, content of the resolution, board resolutions, and the company's handling of the opinions of the supervisors should be clearly stated in the minutes of meeting: None. | | | | |

2. The operation of the Audit Committee: The Company did not have an Audit Committee set up; therefore, it is not applicable.

(三) The Company's implementation of corporate governance and its deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause

| Assessment Items | Operation | | | Deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 一、Does the Company base on the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" to set up and disclose the Company's corporate governance best-practice principles? | V | | The Company has based on the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" to set up and disclose the Company's corporate governance best-practice principles for guidelines on the MOPS. | None |
| 二、The Company's equity structure and shareholders' equity<br>（一）Does the Company have the internal procedures regulated to handle shareholders' proposals, doubts, disputes, and litigation matters; also, have the procedures implemented accordingly?<br>（二）Does the Company possess the list of the Company's major shareholders and the list of the ultimate controllers of the major shareholders?<br>（三）Does the Company establish and implement the risk control and firewall mechanism with the related parties?<br>（四）Does the Company set up internal norms to prohibit the insiders from utilizing the undisclosed information to trade securities? | V<br>V<br>V<br>V | | (一) The Company has a spokesperson, stock affairs supervisor, and associated person assigned to effectively handle shareholder's suggestions or disputes. Legal issues, if any, will be handled with the assistance of the legal affair personnel.<br>(二) Regularly disclose the pledge, increase or decrease of shareholding, or the occurrence of other events that may cause significant changes in the shares of the shareholders with over 10% shareholding; also, maintain a good relationship with the major shareholder at any time for control.<br>(三) The management responsibilities of the Company and the affiliated enterprises are clearly defined; also, business transactions are conducted in compliance with the Company's internal control system and the relevant requirements. For strengthening the control mechanism, the procedures for monitoring subsidiaries are regulated with proper risk control.<br>(四) The ADVANTECH worked out the "Procedure Preventing Insider Trading" for all employees, managers and board members, as well as those who know the information based on the occupation or control relation to prohibit any behaviors that could be involved in the insider trading, so that can protect the rights and interests of the investors and the ADVANTECH.The related information above is disclosed on our website. | None |

| Assessment Items | Operation | | | Deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 三、Composition and Responsibilities of the Board of Directors | | | | |
| (一) Does the Board of Directors have diversified policies regulated and implemented substantively according to the composition of the members? | V | | (一)The Company has the board directors diversification policy defined in the "Corporate Governance Best-Practice Principles." The Company's board members must be equipped with the finance and economics, accounting, regulatory and leadership, decision-making, and operational management abilities for performing job duties that is beneficial to the development and operations of the Company. | None |
| (二) Does the Company, in addition to setting the Remuneration Committee and Audit Committee lawfully, have other functional committee set up voluntarily? | V | | (二)The Company has the Remuneration Committee setup lawfully. The Company's corporate governance is operated by each department according to its specific job responsibilities. The Company does not have the Audit Committee and other functional committees set up, but will depend on the needs and assessment in the future to further decide. | |
| (三) Does the Company have the performance evaluation rules and methods for the Board of Directors regulated and have the performance evaluation performed regularly every year? | V | | (三) The Company has the "Rules Governing the Performance Evaluation of the Board of Directors" enacted with the performance evaluation of the internal committee performed once a year. The performance evaluation methods include the internal self-assessment of the Board of Directors and the self-assessment of board members with the self-assessment report and suggestions for improvement proposed to the Board of Directors. The 2016 performance evaluation of the Board of Directors was completed by the board directors with a self-assessment completed on March 06, 2017. | |
| (四) Does the Company have the independence of the public accountant evaluated regularly? | V | | (四)The ADVANTECH will periodically evaluate the independency of visa accountant via the following items, and report the results to the Board:<br>i. Independent declaration of accountant<br>ii.The Audit Committee will annually evaluate the | |

| Assessment Items | Operation | | | Deviating from the “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| | | | accountant qualifications, including the audit service and the professional capability, to ensure the non-auditing affairs will not influence the auditing results.<br>iii. The same accountant doesn’t continuously execute the visa service over seven years.<br>iv. The non-auditing items in 2015, such as the merger of B+B SmartWorx, Inc. is not authorized to the visa accountant for proving the reasonable price opinion, have conformed to the independency regulation. | |
| 四、Does the Company have established a communication channel for the stakeholders, set the stakeholder column on the Company’s website, and responded to the stakeholders regarding their concerns over corporate social responsibilities? | V | | (一)The Company has a spokesperson, stock affairs supervisor, and associated person assigned to establish a comprehensive communication channel, and regularly or irregularly held briefings to offer a face-to-face and comprehensive communication interface targeting on various issues and inquiries.<br>(二)The Company sets up the Advantech CSR website in English and the stakeholder section on the Company’s website. The Company also responds to the stakeholder’s concern over CSR issues through stakeholder questionnaire, notice of collection, website, and CSR reports. | None |
| 五、Does the Company have commissioned a professional stock affairs service agent to handle shareholders affairs? | V | | The Company commissioned a professional stock affairs service agent - KGI Securities Co., Ltd. Shareholder Service Department to handle the Company’s stock service matters, and with the “Guidelines for Handling of Stock Affairs” stipulated to regulate the relevant operations. | None |
| 六、Information disclosure<br>(一) Does the Company have a website setup and the financial business and corporate governance information disclosed?<br>(二) Does the Company have adopted other information disclosure methods (such as, establishing an English website, designating responsible person for collecting and disclosing information of the | V<br>V | | (一)The company profile and business information is disclosed in the Company’s website with the shareholder’s section setup to disclose financial information and corporate governance; also, to establish a communication channel for communicating to investors.<br>(二)The Company has information fully disclosed through the | None |

| Assessment Items | Operation | | | Deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| Company, substantiating the spokesman system, placing the juristic person seminar program on the Company's website, etc.)? | | | English website, assigning the Investor Relations Commissioner for information collection and disclosure, a clear spokesperson system, and the investor conference on the Company's website. | |
| 七、Are there any other important information (including but not limited to the interests of employees, employee care, investor relations, supplier relations, the rights of stakeholders, the continuing education of directors and supervisors, the implementation of risk management policies and risk measurement standards, the execution of customer policy, the purchase of liability insurance for the Company's directors and supervisors) that are helpful in understanding the corporate governance operation of the Company? | V | | (一) （Collective Bargaining Agreement）保障。The interests of employees and employee care: Offer staff salaries higher than the minimum wage defined in the Labor Standards Act, better employee benefits than the industry standard, insurance coverage and pension benefits according to the law; also, group insurance and overseas business traveling insurance in order to protect the work and life safety of colleagues. Regulate labor safety and health code, exercise Job Equality Act, provide safe, healthy, and harassment-free working environment and culture, and achieve ISO-14001 (Environmental Management International Standard) and OHSAS-18001 (Occupational Health and Safety Management System) certification. Initiate two performance evaluations of the colleagues during the middle of the year and at the end of the year in order to achieve the overall business plan and as a reference for staff promotion, employee training and development, and payment of salaries. Ensure all employees are protected by the Collective Bargaining Agreement through labor meetings, department meetings, seminars, Suggestion Box, and other communication channels.<br>(二) Supplier relation: On the supplier management, the ADVANTECH had introduced the "Electronic Industry Code of Conduct (EICC)" since 2010, and strictly brought the principle of the environmental protection into the mechanism of supplier management to establish the Green | None |

| Assessment Items | Operation | | | Deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| | | | Supply Chain Management System. The suppliers are managed via the Supplier Management System (SMS), and the behavior review/verification for the important suppliers, including supplier add/change as well as the procedures to evaluate the suppliers are specified in the Management Document (M-001_ purchase procedure). The "Purchase Behavior Criteria"worked out in the ADVANTECH specifies the purchase behavior. Meanwhile, the suppliers must sign the Commitment to Honesty to follow the honesty. The ADVANTECH will annually convene the supplier meetings, and directly communicate with the supplier management for the development direction and the strategy cooperation.<br>(三) Investor Relations: Information is fully disclosed through the MOPS and the Company's Website to help investors understand the Company's operating conditions and to communicate with investors through the shareholders' meeting and the spokesman.<br>(四) Continuing education of directors and supervisors:<br>The Company actively encourages directors to participate in continuing education as scheduled below.<br>(五) Customer Policy: The Company keeps in contact with customers regularly and communicates the needs of the customers through online/telephone, customer service, and Account Manager System; also, a Suggestion Box is setup to respond to customer complaint promptly.<br>(六) The acquisition of liability insurance for directors and supervisors:<br>The Company has acquired liability insurance for directors and supervisors . | |
| 八、Does the Company have a corporate governance self-assessment report prepared or a corporate | V | | The Company conducted the self-evaluation through the corporate govemance evaluation system which was developed by the TWSE | None |

| Assessment Items | Operation | | | Deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| governance assessment report issued by the commissioned professional institutions? (If yes, please state the opinion of the board of directors, the self-assessment or outsourcing evaluation results, the main nonconformity or suggestion, and implementation of improvement) | | | Corporate Govemance Center and was ranked top 5% companies. | |

■ The acquisition of liability insurance for directors and supervisors:

| Insured object | Insurance company | Amount of insurance coverage (NT$) | Insurance period |
|---|---|---|---|
| All directors and supervisors | Cathay Century Insurance Co., Ltd. | 161,300,000 | 04/01/2016 - 04/01/2017 |

(四) The composition of the Remuneration Committee, responsibilities, and operation":

1. Remuneration Committee members:

| Identity (Note 1) | Terms / Name | Over five years of experience and the following professional qualifications | | | 一、 Independence criteria (Note 2) | | | | | | | | 二、 Serving as a Remuneration Committee member of another public company | Remarks (Note 3) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | University teaching in areas of commerce, law, finance, accounting or related corporate business | Working as a judge, attorney, lawyer, accountant or other positions that require professional certification | Work experience in commerce, law, finance, accounting or related corporate experiences | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent director | Joseph Yu | v | | v | v | v | v | v | v | v | v | v | 2 | NA |
| Independent director | Jeff Chen | | | v | v | v | v | v | v | v | v | v | 0 | NA |
| Others | Caroline Wang | v | | v | v | v | v | v | v | v | v | v | 0 | NA |

Note 1: Please indicate the identity as directors, independent directors, or others.
Note 2: A "✓" is marked in the space beneath the respective column when a director or supervisor has met that condition during the two-year prior to election and during his or her period of service; the conditions are as follows:

(1) Not employed by the Company or an affiliated business.
(2) Not a director or supervisor of the Company or its affiliated company. This restriction does not apply to independent directors of subsidiaries in which the company or its parent company directly or indirectly holds over 50% of the shareholder voting rights.
(3) company shares or being a top-10 natural person shareholder in one's own name, held by a spouse or underage child, or held by nominee agreement.
(4) Neither a spouse, second-degree relative, nor a fifth degree direct relative of the persons listed under the previous three items.
(5) Neither a director, supervisor or employee of an institutional shareholder directly owning more than 5% of the company's outstanding shares, nor one of the company's top-five institutional shareholder.
(6) Neither a director, supervisor, manager or shareholder holding more than a 5% stake in certain companies or institutions that have a financial or business relationship with the Company.
(7) Not a professional who provides commercial, legal, financial, and accounting services or consulting to the Company or its affiliated companies, proprietor, partner, owner of a company or an institution, partner, director (executive), supervisor (executive), manager, and their spouses.
(8) Standing does not match any of the scenarios described in Article 30 of the Company Law.

Note 3: Please indicate whether the member who is a director complies with the requirement of Article 6 Paragraph 5 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter."

## 2. The operation of Remuneration Committee

一、There are three members in Remuneration Committee of the Company.

二、Current term of office: June 18, 2014 ~ June 17, 2017; the most recent year (2016)

The Board held 2 meetings (A) with the attendance record and qualification of Committee members as follows:

| Title | Name | Actual attendance (B) | Attendance by proxy | Actual attendance rate (%) (B/A) (Note) | Remarks |
|---|---|---|---|---|---|
| Convener | Joseph Yu | 2 | 0 | 100% | |
| Independent director | Jeff Chenn | 2 | 0 | 100% | |
| Committee Member | Caroline Wang | 2 | 0 | 100% | |
| Other required information:<br>一、If the Board of Directors does not accept or amend the suggestions of the Remuneration Committee, please state the Board meeting date, term, the motions, content of the resolutions of the Board, and the Company's handling the opinions proposed by the Remuneration Committee: None<br>二、For resolutions reached by the Remuneration Committee regarding which independent directors have voiced opposing or qualified opinions on the record or in writing, the Remuneration Committee meeting date, period, content of the resolution, opinions of all members, and the handling of the opinions of the members: None. | | | | | |

(五) Fulfilling social responsibilities:

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| 一、Substantiation of corporate governance<br>(一) Does the Company have the CSR policies or systems established and the implementation effect reviewed?<br>(二) Does the Company have the CSR education and training arranged on a regular basis?<br>(三) Does the Company have a specific (or part-time) unit set up to promote corporate social responsibility, have the management authorized by the Board of Directors to handle matters and report the processing results to the Board of Directors?<br>(四) Does the Company have a reasonable salary and remuneration policy setup, have the employee performance evaluation system combined with corporate social responsibility policies, and have a clear and effective reward and punishment system established? | V<br>V<br>V<br>V | | (一) The ADVANTECH established the practice rules for Corporate Sociality Responsibility (CSR), which is issued by the Board of the Directors; the CSR unit will collect the projects and progress related to the CSR and report to the Board Chairman, who personally gave the directions and strategic suggestions as well annually report the contents to the Board of the Directors for the annual strategy and review.<br>The CSR unit in the ADVANTECH is subordinate to the Corporate Sociality Responsibility Directing Committee (led by the Board Chairman), which periodically convenes meetings to confirm and review the promotion and strategy of the CSR as well as approves the annual sustainability report. The Directing Committee set up one office and six subcommittees, which are "Promotion Office", "Corporate Governance Committee", "Labor-capital Relation Committee", "Environmental Protection Committee", "External Communication Committee", "Sociality Care Committee", and "Industry-academic Cooperation Committee" to direct the economy, environment and sociality of the CSR. The detailed parts to fulfill the CSR strategy are recorded in the CSR Report.<br>(二) I.The Company has the CSR education and training arranged in the orientation that is held once in every two-month.<br>II. Not only provide a copy of the learning manual for new employees on the first day when they are on board, but also explain item by item, which the contents comprise anti-bribery, human right, environment and labor codes, as well as upload on the website for the enquiry at any time; they will be emphasized and explained again in the employee | None |

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| | | | training, as well as required to strictly execute and obey; there is a unit of "morality and ethics" for the managers to ensure they can set an example by personally taking part.<br>III.In order to guide the employee behavior in compliance with the mortality, we make the interested parties understand and follow our mortalities, including: the prohibition against the improper gift, bribery or benefit from other people, insider trading, no difference treatment owing to the gender, race, religion, party, aptitude, job position, nationality and age, or discrimination in any form as well as the adhesion to employee labor and environmental regulations. "Employee Behavior Criteria" are uploaded on the website for the enquiry and reading.<br>IV. The purchase units and the employees and managers in charge of purchase are required to deal with the worldwide purchase activities based on the highest ethics. The purpose is to prevent the improper behavior or bribery; the suppliers are required to sign "Commitment to Honesty", and the mailbox is established for complain to eliminate our employees from bribery.<br>(三) The Company has a "Corporate Culture and Social Responsibility" Department setup; also, there are specific individuals responsible for planning and promoting industry-academia collaboration, Able Club, social welfare, arts and cultures sponsorship, corporate social responsibility websites, and other CSR-related projects. The work progress and project achievement is reported to the Chairman and the Board of Directors periodically. Please refer to the illustration below regarding the CSR-related tasks:<br>CSR Website：http://www.advantech.tw/csr/<br>Corporate Social Responsibility Report (CSR Report): | |

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| | | | http://wfcache.advantech.com/www/csr/pdf/csr_2014_report.pdf<br>Advantech Co., Ltd. Able Club website:<br>http://ableclub.advantech.com.tw<br>In addition, in order to substantiate the spirit of corporate social responsibility, except for the specifically designated departments, in response to the different professions and focuses for each CSR project, a trans-departmental work team is setup to be responsible for planning and execution. Such as, for Corporate Social Responsibility Report, the Corporate Culture Department, Brand Development Department, and Public Relation Department shall cooperate to organize a trans-departmental Promotion Office jointly with all the accountable departments, including "Corporate Governance Committee," "Labor Relation Committee," "Environmental Protection Energy-Saving Committee," "Communication Committee," "Social Care Committee," "Industry-Academia Collaboration Committee," etc. to promote and realize corporate social responsibility.<br>(四) The Company has a reasonable remuneration policy setup; also, required employees to comply with Advantech Code of Conduct and Practiced the "Integrity and Probity" of corporate value. The employees are evaluated with the Compassion Award issued for their participating in the charity activities, or the offenders of the Code of Conduct will be disciplined accordingly. | |
| 二、Development of sustainable environment<br>(一) Is the Company committed to enhance the utilization efficiency of resources and use renewable materials that are with low impact on the environment?<br>(二) Does the Company have an appropriate environmental management system established in accordance with its industrial character?<br>(三) Does the Company pay attention to the impact of climate | V<br><br><br>V | | (一)The Company is committed to enhance the utilization efficiency of resources and use renewable materials that are with low impact on the environment<br>(二)Th Company has established ESH Management Committee and ISO14001 environmental management system, which includes the following items:<br>一、Collect, assess, and identify the impact of the | None |

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| change on the operational activities, implement greenhouse gas check, and form an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy? | V | | Company's activities, products, and services on the natural environment.<br>二、Establish measurable goals of environmental sustainability and regularly review the continuity and relevance of its development.<br>三、。Set specific action plans and regularly review the effectiveness of the operation.<br>(三)The Company adopts the guidelines of ISO14064 commonly used domestically and internationally and CDP Carbon Disclosure Plan to implement greenhouse gas inspection and disclosure within the scope of:<br>一、Direct greenhouse gas emissions<br>二、Indirect greenhouse gas emissions<br>The Company does pay attention to the impact of climate change on the operational activities, form and activate an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy according to the business operation and greenhouse gas check results in order to reduce the impact of the Company's business activity on the climate change. | |
| 三、Maintenance of social welfare<br>(一) Does the Company have the relevant management policies and procedures stipulated in accordance with the relevant laws and regulations and international conventions on human rights?<br>(二) Does the Company have the complaint mechanism and channel established for employees and have it handled properly?<br>(三) Does the Company provide employee with a safe and healthy working environment, and provide safety and health education to employees regularly?<br>(四) Does the Company have established a mechanism of periodical communication with employees and have the employee notified in a reasonable manner regarding the potential impact of the operation changes. | V<br><br>V<br><br>V<br><br>V | | (一) In compliance with the relevant laws and labor regulations and in accordance with International Labor Convention and International Bill of Human Rights, Advantech Co. Ltd. formulated Business Conduct and the Employee Handbook and had them published on the Employee Portal for the convenience of our employees and managers.<br>Advantech respects for employees' equal appointment and career development opportunities and will have no disparate treatment discrimination, or any form of discrimination in terms of personal gender, race, religion, political party, sexual orientation, rank, age, nationality and other issues.<br>We are committed to providing employees with a safe and high-quality work environment, and with respect to our policies, Advantech faithfully abides by all kinds | None |

<table>
<tr><th rowspan="2">Assessment items</th><th colspan="3">Operation (Note 1)</th><th rowspan="2">Deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies” and the root cause</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary (Note 2)</th></tr>
<tr><td>（五）Does the Company have an effective career capacity development training program established for the employees?<br>（六）Does the Company have the relevant consumer protection policies and complaint procedures established in the sense of R&D, procurement, production, operations, and service processes?<br>（七）Does the Company have products and services marketed and labeled in accordance with the relevant regulations and international norms?<br>（八） Does the Company have the suppliers checked in advance for any records of impacting the environment and society?<br>（九） Does the contract signed by the Company with the major suppliers entitle the Company to have the contract cancelled or terminated at any time when the suppliers violate the CSR policies that have a significant impact on the environment and society?</td><td>V<br>V<br>V<br>V<br>V</td><td></td><td>employment and labor laws; employment of child labor or illegal workers is prohibited; sexual harassment is prohibited; and the company is committed to providing employees with a safe and healthy work environment complying with various environmental laws and regulations and avoiding environmental pollution through proper management and technical applications.<br>（二）Advantech created Suggestion Box on the Employee Portal encouraging employees to make comments in a positive way, including workflow improvement, environmental improvement, product advice or cross-departmental operations, so as to build a culture of participation in the operation of the company and to encourage employees to make suggestions at any time. After receiving the proposal from the employee, Human Resources Department will forward it to the head of the relevant department, which will assess the proposal content and the need for improvement. After the content is carefully assessed and concluded, the colleague making the proposal will simultaneously receive the related information on the case concluded.<br>（三）The Company offers employees safe and healthy working environment and passes the occupational safety and health management system certification; provides employees with annual health checks that is better than the requirement of the Labor Standards Act; also, has the safety and health education arranged in the orientation that is held once in every two-month.<br>（四）Advantech releases and announces the results of operations and the future development policy, and the major operational changes by means of regular plenary meetings, meetings of heads, departmental meetings, and group meetings, complemented by the company’s periodicals, the internal employee website, and the video platform of "Advantech Executive Talks" to instantly</td><td></td></tr>
</table>

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| | | | share the company's business philosophy, the latest business information and the changes.<br>（五）The Company, through "Advantech School," has diversified curriculum planned, established effective career capacity development and training program for employees; also, reflected the Company's operating performance and results appropriately in the employee remuneration policies to ensure the recruitment, retention, and encouragement of human resources in order to reach the goal of sustainable business operation.<br>（六）The Company has the consumer protection policies and complaint procedures established; also, has had the procedure document of quality feedback system, customer service and satisfaction management, ATSC RMA operating instructions available to ensure proper handling.<br>（七）The Company has products and services marketed and labeled in accordance with the relevant regulations and international norms. The products are indeed 100% in compliance with the green product regulations of the international Environmental Protection Act throughout the Life Cycle Assessment (LCA) from the effective use of natural resources, the prohibition of hazardous substances, to proper waste management. Advantech based on safety, energy conservation, and environmental protection to promote green products and to have the product information and international standards published on the Company's website (http://www.advantech.tw/csr/social_contribution/care_for_environment_over view) for the understanding of the customers and consumers.<br>（八）All the Company's suppliers / contractors are required to sign the corporate social responsibility (CSR) agreement before signing the contract. Try to avoid dealing with the suppliers who are in violation of the | |

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| | | | Company's corporate social responsibility policies. The CSR agreement requires the suppliers / contractors to comply with SA8000 social accountability standard, EICC electronics industry behavior guidelines, ISO 14001 environmental management standard, OHSAS 18001 occupational safety and health management standards, and the requirements of labor rights, health and safety, environmental protection, and business ethics imposed by the local authorities.<br>（九）The CSR agreement signed by the Company with the suppliers includes the Company's entitlement to have the agreement cancelled or terminated at any time when the suppliers violate the CSR policies that have a significant impact on the environment and society. Signing the SCR agreement by all the suppliers / contractors is the precondition of dealing with the Company. | |
| 四、Strengthening information disclosure<br>（一）Does the Company have the relevant and reliable CSR information disclosed on the Company's website and MOPS? | V | | The Company has the CSR website setup and has the relevant and reliable CSR information disclosed on the Company's website and MOPS. The Company has corporate social responsibility information disclosed as follows:<br>一、The CSR policies, systems, or specific promotion plan resolved in the Board meeting.<br>二、The risk and impact of substantiating corporate governance, development of sustainable environment, and maintenance of social welfare on the Company's operations and financial condition<br>三、The goal, measures, and performance of the CSR drafted up by the Company<br>四、The main stakeholders and the issues of concern<br>五、The management and performance of environmental and social issues disclosed by the major suppliers<br>六、Other CSR-related information | None |
| 五、If the Company has the "Corporate Social Responsibility Best-Practice Principles" stipulated in accordance with the "Corporate Social Responsibility Best-Practice Principles for | | | | |

<table>
<tr><th rowspan="2">Assessment items</th><th colspan="3">Operation (Note 1)</th><th rowspan="2">Deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies” and the root cause</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary (Note 2)</th></tr>
<tr><td colspan="5">TWSE/GTSM Listed Companies,” please state its deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies” in operation:<br>The Company has the policies of corporate social responsibility commitment, employee code of conduct, environment safety and health, and the prohibition of hazardous substances in products stipulated and substantiated in compliance with the “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies.”</td></tr>
<tr><td colspan="5">六、Other important information helpful in understanding the corporate social responsibility operation:<br>Advantech always believes that corporate citizen in the society must fulfill its civic responsibility. We have brought this belief into our daily business operation mechanism. In practice, Advantech fulfills its civic responsibilities through the following four aspects of corporate commitment, social care, cooperation of academy and industry, and staff care:<br>● Corporate commitment: We have the corporate governance perfected and been responsible to the stakeholders through the organizational operation and audit system of the Board of Directors, Audit Committee, Remuneration Committee, and Risk Management Committee; also, dedicated to the continuing innovation of design, production quality, and reliability through the quality management and commitment that is part of the corporate culture, been responsible to the customers and the environment, and received a number of international certifications and affirmations.<br>● Social Care: We fulfill our corporate social responsibility through the efforts of environmental consideration, love and welfare, arts and cultures sponsorship, and volunteer services. In terms of “Environmental Consideration,” Advantech as a manufacturer aims to provide green design, green production, and green products, and build a sustainable supply chain. As for the employees, Advantech actively encourages them to help maintain sustainable ecology and to spontaneously adopt and setup Advantech organic farms, from constructing sustainable green industry to embracing ecological green world jointly. Advantech has adopted organic farms since the year of 2016 with over NT$1 million donated annually. In terms of “love and welfare,” Advantech encourages employees associations to expand social services and sponsor Taishin Charity Foundation through Advantech Foundation to hold the “your vote is the power of love” social charity proposal platform, invite charity groups to propose education and culture proposals, and to completed the selection of sponsorship proposals through public voting mechanism. In terms of “arts and cultures sponsorship,” Advantech has sponsored “Colorful Life – Chen, Yang Chun,” National Taiwan College of Performing Arts and GuoGuang Opera Company performances, and Advantech ACT Drama volunteer groups for years; also, select excellent arts and cultures groups for private sponsorship through the “Arts & Cultures Salon” project. Advantech donate over NT$7 million a year to sponsor arts and cultural events. Advantech has started cooperating with National Taiwan College of Performing Arts on project planning since the year of 2015 with NT$3.01 million donated annually for three academic years in order to support the nurturing and development of traditional art and talents. In addition, we also encourage colleagues to turn their love into action through the “Volunteer Service” and to actively participate in various volunteer service activities and to pay forward.<br>● Industrial Cooperation: Advantech believes that only the integration of innovation and learning characteristics of “industry-academy cooperation” is the driving force to activate social progress in the future. Therefore, we have to base on the core of “innovative learning,” the method of “industry-academy cooperation,” and the purpose of “talents gathering” to actively promote industry-academy cooperation activities, such as, TiC100 College student innovative business models competition, TiC-EACC industry-academy cooperation plan, and TiC-Early Design Campaign industrial product forward-looking design competitions. Advantech has committed to invest NT$20 million per year for 5 years since the year of 2014 to set up Jiaotong University Internet of Things (IoT) Research Center.<br>Advantech worked with National Chiao Tung University in 2015 to co-advocate the IoT A+ industry-academia elite doctoral joining the IoT talents incubation program..<br>● Employee care: We starting out from “Work, Learn, and Love” are determined to made Advantech an open development platform; also, to make Advantech a trustworthy enterprise that the colleagues can trust their happy life with the Company. In terms of “work,” we provide cross-field, cross-border, and diversified job opportunities, encourage employees to expand their international perspective and work experience through job rotation, or compete to secure a cross-field job voluntarily in order to improve self-competitiveness at work place. In terms of “learning,” Advantech provides staff with a variety of continuing education opportunities to enhance capability; also, plans online e-learning system and employee website to provide Advantech basic talent cultivation information and the concept of business direction. Moreover, a series of courses are planned for the elite talent to study the business operation of Advantech, to form practical hands-on experience, and to pass on the unique business philosophy of Advantech. In terms of “love,” we are in the pursuit of a happy life. Advantech ABLE Club (Advantech Beautiful Life) has sports, love, Lohas, arts and</td></tr>
</table>

| Assessment items | Operation (Note 1) | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary (Note 2) | |
| cultural activities planned. Employees in their spare time are expected to innovate and learn, to experience life, to contribute to society, to practice altruistic ideas, and to create a happy life. The activities arranged by Advantech ABLE Club in 2016 were with the participation of over 10,000 persons. | | | | |
| 七、Please detail the Corporate Social Responsibility Report that has met the verification standard of the relevant certification institutions, if any:<br>Advantech 2015 Corporate Social Responsibility Report was prepared by the Company in accordance with GRI G4 Standards without having been verified by a third party. The 2016 Corporate Social Responsibility Report would be verified by the commissioned certification institution. (http://wfcache.advantech.com/www/csr/pdf/csr_2014_report.pdf). | | | | |

（六）he Company’s ethical management and the measures adopted

<table>
<tr><th rowspan="2">Assessment Items</th><th colspan="3">Operation (Note 1)</th><th rowspan="2">Deviating from the “Ethical Management Best-Practice Principles for TWSE/GTSM Listed Companies” and the root cause</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>一、Formation of ethical management policies and methods<br>（一）Does the Company have the ethical management policy and method declared explicitly in the Articles of Incorporation and external documents; also, the commitment of the board of directors and the management to actively implement the operating policies?<br>（二）Does the Company have the prevention program for any fraud stipulated; also, have the respective operating procedures, guidelines for conduct, disciplinary actions, and complaints system declared explicitly; also have it implemented substantively?<br>（三）Does the Company have preventive measures adopted in response to the conducts stated in Article 7 Paragraph 2 of the “Ethical Management Best Practice Principles for TWSE/GTSM Listed Companies” or other business activities subject to higher risk of fraud?</td><td>V<br>V<br>V</td><td></td><td>(一) The Company has the “Ethical Management Best Practice Principle” stipulated and published on the corporate websites, corporate social responsibility website, and MOPS. Auditors regularly audit the compliance of the system and with an audit report presented to the board of directors on a quarterly basis.<br>(二) The Company sets the “Ethical Management Best Practice Principle” and “Advantech’s Code of Conduct” to clearly specify the relevant operating procedures and to have the comprehensive system implemented in accordance with the “Regulations Governing the Reporting.”<br>(三) The Company has established an effective internal control system to ensure the substantiation of the ethical management. The internal auditors periodically audit the compliance of the establishment. The Company and its directors, supervisors, managers, employees, appointed persons, and the person in control at the time of conducting business shall not directly or indirectly offer, promise, request, or accept improper benefits in any form, including rebates, commissions, and bribe or providing or accepting improper benefits to and from customers, agents, contractors, suppliers, public officials, or other stakeholders.</td><td>None</td></tr>
<tr><td>二、Substantiation of ethical management<br>（一）Does the company have the integrity of the trade counterparty assessed and with the code of integrity expressed in the contract signed?<br>（二）Does the Company have a specific (part-time) unit setup under the board of directors to advocate the code of integrity and to report on its implementation to the Board on a regular basis?<br>（三）Does the Company have developed policies to prevent conflicts of interest, provided adequate channel for communication, and</td><td>V<br>V<br>V</td><td></td><td>（一）The Company has the “Ethical Management Best-Practice Principles” stipulated to clearly require the counterparties to comply with the rule of not accepting kickbacks, commissions, and bribe in order to offer the most reasonable, the best quality, and the best service.<br>（二）The ADVANTECH established the Audit Committee, the Remuneration Committee and the Corporate Development Committee under the Board, whose functions supervise and</td><td>None</td></tr>
</table>

| Assessment Items | Operation (Note 1) | | | Deviating from the "Ethical Management Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| substantiated the policies?<br>（四）Does the Company have established effective accounting systems and internal control systems to substantiate ethical management; also, have audits performed by the internal audit unit on a regular basis or by the commission CPAs?<br>（五）Does the Company have organized ethical management internal and external education and training programs on a regular basis? | V<br>V | | review the corporate operation, finance, remuneration, internal control, management and organization development as well as periodically report the executions to the Board of the Directors. In the supervision of the Board, they can guarantee each operation conforms to the regulations without dishonesty behavior and ensure the investor rights and interests.<br>（三）The Company's "Guidelines for the Adoption of Codes of Conduct" for employees and the "Guidelines for the Adoption of Codes of Ethical Conduct" for the directors, supervisors, and managers include the clause of conflict of interest prevention; also, report any doubtful conflict of interest to the direct supervisor.<br>（四）The Company has the accounting system established; also, the financial reports are audited by Deloitte & Touche. The Company has internal control system established. The Internal Auditing under the Board of Directors is to regularly audit the Company's operating cycle and the related law and regulations in order to assist the board of directors and management to reasonably ensure the achievement of operational effectiveness and efficiency, reliability of financial reports, and the compliance of the related law and regulations.<br>（五）Internally:In addition to having the relevant specifications published on eLearning for the easy access of the employees at any time, the Company has explained it and emphasized its importance in the orientation and manual instruction.<br>Externally: Arrange Supplier Conventions and establish a regular communication mechanism and advocates the relevant norms of ethical management. | |
| 三、The operation of the Company's Report System<br>（一）Does the Company have a specific report and reward system stipulated, a convenient report channel established, and a | V | | (一)The reporting can be submitted through the Company's e-mail or in writing. The Internal Auditing is to handle all reporting and then reports to the Chairman, so the Chairman | None |

| Assessment Items | Operation (Note 1) | | | Deviating from the "Ethical Management Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause |
|---|---|---|---|---|
| | Yes | No | Summary | |
| responsible staff designated to handle the individual being reported?<br>（二）Does the Company have the standard investigating procedures and related confidentiality mechanism established for the incidents being reported?<br>（三）Does the Company have taken proper measures to protect the whistleblowers from suffering any consequence of reporting an incident? | <br>V<br><br>V | | may appoint investigators to conduct an independent investigation.<br>(二) The Company has the "Regulations Governing the Reporting" and related operating procedures stipulated. The identity of the whistleblower and the content of the reporting should be kept confidential; also, investigators shall have the relevant documents that are collected throughout the investigation process reserved properly. Each reporting incident is assigned with one code. The investigator will obtain a unique identification code for the protection of the whistleblower.<br>(三) The Company has the "Regulations Governing the Reporting" and related operating procedures stipulated. The identity of the whistleblower and the content of the reporting should be kept confidential and protected; also, the involving investigators should not disclose any information without authorization so to protect the whistleblower from any unfair treatment, retaliation, or threat. | |
| 四、Strengthening information disclosure<br>（一）Does the Company have the content of ethical management and its implementation disclosed on the website and MOPS? | V | | The Company has a website in Chinese and English and a CSR website established; also, the "Ethical Management Best-Practice Principles" is published on the MOPS. | None |
| 五、If the Company has the "Ethical Management Best-Practice Principles" stipulated in accordance with the "Ethical Management Best-Practice Principles for TWSE/GTSM Listed Companies," please state its deviating from the "Ethical Management Best-Practice Principles for TWSE/GTSM Listed Companies" in operation:<br>Advantech has established the Code to require that all employees, officers and board members comply with the Code and the other policies and procedures.<br>There is no discrepancy between the Code, including its affiliate policies and procedures, and its implementation. | | | | |
| 六、Other important information helpful in understanding the ethical management operation: (Such as, the Company has its Ethical Management Best-Practice Principles reviewed and amended, etc.)<br>Request the suppliers and contractors (including security company) through the Procurement Department and General Affairs Department to sign the "Corporate Social Responsibility and Environmental Safety and Health Commitment" and implement the relevant education and training and advocacy through the Supplier Convention. | | | | |

（七）The Company has the corporate governance Best-Practice Principle and the related inquiries established: The Company website is with the corporate governance section designated for investor's inquiring and downloading corporate governance-related regulations; also, it is published on the MOPS.

（八）Other important information helpful in understanding the corporate governance operation: None

（九）The implementation of the internal control system:

## Advantech Co., Ltd.
## Statement of Internal Control System

Date: March 31, 2017

Based on the findings of a self-assessment, Advantech Co., Ltd. (Advantech) states the following with regard to its internal control system during the year 2016:

1. Advantech's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system, and Advantech has established such a system. Our internal control system is designed to provide reasonable assurance over the effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), reliability, timeliness, transparency of reporting, and compliance with applicable laws and regulations.
2. An internal control system has its inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishment the objectives mentioned above. Furthermore, the effectiveness of an internal control system may be subject to changes due to circumstances beyond control. Nevertheless, the internal control system of Advantech contains self-monitoring mechanisms, and Advantech takes immediate remedial actions in response to any identified deficiencies.
3. Advantech evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities. Each component further contains several items. Please refer to the Regulations for details.
4. Advantech has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Advantech believes that, on December 31, 2016, it has maintained, in all material respects, and effective internal control system (that includes the supervision and management of subsidiaries), to provide reasonable assurance over operational effectiveness and efficiency, reliability , timeliness, transparency of reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of Advantech's Annual Report and Prospectus and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This Statement has been passed by the Board of Directors in their meeting on March 6, 2017, with none of the five attending directors expressing dissenting opinions, and remainders all affirming the content of this Statement.

Advantech Co.,Ltd.

K.C. Liu
Chairman

Chaney Ho
President

2. If a CPA is commissioned to review internal control system specifically, the review report should be disclosed: None

（十）The Company and its internal staff being punished lawfully, the punishment given by the Company to the violators of internal control system, major nonconformity, and the improvement in the most recent year and up to the publication of the annual report: None

（十一）The material resolutions reached in the shareholders' meeting and board meeting in the most recent year and up to the publication of the annual report:

■ Important resolution reached in the Shareholders' meeting and its implementation

Advantech had the 2016 general shareholders' meeting held at the Neihu Headquarters on May 25, 2016. The resolutions reached in the shareholders' meeting and their implementations are as follows:

1. The acknowledgement of the 2015 business report and financial statements
   Implementation: Resolved and acknowledged.
2. The acknowledgement of the Company's 2015 earnings distribution
   Implementation: Scheduled the distribution date on July 8, 2016 and the payment date on August 8, 2016 (Cash dividend: NT$6 per share).
3. The acknowledgement of the Company's "Articles of Association" amendment
   Implementation: The Ministry of Economic Affairs approved the change registration and the announcement on the Company's website on June 15, 2016.
4. The Company plans to issue employee share options with price lower than fair market value
   Implementation: Resolved and acknowledged.

■ Important resolutions of the Board of Directors

The important resolutions of the Board of Directors in 2016 and up to the printing date of the annual report are summarized as follows:

1. General board meeting on March 4, 2016:

- Approved the Company's 2016 business budget and operating plan
- Approved the Company's 2015 business report, proprietary financial statements, and consolidated financial statements
- Approved the Company's 2015 distribution of remuneration to employees and remuneration to directors and supervisors
- Approved the Company's 2015 earnings distribution
- Approved the stock shares of YEH-CHIANG TECHNOLOGY KUN SHAN CO., LTD. acquired by HK Advantech Technology Co., Limited that is invested by the Company
- Approved the Company's issuing employee warrant at a price below market price
- Approved the Company's "Articles of Incorporation " amendment
- Approved the Company's 2016 general shareholders' meeting convening matters

- Approved the time period and place to accept shareholder's proposals for the Company's 2015 general shareholders' meeting
- Approved the Company's offering endorsement/guarantee to the subsidiaries for applying for bank credit line
- Approved the application filed for the Company's 2016 bank credit line and authorized the Chairman to apply to the bank for credit loan renewal project within the credit line depending on the business operation
- Approved the Company's 2015 "Declaration of Internal Control" completed

2. General board meeting on March 22, 2016:

- Approved the joint venture of Advantech Co., Ltd. and Inventec Corporation

3. General board meeting on May 25, 2016:

- Approved the Company's 2015 statement of earnings distribution that was resolved in the general shareholders' meeting on May 25, 2016 and with the distribution base date scheduled
- Approved the Company's "Rules Governing the Performance Evaluation of the Board of Directors

4. General board meeting on July 29, 2016:

- Approved the 2014 employee warrant subscribing price adjustment

5. General board meeting on August 12, 2016:

- Approved the Company's adopted the propostiion to increase capital of "YEH-CHIANG TECHNOLOGY KUN SHAN CO., LTD." invested by the company indirectly
- Approved the Advantech Corporation Ltd.bought 100% of Advantech Intelligent Services from Advantech Corporate Investment.
- Approved the Amendment to the 2016 Employee Stock Option Plan
- Approved the proposal of the issuing employees and quantity of the Company's stock options.

6. General board meeting on September 29, 2016:

- Approved the proposal of the Company's 2014 employee stock options implementation to subscribe common stock with new shares issued.

7. General board meeting on November 18, 2016:

- Approved the Company's "corporate governance best practice principles " amendment
- Approved the Company's 2017 internal auditing plan

8. General board meeting on December 28, 2016:

- Approved the Board of Directors approved the appointment of the internal auditing supervisor

9. General board meeting on March 6, 2017:

- Approved the Company's 2017 business budget and operating plan
- Approved the Company's 2016 business report, proprietary financial statements, and consolidated financial statements

- Approved the Company's 2016 distribution of remuneration to employees and remuneration to directors and supervisors
- Approved the Company's 2016 earnings distribution
- Approved the Company's Issuance of new shares from capital increase by earnings
- Approved the Company's 2017 general shareholders' meeting convening matters
- Approved the Re-election of all directors
- Approved the Exemption of the limitation of non-competition on the directors of the Company
- Approved the 2016 CPA Independence Assessment Proposal
- Approved the Discuss the disposal of Advantech LNC Technology Co., Ltd. Shares
- Approved the Company's offering endorsement/guarantee to the subsidiaries for applying for bank credit line
- Approved the application filed for the Company's 2017 bank credit line and authorized the Chairman to apply to the bank for credit loan renewal project within the credit line depending on the business operation
- Approved the Company's 2016 "Declaration of Internal Control" completed
- Approved the Company's " Articles of Incorporation " amendment
- Approved the Company's"Procedures For Acquisition or Disposal of Assets" amendment
- Approved the Company's"Procedures For Lending Funds to Other Parties" amendment
- Approved the Company's"Procedures For Endorsement & Guarantee" amendment
- Approved the Company's"Procedures For Financial Derivatives Transactions" amendment
- Approved the Company's"Rules and Procedures of Shareholders'Meeting" amendment
- Approved the Company's "Rules of Procedures for Board of Directors Meetings" amendment
- Approved the Company's"Ethical Corporate Management Best Practice Principles" amendment
- Approved the Company's"Rules Governing the scope of Powers of Independent Directors" amendment

10. General board meeting on March 28, 2017:

- Approved the review of the list of candidates nominated for the election of Directors

（十二）The contents of the board resolutions regarding which independent directors have voiced opposing or qualified opinions on the record or in writing in the most recent year or up to the publication of the annual report: None

（十三）The resignation or dismissal of the Company's Chairman, President, Accounting Officer, Finance Office, Internal Audit Director, and R&D Director in the most recent year or up to the publication of the annual report: None

IV、CAP fees:

| CPA Firm | Name of CPAs | | Audit Period | Remark |
|---|---|---|---|---|
| Deloitte & Touche | Meng Chieh Chiu | Chin Hsiang Chen | 01.01.2016 - 12.31.2016 | |

Monetary unit: NT$ Thousand

| Amount range \ Fees | | Audit fees | Non-audit fees | Total |
|---|---|---|---|---|
| 1 | Less than $2,000 thousand | | 2,482 | 2,482 |
| 2 | $2,000 thousand (inclusive)～$4,000 thousand | | | |
| 3 | $4,000 thousand (inclusive)～$6,000 thousand | | | |
| 4 | $6,000 thousand (inclusive)～$8,000 thousand | | | |
| 5 | $8,000 thousand (inclusive)～$10,000 thousand | | | |
| 6 | More than $10,000 thousand (inclusive) | 11,660 | | 11,660 |

(一) If the non-audit fees paid to the CPAs, CPA Firm, and its affiliated companies is over 25% of the audit fee, the amount of audit fee and non-audit fee and the contents of the non-audit service should be disclosed:

Monetary unit: NT$ Thousand

| CPA Firm | Name of CPAs | Audit Fees | Non-audit Fees | | | | | Audit Period | Remark |
|---|---|---|---|---|---|---|---|---|---|
| | | | System design | Industrial and commercial registration | Human resources | Others | Subtotal | | |
| Deloitte & Touche | Meng Chieh Chiu<br>Chin Hsiang Chen | 11,660 | | 156 | | 2,326 | 2,482 | 01.01.2016 - 12.31.2016 | Other: Transfer pricing service fees |

(二) If a new CPA Firm is commissioned to serve for an audit fee less than the year before, please disclose the audit fee amount before and after the CPA replacement arranged and the reason for doing so: None

(三) If the audit fee of current year is more than 15% less than the year before, please disclose the audit fee amount and ratio reduced and the root cause of the fee reduction: None

V、Replacement of CPAs: None

VI、The Company's Chairman, President, and Finance or Accounting Officer have held a position in the independent auditing firm or its affiliates over the past year: None

VII、Changes in the shares held and pledged by directors, supervisors, managers, and major shareholders holding over 10% of outstanding shares in the most recent year and up to the publication of the annual report:

（一）Changes in equity:

| Title | Name | 2016 | | As of March 31 | |
|---|---|---|---|---|---|
| | | Increase (decrease) of shareholding | Increase (decrease) of shares pledged | Increase (decrease) of shareholding | Increase (decrease) of shares pledged |
| Director | K.C. Liu | 0 | 0 | 0 | 0 |
| Director | Advantech Foundation | 0 | 0 | 0 | 0 |
| Legal Representative | Donald Chang | 0 | 0 | 0 | 0 |
| Director | Ted Hsu | 0 | 0 | 0 | 0 |
| Director | Jeff Chen | 0 | 0 | 0 | 0 |
| Director | Joseph Yu | 0 | 0 | 0 | 0 |
| Supervisor | Advantech Investment Co., Ltd. | 0 | 0 | 0 | 0 |
| Legal Representative | Gary Tseng | 0 | 0 | 0 | 0 |
| Supervisor | Thomas Chen | (18,000) | 0 | 0 | 0 |
| Supervisor | James Wu | 0 | 0 | 0 | 0 |
| President | Chaney Ho | (186,000) | 0 | 0 | 0 |
| Vice President | Deyu Yin | 0 | 0 | 0 | 0 |
| Vice President | Albert Huang | (108,000) | 0 | 0 | 0 |
| Vice President | Eric Chen | (27,000) | 0 | (49,000) | 0 |
| Accounting Officer | Rorie Kang | 0 | 0 | 0 | 0 |
| Major shareholder | Asus Computer Co., Ltd. | 0 | 0 | 0 | 0 |
| Major shareholder | K and M Investment Co., Ltd. | 0 | 0 | 0 | 0 |

（二）The counterparty of the equity transfer is a related party: None

（三）The counterparty of the equity pledge is a related party: None

## VII、The Top-10 shareholders who are the spouses or relatives within second-degree to each other:

Unit: Shares; %

| Name | Shareholding of the Principal | | Shareholdings by spouse and underage children | | Shareholding by nominee arrangement | | The tile or name and relationship of the Top-10 shareholders who are the spouse or relatives within two degrees to each other as defined in SFAS No. 6 (Note 3) | | Remark |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Shareholding ratio (%) | Shares | Shareholding ratio (%) | Shares | Shareholding ratio (%) | Title | Relations | |
| Asus Computer Co., Ltd. | 91,483,812 | 14.45% | 0 | 0 | 0 | 0 | None | None | None |
| K and M Investment Co., Ltd. | 75,337,181 | 11.90% | 0 | 0 | 0 | 0 | Advantech Investment Co., Ltd. | Director | None |
| | | | | | | | Advantech Foundation | Director | |
| Advantech Investment Co., Ltd. | 74,636,266 | 11.79% | 0 | 0 | 0 | 0 | K and M Investment Co., Ltd | Director | None |
| | | | | | | | Advantech Foundation | Director | |
| K.C. Liu | 23,292,484 | 3.68% | 1,197,672 | 0.19% | 0 | 0 | K and M Investment Co., Ltd. | Director | None |
| | | | | | | | Advantech Investment Co., Ltd. | Director | |
| | | | | | | | Advantech Foundation | Director | |
| HSBC commissioned to manage Yuan-Wang Partner Fund Limited Partnership account | 21,419,216 | 3.38% | 0 | 0 | 0 | 0 | None | None | None |
| Advantech Foundation | 18,244,889 | 2.88% | 0 | 0 | 0 | 0 | K and M Investment Co., Ltd. | Director | None |
| | | | | | | | Advantech Investment Co., Ltd. | Director | |
| Tran-Fei Development Co., Ltd. | 16,874,118 | 2.66% | 0 | 0 | 0 | 0 | None | None | None |
| Yong-Shun Zhuang | 14,429,335 | 2.28% | 0 | 0 | 0 | 0 | None | None | None |
| Citigroup (Taiwan) commissioned to manage Singapore Government Investment account | 9,480,179 | 1.50% | 0 | 0 | 0 | 0 | None | None | None |
| HSBC commissioned to manage First State Asia Securities Earnings fund Investment | 7,722,784 | 1.22% | 0 | 0 | 0 | 0 | None | None | None |

1: Illustrate the name of the Top-10 shareholders; also, illustrate separately the name of the institutional shareholder and its representative.

2: The shareholding ratio is calculated by referring to the shares held by the Principal, the Principal's spouses and underage children, or by nominee agreement.

3: Disclose the relationship among shareholders referred to above, including the juristic person and natural person.

IX、The shares of the invested company held by the Company, the Company's directors, supervisors, managers, and companies controlled directly or indirectly, and the aggregated overall shareholding ratio:

% Unit: Shares; %

| Item | Investment Business | Abbreviation | The Company's investment | | Investment of directors, supervisors, managers, and directly or indirectly controlled business | | Omnibus investment | |
|---|---|---|---|---|---|---|---|---|
| | | | Shares | Shareholding ratio (%) | Shares | Shareholding ratio (%) | Shares | Shareholding ratio (%) |
| 01 | Advanixs Corporation. | Advansus | 36,000,000 | 100 | -- | -- | 36,000,000 | 100 |
| 02 | Advantech Corporate Investment . | -- | 150,000,000 | 100 | -- | -- | 150,000,000 | 100 |
| 03 | Hangzhou Advantofine Automation Tech Co.,Ltd.. | -- | -- | -- | -- | 100 | -- | 60 |
| 04 | Advantech Co. Singapore Pte, Ltd. | ASG | 1,450,000 | 100 | -- | -- | 1,450,000 | 100 |
| 05 | Advantech Japan Co., Ltd. | AJP | 1,200 | 100 | -- | -- | 1,200 | 100 |
| 06 | Advantech Australia Pty Ltd. | AAU | 500,204 | 100 | -- | -- | 500,204 | 100 |
| 07 | Advantech Co.,Malaysia Sdn. Bhd | AMY | 2,000,000 | 100 | -- | -- | 2,000,000 | 100 |
| 08 | Advantech Europe Holding B.V. | AEUH | 12,572,024 | 100 | -- | -- | 12,572,024 | 100 |
| 09 | Advantech Technology Co., Ltd. | ATC | 33,850,000 | 100 | -- | -- | 33,850,000 | 100 |
| 10 | Advantech Automation Corp. | AAC(BVI) | 29,623,834 | 100 | -- | -- | 29,623,834 | 100 |
| 11 | Advantech Europe B.V. | AEU | -- | -- | 11,314,280 | 100 | 11,314,280 | 100 |
| 12 | Advantech Poland Sp z.o.o | APL | -- | -- | 6,350 | 100 | 6,350 | 100 |
| 13 | Advantech Technology (China) Company., Ltd. | AKMC | -- | -- | -- | 100 | -- | 100 |
| 14 | Advantech Corporation | ANA | -- | -- | 10,952,606 | 100 | 10,952,606 | 100 |
| 15 | Beijing Yan Hua Xing Ye Electronics Science &Technology Co., Ltd. | ACN | -- | -- | -- | 100 | -- | 100 |
| 16 | Advantech Technology (HK) Co., Limited | ATC(HK) | -- | -- | 41,650,001 | 100 | 41,650,001 | 100 |
| 17 | Advantech Automation Corp.(HK) Limited | AAC(HK) | -- | -- | 15,230,001 | 100 | 15,230,001 | 100 |
| 18 | Shanghai Advantech Intelligent Services Co., Ltd. | AiSC | -- | -- | -- | 100 | -- | 100 |
| 19 | Xi'An Advantech Software Co., Ltd. | AXA | -- | -- | -- | 100 | -- | 100 |
| 20 | Advantech Brazil S/A | ABR | 1,794,996 | 80 | -- | -- | 1,794,996 | 80 |
| 21 | Advantech Intelligent Service. | AiST | 10,000,000 | 100 | -- | -- | 10,000,000 | 100 |
| 22 | Advantech KR Co., Ltd. | AKR | 600,000 | 100 | -- | -- | 600,000 | 100 |
| 23 | DLoG GmbH. | A-DLoG | -- | -- | 1 | 100 | 1 | 100 |
| 24 | Cermate Technology Inc. | Cermate | -- | -- | 5,500,000 | 55 | 5,500,000 | 55 |
| 25 | Advantech Corporation (Thailand) Co., Ltd. | ATH | -- | -- | 51,000 | 51 | 51,000 | 51 |

| Item | Investment Business | Abbreviation | The Company's investment | | Investment of directors, supervisors, managers, and directly or indirectly controlled business | | Omnibus investment | |
|---|---|---|---|---|---|---|---|---|
| | | | Shares | Shareholding ratio (%) | Shares | Shareholding ratio (%) | Shares | Shareholding ratio (%) |
| 26 | LandMark Co., Ltd. | LandMark | -- | -- | 972,284 | 100 | 972,284 | 100 |
| 27 | Cermate Technologies (Shanghai) Inc. | Cermate Shanghai | -- | -- | -- | 100 | -- | 100 |
| 28 | Shenzhen Cermate Technologies Inc. | Cermate Shenzhen | -- | -- | -- | 90 | -- | 90 |
| 29 | Advantech International PT. | AID | -- | -- | 300,000 | 100 | 300,000 | 100 |
| 30 | Advantech Industrial Computing India Pvt. Ltd. | AIN | 999,999 | 99.99 | -- | -- | 999,999 | 99.99 |
| 31 | Advantech Electronics, S.De R.L.De C. | AMX | -- | 100 | -- | -- | -- | 100 |
| 32 | AdvanPOS Technology Co., Ltd. | AdvanPOS | 20,438,000 | 100 | -- | -- | 20,438,000 | 100 |
| 33 | Advantech-LNC Technology Co.,Ltd. | ALNC | 24,350,000 | 81.17 | -- | -- | 24,350,000 | 81.17 |
| 34 | Better Auto Holdings Limited | -- | -- | -- | 8,556,096 | 100 | 8,556,096 | 100 |
| 35 | Famous Now Limited | -- | -- | -- | 1 | 100 | 1 | 100 |
| 36 | Dongguan Pou Yuen Digital Technology Co.,Ltd. | -- | -- | -- | -- | 100 | -- | 100 |
| 37 | Advantech InnoCo Design Co., Ltd. | Advantech InnoCo Design | 1,000,000 | 100 | | | 1,000,000 | 100 |
| 38 | ADVANIXS KUN SHAN CORPORATION | -- | -- | -- | -- | 100 | -- | 100 |
| 39 | BEMC Holdings Corportation | BEMC | 6 | 60 | 4 | 40 | 10 | 100 |
| 40 | Avtek Corporation | Avtek | -- | -- | -- | 100 | -- | 100 |
| 41 | B+B SmartWorx Inc. | B+B | -- | -- | 384,111 | 100 | 384,111 | 100 |
| 42 | B+B SmartWorx Limited | BBI | -- | -- | -- | 100 | -- | 100 |
| 43 | B&B IMC, LLC. | IMC | -- | -- | -- | 100 | -- | 100 |
| 44 | Quatech,LLC. | Quatech | -- | -- | -- | 100 | -- | 100 |
| 45 | B&B Electronics Holdings LLC | B&B Electronics | -- | -- | -- | 100 | -- | 100 |
| 46 | Advantech B+B SmartWorx s.r.o.CZ | B+B(CZ) | -- | -- | -- | 100 | -- | 100 |
| 47 | Conel Automation s.r.o. | Conel Automation | -- | -- | -- | 100 | -- | 100 |
| 48 | B&B SmartWorx DMCC. | B&B DMCC | -- | -- | -- | 100 | -- | 100 |

# IV.Financing Status

## 一、Capital and shares

### （一）Sources of capital

Unit: Thousand shares; NT$ Thousand

| Month / year | Issuing price | Authorized capital | | Paid-in capital | | Remark | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Source of capital | | Pay for stock shares with property other than cash | Others |
| 07.1997 | 10 | 100,000 | 1,000,000 | 47,500 | 475,000 | Capitalization by cash | 171,000 | None | Note 1 |
| | | | | | | Capitalization by earnings | 114,000 | | |
| 06.1998 | 10 | 100,000 | 1,000,000 | 80,750 | 807,500 | Capitalization by cash | 95,000 | None | Note 2 |
| | | | | | | Capitalization by earnings | 237,500 | | |
| 06.1999 | 10 | 200,000 | 2,000,000 | 130,700 | 1,307,000 | Capitalization by earnings | 499,500 | None | Note 3 |
| 05.2000 | 10 | 298,000 | 2,980,000 | 174,500 | 1,745,000 | Capitalization by earnings | 438,000 | None | Note 4 |
| 08.2001 | 10 | 298,000 | 2,980,000 | 233,200 | 2,332,000 | Capitalization by earnings | 587,000 | None | Note 5 |
| 12.2001 | 10 | 298,000 | 2,980,000 | 233,429 | 2,334,294 | Conversion of convertible bond | 2,294 | None | |
| 02.2002 | 10 | 298,000 | 2,980,000 | 233,486 | 2,334,865 | Conversion of convertible bond | 571 | None | |
| 06.2002 | 10 | 500,000 | 5,000,000 | 285,513 | 2,855,130 | Capitalization by earnings | 520,135 | None | Note 6 |
| | | | | | | Conversion of convertible bond | 130 | | |
| 12.2002 | 10 | 500,000 | 5,000,000 | 285,529 | 2,855,292 | Conversion of convertible bond | 162 | None | |
| 02.2003 | 10 | 500,000 | 5,000,000 | 286,242 | 2,862,423 | Conversion of convertible bond | 7,131 | None | |
| 04.2003 | 10 | 500,000 | 5,000,000 | 292,846 | 2,928,462 | Capitalization | 66,039 | Note 9 | Note 7 |
| 06.2003 | 10 | 500,000 | 5,000,000 | 341,304 | 3,413,039 | Capitalization by earnings | 484,577 | None | Note 8 |
| 03.2004 | 10 | 500,000 | 5,000,000 | 337,728 | 3,377,279 | Cancellation of Treasury Stock | (38,620) | None | |
| | | | | | | Conversion of convertible bond | 2,860 | | |
| 06.2004 | 10 | 500,000 | 5,000,000 | 362,862 | 3,628,617 | Capitalization by earnings | 223,864 | None | Note 10 |
| | | | | | | Conversion of convertible bond | 27,474 | | |
| 09.2004 | 10 | 500,000 | 5,000,000 | 369,230 | 3,692,299 | Conversion of convertible bond | 63,682 | None | |
| 12.2004 | 10 | 500,000 | 5,000,000 | 374,296 | 3,742,812 | Conversion of convertible bond | 50,513 | None | |
| 03.2005 | 10 | 500,000 | 5,000,000 | 374,767 | 3,747,672 | Conversion of convertible bond | 4,860 | None | |
| 06.2005 | 10 | 500,000 | 5,000,000 | 401,683 | 4,016,833 | Capitalization by earnings | 237,384 | None | Note 11 |
| | | | | | | Conversion of convertible bond | 31,777 | | |
| 09.2005 | 10 | 500,000 | 5,000,000 | 403,889 | 4,038,893 | Conversion of convertible bond | 22,060 | None | |
| 12.2005 | 10 | 500,000 | 5,000,000 | 448,783 | 4,487,826 | Exchange of shares | 448,933 | None | Note 12 |

| Month / Year | Issuing price | Authorized capital | | Paid-in capital | | Remark | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Source of capital | | Pay for stock shares with property other than cash | Others |
| 01.2006 | 10 | 500,000 | 5,000,000 | 448,900 | 4,489,003 | Conversion of convertible bond<br>Conversion of stock option | 477<br>700 | None | |
| 04.2006 | 10 | 500,000 | 5,000,000 | 448,960 | 4,489,603 | Conversion of stock option | 600 | None | |
| 07.2006 | 10 | 500,000 | 5,000,000 | 463,180 | 4,631,795 | Capitalization by earnings<br>Conversion of convertible bond<br>Conversion of stock option | 139,792<br>2,100<br>300 | None | Note 13 |
| 09.2006 | 10 | 500,000 | 5,000,000 | 463,365 | 4,633,645 | Conversion of stock option | 1,850 | None | |
| 12.2006 | 10 | 500,000 | 5,000,000 | 463,630 | 4,636,295 | Conversion of stock option | 2,650 | None | |
| 03.2007 | 10 | 500,000 | 5,000,000 | 463,665 | 4,636,645 | Conversion of stock option | 350 | None | |
| 07.2007 | 10 | 600,000 | 6,000,000 | 490,847 | 4,908,470 | Capitalization by earnings | 271,825 | None | Note 14 |
| 09.2007 | 10 | 600,000 | 6,000,000 | 491,227 | 4,912,270 | Conversion of stock option | 3,800 | None | |
| 12.2007 | 10 | 600,000 | 6,000,000 | 491,577 | 4,915,770 | Conversion of stock option | 3,500 | None | |
| 04.2008 | 10 | 600,000 | 6,000,000 | 491,877 | 4,918,770 | Conversion of stock option | 3,000 | None | |
| 07.2008 | 10 | 600,000 | 6,000,000 | 481,877 | 4,818,770 | Cancellation of Treasury Stock | (100,000) | None | Note 15 |
| 07.2008 | 10 | 600,000 | 6,000,000 | 481,962 | 4,819,620 | Conversion of stock option | 850 | None | |
| 08.2008 | 10 | 600,000 | 6,000,000 | 511,330 | 5,113,308 | Capitalization by earnings | 293,688 | None | Note 16 |
| 10.2008 | 10 | 600,000 | 6,000,000 | 511,346 | 5,113,458 | Conversion of stock option | 150 | None | |
| 04.2009 | 10 | 600,000 | 6,000,000 | 511,366 | 5,113,658 | Conversion of stock option | 200 | None | |
| 07.2009 | 10 | 600,000 | 6,000,000 | 511,386 | 5,113,858 | Conversion of stock option | 200 | None | |
| 08.2009 | 10 | 600,000 | 6,000,000 | 516,009 | 5,160,087 | Capitalization by earnings | 46,229 | None | Note 17 |
| 10.2009 | 10 | 600,000 | 6,000,000 | 516,134 | 5,161,337 | Conversion of stock option | 1,250 | None | |
| 11.2010 | 10 | 600,000 | 6,000,000 | 501,634 | 5,016,337 | Cancellation of Treasury Stock | (145,000) | None | Note 18 |
| 08.2011 | 10 | 600,000 | 6,000,000 | 551,797 | 5,517,971 | Capitalization by paid-in capital | 501,634 | None | Note 19 |
| 01.2012 | 10 | 600,000 | 6,000,000 | 552,996 | 5,529,961 | Conversion of stock option | 11,990 | None | Note 20 |
| 04.2012 | 10 | 600,000 | 6,000,000 | 553,832 | 5,538,321 | Conversion of stock option | 8,360 | None | Note 21 |
| 10.2012 | 10 | 600,000 | 6,000,000 | 560,893 | 5,608,937 | Conversion of stock option | 70,616 | None | Note 22 |
| 01.2013 | 10 | 600,000 | 6,000,000 | 563,997 | 5,639,970 | Conversion of stock option | 31,033 | None | Note 23 |
| 05.2013 | 10 | 600,000 | 6,000,000 | 565,205 | 5,652,050 | Conversion of stock option | 12,080 | None | Note 24 |
| 08.2013 | 10 | 600,000 | 6,000,000 | 565,627 | 5,656,270 | Conversion of stock option | 4,220 | None | Note 25 |
| 10.2013 | 10 | 600,000 | 6,000,000 | 566,924 | 5,669,248 | Conversion of stock option | 12,978 | None | Note 26 |
| 02.2014 | 10 | 600,000 | 6,000,000 | 569,400 | 5,694,000 | Conversion of stock option | 24,752 | None | Not e27 |
| 05.2014 | 10 | 600,000 | 6,000,000 | 571,451 | 5,714,511 | Conversion of stock option | 20,511 | None | Note 28 |
| 07.2014 | 10 | 600,000 | 6,000,000 | 571,762 | 5,717,621 | Conversion of stock option | 3,110 | None | Note 29 |
| 09.2014 | 10 | 800,000 | 8,000,000 | 628,702 | 6,287,021 | Capitalization by earnings | 569,400 | None | Note 30 |
| 11.2014 | 10 | 800,000 | 8,000,000 | 630,103 | 6,301,031 | Conversion of stock option | 14,010 | None | Note 31 |
| 02.2015 | 10 | 800,000 | 8,000,000 | 631,209 | 6,312,091 | Conversion of stock option | 11,060 | None | Note 32 |
| 04.2015 | 10 | 800,000 | 8,000,000 | 631,518 | 6,315,186 | Conversion of stock option | 3,095 | None | Note 33 |
| 06.2015 | 10 | 800,000 | 8,000,000 | 631,853 | 6,318,531 | Conversion of stock option | 3,345 | None | Note 34 |
| 10.2016 | 10 | 800,000 | 8,000,000 | 632,609 | 6,326,091 | Conversion of stock option | 756 | None | Note 35 |
| 01.2017 | 10 | 800,000 | 8,000,000 | 633,074 | 6,330,741 | Conversion of stock option | 465 | None | Note 36 |
| 04.2017 | 10 | 800,000 | 8,000,000 | 633,254 | 6,332,541 | Conversion of stock option | 180 | None | Note 37 |

Note 1: (86) Tai.Chai.Chen (I) No. 42710 Letter dated May 28, 1997
Note 2: (87) Tai.Chai.Chen (I) No. 47165 Letter dated May 29, 1998
Note 3: (88) Tai.Chai.Chen (I) No. 44698 Letter dated May 17, 1999

Note 4: (89) Tai.Chai.Chen (I)) No. 42068 Letter dated May 16, 2000
Note 5: (90) Tai.Chai.Chen (I) No. 131759 Letter dated May 22, 2001
Note 6: Tai.Chai.Chen.I.Tzi No. 0910131630 Letter dated June 11, 2002
Note 7: Tai.Chai.Chen.I.Tzi No. 0920111609 Letter dated April 16, 2003
Note 8: Tai.Chai.Chen.I.Tzi No. 0920128945 Letter dated June 30, 2003
Note 9: Issued new stock shares to exchange for the common stock shares of AXIOMTEK.
Note 10: Tai.Chai.Chen.I.Tzi No. 0930126256 Letter dated June 14, 2004
Note 11: FSC.S.I.Tzi No. 0940124309 Letter dated June 17, 2005
Note 12: FSC.S.I.Tzi No. 0940006036 Letter dated December 22, 2005
Note 13: FSC.S.I.Tzi No. 0950130113 Letter dated July 12, 2006
Note 14: FSC.S.I.Tzi No. 0960035881 Letter dated July 13, 2007
Note 15: MOEA.So.Sun.Tzi No. 09701161800 Letter dated July 4, 2008
Note 16: FSC.S.I.Tzi No. 0970034562 Letter dated July 10, 2008
Note 17: FSC.S.Far.Tzi No. 0980027007 Letter dated June 3, 2009
Note 18: MOEA.So.Sun.Tzi No. 09901265490 Letter dated November 26, 2010
Note 19: MOEA.So.Sun.Tzi No. 10001174140 Letter dated August 1, 2011
Note 20: MOEA.So.Sun.Tzi No. 10101008150 Letter dated January 13, 2012
Note 21: MOEA.So.Sun.Tzi No. 10101074290 Letter dated April 27, 2012
Note 22: MOEA.So.Sun.Tzi No. 10101215000 Letter dated October 17, 2012
Note 23: MOEA.So.Sun.Tzi No. 10201009210 Letter dated January 15, 2013
Note 24: MOEA.So.Sun.Tzi No. 10201077320 Letter dated May 1, 2013
Note 25: MOEA.So.Sun.Tzi No. 10201153720 Letter dated August 1, 2013
Note 26: MOEA.So.Sun.Tzi No. 10201219700 Letter dated October 29, 2013
Note 27: MOEA.So.Sun.Tzi No. 10301021080 Letter dated February 11, 2014
Note 28: MOEA.So.Sun.Tzi No. 10301077560 Letter dated May 1, 2014
Note 29: MOEA.So.Sun.Tzi No. 10301150080 Letter dated July 28, 2014
Note 30: MOEA.So.Sun.Tzi No. 10301198730 Letter dated September 23, 2014
Note 31: MOEA.So.Sun.Tzi No. 10301225080 Letter dated November 3, 2014
Note 32: MOEA.So.Sun.Tzi No. 10401013670 Letter dated February 4, 2015
Note 33: MOEA.So.Sun.Tzi No. 10401076830 Letter dated April 27, 2015
Note 34: MOEA.So.Sun.Tzi No. 10401159550 Letter dated July 29, 2015
Note 35: MOEA.So.Sun.Tzi No. 10501245810 Letter dated October 18, 2016
Note 36: MOEA.So.Sun.Tzi No. 10601005570 Letter dated January 16, 2017
Note 37: MOEA.So.Sun.Tzi No. 10601046990 Letter dated April 12, 2017

| Type of shares | Authorized capital stock | | | Remarks |
|---|---|---|---|---|
| | Shares in circulation (Note) | Unissued shares | Total | |
| Order common stock | 633,254,100 | 166,745,900 | 800,000,000 | Authorized capital stock, of which, 50,000 thousand shares are reserved for exercising stock options. |

Note: It is the number of shares of the listed stock as of March 28, 2017.

Information of shelf registration: NA

(II) Shareholder structure:

March 28, 2017 (Ex-transfer date)

| Structure of Shareholder / QTY | Government institutions | Financial institutions | Other juristic person | Natural person | Foreign institution & foreigners | Total |
|---|---|---|---|---|---|---|
| Number of persons | 1 | 61 | 72 | 8,555 | 773 | 9,462 |
| Shareholding | 8 | 16,175,920 | 293,024,711 | 70,430,170 | 253,623,291 | 633,254,100 |
| Shareholding ratio | 0 | 2.56% | 46.27% | 11.12% | 40.05% | 100% |

(III) Status of Ownership Dispersion:

NT$10 Par
March 28, 2017 (Ex-transfer date)

| Shareholding class | Number of shareholders | Shareholding | Shareholding ratio |
|---|---|---|---|
| 1 ~ 999 | 4,676 | 795,016 | 0.13% |
| 1,000 ~ 5,000 | 3,261 | 6,190,252 | 0.98% |
| 5,001 ~ 10,000 | 473 | 3,415,707 | 0.54% |
| 10,001 ~ 15,000 | 164 | 2,071,382 | 0.33% |
| 15,001 ~ 20,000 | 102 | 1,788,121 | 0.28% |
| 20,001 ~ 30,000 | 143 | 3,485,882 | 0.55% |
| 30,001 ~ 40,000 | 78 | 2,782,595 | 0.44% |
| 40,001 ~ 50,000 | 49 | 2,208,949 | 0.35% |
| 50,001 ~ 100,000 | 163 | 11,251,360 | 1.78% |
| 100,001 ~ 200,000 | 117 | 16,806,382 | 2.65% |
| 200,001 ~ 400,000 | 96 | 27,738,677 | 4.38% |
| 400,001 ~ 600,000 | 40 | 19,651,246 | 3.10% |
| 600,001 ~ 800,000 | 17 | 11,916,290 | 1.88% |
| 800,001 ~ 1,000,000 | 14 | 12,427,514 | 1.96% |
| Over 1,000,001 To be grouped discretionally | 69 | 510,724,727 | 80.65% |
| Total | 9,462 | 633,254,100 | 100% |

Note: The Company does not have preferred stock shares issued.

## (IV) List of major shareholders:

March 28, 2017 (Ex-transfer date) Unit: Shares

| Name of major shareholders / Shares | Shareholding | Shareholding ratio |
|---|---|---|
| ASUSTEK COMPUTER Inc | 91,483,812 | 14.45% |
| K and M Investment Co., Ltd. | 75,337,181 | 11.90% |
| AIDC Investment Co., Ltd. | 74,636,266 | 11.79% |
| K.C. Liu | 23,292,484 | 3.68% |
| HSBC commissioned to manage Yuan-Wang Partner Fund Limited Partnership account | 21,419,216 | 3.38% |
| Advantech Foundation | 18,244,889 | 2.88% |
| Tran-Fei Development Co., Ltd. | 16,874,118 | 2.66% |
| Yong-Shun Zhuang | 14,429,335 | 2.28% |
| Citibank (Taiwan) commissioned to manage Singapore Government investment account | 9,480,179 | 1.50% |
| HSBC commissioned to manage First State Asia Securities Earnings Fund Investment | 7,722,784 | 1.22% |

## (V) Market price, net worth, earnings, and dividends of per share within 2 years:

Unit: NT$

| Item / Year | | | 2015 | 2016 | As of March 31, 2017 |
|---|---|---|---|---|---|
| Market price per share | Max. | | 278 | 289.5 | 273.5 |
| | Min. | | 188 | 194.5 | 245 |
| | Average | | 229 | 241.72 | 255.46 |
| Net worth per share | Before distribution | | 36.89 | 39.83 | 41.45 |
| | After distribution | | 30.89 | (Note 4) | - |
| Earnings per share | Weighted average shares | | 631,632,599 | 632,148,266 | 633,143,766 |
| | Earnings per share | Before adjustment | 8.08 | 8.96 | 1.90(註五) |
| | | After adjustment | 8.08 | (Note 4) | - |
| Dividend per share | Cash dividend | | 6.0 | 6.3 | - |
| | Stock dividend | Stock Dividend from Retained earnings | - | 1.0 | - |
| | | Stock Dividend from additional paid-in capital | - | - | - |
| | Cumulative un-paid dividend | | - | - | - |
| Return on investment analysis | Price-Earnings (P/E) Ratio (Note 1) | | 28.34 | 26.98 | - |
| | Profit Ratio (Note 2) | | 38.17 | 38.37 | - |
| | Cash Dividend Yield (Note 3) | | 2.62 | 2.61 | - |

Note 1: Price-Earning (PE) ratio = Annual average closing price per share / Earnings per share
Note 2: Price-Dividend ratio = Annual average closing price per share / Cash dividend per share
Note 3: Cash Dividend Yield = Cash dividend per share / Annual average closing price per share
Note 4: The proposal for the 2016 earnings distribution has not yet been resolved in the shareholders' meeting.
Note 5: The audited financial data as of 2017Q1 are presented.

(VI) Dividend Policy and Execution Status:

I. Advantech's existing rules concerning dividend policy are as follows:

The Advantech's dividend policies are established by the Board of Directors according to the operation, the capital demand, the capital expenditure, the entire environmental change as well as the rights and interests of shareholders. In no special circumstances, the distribution ratio is based on 50%~65% of distributive profit in the same year. Based on cash and stock dividends, the distribution of stock dividend is limited to not higher than 75% of total dividend.

The amounts of NT$3,988,366,830 and NT$633,074,100 out of the 2016 earnings are appropriated for distribution as cash dividends and share dividends to shareholders, respectively.

There were 633,074,100 shares of common stock outstanding on December 31, 2016 that are entitled to the distribution of shareholder's dividend at NT$7.3 per share.

II.The proposal for dividend distribution is to be resolved in this Shareholders' Meeting:

The dividend (cash dividend) to shareholder for an amount of NT$3,988,366,830 and NT$633,074,100 out of the 2016 earnings are appropriated or distribution as cash dividends and share dividends to shareholders, respectively.Once the proposal is resolved in the shareholders' meeting, the board of directors will be authorized to have the distribution base date scheduled. The dividend distribution is calculated in accordance with the shareholding of the respective shareholder booked in the Shareholder Registry on the scheduled base date. Dividend is distributed in accordance with the outstanding 633,074,100 shares of common stock on December 31, 2016. Dividend to shareholders is for NT$6 per share. Subsequently, for any changes in the distribution ratio due to the change of law and regulations, the change in the authorization of the competent authorities, or the change in the outstanding shares, the shareholders' meeting is to have the board of directors authorized to have the dividend per share adjusted in accordance with the number of outstanding shares.

III.Any expected major changes in the dividend policy: None

(VII) The impact of the distribution of stock dividend as proposed in this Shareholders Meeting on the Company's operation performance and earnings per share:

The distribution of stock dividend was not proposed in the 2016 shareholders' meeting; also, the Company is not required to publish the 2016 financial forecast in accordance with the provisions; therefore, no need to disclose the annual forecast information.

(VIII) Employee Compensation and Remuneration to Directors and Supervisors:

1.The amendment to Company Act in May 2015 deleted the relevant provisions regarding employee bonus from the original provisions related to surplus allotment, and another Article was promulgated and provided that a fixed amount or ratio of profit of the current year distributable as employees' compensation shall be definitely specified in the Articles of Incorporation. Advantech plans to amend the Articles of the company in accordance with the foregoing regulations at the 2016 shareholders' meeting.

According to the proposed Articles, Advantech shall set aside less than one percent (1%) of annual profits for the distribution of directors' compensation and one to twenty percent (1-20%) for employees' compensation before allotting surplus.

On March 6, 2017, the Board of Advantech approved that the payment of employees' cash compensation for the year 2016 shall be made in compliance with a fixed ratio of annual profits, and that the payment of directors' compensation shall calculated based on the expected the calculated amount with accounting records. and the current-year distributable amount. In case of discrepancy between the preceding calculated amount and the actual amount distributed, it shall be corrected according to the accountant's calculation and the accounting record shall be adjusted for the year of distribution.

2.The estimation base for the distribution of employee Compensation and remuneration to directors and supervisor, the calculation base of the outstanding shares for the distribution of stock dividend,and the accounting process for the differences between the actual amount distributed and the estimated amount:

For the earnings distribution resolved in the shareholders' meeting, if the amount of the employee Compensation and remuneration to directors and supervisors is changed, the amount of difference should be handled in accordance with changes in accounting estimates and booked in the profit and loss of the following year without affecting the financial report that had already been acknowledged.

3.Information about the proposed distribution of employee bonus as approved by the Board of Director:

(1) On March 6, 2017, according to the revised charter based on the resolution, the company will disburse annual profit sharing:

Employee bonuses： NT$243,000,000.

Remuneration to directors and supervisors：NT$12,300,000.

Payments will be made in cash. The above amounts accurately reflect 2016 expenses already accounted for.

(2) The ratio of the proposed distribution of employee stock dividend payments to the total amount of the net income and employee bonus on the proprietary or individual financial statements: NA

4. The distribution of the 2015 earnings as employee bonus and remuneration to directors and supervisors:

(1)The distribution of the annual employee bonus and remuneration to directors and supervisors is as follows:

Employees Cash dividend: NT$200,000,000

Remuneration to directors and supervisors: NT$12,000,000

(2)If the amount referred to above differs from the employee bonus and remuneration to directors and supervisors recognized, please state the number of differences, causes of differences, and the treatment scenarios: None

(IX) Situations of the Company's buy back stocks: None

## II. Corporate bond:NA.

## III. Preferred Stock issued: NA

## IV. Global depositary receipts issued: NA

## V. Employee Stock Options issued

(I) The Company's outstanding employee stock options and its impact on shareholders' equity up to the publication of the annual report:

| Types of employee stock option certificate | 2014 Employ stock option | 2016 Employ stock option |
|---|---|---|
| The effective date of declaration | July 29, 2014 | June 17, 2016 |
| Issuing date | August 12, 2014 | August 12, 2016 |
| The number of units issued | 5,000 units | 6,500 units |
| Ratio of the number of shares available for subscription to the total number of shares issued | 0.79% | 1.03% |
| Duration of subscription | 8/12/2016 ~ 8/11/2020 | 8/12/2018 ~ 8/11/2022 |
| Method of performance | Issuance of new shares | Issuance of new shares |
| Restrictive subscription period and ratio (%) | 40% of the granted stock option certificate is exercisable after 2 years, 60% after 3 years, 80% after 4 years, and100% after 5 years | 40% of the granted stock option certificate is exercisable after 2 years, 60% after 3 years, 80% after 4 years, and100% after 5 years |
| Number of shares subscribed | 1,401,000 | 0 |
| Amount of shares subscribed | 133,235,100 | 0 |
| Number of shares yet to be subscribed | 3,599,000 股 | 6,500,000 股 |
| Subscription price per share for the unsubscribed shares | 95.1 | 100 |
| Ratio of the unsubscribed shares to the total number of shares issued (%) | 0.57% | 1.03% |
| Impact on shareholders' equity | The granted employee stock option certificates after 2 years shall be exercised in accordance with the conditioned subscription period and ratio; also, the number of shares to be subscribed is 0.79% of the number of shares issued, which will not have significant impact on shareholders' equity. | The granted employee stock option certificates after 2 years shall be exercised in accordance with the conditioned subscription period and ratio; also, the number of shares to be subscribed is 1.03% of the number of shares issued, which will not have significant impact on shareholders' equity. |

**(II) Name of the managers with employee stock option certificates obtained, the top-10 employees with stock option certificates obtained, the respective acquisition and subscription:**

March 28, 2018

Units: Except for stock subscription price in NTD, NT$ Thousand

| | Title | Name | | Number of shares acquired | Ratio of subscribed shares to total number of shares issued | Subscribed | | | | Unsubscribed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Number of shares subscribed | Price of shares subscribed | Amount of shares subscribed | Ratio of subscribed shares to total number of shares issued | Number of shares subscribed | Price of shares subscribed | Amount of shares subscribed | Ratio of subscribed shares to total number of shares issued |
| Management | President | Chaney Ho | 2014 employee stock option certificate | 500,000 | 0.08 | 120,000 | 95.1 | 11,412,000 | 0.02 | 380,000 | 95.1 | 36,138,000 | 0.06 |
| | Vice President | Deyu Yin | | | | | | | | | | | |
| | Vice President | Albert Huang (None1) | | | | | | | | | | | |
| | Vice President | Eric Chen | | | | | | | | | | | |
| | Vice President | Deyu Yin | 2016 employee stock option certificate | 160,000 | 0.03 | - | - | - | - | 160,000 | 100 | 16,000,000 | 0.03 |
| | Vice President | Eric Chen | | | | | | | | | | | |
| Employees | Ttop-10 employee | | 2014 employee stock option certificate | 325,000 | 0.05 | 0 | 0 | 0 | 0 | 325,000 | 100 | 0 | 0.05 |
| | Ttop-10 employee | | 2016 employee stock option certificate | 250,000 | 0.04 | - | - | - | - | 250,000 | 100 | 2,500,000 | 0.04 |

Note:Albert Huang has been in October 2016 position adjustment.

## VI.Restricted Employee Shares: NA

## VII. Issuance of new shares for the shares acquired or transferred from other companies: NA

## VIII. Implementation of fund plan: NA

# V. HIGHTLIGHTS OF OPERATIONS

## I. Business Content

### (I) Business Scope

1. Major business operation of the Company:
   (1) The design, assembly, combination, production, and trade of computer testing equipment and automated test systems;
   (2) The processing, manufacturing, and importing/exporting (except for the restricted items) of computers, electronics, and electrical components and devices;
   (3) The design, contracting, installation, and maintenance of computers and electronic control automation systems;
   (4) Computer software design;
   (5) Handling the agency, quotes, bidding, and sales of the products referred to above on behalf of the domestic and foreign manufacturers;
   (6)The assembly, manufacturing, trade, and importing/exporting business of the wired and wireless communications equipment;

2. Major products and business ratio of the Company:

Unit: NT$ Thousand

| Ratio / Major product | 2016 | |
|---|---|---|
| | Sales Amount | % |
| Industrial Control | 5,377,597 | 13 |
| Industrial computer | 9,666,898 | 23 |
| Embedded board and case | 16,733,624 | 40 |
| Industrial applied computer | 5,014,219 | 12 |
| After-sale service and other | 5,209,860 | 12 |
| Total | 42,002,198 | 100 |

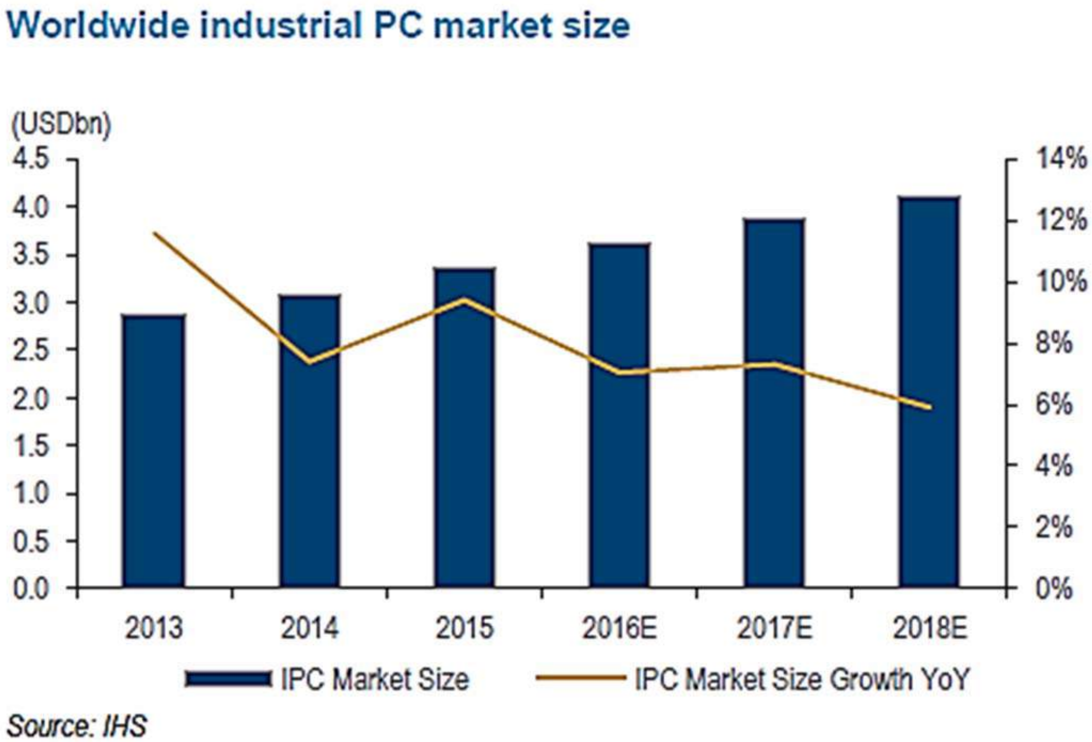
3.The Company's currently offered products: Embedded board and case, industrial applied computer, industrial control, industrial computer, and after-sale service and others.

4. New product development plan of the Company:
   (1) M2.COM as open stardard IoT sensor patform and M2M applications
   (2) Wireless IoT Gateway with the capabilities of Wi-Fi, Sub-1G, Cellular connections
   (3) Edge Intelligence Server
   (4) WISE-PaaS (Platform as a Service) for IoT cloud services
   (5) Total solutions for Industry 4.0 and factory automation
   (6) Platforms for Intelligent robot, machine vision and motion control
   (7) Total solutions for intelligent retail
   (8) Platforms for intelligent transportation and digital logistics
   (9) Energy management system for intelligent building
   (10)Platforms for digital healthcare and intelligent hospital
   (11)Industrial network appliances and management system

### (II) Industry Summary

2.1 **Industry status and development**

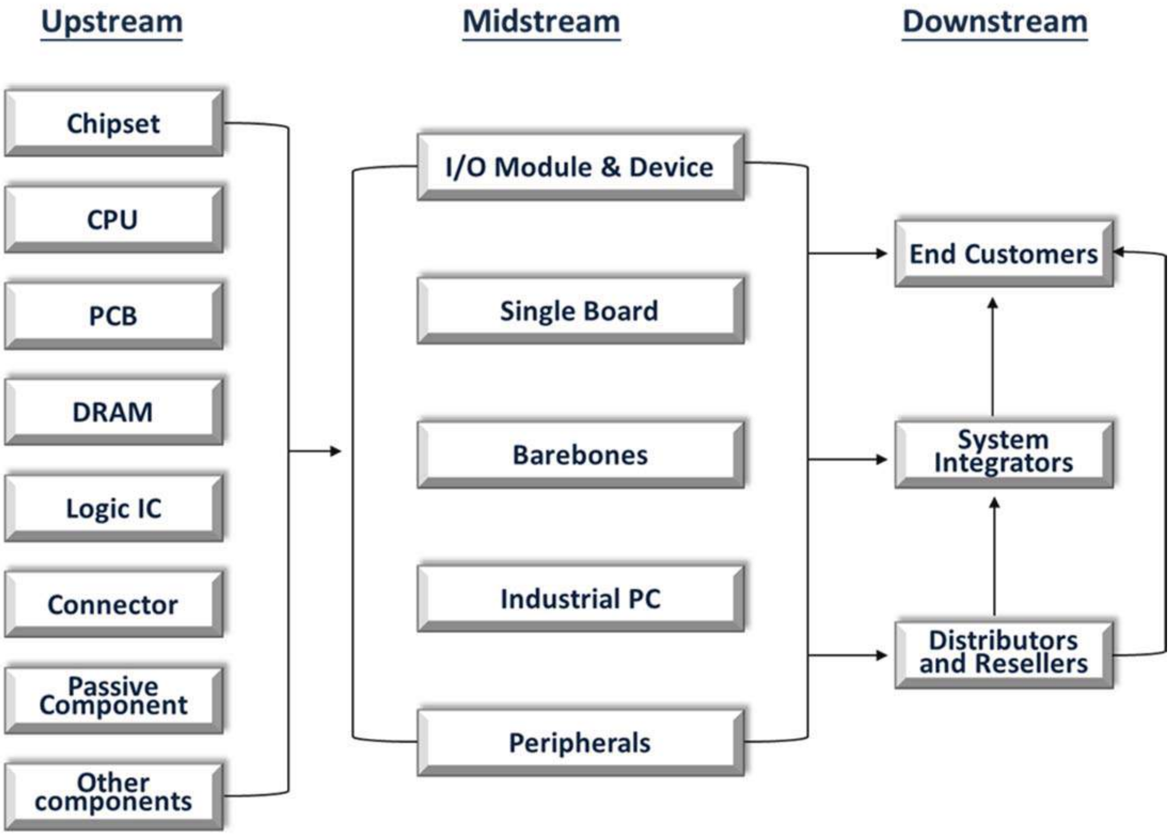
In early stage, Industrial PC (IPC) was mainly applied on the manufacturing process, instrument and the control and monitoring, testing of machine & equipment. The form-factor was restricted to industrial automated board system and the main application is automation system. In past few years, due to the rise of integrated solution of communication, internet, software and optical technology, IPC started to penetrate into more application markets, including MRT reader, vending machine, ATM, POS, game, network storage (NAS), Digital Signage, smart building automation monitoring systems and environmental monitoring systems, and lottery ticket computers. The overall targeting markets spread out from original "industrial" specialized to "intelligent" specialized. According to IHS, the global IPC market size reached US$3.6bn in 2016 with 7% YoY growth. Compared with PC and smartphone market, IPC is a niche market segment with more stable and moderate growth.




However, benefiting from the rise of intelligent system and internet of things (IoT), industrial PC and embedded system is gradually transformed to a key element of the infrastructure in IoT ecosystem. The market consensus views that IoT will dominate the technology transition, transform the competition landscape and change human being's life style in coming 10~15 years. However, each end application market has its owned specialized characteristics and preference, which will result in a more-complicated ecosystem and form-factor design. According to IDC and Gartner, IoT market is expected to create 15~20% CAGR in 10~15 years.

2.2 **The supply chain in upstream, midstream and downstream**

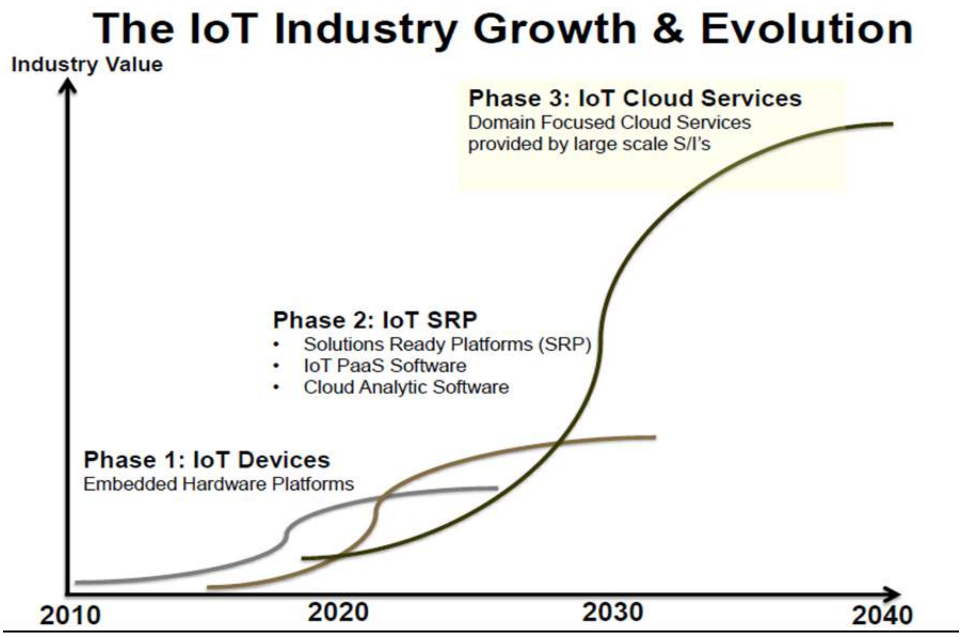
The supply chain of industrial PC and embedded systems



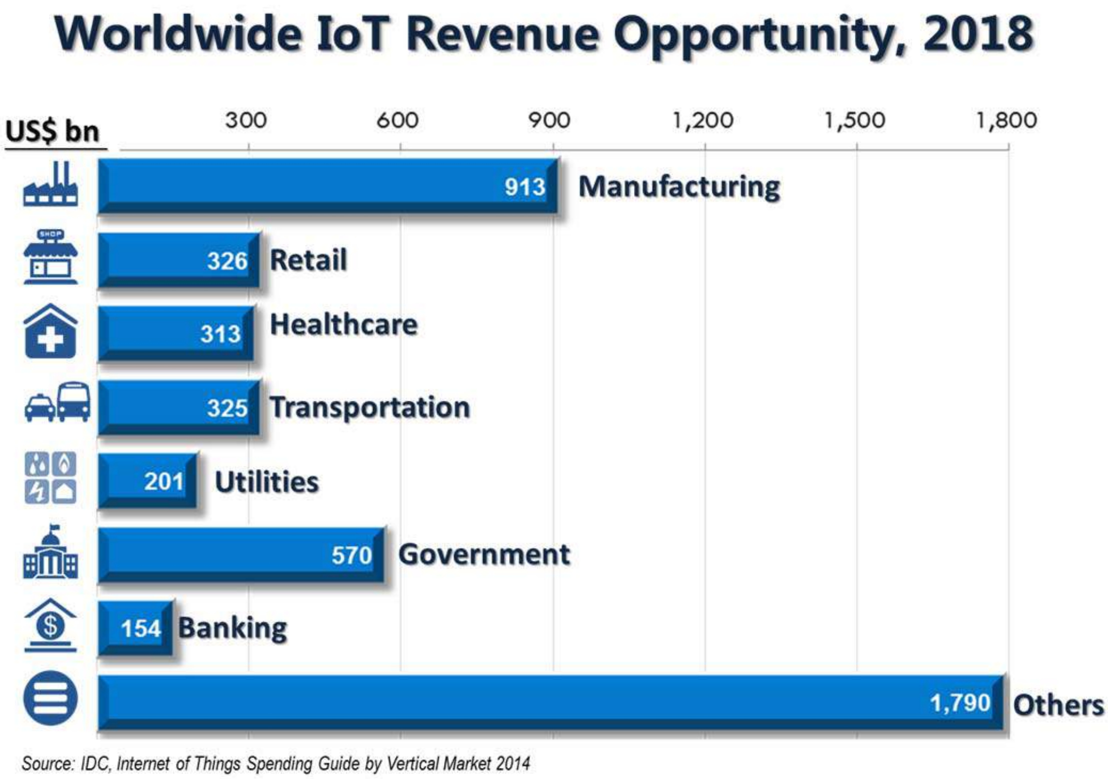

Simply speaking, IoT is formed by three layers of architecture, including “instrumentation”, “connectivity” and ‘intelligent computing” (please refer to below chart). The key players in the first layer- instrumentation- are Advantech, Delta, ABB, GE and etc. The key players in the second layer- connectivity- are AT& T, Cisco, Nokia, Alctel and etc, which are responsible to transcode the data up to the cloud. The third layer is intelligent computing and the key players are IBM, Microsoft, Amazon and Google. They also cooperate with software vendors to provide data analytics service to the end customers. As the result, the ecosystem of IoT is not the traditional linear supply chain competition but more relies on the cooperation between different specialized vendors.


2.3 **The industry development**

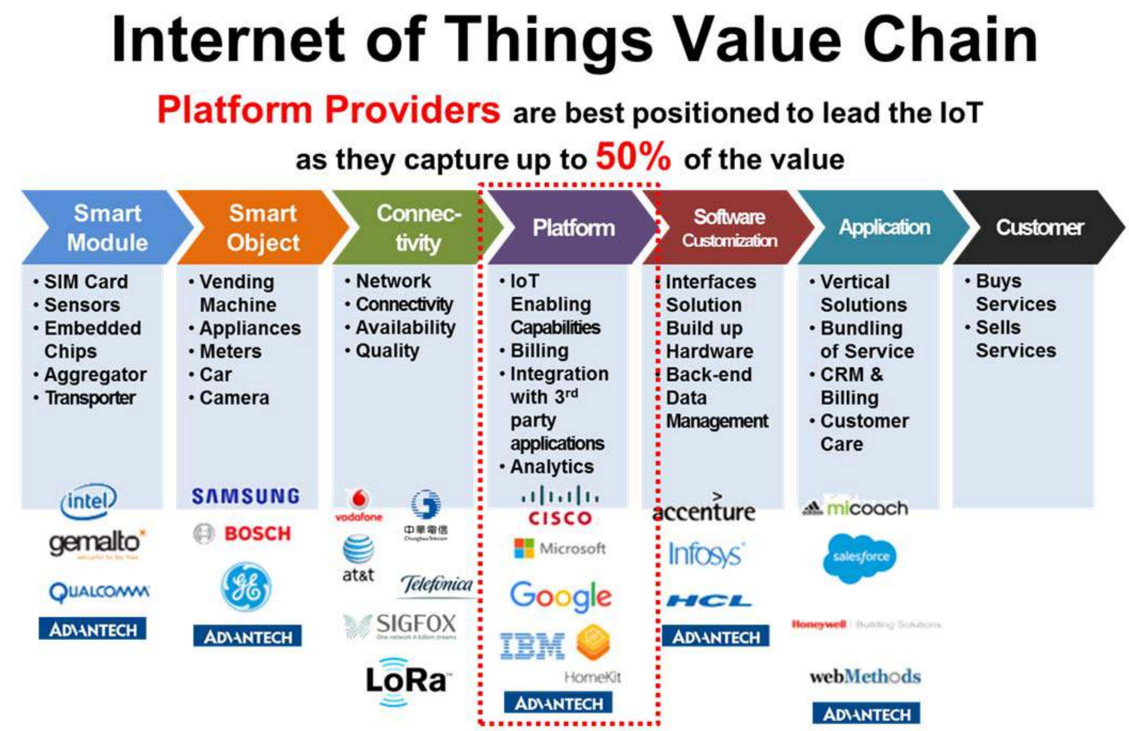
According to the report "The Internet of Things: Mapping the Value beyond the Hype", published by McKinsey in 2015, there are three wave of growing stage of IoT (see the figure below). The first wave happened in 2010 and will get matured in 2020 and the major beneficiaries are IoT device makers, like fabless houses and certain hardware providers (like smartphone makers and smart wearable device makers). The second wave happened in 2015-16 and will accelerate the growth sentiment during 2019-20. The second wave will get matured in 2025 and entered into the third wave of IoT growth. The major beneficiaries in 2nd wave are hardware and software integrated solution providers. We might see accelerating growth sentiment in the 3rd wave starting from 2030 and get matured in 2040. The service providers will be the main beneficiaries, including Alibaba, Google, Amazon and Microsoft. But the biggest value creation will come from the end customers and users due to the new business model, the new technology adoption and more precise big data analytics.




According to IDC forecast, the total revenues created by the IoT ecosystem will reach US$4.6 trillion in 2018. By application markets, manufacturing, government infrastructure, retail, healthcare and transportation will create the biggest opportunities. In addition, the miscellaneous segment will create US$1.8 trillion market value, which is in line with the diversity and complex of IoT market.




A pure hardware provider will face more severe price competition and the cyclical risk if not catching the IoT technology trend and opportunity. IoT will narrow the industry boundary in different layers. For example, GE is the global biggest engine manufacturer in railway and aircraft market. They identify the future growing catalyst will come from “Digitalization”. GE Predix now is the most famous industrial data analytic platform, which provide differentiation and tailor-made service to end customers From below figure, we will realize IT companies try very hard to expand their business footprints to upstream and downstream value chain. If we review the M&A activities in 2014-16, the cross-sector cooperation will become the “new normal” in the future.




Source: Mohit Agrawal, Head, Marketing Planning & Channel Marketing, Asia Pacific, Microsoft

(III) Technology and Research & Development

1. The R&D expense incurred in the most recent year and up to the publication of the annual report:

   (1) Total R&D expense amounted to NT$3,649,292 thousand in 2016;

   (2) Total R&D expense amounted to NT$871,071 thousand in 2017Q1;

2.Successfully developed technology or product

   The Company values the importance of R&D. In addition to dedicating massive manpower in product R&D in Taiwan, there are also R&D teams designated in the USA, Europe, and China to accelerate the product development speed and grasp the market development.

   The Company has more than four new products launched in every year and with 37 patents acquired domestically or internationally by the end of 2016.

(IV) **Long-term and short-term business development plan**

◆ **Short-term business development**

- Enhance the industry diversity and global sales network to reduce the systematic risk from single industry and country
- Provide localized and tailor-made service to scale up the leading advantage with peers.
- Strengthen certain market insight to increase the customer partnership.

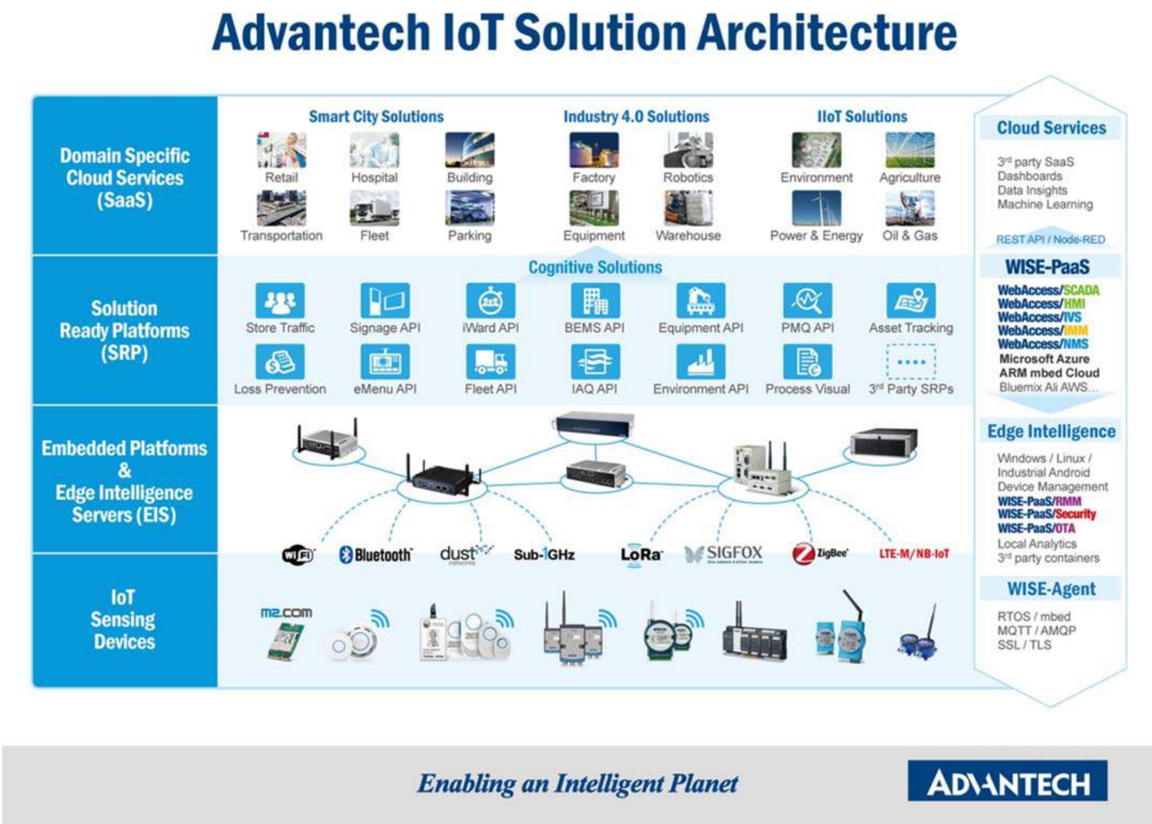
◆ **Long-term business development**

- **Enhance the advantage in R&D and manufacturing**

  Advantech will keep investing in R&D to provide differentiated service to fulfill the diversity request from IoT specialized customer. In addition, Advantech consolidate all the production sites in northern Taiwan to the mega campus in Linkou Taiwan starting from October 2016 to realize the vision of smart manufacturing.

- **Establish the WISE-PaaS Software Platform**

  To catching up the 2nd wave of IoT growing opportunity, Advantech aggressively invested in software platform since 2015.In 2015, WISE PaaS focused on resource integration and platform architecture development. In 2016, WISE PaaS identified few successful user cases in EIS(Edge Intelligence Server) and SRP(Solution Ready Platform). In 2017, WISE PaaS targets to upgrade the overall service to cloud side to provide a more reliable and speedy intelligent computing platform.



- **Looking for investment and M&A opportunity to enhance technology capability and market share**

In addition to cooperate with external partners, Advantech is aggressively looking for M&A opportunities to enhance the capability in technology and software and to accelerate the development in IoT vertical market ecosystem.
In 2016, Advantech successfully acquired B+B SmartWorx into the group. In January 2017, Advantech announced to invest Kostec, a healthcare monitor provider. Both are in line with Advantech's strategy in developing technology capability and vertical market insight.
Furthermore, Advantech is cooperating with young talents through University Collaboration. The long term is to facilitate the IoT supply chain in Taiwan.

## II. Market, Production, and Sales Review

### (I) Market Analysis

1. Main product and main market:

Unit: NT$ Thousand

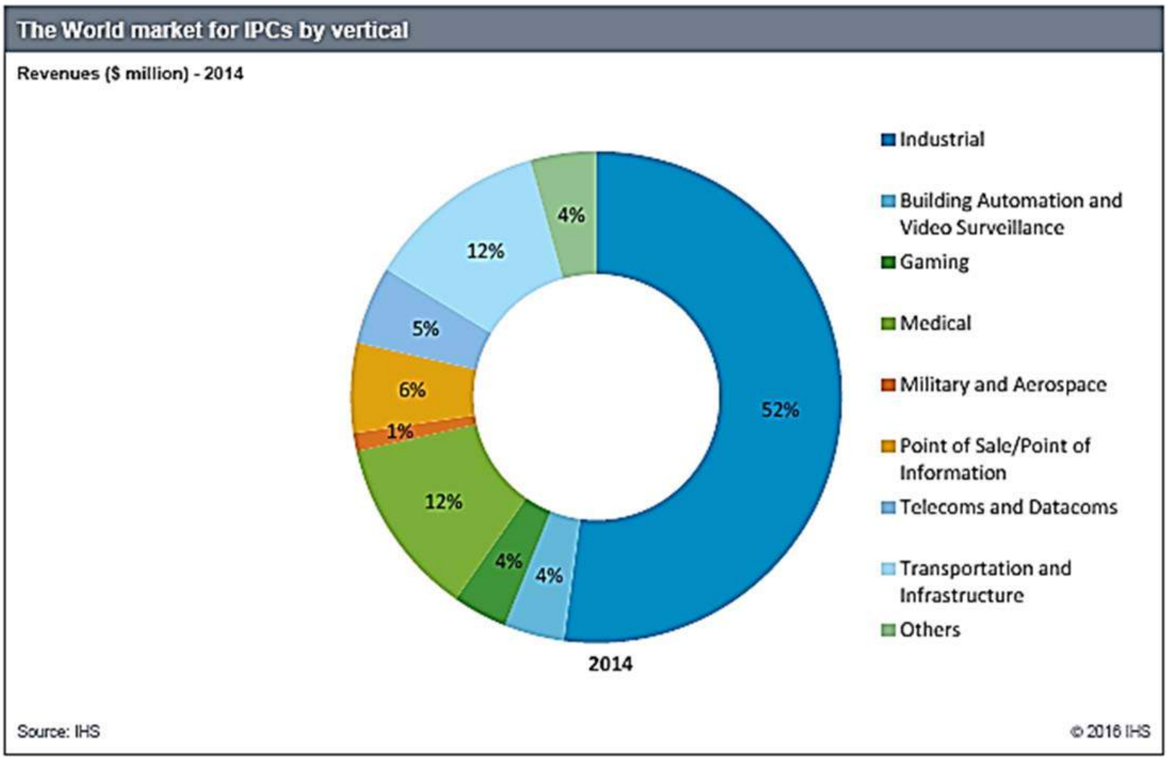
| Area | 2016 |
|---|---|
| America | 13,337,334 |
| Asia (including Taiwan) | 20,249,283 |
| Europe | 6,526,905 |
| Other | 1,888,676 |
| Total | 42,002,198 |

2. **The market share and competition landscape**

- **The market share in industrial PC segment**

According to IHS, the compound growth rate of global industrial PC market is around 6% in 2014-16. The growth rate slowed down in 2015-16 and will recover in 2017-19.

Advantech is reported to have 29% market share in 2014, improved 0.5% compared with a year ago. By geography, Advantech is positioned as the No.1 market share company in United States and APAC. In EMEA, Siemens is the No.1 market share company. The top 4 industrial PC vendors totally occupied 54% revenues of the global Industrial PC market and the top 10 vendors totally occupied 65% market revenues.



| Table 2.16<br>The World market share estimates for Industrial PCs<br>2013 and 2014 -$ Revenues | | | | |
|---|---|---|---|---|
| | Company | 2013 | 2014 | % Change |
| 1 | Advantech | 28.5% | 29.0% | 0.5% |
| 2 | Siemens | 9.0% | 9.0% | 0.0% |
| 3 | Beckhoff | 6.5% | 6.0% | -0.5% |
| 4 | Kontron | 5.5% | 5.5% | 0.0% |
| 5 | American Industrial Systems | 3.0% | 4.5% | 1.5% |
| 6 | B & R Automation | 3.5% | 3.0% | -0.5% |
| 7 | Nexcom International | 2.0% | 2.0% | 0.0% |
| 7= | Avalue | 2.0% | 2.0% | 0.0% |
| 7== | DFI | 2.0% | 2.0% | 0.0% |
| 7=== | IEI Technology | 2.0% | 2.0% | 0.0% |
| | Others | 36.0% | 35.0% | |
| The market in 2013 was estimated to be worth $2937.4 million | | | | |
| The market in 2014 was estimated to be worth $3206.8 million | | | | |

- **The market share in embedded board and systems**

According to the report published by IHS in November 2016, the overall market size of embedded board and systems was around US$2.5bn in 2015, with 3.7% CAGR in 2015-2020. By application market, industrial automation, communications and defense are the key applications in embedded markets. By growth potential, industrial automation is the driving force. Advantech is reported to have 12% market share in embedded board and systems in 2015.

Figure ES.1
Forecast for the World Market for Embedded Computer Boards, Modules and Systems (2015-2020)

By product type (Ex. DIY boards)
Revenues ($ millions)

| | 2015 | 2020 | CAGR |
|---|---|---|---|
| xTCA | 321.0 | 165.0 | -12.5% |
| CompactPCI | 202.0 | 134.0 | -7.9% |
| VME and VPX | 493.0 | 576.0 | 3.2% |
| Standalone Boards | 666.9 | 966.0 | 7.7% |
| Computer on Modules | 765.1 | 1,157.2 | 8.6% |
| PICMG 1.x | 90.0 | 48.0 | -11.8% |
| **Total** | **2,538.0** | **3,046.2** | **3.7%** |

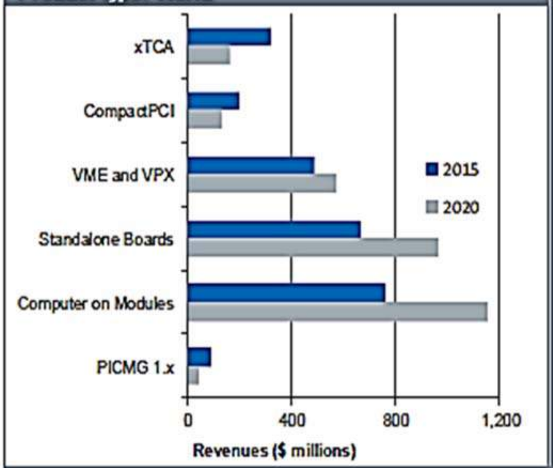
Top three sectors
Revenues ($ millions)

| | 2015 | 2020 | CAGR |
|---|---|---|---|
| Industrial Automation | 715.0 | 814.0 | 2.6% |
| Communications | 335.0 | 204.0 | -9.4% |
| Defense | 548.0 | 603.0 | 1.9% |
| **Total** | **1,598.0** | **1,621.0** | **0.3%** |

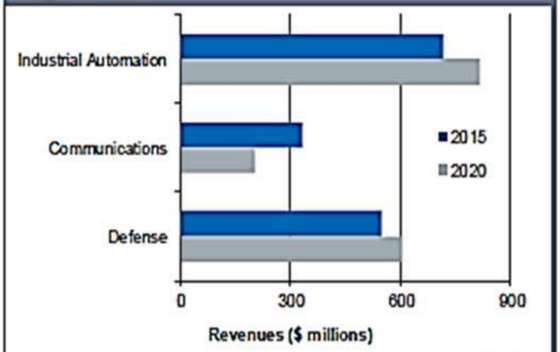
Estimated world market shares
Revenues ($ millions)

| | 2014 | 2015 |
|---|---|---|
| Advantech | 10.9% | 11.9% |
| Kontron | 8.9% | 8.4% |
| Abaco | 7.8% | 8.0% |
| Artesyn | 7.8% | 5.9% |
| Curtiss Wright Controls | 5.0% | 5.1% |
| **Others** | **40.4%** | **39.3%** |

Product type: World




largest sectors




Source: IHS

© 2016 IHS

## ■ The supply demand condition and product competition

Due to the nature of highly tailor-made form factor and diversity customer requirement, there is no over-supply situation in industrial PC and embedded system. However, the industrial cycle and business sentiment is highly related to enterprise capex in different vertical market. The risk will come from the macroeconomic dynamic, which will result in a conservative attitude of enterprise capex planning. In addition, most of Taiwan based companies are export-driven business model. The big exchange rate volatility will impact negatively to the profitability.

Advantech is positioned well in the industrial PC and embedded system market. However the overall market growth is relative milder in the future. At the same time, traditional motherboard makers are aggressively to take the low-end embedded market share due to the stability embedded market nature. If Advantech only eyes on current business, the future growth potential is limited as well. Therefore, Advantech penetrated into new application market and IoT industry since 2010, keeping enhancing software capability, and expect IoT might provide new growth catalyst in the future.

The Company's other products awarded in recent

| Year | Awards |
| --- | --- |
| 2017 | ▪ The $25^{th}$ Symbol of Excellence Winner for high performance 4U server system DMS-SA21, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for fanless railway panel PC ARS-P3800 , the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for 8" multi-functional handheld POS system AIM-65 , the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for pocket-size smart factory edge gateway UNO-2271G, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for 21.5" industrial multi-touch panel PC stainless steel chassis IPPC-5211WS, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for 10.1" healthcare/hospitality infortainment terminal HIT-W101C, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for embedded Qseven board SOM-3568, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for rolling stock fanless system ARK-2231R/ ARK-2230R, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for modular fanless box PC ARK-1124H / ARK-1124U /ARK-1124C, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for power automation computers ECU-4784, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for palm Size vision system AIIS-1200, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for fanless vision system AIIS-5410P, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for compact fanless system MIC-7500, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for video wall signage player DS-980, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for thin barebone system EPC-T2285, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for embedded motion controller MVP-3245, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for intelligent remote terminal unit ADAM-3600/ ADAM-3617/ ADAM-3618/ ADAM-3624/ ADAM-3651/ ADAM-3656, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for managed redundant industrial ethernet switches EKI-7700 Series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for Advantech WebAccess/Cloud , the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for WISE-DK1520 starter kit , the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The $25^{th}$ Symbol of Excellence Winner for development kit for RTX v2.0 CPU Module ROM-3420 , the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |

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| 2016 | ▪ TREK-773 rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ PWS-870 rewarded 2016 iF Product Design Award.<br>▪ 1U High-efficiency Server rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ 24" Medical Computer rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ 7" High-efficiency Integrated Vehicle-mount Terminal – Light Vehicle Management rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ 7" Ultra-slim Vehicle-mount Tablet Computer rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ DPX-E135 Embedded Gambling System rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Pico-ITX 2.5" Micro Embedded Computer rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ ProView Ethernet Exchange rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ SOM-7568 Fan-free Embedded Micro COM Expres Computer rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Full-flat Compact Industrial Touch Computer rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Internet of Things Wireless Data Retrieval Module rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Wireless Internet of Things Gateway rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ High-efficiency Computer Control System for Train Car rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Fan-free Industrial Computer for Control Cabinet rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Third-generation 7" Aluminum Vehicle-mount Terminal – Heavy Vehicle Management rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Fan-free Wayside Control Platform rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Mobile Multimedia Computing Module rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Ultra-slim Open-framed LED Touch Display rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Ultra-slim Mini-ITX rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Ultra-HD OPS Multimedia Player rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence<br>▪ Modular Industrial Control Platform rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Modular Embedded Intelligent System rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Aluminum Rail Industrial Computer rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence.<br>▪ Medical Intelligent Battery System rewarded the 24th Taiwan Excellence Gold and Silver Awards from Ministry of Economic Affairs, R.O.C. to enjoy the official authorization from the symbol of Taiwan Excellence |

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| 2015 | ▪ The 23rd Symbol of Excellence Gold Medal and Silver Medal Winner for 7” medical and industrial-grade handheld tablet computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for ATCA 100GbE advanced communications server, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for EKI Spec. Ethernet network switches, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for Open-type network structure HMI/SCADA software, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for Ultra-low-power consumption simple embedded IoT system, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for industrial-grade tablet computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for Fanless & Wide-range temperature Embedded System, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for Embedded Gambling System, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for High-performance smart embedded computer module, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for SoC wide-range temperature embedded applied computer modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for 4K2K four-display high-performance smart digital signage player, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for 21.5” Thin open-type frame LED backlit touch screen, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for Integrated on-board computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for high-performance broad application robust Tablet PC, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for multi-function data collection card series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for robust Industrial Computers, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for 7” medical handheld tablet computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 23rd Symbol of Excellence Winner for on-board monitoring Embedded fanless smart system, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2014 | ▪ Awarded with the “2014 Taiwan Top 10 Global Brands” Award.<br>▪ Advantech received the CSR Best Workplace Excellent Award from Global Views Monthly in 2014.<br>▪ The 22nd Symbol of Excellence Winner for High-performance network security equipment, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for ATCA 40GbE advanced communications motherboard, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Advantech WebAccess-open network structure HMI / SCADA software, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Programmable Automation Controllers, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Superthin and bright industrial LCD panel, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Industrial-grade multi-touch points man-machine interface, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Industrial-grade wide-screen tablet displays, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Smart remote Ethernet network data collection modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for PoE (Power over Ethernet) industrial Ethernet Switch, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for High-performance smart embedded computer modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |

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| | ▪ The 22nd Symbol of Excellence Winner for lightweighted smart micro-fanless embedded systems, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Low-power consumption simple smart connected device, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Low-power consumption ultra-compact embedded computer modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Low-power consumption miniature embedded computer modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for ATCA dual processor advanced communications motherboard, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 22nd Symbol of Excellence Winner for Mobile Industrial Computers, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2013 | ▪ Awarded with the “2013 Taiwan Top 12 Global Brands” Award.<br>▪ Advantech Industrial Automation Group - Human Machine Interfaces (HMI) TPC and SPC series won Germany iF product design award in 2013.<br>▪ The 21st Symbol of Excellence Winner for High-performance network security equipment, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for ATCA 40GbE advanced communications motherboard, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Industrial-grade wireless data collection module, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for IEEE 802.11a / b / g / n Industrial Wireless Outdoor Mesh, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Low-power consumption ultra-compact embedded computer module, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Green low-power consumption smart industrial-grade server, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Innovative high elastic expansion single-board computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Smart wide-range temperature miniature motherboard MI/O Ultra Series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Robust design, high elastic expansion single-board computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Super bright smart industrial-grade display panel, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Industrial-grade ultra-thin open-frame display, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Dual processors ATCA advanced communications server, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Smart miniature fanless embedded systems, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Open-style Easy handling digital electronic multimedia player, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for High-Performance Multi-Display Digital Electronic Multimedia Player, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Streamline energy-saving digital signage, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 21st Symbol of Excellence Winner for Energy data centralized computation, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2012 | ▪ Awarded with the 11th place of the “2012 Corporate Citizen Award” by Commonwealth Magazine.<br>▪ Awarded with the “2012 Taiwan Top 11 Global Brands” Award.<br>▪ The 20th Symbol of Excellence Winner for TREK-753 full-featured integrated on-board computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Industrial tablet touch panel display, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Cascaded-type real-time Ethernet remote data collection module, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Low-power consumption ultra-compact embedded computer modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Innovative interface single-board computers MI/O Extension, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Smart miniature motherboard MI/OUltra Series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |

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| | ▪ The 20th Symbol of Excellence Winner for High seismic wide-range temperature PCI-104 CPU board, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Green energy-saving industrial-grade motherboard, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Electricity market exclusive fanless embedded industrial computer, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Industrial-grade flat touch panel LED display, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Open-style Easy handling digital multimedia player, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Low-power consumption high display digital multimedia player, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 20th Symbol of Excellence Winner for Expandable blade-type 5-slot Industrial PC, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2011 | ▪ Awarded with the “2011Taiwan Top 10 Global Brands” Award.<br>▪ The 19th Symbol of Excellence Winner for ARK-VH200 fanless on-board DVR embedded systems, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for FWA-6500 network applied platform, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for NCP-5260, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for PC/104, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for PCM 9562, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for PEC-3240 fanless industrial-grade embedded motion controller, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for PIT-1501W healthcare and infotainment entertainment systems, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for SOM-5788 Intelligent smart embedded computer modules, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for Low-power consumption and wide-range temperature industrial touch control PC, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 19th Symbol of Excellence Winner for TREK-550, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2010 | ▪ Awarded with the “2010 Taiwan Top 12 Global Brands” Award.<br>▪ Awarded by Chinagkong with the “Decade Industrial Contribution” and “Decade Leading Industry.”<br>▪ The 18th Symbol of Excellence Winner for IPPC- 8151S, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 18th Symbol of Excellence Winner for APAX- 5000 series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 18th Symbol of Excellence Winner for Uno- 1100 series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 18th Symbol of Excellence Winner for UTC-W101E, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 18th Symbol of Excellence Winner for NCP-7560, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 18th Symbol of Excellence Winner for MIC-5322, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2009 | ▪ The 17th Symbol of Excellence Winner for IPPC 7517, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 17th Symbol of Excellence Winner for EKI 5000 series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ Awarded with the “Electron d'Or Award for Industrial and Network Computing Architecture (INCA)”<br>▪ Awarded with the “2009 Taiwan Top 12 Global Brands” Award.<br>▪ Awarded with the “2009 China Outstanding Innovation Enterprise” award by CIO IT Magazine. |
| 2008 | ▪ Advantech received the 4th prize of the 2nd “Corporate Social Responsibility Award” from Commonwealth Magazine, Taiwan, ROC<br>▪ The 16th Symbol of Excellence Winner for UbiQ 350, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 16th Symbol of Excellence Winner for VITA 350, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 16th Symbol of Excellence Winner for UNO-2182, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 16th Symbol of Excellence Winner for TPC-30T/TPC-32T, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 16th Symbol of Excellence Winner for IPPC-7157A/IPPC-7158B, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2007 | ▪ Advantech received the 3rd “Corporate Social Responsibility Award, Top Honor” in 2006 from Global Views Magazine, Taiwan, ROC<br>▪ Advantech received the 1st “Corporate Social Responsibility Award from Commonwealth Magazine, Taiwan, ROC<br>▪ ARK-3381 received Computex Taipei Best Choice Award.<br>▪ The 15th Symbol of Excellence Winner for UibQ-230, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 15th Symbol of Excellence Winner for ARK-4170, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 15th Symbol of Excellence Winner for ADAM-5550KW, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2006 | ▪ Advantech received the 2nd “2006 Corporate Social Responsibility Award” from Global Views Magazine, Taiwan, ROC<br>▪ Received the Supplier of the Year for the Embedded Single-Board Computer from “Control Design” Magazine<br>▪ Advantech awarded by Intel with the “Intel Associate Partner of the Year” and “Multi-Core Solution Contest Award.”<br>▪ Advantech received Microsoft’s “The Most Growth Award in Asia Award.” |
| 2005 | ▪ Awarded with the 13th MOEA “Industrial Technology Advancement Award of Excellence.”<br>▪ Gold Award Embedded Control Europe (ECE) magazine readers awarded TREK-755 Sunlight Readable Model with Gold Award |

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| 2004 | ▪ Awarded with the "2004Taiwan Top 10 Global Brands" Award by the Bureau of Foreign Trade, MOEA.<br>▪ The 10th Symbol of Excellence Winner for Small-size industrial-grade touch controlled computer TPC-60S, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 10th Symbol of Excellence Winner for Industrial-grade front-wired fanless computer UNO-3062, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 10th Symbol of Excellence Winner for Industrial computer work station AWS-8100G, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ Won the Control Design Reader's Choice Award for "Single Board PC" First Prize.<br>▪ FPM-3170 17" Flat Panel Monitor received the "2004 Editor's Choice Award" HMI First Prize from Control Engineering Magazine (USA). |
| 2002 | ▪ Accepted as the one and only Gold-Level Partner in Microsoft's Windows Embedded Partner ODM Category.<br>▪ The 10th Symbol of Excellence Winner for Smart home network terminal EH-7102G / GH, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 10th Symbol of Excellence Winner for 586-grade Internet accessible equipment remote monitoring system WebLink2059-BAR / CE / SDA / SKT, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2001 | ▪ Completed the "MOEA Industry Technology Development Industrial Plan (ITDP)" of the Technology Division MOEA<br>▪ Multimedia network telephone ES-510 received the 9th Silver National Award of Excellence, the MOEA, Taiwan, ROC<br>▪ Full-function LCD touch computer PPC-153T received the 9th Silver National Award of Excellence, the MOEA, Taiwan, ROC<br>▪ The 9th Symbol of Excellence Winner for Multimedia network telephone ES-510, the MOEA, Taiwan, ROC.<br>▪ The 9th Symbol of Excellence Winner for Full-function LCD touch computer PPC-153T, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 9th Symbol of Excellence Winner for Family Vestibule Internet terminal EH-760, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 9th Symbol of Excellence Winner for multifunction firewall WEB-2143, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 2000 | ▪ Full-function LCD touch-type computer PPC-153T awarded with the "Best Innovative Product Award" by KIOSK Magazine (USA).<br>▪ IPC-601 awarded with the "Most Valuable Product" Award at the Telecom Network Exhibition.<br>▪ MIC-3032 awarded with the "Most Valuable Product" at the telephone computer voice integration exhibition.<br>▪ 2A-100 awarded with the "Most valuable Telecom Network Telecom Product" by the US telecom network magazine |
| 1999 | ▪ ADAM Series received the 1st Outstanding Safety Instrument Award of Taiwan<br>▪ ADAM Series received the 1st Outstanding Safety Instrument Award of Taiwan.<br>▪ The 7th Symbol of Excellence Winner for card-type computer CPC-2245, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 7th Symbol of Excellence Winner for Touch control server PPC-A100T-R50, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 1998 | ▪ Awarded with the Most Representative Outstanding Company by Industrial Development Bureau, MOEA, Taiwan, ROC<br>▪ PPC-102T Panel Computer received the 6th Gold National Award of Excellence, Taiwan, ROC<br>▪ The 6th Symbol of Excellence Winner for PC-based remote monitoring system ADAM-5000 series, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 6th Symbol of Excellence Winner for PPC-102T Panel Computer, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ The 6th Symbol of Excellence Winner for Multi-function LCD panel computers PPC-140T, Taiwan, ROC with the right to use the Symbol of Excellence lawfully.<br>▪ PPC-140T Multi-Function Panel PC received the Comdex Asia 98 "Best Hardware System Award."<br>▪ Multi-function LCD panel computers PPC-140T awarded with the "KIOSK Best Solution Product" by CRN Magazine (USA).<br>▪ IPC-6908 awarded with the "Most Valuable Product of the Year" by CTI Magazine (USA)<br>▪ Advantech received the 4th place of the "Most Worthy of Investment Companies" Award from Commonwealth Magazine, Taiwan, ROC<br>▪ Advantech received the 6th place of "The Best Performing Companies" Award from Commonwealth Magazine, Taiwan, ROC |
| 1997 | ▪ Received ISO-14001 Environmental Management System Certification.<br>▪ Awarded with the 5th Award for Industrial Technology Advancement Most Outstanding Award, the MOEA, Taiwan, ROC<br>▪ IPC-622 awarded with the "Most Valuable Product of the Year" Award by the US Computer Telephony Magazine. |
| 1996 | ▪ Awarded with the 4th Award for Industrial Technology Advancement and Outstanding Award, the MOEA, Taiwan, ROC<br>▪ The 4th Symbol of Excellence Winner for ADAM-4000 Series, the MOEA, Taiwan, ROC with the right to use the Symbol of Excellence lawfully. |
| 1995 | ▪ The in-house developed industrial control software -GENIE awarded with the "Outstanding Information Application Award." |
| 1993 | ▪ Awarded with the 2nd National Award of Small & Medium Enterprise by National Association of Small & Medium Enterprise<br>▪ Received ISO-9001 Quality Management System Certification. |
| 1992 | ▪ Awarded with the "Outstanding Export & Import Performance Award" by General Chamber of Commerce of New Taipei City<br>▪ ROC Blue Chip Corporate Training Unit "Gold Merchant Award" |
| 1991 | ▪ Awarded with the "Outstanding Export & Import Performance Award" by General Chamber of Commerce of New Taipei City |
| 1990 | ▪ Awarded with the "Outstanding Export & Import Performance Award" by General Chamber of Commerce of New Taipei City |
| 1989 | ▪ Awarded with the "Innovative Product Award" at the $3^{rd}$ Instrument Exhibition, Taipei City, ROC |

(II) Main Applications of major products and their manufacturing processes

1. Main applications of major products:

(1) Embedded Computing

Including Embedded Computing Module, Industrial Motherboards, Industrial Display Systems, Fanless Embedded Box PCs, and Embedded Single Board Computers. The main function is based on PC core control module, providing high performance, small size, all-in-one device, applied in industrial automatic control environment, with high temperature, humidity, vibration resistance abilities.

(2) Industry Application Computer

Advantech pioneered the all-in-one integrated computer in 1997, combined with LCD display, computer and keyboard. With market evolution and development, Advantech continuously developed industry application computers across the vertical sectors application niche market. Such as Industrial Portable Terminals used in intelligent logistics and retailing, Industrial Handheld Computers, Integrated Tablets, POS System, and Self-Service Touch Computer.

For digital medical field, Advantech launched AMiS Computerized Nursing Cart, Medical Information Terminals, Interactive Digital Signage, and Mobile Clinical Assistant…etc. Other industrial solutions such as Industrial Transportations, and eHome Application Platform are also applied.

(3) Industrial Communication and Automation Controllers

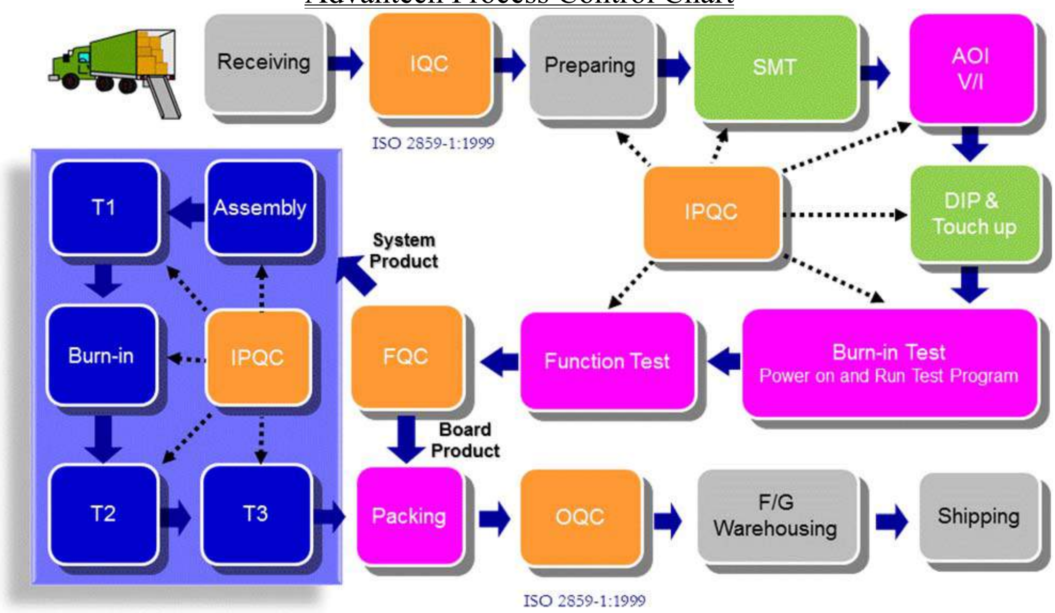
Including Network Computing Platform, WebAccess+ Solutions, Automation Controllers & I/Os, Machine Automation, Remote Data Acquisition, and Power & Energy Management, are mainly applied in remote measurement and control, and field data acquisition and control.

(4) Industry Application Computing Platform and Intelligent System

Apart from existing hardware product, Advantech are committed to providing intelligent solutions for each field. Including Handheld Computing Device, Industrial Servers & Storage, Advanced Video Solutions, Intelligent RFID Platform, Intelligent Transportation Systems, and Modular IPC…etc., are applied in each field of data computing, acquisition and control solutions.

2.The production process of main products:

Advantech Process Control Chart



(1) Board Level Production Flow

After warehouse receiving material from vendors, well-trained IQC personal will sampling inspect the incoming material, only accepted material will be stored and follow FIFO mechanism for preparing materials for work order request. Advantech adopted RoHS standard to perform lead-free solder printing for SMT process, followed by 100% AOI plus visual inspection for double check and manual insertion for DIP process. Through long time high temperature burn-in to filter out the early defect parts and followed by full function test to ensure the product quality is accord with industrial standard. After packing, FQC inspection will be performed before shipping worldwide.

(2) System Level Production Flow

Similar to board product, only accepted material will be stored and follow FIFO mechanism for preparing materials for work order request. The well-trained operators will follow SOP to assembly the system product and perform full function test to ensure the assembly quality. Long time high temperature burn-in test is adopted to simulate the user working environment, followed by the full function test and customized settings. The Production Shop Floor Information System will monitor each unit should pass all the rigid tests above, before move to packing process. FQC inspection will be performed before shipping worldwide.

(III) The Supply of Major Materials

| Raw material | Supplier |
|---|---|
| Integrated circuit <including chip> | SERTEK、WPI、WTMEC、Weikeng 、Answer |
| LCD | PROMATE、SERTEK |
| Touch screen sensor <Glass> | SALT |
| PCB | IRCUITECH、ALLIED、APCB、HIPER、Canyon |

Note: The raw material suppliers referred to above are reputable domestic and foreign manufacturers and have been doing business with the Company for years with a stable cooperative relationship held.

(IV) The name, purchase (sale) amount, and ratio of the suppliers (customers) accounted for over 10% of the total purchase (sale) in one of the last two years, and the reason for the changes in purchase (sales):

1. List of Major Suppliers with over 10% of the total purchase in one of the last two years:

Unit: NT$ Thousand

| | 2015 | | | | 2016 | | | | As of 2017Q1 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount | Percentage of the annual net purchase (%) | Relationship with the issuer | Name | Amount | Percentage of the annual net purchase (%) | Relationship with the issuer | Name | Amount | Percentage of the last quarter of the year (%) | Relationship with the issuer |
| 1 | SERTEK INC. | 3,293,529 | 16.82 | None | SERTEK INC. | 3,911,168 | 18.87 | None | SERTEK INC. | 634,829 | 12.22 | None |
| 2 | Others | 16,286,637 | 83.18 | | Others | 16,810,330 | 81.13 | | Others | 4,560,430 | 87.78 | |
| 3 | Total | 19,580,166 | 100 | | Total | 20,721,498 | 100 | | Total | 5,195,259 | 100 | |

2. List of Major Customers with over 10% of the total sales in one of the last two years:

Unit: NT$ Thousand

| | 2015 | | | | 2016 | | | | As of 2017Q1 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount | Percentage of the annual net purchase (%) | Relationship with the issuer | Name | Amount | Percentage of the annual net purchase (%) | Relationship with the issuer | Name | Amount | 〔%〕Percentage of the last quarter of the year (%) | Relationship with the issuer |
| 1 | Others (Note) | 38,000,582 | 100.00 | None | Others (Note) | 42,002,198 | 100.00 | None | Others (Note) | 10,006,239 | 100.00 | None |
| | Net sales amount | 38,000,582 | 100.00 | | Net sales amount | 42,002,198 | 100.00 | | Net sales amount | 10,006,239 | 100.00 | |

Note: No single customer accounted for more than 10% of total sales amount.

(V) Production, Volume, and Value of the last two years

Unit: Unit/PC; NT$ Thousand

| Year / Production Capacity / Main Products | 2015 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Production capacity | Production quantity | Production Value | Production capacity | Production quantity | Production Value |
| Industrial control | 930,070 | 812,785 | 2,701,224 | 833,737 | 781,172 | 2,563,757 |
| Industrial computer | 451,019 | 457,726 | 5,419,905 | 549,622 | 536,025 | 5,882,459 |
| Embedded board and case | 1,708,302 | 1,690,385 | 7,010,720 | 1,878,821 | 1,746,272 | 7,428,881 |
| Industrial applied computer | 138,581 | 127,539 | 1,475,105 | 119,173 | 118,331 | 1,484,083 |
| After-sale service and others | 146,290 | 136,563 | 322,770 | 116,583 | 93,016 | 298,313 |
| Total | 3,374,262 | 3,224,998 | 16,929,724 | 3,497,936 | 3,274,816 | 17,657,493 |

(VI) Sales Volume and Value of the last two years

Unit: Unit/PC; NT$ Thousand

| Year / Sales quantity and amount / Main Products | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Domestic Sales | | Export Sales | | Domestic sales | | Export Sales | |
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| Industrial control | 83,596 | 520,203 | 632,206 | 4,924,868 | 112,939 | 666,887 | 1,380,057 | 7,625,674 |
| Industrial computer | 26,551 | 385,986 | 384,214 | 7,763,226 | 40,695 | 376,207 | 465,728 | 9,291,233 |
| Embedded board and case | 227,607 | 1,548,486 | 1,341,128 | 13,739,879 | 255,942 | 1,640,161 | 1,807,035 | 14,478,104 |
| Industrial applied computer | 19,294 | 219,100 | 242,378 | 4,355,954 | 4,072 | 108,589 | 158,618 | 2,802,464 |
| After-sale service and others | 21,947 | 720,047 | 125,634 | 3,822,833 | 13,586 | 675,607 | 104,611 | 4,337,272 |
| Total | 378,995 | 3,393,822 | 2,725,560 | 34,606,760 | 427,234 | 3,467,451 | 3,916,049 | 38,534,747 |

## III. Employee information

March 28, 2017

| Year | | 2015 | 2016 | 106年03月31日 As of March 31, 2016 |
|---|---|---|---|---|
| No. of Employee | Direct staff | 2, 342 | 2,598 | 2,359 |
| | Indirect staff | 5, 073 | 5,050 | 5,306 |
| | Total | 7, 415 | 7,648 | 7,665 |
| Average age | | 33.3 | 37.60 | 37.67 |
| Average seniority | | 5.0 | 5.57 | 5.84 |
| Academy Ratio | Ph.D | 0. 43 | 0.39 | 0.39 |
| | Master | 33. 09 | 31.58 | 31.35 |
| | College | 51. 76 | 51.83 | 52.06 |
| | Senior High School | 12. 85 | 14.47 | 14.40 |
| | Below Senior High School | 1. 87 | 1.73 | 1.80 |

## IV. Expenditures on Environment Pollution Control

(I) The amount of penalty/fine (including compensation) imposed due to environmental pollution in the most recent year and up to the publication of the annual report, countermeasures and potential expenditures: None

(II) Advantech recognizes the concept of the "LITA (altruistic) tree", believing that society is like the earth nurturing a tree and it is the foundation for a corporation to grow; therefore, we must give back to society what we have gained. Following 30 years of hard work, all of Advantech's current achievements rely upon the continuous resources provided by the environment. As a member of society with the goal of creating a beautiful life, Advantech is willing to commit its utmost effort in improving the environment and ensuring labor safety. In light of this, not only did Advantech incorporate the ISO 14001 environmental management system in 1996, OHSAS 18001 occupational safety and health management system in 2005, and implemented practices in accordance with government regulations for environmental protection, labor safety, and health, Advantech also worked hard to lessen the impacts of its operational activities with respect to GHG management, product design and use, and waste disposal to improve the safety and health of the environment. It is through these efforts, in conjunction with employee participation and commitment, Advantech has achieved the goal of environmental protection and corporate sustainable development.

■ **Eco-friendly product design**

Advantech believes in protecting the environment by preventing pollution, using less energy and raw materials, reducing the generation of waste, and using clean production technologies; it focuses on modifying the production process to reduce pollution rather than using end-of-pipe treatments to resolve pollution problems. When promoting waste reduction, the Company recycles waste packaging materials for reuse. In addition, when designing products and selecting production technologies, we try to minimize the use of raw materials and energy. Through energy conservation designs, the goal of cyclic use can be achieved. Advantech adopts the ISO 14000 environmental management system to facilitate pollution prevention and life cycle assessment, thereby enabling the Company to raise its environmental performance while increasing its profitability.

In recent years, climate change, environmentally hazardous substances in products, labor safety and health, and human rights have become key CSR issues. Advantech has also incorporated these issues into the focus of green supply chain management (Please refer to section 3.3 for details). For example, regarding the management of environment-related substances, Advantech has amended its internal management standards according to various environmental protection policies .

In addition to the aforementioned green design regulations, the Company requires all product designs and development to be verified for safety, thereby ensuring their compliance with CE/ FCC/CCC safety requirements. Advantech follows international environmental protection laws and regulations; from natural resource use, hazardous substance restrictions, to the life cycle assessment (LCA) with respect to waste management. All of these procedures conform 100% to international declarations for green products. The Company's products are promoted as green products based on three dimensions: safety, energy-saving, and environmental protection.

■ **Environmental protection management**

To sustain human lives and Earth's green environment, Advantech has endeavored to lessen the impacts of product design and application, as well as waste disposal for the overall safety and health of the environment. In addition to complying with relevant regulations, the Company has mobilized all of its employees to participate in the protection of the environment and achieve corporate sustainable development.

### Water resource usage and management

The amount of precipitation in Taiwan during the dry and wet seasons are significantly different. Storing water resource is a challenging task. When bad weather occurs, various industries may face severe water shortage. Advantech has attempted measures such as using water-saving faucets and toilets in order to reduce the average water consumption per capita. Advantech's plants are located in developed industrial zones or parks in urban areas. All of these plants use tap water as their water supply 100% of the time; they are not involved in extracting underground or well water and their water consumption activities exert no negative influence on the surrounding water resources.

• Monitoring and management of cooling water tower

• Monitoring and management of cooling water towers' conductivity

• Installation of water-saving faucets

• Smart irrigation water-saving system

• Monitoring and management of cooling water and chiller systems with smart air-conditioning systems

**Waste management and resource recycling**

Having zero waste is Advantech's ultimate goal in waste management. More specifically, by reducing the amount of total waste produced, recycling waste into resources, and implementing source management measures (e.g., reduce raw material use), Advantech attempts to output less waste, replace the end-of-pipe treatment model with the recycling-and-reuse model, convert trash into useful resources, realize resource recycling, and reduce the energy and costs consumed during waste treatment.

Regarding the use of raw materials, the use of electronic materials accounts for approximately 90% of the total usage, whereas the remaining 10% includes mechanical, packaging, plastics, and other non-metal mechanical materials. metric tons which can be divided into four major categories: PCB wastes, tin slag, chemical waste, and others. In the future, Advantech will continue to increase its process yield, reduce the output of electronic waste and tailings, and achieve efficient industrial waste reduction.

**Greenhouse gas management**

By promoting a series of activities related to "energy conservation, carbon reduction, and loving our planet," Advantech strengthens its employees' awareness on conserving energy. Concurrently, the Environmental Safety and Health Committee is established to construct Advantech's conceptual framework that promotes environmental safety and health, advocates energy conservation, and helps increase energy efficiency. Moreover, the Company includes energy cost reduction as one of its crucial auditing items.

Since 2009, Advantech has cooperated in the Carbon Disclosure Project (CDP), which is currently the world's largest database related to global climate change. Each year, questionnaires are distributed to determine how businesses are responding to climate change and reducing their GHG emissions. The survey results are then used to evaluate the potential business risks and opportunities caused by climate change. Through annual CDP information disclosure, Advantech carefully reviews climate-related issues such as climate regulations and hazards caused by climate change. To mitigate potential risks in business management, the Company adopts effective reduction and elimination measures and thereby adheres to the GHG management requirements requested by international clients.

Advantech Taiwan includes our Neihu headquarters, as well as factories in Donghu and Xindian. The Linkou Smart Technology Park officially started its operation in 2014; its construction divided into three phases, and the total area spans 34,470 m2. Currently, the completed first-phase covers an area of 9,983 m2, and its main buildings include an R&D center, production center, and offices. In the future, the second and third phases will contain more office space, a production center, and a living area, which will be integrated with the original Linkou Plant to form Advantech’s second headquarters where R&D, production, warehousing, and product distribution will take place. Advantech has developed the Linkou Park into an innovative experimental site for smart-buildings, where two major

smart-building solutions, smart-building energy management, and smart contextual space management are implemented. By cooperating with partners from the smart-building industry, Advantech has established a close-knit smart-building collaboration system, where consulting teams are available to provide sales services. For our partners from the building industry, Linkou Park is an experimental site where collaborative R&D can be performed. To clients, Linkou Park is a place where they can experience smart building solutions. When customers walk into Advantech's Linkou Park, they can experience various smart building solutions developed by the collaboration system, including the smart central control room, smart parking, smart reception, and smart conference rooms.
Several smart sites have already been developed inside Linkou Park, all of which have incorporated the concept of smart energy conservation. Furthermore, Linkou Park continuously engages in innovative development to increase the smart-capabilities of the smart green buildings. Relevant designs are described as follows:

I. Smart parking: Smart parking is a smart service system that combines various functions such as reserving a parking space, identifying license plates, eTag, welcoming guest messages, guiding a vehicle to its parking space, parking area control and management, and finding a vehicle. The smart parking system is equipped with an automated system that uses lights to guide vehicles forward, as well as an air conditioner system for air quality control to provide excellent smart parking services and parking environment, as well as conserve energy.

II. Smart reception: When visitors arrive, the big monitor in the lobby will display a welcome message. As soon as visitors touch the automated visitor registration system, relevant personnel are notified of their arrival via mobile phone messages. Visitors are then issued with an electronic identification card that enables them to interact with the multimedia facilities within the building. With interactive multimedia signboards featuring centralized control management and regional connectivity, park-related information, weather, and traffic data can be viewed. Thus, businesses with branches in other regions can easily announce their management information. Furthermore, through an interactive e-Catalog system, visitors can browse product catalogs and advertisement videos, use their emails online and share information with others; they can also read QR codes with their mobile phones. At night, these signboards automatically enter sleep mode and automatically turns on the next day, thereby achieving the effects of energy conservation.

III. Smart conference room: The multimedia signboard in the lobby displays the booking information for the conference room. Similarly, at the entrance of the conference room, a signboard is also installed to display meeting information. Users will be given the rights to use each conference facility, and they can automatically switch the situational configurations within the conference room with a single touch of a button depending on their needs. Concurrently, air quality sensors and automatic regulating fans are also installed to enhance the indoor air quality. If no one is detected to be present in the room for 15 minutes, the system automatically issues a command to switch off all power and the air-conditioning system in the room to conserve energy.

IV. Smart office:In addition to the air conditioning system automatically detecting and regulating the air quality, the people sensing energy conservation system will also divide the office area into several regions and generate a schedule based on work hours and lunch breaks. During off hours, smart office connects with the access control system and the entry card reader automatically activates the lights in the room. Furthermore, the system can be operated via a webpage and a touch screen panel. Based on the behavioral characteristics of users, lights and air conditioners in that area switch off automatically when the room is empty.

In addition to introducing smart solutions for reducing energy consumption, Advantech is also constantly involved with the promotion of energy.

• The Linkou Smart Technology Park contains building energy management and people sensing energy conservation, with the latter aimed at making the buildings smarter including smart air-conditioning and parking, as well as all-in-one access cards. After following the steps for comprehensive detection, reliable transmission, and smart processing, combined with cloud systems to facilitate convenient living, smart buildings are realized; through the use of smart management, achieve effective energy conservation and prevent wasting resources.

• Smart power management is handled by a single button operation to control the lightings and projectors in the conference room; different settings such as presentation mode or discussion mode are also provided. This prevents the unnecessary waste of resources when employees forget to switch off other power supplies.

• Replacing high-performance lighting equipment; currently, the Linkou Smart Technology Park and the Sunshine Building both use energy-saving light bulbs, whereas Xindian and Donghu plants are still in the process of replacing their energy-consuming lights. New Advantech buildings all use energy-saving bulbs.

• Use video conferencing instead of on-site meetings whenever possible

• Prioritize the purchase of green-label office equipment and information electronic products

• Maintain the indoor temperature at 25°C

• Encourage employees to develop the habit of switching off the lights as soon as they leave a room

### Advantech and caring for nature

Environmental protection is a crucial topic for mankind; therefore, Advantech not only values its relationships with local communities, but also actively assumes its environmental protection responsibilities in creating a sustainable green industry.

Advantech will transform Linkou into smart parks and IoT demonstration centers, cooperate with its partners in the innovation and execution of IoT solutions, reform both Linkou into smart building demonstrations and indicators, promote smart energy saving and carbon reduction concepts, alter conventional thinking through actual experiences, and promote the implementation of smart cities.

More specifically, Linkou Park followed the optimal energy saving design formulated based on user needs. The design enhances the comfort level for employees inside the building as well as their working efficiency. While lowering the amount of unnecessary energy consumption, it also improved the quality of the overall work environment. The Park's energy management system is optimized continuously with the hope that the Park will become a benchmark for Taiwan's green enterprises.

### Organic Farm

Encourage all Advantech employees to step outside, accept the baptism and the nurturing of mother nature, participate in various sustainable conservation activities organized by Advantech to allow them to get closer to nature without damaging its ecological systems, and adopt the organic farms with their families. Through each seeding and harvesting, Advantech employees could truly appreciate and understand mother nature; enjoy the beauty of this planet as well as the joys of a rich harvest.

"Organic & natural, eco-friendly and earth loving" have always been our goals, and being close to and feeling nature's vitality are the energy source for Advantech employees. In 2009, Director KC Liu happened to come across an organic farm in Yilan County, where he had first-hand experience with natural, chemical-free agriculture; he was inspired by the idea of providing all employees with an opportunity to get close to nature and enjoy organic fruits and vegetables, this idea planted the seeds for Advantech's organic farms.

After careful investigation and planning, the "Advantech Organic Farm - Work Holiday" was launched in 2010 in Shenkeng. Each month, Advantech employees can participate in an ecological trip at the organic farm. In order to allow more Advantech employees with the chance to enjoy organic farming experience, Advantech's organic farm plots have been open for employee adoption since 2011. In addition to providing organic fertilizer, seeds, and seedlings for the eager gardeners, we also provided organic produce and environmentally friendly daily living necessities as special awards for those employees who take a serious interest in organic horticulture. The annual organic farm adoption events and harvesting activities are the happiest times experienced by Advantech employees and their families.

The aim of Advantech Taiwan's organic farms is to provide employees, their families, and other individuals with the opportunity to experience organic farming and a healthy diet. The farms also allow employees to take better care of themselves, their families, and our planet; helping to achieve sustainable agriculture. "Come admiringly, come willingly, come frequently, come together" is the motto of Advantech's organic farms, in the hope that employees can feel the vitality of nature and experience an inner green happiness.

## V. Labor-Employer Relation

(I) The Company’s employee welfare measures, education, training, retirement system and its implementation, as well as the agreement between the employers and the employees, and the implementation of the employee’s rights protection:

1.Employee welfare measures:

Uphold the “Perfectionism” business philosophy. The Company values the employee benefits policy. A dedicated unit (Human Resources Department) is setup within the organization to plan a series of welfare measures in order to provide the staff with a stable lifestyle, to protect the interests of employees, and thus promote employer-employee harmony.

The Company believes that the employee will be able devote to work wholeheartedly and exercise their job strengths to create high quality products and promote the progress and prosperity of the whole enterprise only when their welfares and life security are protected.

(1) The welfare measures directly handled by the Company:

A、Employee bonus;

B、Labor insurance;

C、National health insurance

D、Group insurance

E、Annual health check

F、Marriage, funeral, joy, celebration grants

G、Dragon Boat Festival and Mid-Autumn Festival gifts

H、Yearend banquet dinner

I、Domestic tour

J、Overseas tour

K、Magazine subscriptions subsidies

L、Community ac

M、Birthday celebration

N、Departmental function fund

O、Movies

P、Arts and cultural appreciation

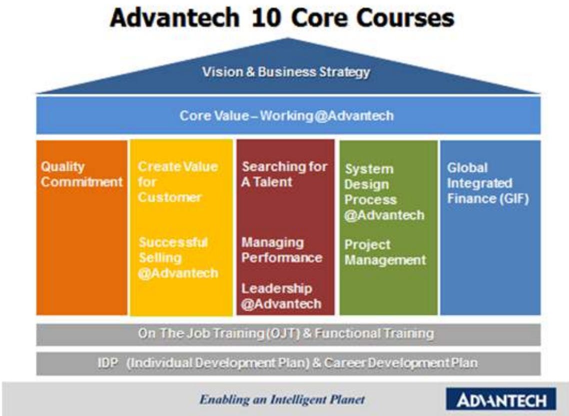
Q、Emergency rescue gold

2. Education, training system, and its implementation

With a view to cultivating talents and expanding the horizons, Advantech College has designed a series of talent cultivation programs: starting from On-Job Training, the trainee will be assigned with a work-related task, hoping to develop his/her expertise honed through the task, and with Ten Main Core Curricula, Case Study, Reading Club, E-Learning and LEAP Camp, TCAP, and Champion Program, Advantech College provides a global growth platform targeting on learning, creating an environment for continuous learning and development so as to accelerate growth and improvement for all Advantech talents. Each talent cultivation program is outlined as follows:


■ **Advantech 10-Core Program**

Advantech's executives have elaborated the most basic knowledge and skills of Advantech and compiled the Advantech Ten Main Core Curricula, the five categories of which include quality commitment, marketing and sales, talent asset, research and development, and finance and value creation, so as to impart Advantech’s systems and regulations. Through the Ten Main Core Curricula, Advantech’s core values and systems can be learned.




■ **Case Study**

Advantech management and decision-making levels will select the themes relevant to Advantech future development and invite experts from all fields and scholars from academic circles to discuss on Advantech business cases and offer academic theories and proposals to compose our "Business Case Study," and the discussions and interactions between our colleagues and experts in various fields will jointly help develop the guidelines and strategies for the company's future development and accomplish the tasks of cases, such as "M&A as the Assessment and Management for Advantech Development Strategy", "Under Greater China Homeland strategic approach, Advantech strategic action and managing change in Mainland China", and "Advantech's Operation in Inter-Continental Sales Region"："Action Plan Design on the evolution from Export Business Model to the Operation Model of Market Segmentation", "Advantech Business Leadership Management Process Improvement Study", "The Study on the Pricing Model of Advantech GIE 2.0", "Focus on Excellence, Innovation and the Humanities and be a good corporate citizen- Advantech CSR Case Study", "Advantech's Talent Cultivation and Inheritance", and「"The study on Advantech transnational MD role." Case Study not only stimulates the trainees' creative thinking and reflections and refines the company's business model and strategies, but it also effectively imparts Advantech's business philosophy and strategic direction.

On the other hand, business cases from domestic enterprises are limited in number, and the ones developed by Advantech in cooperation with academic circles are available not only for teaching purposes, but also for students to integrate theory and practice through Case Study；at the same time, it also allows the industry to observe each other and exchange experience to serve as a heritage.

■ **e-Learning**

The Advantech e-Learning platform, created for imparting Advantech wisdom, core values and culture, delivering the company's important news and events, and instructing professional knowledge and skills, allows employees around the world to find out Advantech's business philosophy and its corporate culture through online learning. Meanwhile, they are enabled to


obtain the latest information according their own needs to learn, making learning free of geographical and time constraints, and they can learn simultaneously and communicate with colleagues all over the world; accessing information from all over the world in the exclusive field of knowledge effectively broadens Advantechers' global perspective and knowledge profile and makes the most of the learning resources to reach the efficiency collaboration, integration & leverage. Listed below are the website contents:

- Advantech Philosophy:

  Impart Advantech wisdom, core values and culture to enable our employees around the world to enhance the corporate cultural identification and consensus.

- Business Leadership Model：

  Set forth the spirit, the knowledge profile, and the actual practices of Advantech Business Leadership Management Process.

- Professional courses:

  Offer various types of professional knowledge and skills training, expecting our employees will be more proficient at work.

- New employee Orientation:

  Provide a variety of policies and guidelines for the newcomers so that they will know well their work quickly.

- Advantech Scholar:

  It provides the information Advantechers must know, such as the interview articles of Advantech senior level managers, business cases in cooperation with professors, Advantech quarterly and Advantech abbreviation dictionary.

- Advantech Important Events：

  It provides videos and contents of the company's important activities, allowing employees around the world to know about the spirit and the meaning of Advantech important events.

- **Management LEAP Camp**

In order to accelerate the cultivation of mid-level managers, Advantech has developed "Management LEAP Camp" through the design of branding to impart the culture and business philosophy unique to Advantech. This program allows the excellent mid-level managers to be involved in the company's decision-making on major issues, and executives and the elite will have more interactions so that the future leaders can be discovered.

Champion Program's two-stage course design has its strategic meaning from its content planning to the venue of course. In terms of the venue, in order to give the attendees a whole picture of the company's management, the stage-one course took place at the headquarters in Taipei, enabling the elite trainees to grasp the core values and culture of the headquarters in Taipei and improving the interaction between the trainees and senior-level managers；the stage-two course was held in Kunshan, China (Manufacturing and R&D Center). It aimed to make the trainees have a profound understanding and experience on the operations of value chain from product planning, development, sampling, to manufacturing.

The course planning adopted the approach of multi-faceted cultivation - Case Study, Study Group, Pre-Assignment, and Essay, and the contents are described as follows:

- Case Study- Studying the cases of Advantech major issues, the trainees discuss on the enhancement or the improvement of the issues with senior level managers and offer their suggestions to the company, enabling the trainees to take part in the operation.
- Study Group- (such as From A to A+, Kazuo Inamori's "Amoeba operating" concept)- By previewing the book, the trainees will understand the operator's business philosophy, and they will do the presentations in class to share their own views and interact with and learn from managers and other trainees.
- Pre-assignment- Through the Assignment, the trainees will learn about leadership and teamwork, expecting to enhance the trainees' team spirit by ways of Assignment and to make them understand all aspects of the company.
- Essay -At the end of stage-one course, Advantech's major issues will be presented in top-down and bottom-up manner, and during the development of their dissertations, the trainees are able to continuously discuss with senior level managers, the units related to the issues, and other trainees, offer the practicable action plan in response to the issues, and make the presentation in stage-two course. Through Essay, the trainees can participate in the company's decision-making, learn about how senior managers integrate and coordinate major issues, and establish practical experience；after the paper is published, the action plan in the Essay will be delivered to the responsible unit and have it executed faithfully and kept for record and control.

- **Global Elite LEAP Camp**

LEAP means Jump, signifying the hope that every trainee will make huge progress, and its symbolic connotation refers to" Learn," " Experience, "Alignment" & "Partnership". LEAP Camp will invite new employees from all over the world to Advantech headquarters every year, and the training of a five-day global camp aims to enhance the employees' professional knowledge and skills and make them experience Advantech's culture and core values, allowing them to interact and get into contact with the partners from the world so as to achieve global collaboration.

The course design of LEAP Camp is divided into Sales Track, Marketing Track, and AE Track in accordance of the duties of the trainees, and each Track's content focuses on the field of expertise in each Track, enabling the trainees to grow by way of LEAP Camp while experiencing Advantech's culture.

- **Study Group**

Our CEO is convinced that "all supervisors can build the team consensus by reading a book together." Advantech Reading Club holds reading parties on a regular basis. Outside experts and scholars in the fields of business management, operational planning and others, or mid-to-senior level managers from the affiliated companies are invited to develop concepts and introduce innovative management concepts, which continually refines Advantech's management model and thus leads to the formation of key business strategy. As the prime directive of Advantech towards talent says," Right People on Bus- finding right people before deciding what to do," and this policy is quoted from the book, "Good to Great" written by Jim Collins.

- **Temporary Coverage Assignment Program , TCAP**

In order to expand the Advantech elite's global perspective and experience, the company offers short-term and task-based overseas dispatch opportunities (dispatch rotation period ranging from 3 to 6 months) for the major, top-down, emerging markets, emerging opportunities. It gives employees the chance to face different challenges and grow. Through the variance of working environment and position, the talents will develop diverse international perspectives and acquire valuable experience by achieving the goal of the short-term task.

The internal rotation and station assignment is also the best way to help build up the international perspective of the elites. Plan short-term TCAP program so that the personnel can develop a diversified international perspective through the change of working environment and job rotations in order to achieve the short-term assignment and gather valuable experience.

For example, in 2016, the total amount invested in the education and training of staff was NT$230.91 million with an average of 60.25 hours training for each employee. The colleagues continue to grow as a person and career planning through the training program of the Company.

3. Retirement system and the status of its implementation, including the old system and the new system:

(1)Old system: The employees who had reported to duty before June 30, 2005 may choose discretionally between the new system and old system. The Company in accordance with the provisions of the Labor Standards Law provides a retirement plan for all formal employees. According to the retirement plan, pension payment is paid in accordance with the average years of service and the average salary six months prior to the retirement. The Company has pension reserve appropriated monthly and has it handled by the Labor Pension Reserve Committee and then deposited in the name of the Committee with the Bank of Taiwan.

(2) New system: The employees who have reported to duty since July 1, 2005 are subject to the new system, as well as the employees who had reported to duty before July 1, 2005 but chose to apply the new system. The Company has an amount equivalent to 6% of the monthly wages and salaries appropriated to the pension account of each employee. Employees may also set aside an amount equivalent to 0%-6% of the monthly wages and salaries discretionally to the pension account and the appropriated amount will be deducted from the monthly paycheck of the respective employee.

4. Agreement between employer and employees:

The Company upholds the concepts of "Unified employer and employee" and "Coexistence" and applies reasonable and humane management with an "Openness" method to establish a smooth communication channel, to maintain a good labor relation, to work together for higher productivity, to share profits, and to establish a stable and harmonious labor relation.

The Company has always upheld the principle of "fairness and impartiality" and "reasonableness and lawfulness" within the consideration of sentiment and legality to communicate and coordinate with the employees in recent years. Explain the difficulties and problems faced by the Company adequately and express the position and assertion of the Company. Respect each other and agree with each other so that both parties will be able to resolve disputes and improve labor relation with both parties treated fairly and justly. Therefore, the Company has never suffered any loss due to labor disputes; moreover, both parties are able to work together for professional development and labor welfare.

5. The protection measures for employee's benefits:

The Company has Labor Welfare Committee and Labor Pension Reserve Committee established lawfully to plan, appropriate, reserve, and apply the benefit funds and pension reserves, and the matters regulated by the relevant law and regulations; also, has the employee's benefits and welfare system implemented in accordance with the specifications.

(II) Labor/employer dispute loss incurred in the most recent year and up to the publication of the annual report; also, disclosing estimated current and future loss and its countermeasure: None

VI. Important Contracts: None

# Six. FINANCIAL INFORMATION

I. Condensed Balance Sheet, Income Statement, Name of the Auditors and Audit opinions with the last five years

(I) Condensed Balance Sheet and comprehensive Income Statement

Condensed Balance Sheets

| Item \ Year | | Financial Data within the last 5 years (Note 1) | | | | | Financial data up to March 31, 2017 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Current Assets | | 21,181,711 | 18,085,746 | 17,990,032 | 15,411,630 | 13,727,313 | 20,154,938 |
| Property, plant, and equipment | | 10,089,836 | 9,576,879 | 8,876,606 | 7,941,679 | 6,391,636 | 9,966,137 |
| Intangible assets | | 1,317,440 | 227,686 | 286,312 | 326,617 | 349,185 | 1,244,497 |
| Other assets | | 5,949,966 | 6,088,822 | 4,390,870 | 3,856,158 | 3,640,611 | 5,967,599 |
| Total assets | | 38,538,953 | 33,979,133 | 31,543,820 | 27,536,084 | 24,108,745 | 37,333,171 |
| Current Liabilities | Before distribution | 11,435,611 | 9,242,530 | 7,779,820 | 7,205,324 | 5,490,343 | 9,253,813 |
| | After distribution | (Note 3) | 13,033,648 | 11,567,075 | 10,223,144 | 8,253,929 | - |
| Noncurrent liabilities | | 1,716,445 | 1,282,826 | 1,230,981 | 910,570 | 891,133 | 1,644,821 |
| Total liabilities | Before distribution | 13,152,056 | 10,525,356 | 9,010,801 | 8,115,894 | 6,381,476 | 10,898,634 |
| | After distribution | (Note 3) | 14,316,474 | 12,798,056 | 11,133,714 | 9,145,062 | - |
| Shareholder’s equity attributable to parent company | | 25,213,582 | 23,307,501 | 22,346,019 | 19,258,299 | 17,619,378 | 26,249,001 |
| Capital stock | | 6,330,841 | 6,318,531 | 6,312,091 | 5,694,000 | 5,639,971 | 6,332,541 |
| Additional paid-in capital | | 6,058,884 | 5,587,555 | 5,306,958 | 4,995,635 | 4,701,785 | 6,185,680 |
| Retained earnings | Before distribution | 12,909,061 | 11,061,291 | 9,825,337 | 8,514,157 | 7,213,023 | 14,114,101 |
| | After distribution | (Note 3) | 7,270,173 | 6,038,082 | 5,496,337 | 4,449,437 | - |
| Other equity | | (85,204) | 340,124 | 901,633 | 54,507 | 64,599 | (383,321) |
| Treasury stock | | - | - | - | - | - | - |
| Non-controlling equity | | 173,315 | 146,276 | 187,000 | 161,891 | 107,891 | 185,536 |
| Total equity | Before distribution | 25,386,897 | 23,453,777 | 22,533,019 | 19,420,190 | 17,727,269 | 26,434,537 |
| | After distribution | (Note 3) | 19,662,659 | 18,745,764 | 16,402,370 | 14,963,683 | - |

Note 1: For the financial data with the IFRS adopted for less than five years, the financial data in Table (II) should be prepared in accordance with the Financial Accounting Standards of the R.O.C. The 2012~2016 financial data were audited by the CPA.

Note 2: The 2017Q1 financial data were reviewed by the CPA.

Note 3: The proposal for the distribution of the 2016 earnings is yet to be resolved in the shareholders’ meeting.

## Condensed Balance Sheet - Proprietary

| Year / Item | | Financial Data within the last 5 years (Note 1) | | | | | Financial data up to March 31, 2016 |
|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Current assets | | 10,361,304 | 7,853,529 | 9,411,709 | 7,914,096 | 6,998,833 | |
| Property, plant, and equipment | | 6,938,084 | 6,278,109 | 5,354,959 | 4,608,115 | 3,967,902 | |
| Intangible assets | | 78,321 | 74,049 | 86,240 | 90,729 | 83,028 | |
| Other assets | | 17,179,706 | 17,059,718 | 14,626,214 | 12,697,938 | 11,167,912 | |
| Total assets | | 34,557,415 | 31,265,405 | 29,479,122 | 25,310,878 | 22,217,675 | |
| Current liabilities | Before distribution | 8,109,627 | 6,816,368 | 6,038,793 | 5,252,614 | 3,723,161 | |
| | After distribution | （Note 2） | 10,607,486 | 9,826,048 | 8,270,434 | 6,486,747 | |
| Noncurrent liabilities | | 1,234,206 | 1,141,536 | 1,094,310 | 799,965 | 875,136 | |
| Total liabilities | Before distribution | 9,343,833 | 7,957,904 | 7,133,103 | 6,052,579 | 4,598,297 | |
| | After distribution | （Note 2） | 11,749,022 | 10,920,358 | 9,070,399 | 7,361,883 | |
| Capital stock | | 6,330,841 | 6,318,531 | 6,312,091 | 5,694,000 | 5,639,971 | |
| Additional paid-in capital | | 6,058,884 | 5,587,555 | 5,306,958 | 4,995,635 | 4,701,785 | |
| Retained earnings | Before distribution | 12,909,061 | 11,061,291 | 9,825,337 | 8,514,157 | 7,213,023 | |
| | After distribution | （Note 2） | 7,270,173 | 6,038,082 | 5,496,337 | 4,449,437 | |
| Other equity | | (85,204) | 340,124 | 901,633 | 54,507 | 64,599 | |
| Total equity | Before distribution | 25,213,582 | 23,307,501 | 22,346,019 | 19,258,299 | 17,619,378 | |
| | After distribution | （Note 2） | 19,516,383 | 18,558,764 | 16,240,479 | 14,855,792 | |

Note 1: The 2012~2016 financial data were audited by the CPA.

Note 2: The proposal for the distribution of the 2016 earnings is yet to be resolved in the shareholders' meeting.

Condensed Income Statement

| Item \ Year | Financial Data within the last 5 years (Note 1) | | | | | Financial data up to March 31, 2017 (Note 2) |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Operating income | 42,002,198 | 38,000,582 | 35,731,699 | 30,660,034 | 27,551,871 | 10,006,239 |
| Gross Profit | 17,117,549 | 15,344,990 | 14,392,664 | 12,585,631 | 10,808,221 | 4,051,338 |
| Operating profit or loss | 6,631,493 | 5,928,507 | 5,508,324 | 4,668,150 | 3,862,729 | 1,503,299 |
| Non-Operating income and expense | 465,872 | 361,028 | 546,621 | 500,396 | 374,372 | (4,380) |
| Net income before tax | 7,097,365 | 6,289,535 | 6,054,945 | 5,168,546 | 4,237,101 | 1,498,919 |
| Net income of continuing operations | 5,688,954 | 5,126,975 | 4,931,876 | 4,127,209 | 3,491,118 | 1,205,513 |
| Net income | 5,688,954 | 5,126,975 | 4,931,876 | 4,127,209 | 3,491,118 | 1,205,513 |
| Other comprehensive profit and loss (net) | (465,097) | (598,879) | 840,142 | (14,730) | 612,610 | (301,572) |
| Total current comprehensive profit and loss | 5,223,857 | 4,528,096 | 5,772,018 | 4,112,479 | 4,103,728 | 903,941 |
| Net income attributable to parent company's shareholders | 5,666,862 | 5,104,346 | 4,907,648 | 4,106,397 | 3,471,791 | 1,205,040 |
| Net income attributable to non-controlling equity | 22,092 | 22,629 | 24,228 | 20,812 | 19,327 | 473 |
| Total comprehensive profit and loss attributable to parent company's shareholders | 5,217,251 | 4,524,603 | 5,750,571 | 4,087,236 | 4,089,736 | 906,923 |
| Total comprehensive profit and loss attributable to non-controlling equity | 6,606 | 3,493 | 21,447 | 25,243 | 13,992 | (2,982) |
| Earnings per share | 8.96 | 8.08 | 7.80 | 6.59 | 5.66 | 1.90 |

Note 1: For the financial data with the IFRS adopted for less than five years, the financial data in Table (II) should be prepared in accordance with the Financial Accounting Standards of the R.O.C. The 2012~2016 financial data were audited by the CPA.

Note 2: The 2017Q1 financial data were reviewed by the CPA.

## Condensed Income Statement - Proprietary

| Item \ Year | Financial Data within the last 5 years (Note 1) | | | | | Financial data up to March 31, 2017 |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Operating income | 30,501,099 | 28,995,652 | 26,297,138 | 22,017,597 | 19,583,862 | |
| Gross profit | 8,896,852 | 8,237,078 | 7,029,911 | 6,037,706 | 4,974,191 | |
| Operating profit or loss | 4,777,417 | 4,181,323 | 3,315,662 | 2,829,684 | 2,240,566 | |
| Non-Operating income and expense | 1,866,279 | 1,691,178 | 2,333,849 | 1,992,814 | 1,717,341 | |
| Net income before tax | 6,643,696 | 5,872,501 | 5,649,511 | 4,822,498 | 3,957,907 | |
| Net income | 5,666,862 | 5,104,346 | 4,907,648 | 4,106,397 | 3,471,791 | |
| Other comprehensive profit and loss (net) | (449,611) | (579,743) | 842,923 | (19,161) | 617,945 | |
| Total current comprehensive profit and loss | 5,217,251 | 4,524,603 | 5,750,571 | 4,087,236 | 4,089,736 | |
| Earnings per share | 8.96 | 8.08 | 7.80 | 6.59 | 5.66 | |

Note 1: The 2012~2015 financial data were audited by the CPA.

(II) Condensed Balance Sheet and Income Statement – the R.O.C. Financial Accounting Standards

## Condensed Balance Sheet – the R.O.C. Financial Accounting Standards

Unit: NT$ Thousand

| Year / Item | | Financial Data within the last 5 years (Note 1) | | | | Financial date up to |
|---|---|---|---|---|---|---|
| | | 2009 | 2010 | 2011 | 2012 | |
| Current assets | | | | | 7,021,442 | |
| Fund and investment | | | | | 11,379,305 | |
| Fixed assets | | | | | 3,977,661 | |
| Other assets | | | | | 95,630 | |
| Total assets | | | | | 22,474,038 | |
| Current liabilities | Before distribution | | | | 3,706,183 | |
| | After distribution | | | | 6,469,769 | |
| Long-term liabilities | | | | | 184,660 | |
| Other liabilities | | | | | 881,220 | |
| Total liabilities | Before distribution | | | | 4,772,063 | |
| | After distribution | | | | 7,535,649 | |
| Capital stock | | | | | 5,639,971 | |
| Additional paid-in capital | | | | | 4,758,762 | |
| Retained earnings | Before distribution | | | | 7,240,340 | |
| | After distribution | | | | 4,476,754 | |
| Unrealized gains/losses on financial instruments | | | | | 168,944 | |
| Cumulative Translation Adjustment | | | | | (104,345) | |
| Net loss not recognized as pension cost | | | | | (1,697) | |
| Total shareholder's equity | Before distribution | | | | 17,701,975 | |
| | After distribution | | | | 14,938,389 | |

Note 1: Financial data referred to above have been audited by the CPA.

## Condensed Income Statement – the R.O.C. Financial Accounting Standards

Unit: NT$ Thousand,

Except for Earnings per Share in NT$

| Year / Item | Financial Data within the last 5 years (Note 1) | | | | Financial date up to |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | |
| Operating income - net | | | | 19,583,862 | |
| Gross profit | | | | 5,008,677 | |
| Operating profit or loss | | | | 2,238,959 | |
| Non-Operating Income and profit | | | | 1,817,353 | |
| Non-Operating Expense and loss | | | | 107,809 | |
| Net income before tax | | | | 3,948,503 | |
| Net income | | | | 3,462,387 | |
| Earnings per share | | | | 6.22 | |
| Diluted earnings per share | | | | 6.15 | |
| Diluted earnings per share after the retroactive adjustment | | | | 5.66 | |

Note 1: Financial data referred to above have been audited by the CPA.

## (III) The name and opinion of the independent auditor within the last 5 year

| Year | Name of CPA Firm | Name of CPAs (Certified Public Accountant) | Auditor's opinions |
|---|---|---|---|
| 2015 | Deloitte & Touche | CPA Meng Chieh Chiu / CPA Chin Hsiang Chen | Modified Unqualified opinion |
| 2014 | Deloitte & Touche | CPA Meng Chieh Chiu / CPA Chin Hsiang Chen | Modified Unqualified opinion |
| 2013 | Deloitte & Touche | CPA Jr Shian Ke / CPA Chin Hsiang Chen | Modified Unqualified opinion |
| 2012 | Deloitte & Touche | CPA Jr Shian Ke / CPA Chin Hsiang Chen | Modified Unqualified opinion |
| 2011 | Deloitte & Touche | CPA Jr Shian Ke / CAP Anhui Lin | Modified Unqualified opinion |

## II. Financial Analysis within the last 5 years

### (I) Financial Analysis - consolidated

| Analysis item (Note 3) \ Year (Note 1) | | Financial analysis within the last 5 years | | | | | As of March 31, 2017 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Finance structure (%) | Debt to assets ratio | 34.13 | 30.98 | 28.55 | 29.47 | 26.47 | 29.19 |
| | Long term funds to property, plant, and equipment ratio | 268.62 | 258.3 | 266.88 | 254.37 | 291.29 | 281.75 |
| Solvency(%) | Current ratio (%) | 185.23 | 195.68 | 229.06 | 210.11 | 250.03 | 217.80 |
| | Quick ratio (%) | 132.00 | 138.06 | 161.64 | 150.66 | 173.58 | 149.50 |
| | Interest coverage ratio | 61,517.14 | 62,738.53 | 42,091.03 | 45,430.17 | 20,921.14 | 55,268.16 |
| Operating ability | Receivables turnover (times) | 6.09 | 6.16 | 6.34 | 6.31 | 6.87 | 5.68 |
| | Accounts receivable collecting days | 59.93 | 59.25 | 57.57 | 57.84 | 53.13 | 64.26 |
| | Inventory turnover (times) | 4.76 | 4.70 | 4.39 | 4.56 | 4.30 | 4.18 |
| | Payables turnover (times) | 6.06 | 7.09 | 6.67 | 6.78 | 8.29 | 5.62 |
| | Average inventory turnover on sales | 76.68 | 77.65 | 83.14 | 80.04 | 84.88 | 87.32 |
| | Property, plant, and property turnover (times) | 4.27 | 4.12 | 4.25 | 4.28 | 4.36 | 3.99 |
| | Total asset turnover (times) | 1.16 | 1.16 | 1.21 | 1.19 | 1.20 | 1.06 |
| Profitability | Return on assets (%) | 15.72 | 15.67 | 20.54 | 16.02 | 15.34 | 12.73 |
| | Return on equity (%) | 23.30 | 22.30 | 23.51 | 22.22 | 20.95 | 18.61 |
| | Ratio of net income before tax to paid-in capital (%) (Note 7) | 112.11 | 93.83 | 87.27 | 91.17 | 75.13 | 94.68 |
| | Profit margin (%) | 13.54 | 13.49 | 13.80 | 13.46 | 12.67 | 12.05 |
| | Earnings Per Share (NT$) | 8.96 | 8.08 | 7.80 | 6.59 | 5.66 | 1.90 |
| Cash flow | Cash flow ratio (%) | 70.08 | 63.88 | 62.53 | 68.98 | 79.93 | (4.55) |
| | Cash Flow Adequacy Ratio (%) | 103.81 | 93.25 | 89.33 | 95.40 | 95.50 | 103.81 |
| | Cash Flow Re-investment Ratio (%) | 17.16 | 9.36 | 8.31 | 11.93 | 9.33 | (1.64) |
| Leverage | Operating leverage | 3.32 | 1.34 | 3.70 | 3.58 | 3.95 | 3.20 |
| | Financial leverage | 1.00 | 1.00 | 1.00 | 1.00 | 1.01 | 1 |

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

(2) Days Sales Outstanding = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Inventory Turnover Days = 365 / Average Inventory Turnover

(5) Average Payment Turnover = Cost of Sales / Average Trade Payables

(6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment

(7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent

(3) Operating Income to Paid-in Capital Ratio= Operating Income / Paid-in Capital

(4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital

(5) Net Margin = Net Income / Net Sales

(6) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations

(2) Financial Leverage = Income from Operations / (Income from Operations – Interest Expenses)

## (I) Financial Analysis - Proprietary

| Analysis item | | Financial analysis within the last 5 years | | | | | As of March 31, 2016 |
|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Finance structure (%) | Debt to assets ratio | 27.04 | 25.45 | 24.18 | 23.91 | 16.76 | |
| | Long term funds to property, plant, and equipment ratio | 381.20 | 389.43 | 437.73 | 434.69 | 466.10 | |
| Solvency (%) | Current ratio (%) | 127.77 | 115.22 | 155.85 | 149.89 | 187.98 | |
| | Quick ratio (%) | 103.42 | 89.78 | 131.44 | 123.13 | 146.65 | |
| | Interest coverage ratio | 159,689.14 | - | 1,342,064.85 | 174,323.19 | 33,488.79 | |
| Operating ability | Receivables turnover (times) | 5.71 | 5.67 | 5.82 | 5.76 | 5.66 | |
| | Accounts receivable collecting days | 63.92 | 64.37 | 62.7 | 63.37 | 64.49 | |
| | Inventory turnover (times) | 11.97 | 13.49 | 13.42 | 11.89 | 9.64 | |
| | Payables turnover (times) | 5.58 | 6.11 | 6.57 | 6.97 | 7.43 | |
| | Average inventory turnover on sales | 30.49 | 27.05 | 27.2 | 30.7 | 37.86 | |
| | Property, plant, and property turnover (times) | 4.62 | 4.99 | 5.28 | 5.13 | 4.97 | |
| | Total asset turnover (times) | 0.93 | 0.95 | 0.96 | 0.93 | 0.92 | |
| Profitability | Return on assets (%) | 17.23 | 16.81 | 17.92 | 17.29 | 16.30 | |
| | Return on equity (%) | 23.36 | 22.36 | 23.59 | 22.27 | 20.96 | |
| | Ratio of net income before tax to paid-in capital (%) (Note 7) | 104.94 | 92.94 | 89.51 | 85.06 | 70.18 | |
| | Profit margin (%) | 18.58 | 17.6 | 18.66 | 18.65 | 17.73 | |
| | Earnings Per Share (NT$) | 8.96 | 8.08 | 7.80 | 6.59 | 5.66 | |
| Cash flow | Cash flow ratio (%) | 64.88 | 67.97 | 61.81 | 82.13 | 70.46 | |
| | Cash Flow Adequacy Ratio (%) | 81.29 | 76.46 | 79.82 | 82.67 | 82.02 | |
| | Cash Flow Re-investment Ratio (%) | 5.62 | 3.84 | 3.22 | 8.18 | - | |
| Leverage | Operating leverage | 4.10 | 2.29 | 5.31 | 5.10 | 5.92 | |
| | Financial leverage | 1.00 | 1.00 | 1.00 | 1.00 | 1.01 | |

(II) Financial analysis with the last five years – the R.O.C. Financial Accounting Standards

| Year \ Analysis item | | | Financial analysis within the last 5 years (Note 2) | | | | Financial data up to |
|---|---|---|---|---|---|---|---|
| | | | 2009 | 2010 | 2011 | 2012 | |
| Finance structure (%) | Debt to assets ratio | | | | | 21.23 | |
| | Long term funds to property, plant, and equipment ratio | | | | | 449.68 | |
| Solvency (%) | Current ratio | | | | | 189.45 | |
| | Quick ratio | | | | | 150.95 | |
| | Interest coverage ratio | | | | | - | |
| Operating ability | Receivables turnover (times) | | | | | 5.66 | |
| | Average accounts receivable turnover days | | | | | 64.48 | |
| | Inventory turnover (times) | | | | | 9.62 | |
| | Payables turnover (times) | | | | | 7.41 | |
| | Average inventory turnover on sale | | | | | 37.94 | |
| | Property, plant, and property turnover (times) | | | | | 4.95 | |
| | Total asset turnover (times) | | | | | 0.87 | |
| Profitability | Return on assets (%) | | | | | 16.02 | |
| | Return on shareholder's equity (%) | | | | | 20.80 | |
| | Percentage to paid-in capital (%) | Operating Income (losses) | | | | 39.70 | |
| | | Net income before tax (losses) | | | | 70.01 | |
| | Profit margin (%) | | | | | 17.68 | |
| | Earnings per share (NT$) (Note 1) | | | | | 5.66 | |
| | Diluted earnings per share (NT$) | | | | | 6.15 | |
| Cash flow (%) | Cash flow ratio (%) | | | | | 79.73 | |
| | Cash Flow Adequacy Ratio (%) | | | | | 84.06 | |
| | Cash Flow Re-investment Ratio (%) | | | | | 1.08 | |
| Leverage | Operating leverage | | | | | 5.92 | |
| | Financial leverage | | | | | 1.01 | |

Note 1: Calculated in accordance with the annual weighted average shares.

Note 2: Financial data referred to above have been audited the CPA.

*Glossary

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

(2) Days Sales Outstanding = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Inventory Turnover Days = 365 / Average Inventory Turnover

(5) Average Payment Turnover = Cost of Sales / Average Trade Payables

(6) Fixed Assets Turnover = Net Sales / Average Net Fixed Assets

(7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Return on Equity = Net Income / Average Shareholders' Equity

(3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital

(4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital

(5) Net Margin = Net Income / Net Sales

(6) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)

6. Leverage

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations

(2) Financial Leverage = Income from Operations / (Income from Operations – Interest Expenses)

III. Supervisor's Report of the most recent year

# Supervisor's Review Report

The supervisors have reviewed the 2016 annual business reports, profit distribution proposals and individual financial statements and consolidated financial statements prepared and presented by the Company's Board of Directors, and the independent auditor's report issued by CPA Meng Chieh Chiu and CAP Chin Hsiang Chen of Deloitte & Touche with an independent auditor's report issued.

The supervisor's report is hereby issued in accordance with Article 219 of the Company Law after reviewing the annual business reports, financial statements, and profit distribution proposals without any nonconformity identified.

Sincerely yours,

The 2017 General Shareholders' Meeting of Advantech Co., Ltd.

Supervisor: AIDC Investment Corp.
Representative: Gary Tseng

March 06, 2017

# Supervisor's Review Report

The supervisors have reviewed the 2016 annual business reports, profit distribution proposals and individual financial statements and consolidated financial statements prepared and presented by the Company's Board of Directors, and the independent auditor's report issued by CPA Meng Chieh Chiu and CAP Chin Hsiang Chen of Deloitte & Touche with an independent auditor's report issued.

The supervisor's report is hereby issued in accordance with Article 219 of the Company Law after reviewing the annual business reports, financial statements, and profit distribution proposals without any nonconformity identified.

Sincerely yours,

The 2017 General Shareholders' Meeting of Advantech Co., Ltd.

Supervisor: Thomas Chen

March 06, 2017

# Supervisor's Review Report

The supervisors have reviewed the 2016 annual business reports, profit distribution proposals and individual financial statements and consolidated financial statements prepared and presented by the Company's Board of Directors, and the independent auditor's report issued by CPA Meng Chieh Chiu and CAP Chin Hsiang Chen of Deloitte & Touche with an independent auditor's report issued.

The supervisor's report is hereby issued in accordance with Article 219 of the Company Law after reviewing the annual business reports, financial statements, and profit distribution proposals without any nonconformity identified.

Sincerely yours,

The 2017 General Shareholders' Meeting of Advantech Co., Ltd.

Supervisor: James Wu

March 06, 2017

# IV. Financial Statements of the most recent year

**INDEPENDENT AUDITORS' REPORT**

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

**Opinion**

We have audited the accompanying financial statements of Advantech Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters on the financial statements for the year ended December 31, 2016 were as follows:

<u>Investments accounted for using the equity method</u>

The Company and its subsidiaries acquired 100% share of B+B SmartWorx, Inc. (B+B) for NT$3,296,048 thousand in January 4, 2016 and recognized the acquisition as investment accounted for using the equity method.

The evaluation on fair value of the assets, liabilities, and amount of goodwill as of the date of acquisition was based on the specialists' Purchase Price Allocation Report that involved several financial assumptions and inputs. The judgment of related accounting estimates will affect the presentation of accounts on the financial statements. After considering that the acquisition was a significant event and was transacted during the period of financial statements with a material impact on the financial statements, accuracy of merger transaction of B+B conducted by the Company was deemed to be a key audit matter.

Our key audit procedures performed in respect of the assets and liabilities as of the date of acquisition included the following:

1. Tested the acquisition balance sheet prepared by the management and checked the record by matching against the fair value of the assets and liabilities as of the date of acquisition.

2. Recalculated the value of goodwill recognized in the acquisition balance sheet.

<u>Impairment assessment of investments accounted for using the equity method</u>

The excess of cost of acquisition of investments accounted for using the equity method over the fair value of investees' identifiable assets and liability as of the dates of acquisition should be recognized as goodwill. If there is any indication that goodwill is impaired, the management should assess if the carrying amount of goodwill is impaired. We have expressed our concerns on the related risks of impairment assessment on goodwill arising from acquisition of B+B since the impairment assessment of goodwill is based on the management's significant judgment that involved assumptions of the future profitability and costs of equity and debts; the impairment of goodwill is hence recognized as a critical accounting estimate in Note 5 to the financial statements.

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

When evaluating the impairment assessment, we tested the management's assumptions and inputs used for testing the impairment for goodwill, including cash flow projections and discount rates.

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

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

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Meng-Chieh Chiu and Chin-Hsiang Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 6, 2017

*Notice to Readers*

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

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

## ADVANTECH CO., LTD.

**BALANCE SHEETS**
**DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 2,008,247 | 6 | $ 815,293 | 3 |
| Financial assets at fair value through profit or loss - current (Notes 4, 7 and 25) | 34,348 | - | 7,391 | - |
| Available-for-sale financial assets - current (Notes 4, 8 and 25) | 700,269 | 2 | - | - |
| Notes receivable (Notes 4, 9 and 26) | 67,223 | - | 55,480 | - |
| Trade receivables (Notes 4 and 9) | 1,543,604 | 5 | 1,135,240 | 4 |
| Trade receivables from related parties (Notes 4 and 26) | 3,908,448 | 11 | 3,977,999 | 13 |
| Other receivables | 105,929 | - | 113,056 | - |
| Other receivables from related parties (Note 26) | 19,002 | - | 15,596 | - |
| Inventories (Notes 4 and 10) | 1,935,873 | 6 | 1,673,156 | 5 |
| Other current assets | 38,361 | - | 60,318 | - |
| Total current assets | 10,361,304 | 30 | 7,853,529 | 25 |
| NONCURRENT ASSETS | | | | |
| Available-for-sale financial assets - noncurrent (Notes 4, 8 and 25) | 1,694,801 | 5 | 1,700,814 | 6 |
| Investments accounted for using the equity method (Notes 4 and 11) | 15,208,839 | 44 | 13,138,225 | 42 |
| Property, plant and equipment (Notes 4 and 12) | 6,938,084 | 20 | 6,278,109 | 20 |
| Goodwill (Notes 4 and 13) | 111,599 | - | 111,599 | - |
| Other intangible assets (Note 4) | 78,321 | - | 74,049 | - |
| Deferred tax assets (Notes 4 and 18) | 136,130 | 1 | 114,710 | 1 |
| Prepayments for business facilities | 22,676 | - | 15,489 | - |
| Prepayment for investments | - | - | 1,968,044 | 6 |
| Other noncurrent assets | 5,661 | - | 10,837 | - |
| Total noncurrent assets | 24,196,111 | 70 | 23,411,876 | 75 |
| TOTAL | $ 34,557,415 | 100 | $ 31,265,405 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 25) | $ 8,845 | - | $ 6,352 | - |
| Trade payables | 1,550,969 | 4 | 899,480 | 3 |
| Trade payables to related parties (Note 26) | 2,610,642 | 8 | 2,687,130 | 9 |
| Other payables (Notes 14 and 17) | 2,699,374 | 8 | 2,255,915 | 7 |
| Current tax liabilities (Notes 4 and 18) | 1,036,650 | 3 | 853,769 | 3 |
| Short-term warranty provision (Note 4) | 49,155 | - | 41,410 | - |
| Other current liabilities | 153,992 | - | 72,312 | - |
| Total current liabilities | 8,109,627 | 23 | 6,816,368 | 22 |
| NONCURRENT LIABILITIES | | | | |
| Deferred tax liabilities (Notes 4 and 18) | 988,099 | 3 | 927,732 | 3 |
| Net defined benefit liabilities (Notes 4, 15 and 17) | 211,170 | 1 | 182,172 | - |
| Other noncurrent liabilities | 34,937 | - | 31,632 | - |
| Total noncurrent liabilities | 1,234,206 | 4 | 1,141,536 | 3 |
| Total liabilities | 9,343,833 | 27 | 7,957,904 | 25 |
| EQUITY | | | | |
| Share capital | | | | |
| Ordinary shares | 6,330,741 | 18 | 6,318,531 | 20 |
| Advance receipts for share capital | 100 | - | - | - |
| Total share capital | 6,330,841 | 18 | 6,318,531 | 20 |
| Capital surplus | 6,058,884 | 18 | 5,587,555 | 18 |
| Retained earnings | | | | |
| Legal reserve | 4,473,276 | 13 | 3,962,842 | 13 |
| Unappropriated earnings | 8,435,785 | 24 | 7,098,449 | 23 |
| Total retained earnings | 12,909,061 | 37 | 11,061,291 | 36 |
| Other equity | | | | |
| Exchange differences on translating foreign operations | (197,633) | - | 271,859 | 1 |
| Unrealized gains (losses) on available-for-sale financial assets | 112,429 | - | 68,265 | - |
| Total other equity | (85,204) | - | 340,124 | 1 |
| Total equity | 25,213,582 | 73 | 23,307,501 | 75 |
| TOTAL | $ 34,557,415 | 100 | $ 31,265,405 | 100 |

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

(With Deloitte & Touche audit report dated March 6, 2017)

# ADVANTECH CO., LTD.

## STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
## (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Notes 4 and 26) | | | | |
| Sales | $ 30,173,747 | 99 | $ 28,673,906 | 99 |
| Other operating revenue | 327,352 | 1 | 321,746 | 1 |
| Total operating revenue | 30,501,099 | 100 | 28,995,652 | 100 |
| OPERATING COSTS (Notes 10, 17 and 26) | 21,604,247 | 70 | 20,758,574 | 72 |
| GROSS PROFIT | 8,896,852 | 30 | 8,237,078 | 28 |
| UNREALIZED LOSS ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4) | (264,679) | (1) | (330,254) | (1) |
| REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4) | 330,254 | 1 | 240,811 | 1 |
| REALIZED GROSS PROFIT | 8,962,427 | 30 | 8,147,635 | 28 |
| OPERATING EXPENSES (Notes 17 and 26) | | | | |
| Selling and marketing expenses | 659,619 | 2 | 704,299 | 3 |
| General and administrative expenses | 884,172 | 3 | 693,290 | 2 |
| Research and development expenses | 2,641,219 | 9 | 2,568,723 | 9 |
| Total operating expenses | 4,185,010 | 14 | 3,966,312 | 14 |
| OPERATING PROFIT | 4,777,417 | 16 | 4,181,323 | 14 |
| NONOPERATING INCOME | | | | |
| Share of the profit of subsidiaries and associates accounted for using the equity method (Notes 4 and 11) | 1,581,818 | 5 | 1,344,991 | 5 |
| Interest income (Note 4) | 539 | - | 1,665 | - |
| Gains (losses) on disposal of property, plant and equipment (Note 4) | 146,954 | 1 | (161) | - |
| Gains on disposal of investments (Notes 4 and 16) | 1,431 | - | 198,848 | 1 |
| Foreign exchange losses, net (Notes 4, 17 and 28) | (140,689) | - | (88,859) | - |
| Gains on financial instruments at fair value through profit or loss (Note 4) | 121,348 | - | 83,798 | - |
| Dividend income (Note 4) | 98,800 | - | 105,445 | - |
| Other income (Notes 8 and 26) | 101,777 | - | 112,567 | - |
| Finance costs (Note 17) | (4,163) | - | - | - |

(Continued)

# ADVANTECH CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Losses on financial instruments at fair value through profit or loss (Note 4) | $ (41,381) | - | $ (67,063) | - |
| Other losses | (155) | - | (53) | - |
| Total nonoperating income | 1,866,279 | 6 | 1,691,178 | 6 |
| PROFIT BEFORE INCOME TAX | 6,643,696 | 22 | 5,872,501 | 20 |
| INCOME TAX EXPENSE (Notes 4 and 18) | 976,834 | 3 | 768,155 | 2 |
| NET PROFIT FOR THE YEAR | 5,666,862 | 19 | 5,104,346 | 18 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Note 15) | (31,039) | - | (18,736) | - |
| Share of the other comprehensive loss of subsidiaries and associates accounted for using the equity method (Note 11) | 1,479 | - | (2,683) | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 18) | 5,277 | - | 3,185 | - |
| | (24,283) | - | (18,234) | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations (Notes 4 and 16) | (561,518) | (2) | (82,566) | - |
| Unrealized gains (losses) on available-for-sale financial assets (Notes 4 and 16) | (5,765) | - | (557,594) | (2) |
| Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method (Notes 4, 11 and 16) | 45,794 | - | 65,031 | - |
| Income tax relating to item that may be reclassified subsequently to profit or loss (Notes 4, 16 and 18) | 96,161 | - | 13,620 | - |
| | (425,328) | (2) | (561,509) | (2) |
| Other comprehensive income (loss) for the year, net of income tax | (449,611) | (2) | (579,743) | (2) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 5,217,251 | 17 | $ 4,524,603 | 16 |

(Continued)

# ADVANTECH CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| EARNINGS PER SHARE (Note 19) | | | | |
| Basic | $8.96 | | $8.08 | |
| Diluted | $8.90 | | $8.05 | |

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

(With Deloitte & Touche audit report dated March 6, 2017) (Concluded)

## ADVANTECH CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | Issued Capital (Notes 16 and 20) | | | Capital Surplus (Notes 4, 16 and 20) | Retained Earnings (Notes 4, 16 and 17) | | | Other Equity (Notes 4 and 16) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Advance Receipts for Share Capital | Total | | Legal Reserve | Unappropriated Earnings | Total | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Total Equity |
| BALANCE AT JANUARY 1, 2015 | $ 6,301,031 | $ 11,060 | $ 6,312,091 | $ 5,306,958 | $ 3,472,064 | $ 6,353,273 | $ 9,825,337 | $ 338,356 | $ 563,277 | $ 22,346,019 |
| Appropriation of the 2014 earrings | | | | | | | | | | |
| Legal reserve | - | - | - | - | 490,778 | (490,778) | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (3,787,255) | (3,787,255) | - | - | (3,787,255) |
| Issue of ordinary shares under employee share options | 17,500 | (11,060) | 6,440 | 24,438 | - | - | - | - | - | 30,878 |
| Compensation cost recognized for employee share options | - | - | - | 261,877 | - | - | - | - | - | 261,877 |
| Change in capital surplus from investments in associates accounted for using equity method | - | - | - | 2,172 | - | - | - | - | - | 2,172 |
| Difference between considerations and carrying amounts of subsidiaries acquired or disposed of | - | - | - | (11,457) | - | (62,903) | (62,903) | - | - | (74,360) |
| Changes in percentage of ownership interest in subsidiaries | - | - | - | 3,567 | - | - | - | - | - | 3,567 |
| Net profit for the year ended December 31, 2015 | - | - | - | - | - | 5,104,346 | 5,104,346 | - | - | 5,104,346 |
| Other comprehensive income for the year ended December 31, 2015, net of income tax | - | - | - | - | - | (18,234) | (18,234) | (66,497) | (495,012) | (579,743) |
| Total comprehensive income for the year ended December 31, 2015 | - | - | - | - | - | 5,086,112 | 5,086,112 | (66,497) | (495,012) | 4,524,603 |
| BALANCE AT DECEMBER 31, 2015 | 6,318,531 | - | 6,318,531 | 5,587,555 | 3,962,842 | 7,098,449 | 11,061,291 | 271,859 | 68,265 | 23,307,501 |
| Appropriation of the 2015 earrings | | | | | | | | | | |
| Legal reserve | - | - | - | - | 510,434 | (510,434) | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (3,791,118) | (3,791,118) | - | - | (3,791,118) |
| Issue of ordinary shares under employee share options | 12,210 | 100 | 12,310 | 104,758 | - | - | - | - | - | 117,068 |
| Compensation cost recognized for employee share options | - | - | - | 338,194 | - | - | - | - | - | 338,194 |
| Change in capital surplus from investments in associates accounted for using equity method | - | - | - | 10,533 | - | - | - | - | - | 10,533 |
| Difference between considerations and carrying amounts of subsidiaries acquired or disposed of | - | - | - | 17,844 | - | (3,691) | (3,691) | - | - | 14,153 |
| Net profit for the year ended December 31, 2016 | - | - | - | - | - | 5,666,862 | 5,666,862 | - | - | 5,666,862 |
| Other comprehensive income for the year ended December 31, 2016, net of income tax | - | - | - | - | - | (24,283) | (24,283) | (469,492) | 44,164 | (449,611) |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | 5,642,579 | 5,642,579 | (469,492) | 44,164 | 5,217,251 |
| BALANCE AT DECEMBER 31, 2016 | $ 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 |

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

(With Deloitte & Touche audit report dated March 6, 2017)

# ADVANTECH CO., LTD.

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 6,643,696 | $ 5,872,501 |
| Adjustments for: | | |
| Depreciation expenses | 239,135 | 242,916 |
| Amortization expenses | 78,294 | 74,874 |
| Impairment loss recognized (reversal of impairment loss) of trade receivables | 96 | (2,203) |
| Net gain on financial assets or liabilities at fair value through profit or loss | (79,967) | (16,735) |
| Finance costs | 4,163 | - |
| Interest income | (539) | (1,665) |
| Dividend income | (98,800) | (105,445) |
| Compensation cost of employee share options | 338,194 | 261,877 |
| Share of profit of subsidiaries and associates accounted for using the equity method | (1,581,818) | (1,344,991) |
| Loss (gain) on disposal of property, plant and equipment | (146,954) | 161 |
| Gain on disposal of investments | (1,431) | (198,848) |
| Realized loss (gain) on the transactions with subsidiaries and associates | (65,575) | 89,443 |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | 55,503 | 21,877 |
| Notes receivable | (11,743) | (10,161) |
| Trade receivables | (408,460) | (139,295) |
| Trade receivables to related parties | 69,551 | 36,412 |
| Other receivables | 7,127 | (26,992) |
| Other receivables to related parties | (3,406) | 45 |
| Inventories | (262,717) | (268,954) |
| Other current assets | 21,957 | (8,670) |
| Other financial assets | - | 18,650 |
| Trade payables | 651,489 | 121,548 |
| Trade payables to related parties | (76,488) | 253,194 |
| Other payables | 357,649 | 185,158 |
| Short-term warranty provision | 7,745 | 5,291 |
| Net defined benefit liabilities | (2,041) | (813) |
| Other current liabilities | 81,680 | 11,088 |
| Other noncurrent liabilities | 3,305 | (1,975) |
| Cash generated from operations | 5,819,645 | 5,068,288 |
| Interest received | 539 | 1,665 |
| Dividend received | 98,800 | 105,445 |
| Interest paid | (4,163) | - |
| Income tax paid | (653,568) | (542,066) |
| Net cash generated from operating activities | 5,261,253 | 4,633,332 |

(Continued)

## ADVANTECH CO., LTD.

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | (4,128,000) | (3,710,080) |
| Proceeds from sale of available-for-sale financial assets | 3,429,410 | 5,754,213 |
| Acquisition of investments accounted for using equity method | (293,281) | (688,577) |
| Proceeds from disposal of investments accounted for using the equity method | 336,958 | - |
| Prepayment for investments | - | (1,968,044) |
| Proceeds of the capital reduction of investments accounted for using the equity method | 232,330 | 42,927 |
| Payments for property, plant and equipment | (930,598) | (1,181,375) |
| Proceeds from disposal of property, plant and equipment | 239,507 | 294 |
| Decrease in refundable deposits | 5,176 | 187 |
| Payments for intangible assets | (76,875) | (62,714) |
| Proceeds from disposal of intangible assets | 58 | 31 |
| Decrease in prepayments for equipment | 11,809 | 14,609 |
| Dividends received from subsidiaries and associates | 779,257 | 687,589 |
| Net cash used in investing activities | (394,249) | (1,110,940) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in guarantee deposits received | - | (119) |
| Cash dividends paid | (3,791,118) | (3,787,255) |
| Exercise of employee share options | 117,068 | 30,878 |
| Net cash used in financing activities | (3,674,050) | (3,756,496) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,192,954 | (234,104) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 815,293 | 1,049,397 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 2,008,247 | $ 815,293 |

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

(With Deloitte & Touche audit report dated March 6, 2017) (Concluded)

(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 Advantech Co., Ltd. (the "Company") and its subsidiaries, 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 indirect 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 financial statements were approved by the board of directors on March 6, 2017.

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

a. 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) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 3) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |

(Continued)

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's accounting policies, except for the following:

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

   The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within [Level 2/Level 3], the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

   Several standards, including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments" were amended in this annual improvement.

The amended IFRS 2 changes the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same group or the market price of the equity instruments of the Company or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company, but also of other entities outside the Company. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combinations with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires the Company to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgments made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3 and IFRS 13, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendment will be applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

4) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 "Intangible Assets" clarifies that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity's use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

5) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

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

b. New IFRSs in issue but not yet endorsed by the FSC

The Company has not applied the following IFRSs issued by IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 2 |
| Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” | January 1, 2018 |
| Amendments to IFRS 4“Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” | January 1, 2018 |
| IFRS 9 “Financial Instruments” | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures” | January 1, 2018 |
| 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 15 “Revenue from Contracts with Customers” | January 1, 2018 |
| Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers” | January 1, 2018 |
| IFRS 16 “Leases” | January 1, 2019 |
| Amendment to IAS 7 “Disclosure Initiative” | January 1, 2017 |
| Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” | January 1, 2017 |
| Amendments to IAS 40 “Transfers of Investment Property” | January 1, 2018 |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration” | January 1, 2018 |

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 amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;

- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Company 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 of those goods or services individually rather than to transfer combined items).

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

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

The amendments stipulated that, when an entity 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 an entity 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 an entity 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 unrelated investors' interest in the associate, i.e. the entity's share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence in an associate, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate, i.e. the entity's share of the gain or loss is eliminated.

4) IFRS 16 "Leases"

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

5) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

In determining whether to recognize a deferred tax asset, the Company 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 amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company 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.

6) Annual Improvements to IFRSs 2014-2016 Cycle

IAS 28 "Investments in Associates and Joint Ventures," was amended in this annual improvement.

The amendment to IAS 28 clarified that when the Company (non-investment entity) applies the equity method to account for investment in an associate that is an investment entity, the Company may elect to retain the fair value of the investment in subsidiaries of the investment entity associate. The election should be made separately for each investment entity associate, at the later of the date (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.

The Company shall apply the aforementioned amendments retrospectively.

7) 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 Company shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

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 the significance of the inputs to the fair value measurement in its entirety, are described as follows:

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

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

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

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

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 twelve 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 twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Business combinations

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

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

e. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (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 not retranslated.

For the purpose of presenting financial statements, the functional currencies of the Company's foreign operations (including subsidiaries and associates in other countries that use currency different from the currency of the Company) are translated into the presentation currency - the New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

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.

f. 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. 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.

g. Investment in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

Subsidiaries are the entities (including structured entities) controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of other equity of the subsidiaries.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control of the subsidiaries are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits and losses resulting from downstream transactions with subsidiaries are eliminated in full. Profits and losses resulting from upstream with subsidiaries and sidestream transactions between subsidiaries are recognized in the financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

h. Investment in associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary.

The Company uses the equity method to account for its investment in associates.

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

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

When the Company'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 by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

The Company 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 its 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 Company 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 the group-entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the financial statements only to the extent that interests in the associate are not related to the Company.

i. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried 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 intended use.

Freehold land is not depreciated.

Depreciation on properties, 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 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 and is recognized in profit or loss.

j. Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Company'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 to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal.

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

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

When an impairment loss is subsequently reversed, the carrying amount of the 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 the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 category

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

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is 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 25.

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 investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company'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 at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three 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

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 the financial asset, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of 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 default on receivables.

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

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

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

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 an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the 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.

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

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

2) Equity instruments

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

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

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, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or is designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 25.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Company 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 hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

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. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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 expenditure required to settle the Company's obligation.

o. Revenue recognition

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

1) Sale of goods

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

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

b) The Company 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 Company; and

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

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

2) Rendering of services

Service income is recognized when services are provided.

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

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

4) Dividend and interest income

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

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

p. Leasing

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

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

2) The Company as lessee

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service 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) are recognized as employee benefits expense in the period 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 liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

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 Company's best estimate of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

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

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company'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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment assessment of investments accounted for using the equity method

Determining whether the goodwill included in the investments in subsidiaries is impaired requires an estimation of the value in use of the cash-generating units which are expected to benefit from the synergies of the combination and to which the goodwill has been allocated since the acquisition date. 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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Cash on hand | $ 325 | $ 325 |
| Checking accounts and demand deposits | 2,007,922 | 814,968 |
| | $ 2,008,247 | $ 815,293 |

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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Demand deposits | 0.0001%-0.35% | 0.001%-0.300% |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial assets at held for trading - current | | |
| Forward exchange contracts | $ 34,348 | $ 7,391 |
| Financial liabilities held for trading - current | | |
| Forward exchange contracts | $ 8,845 | $ 6,352 |

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

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|---|---|---|---|
| December 31, 2016 | | | |
| Sell | EUR/NTD | 2017.01-2017.05 | EUR5,500/NTD192,863 |
| | EUR/USD | 2017.01-2017.05 | EUR8,500/USD9,451 |
| | USD/NTD | 2017.01-2017.04 | USD8,414/NTD266,779 |
| | JPY/NTD | 2017.01-2017.06 | JPY430,000/NTD128,601 |
| | RMB/NTD | 2017.01-2017.03 | RMB83,000/NTD380,318 |
| December 31, 2015 | | | |
| Sell | EUR/NTD | 2016.01-2016.04 | EUR5,000/NTD179,073 |
| | EUR/USD | 2016.01-2016.04 | EUR6,500/USD7,102 |
| | USD/NTD | 2016.01-2016.02 | USD1,499/NTD49,190 |
| | JPY/NTD | 2016.01-2016.05 | JPY200,000/NTD53,236 |
| | JPY/USD | 2016.01-2016.05 | JPY70,000/USD582 |
| | RMB/NTD | 2016.01-2016.03 | RMB64,000/NTD321,201 |
| | RMB/USD | 2016.01-2016.02 | RMB15,000/USD2,323 |

The Company entered into forward exchange contracts during the years ended December 31, 2016 and 2015 to manage exposures due to exchange rate fluctuations of foreign-currency denominated assets and liabilities. The Company's financial hedging strategy is to minimize risks due to market price fluctuations and cash flows; however, because these contracts did not meet the criteria for hedge effectiveness, they were not subject to hedge accounting.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Domestic investments | | |
| Mutual funds | $ 700,269 | $ - |
| Noncurrent | | |
| Domestic investments | | |
| Quoted shares | $ 1,694,801 | $ 1,700,814 |

For its securities borrowing and lending transactions, the Company placed some of its quoted domestic stocks, recorded under available-for-sale assets - noncurrent, in a trust at Chinatrust Commercial Bank. As of December 31, 2016 and 2015, the stocks held in trust amounted to $1,257,600 thousand and $1,276,400 thousand, respectively. Refer to Table 3 for more information. On the transactions, the Company recognized gains of $53 thousand and $235 thousand during the years ended December 31, 2016 and 2015, respectively. These gains were recorded under other nonoperating income.

## 9. NOTES AND TRADE RECEIVABLES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Notes receivable (include related parties) | $ 67,223 | $ 55,480 |
| Trade receivable | $ 1,560,620 | $ 1,156,139 |
| Less: Allowance for impairment loss | (17,016) | (20,899) |
| | $ 1,543,604 | $ 1,135,240 |

**Trade Receivables**

The average credit period of sales of goods was from 30 to 90 days. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Company recognized an allowance for impairment loss of 100% against all receivables over 1 year because historical experience had been that receivables that are past due beyond 1 year are not recoverable. Allowance for impairment loss were recognized against trade receivables between 90 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 positions.

For the trade receivables balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Not overdue | $ 1,404,166 | $ 968,470 |
| Overdue | | |
| 1 to 90 days | 140,291 | 177,970 |
| 91 to 360 days | 1,873 | 2,060 |
| Over 360 days | 14,290 | 7,639 |
| | $ 1,560,620 | $ 1,156,139 |

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

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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| 1 to 30 days | $ 124,761 | $ 141,583 |
| 31 to 60 days | 9,590 | 12,722 |
| 61 to 90 days | 5,940 | 11,681 |
| | $ 140,291 | $ 165,986 |

The above aging schedule was based on the past due days from end of 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, 2015 | $ 19,802 | $ 3,330 | $ 23,132 |
| Less: Impairment losses recognized on receivables | (2,203) | - | (2,203) |
| Less: Amounts written off during the year as uncollectible | (30) | - | (30) |
| Balance at December 31, 2015 | $ 17,569 | $ 3,330 | $ 20,899 |
| Balance at January 1, 2016 | $ 17,569 | $ 3,330 | $ 20,899 |
| Plus: Impairment losses recognized on receivables | 96 | - | 96 |
| Less: Amounts written off during the year as uncollectible | (3,979) | - | (3,979) |
| Balance at December 31, 2016 | $ 13,686 | $ 3,330 | $ 17,016 |

The Company recognized impairment losses of $1,432 thousand both on trade receivables as of December 31, 2016 and 2015.

These amounts mainly related to customers that were in liquidation or in severe financial difficulties. The Company did not hold any collateral over these balances.

## 10. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Finished goods | $ 707,014 | $ 673,949 |
| Work in process | 462,358 | 351,292 |
| Raw materials | 732,715 | 637,327 |
| Inventories in transit | 33,786 | 10,588 |
| | $ 1,935,873 | $ 1,673,156 |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was $21,532,273 thousand and $20,644,285 thousand, respectively.

The costs of inventories were decreased by $89,589 thousand and $107,604 thousand as of December 31, 2016 and 2015, respectively, when stated at the lower of cost or net realizable values.

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Investments in subsidiaries | $ 14,626,539 | $ 12,678,469 |
| Investments in associates | 582,300 | 459,756 |
| | $ 15,208,839 | $ 13,138,225 |

a. Investments in subsidiaries

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Unlisted companies | | |
| Advantech Automation Corp. (BVI) (AAC (BVI)) | $ 4,021,994 | $ 3,735,761 |
| Advantech Technology Co., Ltd. (ATC) | 3,243,871 | 3,626,645 |
| Advantech Corporate Investment | 1,639,126 | 1,558,953 |
| Advannixs Corp. (formerly Advansus Corp.) | 979,563 | 999,983 |
| Advantech Europe Holding B.V. (AEUH) | 864,191 | 898,536 |
| Advantech-LNC Technology Co., Ltd. (ALTC) | 493,481 | 516,626 |
| AdvanPOS Technology Co., Ltd. (AdvanPOS) | 577,260 | 358,662 |
| ACA Digital Corp. (ACA) (Note 1) | - | 319,859 |
| Advantech KR Co., Ltd. (AKR) | 228,407 | 202,503 |
| Advantech Japan Co., Ltd. (AJP) | 218,331 | 179,407 |
| Advantech Co. Singapore Pte, Ltd. (ASG) | 72,186 | 82,906 |
| Advantech iFactory Co., Ltd. (Note 2) | - | 60,088 |
| Advantech Brasil Ltda. (ABR) | 75,531 | 48,320 |
| Advantech Co. Malaysia Sdn. Bhd. (AMY) | 45,752 | 36,439 |
| Advantech Australia Pty Ltd. (AAU) | 34,737 | 30,171 |
| Advantech Industrial Computing India Private Limited (AIN) | 1,663 | 13,479 |
| Advantech Innovative Design Co., Ltd. | 9,633 | 8,569 |
| Advantech Electronics, S. De R. L. Dec. V. (AMX) | 594 | 1,562 |
| BEMC Holdings Corporation (BEMC) | 1,959,805 | - |
| Advantech Intelligent Service (AiST) (Note 3) | 160,414 | - |
| | $ 14,626,539 | $ 12,678,469 |

Note 1: In 2016, ACA was merged by AdvanPOS and ACA ceased to exist.

Note 2: In 2016, Advantech iFactory Co., Ltd. was liquidated.

Note 3: Due to the adjustment of investment structure, the Company directly acquired 100% share equity of AiST from Advantech Investment Corporate.

As the end of the reporting period, the Company's percentage of ownership and voting rights in its investees were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| AAC (BVI) | 100.00% | 100.00% |
| ATC | 100.00% | 100.00% |
| Advantech Corporate Investment | 100.00% | 100.00% |
| Advanixs Corporation (formerly Advansus Corp.) | 100.00% | 100.00% |
| AEUH | 100.00% | 100.00% |
| ALTC (Note 22) | 81.17% | 89.93% |
| AdvanPOS (Note 22) | 100.00% | 100.00% |
| ACA | - | 100.00% |
| AKR | 100.00% | 100.00% |
| AJP | 100.00% | 100.00% |
| ASG | 100.00% | 100.00% |
| Advantech iFactory Co., Ltd. | - | 100.00% |
| ABR | 80.00% | 80.00% |
| AMY | 100.00% | 100.00% |
| AAU | 100.00% | 100.00% |
| AIN | 99.99% | 99.99% |
| Advantech Innovative Design Co., Ltd. | 100.00% | 100.00% |
| AMX | 100.00% | 100.00% |
| BEMC (Note 21) | 60.00% | - |
| AiST | 100.00% | - |

Refer to Note 26 to the consolidation financial statements of the year ended December 31, 2016 for the disclosures of the Company's acquisitions of B+B.

The financial statements used as basis for calculating investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments have been audited, except those of AIN, AMX, Advantech Innovative Design Co., Ltd. and Advantech iFactory Co., Ltd. (liquidated in 2016). Management believes there would have been no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income had the financial statements of the above subsidiaries been audited.

The investments in subsidiaries accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the subsidiaries' financial statements audited by the auditors for the same years.

b. Investments in associates

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Listed companies | | |
| Axiomtek Co., Ltd. | $ 464,155 | $ 450,246 |
| Unlisted companies | | |
| AIMobile Co., Ltd. (AIMobile) | 109,241 | - |
| Jan Hsiang Electronics Co., Ltd. (Jan Hsiang) | 8,904 | 9,510 |
| | $ 582,300 | $ 459,756 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| The Company's share of: | | |
| Profit from continuing operations | $ 67,390 | $ 110,142 |
| Other comprehensive income | 1,575 | 25 |
| Total comprehensive income for the year | $ 68,965 | $ 110,167 |

The Company acquired AIMobile as an associate in 2016.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments was based on the associates' financial statements audited by the CPAs for the same years.

## 12. PROPERTY, PLANT, AND EQUIPMENT

| | Freehold Land | Buildings | Equipment | Office Equipment | Other Facilities | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2015 | $ 2,774,795 | $ 2,388,351 | $ 835,167 | $ 250,418 | $ 489,059 | $ 31,996 | $ 6,769,786 |
| Additions | - | 82,015 | 61,640 | 23,935 | 85,436 | 928,621 | 1,181,647 |
| Disposals | - | - | (67,681) | (6,705) | (5,392) | - | (79,778) |
| Reclassifications | - | - | 26,655 | - | 4,542 | (46,323) | (15,126) |
| Balance at December 31, 2015 | $ 2,774,795 | $ 2,470,366 | $ 855,781 | $ 267,648 | $ 573,645 | $ 914,294 | $ 7,856,529 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2015 | $ - | $ 323,799 | $ 621,796 | $ 150,528 | $ 318,704 | $ - | $ 1,414,827 |
| Disposals | - | - | (67,681) | (6,331) | (5,311) | - | (79,323) |
| Depreciation expense | - | 47,874 | 82,301 | 37,257 | 75,484 | - | 242,916 |
| Balance at December 31, 2015 | $ - | $ 371,673 | $ 636,416 | $ 181,454 | $ 388,877 | $ - | $ 1,578,420 |
| Carrying amounts at December 31, 2015 | $ 2,774,795 | $ 2,098,693 | $ 219,365 | $ 86,194 | $ 184,768 | $ 914,294 | $ 6,278,109 |
| Cost | | | | | | | |
| Balance at January 1, 2016 | $ 2,774,795 | $ 2,470,366 | $ 855,781 | $ 267,648 | $ 573,645 | $ 914,294 | $ 7,856,529 |
| Additions | - | 124,964 | 22,004 | 20,968 | 42,814 | 805,658 | 1,016,408 |
| Disposals | (78,305) | (16,248) | (36,127) | (15,700) | (43,656) | - | (190,036) |
| Reclassifications | - | 1,563,490 | 55,691 | 11,053 | 23,000 | (1,677,979) | (24,745) |
| Balance at December 31, 2016 | $ 2,696,490 | $ 4,142,572 | $ 897,349 | $ 283,969 | $ 595,803 | $ 41,973 | $ 8,658,156 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2016 | $ - | $ 371,673 | $ 636,416 | $ 181,454 | $ 388,877 | $ - | $ 1,578,420 |
| Disposals | - | (7,023) | (35,610) | (14,978) | (39,872) | - | (97,483) |
| Depreciation expense | - | 55,755 | 70,612 | 35,077 | 77,691 | - | 239,135 |
| Balance at December 31, 2016 | $ - | $ 420,405 | $ 671,418 | $ 201,553 | $ 426,696 | $ - | $ 1,720,072 |
| Carrying amounts at December 31, 2016 | $ 2,696,490 | $ 3,722,167 | $ 225,931 | $ 82,416 | $ 169,107 | $ 41,973 | $ 6,938,084 |

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

| | |
|---|---|
| Buildings | |
| Main buildings | 45-60 years |
| Electronic equipment | 5 years |
| Engineering systems | 50 years |
| Equipment | 2-8 years |
| Office equipment | 2-5 years |
| Other facilities | 2-5 years |

## 13. GOODWILL

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Cost | | |
| Balance at January 1 | $ 111,599 | $ 111,599 |
| Balance at December 31 | $ 111,599 | $ 111,599 |

## 14. OTHER LIABILITIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Other payables | | |
| Salaries or bonuses | $ 1,840,482 | $ 1,753,360 |
| Payable for royalties | 179,207 | 105,186 |
| Payable for annual leave | 36,701 | 25,650 |
| Others (Note) | 642,984 | 371,719 |
| | $ 2,699,374 | $ 2,255,915 |

Note: Including construction payables, accruals of litigation, marketing expenses, and freight expenses.

## 15. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Present value of defined benefit obligation | $ 343,036 | $ 327,854 |
| Fair value of plan assets | (131,866) | (145,682) |
| Deficit | 211,170 | 182,172 |
| Net defined benefit liability | $ 211,170 | $ 182,172 |

Movements in net defined benefit liability were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Balance at January 1, 2015 | $ 308,456 | $ (144,207) | $ 164,249 |
| Service cost | | | |
| Current service cost | 2,344 | - | 2,344 |
| Past service cost | 1,340 | - | 1,340 |
| Net interest expense (income) | 5,784 | (2,774) | 3,010 |
| Recognized in profit or loss | 9,468 | (2,774) | 6,694 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,019) | (1,019) |
| Actuarial (gain) loss - changes in demographic assumptions | 12,031 | - | 12,031 |
| Actuarial (gain) loss - changes in financial assumptions | 9,903 | - | 9,903 |
| Actuarial (gain) loss - experience adjustments | (2,179) | - | (2,179) |
| Recognized in other comprehensive income | 19,755 | (1,019) | 18,736 |
| Contributions from the employer | - | (7,507) | (7,507) |
| Benefits paid | (9,825) | 9,825 | - |
| Balance at December 31, 2015 | 327,854 | (145,682) | 182,172 |
| Service cost | | | |
| Current service cost | 2,645 | - | 2,645 |
| Net interest expense (income) | 5,328 | (2,429) | 2,899 |
| Recognized in profit or loss | 7,973 | (2,429) | 5,544 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 1,402 | 1,402 |
| Actuarial (gain) loss - changes in demographic assumptions | 8,515 | - | 8,515 |
| Actuarial (gain) loss - changes in financial assumptions | 10,487 | - | 10,487 |
| Actuarial (gain) loss - experience adjustments | 10,635 | - | 10,635 |
| Recognized in other comprehensive income | 29,637 | 1,402 | 31,039 |
| Contributions from the employer | - | (7,585) | (7,585) |
| Benefits paid | (22,428) | 22,428 | - |
| Balance at December 31, 2016 | $ 343,036 | $ (131,866) | $ 211,170 |

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 | |
|---|---|---|
| | **2016** | **2015** |
| Operating costs | $ 1,230 | $ 1,075 |
| Selling and marketing expenses | 868 | 838 |
| General and administrative expenses | 1,010 | 2,368 |
| Research and development expenses | 1,954 | 1,963 |
| | $ 5,062 | $ 6,244 |

Through the defined benefit plans under the Labor Standards Law, the Company 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 | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate(s) | 1.375% | 1.625% |
| Expected rate(s) of salary increase | 3.250% | 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 decrease/increase as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate(s) | | |
| 0.25% increase | $ (10,694) | $ (10,254) |
| 0.25% decrease | $ 11,160 | $ 10,705 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | $ 10,775 | $ 10,360 |
| 0.25% decrease | $ (10,384) | $ (9,980) |

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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| The expected contributions to the plan for the next year | $ 7,601 | $ 7,563 |
| The average duration of the defined benefit obligation | 12.7 years | 12.8 years |

## 16. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Number of shares authorized (in thousands) | 800,000 | 800,000 |
| Amount of shares authorized | $ 8,000,000 | $ 8,000,000 |
| Number of shares issued and fully paid (in thousands) | 633,084 | 631,853 |
| Amount of shares issued and fully paid | $ 6,330,841 | $ 6,318,531 |

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

For the year ended December 31, 2016, the changes in shares are due to employees' exercise of their employee share options.

b. Capital surplus

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1) | | |
| Arising from issuance of common shares | $ 3,396,888 | $ 3,396,888 |
| Arising from conversion of bonds | 931,849 | 931,849 |
| Arising from the difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | 17,844 | - |
| May be used to offset a deficit only | | |
| Arising from changes in percentage of ownership interest in subsidiaries (2) | 4,246 | 4,246 |
| Arising from employee share options | 1,077,084 | 792,341 |
| Arising from distribution of stock dividends | 78,614 | 78,614 |

(Continued)

| | December 31 | |
| --- | --- | --- |
| | 2016 | 2015 |
| May not be used for any purpose | | |
| Arising from share of changes in capital surplus of associates | $ 23,231 | $ 12,698 |
| Arising from employee share options | 529,128 | 370,919 |
| | $ 6,058,884 | $ 5,587,555 |

(Concluded)

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 once a year).

2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary resulted 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 dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 25, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend 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 distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to c. employee benefits expense in Note 17.

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 dividend 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 stock dividends be less than 75% of total dividends to retain internally generated cash within the Company to finance future capital expenditures and working capital requirements.

Any appropriations from earnings should be recorded in the year of shareholders' approval, following the year the earnings were generated.

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and 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.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriation of earnings, for 2015 and 2014 have been approved in the shareholders' meetings on May 25, 2016 and May 28, 2015, respectively, were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2015** | **2014** | **2015** | **2014** |
| Legal reserve | $ 510,434 | $ 490,778 | $ - | $ - |
| Cash dividends | 3,791,118 | 3,787,255 | 6.0 | 6.0 |

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 6, 2017. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings** | **Dividends Per Share (NT$)** |
|---|---|---|
| Legal reserve | $ 566,686 | $ - |
| Special reserve | 85,204 | - |
| Cash dividends | 3,988,367 | 6.3 |
| Share dividends | 633,074 | 1.0 |

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on May 26, 2017.

d. Other equity items

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

| | **For the Year Ended December 31** | |
|---|---|---|
| | **2016** | **2015** |
| Balance at January 1 | $ 271,859 | $ 338,356 |
| Exchange differences arising on translating the financial statements of foreign operations | (561,518) | (82,566) |
| Related income tax | 96,161 | 13,620 |
| Share of exchange difference of associates accounted for using the equity method | (4,135) | 2,449 |
| Balance at December 31 | $ (197,633) | $ 271,859 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 68,265 | $ 563,277 |
| Unrealized gain (loss) arising on revaluation of available-for-sale financial assets | (4,334) | (358,746) |
| Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets | (1,431) | (198,848) |
| Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method | 49,929 | 62,582 |
| Balance at December 31 | $ 112,429 | $ 68,265 |

## 17. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

a. Finance costs

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Interest on loans from related parties | $ 3,871 | $ - |
| Interest on short-term bank loans | 292 | - |
| | $ 4,163 | $ - |

b. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Property, plant and equipment | $ 239,135 | $ 242,916 |
| Intangible assets | 78,294 | 74,874 |
| | $ 317,429 | $ 317,790 |
| An analysis of depreciation by function | | |
| Operating costs | $ 55,527 | $ 51,653 |
| Operating expenses | 183,608 | 191,263 |
| | $ 239,135 | $ 242,916 |
| An analysis of amortization by function | | |
| Operating costs | $ 277 | $ 210 |
| Selling and marketing expenses | 13 | 145 |
| General and administrative expenses | 52,694 | 52,752 |
| Research and development expenses | 25,310 | 21,767 |
| | $ 78,294 | $ 74,874 |

c. Employee benefits expense

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term benefits | $ 2,978,334 | $ 2,792,674 |
| Post-employment benefits | | |
| Defined contribution plans | 118,917 | 115,737 |
| Defined benefit plans (Note 15) | 5,062 | 6,244 |
| | 123,979 | 121,981 |
| Share-based payments - equity - settled | 338,194 | 261,877 |
| Other employee benefits | 147,018 | 141,631 |
| Total employee benefits expense | $ 3,587,525 | $ 3,318,163 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ 743,057 | $ 685,258 |
| Operating expenses | 2,844,468 | 2,632,905 |
| | $ 3,587,525 | $ 3,318,163 |

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on May 25, 2016, the Company accrued employees' compensation at the rates no less than 1% and no higher than 20%, and remuneration of directors and supervisors at the rates no higher than 1%, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 6, 2017 and March 4, 2016, respectively, were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| | Cash | Cash |
| Employees' compensation | $ 243,000 | $ 200,000 |
| Remuneration of directors and supervisors | 12,300 | 12,000 |

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on May 28, 2015 were as follows:

| | For the Year Ended December 31, 2014 |
|---|---|
| | **Cash Bonus** |
| Bonus to employees | $ 126,000 |
| Remuneration of directors and supervisors | 12,000 |

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meetings on May 28, 2015 and the amounts recognized in the financial statements for the years ended December 31, 2014.

Information on bonuses to employees and remuneration of directors and supervisors resolved by the shareholders' meetings in 2015 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gain or loss on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Foreign exchange gains | $ 445,744 | $ 603,588 |
| Foreign exchange losses | (586,433) | (692,447) |
| | $ (140,689) | $ (88,859) |

## 18. INCOME TAXES

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

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Current tax | | |
| In respect of the current year | $ 738,950 | $ 682,972 |
| Income tax on unappropriated earnings | 71,661 | 62,541 |
| Adjustments for prior years | 25,838 | (77) |
| | 836,449 | 745,436 |
| Deferred tax | | |
| In respect of the current year | 140,385 | 23,860 |
| Adjustments for prior years | - | (1,141) |
| | 140,385 | 22,719 |
| Income tax expense recognized in profit or loss | $ 976,834 | $ 768,155 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit before tax | $ 6,643,696 | $ 5,872,501 |
| Income tax expense calculated at the statutory rate | $ 1,129,428 | $ 998,325 |
| Tax-exempt income | (167,214) | (214,892) |
| Unrecognized deductible temporary differences | - | (20,742) |
| Unrecognized investment credits | (87,000) | (57,000) |
| Income tax on unappropriated earnings | 71,661 | 62,541 |
| Land value increment tax | 4,121 | - |
| Adjustments for prior years' tax | 25,838 | (77) |
| Income tax expense recognized in profit or loss | $ 976,834 | $ 768,155 |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 10% income tax rate of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Deferred tax | | |
| In respect of the current year | | |
| Translation of foreign operations | $ 96,161 | $ 13,620 |
| Remeasurement on defined benefit plan | 5,277 | 3,185 |
| | $ 101,438 | $ 16,805 |

c. Current tax assets and liabilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax liabilities | | |
| Income tax payable | $ 1,036,650 | $ 853,769 |

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, 2016

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Temporary differences | | | | |
| Unrealized gross profit | $ 56,143 | $ (11,147) | $ - | $ 44,996 |
| Unrealized loss on inventory write-down | 18,293 | (3,063) | - | 15,230 |
| Defined benefit obligation | 16,003 | (347) | - | 15,656 |
| Unrealized exchange losses | 8,545 | (8,545) | - | - |
| Donation expense | 2,550 | (2,550) | - | - |
| Unrealized warranty liabilities | 7,040 | 1,316 | - | 8,356 |
| Exchange difference on foreign operations | - | - | 40,479 | 40,479 |
| Remeasurement on defined benefit plans | 6,136 | - | 5,277 | 11,413 |
| | $ 114,710 | $ (24,336) | $ 45,756 | $ 136,130 |
| Deferred tax liabilities | | | | |
| Temporary differences | | | | |
| Unappropriated earnings of subsidiaries | $ 868,659 | $ 113,511 | $ - | $ 982,170 |
| Exchange difference on foreign operations | 55,682 | - | (55,682) | - |
| Remeasurement on defined benefit plan | 3,391 | - | - | 3,391 |
| Unrealized exchange gain | - | 2,538 | - | 2,538 |
| | $ 927,732 | $ 116,049 | $ (55,682) | $ 988,099 |

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Temporary differences | | | | |
| Unrealized gross profit | $ 40,938 | $ 15,205 | $ - | $ 56,143 |
| Unrealized loss on inventory write-down | 15,771 | 2,522 | - | 18,293 |
| Defined benefit obligation | 16,141 | (138) | - | 16,003 |
| Unrealized exchange losses | - | 8,545 | - | 8,545 |
| Donation expense | - | 2,550 | - | 2,550 |

(Continued)

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Unrealized warranty liabilities | $ 6,140 | $ 900 | $ - | $ 7,040 |
| Remeasurement on defined benefit plans | 2,951 | - | 3,185 | 6,136 |
| | $ 81,941 | $ 29,584 | $ 3,185 | $ 114,710 |
| Deferred tax liabilities | | | | |
| Temporary differences | | | | |
| Unappropriated earnings of subsidiaries | $ 807,836 | $ 60,823 | $ - | $ 868,659 |
| Exchange difference on foreign operations | 69,302 | - | (13,620) | 55,682 |
| Remeasurement on defined benefit plan | 3,391 | - | - | 3,391 |
| Unrealized exchange gain | 8,520 | (8,520) | - | - |
| | $ 889,049 | $ 52,303 | $ (13,620) | $ 927,732 |

(Concluded)

e. Integrated income tax

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unappropriated earnings | | |
| Generated on and after January 1, 1998 | $ 8,435,785 | $ 7,098,449 |
| Shareholder-imputation credit account | $ 777,620 | $ 608,917 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 (Expected) | 2015 |
| Creditable ratio for distribution of earning | 18.69% | 13.86% |

f. Income tax assessments

The Company's tax returns through 2011 have been assessed by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2008 tax returns and applied for reexamination. Nevertheless, to be conservative, the Company provided for the income tax assessed by the tax authorities.

## 19. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Basic earnings per share | $ 8.96 | $ 8.08 |
| Diluted earnings per share | $ 8.90 | $ 8.05 |

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**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Earnings used in the computation of basic earnings per share | $ 5,666,862 | $ 5,104,346 |
| Earnings used in the computation of diluted earnings per share | $ 5,666,862 | $ 5,104,346 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Weighted average number of ordinary shares in computation of basic earnings per share | 632,148 | 631,633 |
| Effect of potentially dilutive ordinary shares: | | |
| Employee share option | 3,492 | 1,372 |
| Employees' compensation | 1,168 | 1,202 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 636,808 | 634,207 |

If the Company offered to settle compensation paid to employees in cash or shares, the Company assumed the entire amount of the compensation would 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.

## 20. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of the Company and its subsidiaries were granted 6,500 options in 2016, 5,000 options in 2014 and 3,000 options in 2010. Each option entitles the holder to subscribe for one thousand common 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 2016, 2014 and 2010 are valid for six, six and five years, respectively. All are exercisable at certain percentages after the second anniversary year from the grant date. Options granted in 2010 had an exercise price equal to the closing price of the Company's common shares listed on the grant date, and the exercise prices of those granted in 2016 and 2014 were both NT$100 per share. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options will be adjusted accordingly.

Information on employee share options was as follows:

| Employee Share Options | 2016 Number of Options (In Thousands) | 2016 Weighted-average Exercise Price (NT$) | 2015 Number of Options (In Thousands) | 2015 Weighted-average Exercise Price (NT$) |
|---|---|---|---|---|
| Balance at January 1 | 5,000 | $100.00 | 5,644 | $ 94.10 |
| Options granted | 6,500 | 100.00 | - | - |
| Options exercised | (1,231) | 95.10 | (644) | 47.95 |
| Balance at December 31 | 10,269 | - | 5,000 | 100.00 |
| Options exercisable, end of the year | 3,769 | 95.10 | - | - |
| Weighted-average fair value of options granted (NT$) | $ 95.10 | | $ - | |

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2016 and 2015 were from NT$204 to NT$269 and from NT$210 to NT$254, respectively.

Information about outstanding options as of December 31, 2016 and 2015 was as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Employee Share Options | Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) | Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) |
| Issuance in 2016 | $100.00 | 5.45 | $ - | - |
| Issuance in 2014 | 95.10 | 3.63 | $100.00 | 4.63 |

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

| | 2016 | 2014 | 2010 |
|---|---|---|---|
| Grant-date share price (NT$) | 235 | $239.5 | $67.4 |
| Exercise price (NT$) | 100 | $100 | $67.4 |
| Expected volatility | 31.42-32.48% | 28.28%-29.19% | 34.11%-35.15% |
| Expected life (years) | 4-5.5 years | 4-5.5 years | 3.5-4.5 years |
| Expected dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 0.52%-0.65% | 1.07%-1.30% | 0.92%-1.10% |

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

Compensation cost recognized was $338,194 thousand and $261,877 thousand for the years ended December 31, 2016 and 2015, respectively.

## 21. ACQUISITION OF SUBSIDIARIES - WITH OBTAINED CONTROL

| | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred |
|---|---|---|---|---|
| B+B SmartWorx, Inc. (Note) | Sale of industrial network communications | January 4, 2016 | 100 | $ 3,296,048 |
| Advanixs Kun Shan Corp. (formerly Yeh-Chiang Technology Kun Shan Co., Ltd.) | Production and sale of industrial automation products | May 27, 2016 | 100 | $ 459,648 |

Note: For more information of BEMC, Avtek and B+B and its subsidiaries IMC, Quatech, BBI, B&B Electronics, B&B DMCC, B+B (CZ) (formerly Conel) and Conel Automation (formerly Softcon), please refer to Table 8.

To expand the Company's global brand market in industrial network communications and operations in China, the Company acquired B+B SmartWorx Inc. and Advanixs Kun Shan Corp. (formerly Yeh-Chiang Technology Kun Shan Co., Ltd.). For details about the acquisition of B+B SmartWorx Inc. and Advanixs Kun Shan Corp., please refer to Note 26 to the consolidated financial statements for the year ended December 31, 2016.

## 22. PARTIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES - WITHOUT LOSS OF CONTROL

a. In 2015, the Company subscribed for an additional 6,533 thousand shares of AdvanPOS, increasing the Company's equity interest from 84.01% to 100%.

b. In the first and third quarter of 2016, the Company acquired 0.07% and sold 8.83% equity in ALNC, respectively, decreasing the Company's equity interest from 89.93% to 81.17%.

c. In the first quarter of 2016, the Company acquired 40% equity in Hanzhou Advantofine Automation Co., Ltd., increasing the Company's equity interest from 60% to 100%.

The above transactions were accounted for as equity transactions, since the Company did not cease to have control over these subsidiaries. For details about the above transactions, please refer to Note 27 to the consolidated financial statements for the year ended December 31, 2016.

## 23. OPERATING LEASE ARRANGEMENTS

**The Company as Lessee**

Operating leases are mainly leases of warehouses with lease term of 1 year. The future minimum lease payments of non-cancellable operating lease commitments were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Not later than 1 year | $ 280 | $ 5,352 |

The lease payments recognized in profit or loss for the current year were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Minimum lease payment | $ 12,079 | $ 15,455 |

## 24. CAPITAL MANAGEMENT

The Company manages its capital to ensure it will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged in both 2015 and 2016.

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

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

Key management personnel of the Company 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 Company may adjust the amount of dividends paid to shareholders, the number of new shares issued, and the amount of new debt issued.

## 25. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 34,348 | $ - | $ 34,348 |
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | $ 1,694,801 | $ - | $ - | $ 1,694,801 |
| Mutual funds | 700,269 | - | - | 700,269 |
| | $ 2,395,070 | $ - | $ - | $ 2,395,070 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 8,845 | $ - | $ 8,845 |

December 31, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 7,391 | $ - | $ 7,391 |
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | $ 1,700,814 | $ - | $ - | $ 1,700,814 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 6,352 | $ - | $ 6,352 |

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

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Derivatives held by the Company 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.

b. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial assets | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | $ 34,348 | $ 7,391 |
| Loans and receivables (Note 1) | 7,652,453 | 6,112,664 |
| Available-for-sale financial assets | 2,395,070 | 1,700,814 |
| Financial liabilities | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | 8,845 | 6,352 |
| Measured at amortized cost (Note 2) | 6,860,985 | 5,842,525 |

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, note receivables, trade receivables, trade receivables from related parties, and other receivables (including those due from related parties).

Note 2: The balances included financial liabilities measured at amortized cost, which comprise trade and other payables (including those to related parties).

c. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, trade receivables and trade payables. The Company'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 Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company 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 Company'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 Company did not enter into or trade financial instrument, including derivative financial instruments, for speculative purposes.

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

1) Market risk

The Company'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 Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

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

a) Foreign currency risk

The Company undertook operating activities and investment of foreign operations denominated in foreign currencies, which exposed the Company to foreign currency risk. The Company's forward exchange contracts are used to minimize risks of market price and fluctuations in cash flows; however, because these contracts did not meet the criteria for hedge effectiveness, they were not subject to hedge accounting.

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Notes 28 and 7, respectively.

Sensitivity analysis

The Company was mainly exposed to U.S. dollar, Euro and Chinese Yuan currencies.

The following table details the Company's sensitivity to a 5% increase in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period is adjusted for a 5% change in exchange rates. A positive number below indicates an increase in pre-tax profit associated with New Taiwan dollar strengthen 5% against the relevant currency. For a 5% weakening of 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.S. Dollar Impact | | Euro Impact | | Chinese Yuan Impact | |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Profit or loss | $ 60,788 (Note 1) | $ 33,883 (Note 1) | $ 56,716 (Note 2) | $ 41,827 (Note 2) | $ 23,072 (Note 3) | $ 41,897 (Note 3) |

Note 1: This was mainly attributable to the exposure outstanding on U.S. dollars 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.

b) Interest rate risk

The Company's floating-rate bank savings are exposed to risk of changes in interest rates. The Company does not operate hedging instruments for interest rates. The Company'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 Company's fixed-term bank deposits are exposed to fair value interest rate risk; however, this expected risk is insignificant.

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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Cash flow interest rate risk | | |
| Financial assets | $ 2,004,912 | $ 813,331 |

Sensitivity analysis

The sensitivity analyses below were determined based on the Company'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 Company's pre-tax profit for the years ended December 31, 2016 and 2015 would have increased by $10,025 thousand and $4,067 thousand, respectively. Had interest rates been 50 basis points lower, the effects on the Company's pre-tax profit would have been of the same amounts but negative. The source of the negative effects would have been mainly the floating-interest rates on bank savings.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities and open-end mutual funds. The Company manages this exposure by maintaining a portfolio of investments with different risks. The Company's equity price risks was mainly concentrated on open-end mutual funds and 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, pretax other comprehensive income for the years ended December 31, 2016 and 2015 would have increased by $23,951 thousand and $17,008 thousand, respectively, as a result of changes in fair value of available-for-sale investments. Had equity prices been 1% lower, the effects on pre-tax other comprehensive gains would have been of the same amounts but negative.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation provided by the Company 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 Company has delegated a team responsible for determining of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company 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, management believes the Company's credit risk as significantly reduced.

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

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short, medium and long-term funding and liquidity management requirements. The Company 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. As of December 31, 2016 and 2015, the Group had available unutilized short-term bank loan facilities set out in (3) below.

a) Liquidity and interest risk rate tables for nonderivative financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table included both interests 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 the agreed repayment dates.

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

December 31, 2016

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year - 5 Years |
|---|---|---|---|---|
| Nonderivative financial liabilities | | | | |
| Noninterest bearing | $ 4,481,036 | $ 1,320,648 | $ 1,059,301 | $ - |

December 31, 2015

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year - 5 Years |
|---|---|---|---|---|
| Nonderivative financial liabilities | | | | |
| Noninterest bearing | $ 3,017,559 | $ 1,790,626 | $ 1,034,340 | $ - |

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 tables for derivative financial liabilities

The following tables detailed the Company's liquidity analysis for its derivative financial instruments. The tables were based on the undiscounted gross contractual net cash inflows and outflows on these derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2016

| Gross settled | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Total |
|---|---|---|---|---|
| Foreign exchange forward contracts | | | | |
| Inflows | $ 297,337 | $ 693,399 | $ 282,619 | $ 1,273,355 |
| Outflows | 287,861 | 682,033 | 277,958 | 1,247,852 |
| | $ 9,476 | $ 11,366 | $ 4,661 | $ 25,503 |

December 31, 2015

| Gross settled | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Total |
|---|---|---|---|---|
| Foreign exchange forward contracts | | | | |
| Inflows | $ 314,246 | $ 523,146 | $ 93,795 | $ 931,187 |
| Outflows | 310,013 | 526,535 | 93,600 | 930,148 |
| | $ 4,233 | $ (3,389) | $ 195 | $ 1,039 |

c) Financing facilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured bank loan facilities | | |
| Amount used | $ - | $ - |
| Amount unused | 2,362,900 | 1,379,466 |
| | $ 2,362,900 | $ 1,379,466 |

## 26. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of significant transactions between the Company and other related parties are disclosed below.

a. Sales of goods

| | For the Year Ended December 31 | |
|---|---|---|
| Related Party Categories | 2016 | 2015 |
| Subsidiaries | $ 22,819,095 | $ 21,850,199 |
| Associates | 17,108 | 29,337 |
| Other related parties | 10 | - |
| | $ 22,836,213 | $ 21,879,536 |

b. Purchases of goods

| Related Party Categories | For the Year Ended December 31 2016 | For the Year Ended December 31 2015 |
|---|---|---|
| Subsidiaries | $ 14,708,329 | $ 15,254,030 |
| Associates | 21,126 | 22,241 |
| | $ 14,729,455 | $ 15,276,271 |

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

| Line Item | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Trade receivables - related parties | Subsidiaries | $ 3,906,231 | $ 3,961,514 |
| | Associates | 2,206 | 16,485 |
| | Other related parties | 11 | - |
| | | $ 3,908,448 | $ 3,977,999 |
| Note receivable | Associates | $ - | $ 183 |

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015 no impairment loss was recognized for trade receivables from related parties.

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

| Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|
| Subsidiaries | $ 2,601,846 | $ 2,685,959 |
| Associates | 8,796 | 1,171 |
| | $ 2,610,642 | $ 2,687,130 |

The outstanding trade payables to related parties are unsecured.

e. Other receivables from related parties

| Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|
| Subsidiaries | $ 19,002 | $ 15,596 |

f. Property, plant and equipment acquired

| Related Party Categories | Price For the Year Ended December 31 2016 | Price For the Year Ended December 31 2015 |
|---|---|---|
| Subsidiaries | $ 10,408 | $ 42,912 |

g. Other transactions with related parties

| | Operating Expenses For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Administration expenses | | |
| Subsidiaries | $ 17,855 | $ 13,244 |
| Rent expenses | | |
| Subsidiaries | $ 1,518 | $ 1,518 |
| Others | | |
| Subsidiaries | $ 3,871 | $ 2,391 |

| | Other Income For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Rent income | | |
| Subsidiaries | $ 4,836 | $ 6,416 |
| Other related parties | 60 | 50 |
| | $ 4,896 | $ 6,466 |
| Others | | |
| Subsidiaries | $ 88,537 | $ 87,367 |
| Other related parties | 2,702 | 2,712 |
| Associates | - | 787 |
| | $ 91,239 | $ 90,866 |

Lease contracts formed between the Company 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.

h. Compensation of key management personnel

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term employee benefits | $ 34,349 | $ 36,643 |
| Post-employment benefits | 113 | 116 |
| Share-based payments | 20,114 | 26,188 |
| | $ 54,576 | $ 62,947 |

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

## 27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company were as follows:

Significant commitments

As of December 31, 2015, the Company had a construction contract amounting to $1,627,500 thousand for a newly constructed science park located in Linkou in Taoyuan City. The remaining payables were $701,927 thousand.

## 28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 125,577 | 32.25 (USD:NTD) | $ 4,049,858 |
| RMB | 329,147 | 4.167 (RMB:NTD) | 1,519,672 |
| EUR | 23,502 | 33.90 (EUR:NTD) | 796,718 |
| | | | $ 6,366,248 |
| Non-monetary items | | | |
| Subsidiaries and associates accounted for using the equity method | | | |
| USD | 290,712 | 32.25 (USD:NTD) | $ 9,375,462 |
| EUR | 29,470 | 33.90 (EUR:NTD) | 999,033 |
| KRW | 9,340,408 | 0.027 (KRW:NTD) | 252,191 |
| JPY | 832,407 | 0.276 (JPY:NTD) | 229,744 |
| | | | $ 10,856,430 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 79,465 | 32.25 (USD:NTD) | $ 2,562,746 |
| RMB | 200,202 | 4.617 (RMB:NTD) | 924,333 |
| | | | $ 3,487,079 |

December 31, 2015

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 84,470 | 32.825 (USD:NTD) | $ 2,772,728 |
| RMB | 328,421 | 4.9950 (RMB:NTD) | 1,640,463 |
| EUR | 24,408 | 35.880 (EUR:NTD) | 875,759 |
| | | | $ 5,288,950 |
| Non-monetary items | | | |
| Subsidiaries and associates accounted for using the equity method | | | |
| USD | 230,225 | 32.825 (USD:NTD) | $ 7,557,136 |
| EUR | 29,132 | 35.880 (EUR:NTD) | 1,045,256 |
| KRW | 8,311,195 | 0.0280 (KRW:NTD) | 232,713 |
| JPY | 678,922 | 0.2730 (JPY:NTD) | 185,346 |
| | | | $ 9,020,451 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 63,419 | 32.825 (USD:NTD) | $ 2,081,729 |
| RMB | 207,665 | 4.9950 (RMB:NTD) | 1,037,287 |
| | | | $ 3,119,016 |

For the years ended December 2016 and 2015, realized and unrealized net foreign exchange losses were $140,689 thousand and $88,859 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.

## 29. SEPARATELY DISCLOSED ITEMS

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

1) Financing provided to others. (Table 1)

2) Endorsement/guarantee provided. (Table 2)

3) Marketable securities held (excluding investment in subsidiaries and associates). (Table 3)

4) Marketable securities acquired and disposed at costs or prices 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. (Table 6)

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 7)

9) Transactions of financial instruments. (Notes 7 and 25)

10) Name, locations, and other information of investees. (Table 8)

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, shareholding ratio, investment gains or losses, carrying amount of the investment at the end of the period, repatriated investment gains, and limit on the amount of investment in the mainland China area. (Table 9)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third area, their prices, and payment terms, and unrealized gains or losses. Refer to Tables 1, 5 and 7.

TABLE 1

# ADVANTECH CO., LTD. AND INVESTEES

**FINANCING PROVIDED TO OTHERS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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 Amounts | 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 | Better Auto | Dongguan Pou Yuen Digital Technology Co., Ltd. | Trade receivables - related parties | Yes | $ 22,980 (RMB 4,520 thousand) | $ 20,869 (RMB 4,520 thousand) | $ 20,869 (RMB 4,520 thousand) | - | Short-term financing | $ - | Financing need | $ - | None | None | $ 2,521,358 (Note C) | $ 5,042,716 (Note C) |
| | | Dongguan Pou Yuen Digital Technology Co., Ltd. | Trade receivables - related parties | Yes | 16,725 (US$ 500 thousand) | 16,125 (US$ 500 thousand) | 12,900 (US$ 400 thousand) | - | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 2 | ANA | B+B | Trade receivables - related parties | Yes | 66,900 (US$ 2,000 thousand) | 64,500 (US$ 2,000 thousand) | 24,188 (US$ 750 thousand) | 2 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 3 | B+B | B+B (CZ) (formerly Conel) | Trade receivables - related parties | Yes | 133,408 (CZK 31,756 thousand) | 39,949 (CZK 31,756 thousand) | 4,382 (CZK 3,483 thousand) | 2 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 4 | B+B (CZ) (formerly Conel) | Conel Automation (formerly Softcon) | Trade receivables - related parties | Yes | 16,111 (CZK 12,000 thousand) | 15,096 (CZK 12,000 thousand) | 15,096 (CZK 12,000 thousand) | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 5 | Cermate Technologies (Shanghai) Inc. | Shenzhen Cermate Technologies Inc. | Prepayments of inventories | Yes | 15,252 (RMB 3,000 thousand) | 13,851 (RMB 3,000 thousand) | - | - | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 6 | ALNC | Dongguan Pou Yuen Digital Technology Co., Ltd. | Prepayments of inventories | Yes | 150,000 | 150,000 | 93,532 | - | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 7 | Advanix Corp. | The Company | Trade receivables - related parties | Yes | 200,000 | 200,000 | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 8 | Advantech Corporate Investment | The Company | Trade receivables - related parties | Yes | 500,000 | - | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 9 | AdvanPOS | The Company | Trade receivables - related parties | Yes | 100,000 | - | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |

Note A: Investee companies are numbered sequentially from 1.

Note B: The exchange rates as of December 31, 2016 were US$1=NT$32.25, RMB1=NT$4.617 and CZK1=NT$1.258.

Note C: The financing limit for each borrower and for the aggregate financing were 10% and 20%, respectively, of the Company's net asset values.

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

TABLE 2

## ADVANTECH CO., LTD. AND INVESTEES

**ENDORSEMENT/GUARANTEE PROVIDED**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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 | Advanixs Corp. (formerly Advansus Corp.) | Subsidiary | $ 2,521,358 | $ 64,500 (US$ 2,000 thousand) | $ 64,500 (US$ 2,000 thousand) | $ - | $ - | 0.27 | $ 7,564,074 | Y | N | N |
| | | AdvanDos | Subsidiary | 2,521,358 | 64,500 (US$ 2,000 thousand) | 64,500 (US$ 2,000 thousand) | - | - | 0.27 | 7,564,074 | Y | N | N |
| | | ANA | Subsidiary | 2,521,358 | 978,450 (US$ 30,000 thousand) | 967,500 (US$ 30,000 thousand) | 483,750 (US$ 15,000 thousand) | - | 4.07 | 7,564,074 | Y | N | N |
| | | B+B | Subsidiary | 2,521,358 | 326,150 (US$ 10,000 thousand) | 322,500 (US$ 10,000 thousand) | - | - | 1.36 | 7,564,074 | Y | N | N |
| | | AKMC | Subsidiary | 2,521,358 | 195,690 (US$ 6,000 thousand) | 193,500 (US$ 6,000 thousand) | - | - | 0.81 | 7,564,074 | Y | N | Y |
| | | ALNC | Subsidiary | 2,521,358 | 114,153 (US$ 3,500 thousand) | 112,875 (US$ 3,500 thousand) | - | - | 0.47 | 7,564,074 | Y | N | N |
| | | Advanixs Corp. (formerly Advansus Corp.) | Subsidiary | 2,521,358 | 52,184 (US$ 1,600 thousand) | 51,600 (US$ 1,600 thousand) | - | - | 0.22 | 7,564,074 | Y | N | N |
| | | Cermate | Subsidiary | 2,521,358 | 50,553 (US$ 1,550 thousand) | 49,988 (US$ 1,550 thousand) | - | - | 0.21 | 7,564,074 | Y | N | N |
| | | AiST | Subsidiary | 2,521,358 | 4,892 (US$ 150 thousand) | 4,838 (US$ 150 thousand) | - | - | 0.02 | 7,564,074 | Y | N | N |
| | | AdvanPOS | Subsidiary | 2,521,358 | 32,615 (US$ 1,000 thousand) | 32,250 (US$ 1,000 thousand) | - | - | 0.14 | 7,564,074 | Y | N | N |
| | | A-DLoG | Subsidiary | 2,521,358 | 36,300 (EUR 1,000 thousand) | 33,900 (EUR 1,000 thousand) | - | - | 0.14 | 7,564,074 | 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 | | | | | | | | | | |
| | | ABR | Subsidiary | $ 2,521,358 | $ 48,923 (US$ 1,500 thousand) | $ 48,375 (US$ 1,500 thousand) | $ - | $ - | 0.20 | $ 7,564,074 | Y | N | N |
| | | AAU | Subsidiary | 2,521,358 | 6,523 (US$ 200 thousand) | 6,450 (US$ 200 thousand) | - | - | 0.03 | 7,564,074 | Y | N | N |
| | | AKR | Subsidiary | 2,521,358 | 1,631 (US$ 50 thousand) | 1,613 (US$ 50 thousand) | - | - | 0.01 | 7,564,074 | Y | N | N |

Note A: 10% of the Company's net asset value.

Note B: 30% of the Company's net asset value.

Note C: The exchange rates as of December 31, 2016 were US$1=NT$32.25 and EUR1=NT$33.90.

Note D: The latest net equity is from the financial statements on ended September 30, 2016.

(Concluded)

TABLE 3

# ADVANTECH CO., LTD. AND INVESTEES

**MARKETABLE SECURITIES HELD**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value | |
| The Company | Stock | | | | | | | |
| | ASUSTek Computer Inc. | - | Available for sale financial assets - noncurrent | 5,239,461 | $ 1,388,457 | 0.71 | $ 1,388,457 | Note A and C |
| | Pegatron Corp. | - | 〃 | 3,540,570 | 272,624 | 0.14 | 272,624 | Note A and D |
| | Allied Circuit Co., Ltd. | - | 〃 | 1,200,000 | 33,720 | 2.41 | 33,720 | Note A |
| | Fund | | | | | | | |
| | Capital Money Market | - | Available for sale financial assets - current | 6,257,979 | 100,016 | - | 100,016 | Note B |
| | Mega Diamond Money Market | - | 〃 | 24,168,482 | 300,131 | - | 300,131 | Note B |
| | FSITC Money Market | - | 〃 | 1,698,386 | 300,122 | - | 300,122 | Note B |
| Advantech Corporate Investment | Stock | | | | | | | |
| | Allied Circuit Co., Ltd. | - | Financial assets at fair value through profit or loss - current | 2,800,000 | 78,680 | 5.63 | 78,680 | Note A |
| | BroadTec System Inc. | - | Available for sale financial assets - noncurrent | 150,000 | 1,500 | 6.16 | 1,500 | - |
| | BiosenseTek Corp. | - | 〃 | 37,500 | 375 | 1.79 | 375 | - |
| | Jaguar Technology | - | 〃 | 500,000 | 7,500 | 16.67 | 7,500 | - |
| | Allied Circuit Co., Ltd. | - | 〃 | 299,000 | 8,402 | 0.60 | 8,402 | Note A |
| | Phison Electronics Corporation | - | Available for sale financial assets - current | 1,500,000 | 383,250 | 0.76 | 383,250 | Note A |
| | Radiant Opto-Electronics Corporation | - | 〃 | 500,000 | 28,100 | 0.11 | 28,100 | Note A |
| | Lelon Electronics Corporation | - | 〃 | 2,436,000 | 95,004 | 1.86 | 95,004 | Note A |
| | Fund | | | | | | | |
| | Mega Diamond Money Market | - | Available for sale financial assets - current | 23,861,961 | 296,325 | - | 296,325 | Note B |
| | FSITC Money Market | - | 〃 | 2,038,341 | 360,195 | - | 360,195 | Note B |
| | Taishin 1699 Money Market | - | 〃 | 14,932,171 | 200,073 | - | 200,073 | Note B |
| Advanixs Corp. (formerly Advansus Corp.) | Fund | | | | | | | |
| | Jih Sun Money Market | - | 〃 | 38,021,440 | 557,763 | - | 557,763 | Note B |
| | CTBC Hwa-win Money Market Fund | | | 2,290,363 | 25,000 | - | 25,000 | Note B |
| | Mega Diamond Money Market | - | 〃 | 2,416,413 | 30,008 | - | 30,008 | Note B |
| AiST | Fund | | | | | | | |
| | Jill Sun Money Market | - | 〃 | 1,226,167 | 17,987 | - | 17,987 | Note B |

(Continued)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value | |
| ALTC | Fund | | | | | | | |
| | Mega Diamond Money Market | - | 〃 | 5,677,549 | $ 70,506 | - | $ 70,506 | Note B |
| | Capital Money Market | - | 〃 | 2,132,508 | 34,082 | - | 34,082 | Note B |
| AdvanPOS | Fund | | | | | | | |
| | Mega Diamond Money Market | - | 〃 | 11,231,810 | 139,480 | - | 139,480 | Note B |
| Advantech Innovative Design Co., Ltd. | Fund | | | | | | | |
| | Capital Money Market | - | 〃 | 281,756 | 4,503 | - | 4,503 | Note B |
| Cermate | Fund | | | | | | | |
| | Mega Diamond Money Market | - | 〃 | 1,130,641 | 14,041 | - | 14,041 | Note B |

Note A: Market value was based on the closing price on December 31, 2016.

Note B: Market value was based on the net asset values of the open-ended mutual funds on December 31, 2016.

Note C: The amount included $1,099,750 thousand, the carrying value of 4,150,000 shares held in trust with CTBC Bank. Please refer to Note 8 of the financial statements for more information.

Note D: The amount included $157,850 thousand, the carrying value of 2,050,000 shares held in trust with CTBC Bank. Please refer to Note 8 of the financial statements for more information.

(Concluded)

TABLE 4

# ADVANTECH CO., LTD. AND INVESTEES

**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, 2016**
**(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 (Note) | | Disposal | | | | Ending Balance (Note) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Amount (Cost) | Shares | Amount | Shares | Amount | Carrying Amount | Gain (Loss) on Disposal | Shares | Amount (Cost) |
| The Company | Fund | | | | | | | | | | | | | |
| | Capital Money Market | Available for sale financial assets - current | - | - | - | $ - | 77,706,012 | $ 1,240,000 | 71,448,034 | $ 1,140,484 | $ 1,140,000 | $ 484 | 6,257,978 | $ 100,000 |
| | Mega Diamond Money Market | Available for sale financial assets - current | - | - | - | - | 126,440,929 | 1,568,000 | 102,272,448 | 1,268,601 | 1,267,979 | 622 | 24,168,481 | 300,021 |
| | FSITC Money Market | Available for sale financial assets - current | - | - | - | - | 6,174,911 | 1,090,000 | 4,476,525 | 790,207 | 790,000 | 207 | 1,698,386 | 300,000 |
| | Stock | | | | | | | | | | | | | |
| | B+B | Investments accounted for using the equity method | - | - | - | - | 230,467 | 1,968,044 (US$ 59,910) | - | - | - | - | 230,467 | 1,968,044 |
| Advantech Corporate Investment | Fund | | | | | | | | | | | | | |
| | FSITC Money Market | Available for sale financial assets - current | - | - | - | - | 2,038,341 | 360,000 | - | - | - | - | 2,038,341 | 360,000 |
| Advanixs Corp. (formerly Advansus Corp.) | Fund | | | | | | | | | | | | | |
| | Jih Sun Money Market | Available for sale financial assets - current | - | - | 19,537,275 | 285,055 | 50,635,993 | 742,004 | 32,151,828 | 471,000 | 469,941 | 1,059 | 38,021,440 | 557,118 |
| AdvanPOS | Fund | | | | | | | | | | | | | |
| | Mega Diamond Money Market | Available for sale financial assets - current | - | - | 242,411 | 3,000 | 35,288,731 | 437,021 | 24,299,332 | 301,358 | 300,824 | 534 | 11,231,810 | 139,197 |
| ANA | Fund | | | | | | | | | | | | | |
| | B+B | Investments accounted for using the equity method | - | - | - | - | 153,644 | 1,328,004 (US$ 39,940) | - | - | - | - | 153,644 | 1,328,004 |
| ATC (HK) | Stock | | | | | | | | | | | | | |
| | Advanixs Kunshan Corp. | Investments accounted for using the equity method | - | - | - | - | - | 459,648 (RMB 92,758) | - | - | - | - | - | 459,648 |

## ADVANTECH CO., LTD. AND INVESTEES

**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, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trade Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| The Company | AAU | Subsidiary | Sale | $ (228,239) | 0.75 | 60-90 days | Contract price | No significant difference in terms for related parties | $ 74,609 | 1.35 | |
| | ACN | Subsidiary | Sale | (5,414,546) | 17.75 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 821,752 | 14.84 | Note A |
| | AEU | Subsidiary | Sale | (3,835,119) | 12.57 | 30 days after month-end | Contract price | No significant difference in terms for related parties | 946,905 | 17.10 | |
| | AiSC | Subsidiary | Sale | (495,184) | 1.62 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 116,622 | 2.11 | Note B |
| | AJP | Subsidiary | Sale | (811,326) | 2.66 | 60-90 days | Contract price | No significant difference in terms for related parties | 212,728 | 3.84 | |
| | AKMC | Subsidiary | Sale | (1,493,414) | 4.90 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 227,740 | 4.11 | Note C |
| | AKR | Subsidiary | Sale | (799,440) | 2.62 | 60 days after invoice date | Contract price | No significant difference in terms for related parties | 97,049 | 1.75 | |
| | ANA | Subsidiary | Sale | (8,315,279) | 27.26 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 1,114,946 | 20.14 | |
| | ASG | Subsidiary | Sale | (223,551) | 0.73 | 60-90 days | Contract price | No significant difference in terms for related parties | 53,059 | 0.96 | |
| | Advanixs Corp. | Subsidiary | Sale | (559,010) | 1.83 | 60-90 days | Contract price | No significant difference in terms for related parties | 119,452 | 2.16 | |
| | A-DLoG | Subsidiary | Sale | (174,205) | 0.57 | 30 days after invoice date | Contract price | No significant difference in terms for related parties | 9,774 | 0.18 | |
| | AMY | Subsidiary | Sale | (145,199) | 0.48 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 52,188 | 0.94 | |
| | ACA | Subsidiary | Purchase | 1,903,339 | 8.81 | Usual trade terms | Contract price | No significant difference in terms for related parties | - | - | |
| | AKMC | Subsidiary | Purchase | 9,739,690 | 45.08 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,212,521) | 29.14 | |
| | Advanixs Corp. | Subsidiary | Purchase | 2,343,971 | 10.85 | Usual trade terms | Contract price | No significant difference in terms for related parties | (626,010) | 15.04 | |
| | AdvanPOS | Subsidiary | Purchase | 566,683 | 2.62 | Usual trade terms | Contract price | No significant difference in terms for related parties | (349,650) | 8.40 | |
| ACA | The Company | Parent company | Sale | (1,903,339) | 100.00 | Usual trade terms | Contract price | No significant difference in terms for related parties | - | - | |
| AKMC | The Company | Parent company | Sale | (9,739,690) | 92.60 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,212,521 | 90.85 | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trade Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| Advanixs Corp. | The Company | Parent company | Sale | $ (2,343,971) | 37.52 | Usual trade terms | Contract price | No significant difference in terms for related parties | $ 626,010 | 45.72 | |
| AdvanPOS | The Company | Parent company | Sale | (566,683) | 48.24 | Usual trade terms | Contract price | No significant difference in terms for related parties | 349,650 | 57.55 | |
| AAU | The Company | Parent company | Purchase | 228,239 | 84.80 | 60-90 days | Contract price | No significant difference in terms for related parties | (74,609) | 86.01 | |
| ACN | The Company | Parent company | Purchase | 5,414,546 | 72.60 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (821,752) | 67.59 | |
| AEU | The Company | Parent company | Purchase | 3,835,119 | 83.12 | 30 days after month-end | Contract price | No significant difference in terms for related parties | (946,905) | 94.96 | |
| AiSC | The Company | Parent company | Purchase | 495,184 | 49.27 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (116,622) | 62.28 | |
| AJP | The Company | Parent company | Purchase | 811,326 | 97.66 | 60-90 days | Contract price | No significant difference in terms for related parties | (212,728) | 98.63 | |
| AKMC | The Company | Parent company | Purchase | 1,493,414 | 15.63 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (227,740) | 10.70 | |
| AKR | The Company | Parent company | Purchase | 799,440 | 66.35 | 60 days after invoice date | Contract price | No significant difference in terms for related parties | (97,049) | 60.47 | |
| ANA | The Company | Parent company | Purchase | 8,315,279 | 89.02 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (1,114,946) | 94.36 | |
| ASG | The Company | Parent company | Purchase | 223,551 | 71.28 | 60-90 days | Contract price | No significant difference in terms for related parties | (53,059) | 86.20 | |
| Advanixs Corp. | The Company | Parent company | Purchase | 559,010 | 10.05 | 60-90 days | Contract price | No significant difference in terms for related parties | (119,452) | 8.16 | |
| A-DLoG | The Company | Parent company | Purchase | 174,205 | 18.58 | 30 days after invoice date | Contract price | No significant difference in terms for related parties | (9,774) | 16.93 | |
| AMY | The Company | Parent company | Purchase | 145,199 | 86.05 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (52,188) | 100.00 | |
| AiSC | AKMC | Related enterprise | Sale | (123,469) | 11.03 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,185 | 0.51 | |
| AKMC | ACN | Related enterprise | Sale | (509,671) | 4.85 | Usual trade terms | Contract price | No significant difference in terms for related parties | 88,163 | 6.61 | |
| | AiSC | Related enterprise | Sale | (185,452) | 1.76 | Usual trade terms | Contract price | No significant difference in terms for related parties | 28,687 | 2.15 | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trade Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| Advanixs Corp. | AKMC | Related enterprise | Sale | $ (2,900,081) | 46.42 | Usual trade terms | Contract price | No significant difference in terms for related parties | $ 637,941 | 46.59 | |
| ALNC | Dongguan Pou Yuen Digital Technology Co., Ltd. | Subsidiary | Sale | (205,457) | 42.70 | Usual trade terms | Contract price | No significant difference in terms for related parties | 92,766 | 84.22 | |
| ACN | AiSC | Related enterprise | Sale | (127,420) | 1.48 | Usual trade terms | Contract price | No significant difference in terms for related parties | 31,012 | 1.53 | |
| ANA | AdvanPOS | Related enterprise | Sale | (126,312) | 1.04 | Usual trade terms | Contract price | No significant difference in terms for related parties | 85,622 | 5.46 | |
| Advanixs Kun Shan Corp. | AKMC | Related enterprise | Sale | (222,271) | 100.00 | Usual trade terms | Contract price | No significant difference in terms for related parties | 144,232 | 100.00 | |
| AKMC | AiSC | Related enterprise | Purchase | 123,469 | 1.29 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,185) | 0.06 | |
| ACN | AKMC | Related enterprise | Purchase | 509,671 | 6.83 | Usual trade terms | Contract price | No significant difference in terms for related parties | (88,163) | 7.46 | |
| AiSC | AKMC | Related enterprise | Purchase | 185,452 | 18.45 | Usual trade terms | Contract price | No significant difference in terms for related parties | (28,687) | 15.75 | |
| AKMC | Advanixs Corp. | Related enterprise | Purchase | 2,900,081 | 30.35 | Usual trade terms | Contract price | No significant difference in terms for related parties | (637,941) | 30.83 | |
| Dongguan Pou Yuen Digital Technology Co., Ltd. | ALNC | Parent company | Purchase | 205,457 | 80.96 | Usual trade terms | Contract price | No significant difference in terms for related parties | (92,766) | 72.36 | |
| AiSC | ACN | Related enterprise | Purchase | 127,420 | 12.68 | Usual trade terms | Contract price | No significant difference in terms for related parties | (31,012) | 17.03 | |
| AdvanPOS | ANA | Related enterprise | Purchase | 126,312 | 11.65 | Usual trade terms | Contract price | No significant difference in terms for related parties | (85,622) | 17.49 | |
| AKMC | Advanixs Kun Shan Corp. | Related enterprise | Purchase | 222,271 | 2.33 | Usual trade terms | Contract price | No significant difference in terms for related parties | (144,232) | 6.97 | |

Note A: Realized gain for the year was $9,702 thousand.

Note B: Unrealized gain for the year was $816 thousand.

Note C: Realized gain for the year was $5,429 thousand.

(Concluded)

**TABLE 6**

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Property | Event Date | Transaction Amount | Payment Status | Counterparty | Relationship | Information on Previous Title Transfer If Counterparty Is A Related Party | | | | Pricing Reference | Purpose of Acquisition | Other Terms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Property Owner | Relationship | Transaction Date | Amount | | | |
| The Company | Real estate | 2014.4.15 | $ 1,627,500 | Under the contract, based on percentage of construction completed; accumulated payments of $1,627,500 thousand were made as of December 31, 2016 and $93,113 thousand were made in the fourth quarter of 2016. | Chung-Lin General Contractors, Ltd. | None | - | - | - | $ - | Contract price | For the Company's expansion | None |

TABLE 7

# ADVANTECH CO., LTD. AND INVESTEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Actions Taken | | |
| The Company | ACN | Subsidiary | $ 821,752 | 5.30 | $ - | - | $ 249,318 | $ - |
| | AEU | Subsidiary | 951,281 | 3.96 | - | - | 155,587 | - |
| | AiSC | Subsidiary | 116,622 | 4.60 | - | - | 34,166 | - |
| | AJP | Subsidiary | 214,660 | 5.21 | - | - | 38,854 | - |
| | AKMC | Subsidiary | 227,749 | 7.54 | - | - | 189,659 | - |
| | ANA | Subsidiary | 1,117,501 | 7.61 | - | - | 751,425 | - |
| | Advanixs Corp. | Subsidiary | 119,511 | 6.37 | - | - | 63,848 | - |
| AKMC | The Company | Parent company | 1,212,521 | 7.45 | - | - | 983,962 | - |
| Advanixs Corp. | AKMC | Related enterprise | 637,941 | 5.34 | - | - | 280,810 | - |
| | The Company | Parent company | 626,010 | 2.79 | - | - | 301,471 | - |
| AdvanPOS | The Company | Parent company | 349,650 | 3.21 | - | - | 156,987 | - |

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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, 2016 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note A) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2016 | December 31, 2015 | Shares | Percentage of Ownership | Carrying Value | | | |
| The Company | AAC (BVI) | BVI | Investment and management service | $ 1,000,207 | $ 1,000,207 | 29,623,834 | 100.00 | $ 4,021,994 | $ 429,541 | $ 427,865 | Subsidiary |
| | ATC | BVI | Sale of industrial automation products | 998,788 | 1,231,118 | 33,850,000 | 100.00 | 3,243,871 | 104,114 | 96,661 | Subsidiary |
| | Advanixs Corporate (formerly Advansus Corp.) | Taipei, Taiwan | Production and sale of industrial automation products | 486,000 | 486,000 | 36,000,000 | 100.00 | 979,563 | 486,566 | 462,195 | Subsidiary |
| | Advantech Corporate Investment | Taipei, Taiwan | Investment holding company | 1,400,000 | 1,400,000 | 150,000,000 | 100.00 | 1,639,126 | 34,108 | 33,632 | Subsidiary |
| | Axiomtek | Taipei, Taiwan | Production and sale of industrial automation products | 249,059 | 249,059 | 20,537,984 | 25.99 | 464,155 | 360,023 | 93,560 | Equity-method investee |
| | AdvanPOS | Taipei, Taiwan | Production and sale of POS system | 460,572 | 460,572 | 20,438,000 | 100.00 | 577,260 | 224,493 | 218,495 | Subsidiary |
| | ALNC | Taichung, Taiwan | Production and sale of machines with computerized numerical control | 431,634 | 478,825 | 24,350,000 | 81.17 | 493,481 | 11,514 | 10,606 | Subsidiary |
| | Jan Hsiang | Taipei, Taiwan | Electronic parts and components manufacturing | 3,719 | 3,719 | 655,500 | 28.50 | 8,904 | (1,322) | (411) | Equity-method investee |
| | AMX | Mexico | Sale of industrial automation products | 4,922 | 4,922 | - | 100.00 | 594 | (771) | (771) | Subsidiary |
| | AEUH | Helmond, The Netherlands | Investment and management service | 1,219,124 | 1,219,124 | 12,572,024 | 100.00 | 864,191 | 17,978 | 17,702 | Subsidiary |
| | ASG | Techplace, Singapore | Sale of industrial automation products | 27,134 | 27,134 | 1,450,000 | 100.00 | 72,186 | 5,100 | 5,100 | Subsidiary |
| | AAU | Sydney, Australia | Sale of industrial automation products | 40,600 | 40,600 | 500,204 | 100.00 | 34,737 | 5,704 | 5,704 | Subsidiary |
| | AJP | Tokyo, Japan | Sale of industrial automation products | 15,472 | 15,472 | 1,200 | 100.00 | 218,331 | 45,585 | 45,585 | Subsidiary |
| | AMY | Malaysia | Sale of industrial automation products | 35,140 | 35,140 | 2,000,000 | 100.00 | 45,752 | 19,416 | 19,416 | Subsidiary |
| | AKR | Seoul, Korea | Sale of industrial automation products | 73,355 | 73,355 | 600,000 | 100.00 | 228,407 | 63,563 | 63,563 | Subsidiary |
| | ABR | Sao Paulo, Brazil | Sale of industrial automation products | 43,216 | 43,216 | 1,794,996 | 80.00 | 75,531 | 24,253 | 19,403 | Subsidiary |
| | ACA | Taipei, Taiwan | Production and sale of portable industrial automation products | - | 146,440 | - | - | - | 59,906 | 65,577 | Subsidiary (Note D) |
| | Advantech Innovative Design Co., Ltd. | Taipei, Taiwan | Product design | 10,000 | 10,000 | 1,000,000 | 100.00 | 9,633 | 1,054 | 1,054 | Subsidiary |
| | Advantech iFactory Co., Ltd. | Taipei, Taiwan | Cybernation equipment manufacturing | - | 60,000 | - | 100.00 | - | 201 | 201 | Subsidiary |
| | AiST | Taipei, Taiwan | Design, develop and sale of intelligent services | 157,915 | - | 10,000,000 | 100.00 | 160,414 | (23,860) | 2,511 | Subsidiary (Note E) |
| | BEMC | Delaware, USA | Sale of industrial network communications systems | 1,968,044 | - | 230,467 | 60.00 | 1,959,805 | 53,173 | 31,903 | Subsidiary (Note C) |
| | AIN | India | Sale of industrial automation products | 5,567 | 5,567 | 999,999 | 99.99 | 1,663 | (11,974) | (11,974) | Subsidiary |
| | AIMobile Co., Ltd. | Taipei, Taiwan | Design and manufacture of industrial mobile systems | 135,000 | - | 13,500,000 | 45.00 | 109,241 | (57,243) | (25,759) | Equity-method investee |
| Advantech Corporate Investment | AiST | Taipei, Taiwan | Design, develop and sale of intelligent services | - | 142,063 | - | - | - | (23,860) | (26,371) | Subsidiary (Note E) |
| | Cermate | Taipei, Taiwan | Manufacturing of electronic parts, computer, and peripheral devices | 71,500 | 71,500 | 5,500,000 | 55.00 | 117,913 | 27,681 | 14,844 | Subsidiary |
| | Deneng | Taichung, Taiwan | Installment and sale of electronic components and software | 18,095 | 18,095 | 658,000 | 39.69 | 16,154 | (4,606) | (1,828) | Equity-method investee |
| ATC | ATC (HK) | Hong Kong | Investment and management service | 1,212,730 | 1,212,730 | 41,650,001 | 100.00 | 3,135,926 | 251,893 | 244,440 | Subsidiary |
| AAC (BVI) | ANA | Sunnyvale, USA | Sale and fabrication of industrial automation products | 504,179 | 504,179 | 10,952,606 | 100.00 | 2,296,976 | 236,063 | 235,733 | Subsidiary |
| | AAC (HK) | Hong Kong | Investment and management service | 539,146 | 539,146 | 15,230,001 | 100.00 | 1,873,641 | 194,940 | 193,595 | Subsidiary |
| ANA | BEMC | Delaware, USA | Sale of industrial network communications | 1,328,004 | - | 153,644 | 40.00 | 1,306,537 | 53,173 | 21,270 | Subsidiary (Note C) |
| AEUH | AEU | Eindhoven, The Netherlands | Sale of industrial automation products | 431,963 | 431,963 | 11,314,280 | 100.00 | 874,511 | 17,819 | 17,542 | Subsidiary |
| | APL | Warsaw, Poland | Sale of industrial automation products | 14,176 | 14,176 | 6,350 | 100.00 | 22,127 | 801 | 801 | Subsidiary |
| AEU | A-DLoG | Munich, Germany | Design, R&D and sale of industrial automation vehicles and related products | 553,536 | 553,536 | 1 | 100.00 | 485,607 | (34,598) | (45,520) | Subsidiary |
| ASG | ATH | Thailand | Production of computers | 7,537 | 7,537 | 51,000 | 51.00 | 18,044 | 4,696 | 2,395 | Subsidiary |
| | AID | Indonesia | Sale of industrial automation products | 4,797 | 4,797 | 300,000 | 100.00 | 2,380 | (1,883) | (1,883) | Subsidiary |

(Continued)

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | Balance as of December 31, 2016 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note A) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2016 | December 31, 2015 | Shares | Percentage of Ownership | Carrying Value | | | |
| Cermate | LandMark | BVI | General investment | $ 28,200 | $ 28,200 | 972,284 | 100.00 | $ 75,241 | $ 15,296 | $ 15,296 | Subsidiary |
| ALNC | Better Auto | BVI | General investment | 264,445 | 264,445 | 8,556,096 | 100.00 | 79,770 | (12,359) | (12,307) | Subsidiary |
| Better Auto | Famous Now | BVI | General investment | US$ 4,000 | US$ 4,000 | 1 | 100.00 | 51,779 | (11,654) | (11,654) | Subsidiary |
| AdvanPOS | Bright Mind Limited | Samoa | General investment | - | US$ 200 | - | - | - | - | - | Subsidiary |
| BEMC | Avtek | Delaware, USA | General investment | US$ 99,850 | - | - | 100.00 | 3,266,342 | 53,173 | 53,173 | Subsidiary |
| Avtek | B+B | Delaware, USA | General investment | US$ 99,850 | - | - | 100.00 | 3,266,342 | 53,173 | 53,173 | Subsidiary |
| B+B | BBI | Ireland | Sale of industrial network communications systems | US$ 39,481 | - | - | 100.00 | 128,294 | (18,762) | (18,762) | Subsidiary |
| | Quatech | Delaware, USA | Sale of industrial network communications systems | - | - | - | 100.00 | - | - | - | Subsidiary |
| | IMC | Delaware, USA | Sale of industrial network communications systems | - | - | - | 100.00 | - | - | - | Subsidiary |
| BBI | B&B Electronics | Delaware, USA | Sale of industrial network communications systems | US$ 1,314 | - | - | 100.00 | - | - | - | Subsidiary |
| | B+B (CZ) (formerly Conel) | Czech Republic | Sale of industrial network communications systems | - | - | - | 99.99 | 141,999 | 49,588 | 49,588 | Subsidiary |
| | Conel Automation (formerly Softcon) | Czech Republic | Sale of industrial network communications systems | - | - | - | 1.00 | 112 | 5,717 | 57 | Subsidiary |
| | B&B DMCC | Dubai | Sale of industrial network communications systems | - | - | - | 100.00 | - | - | - | Subsidiary |
| B&B Electronics | B+B (CZ) (formerly Conel) | Czech Republic | Sale of industrial network communications systems | - | - | - | 0.01 | - | - | - | Subsidiary |
| B+B (CZ) (formerly Conel) | Conel Automation (formerly Softcon) | Czech Republic | Sale of industrial network communications systems | - | - | - | 99.00 | 11,111 | 5,717 | 5,660 | Subsidiary |

Note A: The financial statements used as basis of net asset values had not been audited by independent CPAs, except those of AIN, AMX and Advantech Innovative Design Co., Ltd.

Note B: Refer to Table 9 for investments in mainland China.

Note C: In the first quarter of 2016, the Group made arrangements to acquire 100% equity in BEMC for US$99,850 thousand.

Note D: In the third quarter of 2016, ACA and AdvanPOS merged and ACA ceased to exist.

Note E: In the third quarter of 2016, the Group has adjusted its investment structure and the Company directly acquired 100% share equity of AiST.

(Concluded)

# ADVANTECH CO., LTD. AND INVESTEES

**INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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, 2016 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2016 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note A) | Carrying Value as of December 31, 2016 | Accumulated Inward Remittance of Earnings as of December 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Advantech Technology (China) Company Ltd. (AKMC) | Production and sale of components of industrial automation products | US$ 43,750 thousand (Note F) | Indirect | $ 1,202,925 (US$ 37,300 thousand) | $ - | $ - | $ 1,202,925 (US$ 37,300 thousand) | $ 235,499 | 100 | $ 227,951 | $ 2,691,960 | $ - |
| Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN) | Sale of industrial automation products | US$ 4,230 thousand | Indirect | 171,957 (US$ 5,332 thousand) | - | - | 171,957 (US$ 5,332 thousand) | 199,635 | 100 | 199,052 | 1,123,813 | 362,232 (US$ 11,232 thousand) |
| Shanghai Advantech Intelligent Services Co., Ltd. (AiSC) | Production and sale of industrial automation products | US$ 8,000 thousand | Indirect | 258,000 (US$ 8,000 thousand) | - | - | 258,000 (US$ 8,000 thousand) | 28,343 | 100 | 27,581 | 739,662 | - |
| Xi'an Advantech Software Ltd. (AXA) | Development and production of software products | US$ 1,000 thousand | Indirect | (Note C) | - | - | (Note C) | (33,654) | 100 | (33,654) | 7,771 | - |
| Hangzhou Advantofine Automation Tech. Co., Ltd. | Processing and sale of industrial automation products | RMB 3,000 thousand | Indirect | (Note D) | - | - | (Note D) | (6,478) | 100 | (6,478) | 14,954 | - |
| Advanixs Kun Shan Corp. | Production and sale of industrial automation products | RMB 99,515 thousand | Indirect | (Note G) | - | - | (Note G) | 29,532 | 100 | 16,394 | 443,870 | - |

| Accumulated Investment in Mainland China as of December 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Allowable Limit on Investment |
|---|---|---|
| $1,639,332 (US$50,832 thousand) (Note E) | $2,760,600 (US$85,600 thousand) | $15,232,138 (Note I) |

(Continued)

Note A: The financial statements used as basis of asset values had been audited.

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.

Note C: Remittance by AAC (H.K.) Limited.

Note D: Remittance by ACN.

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: ATC, parent company of ATC (HK), increased the share capital of ATC (HK) and ATC (HK) acquired 100% share equity of Advanixs Kun Shan Corp. from Yeh-Chiang Technology (Cayman).

Note H: The exchange rate was US$1.00=NT$32.25.

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

(Concluded)

# V.The consolidated financial statements of the parent and subsidiary audited by the CPA in the most recent year

**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, 2016 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 6, 2017

**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, 2016 and 2015, 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, 2016 and 2015, 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, 2016. 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, 2016 were as follows:

<u>Business acquisitions</u>

Due to the operation plan of 2016, the Group acquired 100% of the shares of B+B SmartWorx, Inc. (B+B) for NT$3,296,048 thousand on January 4, 2016.

The evaluation on fair value of the assets, liabilities, and the amount of goodwill as of the date of acquisition of B+B was based on a specialists' Purchase Price Allocation Report that involved several financial assumptions and inputs. The judgment of related accounting estimates will affect the presentation of accounts on the financial statements. Since the acquisition is considered to be a significant event and was transacted during the period of the financial statements and should have a material impact on the financial statements, the accuracy of the acquisition transaction of B+B conducted by the Group was deemed to be a key audit matter.

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

1. Tested the acquisition balance sheet prepared by management in accordance with the requirements of IFRS 3 Business Combinations by:

   a. Checking that the record matched against the fair value of the assets and liabilities as of the date of acquisition.

   b. Recalculating the value of goodwill recognized on the acquisition balance sheet.

2. Evaluated and tested the management's judgments, through the engagement of valuation experts by:

   a. Testing the completeness of the identification, recognition, and valuation of the potential intangible assets of B+B and the fixed assets of its subsidiaries.

   b. Testing the valuation methodologies and assumptions used to value each identified intangible asset, fixed asset, and goodwill.

B+B obtained the specialists' Purchase Price Allocation Report in December 2016. Through the above performed procedures, B+B recognized goodwill at NT$1,768,139 thousand and intangible assets, including client relationships, core techniques, trademarks and software, at NT$1,294,933 thousand in total.

<u>Impairment loss recognized on goodwill</u>

If an asset has an indefinite useful life or there is any indication that an asset is impaired, the management should assess if the carrying amount of the assets is impaired. We have expressed our concerns on the related risks since the impairment assessment of goodwill is based on the management's significant judgment that involves assumptions of the future profitability and costs of equity and debts; the impairment of goodwill is hence recognized as a critical accounting estimate in Note 5 to the consolidated financial statements.

The consolidated balance of goodwill amounted to NT$2,845,831 thousand as of December 31, 2016. We are mainly concerned about the addition of cash-generating units from the acquisition of B+B, from which the goodwill from the cash-generating units amounted to NT$1,768,139 thousand. Since the actual operations condition of B+B was not to the level as was evaluated as of the date of acquisition, which might cause an impairment of goodwill, the assessment of impairment of goodwill was deemed to be a key audit matter.

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

When evaluating the impairment assessment, we tested management's assumptions and inputs used for testing the impairment for goodwill, including cash flow projections and discount rates.

**Other Matter**

We have also audited the parent company only financial statements of Advantech Co., Ltd as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Meng-Chieh Chiu and Chin-Hsiang Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 6, 2017

*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, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 4,637,577 | 12 | $ 4,358,259 | 13 |
| Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30) | 113,028 | - | 176,389 | 1 |
| Available-for-sale financial assets - current (Notes 4, 8 and 30) | 2,956,586 | 8 | 1,755,843 | 5 |
| Debt investments with no active market - current (Notes 4 and 9) | 10,007 | - | 3,171 | - |
| Notes receivable (Notes 4, 10 and 31) | 965,081 | 3 | 970,722 | 3 |
| Trade receivables (Notes 4 and 10) | 6,384,834 | 17 | 5,428,574 | 16 |
| Trade receivables from related parties (Note 31) | 13,957 | - | 26,775 | - |
| Other receivables | 13,775 | - | 40,811 | - |
| Inventories (Notes 4 and 11) | 5,597,236 | 15 | 4,868,860 | 14 |
| Other current assets (Note 17) | 489,630 | 1 | 456,342 | 1 |
| Total current assets | 21,181,711 | 56 | 18,085,746 | 53 |
| NONCURRENT ASSETS | | | | |
| Available-for-sale financial assets - noncurrent (Notes 4, 8 and 30) | 1,712,578 | 4 | 1,747,598 | 5 |
| Investments accounted for using the equity method (Notes 4 and 13) | 598,454 | 2 | 477,984 | 2 |
| Property, plant and equipment (Notes 4 and 14) | 10,089,836 | 26 | 9,576,879 | 28 |
| Goodwill (Notes 4, 5 and 15) | 2,845,831 | 7 | 1,139,559 | 3 |
| Other intangible assets (Notes 4, 5 and 16) | 1,317,440 | 3 | 227,686 | 1 |
| Deferred tax assets (Notes 4 and 23) | 369,156 | 1 | 217,989 | 1 |
| Prepayments for business facilities | 47,578 | - | 65,753 | - |
| Prepayments for investments (Note 26) | - | - | 2,279,881 | 7 |
| Long-term prepayments for leases (Note 17) | 325,224 | 1 | 100,875 | - |
| Other noncurrent assets (Note 28) | 51,145 | - | 59,183 | - |
| Total noncurrent assets | 17,357,242 | 44 | 15,893,387 | 47 |
| TOTAL | $ 38,538,953 | 100 | $ 33,979,133 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 18 and 30) | $ 483,750 | 1 | $ 880,625 | 3 |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 30) | 10,231 | - | 6,352 | - |
| Trade payables (Note 31) | 4,983,381 | 13 | 3,226,069 | 9 |
| Other payables (Notes 19 and 22) | 3,902,499 | 10 | 3,380,317 | 10 |
| Current tax liabilities (Notes 4 and 23) | 1,229,400 | 3 | 1,057,226 | 3 |
| Short-term warranty provisions (Note 4) | 167,122 | - | 145,646 | - |
| Other current liabilities | 659,228 | 2 | 546,295 | 2 |
| Total current liabilities | 11,435,611 | 29 | 9,242,530 | 27 |
| NONCURRENT LIABILITIES | | | | |
| Deferred tax liabilities (Notes 4 and 23) | 1,362,687 | 4 | 938,491 | 3 |
| Net defined benefit liabilities (Notes 4 and 20) | 212,360 | 1 | 183,540 | 1 |
| Other noncurrent liabilities | 141,398 | - | 160,795 | - |
| Total noncurrent liabilities | 1,716,445 | 5 | 1,282,826 | 4 |
| Total liabilities | 13,152,056 | 34 | 10,525,356 | 31 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | | |
| Share capital | | | | |
| Ordinary shares | 6,330,741 | 16 | 6,318,531 | 19 |
| Advance receipts for share capital | 100 | - | - | - |
| Total share capital | 6,330,841 | 16 | 6,318,531 | 19 |
| Capital surplus | 6,058,884 | 16 | 5,587,555 | 16 |
| Retained earnings | | | | |
| Legal reserve | 4,473,276 | 12 | 3,962,842 | 12 |
| Unappropriated earnings | 8,435,785 | 22 | 7,098,449 | 21 |
| Total retained earnings | 12,909,061 | 34 | 11,061,291 | 33 |
| Other equity | | | | |
| Exchange differences on translation of foreign financial statements | (197,633) | - | 271,859 | 1 |
| Unrealized gains on available-for-sale financial assets | 112,429 | - | 68,265 | - |
| Total other equity | (85,204) | - | 340,124 | 1 |
| Total equity attributable to owners of the Company | 25,213,582 | 66 | 23,307,501 | 69 |
| NON-CONTROLLING INTERESTS | 173,315 | - | 146,276 | - |
| Total equity | 25,386,897 | 66 | 23,453,777 | 69 |
| TOTAL | $ 38,538,953 | 100 | $ 33,979,133 | 100 |

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

(With Deloitte & Touche audit report dated March 6, 2017)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
## (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Note 31) | | | | |
| Sales | $ 40,839,800 | 97 | $ 36,978,961 | 97 |
| Other operating revenue | 1,162,398 | 3 | 1,021,621 | 3 |
| Total operating revenue | 42,002,198 | 100 | 38,000,582 | 100 |
| OPERATING COSTS (Notes 11, 22 and 31) | 24,884,649 | 59 | 22,655,592 | 59 |
| GROSS PROFIT | 17,117,549 | 41 | 15,344,990 | 41 |
| OPERATING EXPENSES (Notes 22 and 31) | | | | |
| Selling and marketing expenses | 4,260,554 | 10 | 3,889,856 | 10 |
| General and administrative expenses | 2,576,210 | 6 | 1,982,879 | 5 |
| Research and development expenses | 3,649,292 | 9 | 3,543,748 | 10 |
| Total operating expenses | 10,486,056 | 25 | 9,416,483 | 25 |
| OPERATING PROFIT | 6,631,493 | 16 | 5,928,507 | 16 |
| NONOPERATING INCOME | | | | |
| Share of the profit of associates accounted for using the equity method (Notes 4 and 13) | 65,562 | - | 110,226 | - |
| Interest income | 15,989 | - | 40,613 | - |
| Gains (losses) on disposal of property, plant and equipment (Note 4) | 289,633 | 1 | (5,410) | - |
| Gains (losses) on disposal of investments (Note 4) | (4,873) | - | 202,458 | 1 |
| Foreign exchange gains (losses), net (Notes 4, 22 and 33) | (205,812) | - | (186,889) | - |
| Gains on financial instruments at fair value through profit or loss (Note 4) | 150,982 | - | 83,798 | - |
| Dividend income | 132,472 | - | 139,725 | - |
| Other income (Note 8) | 78,855 | - | 121,329 | - |
| Finance costs (Note 22) | (11,556) | - | (10,041) | - |
| Losses on financial instruments at fair value through profit or loss (Note 4) | (43,324) | - | (130,409) | - |
| Other losses | (2,056) | - | (4,372) | - |
| Total nonoperating income | 465,872 | 1 | 361,028 | 1 |
| PROFIT BEFORE INCOME TAX | 7,097,365 | 17 | 6,289,535 | 17 |
| INCOME TAX EXPENSE (Notes 4 and 23) | 1,408,411 | 3 | 1,162,560 | 3 |
| NET PROFIT FOR THE YEAR | 5,688,954 | 14 | 5,126,975 | 14 |

(Continued)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss (Notes 20, 21 and 23): | | | | |
| Remeasurement of defined benefit plans | $ (31,247) | - | $ (19,303) | - |
| Share of the other comprehensive income (loss) of associates accounted for using the equity method | 1,574 | - | (2,424) | - |
| Income tax related to items that will not be reclassified | 5,312 | - | 3,281 | - |
| Items that may be reclassified subsequently to profit or loss (Notes 4, 21 and 23): | | | | |
| Exchange differences on translating foreign operations | (576,926) | (1) | (101,490) | - |
| Unrealized gains (losses) on available-for-sale financial assets | 44,164 | - | (495,012) | (2) |
| Share of the other comprehensive income of associates | (4,135) | - | 2,449 | - |
| Income tax related to items that may be reclassified subsequently to profit or loss | 96,161 | - | 13,620 | - |
| Other comprehensive income (loss) for the year, net of income tax | (465,097) | (1) | (598,879) | (2) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 5,223,857 | 12 | $ 4,528,096 | 12 |
| NET PROFIT ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 5,666,862 | 13 | $ 5,104,346 | 13 |
| Non-controlling interests | 22,092 | - | 22,629 | - |
| | $ 5,688,954 | 14 | $ 5,126,975 | 13 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 5,217,251 | 12 | $ 4,524,603 | 12 |
| Non-controlling interests | 6,606 | - | 3,493 | - |
| | $ 5,223,857 | 12 | $ 4,528,096 | 12 |

(Continued)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 24) | | | | |
| Basic | $ 8.96 | | $ 8.08 | |
| Diluted | $ 8.90 | | $ 8.05 | |

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

(With Deloitte & Touche audit report dated March 6, 2017) (Concluded)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | Equity Attributable to Owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued Capital (Notes 21 and 25) | | | | Retained Earnings (Notes 21 and 27) | | | Other Equity (Note 21) | | | | |
| | Share Capital | Advance Receipts for Ordinary Shares | Total | Capital Surplus (Notes 21, 25 and 27) | Legal Reserve | Unappropriated Earnings | Total | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Total | Non-controlling Interests (Notes 21 and 27) | Total Equity |
| BALANCE AT JANUARY 1, 2015 | $ 6,301,031 | $ 11,060 | $ 6,312,091 | $ 5,306,958 | $ 3,472,064 | $ 6,353,273 | $ 9,825,337 | $ 338,356 | $ 563,277 | $ 22,346,019 | $ 187,000 | $ 22,533,019 |
| Appropriation of the 2014 earrings | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | 490,778 | (490,778) | - | - | - | - | - | - |
| Cash dividends on ordinary shares | - | - | - | - | - | (3,787,255) | (3,787,255) | - | - | (3,787,255) | - | (3,787,255) |
| Recognition of employee share options by the Company | 17,500 | (11,060) | 6,440 | 24,438 | - | - | - | - | - | 30,878 | - | 30,878 |
| Compensation cost recognized for employee share options | - | - | - | 261,877 | - | - | - | - | - | 261,877 | - | 261,877 |
| Change in capital surplus from investments in associates accounted for using the equity method | - | - | - | 2,172 | - | - | - | - | - | 2,172 | - | 2,172 |
| Difference between consideration paid and carrying amount of subsidiaries acquired | - | - | - | (11,457) | - | (62,903) | (62,903) | - | - | (74,360) | (44,217) | (118,577) |
| Changes in percentage of ownership interest in subsidiaries | - | - | - | 3,567 | - | - | - | - | - | 3,567 | - | 3,567 |
| Net profit for the year ended December 31, 2015 | - | - | - | - | - | 5,104,346 | 5,104,346 | - | - | 5,104,346 | 22,629 | 5,126,975 |
| Other comprehensive loss for the year ended December 31, 2015, net of income tax | - | - | - | - | - | (18,234) | (18,234) | (66,497) | (495,012) | (579,743) | (19,136) | (598,879) |
| Total comprehensive income for the year ended December 31, 2015 | - | - | - | - | - | 5,086,112 | 5,086,112 | (66,497) | (495,012) | 4,524,603 | 3,493 | 4,528,096 |
| BALANCE AT DECEMBER 31, 2015 | 6,318,531 | - | 6,318,531 | 5,587,555 | 3,962,842 | 7,098,449 | 11,061,291 | 271,859 | 68,265 | 23,307,501 | 146,276 | 23,453,777 |
| Appropriation of the 2015 earrings | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | 510,434 | (510,434) | - | - | - | - | - | - |
| Cash dividends on ordinary shares | - | - | - | - | - | (3,791,118) | (3,791,118) | - | - | (3,791,118) | - | (3,791,118) |
| Recognition of employee share options by the Company | 12,210 | 100 | 12,310 | 104,758 | - | - | - | - | - | 117,068 | - | 117,068 |
| Compensation cost recognized for employee share options | - | - | - | 338,194 | - | - | - | - | - | 338,194 | - | 338,194 |
| Change in capital surplus from investments in associates accounted for using the equity method | - | - | - | 10,533 | - | - | - | - | - | 10,533 | - | 10,533 |
| Difference between consideration paid and carrying amount of subsidiaries acquired | - | - | - | 17,844 | - | (3,691) | (3,691) | - | - | 14,153 | 20,433 | 34,586 |
| Net profit for the year ended December 31, 2016 | - | - | - | - | - | 5,666,862 | 5,666,862 | - | - | 5,666,862 | 22,092 | 5,688,954 |
| Other comprehensive income for year ended December 31, 2016, net of income tax | - | - | - | - | - | (24,283) | (24,283) | (469,492) | 44,164 | (449,611) | (15,486) | (465,097) |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | 5,642,579 | 5,642,579 | (469,492) | 44,164 | 5,217,251 | 6,606 | 5,223,857 |
| BALANCE AT DECEMBER 31, 2016 | $ 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 |

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

(With Deloitte & Touche audit report dated March 6, 2017)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
## (In Thousands of New Taiwan Dollars)

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 7,097,365 | $ 6,289,535 |
| Adjustments for: | | |
| Depreciation expenses | 582,040 | 568,241 |
| Amortization expenses | 238,048 | 97,953 |
| Amortization expenses for prepayments of lease obligations | 6,606 | 2,577 |
| Impairment loss recognized (reversal of impairment loss) on trade receivables | (24,032) | 23,360 |
| Net loss (gain) on financial assets or liabilities at fair value through profit or loss | (107,658) | 46,611 |
| Compensation cost of employee share options | 338,194 | 261,877 |
| Finance costs | 11,556 | 10,041 |
| Interest income | (15,989) | (40,613) |
| Dividend income | (132,472) | (139,725) |
| Share of profit of associates | (65,562) | (110,226) |
| Loss (gain) on disposal of property, plant and equipment | (289,633) | 5,410 |
| Loss (gain) on disposal of investments | 4,873 | (202,458) |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | 174,898 | (59,944) |
| Notes receivable | 5,641 | (20,861) |
| Trade receivables | (738,014) | (495,148) |
| Trade receivables from related parties | 12,807 | (21,375) |
| Other receivables | 31,402 | (1,724) |
| Inventories | (446,618) | (87,310) |
| Other current assets | (8,478) | 57,051 |
| Other financial assets | - | 18,650 |
| Trade payables | 1,569,097 | 59,874 |
| Net defined benefit liabilities | (2,427) | (1,191) |
| Other payables | 600,572 | 147,567 |
| Short-term warranty provisions | 21,476 | 4,292 |
| Other current liabilities | 112,933 | 47,395 |
| Other noncurrent liabilities | (17,857) | 36,812 |
| Cash generated from operations | 8,958,768 | 6,496,671 |
| Interest received | 15,989 | 38,076 |
| Dividends received | 132,472 | 139,725 |
| Interest paid | (6,285) | (1,467) |
| Income tax paid | (1,086,369) | (850,763) |
| Net cash generated from operating activities | 8,014,575 | 5,822,242 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of available-for-sale financial assets | (6,491,968) | (9,713,717) |
| Proceeds from sale of available-for-sale financial assets | 5,364,552 | 11,766,699 |
| Acquisition of investments with no active market | (6,945) | 1,805 |
| Acquisition of investments accounted for using the equity method | (135,000) | - |

(Continued)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| Increase in prepayments for investments | $ - | $ (2,279,881) |
| Net cash flow on the acquisition of subsidiaries | (1,369,432) | - |
| Dividends received from associates | 88,313 | 81,917 |
| Acquisition of property, plant and equipment | (1,448,423) | (1,333,481) |
| Proceeds from disposal of property, plant and equipment | 587,468 | 22,867 |
| Decrease (increase) in refundable deposits | 8,038 | (16,567) |
| Acquisition of intangible assets | (73,435) | (73,145) |
| Increase in prepayments for business facilities | 46,599 | (18,015) |
| Net cash used from investing activities | (3,430,233) | (1,561,518) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term loans | (396,875) | 877,545 |
| Decrease in guarantee deposits received | (1,540) | (602) |
| Payment of cash dividends | (3,791,118) | (3,787,255) |
| Exercise of employee share options | 117,068 | 30,878 |
| Increase (decrease) in non-controlling interests | 34,586 | (118,577) |
| Net cash used in financing activities | (4,037,879) | (2,998,011) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | (267,145) | (26,461) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 279,318 | 1,236,252 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 4,358,259 | 3,122,007 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 4,637,577 | $ 4,358,259 |

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

(With Deloitte & Touche audit report dated March 6, 2017) (Concluded)

(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 Advantech Co., Ltd. (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 indirect 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 6, 2017.

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

a. 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) endorsed by the FSC for application starting from 2017.

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 3) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |

(Continued)

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies, except for the following:

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within [Level 2/Level 3], the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

2) IFRIC 21 "Levies"

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Group accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards, including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combinations with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgments made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

4) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3 and IFRS 13, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendment will be applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

5) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 "Intangible Assets" clarifies that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity's use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

6) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

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

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 2 |
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| 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 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendment to IAS 7 "Disclosure Initiative" | January 1, 2017 |
| Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

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 amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;

- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment 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 of those goods or services individually rather than to transfer combined items).

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

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

The amendments stipulated that, when an entity 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 an entity 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 an entity 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 unrelated investors’ interest in the associate, i.e. the entity’s share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence in an associate, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate, i.e. the entity’s share of the gain or loss is eliminated.

4) IFRS 16 “Leases”

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

5) 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 amendment also stipulates 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.

6) 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 amendment to IAS 28 clarified that when the Group (non-investment entity) applies the equity method to account for investment in an associate that is an investment entity, the Group may elect to retain the fair value of the investment in subsidiaries of the investment entity associate. The election should be made separately for each investment entity associate, at the later of the date (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.

7) 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 shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

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

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve 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 twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve 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, including structured entities). 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 date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

See Note 12 and Table 8 for the detailed information of subsidiaries (including the percentage of ownership and main business).

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 and the fair value of the acquirer's previously held equity interest 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.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (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 not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries and associates in other countries that use currency different from the currency of the Company) are translated into the presentation currency – the New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

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. 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.

h. Investments in associates

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

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

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

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

When the Group subscribes for additional new shares of the 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 the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by 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 by 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 the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its 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' consolidated financial statements only to the extent that interests in the associate that are not related to the Group.

i. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried 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 intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in 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 carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units 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 to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal.

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 life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate 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. 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 an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at lease annually and whenever there is an indication that the asset 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 asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 category

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

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is 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 dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

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 investment is disposed of or is 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, cash and cash equivalent, and debt investments with no active market), are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be 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

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 the financial asset, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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 are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the 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.

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.

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.

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.

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, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is 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 30.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

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 hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

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 Group of the expenditure required to settle the Group's obligation.

o. Revenue recognition

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

1) Sale of goods

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

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

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

c) The amount of revenue can be measured reliably;

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

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

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

2) Rendering of services

Service income is recognized when services are provided.

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

3) Dividend and interest income

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

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

p. Leasing

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

1) The Group as lessor

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

2) The Group as lessee

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service 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 and past service cost) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which 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 liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

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 vesting 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 expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

s. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the 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 carry forward 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 asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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 tax for the year

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, management is required to make judgments, 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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Fair value measurements of intangible assets

Intangible assets acquired from any business combination were recognized at their fair values as of the date of acquisition. When measuring fair values of intangible assets, the Group discounted cash flows to a present value by adopting the income approach to reflect the expectation of the current market with the future cash flows.

The Group’s management used the estimated future cash flows of intangible assets with the estimated growth rates of sales and determined suitable discount rates to measure the fair values of intangible assets.

b. 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 unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Cash on hand | $ 61,640 | $ 65,144 |
| Checking accounts and demand deposits | 4,350,538 | 4,144,007 |
| Cash equivalents (time deposits with original maturities less than three months) | 225,399 | 149,108 |
| | $ 4,637,577 | $ 4,358,259 |

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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Demand deposits | 0.0001%-14.02% | 0.001%-13.26% |
| Time deposits with original maturities of less than three months | 1.35%-2.30% | 1.60%-5.00% |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Financial assets held for trading - current | | |
| Derivative financial assets | | |
| Forward exchange contracts | $ 34,348 | $ 7,391 |
| Non-derivative financial assets | | |
| Domestic quoted shares | 78,680 | 67,554 |
| Foreign quoted shares | - | 101,444 |
| | $ 113,028 | $ 176,389 |
| Financial liabilities held for trading - current | | |
| Derivative financial liabilities | | |
| Forward exchange contracts | $ 10,231 | $ 6,352 |

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

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|---|---|---|---|
| December 31, 2016 | | | |
| Sell | EUR/NTD | 2017.01-2017.05 | EUR5,500/NTD192,863 |
| | EUR/USD | 2017.01-2017.05 | EUR8,500/USD9,451 |
| | USD/NTD | 2017.01-2017.04 | USD11,414/NTD362,143 |
| | JPY/NTD | 2017.01-2017.06 | JPY430,000/NTD128,601 |
| | RMB/NTD | 2017.01-2017.03 | RMB83,000/NTD380,318 |
| December 31, 2015 | | | |
| Sell | EUR/NTD | 2016.01-2016.04 | EUR5,000/NTD179,073 |
| | EUR/USD | 2016.01-2016.04 | EUR6,500/USD7,102 |
| | USD/NTD | 2016.01-2016.02 | USD1,499/NTD49,190 |
| | JPY/NTD | 2016.01-2016.05 | JPY200,000/NTD53,236 |
| | JPY/USD | 2016.01-2016.05 | JPY70,000/USD582 |
| | RMB/NTD | 2016.01-2016.03 | RMB64,000/NTD321,201 |
| | RMB/USD | 2016.01-2016.02 | RMB15,000/USD2,323 |

The Group entered into forward exchange contracts during the years ended December 31, 2016 and 2015 to manage exposures due to exchange rate fluctuations of foreign-currency denominated assets and liabilities. The Group’s financial hedging strategy is to minimize risks due to market price fluctuations and cash flows; however, because these contracts did not meet the criteria for hedge effectiveness, they were not subject to hedge accounting.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Domestic investments | | |
| Mutual funds | $ 2,450,232 | $ 1,271,302 |
| Quoted shares | 506,354 | 484,541 |
| | $ 2,956,586 | $ 1,755,843 |
| Noncurrent | | |
| Domestic investments | | |
| Quoted shares | $ 1,703,203 | $ 1,704,966 |
| Unlisted shares | 9,375 | 9,375 |
| Foreign investments | | |
| Unlisted foreign shares | - | 33,257 |
| | $ 1,712,578 | $ 1,747,598 |

For its securities borrowing and lending transactions, the Group placed some of its quoted domestic shares, recorded under available-for-sale assets - noncurrent, in a trust at Chinatrust Commercial Bank. As of December 31, 2016 and 2015, the shares held in trust amounted to $1,257,600 thousand and $1,276,400 thousand, respectively. Refer to Table 3 for more information. On the transactions, the Group recognized gains of $53 thousand and $235 thousand in the years ended December 31, 2016 and 2015, respectively. These gains were recorded under other nonoperating income.

## 9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Time deposits with original maturities more than three months | $ 10,007 | $ 3,171 |

The market interest rates of the time deposits with original maturity more than three months were 1.00%-2.50% and 1.00%-2.55% per annum respectively as of December 31, 2016 and 2015.

## 10. NOTES AND TRADE RECEIVABLE

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Notes receivable (include related parties) | $ 965,081 | $ 970,722 |
| Trade receivable | $ 6,486,188 | $ 5,577,733 |
| Less: Allowance for impairment loss | (101,354) | (149,159) |
| | $ 6,384,834 | $ 5,428,574 |

**Trade Receivable**

The average credit period of sales of goods was from 30 to 90 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 1 year because historical experience had been that receivables that are past due beyond 1 year were not recoverable. Allowance for impairment loss were recognized against trade receivables between 90 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 the 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 not a 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 | |
|---|---|---|
| | **2016** | **2015** |
| Not overdue | $ 5,524,036 | $ 4,457,975 |
| Overdue | | |
| 1 to 90 days | 839,609 | 909,380 |
| 91 to 360 days | 63,558 | 131,727 |
| Over 360 days | 58,985 | 78,651 |
| | $ 6,486,188 | $ 5,577,733 |

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

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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| 1 to 30 days | $ 693,983 | $ 714,634 |
| 31 to 60 days | 93,924 | 127,378 |
| 61 to 90 days | 51,702 | 55,384 |
| | $ 839,609 | $ 897,396 |

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

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

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| Balance at January 1, 2015 | $ 19,802 | $ 130,200 | $ 150,002 |
| Plus (less): Impairment losses recognized (reversed) on receivables | (2,203) | 25,563 | 23,360 |
| Less: Amounts written off during the period as uncollectible | (30) | (20,586) | (20,616) |
| Foreign exchange translation losses | - | (3,587) | (3,587) |
| Balance at December 31, 2015 | $ 17,569 | $ 131,590 | $ 149,159 |
| Balance at January 1, 2016 | $ 17,569 | $ 131,590 | $ 149,159 |
| Plus (less): Impairment losses recognized (reversed) on receivables | 96 | (24,128) | (24,032) |
| Less: Amounts written off during the period as uncollectible | (3,979) | (26,336) | (30,315) |
| Business combinations | - | 11,918 | 11,918 |
| Foreign exchange translation losses | - | (5,376) | (5,376) |
| Balance at December 31, 2016 | $ 13,686 | $ 87,668 | $ 101,354 |

The Group recognized impairment losses on trade receivables amounting to $1,432 thousand as of both December 31, 2016 and 2015. These amounts mainly related to customers that were in liquidation or in severe financial difficulties. The Group did not hold any collateral over these balances.

## 11. INVENTORIES

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Raw materials | $ 1,991,477 | $ 1,489,432 |
| Work in process | 1,033,831 | 974,373 |
| Finished goods | 1,922,816 | 1,875,649 |
| Inventories in transit | 649,112 | 529,406 |
| | $ 5,597,236 | $ 4,868,860 |

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2016 and 2015 were $24,517,651 thousand and $22,221,007 thousand, respectively.

The costs of inventories were decreased by $538,855 thousand and $443,926 thousand as of December 31, 2016 and 2015, respectively, when stated at the lower of cost or net realizable values.

## 12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements.

The entities included in the consolidated statements are listed below.

| Investor | Investee | Nature of Activities | % of Ownership December 31 2016 | % of Ownership December 31 2015 | Remark |
|---|---|---|---|---|---|
| The Company | AAC (BVI) | Investment and management service | 100.00 | 100.00 | |
| | ATC | Sale of industrial automation products | 100.00 | 100.00 | |
| | Advanixs Corporation (formerly Advansus Corp.) | 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 service | 100.00 | 100.00 | |
| | ASG | Sale of industrial automation products | 100.00 | 100.00 | |
| | AAU | Sale of industrial automation products | 100.00 | 100.00 | |
| | AJP | Sale of industrial automation products | 100.00 | 100.00 | |
| | AMY | Sale of industrial automation products | 100.00 | 100.00 | |
| | AKR | Sale of industrial automation products | 100.00 | 100.00 | |
| | ABR | Sale of industrial automation products | 80.00 | 80.00 | |
| | ACA | Production and sale of portable industrial automation products | - | 100.00 | i. |
| | AIN | Sale of industrial automation products | 99.99 | 99.99 | a. |
| | AdvanPOS | Production and sale of POS system | 100.00 | 100.00 | |
| | ALNC | Production and sale of machines with computerized numerical control | 81.17 | 89.93 | b. |
| | AMX | Sale of industrial automation products | 100.00 | 100.00 | a. |
| | Advantech Innovative Design Co., Ltd. | Product design | 100.00 | 100.00 | a. |
| | Advantech iFactory Co., Ltd. | Cybernation equipment manufacturing | - | 100.00 | c. |
| | BEMC | Sale of industrial network communications systems | 60.00 | - | d. |
| | AiST | Design, develop and sale of intelligent service | 100.00 | - | h. |
| Advantech Corporate Investment | AiST | Design, develop and sale of intelligent service | - | 100.00 | h. |
| | Cermate | Manufacturing of electronic parts, computer, and peripheral devices | 55.00 | 55.00 | |
| ATC | ATC (HK) | Investment and management service | 100.00 | 100.00 | |
| ATC (HK) | AKMC | Production and sale of components of industrial automation products | 100.00 | 100.00 | |
| | Advanixs Kun Shan Corp. (formerly Yeh-Chiang Technology Kun Shan Co., Ltd.) | Production and sale of industrial automation products | 100.00 | - | f. |
| AAC (BVI) | ANA | Sale and fabrication of industrial automation products | 100.00 | 100.00 | |
| | AAC (HK) | Investment and management service | 100.00 | 100.00 | |
| ANA | BEMC | Sale of industrial network communications systems | 40.00 | - | d. |
| AAC (HK) | ACN | Sale of industrial automation products | 100.00 | 100.00 | |
| | AiSC | Production and sale of industrial automation products | 100.00 | 100.00 | |
| | AXA | Development and production of software products | 100.00 | 100.00 | |
| ACN | Hangzhou Advantofine Automation Tech. Co., Ltd. | Processing and sale of industrial automation products | 100.00 | 60.00 | e. |
| AEUH | AEU | Sale of industrial automation products | 100.00 | 100.00 | |
| | APL | Sale of industrial automation products | 100.00 | 100.00 | |
| AEU | A-DLoG | Design, R&D and sale of industrial automation vehicles and related products | 100.00 | 100.00 | |
| ASG | ATH | Production of computers | 51.00 | 51.00 | |
| | AID | Sale of industrial automation products | 100.00 | 100.00 | |
| Cermate | Land Mark | General investment | 100.00 | 100.00 | |
| Land Mark | Cermate (Shanghai) | Sale of industrial electronic equipment | 100.00 | 100.00 | |
| | Cermate (Shenzhen) | Production of LCD touch panel, USB cable, and industrial computer | 90.00 | 90.00 | |
| AdvanPOS | Bright Mind Ltd. | General investment | - | 100.00 | g. |

(Continued)

| Investor | Investee | Nature of Activities | % of Ownership December 31 2016 | 2015 | Remark |
|---|---|---|---|---|---|
| Bright Mind Ltd. | AdvanPOS Shanghai | Production and sale of POS system | - | 100.00 | g. |
| ALNC | Better Auto | General investment | 100.00 | 100.00 | |
| Better Auto | Famous Now Limited | General investment | 100.00 | 100.00 | |
| Famous Now Limited | Dongguan Pou Yuen Digital Technology Co., Ltd. | Production and sale of industrial automation products | 100.00 | 100.00 | |
| BEMC | Avtek | General investment | 100.00 | - | d. |
| Avtek | B+B | General investment | 100.00 | - | d. |
| B+B | BBI | Sale of industrial network communications systems | 100.00 | - | d. |
| | Quatech | Sale of industrial network communications systems | 100.00 | - | d. |
| | IMC | Sale of industrial network communications systems | 100.00 | - | d. |
| BBI | B&B Electronics | Sale of industrial network communications systems | 100.00 | - | d. |
| | B+B (CZ) (formerly Conel) | Manufacturing of cellular and automation solution | 99.99 | - | d. |
| | Conel Automation (formerly Softcon) | Sale of industrial network communications systems | 1.00 | - | d. |
| | B&B DMCC | Sale of industrial network communications systems | 100.00 | - | d. |
| B&B Electronics | B+B (CZ) | Manufacturing of cellular and automation solution | 0.01 | - | d. |
| B+B (CZ) | Conel Automation | Sale of industrial network communications systems | 99.00 | - | d. |

(Concluded)

Remark a: Non-significant subsidiaries and their financial statements were not 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 and third quarter of 2016, the Company acquired 0.07% and sold 8.83% equity in ALNC, respectively, decreasing the Company’s equity interest from 89.93% to 81.17%.

Remark c: In the fourth quarter of 2016, Advantech iFactory Co., Ltd. was in the process of liquidation, which was not included in the 2016 consolidated financial statements.

Remark d: In the first quarter of 2016, the Group acquired 100% share equity of BEMC with an acquisition of 60% and 40% of BEMC’s share equity by the Company and ANA, respectively.

Remark e: In the first quarter of 2016, ACN acquired 40% equity of Hangzhou Advantofine Automation Tech. Co., Ltd., which led ACN’s equity investment in the above subsidiary increased from 60% to 100%.

Remark f: In the second quarter of 2016, ATC, in an issuance of ordinary shares for cash to ATC (HK), acquired 100% equity of Advanixs Kun Shan Corp.

Remark g: In the second quarter of 2016, Bright Mind Ltd. and AdvanPOS Shanghai were in the process of liquidation, which were not included in the 2016 consolidated financial statements.

Remark h: In 2016, the Group has adjusted its investment structure and the Company directly acquired 100% share equity of AiST.

Remark i: In the third quarter of 2016, ACA was merged by AdvanPOS and ACA ceased to exist.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

### Investments in Associates

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Associates that are not individually material | | |
| Listed companies | | |
| Axiomtek Co., Ltd. (Axiomtek) | $ 464,155 | $ 450,246 |
| Unlisted companies | | |
| AIMobile Co., Ltd. (AIMobile) | 109,241 | - |
| Deneng Scientific Research Co., Ltd. (Deneng) | 16,154 | 18,228 |
| Jan Hsiang Electronics Co., Ltd. (Jan Hsiang) | 8,904 | 9,510 |
| | $ 598,454 | $ 477,984 |

In the second quarter 2016, the Group paid cash at $135,000 thousand toward the establishment of "AIMobile Co., Ltd." by a joint investment with Inventec Corporation. The Group and Inventec Corporation held equity interests of 45% and 55%, respectively. The Group had significant influence over AIMobile.

### Aggregate Information on the Associates

| | December 31 2016 | December 31 2015 |
|---|---|---|
| The Group's share of | | |
| Profit from continuing operations | $ 65,562 | $ 110,226 |
| Other comprehensive income | (2,561) | 25 |
| Total comprehensive income for the year | $ 63,001 | $ 110,251 |

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the associates' financial statements audited by the auditors for the same years.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land | Buildings | Equipment | Office Equipment | Other Facilities | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2015 | $ 3,065,315 | $ 5,320,186 | $ 1,554,609 | $ 757,649 | $ 1,364,432 | $ 40,886 | $ 12,103,077 |
| Additions | - | 82,554 | 63,060 | 53,497 | 198,133 | 947,502 | 1,344,746 |
| Disposals | - | - | (112,157) | (30,856) | (49,361) | - | (192,374) |
| Reclassifications | - | (5,438) | 40,501 | (875) | 33,588 | (73,138) | (5,362) |
| Effect of foreign currency exchange differences | 2,949 | (48,312) | (12,373) | (9,120) | (13,754) | (122) | (80,732) |
| Balance at December 31, 2015 | $ 3,068,264 | $ 5,348,990 | $ 1,533,640 | $ 770,295 | $ 1,533,038 | $ 915,128 | $ 13,169,355 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2015 | $ - | $ 899,536 | $ 1,044,178 | $ 490,419 | $ 792,338 | $ - | $ 3,226,471 |
| Disposals | - | - | (108,408) | (28,122) | (27,567) | - | (164,097) |
| Depreciation expense | - | 159,248 | 134,207 | 94,943 | 179,843 | - | 568,241 |
| Reclassifications | - | (857) | 29 | (4,715) | 2,408 | - | (3,135) |
| Effect of foreign currency exchange differences | - | (11,866) | (6,978) | (6,758) | (9,402) | - | (35,004) |
| Balance at December 31, 2015 | $ - | $ 1,046,061 | $ 1,063,028 | $ 545,767 | $ 937,620 | $ - | $ 3,592,476 |
| Carrying amounts at December 31, 2015 | $ 3,068,264 | $ 4,302,929 | $ 470,612 | $ 224,528 | $ 595,418 | $ 915,128 | $ 9,576,879 |

(Continued)

| | Freehold Land | Buildings | Equipment | Office Equipment | Other Facilities | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2016 | $ 3,068,264 | $ 5,348,990 | $ 1,533,640 | $ 770,295 | $ 1,533,038 | $ 915,128 | $ 13,169,355 |
| Additions | 64,688 | 181,539 | 78,609 | 69,265 | 154,789 | 815,342 | 1,364,232 |
| Disposals | (187,992) | (101,971) | (68,301) | (45,139) | (73,966) | - | (477,369) |
| Acquisitions through business combinations | 12,644 | 308,798 | 84,400 | 89,771 | 25,390 | - | 521,003 |
| Reclassifications | - | 1,561,057 | 50,897 | 9,934 | 27,200 | (1,686,836) | (37,748) |
| Effect of foreign currency exchange differences | (9,024) | (217,424) | (47,507) | (31,717) | (61,221) | (345) | (367,238) |
| Balance at December 31, 2016 | $ 2,948,580 | $ 7,080,989 | $ 1,631,738 | $ 862,409 | $ 1,605,230 | $ 43,289 | $ 14,172,235 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2016 | $ - | $ 1,046,061 | $ 1,063,028 | $ 545,767 | $ 937,620 | $ - | $ 3,592,476 |
| Depreciation expense | - | 169,334 | 124,565 | 100,139 | 188,002 | - | 582,040 |
| Disposals | - | (19,099) | (61,429) | (40,515) | (58,491) | - | (179,534) |
| Acquisitions through business combinations | - | 88,296 | 61,837 | 82,180 | 4,771 | - | 237,084 |
| Reclassifications | - | 488 | (3,692) | (19,369) | 18,998 | - | (3,575) |
| Effect of foreign currency exchange differences | - | (56,407) | (28,640) | (23,767) | (37,278) | - | (146,092) |
| Balance at December 31, 2016 | $ - | $ 1,228,673 | $ 1,155,669 | $ 644,435 | $ 1,053,622 | $ - | $ 4,082,399 |
| Carrying amounts at December 31, 2016 | $ 2,948,580 | $ 5,852,316 | $ 476,069 | $ 217,974 | $ 551,608 | $ 43,289 | $ 10,089,836 |

(Concluded)

The above items of property, plant and equipment were 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 |

## 15. GOODWILL

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Cost | | |
| Balance at January 1 | $ 1,139,559 | $ 1,168,727 |
| Additional amounts recognized from business combinations occurring during the year (Note 26) | 2,311,181 | - |
| Adjustments for goodwill after acquisition | (543,042) | - |
| Effect of exchange differences | (61,867) | (29,168) |
| Balance at December 31 | $ 2,845,831 | $ 1,139,559 |

In the fourth quarter of 2016, the Group obtained an evaluation report which stated that the total fair value of the cash and cash equivalents, trade receivables, inventories, other current financial assets, other current assets, intangible assets, deferred tax assets, trade payables, other payables, other liabilities, and deferred tax liabilities was $1,394,876 thousand as of the date of acquisition. Thus, the Group made adjustments on the accounting treatment and the fair value of assets as of the date of acquisition and re-presented the comparative information.

Adjusted items on the balance sheet of B+B were as follows:

| | Acquisition Date (Provisional Amount) | Acquisition Date (Fair Value) |
|---|---|---|
| Goodwill adjustment | $ 2,311,181 | $ 1,768,139 |
| Cash and cash equivalents | - | 71,336 |
| Trade receivables | 211,332 | 188,827 |
| Inventories | 301,938 | 281,758 |
| Other current financial assets | 33,010 | - |
| Other current assets | 30,446 | 17,935 |
| Intangible assets | 416,365 | 1,294,933 |
| Deferred tax assets | 35,125 | 153,651 |
| Trade payables and other payable | (135,526) | (188,215) |
| Other liabilities | (10,730) | - |
| Deferred tax liabilities | (30,126) | (425,349) |

## 16. OTHER INTANGIBLE ASSETS

| | Trademark | Client relationship | Technology license | Others | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at January 1, 2015 | $ 84,637 | $ 128,513 | $ 116,884 | $ 522,936 | $ 852,970 |
| Additions | - | - | - | 73,175 | 73,175 |
| Disposals | - | - | - | (76,262) | (76,262) |
| Effect of foreign currency exchange differences | (5,698) | (8,653) | (7,868) | (25,966) | (48,185) |
| Balance at December 31, 2015 | $ 78,939 | $ 119,860 | $ 109,016 | $ 493,883 | $ 801,698 |
| Accumulated amortization and impairment | | | | | |
| Balance at January 1, 2015 | $ - | $ 54,288 | $ 64,780 | $ 447,590 | $ 566,658 |
| Amortization expense | - | 6,702 | 21,680 | 69,571 | 97,953 |
| Disposals | - | - | - | (76,232) | (76,232) |
| Effect of foreign currency exchange differences | - | (3,533) | (9,245) | (1,589) | (14,367) |
| Balance at December 31, 2015 | $ - | $ 57,457 | $ 77,215 | $ 439,340 | $ 574,012 |
| Carrying amounts at December 31, 2016 | $ 78,939 | $ 62,403 | $ 31,801 | $ 54,543 | $ 227,686 |
| Cost | | | | | |
| Balance at January 1, 2016 | $ 78,939 | $ 119,860 | $ 109,016 | $ 493,883 | $ 801,698 |
| Additions | - | - | - | 79,243 | 79,243 |
| Disposals | - | - | - | (1,750) | (1,750) |
| Acquisitions through business combinations | 461,704 | 419,005 | 340,309 | 73,915 | 1,294,933 |
| Effect of foreign currency exchange differences | (14,987) | (16,261) | (13,852) | (27,324) | (72,424) |
| Balance at December 31, 2016 | $ 525,656 | $ 522,604 | $ 435,473 | $ 617,967 | $ 2,101,700 |

(Continued)

| | Trademark | Client relationship | Technology license | Others | Total |
|---|---|---|---|---|---|
| Accumulated amortization and impairment | | | | | |
| Balance at January 1, 2016 | $ - | $ 57,457 | $ 77,215 | $ 439,340 | $ 574,012 |
| Additions | - | 43,426 | 93,797 | 100,825 | 238,048 |
| Disposals | - | - | - | (1,691) | (1,691) |
| Effect of foreign currency exchange differences | - | (3,995) | (4,832) | (17,282) | (26,109) |
| Balance at December 31, 2016 | $ - | $ 96,888 | $ 166,180 | $ 521,192 | $ 784,260 |
| Carrying amounts at December 31, 2016 | $ 525,656 | $ 425,716 | $ 269,293 | $ 96,775 | $ 1,317,440 |

(Concluded)

## 17. PREPAYMENTS FOR LEASE OBLIGATIONS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current assets (included in other current assets) | $ 8,955 | $ 2,557 |
| Noncurrent assets | 325,224 | 100,875 |
| | $ 334,179 | $ 103,432 |

Lease prepayments are for the Group’s land-use right in Mainland China.

## 18. BORROWINGS

**Short-term Borrowings**

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured borrowings | | |
| Line of credit borrowings | $ 483,750 | $ 880,625 |

The range of weighted average effective interest rates on bank loans were 1.324% and 1.28%-1.84% per annum as of December 31, 2016 and 2015, respectively.

## 19. OTHER LIABILITIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Other payables | | |
| Payable for salaries or bonuses | $ 2,248,870 | $ 2,167,475 |
| Payable for employee benefits | 151,115 | 138,206 |
| Payable for royalties | 179,207 | 105,186 |
| Others (Note) | 1,323,307 | 969,450 |
| | $ 3,902,499 | $ 3,380,317 |

Note: Including construction payables, accruals of litigation, marketing expenses, and freight expenses.

## 20. 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. 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 | |
|---|---|---|
| | 2016 | 2015 |
| Present value of defined benefit obligation | $ 347,702 | $ 332,269 |
| Fair value of plan assets | (135,342) | (148,729) |
| Deficit | 212,360 | 183,540 |
| Net defined benefit liability | $ 212,360 | $ 183,540 |

Movements in net defined benefit liability were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Balance at January 1, 2015 | $ 312,216 | $ (146,788) | $ 165,428 |
| Service cost | | | |
| Current service cost | 2,344 | - | 2,344 |
| Past service cost | 1,340 | - | 1,340 |
| Net interest expense (income) | 5,859 | (2,830) | 3,029 |
| Recognized in profit or loss | 9,543 | (2,830) | 6,713 |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | $ - | $ (1,032) | $ (1,032) |
| Actuarial (gain) loss - changes in demographic assumptions | 12,407 | - | 12,407 |
| Actuarial (gain) loss - changes in financial assumptions | 10,070 | - | 10,070 |
| Actuarial (gain) loss - experience adjustments | (2,142) | - | (2,142) |
| Recognized in other comprehensive income | 20,335 | (1,032) | 19,303 |
| Contributions from the employer | - | (7,904) | (7,904) |
| Benefits paid | (9,825) | 9,825 | - |
| Balance at December 31, 2015 | 332,269 | (148,729) | 183,540 |
| Service cost | | | |
| Current service cost | 2,645 | - | 2,645 |
| Net interest expense (income) | 5,405 | (2,486) | 2,919 |
| Recognized in profit or loss | 8,050 | (2,486) | 5,564 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 1,436 | 1,436 |
| Actuarial (gain) loss - changes in demographic assumptions | 8,543 | - | 8,543 |
| Actuarial (gain) loss - changes in financial assumptions | 10,671 | - | 10,671 |
| Actuarial (gain) loss - experience adjustments | 10,597 | - | 10,597 |
| Recognized in other comprehensive income | 29,811 | 1,436 | 31,247 |
| Contributions from the employer | - | (7,991) | (7,991) |
| Benefits paid | (22,428) | 22,428 | - |
| Balance at December 31, 2016 | $ 347,702 | $ (135,342) | $ 212,360 |

(Concluded)

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 | |
|---|---|---|
| | 2016 | 2015 |
| Operating costs | $ 1,238 | $ 1,083 |
| Selling and marketing expenses | 868 | 838 |
| General and administrative expenses | 1,497 | 2,823 |
| Research and development expenses | 1,961 | 1,969 |
| | $ 5,564 | $ 6,713 |

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** | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate(s) | 1.375%-1.500% | 1.625%-1.750% |
| 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** | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate(s) | | |
| 0.25% increase | $ (10,878) | $ (10,434) |
| 0.25% decrease | $ 11,353 | $ 10,894 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | $ 10,963 | $ 10,544 |
| 0.25% decrease | $ (10,564) | $ (10,156) |

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

| | **December 31** | |
|---|---|---|
| | **2016** | **2015** |
| The expected contributions to the plan for the next year | $ 8,035 | $ 7,977 |
| The average duration of the defined benefit obligation | 12.7-16.2 years | 12.8-16.8 years |

## 21. EQUITY

a. Share capital

Ordinary shares

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Number of shares authorized (in thousands) | 800,000 | 800,000 |
| Amount of shares authorized | $ 8,000,000 | $ 8,000,000 |
| Number of shares issued and fully paid (in thousands) | 633,084 | 631,853 |
| Amount of shares issued and fully paid | $ 6,330,841 | $ 6,318,531 |

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

For the year ended December 31, 2016, the changes in shares are due to employees' exercise of their employee share options.

b. Capital surplus

| | December 31 2016 | December 31 2015 |
|---|---|---|
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1) | | |
| Arising from issuance of ordinary shares | $ 3,396,888 | $ 3,396,888 |
| Arising from conversion of bonds | 931,849 | 931,849 |
| Arising from the difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | 17,844 | - |
| May be used to offset a deficit only | | |
| Arising from changes in percentage of ownership interest in subsidiaries (2) | 4,246 | 4,246 |
| Arising from employee share options | 1,077,084 | 792,341 |
| Arising from distribution of share dividends | 78,614 | 78,614 |
| May not be used for any purpose | | |
| Arising from share of changes in capital surplus of associates | 23,231 | 12,698 |
| Arising from employee share options | 529,128 | 370,919 |
| | $ 6,058,884 | $ 5,587,555 |

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 once a year).

2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary resulted 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

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 25, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

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 distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to c Employee benefits expense in Note 22.

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 to finance future capital expenditures and working capital requirements.

Any appropriations from earnings should be recorded in the year of shareholders' approval, following the year the earnings were generated.

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and 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.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriation of earnings for 2015 and 2014 have been approved in the shareholders' meetings on May 25, 2016 and May 28, 2015, respectively, were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2015** | **2014** | **2015** | **2014** |
| Legal reserve | $ 510,434 | $ 490,778 | $ - | $ - |
| Cash dividends | 3,791,118 | 3,787,255 | 6.0 | 6.0 |

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 6, 2017. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 566,686 | $ - |
| Special reserve | 85,204 | - |
| Cash dividends | 3,988,367 | 6.3 |
| Share dividends | 633,074 | 1.0 |

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on May 26, 2017.

d. Other equity items

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 271,859 | $ 338,356 |
| Exchange differences arising on translating the financial statements of foreign operations | (561,518) | (82,566) |
| Related income tax | 96,161 | 13,620 |
| Share of exchange difference of associates accounted for using the equity method | (4,135) | 2,449 |
| Balance at December 31 | $ (197,633) | $ 271,859 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 68,265 | $ 563,277 |
| Unrealized gain (loss) arising on revaluation of available-for-sale financial assets | 39,048 | (292,554) |
| Cumulative gain (loss) reclassified to profit or loss on sale of available-for-sale financial assets | 5,116 | (202,458) |
| Balance at December 31 | $ 112,429 | $ 68,265 |

e. Non-controlling interests

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 146,276 | $ 187,000 |
| Attributable to non-controlling interests: | | |
| Share of profit for the year | 22,092 | 22,629 |
| Exchange difference arising on translation of foreign entities | (15,408) | (18,924) |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Remeasurement on defined benefit plans | $ (94) | $ (255) |
| Related income tax | 16 | 43 |
| Non-controlling interests arising from acquisition or disposal of subsidiaries (Note 27) | 20,433 | (44,217) |
| Balance at December 31 | $ 173,315 | $ 146,276 |

(Concluded)

## 22. NET PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Interest on bank loans | $ 5,531 | $ 1,285 |
| Others | 6,025 | 8,756 |
| | $ 11,556 | $ 10,041 |

b. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Property, plant and equipment | $ 582,040 | $ 568,241 |
| Intangible assets | 238,048 | 97,953 |
| | $ 820,088 | $ 666,194 |
| An analysis of depreciation by function | | |
| Operating costs | $ 137,801 | $ 130,104 |
| Operating expenses | 444,239 | 438,137 |
| | $ 582,040 | $ 568,241 |
| An analysis of amortization by function | | |
| Operating costs | $ 285 | $ 319 |
| Selling and marketing expense | 139 | 298 |
| General and administrative expense | 208,345 | 71,090 |
| Research and development expense | 29,279 | 26,246 |
| | $ 238,048 | $ 97,953 |

c. Employee benefit expense

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Short-term benefits | $ 7,723,656 | $ 6,906,701 |
| Post-employment benefits | | |
| Defined contribution plans | 276,942 | 270,504 |
| Defined benefit plans (Note 20) | 5,564 | 6,713 |
| | 282,506 | 277,217 |
| Share-based payments | | |
| Equity-settled | 338,194 | 261,877 |
| Other employee benefits | 518,091 | 492,356 |
| Total employee benefit expense | $ 8,862,447 | $ 7,938,151 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ 1,907,784 | $ 1,783,857 |
| Operating expenses | 6,954,663 | 6,154,294 |
| | $ 8,862,447 | $ 7,938,151 |

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on May 25, 2016, the Company accrued employees' compensation at the rates no less than 1% and no higher than 20%, and remuneration of directors and supervisors at the rates no higher than 1%, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 6, 2017 and March 4, 2016, respectively, were as follows:

| | **2016** | **2015** |
|---|---|---|
| Employees' compensation | $ 243,000 | $ 200,000 |
| Remuneration of directors and supervisors | 12,300 | 12,000 |

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on May 28, 2015 were as follows:

| | For the Year Ended December 31, 2014 |
|---|---|
| Bonus to employees | $ 126,000 |
| Remuneration of directors and supervisors | 12,000 |

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on May 28, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gain or loss on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Foreign exchange gains | $ 860,893 | $ 1,113,263 |
| Foreign exchange losses | (1,066,705) | (1,300,152) |
| Net loss | $ (205,812) | $ (186,889) |

## 23. INCOME TAX

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax | | |
| In respect of the current year | $ 1,227,483 | $ 1,098,440 |
| Income tax expense for unappropriated earnings | 72,178 | 62,909 |
| Adjustments for prior year | (1,702) | 480 |
| | 1,297,959 | 1,161,829 |
| Deferred tax | | |
| In respect of the current year | 110,452 | 1,872 |
| Adjustments for prior year | - | (1,141) |
| | 110,452 | 731 |
| Income tax expense recognized in profit or loss | $ 1,408,411 | $ 1,162,560 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit before tax from continuing operations | $ 7,097,365 | $ 6,289,535 |
| Income tax expense calculated at the statutory rate | $ 1,630,913 | $ 1,393,286 |
| Nondeductible expenses in determining taxable income | 686 | 3,755 |
| Tax-exempt income | (196,715) | (219,899) |
| Income tax on unappropriated earnings | 72,178 | 62,909 |
| Land value increment tax | 7,833 | - |
| Investment credits in the current year | (88,558) | (57,000) |
| Loss carryforwards in the current year | (16,594) | (229) |
| Unrecognized deductible temporary differences | 119 | (20,742) |
| Adjustments for prior years' tax | (1,702) | 480 |
| Others | 251 | - |
| Income tax expense recognized in profit or loss | $ 1,408,411 | $ 1,162,560 |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, 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 2017 appropriations of earnings is uncertain, the potential income tax consequences of 10% income tax rate of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Deferred tax | | |
| In respect of the current year | | |
| Translation of foreign operations | $ 96,161 | $ 13,620 |
| Remeasurement on defined benefit plan | 5,312 | 3,281 |
| | $ 101,473 | $ 16,901 |

c. Current tax liabilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax liabilities | | |
| Income tax payable | $ 1,229,400 | $ 1,057,226 |

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, 2016

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Compre-hensive Income | Business Combination | Closing Balance |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Temporary differences | | | | | |
| Unrealized gross profit | $ 56,143 | $ (11,147) | $ - | $ - | $ 44,996 |
| Unrealized loss on inventory write-down | 49,486 | 2,084 | - | 22,482 | 74,052 |
| Exchange difference on foreign operations | - | 4,636 | 40,479 | - | 45,115 |
| Loss carryforwards | - | (32,726) | - | 121,207 | 88,481 |
| Defined benefit obligation | 16,915 | (391) | - | - | 16,524 |
| Unrealized exchange losses (gains) | 8,501 | (6,886) | - | - | 1,615 |
| Unrealized warranty liabilities | 26,019 | (5,401) | - | - | 20,618 |
| Remeasurement of defined benefit plans | 6,232 | - | 5,312 | - | 11,544 |
| Allowance for impaired receivables | 2,982 | (3,568) | - | 1,022 | 436 |
| Others | 51,711 | (2,524) | - | 16,588 | 65,775 |
| | $ 217,989 | $ (55,923) | $ 45,791 | $ 161,299 | $ 369,156 |
| Deferred tax liabilities | | | | | |
| Temporary differences | | | | | |
| Undistributed earnings of subsidiaries | $ 875,958 | $ 114,613 | $ - | $ - | $ 990,571 |
| Exchange difference on foreign operations | 55,682 | - | (55,682) | - | - |
| Remeasurement of defined benefit plans | 3,646 | - | - | - | 3,646 |
| Unrealized exchange gains | 823 | 2,004 | - | - | 2,827 |
| Property, plant and equipment | - | (1,593) | - | 11,376 | 9,783 |
| Intangible assets and goodwill | - | (50,833) | - | 406,249 | 355,416 |
| Others | 2,382 | (9,662) | - | 7,724 | 444 |
| | $ 938,491 | $ 54,529 | $ (55,682) | $ 425,349 | $ 1,362,687 |

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Compre-hensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Temporary differences | | | | |
| Unrealized gross profit | $ 40,938 | $ 15,205 | $ - | $ 56,143 |
| Unrealized loss on inventory write-down | 46,167 | 3,319 | - | 49,486 |
| Defined benefit obligation | 16,680 | 235 | - | 16,915 |

(Continued)

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Compre-hensive Income | Closing Balance |
|---|---|---|---|---|
| Unrealized warranty liabilities | $ 23,540 | $ 2,479 | $ - | $ 26,019 |
| Remeasurement of defined benefit plans | 2,951 | - | 3,281 | 6,232 |
| Unrealized exchange losses | 64 | 8,437 | - | 8,501 |
| Allowance for impaired receivables | 2,839 | 143 | - | 2,982 |
| Others | 28,089 | 23,622 | - | 51,711 |
| | $ 161,268 | $ 53,440 | $ 3,281 | $ 217,989 |
| Deferred tax liabilities | | | | |
| Temporary differences | | | | |
| Undistributed earnings of subsidiaries | $ 812,609 | $ 63,349 | $ - | $ 875,958 |
| Exchange difference on foreign operations | 69,302 | - | (13,620) | 55,682 |
| Remeasurement of defined benefit plans | 3,646 | - | - | 3,646 |
| Unrealized exchange gains (losses) | 11,091 | (10,268) | - | 823 |
| Others | 1,292 | 1,090 | - | 2,382 |
| | $ 897,940 | $ 54,171 | $ (13,620) | $ 938,491 |

(Concluded)

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Loss carryforwards | | |
| 2017 | $ 18,360 | $ 23,013 |
| 2018 | - | 37,282 |
| 2019 | - | 29,410 |
| 2021 | - | 16,487 |
| 2022 | 2,295 | 13,126 |
| 2024 | 18,359 | - |
| 2025 | 9,424 | - |
| | $ 48,438 | $ 119,318 |

f. Integrated income tax

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unappropriated earnings | | |
| Unappropriated earnings generated on and after January 1, 1998 | $ 8,435,785 | $ 7,098,449 |
| Shareholder-imputation credit account | $ 777,620 | $ 608,917 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 (Expected) | 2015 |
| Creditable ratio for distribution of earning | 18.69% | 13.86% |

g. Income tax assessments

The Company's tax returns through 2011 have been assessed by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2008 tax returns and applied for reexamination. Nevertheless, to be conservative, the Company provided for the income tax assessed by the tax authorities.

## 23. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Basic earnings per share | $ 8.96 | $ 8.08 |
| Diluted earnings per share | $ 8.90 | $ 8.05 |

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**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Earnings used in the computation of basic earnings per share | $ 5,666,862 | $ 5,104,346 |
| Earnings used in the computation of diluted earnings per share | $ 5,666,862 | $ 5,104,346 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Weighted average number of ordinary shares in computation of basic earnings per share | 632,148 | 631,633 |
| Effect of potentially dilutive ordinary shares: | | |
| Employee share option | 3,492 | 1,372 |
| Employees' compensation | 1,168 | 1,202 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 636,808 | 634,207 |

If the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation would 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.

## 25. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of the Company and its subsidiaries were granted 6,500 options in 2016, 5,000 options in 2014, and 3,000 options in 2010. Each option entitles the holder to subscribe for one thousand common 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 2016, 2014, and 2010 are valid for six, six and five years, respectively. All are exercisable at certain percentages after the second anniversary year from the grant date. Options granted in 2010 had an exercise prices equal to the closing price of the Company's common shares listed on the grant date, and the exercise price of those granted in 2016 and 2014 was both NT$100 per share. For any subsequent changes in the Company's paid-in capital, 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 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT$) |
| Balance at January 1 | 5,000 | $100.00 | 5,644 | $ 94.10 |
| Options granted | 6,500 | 100.00 | - | - |
| Options exercised | (1,231) | 95.10 | (644) | 47.95 |
| Balance at December 31 | 10,269 | - | 5,000 | 100.00 |
| Options exercisable, end of the year | 3,769 | 95.10 | - | - |
| Weighted-average fair value of options granted (NT$) | 95.10 | | - | |

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2016 and 2015 were from NT$204 to NT$269 and from NT$210 to NT$254, respectively.

Information about outstanding options as of December 31, 2016 and 2015 was as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) | Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) |
| Issuance in 2016 | $ 100.00 | 5.45 | $ - | - |
| Issuance in 2014 | 95.10 | 3.63 | 100.00 | 4.63 |

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

| | 2016 | 2014 | 2010 |
|---|---|---|---|
| Grant-date share price (NT$) | $235 | $239.5 | $67.4 |
| Exercise price (NT$) | $100 | $100 | $67.4 |
| Expected volatility | 31.42%-32.48% | 28.28%-29.19% | 34.11%-35.15% |
| Expected life (years) | 4-5.5 years | 4-5.5 years | 3.5-4.5 years |
| Expected dividends yield | 0% | 0% | 0% |
| Risk-free interest rate | 0.52%-0.65% | 1.07%-1.30% | 0.92%-1.10% |

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

Compensation cost recognized was $338,194 thousand and $261,877 thousand for the years ended December 31, 2016 and 2015, respectively.

Qualified employees of AdvanPOS, a subsidiary of the Company, were granted 800 options in December 2010. Each option entitles the holder to subscribe for one thousand common shares of AdvanPOS. These option were valid for two years. All were exercisable at certain percentages after the first anniversary year from the grant date. For the exercise of options, AdvanPOS issued new shares to the employees at NT$10 per share.

Information on employee share options was as follows:

| | For the Year Ended December 31, 2015 | |
|---|---|---|
| | **Number of Options (In Thousands)** | **Weighted-average Exercise Price (NT$)** |
| Balance at January 1 | 446 | $10.00 |
| Options exercised | (423) | 10.00 |
| Options expired | (23) | - |
| Options forfeited | - | - |
| Balance at December 31 | - | - |
| Options exercisable, end of the year | - | - |

Information about outstanding options as of December 31, 2015 was as follows:

| | For the Year Ended December 31, 2015 | |
|---|---|---|
| | **Exercise Price (NT$)** | **Weighted-average Remaining Contractual Life (Years)** |
| Issuance in 2010 | $ 10.00 | - |

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

| | 2010 |
|---|---|
| Grant-date share price (NT$) | $12.39 |
| Exercise price (NT$) | $10 |
| Expected volatility | 30.43% |
| Expected life (years) | 2 years |
| Expected dividends yield | 0% |
| Risk-free interest rate | 1.345% |

## 26. BUSINESS COMBINATION

a. Subsidiary acquired

| | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred |
|---|---|---|---|---|
| B+B SmartWorx, Inc. (Note) | Sale of industrial network communications | January 4, 2016 | 100 | $ 3,296,048 |
| Advanixs Kun Shan Corp. (formerly Yeh-Chiang Technology Kun Shan Co., Ltd.) | Production and sale of industrial automation products | May 27, 2016 | 100 | $ 459,648 |

Note: For more information of BEMC, Avtek and B+B and its subsidiaries IMC, Quatech, BBI, B&B Electronics, B&B DMCC, B+B (CZ) (formerly Conel) and Conel Automation (formerly Softcon), refer to Note 12, Table 8 and Table 10.

To expand the Group's global brand market in industrial network communications, the Company made arrangements to acquire 100% equity in B+B SmartWorx Inc. (B+B) from Graham Partners. The Group will expand its Industrial Connectivity product portfolio and increase its global market share by leveraging B+B SmartWorx' branding and sales channels in the U.S., Europe, and the Middle East.

The Group acquired 100% share equity of Advanixs Kun Shan Corp. (Advanixs Kun Shan, formerly Yeh-Chiang Technology Kun Shan Co., Ltd.) from Yeh-Chiang Technology (Cayman), the purpose of this acquisition was to arrange future product line, establish a machinery plant, and expand operations in China.

b. Considerations transferred

| | B+B | Advanixs Kun Shan |
|---|---|---|
| Cash | $ 3,296,048<br>(US$ 99,850 thousand) | $ 459,648<br>(RMB 92,758 thousand) |

On January 4, 2016, the Group acquired 100% share equity of B+B and its subsidiaries from Graham Partners. The Company and ANA obtained share equity of B+B mutually.

On May 27, 2016, ATC acquired 100% share equity of Advanixs Kun Shan from Yeh-Chiang Technology (Cayman) Corp. The cash of acquisition was provided by capital increase from ATC.

Acquisition-related costs amounting to $34,209 thousand were excluded from the consideration transferred and were recognized as current expenses under administrative expenses in the consolidated statement of comprehensive income.

c. Assets acquired and liabilities assumed at the date of acquisition

| | B+B | Advanixs Kun Shan |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 71,336 | $ 35,047 |
| Trade receivables | 188,827 | - |
| Inventories | 281,758 | - |
| Other receivables | - | 4,366 |
| Other current assets | 17,935 | 19 |
| Non-current assets | | |
| Plant and equipment | 133,033 | 150,886 |
| Intangible assets | 1,294,933 | - |
| Deferred tax assets | 153,651 | 7,648 |
| Long-term prepayments for leases | - | 262,212 |
| Current liabilities | | |
| Trade and other payables | (188,215) | (530) |
| Non-current liabilities | | |
| Deferred tax liabilities | (425,349) | - |
| | $ 1,527,909 | $ 459,648 |

d. Goodwill recognized on acquisition

| | B+B |
|---|---|
| Consideration transferred | $ 3,296,048 |
| Less: Fair value of identifiable net assets acquired | (1,527,909) |
| Goodwill recognized on acquisition | $ 1,768,139 |

The goodwill recognized in the acquisition of B+B mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of B+B. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on acquisition of subsidiaries

| | B+B | Advanixs Kun Shan |
|---|---|---|
| Consideration paid in cash | $ 3,296,048 | $ 459,648 |
| Less: Prepayments for investments | (2,279,881) | - |
| Less: Cash and cash equivalent balance acquired | (71,336) | (35,047) |
| | $ 944,831 | $ 424,601 |

f. Impact of acquisitions on the results of the Group

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

| | B+B | Advanixs Kun Shan |
|---|---|---|
| Revenue | $ 1,614,067 | $ 222,271 |
| Profit | $ 53,173 | $ 29,532 |

## 27. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

a. In 2015, the Group subscribed for an additional 6,533 thousand shares of AdvanPOS, increasing the Group's equity interest from 84.01% to 100.00%.

b. In the first and third quarter of 2016, the Group acquired 0.07% and sold 8.83% equity in ALNC, respectively, decreasing the Group's equity interest from 89.93% to 81.17%.

c. In the first quarter of 2016, the Group acquired 40% equity in Hangzhou Advantofine Automation Tech. Co., Ltd., increasing the Group's equity interest from 60% to 100%.

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, 2016 | | |
|---|---|---|---|
| | Hangzhou Advantofine Automation Tech. Co., Ltd. | ALNC | Total |
| Cash consideration received (paid) | $ (12,749) | $ 47,335 | $ 34,586 |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests | 9,195 | (29,628) | (20,433) |
| Differences recognized from equity transaction | $ (3,554) | $ 17,707 | $ 14,153 |

(Continued)

| | For the Year Ended December 31, 2016 | | |
|---|---|---|---|
| | Hangzhou Advantofine Automation Tech. Co., Ltd. | ALNC | Total |
| Line items adjusted for equity transaction | | | |
| Capital surplus - difference between consideration received or paid and carrying amounts of the subsidiaries' net assets during actual disposal or acquisition | $ - | $ 17,844 | $ 17,844 |
| Retained earnings | (3,554) | (137) | (3,691) |
| | $ (3,554) | $ 17,707 | $ 14,153 |

(Concluded)

| | 2015 |
|---|---|
| | AdvanPOS |
| Cash consideration paid | $ (118,577) |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests | 44,217 |
| Differences recognized from equity transaction | $ (74,360) |
| Line items adjusted for equity transaction | |
| Capital surplus - difference between consideration received or paid and carrying amounts of the subsidiaries' net assets during actual disposal or acquisition | $ (11,457) |
| Retained earnings | (62,903) |
| | $ (74,360) |
| Capital surplus - changes in percentage of ownership interest in subsidiaries | $ 3,567 |

## 28. 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, 2016 and 2015, refundable deposits (recognized as other noncurrent assets) for the operating leases were $20,030 thousand and $23,612 thousand, respectively.

Recognized as expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Rental expenses | $ 186,253 | $ 192,248 |

## 29. 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 2015 and 2016.

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, and other equity).

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.

## 30. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 34,348 | $ - | $ 34,348 |
| Non-derivative financial asset held for trading | 78,680 | - | - | 78,680 |
| | $ 78,680 | $ 34,348 | $ - | $ 113,028 |
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | $ 2,209,557 | $ - | $ - | $ 2,209,557 |
| Unlisted securities - ROC | | | | |
| Equity securities | - | - | 9,375 | 9,375 |
| Mutual funds | 2,450,232 | - | - | 2,450,232 |
| | $ 4,659,789 | $ - | $ 9,375 | $ 4,669,164 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 10,231 | $ - | $ 10,231 |

December 31, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | $ - | $ 7,391 | $ - | $ 7,391 |
| Non-derivative financial asset held for trading | 168,998 | - | - | 168,998 |
| | $ 168,998 | $ 7,391 | $ - | $ 176,389 |
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | $ 2,189,507 | $ - | $ - | $ 2,189,507 |
| Unlisted securities - ROC | | | | |
| Equity securities | - | - | 9,375 | 9,375 |
| Unlisted securities - other countries | | | | |
| Equity securities | - | - | 33,257 | 33,257 |
| Mutual funds | 1,271,302 | - | - | 1,271,302 |
| | $ 3,460,809 | $ - | $ 42,632 | $ 3,503,441 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | $ - | $ 6,352 | $ - | $ 6,352 |

As of December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

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

For the year ended December 31, 2016

| | Available-for-sale Financial Assets | |
|---|---|---|
| | Equity Instruments | Total |
| Financial assets | | |
| Balance at January 1, 2016 | $ 42,632 | $ 42,632 |
| Disposal | (33,257) | (33,257) |
| Balance at December 31, 2016 | $ 9,375 | $ 9,375 |

For the year ended December 31, 2015

| | Available-for-sale Financial Assets | | |
|---|---|---|---|
| | Equity Instruments | Investment Products | Total |
| Financial assets | | | |
| Balance at January 1, 2015 | $ 42,632 | $ 947,116 | $ 989,748 |
| Purchases | - | 3,629,130 | 3,629,130 |
| Disposal | - | (4,565,265) | (4,565,265) |
| Effect of foreign exchange | - | (10,981) | (10,981) |
| Balance at December 31, 2015 | $ 42,632 | $ - | $ 42,632 |

3) Valuation techniques and inputs applied for the purpose of measuring 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 the purpose of measuring Level 3 fair value measurement

   The fair values of investment products denominated in RMB 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. Had the inputs to the valuation model been changed to reflect reasonably possible alternative assumptions and had all the other variables been held constant, the fair value of the shares would have increased/decreased.

b. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial assets | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading (Note 1) | $ 113,028 | $ 176,389 |
| Loans and receivables (Note 2) | 12,025,231 | 10,828,312 |
| Available-for-sale financial assets | 4,669,164 | 3,503,441 |
| Financial liabilities | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | 10,231 | 6,352 |
| Measured at amortized cost (Note 3) | 9,369,630 | 7,487,011 |

Note 1: The balance included the carrying amount of held-for-trading financial assets measured at cost.

Note 2: 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 receivable, trade receivables from related parties, and other receivables.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings and trade and other payables.

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 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 instrument, 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 and interest rate 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 entering into a variety of derivative financial instruments, which allow the Group to mitigate but not fully eliminate the effect.

The maturities of the Company's forward contracts were less than six months. These forward exchange 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 33. 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 New Taiwan dollars (the functional currency) against the relevant foreign currencies. The 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period is adjusted for a 5% change in exchange rates. A positive number below indicates an increase in pre-tax profit and associated with New Taiwan dollar strengthen 5% against the relevant currency. For a 5% weakening 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.S. Dollar Impact** | | **Euro Impact** | | **Renminbi Impact** | |
|---|---|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Profit or loss | $ 41,430<br>(Note 1) | $ 40,853<br>(Note 1) | $ 56,716<br>(Note 2) | $ 41,829<br>(Note 2) | $ 39,920<br>(Note 3) | $ 79,712<br>(Note 3) |

Note 1: This was mainly attributable to the exposure outstanding on U.S. dollars 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 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-term bank deposits are exposed to fair value interest rate risk; however, this 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 | |
|---|---|---|
| | **2016** | **2015** |
| Fair value interest rate risk | | |
| Financial assets | $ 235,400 | $ 152,279 |
| Financial liabilities | - | 60,000 |
| Cash flow interest rate risk | | |
| Financial assets | 3,923,166 | 2,817,236 |
| Financial liabilities | 483,750 | 820,625 |

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, 2016 and 2015 would increase by $17,197 thousand and $9,983 thousand, respectively. Had interest rates been 50 basis points lower, the effects on the Group's pre-tax profit would have been of the same amounts but negative. 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 and open-end mutual funds. The Group manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk was mainly concentrated on open-end mutual funds and 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, 2016 and 2015 would have increased by $787 thousand and $1,690 thousand as a result of changes in fair value of held-for-trading investments, respectively, and the pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would have increased by $46,598 thousand and $34,608 thousand, respectively, as a result of changes in fair value of available-for-sale investments. Had equity prices been 1% lower, the effects on pre-tax other comprehensive gains would have been of the same amounts but negative.

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 will 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. As of December 31, 2016 and 2015, the Group had available unutilized short-term bank loan facilities set out in (3) 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 were derived from the interest rate curve at the end of the reporting period.

December 31, 2016

| | **On Demand or Less than 1 Month** | **1-3 Months** | **Over 3 Months to 1 Year** | **Over 1 Year-5 Years** |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 7,013,061 | $ 855,392 | $ 1,017,427 | $ - |
| Variable interest rate liabilities | 534 | 1,067 | 488,554 | - |
| | $ 7,013,595 | $ 856,459 | $ 1,505,981 | $ - |

December 31, 2015

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year-5 Years |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 3,891,231 | $ 1,687,755 | $ 1,027,400 | $ - |
| Variable interest rate liabilities | 1,258 | 2,516 | 831,583 | - |
| Fixed interest rate liabilities | 64 | 60,070 | - | - |
| | $ 3,892,553 | $ 1,750,341 | $ 1,858,983 | $ - |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities was 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 tables 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 gross cash inflows and outflows on those derivative instruments that require gross settlement.

December 31, 2016

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Total |
|---|---|---|---|---|
| Gross settled | | | | |
| Foreign exchange forward contracts | | | | |
| Inflows | $ 325,858 | $ 753,831 | $ 289,030 | $ 1,368,719 |
| Outflows | 316,886 | 743,308 | 284,408 | 1,344,602 |
| | $ 8,972 | $ 10,523 | $ 4,622 | $ 24,117 |

December 31, 2015

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Total |
|---|---|---|---|---|
| Gross settled | | | | |
| Foreign exchange forward contracts | | | | |
| Inflows | $ 314,246 | $ 523,146 | $ 93,795 | $ 931,187 |
| Outflows | 310,013 | 526,535 | 93,600 | 930,148 |
| | $ 4,233 | $ (3,389) | $ 195 | $ 1,039 |

c) Financing facilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured overdraft loan facility, reviewed annually and payable at call | | |
| Amount used | $ 483,750 | $ 880,625 |
| Amount unused | 3,757,750 | 2,268,275 |
| | $ 4,241,500 | $ 3,148,900 |

## 31. 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. Sales of goods

| | For the Year Ended December 31 | |
|---|---|---|
| **Related Party Categories** | 2016 | 2015 |
| Associates | $ 51,709 | $ 69,760 |

b. Purchases of goods

| | For the Year Ended December 31 | |
|---|---|---|
| **Related Party Categories** | 2016 | 2015 |
| Associates | $ 51,320 | $ 22,241 |

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

| Line Items | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Trade receivable from related parties | Associates | $ 13,957 | $ 26,775 |
| Notes receivable | Associates | $ - | $ 183 |

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for trade receivables from related parties.

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

| Line Items | Related Party Categories | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Trade payables | Associates | $ 29,453 | $ 1,171 |

The outstanding trade payables to related parties are unsecured.

e. Other transactions with related parties

| | Other Income | |
|---|---|---|
| | For the Year Ended December 31 | |
| | 2016 | 2015 |
| Rental income | | |
| Other related parties | $ 60 | $ 50 |
| Other | | |
| Other related parties | $ 2,702 | $ 2,712 |
| Associates | - | 787 |
| | $ 2,702 | $ 3,499 |

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.

f. Compensation of key management personnel

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term employee benefits | $ 34,349 | $ 36,643 |
| Post-employment benefits | 113 | 116 |
| Share-based payments | 20,114 | 26,188 |
| | $ 54,576 | $ 62,947 |

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

## 32. SIGNIFICANT COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 were as follows.

**Significant Commitments**

As of December 31, 2015, the Company had a construction contract amounting to $1,627,500 thousand for a newly constructed science park located in Linkou in Taoyuan City. The remaining payables were $701,927 thousand.

## 33. 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, 2016

**Unit: In Thousands of New Taiwan Dollars and Foreign Currencies, Except for Exchange Rate**

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 198,736 | 32.250 (USD:NTD) | $ 6,409,236 |
| RMB | 349,617 | 4.6170 (RMB:NTD) | 1,614,182 |
| EUR | 23,502 | 33.900 (EUR:NTD) | 796,718 |
| USD | 9,734 | 6.9851 (USD:RMB) | 313,924 |
| | | | $ 9,134,060 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 140,430 | 32.250 (USD:NTD) | $ 4,528,868 |
| USD | 30,933 | 6.9851 (USD:RMB) | 997,591 |
| RMB | 200,658 | 4.6170 (RMB:NTD) | 926,438 |
| | | | $ 6,452,897 |

December 31, 2015

**Unit: In Thousands of New Taiwan Dollars and Foreign Currencies, Except for Exchange Rate**

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 146,799 | 32.825 (USD:NTD) | $ 4,818,677 |
| RMB | 328,441 | 4.9950 (RMB:NTD) | 1,640,563 |
| RMB | 213,731 | 0.1522 (RMB:USD) | 1,067,567 |
| EUR | 24,409 | 35.880 (EUR:NTD) | 875,795 |
| USD | 5,064 | 6.5716 (USD:RMB) | 166,224 |
| | | | $ 8,568,826 |
| Nonmonetary items | | | |
| USD | 3,763 | 32.825 (USD:NTD) | $ 123,296 |

(Continued)

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial liabilities | | | |
| Monetary items | | | |
| USD | $ 100,579 | 32.825 (USD:NTD) | $ 3,301,506 |
| RMB | 207,665 | 4.9950 (RMB:NTD) | 1,037,287 |
| USD | 25,988 | 6.5716 (USD:RMB) | 853,056 |
| RMB | 62,341 | 0.1522 (RMB:USD) | 311,378 |
| | | | $ 5,503,227 |

(Concluded)

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange losses were $205,812 thousand and $186,889 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.

## 34. SEPARATELY DISCLOSED ITEMS

a. Information on 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 at costs or prices 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. (Table 6)

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 7)

9) Transactions of financial instruments. (Notes 7 and 30)

10) Significant transactions between the Company and subsidiaries. (Table 11)

11) Name, locations, and other information of investees. (Table 8)

12) Organization chart. (Table 10)

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, shareholding ratio, investment gains or losses, carrying amount of the investment at the end of the period, repatriated investment gains, and limit on the amount of investment in the mainland China area. (Table 9)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third area, their prices, and payment terms, and unrealized gains or losses. (Tables 1, 6 and 7)

## 35. SEGMENT INFORMATION

Segment information is provided to the Group's chief operating decision maker for allocating resources to the segments and assessing their performance. The information focuses on every type of products sold or services provided. The Groups segment information disclosed is as follows:

- Industrial internet of thing services: Focus on industry-driven services;
- Embedded board and design-in services: provides Services involving embedded boards, systems and peripheral hardware and software and customizes designs and services to meet customers' demands;
- Smart city solution services: Referring to integrated intelligent applications that can be used in various areas;
- Global customer services: Global repair, technical support and warranty services.

a. Segment revenues and results

The following was an analysis of the Group's revenues and results by reportable segment:

| | Industrial Internet of Thing Services | Embedded Boards and Design-in Services | Smart City Solution Services | Global Customer Services | Others | Total |
|---|---|---|---|---|---|---|
| For the year ended December 31, 2016 | | | | | | |
| Revenues from external customers | $ 13,606,469 | $ 15,817,033 | $ 7,368,095 | $ 4,925,786 | $ 284,815 | $ 42,002,198 |
| Inter-segment revenues | - | - | - | - | - | - |
| Segment revenues | $ 13,606,469 | $ 15,817,033 | $ 7,368,095 | $ 4,925,786 | $ 284,815 | 42,002,198 |
| Eliminations | - | - | - | - | - | - |
| Consolidated revenues | - | - | - | - | - | 42,002,198 |
| Segment income | $ 2,901,863 | $ 2,950,064 | $ 865,132 | $ 583,025 | $ (13,524) | 7,286,560 |
| Other revenues | | | | | | 227,316 |
| Central administration costs and directors' salaries | | | | | | (655,067) |
| Other income and expense | | | | | | 184,550 |
| Finance costs | | | | | | (11,556) |
| Share of profits of associates accounted for using the equity method | | | | | | 65,562 |
| Profit before tax (continuing operations) | | | | | | $ 7,097,365 |

(Continued)

| | Industrial Internet of Thing Services | Embedded Boards and Design-in Services | Smart City Solution Services | Global Customer Services | Others | Total |
|---|---|---|---|---|---|---|
| For the year ended December 31, 2015 | | | | | | |
| Revenues from external customers | $ 11,338,475 | $ 15,197,230 | $ 6,903,032 | $ 4,556,156 | $ 5,689 | $ 38,000,582 |
| Inter-segment revenues | - | - | - | - | - | - |
| Segment revenues | $ 11,338,475 | $ 15,197,230 | $ 6,903,032 | $ 4,556,156 | $ 5,689 | 38,000,582 |
| Eliminations | - | - | - | - | - | - |
| Consolidated revenues | - | - | - | - | - | 38,000,582 |
| Segment income | $ 2,579,111 | $ 2,547,943 | $ 765,703 | $ 537,244 | $ (7,332) | 6,422,669 |
| Other revenues | | | | | | 301,667 |
| Central administration costs and directors' salaries | | | | | | (494,162) |
| Other income | | | | | | (40,824) |
| Finance costs | | | | | | (10,041) |
| Share of profits of associates accounted for using the equity method | | | | | | 110,226 |
| Profit before tax (continuing operations) | | | | | | $ 6,289,535 |

(Concluded)

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' 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, gain or loss on disposal of financial instruments, exchange gain or loss, valuation gain or loss 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.

b. 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.

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Embedded boards and Chassis | $ 16,733,624 | $ 15,474,001 |
| Industrial computer | 9,666,898 | 8,762,095 |
| Industrial control | 5,377,597 | 5,619,222 |
| Industry-applied computer | 5,014,219 | 3,696,050 |
| After-sales service and others | 5,209,860 | 4,449,214 |
| | $ 42,002,198 | $ 38,000,582 |

c. Geographical information

The Group's revenues 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** | | **For the Year Ended December 31** | |
| | **2016** | **2015** | **2016** | **2015** |
| Taiwan | $ 3,467,452 | $ 3,394,536 | $ 7,924,905 | $ 7,462,380 |
| Asia | 16,781,831 | 15,442,152 | 2,821,073 | 2,702,187 |
| USA | 13,337,334 | 10,973,966 | 3,371,055 | 419,584 |
| Europe | 6,526,905 | 6,454,993 | 555,878 | 584,908 |
| Others | 1,888,676 | 1,734,935 | 4,143 | 876 |
| | $ 42,002,198 | $ 38,000,582 | $ 14,677,054 | $ 11,169,935 |

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

d. Information about major customers

No customers contributed 10% or more to the Group's revenue for both 2016 and 2015.

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. (Note A) | Lender | Borrower | Financial Statement Account | Related Parties | Credit Line (Note D) Highest Balance for the Year | Credit Line (Note D) Ending Balance | Actual Borrowing Ending Balance | Interest Rate (%) | Nature of Financing | Business Transaction Amounts | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral Item | Collateral Value | Financing Limit for Each Borrower | Aggregate Financing Limits |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Better Auto | Dongguan Pou Yuen Digital Technology Co., Ltd. | Trade receivables - related parties | Yes | $ 22,980 (RMB 4,520 thousand) | $ 20,869 (RMB 4,520 thousand) | $ 20,869 (RMB 4,520 thousand) | - | Short-term financing | $ - | Financing need | $ - | None | None | $ 2,521,358 (Note C) | $ 5,042,716 (Note C) |
| | | Dongguan Pou Yuen Digital Technology Co., Ltd. | Trade receivables - related parties | Yes | 16,725 (US$ 500 thousand) | 16,125 (US$ 500 thousand) | 12,900 (US$ 400 thousand) | - | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 2 | ANA | B+B | Trade receivables - related parties | Yes | 66,900 (US$ 2,000 thousand) | 64,500 (US$ 2,000 thousand) | 24,188 (US$ 750 thousand) | 2 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 3 | B+B | B+B (CZ) (formerly Conel) | Trade receivables - related parties | Yes | 133,408 (CZK 31,756 thousand) | 39,949 (CZK 31,756 thousand) | 4,382 (CZK 3,483 thousand) | 2 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 4 | B+B (CZ) (formerly Conel) | Conel Automation (formerly Softcon) | Trade receivables - related parties | Yes | 16,111 (CZK 12,000 thousand) | 15,096 (CZK 12,000 thousand) | 15,096 (CZK 12,000 thousand) | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 5 | Cermate Technologies (Shanghai) Inc. | Shenzhen Cermate Technologies Inc. | Prepayments of inventories | Yes | 15,252 (RMB 3,000 thousand) | 13,851 (RMB 3,000 thousand) | - | - | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 6 | ALNC | Dongguan Pou Yuen Digital Technology Co., Ltd. | Prepayments of inventories | Yes | 150,000 | 150,000 | 93,532 | - | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 7 | Advanix Corp. | The Company | Trade receivables - related parties | Yes | 200,000 | 200,000 | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 8 | Advantech Corporate Investment | The Company | Trade receivables - related parties | Yes | 500,000 | - | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |
| 9 | AdvanPOS | The Company | Trade receivables - related parties | Yes | 100,000 | - | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,521,358 (Note C) | 5,042,716 (Note C) |

Note A: Investee companies are numbered sequentially from 1.

Note B: The exchange rates as of December 31, 2016 were US$1=NT$32.25, RMB1=NT$4.617 and CZK1=NT$1.258.

Note C: The financing limit for each borrower and for the aggregate financing were 10% and 20%, respectively, of the Company's net asset values.

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

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

**TABLE 2**

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**ENDORSEMENT/GUARANTEE PROVIDED**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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 | Advanixs Corp. (formerly Advansus Corp.) | Subsidiary | $ 2,521,358 | $ 64,500 (US$ 2,000 thousand) | $ 64,500 (US$ 2,000 thousand) | $ - | $ - | 0.27 | $ 7,564,074 | Y | N | N |
| | | AdvanPos | Subsidiary | 2,521,358 | 64,500 (US$ 2,000 thousand) | 64,500 (US$ 2,000 thousand) | - | - | 0.27 | 7,564,074 | Y | N | N |
| | | ANA | Subsidiary | 2,521,358 | 978,450 (US$ 30,000 thousand) | 967,500 (US$ 30,000 thousand) | 483,750 (US$ 15,000 thousand) | - | 4.07 | 7,564,074 | Y | N | N |
| | | B+B | Subsidiary | 2,521,358 | 326,150 (US$ 10,000 thousand) | 322,500 (US$ 10,000 thousand) | - | - | 1.36 | 7,564,074 | Y | N | N |
| | | AKMC | Subsidiary | 2,521,358 | 195,690 (US$ 6,000 thousand) | 193,500 (US$ 6,000 thousand) | - | - | 0.81 | 7,564,074 | Y | N | Y |
| | | ALNC | Subsidiary | 2,521,358 | 114,153 (US$ 3,500 thousand) | 112,875 (US$ 3,500 thousand) | - | - | 0.47 | 7,564,074 | Y | N | N |
| | | Advanixs Corp. (formerly Advansus Corp.) | Subsidiary | 2,521,358 | 52,184 (US$ 1,600 thousand) | 51,600 (US$ 1,600 thousand) | - | - | 0.22 | 7,564,074 | Y | N | N |
| | | Cermate | Subsidiary | 2,521,358 | 50,553 (US$ 1,550 thousand) | 49,988 (US$ 1,550 thousand) | - | - | 0.21 | 7,564,074 | Y | N | N |
| | | AiST | Subsidiary | 2,521,358 | 4,892 (US$ 150 thousand) | 4,838 (US$ 150 thousand) | - | - | 0.02 | 7,564,074 | Y | N | N |
| | | AdvanPOS | Subsidiary | 2,521,358 | 32,615 (US$ 1,000 thousand) | 32,250 (US$ 1,000 thousand) | - | - | 0.14 | 7,564,074 | Y | N | N |
| | | A-DLoG | Subsidiary | 2,521,358 | 36,300 (EUR 1,000 thousand) | 33,900 (EUR 1,000 thousand) | - | - | 0.14 | 7,564,074 | 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 | | | | | | | | | | |
| | | ABR | Subsidiary | $ 2,521,358 | $ 48,923 (US$ 1,500 thousand) | $ 48,375 (US$ 1,500 thousand) | $ - | $ - | 0.20 | $ 7,564,074 | Y | N | N |
| | | AAU | Subsidiary | 2,521,358 | 6,523 (US$ 200 thousand) | 6,450 (US$ 200 thousand) | - | - | 0.03 | 7,564,074 | Y | N | N |
| | | AKR | Subsidiary | 2,521,358 | 1,631 (US$ 50 thousand) | 1,613 (US$ 50 thousand) | - | - | 0.01 | 7,564,074 | Y | N | N |

Note A: 10% of the Company's net asset value.

Note B: 30% of the Company's net asset value.

Note C: The exchange rates as of December 31, 2016 were US$1=NT$32.25 and EUR1=NT$33.90.

Note D: The latest net equity is from the financial statements on ended September 30, 2016.

(Concluded)

**TABLE 3**

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value | |
| The Company | Stock | | | | | | | |
| | ASUSTek Computer Inc. | - | Available for sale financial assets - noncurrent | 5,239,461 | $ 1,388,457 | 0.71 | $ 1,388,457 | Note A and C |
| | Pegatron Corp. | - | 〃 | 3,540,570 | 272,624 | 0.14 | 272,624 | Note A and D |
| | Allied Circuit Co., Ltd. | - | 〃 | 1,200,000 | 33,720 | 2.41 | 33,720 | Note A |
| | Fund | | | | | | | |
| | Capital Money Market | - | Available for sale financial assets - current | 6,257,979 | 100,016 | - | 100,016 | Note B |
| | Mega Diamond Money Market | - | 〃 | 24,168,482 | 300,131 | - | 300,131 | Note B |
| | FSITC Money Market | - | 〃 | 1,698,386 | 300,122 | - | 300,122 | Note B |
| Advantech Corporate Investment | Stock | | | | | | | |
| | Allied Circuit Co., Ltd. | - | Financial assets at fair value through profit or loss - current | 2,800,000 | 78,680 | 5.63 | 78,680 | Note A |
| | BroadTec System Inc. | - | Available for sale financial assets - noncurrent | 150,000 | 1,500 | 6.16 | 1,500 | - |
| | BiosenseTek Corp. | - | 〃 | 37,500 | 375 | 1.79 | 375 | - |
| | Jaguar Technology | - | 〃 | 500,000 | 7,500 | 16.67 | 7,500 | - |
| | Allied Circuit Co., Ltd. | - | 〃 | 299,000 | 8,402 | 0.60 | 8,402 | Note A |
| | Phison Electronics Corporation | - | Available for sale financial assets - current | 1,500,000 | 383,250 | 0.76 | 383,250 | Note A |
| | Radiant Opto-Electronics Corporation | - | 〃 | 500,000 | 28,100 | 0.11 | 28,100 | Note A |
| | Lelon Electronics Corporation | - | 〃 | 2,436,000 | 95,004 | 1.86 | 95,004 | Note A |
| | Fund | | | | | | | |
| | Mega Diamond Money Market | - | Available for sale financial assets - current | 23,861,961 | 296,325 | - | 296,325 | Note B |
| | FSITC Money Market | - | 〃 | 2,038,341 | 360,195 | - | 360,195 | Note B |
| | Taishin 1699 Money Market | - | 〃 | 14,932,171 | 200,073 | - | 200,073 | Note B |
| Advanixs Corp. (formerly Advansus Corp.) | Fund | | | | | | | |
| | Jih Sun Money Market | - | 〃 | 38,021,440 | 557,763 | - | 557,763 | Note B |
| | CTBC Hwa-win Money Market Fund | | | 2,290,363 | 25,000 | - | 25,000 | Note B |
| | Mega Diamond Money Market | - | 〃 | 2,416,413 | 30,008 | - | 30,008 | Note B |
| AiST | Fund | | | | | | | |
| | Jill Sun Money Market | - | 〃 | 1,226,167 | 17,987 | - | 17,987 | Note B |

(Continued)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value | |
| ALTC | Fund | | | | | | | |
| | Mega Diamond Money Market | - | 〃 | 5,677,549 | $ 70,506 | - | $ 70,506 | Note B |
| | Capital Money Market | - | 〃 | 2,132,508 | 34,082 | - | 34,082 | Note B |
| AdvanPOS | Fund | | | | | | | |
| | Mega Diamond Money Market | - | 〃 | 11,231,810 | 139,480 | - | 139,480 | Note B |
| Advantech Innovative Design Co., Ltd. | Fund | | | | | | | |
| | Capital Money Market | - | 〃 | 281,756 | 4,503 | - | 4,503 | Note B |
| Cermate | Fund | | | | | | | |
| | Mega Diamond Money Market | - | 〃 | 1,130,641 | 14,041 | - | 14,041 | Note B |

Note A: Market value was based on the closing price on December 31, 2016.

Note B: Market value was based on the net asset values of the open-ended mutual funds on December 31, 2016.

Note C: The amount included $1,099,750 thousand, the carrying value of 4,150,000 shares held in trust with CTBC Bank. Refer to Note 8 of the financial statements for more information.

Note D: The amount included $157,850 thousand, the carrying value of 2,050,000 shares held in trust with CTBC Bank. Refer to Note 8 of the financial statements for more information.

(Concluded)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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 (Note) | | Disposal | | | | Ending Balance (Note) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Amount (Cost) | Shares | Amount | Shares | Amount | Carrying Amount | Gain (Loss) on Disposal | Shares | Amount (Cost) |
| The Company | Fund | | | | | | | | | | | | | |
| | Capital Money Market | Available for sale financial assets - current | - | - | - | $ - | 77,706,012 | $ 1,240,000 | 71,448,034 | $ 1,140,484 | $ 1,140,000 | $ 484 | 6,257,978 | $ 100,000 |
| | Mega Diamond Money Market | Available for sale financial assets - current | - | - | - | - | 126,440,929 | 1,568,000 | 102,272,448 | 1,268,601 | 1,267,979 | 622 | 24,168,481 | 300,021 |
| | FSITC Money Market | Available for sale financial assets - current | - | - | - | - | 6,174,911 | 1,090,000 | 4,476,525 | 790,207 | 790,000 | 207 | 1,698,386 | 300,000 |
| | Stock | | | | | | | | | | | | | |
| | B+B | Investments accounted for using the equity method | - | - | - | - | 230,467 | 1,968,044 (US$ 59,910) | - | - | - | - | 230,467 | 1,968,044 |
| Advantech Corporate Investment | Fund | | | | | | | | | | | | | |
| | FSITC Money Market | Available for sale financial assets - current | - | - | - | - | 2,038,341 | 360,000 | - | - | - | - | 2,038,341 | 360,000 |
| Advanixs Corp. (formerly Advansus Corp.) | Fund | | | | | | | | | | | | | |
| | Jih Sun Money Market | Available for sale financial assets - current | - | - | 19,537,275 | 285,055 | 50,635,993 | 742,004 | 32,151,828 | 471,000 | 469,941 | 1,059 | 38,021,440 | 557,118 |
| AdvanPOS | Fund | | | | | | | | | | | | | |
| | Mega Diamond Money Market | Available for sale financial assets - current | - | - | 242,411 | 3,000 | 35,288,731 | 437,021 | 24,299,332 | 301,358 | 300,824 | 534 | 11,231,810 | 139,197 |
| ANA | Fund | | | | | | | | | | | | | |
| | B+B | Investments accounted for using the equity method | - | - | - | - | 153,644 | 1,328,004 (US$ 39,940) | - | - | - | - | 153,644 | 1,328,004 |
| ATC (HK) | Stock | | | | | | | | | | | | | |
| | Advanixs Kunshan Corp. | Investments accounted for using the equity method | - | - | - | - | - | 459,648 (RMB 92,758) | - | - | - | - | - | 459,648 |

TABLE 5

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trade Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| The Company | AAU | Subsidiary | Sale | $ (228,239) | 0.75 | 60-90 days | Contract price | No significant difference in terms for related parties | $ 74,609 | 1.35 | |
| | ACN | Subsidiary | Sale | (5,414,546) | 17.75 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 821,752 | 14.84 | Note A |
| | AEU | Subsidiary | Sale | (3,835,119) | 12.57 | 30 days after month-end | Contract price | No significant difference in terms for related parties | 946,905 | 17.10 | |
| | AiSC | Subsidiary | Sale | (495,184) | 1.62 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 116,622 | 2.11 | Note B |
| | AJP | Subsidiary | Sale | (811,326) | 2.66 | 60-90 days | Contract price | No significant difference in terms for related parties | 212,728 | 3.84 | |
| | AKMC | Subsidiary | Sale | (1,493,414) | 4.90 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 227,740 | 4.11 | Note C |
| | AKR | Subsidiary | Sale | (799,440) | 2.62 | 60 days after invoice date | Contract price | No significant difference in terms for related parties | 97,049 | 1.75 | |
| | ANA | Subsidiary | Sale | (8,315,279) | 27.26 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 1,114,946 | 20.14 | |
| | ASG | Subsidiary | Sale | (223,551) | 0.73 | 60-90 days | Contract price | No significant difference in terms for related parties | 53,059 | 0.96 | |
| | Advanixs Corp. | Subsidiary | Sale | (559,010) | 1.83 | 60-90 days | Contract price | No significant difference in terms for related parties | 119,452 | 2.16 | |
| | A-DLoG | Subsidiary | Sale | (174,205) | 0.57 | 30 days after invoice date | Contract price | No significant difference in terms for related parties | 9,774 | 0.18 | |
| | AMY | Subsidiary | Sale | (145,199) | 0.48 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 52,188 | 0.94 | |
| | ACA | Subsidiary | Purchase | 1,903,339 | 8.81 | Usual trade terms | Contract price | No significant difference in terms for related parties | - | - | |
| | AKMC | Subsidiary | Purchase | 9,739,690 | 45.08 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,212,521) | 29.14 | |
| | Advanixs Corp. | Subsidiary | Purchase | 2,343,971 | 10.85 | Usual trade terms | Contract price | No significant difference in terms for related parties | (626,010) | 15.04 | |
| | AdvanPOS | Subsidiary | Purchase | 566,683 | 2.62 | Usual trade terms | Contract price | No significant difference in terms for related parties | (349,650) | 8.40 | |
| ACA | The Company | Parent company | Sale | (1,903,339) | 100.00 | Usual trade terms | Contract price | No significant difference in terms for related parties | - | - | |
| AKMC | The Company | Parent company | Sale | (9,739,690) | 92.60 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,212,521 | 90.85 | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trade Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| Advanixs Corp. | The Company | Parent company | Sale | $ (2,343,971) | 37.52 | Usual trade terms | Contract price | No significant difference in terms for related parties | $ 626,010 | 45.72 | |
| AdvanPOS | The Company | Parent company | Sale | (566,683) | 48.24 | Usual trade terms | Contract price | No significant difference in terms for related parties | 349,650 | 57.55 | |
| AAU | The Company | Parent company | Purchase | 228,239 | 84.80 | 60-90 days | Contract price | No significant difference in terms for related parties | (74,609) | 86.01 | |
| ACN | The Company | Parent company | Purchase | 5,414,546 | 72.60 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (821,752) | 67.59 | |
| AEU | The Company | Parent company | Purchase | 3,835,119 | 83.12 | 30 days after month-end | Contract price | No significant difference in terms for related parties | (946,905) | 94.96 | |
| AiSC | The Company | Parent company | Purchase | 495,184 | 49.27 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (116,622) | 62.28 | |
| AJP | The Company | Parent company | Purchase | 811,326 | 97.66 | 60-90 days | Contract price | No significant difference in terms for related parties | (212,728) | 98.63 | |
| AKMC | The Company | Parent company | Purchase | 1,493,414 | 15.63 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (227,740) | 10.70 | |
| AKR | The Company | Parent company | Purchase | 799,440 | 66.35 | 60 days after invoice date | Contract price | No significant difference in terms for related parties | (97,049) | 60.47 | |
| ANA | The Company | Parent company | Purchase | 8,315,279 | 89.02 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (1,114,946) | 94.36 | |
| ASG | The Company | Parent company | Purchase | 223,551 | 71.28 | 60-90 days | Contract price | No significant difference in terms for related parties | (53,059) | 86.20 | |
| Advanixs Corp. | The Company | Parent company | Purchase | 559,010 | 10.05 | 60-90 days | Contract price | No significant difference in terms for related parties | (119,452) | 8.16 | |
| A-DLoG | The Company | Parent company | Purchase | 174,205 | 18.58 | 30 days after invoice date | Contract price | No significant difference in terms for related parties | (9,774) | 16.93 | |
| AMY | The Company | Parent company | Purchase | 145,199 | 86.05 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (52,188) | 100.00 | |
| AiSC | AKMC | Related enterprise | Sale | (123,469) | 11.03 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,185 | 0.51 | |
| AKMC | ACN | Related enterprise | Sale | (509,668) | 4.85 | Usual trade terms | Contract price | No significant difference in terms for related parties | 88,163 | 6.61 | |
| | AiSC | Related enterprise | Sale | (185,452) | 1.76 | Usual trade terms | Contract price | No significant difference in terms for related parties | 28,687 | 2.15 | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trade Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| Advanixs Corp. | AKMC | Related enterprise | Sale | $ (2,900,081) | 46.42 | Usual trade terms | Contract price | No significant difference in terms for related parties | $ 637,941 | 46.59 | |
| ALNC | Dongguan Pou Yuen Digital Technology Co., Ltd. | Subsidiary | Sale | (205,457) | 42.70 | Usual trade terms | Contract price | No significant difference in terms for related parties | 92,766 | 84.22 | |
| ACN | AiSC | Related enterprise | Sale | (127,420) | 1.48 | Usual trade terms | Contract price | No significant difference in terms for related parties | 31,012 | 1.53 | |
| ANA | AdvanPOS | Related enterprise | Sale | (126,312) | 1.04 | Usual trade terms | Contract price | No significant difference in terms for related parties | 85,622 | 5.46 | |
| Advanixs Kun Shan Corp. | AKMC | Related enterprise | Sale | (222,271) | 100.00 | Usual trade terms | Contract price | No significant difference in terms for related parties | 144,232 | 100.00 | |
| AKMC | AiSC | Related enterprise | Purchase | 123,469 | 1.29 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,185) | 0.06 | |
| ACN | AKMC | Related enterprise | Purchase | 509,671 | 6.83 | Usual trade terms | Contract price | No significant difference in terms for related parties | (88,163) | 7.46 | |
| AiSC | AKMC | Related enterprise | Purchase | 185,452 | 18.45 | Usual trade terms | Contract price | No significant difference in terms for related parties | (28,687) | 15.75 | |
| AKMC | Advanixs Corp. | Related enterprise | Purchase | 2,900,081 | 30.35 | Usual trade terms | Contract price | No significant difference in terms for related parties | (637,941) | 30.83 | |
| Dongguan Pou Yuen Digital Technology Co., Ltd. | ALNC | Parent company | Purchase | 205,457 | 80.96 | Usual trade terms | Contract price | No significant difference in terms for related parties | (92,766) | 72.36 | |
| AiSC | ACN | Related enterprise | Purchase | 127,420 | 12.68 | Usual trade terms | Contract price | No significant difference in terms for related parties | (31,012) | 17.03 | |
| AdvanPOS | ANA | Related enterprise | Purchase | 126,312 | 11.65 | Usual trade terms | Contract price | No significant difference in terms for related parties | (85,622) | 17.49 | |
| AKMC | Advanixs Kun Shan Corp. | Related enterprise | Purchase | 222,271 | 2.33 | Usual trade terms | Contract price | No significant difference in terms for related parties | (144,232) | 6.97 | |

Note A: Unrealized gain for the year was $9,702 thousand.

Note B: Realized gain for the year was $816 thousand.

Note C: Realized gain for the year was $5,429 thousand.

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

(Concluded)

TABLE 6

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Property | Event Date | Transaction Amount | Payment Status | Counterparty | Relationship | Information on Previous Title Transfer If Counterparty Is A Related Party | | | | Pricing Reference | Purpose of Acquisition | Other Terms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Property Owner | Relationship | Transaction Date | Amount | | | |
| The Company | Real estate | 2014.4.15 | $ 1,627,500 | Under the contract, based on percentage of construction completed; accumulated payments of $1,627,500 thousand were made as of December 31, 2016 and $93,113 thousand were made in the fourth quarter of 2016. | Chung-Lin General Contractors, Ltd. | None | - | - | - | $ - | Contract price | For the Company's expansion | None |

**TABLE 7**

# ADVANTECH CO., LTD. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Actions Taken | | |
| The Company | ACN | Subsidiary | $ 821,752 | 5.30 | $ - | - | $ 249,318 | $ - |
| | AEU | Subsidiary | 951,281 | 3.96 | - | - | 155,587 | - |
| | AiSC | Subsidiary | 116,622 | 4.60 | - | - | 34,166 | - |
| | AJP | Subsidiary | 214,660 | 5.21 | - | - | 38,854 | - |
| | AKMC | Subsidiary | 227,749 | 7.54 | - | - | 189,659 | - |
| | ANA | Subsidiary | 1,117,501 | 7.61 | - | - | 751,425 | - |
| | Advanixs Corp. | Subsidiary | 119,511 | 6.37 | - | - | 63,848 | - |
| AKMC | The Company | Parent company | 1,212,521 | 7.45 | - | - | 983,962 | - |
| Advanixs Corp. | AKMC | Related enterprise | 637,941 | 5.34 | - | - | 280,810 | - |
| | The Company | Parent company | 626,010 | 2.79 | - | - | 301,471 | - |
| AdvanPOS | The Company | Parent company | 349,650 | 3.21 | - | - | 156,987 | - |

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

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars/Foreign Currency, Unless Stated Otherwise)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount December 31, 2016 | Investment Amount December 31, 2015 | Balance as of December 31, 2016 Shares | Balance as of December 31, 2016 Percentage of Ownership | Balance as of December 31, 2016 Carrying Value | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note A) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The Company | AAC (BVI) | BVI | Investment and management service | $ 1,000,207 | $ 1,000,207 | 29,623,834 | 100.00 | $ 4,021,994 | $ 429,541 | $ 427,865 | Subsidiary |
| | ATC | BVI | Sale of industrial automation products | 998,788 | 1,231,118 | 33,850,000 | 100.00 | 3,243,871 | 104,114 | 96,661 | Subsidiary |
| | Advanixs Corporate (formerly Advansus Corp.) | Taipei, Taiwan | Production and sale of industrial automation products | 486,000 | 486,000 | 36,000,000 | 100.00 | 979,563 | 486,566 | 462,195 | Subsidiary |
| | Advantech Corporate Investment | Taipei, Taiwan | Investment holding company | 1,400,000 | 1,400,000 | 150,000,000 | 100.00 | 1,639,126 | 34,108 | 33,632 | Subsidiary |
| | Axiomtek | Taipei, Taiwan | Production and sale of industrial automation products | 249,059 | 249,059 | 20,537,984 | 25.99 | 464,155 | 360,023 | 93,560 | Equity-method investee |
| | AdvanPOS | Taipei, Taiwan | Production and sale of POS system | 460,572 | 460,572 | 20,438,000 | 100.00 | 577,260 | 224,493 | 218,495 | Subsidiary |
| | ALNC | Taichung, Taiwan | Production and sale of machines with computerized numerical control | 431,634 | 478,825 | 24,350,000 | 81.17 | 493,481 | 11,514 | 10,606 | Subsidiary |
| | Jan Hsiang | Taipei, Taiwan | Electronic parts and components manufacturing | 3,719 | 3,719 | 655,500 | 28.50 | 8,904 | (1,322) | (411) | Equity-method investee |
| | AMX | Mexico | Sale of industrial automation products | 4,922 | 4,922 | - | 100.00 | 594 | (771) | (771) | Subsidiary |
| | AEUH | Helmond, The Netherlands | Investment and management service | 1,219,124 | 1,219,124 | 12,572,024 | 100.00 | 864,191 | 17,978 | 17,702 | Subsidiary |
| | ASG | Techplace, Singapore | Sale of industrial automation products | 27,134 | 27,134 | 1,450,000 | 100.00 | 72,186 | 5,100 | 5,100 | Subsidiary |
| | AAU | Sydney, Australia | Sale of industrial automation products | 40,600 | 40,600 | 500,204 | 100.00 | 34,737 | 5,704 | 5,704 | Subsidiary |
| | AJP | Tokyo, Japan | Sale of industrial automation products | 15,472 | 15,472 | 1,200 | 100.00 | 218,331 | 45,585 | 45,585 | Subsidiary |
| | AMY | Malaysia | Sale of industrial automation products | 35,140 | 35,140 | 2,000,000 | 100.00 | 45,752 | 19,416 | 19,416 | Subsidiary |
| | AKR | Seoul, Korea | Sale of industrial automation products | 73,355 | 73,355 | 600,000 | 100.00 | 228,407 | 63,563 | 63,563 | Subsidiary |
| | ABR | Sao Paulo, Brazil | Sale of industrial automation products | 43,216 | 43,216 | 1,794,996 | 80.00 | 75,531 | 24,253 | 19,403 | Subsidiary |
| | ACA | Taipei, Taiwan | Production and sale of portable industrial automation products | - | 146,440 | - | - | - | 59,906 | 65,577 | Subsidiary (Note D) |
| | Advantech Innovative Design Co., Ltd. | Taipei, Taiwan | Product design | 10,000 | 10,000 | 1,000,000 | 100.00 | 9,633 | 1,054 | 1,054 | Subsidiary |
| | Advantech iFactory Co., Ltd. | Taipei, Taiwan | Cybernation equipment manufacturing | - | 60,000 | - | 100.00 | - | 201 | 201 | Subsidiary |
| | AiST | Taipei, Taiwan | Design, develop and sale of intelligent services | 157,915 | - | 10,000,000 | 100.00 | 160,414 | (23,860) | 2,511 | Subsidiary (Note E) |
| | BEMC | Delaware, USA | Sale of industrial network communications systems | 1,968,044 | - | 230,467 | 60.00 | 1,959,805 | 53,173 | 31,903 | Subsidiary (Note C) |
| | AIN | India | Sale of industrial automation products | 5,567 | 5,567 | 999,999 | 99.99 | 1,663 | (11,974) | (11,974) | Subsidiary |
| | AIMobile Co., Ltd. | Taipei, Taiwan | Design and manufacture of industrial mobile systems | 135,000 | - | 13,500,000 | 45.00 | 109,241 | (57,243) | (25,759) | Equity-method investee |
| Advantech Corporate Investment | AiST | Taipei, Taiwan | Design, develop and sale of intelligent services | - | 142,063 | - | - | - | (23,860) | (26,371) | Subsidiary (Note E) |
| | Cermate | Taipei, Taiwan | Manufacturing of electronic parts, computer, and peripheral devices | 71,500 | 71,500 | 5,500,000 | 55.00 | 117,913 | 27,681 | 14,844 | Subsidiary |
| | Deneng | Taichung, Taiwan | Installment and sale of electronic components and software | 18,095 | 18,095 | 658,000 | 39.69 | 16,154 | (4,606) | (1,828) | Equity-method investee |
| ATC | ATC (HK) | Hong Kong | Investment and management service | 1,212,730 | 1,212,730 | 41,650,001 | 100.00 | 3,135,926 | 251,893 | 244,440 | Subsidiary |
| AAC (BVI) | ANA | Sunnyvale, USA | Sale and fabrication of industrial automation products | 504,179 | 504,179 | 10,952,606 | 100.00 | 2,296,976 | 236,063 | 235,733 | Subsidiary |
| | AAC (HK) | Hong Kong | Investment and management service | 539,146 | 539,146 | 15,230,001 | 100.00 | 1,873,641 | 194,940 | 193,595 | Subsidiary |
| ANA | BEMC | Delaware, USA | Sale of industrial network communications | 1,328,004 | - | 153,644 | 40.00 | 1,306,537 | 53,173 | 21,270 | Subsidiary (Note C) |
| AEUH | AEU | Eindhoven, The Netherlands | Sale of industrial automation products | 431,963 | 431,963 | 11,314,280 | 100.00 | 874,511 | 17,819 | 17,542 | Subsidiary |
| | APL | Warsaw, Poland | Sale of industrial automation products | 14,176 | 14,176 | 6,350 | 100.00 | 22,127 | 801 | 801 | Subsidiary |
| AEU | A-DLoG | Munich, Germany | Design, R&D and sale of industrial automation vehicles and related products | 553,536 | 553,536 | 1 | 100.00 | 485,607 | (34,598) | (45,520) | Subsidiary |
| ASG | ATH | Thailand | Production of computers | 7,537 | 7,537 | 51,000 | 51.00 | 18,044 | 4,696 | 2,395 | Subsidiary |
| | AID | Indonesia | Sale of industrial automation products | 4,797 | 4,797 | 300,000 | 100.00 | 2,380 | (1,883) | (1,883) | Subsidiary |

(Continued)

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | Balance as of December 31, 2016 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note A) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2016 | December 31, 2015 | Shares | Percentage of Ownership | Carrying Value | | | |
| Cermate | LandMark | BVI | General investment | $ 28,200 | $ 28,200 | 972,284 | 100.00 | $ 75,241 | $ 15,296 | $ 15,296 | Subsidiary |
| ALNC | Better Auto | BVI | General investment | 264,445 | 264,445 | 8,556,096 | 100.00 | 79,770 | (12,359) | (12,307) | Subsidiary |
| Better Auto | Famous Now | BVI | General investment | US$ 4,000 | US$ 4,000 | 1 | 100.00 | 51,779 | (11,654) | (11,654) | Subsidiary |
| AdvanPOS | Bright Mind Limited | Samoa | General investment | - | US$ 200 | - | - | - | - | - | Subsidiary |
| BEMC | Avtek | Delaware, USA | General investment | US$ 99,850 | - | - | 100.00 | 3,266,342 | 53,173 | 53,173 | Subsidiary |
| Avtek | B+B | Delaware, USA | General investment | US$ 99,850 | - | - | 100.00 | 3,266,342 | 53,173 | 53,173 | Subsidiary |
| B+B | BBI | Ireland | Sale of industrial network communications systems | US$ 39,481 | - | - | 100.00 | 128,294 | (18,762) | (18,762) | Subsidiary |
| | Quatech | Delaware, USA | Sale of industrial network communications systems | - | - | - | 100.00 | - | - | - | Subsidiary |
| | IMC | Delaware, USA | Sale of industrial network communications systems | - | - | - | 100.00 | - | - | - | Subsidiary |
| BBI | B&B Electronics | Delaware, USA | Sale of industrial network communications systems | US$ 1,314 | - | - | 100.00 | - | - | - | Subsidiary |
| | B+B (CZ) (formerly Conel) | Czech Republic | Sale of industrial network communications systems | - | - | - | 99.99 | 141,999 | 49,588 | 49,588 | Subsidiary |
| | Conel Automation (formerly Softcon) | Czech Republic | Sale of industrial network communications systems | - | - | - | 1.00 | 112 | 5,717 | 57 | Subsidiary |
| | B&B DMCC | Dubai | Sale of industrial network communications systems | - | - | - | 100.00 | - | - | - | Subsidiary |
| B&B Electronics | B+B (CZ) (formerly Conel) | Czech Republic | Sale of industrial network communications systems | - | - | - | 0.01 | - | - | - | Subsidiary |
| B+B (CZ) (formerly Conel) | Conel Automation (formerly Softcon) | Czech Republic | Sale of industrial network communications systems | - | - | - | 99.00 | 11,111 | 5,717 | 5,660 | Subsidiary |

Note A: The financial statements used as basis of net asset values had not been audited by independent CPAs, except those of AIN, AMX and Advantech Innovative Design Co., Ltd.

Note B: Refer to Table 9 for investments in mainland China.

Note C: In the first quarter of 2016, the Group made arrangements to acquire 100% equity in BEMC for US$99,850 thousand.

Note D: In the third quarter of 2016, ACA and AdvanPOS merged and ACA ceased to exist.

Note E: In the third quarter of 2016, the Group has adjusted its investment structure and the Company directly acquired 100% share equity of AiST.

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

(Concluded)

**TABLE 9**

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(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, 2016 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2016 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note A) | Carrying Value as of December 31, 2016 | Accumulated Inward Remittance of Earnings as of December 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Advantech Technology (China) Company Ltd. (AKMC) | Production and sale of components of industrial automation products | US$ 43,750 thousand (Note F) | Indirect | $ 1,202,925 (US$ 37,300 thousand) | $ - | $ - | $ 1,202,925 (US$ 37,300 thousand) | $ 235,499 | 100 | $ 227,951 | $ 2,691,960 | $ - |
| Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN) | Sale of industrial automation products | US$ 4,230 thousand | Indirect | 171,957 (US$ 5,332 thousand) | - | - | 171,957 (US$ 5,332 thousand) | 199,635 | 100 | 199,052 | 1,123,813 | 362,232 (US$ 11,232 thousand) |
| Shanghai Advantech Intelligent Services Co., Ltd. (AiSC) | Production and sale of industrial automation products | US$ 8,000 thousand | Indirect | 258,000 (US$ 8,000 thousand) | - | - | 258,000 (US$ 8,000 thousand) | 28,343 | 100 | 27,581 | 739,662 | - |
| Xi'an Advantech Software Ltd. (AXA) | Development and production of software products | US$ 1,000 thousand | Indirect | (Note C) | - | - | (Note C) | (33,654) | 100 | (33,654) | 7,771 | - |
| Hangzhou Advantofine Automation Tech. Co., Ltd. | Processing and sale of industrial automation products | RMB 3,000 thousand | Indirect | (Note D) | - | - | (Note D) | (6,478) | 100 | (6,478) | 14,954 | - |
| Advanixs Kun Shan Corp. | Production and sale of industrial automation products | RMB 99,515 thousand | Indirect | (Note G) | - | - | (Note G) | 29,532 | 100 | 16,394 | 443,870 | - |

| Accumulated Investment in Mainland China as of December 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Allowable Limit on Investment |
|---|---|---|
| $1,639,332 (US$50,832 thousand) (Note E) | $2,760,600 (US$85,600 thousand) | $15,232,138 (Note I) |

(Continued)

Note A: The financial statements used as basis of asset values had been audited.

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.

Note C: Remittance by AAC (H.K.) Limited.

Note D: Remittance by ACN.

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: ATC, parent company of ATC (HK), increased the share capital of ATC (HK) and ATC (HK) acquired 100% share equity of Advanixs Kun Shan Corp. from Yeh-Chiang Technology (Cayman).

Note H: The exchange rate was US$1=NT$32.25.

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

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

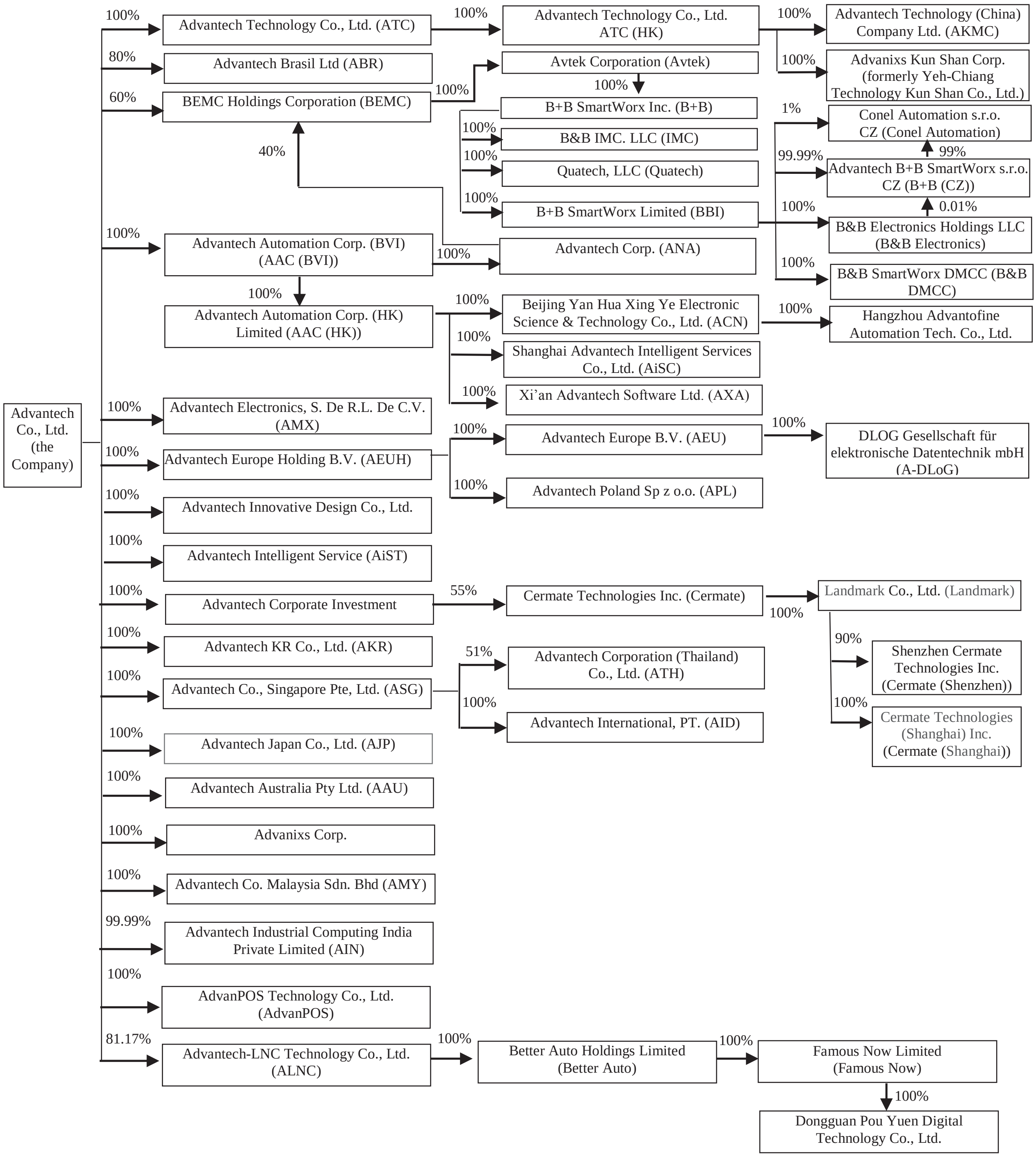
(Concluded)

**TABLE 10**

# ADVANTECH CO., LTD. AND SUBSIDIARIES

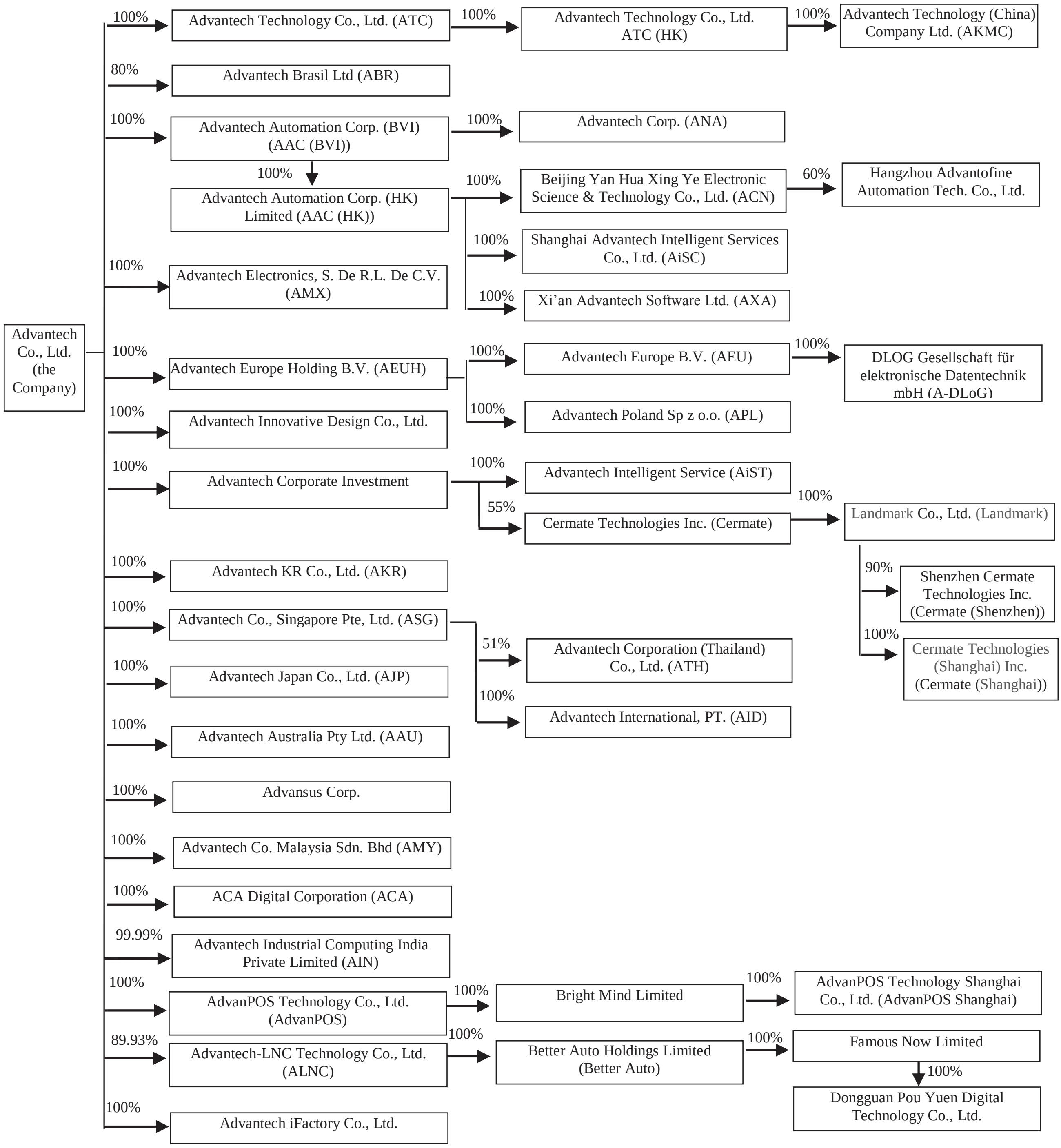
## ORGANIZATION CHART
## DECEMBER 31, 2016 AND 2015

Intercompany relationships and percentages of ownership as of December 31, 2016 are shown below:




(Continued)

Intercompany relationships and percentages of ownership as of December 31, 2015 are shown below:




(Concluded)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

**SIGNIFICANT TRANSACTIONS BETWEEN ADVANTECH CO., LTD. AND SUBSIDIARIES**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| 0 | The Company | AAC (HK) | 1 | Sales revenue | $ 16 | Normal | - |
| | | AAC (HK) | 1 | Other receivables from related parties | 38 | 45 days EOM | - |
| | | AAU | 1 | Other revenue | 3,053 | Normal | - |
| | | AAU | 1 | Other receivables from related parties | 1,424 | 60-90 days | - |
| | | AAU | 1 | Receivables from related parties | 74,609 | 60-90 days | - |
| | | AAU | 1 | Sales revenue | 228,239 | Normal | 1 |
| | | ABR | 1 | Other revenue | 3,165 | Normal | - |
| | | ABR | 1 | Other receivables from related parties | 710 | 90 days EOM | - |
| | | ABR | 1 | Receivables from related parties | 13,377 | 90 days EOM | - |
| | | ABR | 1 | Sales revenue | 99,256 | Normal | - |
| | | ACN | 1 | Receivables from related parties | 821,752 | 45 days EOM | 2 |
| | | ACN | 1 | Sales revenue | 5,414,546 | Normal | 13 |
| | | A-DLoG | 1 | Other revenue | 4,397 | Normal | - |
| | | A-DLoG | 1 | Other receivables from related parties | 674 | 30 days after invoice date | - |
| | | A-DLoG | 1 | Receivables from related parties | 9,774 | 30 days after invoice date | - |
| | | A-DLoG | 1 | Sales revenue | 174,205 | Normal | - |
| | | AEU | 1 | Sales revenue | 3,835,119 | Normal | 9 |
| | | AEU | 1 | Other revenue | 21,706 | Normal | - |
| | | AEU | 1 | Other receivables from related parties | 4,376 | 30 days EOM | - |
| | | AEU | 1 | Receivables from related parties | 946,905 | 30 days EOM | 2 |
| | | AID | 1 | Other receivables from related parties | 3 | 45 days after invoice date | - |
| | | AID | 1 | Receivables from related parties | 8,202 | 45 days after invoice date | - |
| | | AID | 1 | Other revenue | 337 | Normal | - |
| | | AID | 1 | Sales revenue | 14,491 | Normal | - |
| | | AIN | 1 | Sales revenue | 8,406 | Normal | - |
| | | AIN | 1 | Other receivables from related parties | 3,319 | 60 days EOM | - |
| | | AIN | 1 | Receivables from related parties | 18,368 | 60 days EOM | - |
| | | AIN | 1 | Other revenue | 3,204 | Normal | - |
| | | AiSC | 1 | Receivables from related parties | 116,622 | 45 days EOM | - |
| | | AiSC | 1 | Sales revenue | 495,184 | Normal | 1 |
| | | AJP | 1 | Other revenue | 4,395 | Normal | - |
| | | AJP | 1 | Other receivables from related parties | 1,932 | 60-90 days | - |
| | | AJP | 1 | Receivables from related parties | 212,728 | 60-90 days | 1 |
| | | AJP | 1 | Sales revenue | 811,326 | Normal | 2 |
| | | AKMC | 1 | Receivables from related parties | 227,740 | 45 days EOM | 1 |
| | | AKMC | 1 | Other receivables from related parties | 9 | 45 days EOM | - |
| | | AKMC | 1 | Sales revenue | 1,493,414 | Normal | 4 |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details: Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
|---|---|---|---|---|---|---|---|
| | | AKR | 1 | Other revenue | $ 6,238 | Normal | - |
| | | AKR | 1 | Other receivables from related parties | 617 | 60 days after invoice date | - |
| | | AKR | 1 | Receivables from related parties | 97,049 | 60 days after invoice date | - |
| | | AKR | 1 | Sales revenue | 799,440 | Normal | 2 |
| | | AMY | 1 | Other revenue | 2,900 | Normal | - |
| | | AMY | 1 | Other receivables from related parties | 881 | 45 days EOM | - |
| | | AMY | 1 | Receivables from related parties | 52,188 | 45 days EOM | - |
| | | AMY | 1 | Sales revenue | 145,199 | Normal | - |
| | | ANA | 1 | Other revenue | 25,885 | Normal | - |
| | | ANA | 1 | Other receivables from related parties | 2,555 | 45 days EOM | - |
| | | ANA | 1 | Receivables from related parties | 1,114,946 | 45 days EOM | 3 |
| | | ANA | 1 | Sales revenue | 8,315,279 | Normal | 20 |
| | | APL | 1 | Receivables from related parties | 2,313 | 45 days EOM | - |
| | | APL | 1 | Other receivables from related parties | 43 | 45 days EOM | - |
| | | APL | 1 | Sales revenue | 18,386 | Normal | - |
| | | ASG | 1 | Other revenue | 1,930 | Normal | - |
| | | ASG | 1 | Other receivables from related parties | 805 | 60-90 days | - |
| | | ASG | 1 | Receivables from related parties | 53,059 | 60-90 days | - |
| | | ASG | 1 | Sales revenue | 223,551 | Normal | 1 |
| | | ATH | 1 | Other revenue | 2,887 | Normal | - |
| | | ATH | 1 | Other receivables from related parties | 289 | 30 days after invoice date | - |
| | | ATH | 1 | Receivables from related parties | 5,332 | 30 days after invoice date | - |
| | | ATH | 1 | Sales revenue | 59,515 | Normal | - |
| | | B+B | 1 | Receivables from related parties | 5,059 | 60 days EOM | - |
| | | B+B | 1 | Sales revenue | 44,692 | Normal | - |
| | | Cermate | 1 | Other revenue | 1,200 | Normal | - |
| | | ACA | 1 | Other revenue | 2,520 | Normal | - |
| | | Advantech Corporate Investment | 1 | Rental revenue | 36 | Normal | - |
| | | Advantech Innovative Design Co., Ltd. | 1 | Other receivables from related parties | 1 | 60 days EOM | - |
| | | AiST | 1 | Receivables from related parties | 6,375 | 30 days EOM | - |
| | | AiST | 1 | Sales revenue | 46,574 | Normal | - |
| | | AiST | 1 | Other receivables from related parties | 3 | 30 days EOM | - |
| | | AiST | 1 | Other revenue | 1,000 | Normal | - |
| | | Advanixs Corporate | 1 | Rental revenue | 4,800 | Normal | - |
| | | Advanixs Corporate | 1 | Other receivables from related parties | 59 | 60-90 days | - |
| | | Advanixs Corporate | 1 | Receivables from related parties | 119,452 | 60-90 days | - |
| | | Advanixs Corporate | 1 | Sales revenue | 559,010 | Normal | 1 |
| | | ALNC | 1 | Other revenue | 1,200 | Normal | - |
| | | ALNC | 1 | Sales revenue | 2,419 | Normal | - |
| | | ALNC | 1 | Other receivables from related parties | 381 | 60-90 days EOM | - |
| | | ALNC | 1 | Receivables from related parties | 392 | 60-90 days EOM | - |
| | | AdvanPOS | 1 | Sales revenue | 30,826 | Normal | - |
| | | AdvanPOS | 1 | Other revenue | 2,520 | Normal | - |
| | | AdvanPOS | 1 | Other receivables from related parties | 883 | 60 days EOM | - |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| 1 | ACN | The Company | 2 | Receivables from related parties | $ 185 | 30 days EOM | - |
| | | The Company | 2 | Sales revenue | 717 | Normal | - |
| | | AAU | 3 | Sales revenue | 77 | Normal | - |
| | | AEU | 3 | Sales revenue | 591 | Normal | - |
| | | AiSC | 3 | Sales revenue | 127,420 | Normal | - |
| | | AiSC | 3 | Receivables from related parties | 31,012 | Immediate payment | - |
| | | AiSC | 3 | Other receivables from related parties | 52 | 60 days EOM | - |
| | | AKMC | 3 | Receivables from related parties | 7,939 | 60-90 days | - |
| | | AKMC | 3 | Sales revenue | 32,896 | Normal | - |
| | | AKR | 3 | Sales revenue | 85 | Normal | - |
| | | ANA | 3 | Sales revenue | 398 | Normal | - |
| | | AXA | 3 | Other receivables from related parties | 30,095 | 60 days EOM | - |
| | | Advanixs Kun Shan Corp. | 3 | Receivables from related parties | 4,014 | Normal | - |
| | | Advanixs Kun Shan Corp. | 3 | Sales revenue | 3,603 | Normal | - |
| | | Hangzhou Advantofine Automatin Tech. Co., Ltd. | 3 | Sales revenue | 3,687 | Normal | - |
| | | Hangzhou Advantofine Automatin Tech. Co., Ltd. | 3 | Receivables from related parties | 749 | 60 days after invoice date | - |
| 2 | AAU | The Company | 2 | Receivables from related parties | 374 | 60-90 days | - |
| | | The Company | 2 | Sales revenue | 50 | Normal | - |
| | | The Company | 2 | Other revenue | 3,791 | Normal | - |
| | | ANA | 3 | Sales revenue | 10 | Normal | - |
| 3 | ABR | The Company | 2 | Other revenue | 2,010 | Normal | - |
| | | The Company | 2 | Receivables from related parties | 270 | 30 days after invoice date | - |
| 4 | ACA | The Company | 2 | Sales revenue | 1,903,339 | Normal | 5 |
| | | ACN | 3 | Sales revenue | 1,249 | Normal | - |
| | | AKMC | 3 | Other receivables from related parties | 4 | 45 days EOM | - |
| | | Advanixs Corporate | 3 | Sales revenue | 4,264 | Normal | - |
| | | Advanixs Corporate | 3 | Receivables from related parties | 826 | 45 days EOM | - |
| 5 | AEU | The Company | 2 | Receivables from related parties | 1,644 | 30 days EOM | - |
| | | The Company | 2 | Sales revenue | 10,373 | Normal | - |
| | | The Company | 2 | Other revenue | 6,425 | Normal | - |
| | | AAU | 3 | Sales revenue | 37 | Normal | - |
| | | AAU | 3 | Receivables from related parties | 35 | 30 days EOM | - |
| | | ACN | 3 | Receivables from related parties | 269 | 30 days after invoice date | - |
| | | A-DLoG | 3 | Receivables from related parties | 213 | 30 days upon delivery | - |
| | | A-DLoG | 3 | Sales revenue | 20,522 | Normal | - |
| | | AKMC | 3 | Receivables from related parties | 322 | 30 days EOM | - |
| | | AKMC | 3 | Sales revenue | 9 | Normal | - |
| | | AKR | 3 | Sales revenue | 141 | Normal | - |
| | | ANA | 3 | Royalty revenue | 933 | Normal | - |
| | | ANA | 3 | Receivables from related parties | 187 | 30 days after invoice date | - |
| | | ANA | 3 | Sales revenue | 16,518 | Normal | - |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | APL | 3 | Sales revenue | $ 3,224 | Normal | - |
| | | B+B | 3 | Receivables from related parties | 219 | 30 days after invoice date | - |
| | | BBI | 3 | Sales revenue | 1,121 | Normal | - |
| 6 | Better Auto | Dongguan Pou Yuen Digital Technology Co., Ltd. | 3 | Receivables from related parties | 34,421 | Financing | - |
| | | Dongguan Pou Yuen Digital Technology Co., Ltd. | 3 | Interest revenue | 351 | Financing | - |
| 7 | ALNC | The Company | 2 | Receivables from related parties | 1,855 | 60 days EOM | - |
| | | The Company | 2 | Rental revenue | 1,518 | Normal | - |
| | | The Company | 2 | Sales revenue | 7,949 | Normal | - |
| | | AKMC | 3 | Sales revenue | 430 | Normal | - |
| | | Better Auto | 3 | Royalty revenue | 92 | Normal | - |
| | | Dongguan Pou Yuen Digital Technology Co., Ltd. | 3 | Sales revenue | 205,457 | Normal | - |
| | | Dongguan Pou Yuen Digital Technology Co., Ltd. | 3 | Receivables from related parties | 92,766 | 90 days EOM | - |
| 8 | AiSC | The Company | 2 | Receivables from related parties | 496 | 45 days EOM | - |
| | | The Company | 2 | Sales revenue | 2,032 | Normal | - |
| | | AAC (HK) | 3 | Other receivables from related parties | 4,633 | 90 days | - |
| | | ACN | 3 | Sales revenue | 22,541 | Normal | - |
| | | ACN | 3 | Other receivables from related parties | 62,676 | Immediate payment | - |
| | | ACN | 3 | Receivables from related parties | 1,441 | Immediate payment | - |
| | | ACN | 3 | Rental revenue | 5,842 | Normal | - |
| | | AEU | 3 | Sales revenue | 119 | Normal | - |
| | | AEU | 3 | Receivables from related parties | 113 | Immediate payment | - |
| | | AKMC | 3 | Sales revenue | 123,469 | Normal | - |
| | | AKMC | 3 | Receivables from related parties | 1,185 | 30 days EOM | - |
| | | ANA | 3 | Sales revenue | 209 | Normal | - |
| 9 | AJP | The Company | 2 | Receivables from related parties | 361 | 60-90 days | - |
| | | The Company | 2 | Sales revenue | 63 | Normal | - |
| | | ACN | 3 | Receivables from related parties | 12 | 45 days EOM | - |
| | | ACN | 3 | Sales revenue | 13 | Normal | - |
| | | AKMC | 3 | Other receivables from related parties | 47 | 45 days EOM | - |
| | | AKMC | 3 | Other revenue | 51 | Normal | - |
| | | ASG | 3 | Sales revenue | 9 | Normal | - |
| 10 | AKMC | The Company | 2 | Sales revenue | 9,739,690 | Normal | 23 |
| | | The Company | 2 | Receivables from related parties | 1,212,521 | 60 days EOM | 3 |
| | | ACN | 3 | Rental revenue | 4,212 | Normal | - |
| | | ACN | 3 | Sales revenue | 509,671 | Normal | 1 |
| | | ACN | 3 | Other receivables from related parties | 723 | 60-90 days | - |
| | | ACN | 3 | Receivables from related parties | 88,163 | 60-90 days | - |
| | | AEU | 3 | Sales revenue | 3,392 | Normal | - |
| | | AEU | 3 | Receivables from related parties | 1,093 | 30 days after invoice date | - |
| | | AiSC | 3 | Sales revenue | 185,453 | Normal | - |
| | | AiSC | 3 | Receivables from related parties | 28,687 | Immediate payment | - |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | ANA | 3 | Sales revenue | $ 8,451 | Normal | - |
| | | ANA | 3 | Receivables from related parties | 292 | 60-90 days | - |
| | | Hangzhou Advantofine Automatin Tech. Co., Ltd. | 3 | Sales revenue | 21 | Normal | - |
| | | Hangzhou Advantofine Automatin Tech. Co., Ltd. | 3 | Receivables from related parties | 15 | 60 days EOM | - |
| | | Advanixs Corporate | 3 | Receivables from related parties | 413 | Immediate payment | - |
| | | Advanixs Corporate | 3 | Sales revenue | 3,453 | Normal | - |
| | | ALNC | 3 | Sales revenue | 6 | Normal | - |
| | | AdvanPOS | 3 | Sales revenue | 5,558 | Normal | - |
| | | AdvanPOS | 3 | Receivables from related parties | 1,075 | 30 days EOM | - |
| 11 | AKR | The Company | 2 | Receivables from related parties | 115 | 90 days EOM | - |
| | | The Company | 2 | Sales revenue | 14 | Normal | - |
| | | ANA | 3 | Sales revenue | 49 | Normal | - |
| | | ASG | 3 | Sales revenue | 447 | Normal | - |
| | | AdvanPOS | 3 | Receivables from related parties | 227 | 30 days EOM | - |
| | | AdvanPOS | 3 | Sales revenue | 371 | Normal | - |
| 12 | AMY | The Company | 2 | Receivables from related parties | 37 | 45 days EOM | - |
| | | AID | 3 | Other receivables from related parties | 20 | 30 days EOM | - |
| | | ASG | 3 | Other revenue | 97 | Normal | - |
| | | ATH | 3 | Other revenue | 279 | Normal | - |
| | | ATH | 3 | Sales revenue | 144 | Normal | - |
| | | ATH | 3 | Other receivables from related parties | 58 | 30 days EOM | - |
| 13 | ANA | The Company | 2 | Receivables from related parties | 18,860 | 45 days EOM | - |
| | | The Company | 2 | Sales revenue | 34,433 | Normal | - |
| | | AAU | 3 | Receivables from related parties | 10 | 60 days after invoice date | - |
| | | AAU | 3 | Sales revenue | 10 | Normal | - |
| | | ABR | 3 | Sales revenue | 1,470 | 30 days after invoice date | - |
| | | ABR | 3 | Receivables from related parties | 1,433 | 30 days after invoice date | - |
| | | ACN | 3 | Sales revenue | 161 | Normal | - |
| | | A-DLoG | 3 | Sales revenue | 113 | 30 days after invoice date | - |
| | | A-DLoG | 3 | Receivables from related parties | 4,099 | 60 days after invoice date | - |
| | | AEU | 3 | Sales revenue | 66,489 | Normal | - |
| | | AEU | 3 | Receivables from related parties | 5,178 | 60-90 days | - |
| | | AJP | 3 | Sales revenue | 441 | Normal | - |
| | | AKMC | 3 | Receivables from related parties | 8,625 | 30 days EOM | - |
| | | AKMC | 3 | Sales revenue | 34,789 | Normal | - |
| | | AKR | 3 | Sales revenue | 169 | Normal | - |
| | | AMY | 3 | Sales revenue | 3 | Normal | - |
| | | ASG | 3 | Sales revenue | 396 | Normal | - |
| | | B+B | 3 | Other receivables from related parties | 24,345 | Normal | - |
| | | B+B | 3 | Sales revenue | 2,631 | Normal | - |
| | | B+B | 3 | Rental revenue | 826 | 60-90 days | - |
| | | B+B | 3 | Interest revenue | 999 | Normal | - |
| | | ACA | 3 | Sales revenue | 14,229 | Normal | - |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | Advanixs Corporate | 3 | Sales revenue | $ 994 | Normal | - |
| | | Advanixs Corporate | 3 | Receivables from related parties | 994 | 90 days after invoice date | - |
| | | AdvanPOS | 3 | Receivables from related parties | 85,622 | 30 days after invoice date | - |
| | | AdvanPOS | 3 | Sales revenue | 126,312 | Normal | - |
| 14 | APL | The Company | 2 | Receivables from related parties | 312 | 30 days after invoice date | - |
| | | The Company | 2 | Sales revenue | 38 | Normal | - |
| | | AEU | 3 | Receivables from related parties | 7,829 | 30 days after invoice date | - |
| | | AEU | 3 | Sales revenue | 57,763 | Normal | - |
| | | AEU | 3 | Commission revenue | 12,029 | Normal | - |
| | | AJP | 3 | Receivables from related parties | 27 | 60 days EOM | - |
| | | ANA | 3 | Receivables from related parties | 33 | 30 days after invoice date | - |
| 15 | ASG | The Company | 2 | Sales revenue | 460 | Normal | - |
| | | The Company | 2 | Other revenue | 891 | Normal | - |
| | | AID | 3 | Sales revenue | 4 | Normal | - |
| | | AKR | 3 | Sales revenue | 898 | Normal | - |
| | | AMY | 3 | Receivables from related parties | 550 | 30 days EOM | - |
| | | AMY | 3 | Sales revenue | 7,125 | Normal | - |
| | | AMY | 3 | Other receivables from related parties | 5 | 30 days EOM | - |
| | | ATH | 3 | Sales revenue | 2,505 | Normal | - |
| | | ATH | 3 | Other receivables from related parties | 206 | 30 days EOM | - |
| | | ATH | 3 | Receivables from related parties | 887 | 30 days EOM | - |
| 16 | ATC | The Company | 2 | Receivables from related parties | 93,590 | 60 days EOM | - |
| 17 | ATH | The Company | 2 | Receivables from related parties | 173 | 30 days after invoice date | - |
| | | AKR | 3 | Sales revenue | 11 | Normal | - |
| 18 | AXA | ACN | 3 | Other receivables from related parties | 392 | 30 days EOM | - |
| | | ACN | 3 | Other revenue | 40,732 | Normal | - |
| 19 | A-DLoG | The Company | 2 | Receivables from related parties | 5,406 | 30 days after invoice date | - |
| | | The Company | 2 | Sales revenue | 87,724 | Normal | - |
| | | AEU | 3 | Sales revenue | 1,061 | Normal | - |
| | | AEU | 3 | Receivables from related parties | 131 | 30 days EOM | - |
| | | AEU | 3 | Other revenue | 187 | Normal | - |
| | | AEU | 3 | Receivables from related parties | 1,104 | 30 days after invoice date | - |
| | | AKMC | 3 | Receivables from related parties | 44 | 60 days after invoice date | - |
| | | ANA | 3 | Receivables from related parties | 96 | 30 days EOM | - |
| 20 | Cermate (Shenzhen) | ACN | 3 | Receivables from related parties | 878 | Immediate payment | - |
| | | ACN | 3 | Sales revenue | 803 | Normal | - |
| | | AKMC | 3 | Receivables from related parties | 6,868 | 40 days EOM | - |
| | | AKMC | 3 | Sales revenue | 32,160 | Normal | - |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | Cermate (Shanghai) | 3 | Sales revenue | $ 26,272 | Normal | - |
| | | Cermate | 3 | Sales revenue | 20,048 | Normal | - |
| | | Cermate | 3 | Receivables from related parties | 2,876 | 30 days EOM | - |
| 21 | Cermate (Shanghai) | Cermate (Shenzhen) | 3 | Sales revenue | 535 | Normal | - |
| 22 | Advanixs Corporate | The Company | 2 | Receivables from related parties | 626,010 | 60-90 days | 2 |
| | | The Company | 2 | Sales revenue | 2,343,971 | Normal | 6 |
| | | The Company | 2 | Interest revenue | 603 | Normal | - |
| | | AKMC | 3 | Receivables from related parties | 637,941 | 60-90 days | 2 |
| | | AKMC | 3 | Sales revenue | 2,900,081 | Normal | 7 |
| | | Cermate | 3 | Sales revenue | 1,541 | Normal | - |
| 23 | AAC (HK) | The Company | 2 | Receivables from related parties | 1,419 | 45 days EOM | - |
| | | The Company | 2 | Other revenue | 7,447 | Normal | - |
| 24 | Advantech Corporate Investment | The Company | 2 | Interest revenue | 3,268 | Normal | - |
| | | The Company | 2 | Other receivables from related parties | 355 | 90 days EOM | - |
| 25 | AIN | The Company | 2 | Receivables from related parties | 123 | 60 days EOM | - |
| | | The Company | 2 | Other revenue | 3,220 | Normal | - |
| | | The Company | 2 | Sales revenue | 10 | Normal | - |
| 26 | AID | The Company | 2 | Receivables from related parties | 69 | 60 days EOM | - |
| | | ASG | 3 | Other revenue | 2,094 | Normal | - |
| | | ASG | 3 | Other receivables from related parties | 1,301 | 30 days EOM | - |
| | | AiST | 3 | Other revenue | 29 | Normal | - |
| 27 | AiST | The Company | 2 | Receivables from related parties | 10,368 | 60 days EOM | - |
| | | The Company | 2 | Sales revenue | 283 | Normal | - |
| 28 | AMX | The Company | 2 | Other revenue | 3,558 | Normal | - |
| 29 | AdvanPOS | The Company | 2 | Receivables from related parties | 349,650 | 60 days EOM | 1 |
| | | The Company | 2 | Sales revenue | 566,683 | Normal | 1 |
| | | Advanixs Corporate | 3 | Sales revenue | 622 | Normal | - |
| 30 | Dongguan Pou Yuen Digital Technology Co., Ltd. | ACN | 3 | Sales revenue | 9,025 | Normal | - |
| | | ACN | 3 | Receivables from related parties | 893 | 90 days EOM | - |
| | | ALNC | 3 | Sales revenue | 2,887 | Normal | - |
| | | ALNC | 3 | Receivables from related parties | 2,107 | 90 days EOM | - |
| 31 | Advantech Innovative Design Co., Ltd. | The Company | 2 | Receivables from related parties | 5,329 | 30 days EOM | - |

(Continued)

| Number (Note A) | Company Name | Counterparty | Flow of Transaction (Notes B and D) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| 32 | B+B | The Company | 2 | Receivables from related parties | $ 4,528 | 90 days EOM | - |
| | | The Company | 2 | Sales revenue | 6,492 | Normal | - |
| | | ANA | 3 | Receivables from related parties | 1,847 | 45 days EOM | - |
| | | ANA | 3 | Sales revenue | 5,668 | Normal | - |
| | | B+B (CZ) | 3 | Receivables from related parties | 800 | 45 days EOM | - |
| | | B+B (CZ) | 3 | Interest revenue | 840 | Normal | - |
| | | B+B (CZ) | 3 | Other revenue | 3,778 | Normal | - |
| | | B+B (CZ) | 3 | Other receivables from related parties | 42 | 45 days EOM | - |
| | | BBI | 3 | Receivables from related parties | 23,498 | 45 days EOM | - |
| 33 | Cermate | The Company | 2 | Receivables from related parties | 4,673 | 30-60 days | - |
| | | The Company | 2 | Sales revenue | 4,005 | Normal | - |
| | | Cermate (Shenzhen) | 3 | Sales revenue | 85,779 | Normal | - |
| | | Cermate (Shenzhen) | 3 | Receivables from related parties | 26,681 | 30 days EOM | - |
| 34 | BBI | AEU | 3 | Receivables from related parties | 65 | 45 days EOM | - |
| | | AEU | 3 | Sales revenue | 87 | 45 days EOM | - |
| | | Conel Automation | 3 | Sales revenue | 19 | 45 days EOM | - |
| 35 | B+B (CZ) | B+B | 3 | Sales revenue | 16,617 | Normal | - |
| | | BBI | 3 | Receivables from related parties | 263 | 45 days EOM | - |
| | | BBI | 3 | Sales revenue | 1,581 | Normal | - |
| | | BBI | 3 | Other revenue | 608 | 45 days EOM | - |
| | | Conel Automation | 3 | Receivables from related parties | 452 | 45 days EOM | - |
| | | Conel Automation | 3 | Other receivables from related parties | 1,429 | 45 days EOM | - |
| | | Conel Automation | 3 | Other revenue | 2,975 | 45 days EOM | - |
| | | Conel Automation | 3 | Sales revenue | 1,800 | Normal | - |
| 36 | Conel Automation | B+B (CZ) | 3 | Interest revenue | 186 | Normal | - |
| 37 | Hangzhou Advantofine Automatin Tech. Co., Ltd. | ACN | 3 | Other receivables from related parties | 505 | 30 days after invoice date | - |
| 38 | Advanixs Kun Shan Corp. | AKMC | 3 | Receivables from related parties | 144,232 | 30 days EOM | - |
| | | AKMC | 3 | Sales revenue | 222,271 | 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.

(Continued)

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 to consolidated total assets as of December 31, 2016, while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended December 31, 2016.

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

(Concluded)

VI. Financial difficulties, if any, encountered by the Company and its affiliated companies in the most recent year and up to the publication of the annual report, and its impact on the Company's financial status: None

# **Seven.** Review and Analysis of Financial Conditions and Performance and Risk Management

## I. Financial Conditions:

Unit: NT$ Thousand

| Item \ Year | 2016 | 2015 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Current assets | 21,181,711 | 18,085,746 | 3,095,965 | 17 |
| Property, plant, and equipment | 10,089,836 | 9,576,879 | 512,957 | 5 |
| Intangible assets | 1,317,440 | 227,686 | 1,089,754 | 479 |
| Other assets | 5,949,966 | 6,088,822 | (138,856) | (2) |
| Total assets | 38,538,953 | 33,979,133 | 4,559,820 | 13 |
| Current liabilities | 11,435,611 | 9,242,530 | 2,193,081 | 24 |
| Noncurrent liabilities | 1,716,445 | 1,282,826 | 433,619 | 34 |
| Total liabilities | 13,152,056 | 10,525,356 | 2,626,700 | 25 |
| Capital stock | 6,330,841 | 6,318,531 | 12,310 | 0 |
| Additional paid-in capital | 6,058,884 | 5,587,555 | 471,329 | 8 |
| Retained earnings | 12,909,061 | 11,061,291 | 1,847,770 | 17 |
| Other equity | (85,204) | 340,124 | (425,328) | (125) |
| Non-controlling equity | 173,315 | 146,276 | 27,039 | 18 |
| Total equity | 25,386,897 | 23,453,777 | 1,933,120 | 8 |

## II. Unconsolidated

Unit: NT$ Thousand

| Item \ Year | 2016 | 2015 | Increased or decreased amount | Ratio change (%) |
|---|---|---|---|---|
| Operating income | 42,002,198 | 38,000,582 | 4,001,616 | 11 |
| Operating cost | 24,884,649 | 22,655,592 | 2,229,057 | 10 |
| Gross profit | 17,117,549 | 15,344,990 | 1,772,559 | 12 |
| Operating expense | 10,486,056 | 9,416,483 | 1,069,573 | 11 |
| Operating profit | 6,631,493 | 5,928,507 | 702,986 | 12 |
| Non-operating income and expense | 465,872 | 361,028 | 104,844 | 29 |
| Net income before tax | 7,097,365 | 6,289,535 | 807,830 | 13 |
| Income tax expense | 1,408,411 | 1,162,560 | 245,851 | 21 |
| Net income | 5,688,954 | 5,126,975 | 561,979 | 11 |
| Annual other comprehensive profit and loss (Net) | (465,097) | (598,879) | 133,782 | (22) |
| Annual total comprehensive net income | 5,223,857 | 4,528,096 | 695,761 | 15 |
| Net income attributable to the shareholder’s equity of the parent company | 5,666,862 | 5,104,346 | 562,516 | 11 |
| Total comprehensive profit and loss attributable to the shareholder’s equity of the parent company | 5,217,251 | 4,524,603 | 692,648 | 15 |

## III. Cash Flow

### (I) Liquidity Analysis within the last 2 years

| Cash balance – beginning | Estimated annual net cash flow from operating activities | Estimated annual cash outflow | Cash balance (deficit) - | Contingency plans for insufficient cash | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financial Plan |
| 4,358,259 | 8,014,575 | (7,468,112) | 4,637,577 | -- | -- |

### (II) Cash liquidity analysis for next year

| Cash balance – beginning | Estimated annual net cash flow from operating activities | Estimated annual cash outflow | Cash balance (deficit) - | Contingency plans for insufficient cash | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financial Plan |
| 4,637,577 | 7,449,545 | (7,034,137) | 5,052,985 | -- | -- |

IV. The impact of material capital expenditure on financial business in the most recent year:

| Project | Actual or intended financing | Actual or intended completion date | Total funds needed | Actual or intended use of funds | | |
|---|---|---|---|---|---|---|
| | | | | 104 | 105 | 106 |
| Plant purchase (construction) – Linkou Campus Phase 1* | Equity fund | 103.03.31 | 1,232,963 | 17, 575 | 4, 296 | － |
| Plant purchase (construction) - Linkou Campus Phase 2 | Equity fund | 105.12.31 | 1,755,450 | 789, 734 | 829, 877 | － |
| Overseas reinvestment -B+B | Equity fund & Bank loan | 105.01.31 | 3,296,048 | 2, 279, 881 | 944, 831 | － |
| Overseas reinvestment – Advanixs Kun Shan Corporation. | Equity fund | 105.Q2 | 480,000 | － | 424, 601 | － |
| Domestic reinvestment - AI Mobile Co. | Equity fund | 105.12.31 | 450,000 | － | 135, 000 | － |
| Domestic reinvestment - Kostec | Equity fund | | | － | － | 102, 517 |

* Linkou Campus Phase 1 was a decision made by the Board of Directors in 2000, and the funds had been invested in the construction.

(I) Advantech Linkou Campus: In response to the global carbon reduction requirements and the development of networking technology, the Advantech Campus in Linkou was built into a pioneering experimental field of smarter buildings so as to realize the two iBuilding Solutions composed of intelligent energy management and intelligent space management.

(II) Overseas reinvestment (B+B): The company's intention was to become the leading brand of Industrial Connectivity products and to expand the market of Industrial Connectivity to full scale.

Overseas reinvestment (Advanixs Kun Shan Corporation. ): The acquisition will be integrated into the planning for the future production line configuration, the establishment of the machinery plant, and Advantech Group's development in China.

Overseas reinvestment (Kostec): The combination of Kostec's medical display expertise and its great business exposure in South Korean, Southeast Asian, and North American markets, together with Advantech's global brand and comprehensive sales, marketing, and services network in Europe, Greater China, the Middle East, and Australia, will enable Advantech to grow and develop even faster in the smart medical field.

(III) Domestic reinvestment (AI Mobile Co.)；On March 22, 2016, the Board of Directors made the decision to sign the strategic alliance agreement with Inventec Corp, therefore founded a joint venture, "AI Mobile Co." Established with cash, the new company has paid-in capital of NT$1 billion. Inventec owns a 55 percent share of the firm and Advantech 45 percent. The company is to develop, produce, and sell industrial wireless handheld devices, the applications of which include retail, automotive, medical and other vertical markets.

V. Reinvestment policy in the most recent year, the reasons for profit or loss resulted, its improvement plan, and next year's investment plan:

Advantech adopts reinvestment of equity method with all focusing on long-term strategic purposes; in 2016, the profits of Advantech reinvestment of equity method reached NT$ 65,562, with an increase of NT$ 44,664 compared to the previous year, which resulted from the recognition of Axiomtek Co., Ltd.. In the future, Advantech will hold the principle of long-term strategic investment and continue assessing carefully reinvestment plans.

VI. Risk analysis and evaluation

(I) Interest rates, exchange rates, and inflation, their impact on the Company's profit or loss, and future countermeasures:

The Company has sufficient proprietary capital and sound financial structure; therefore, is from the risk of increasing capital cost.

The capital planning is based on a conservative and sound principle with the focus on the security and mobility; also, regularly evaluate money market rates and financial information.

In terms of exchange rate, the Company has a clear foreign exchange policy stipulated; also, a strict control of the procedures is for hedging risk instead of adopting active operation to gain profits.

In terms of inflation, the main sales markets of the Company are without any sign of inflation in recent years, which has not significant impact on the Company's operations.

(II) Engage in the policies of high-risk, highly-leveraged investments, loaning of funds, endorsements and guarantees, and derivative transactions, the reasons for profit or loss resulted, and the future countermeasures:

The Company has each investment project evaluated prudently and handled in accordance with the "Procedures for the Acquisition and Disposal of Assets" and the limits of authority without engaging in any high-risk and highly-leveraged investments.

In terms of loaning of funds and making of endorsements/guarantees, it is mainly arranged for the subsidiaries and sub-subsidiaries of the Company; also, it is to be processed in accordance with the Company's "Procedures for Loaning of Funds" and "Procedures for Making of Endorsements/Guarantees."

In terms of financial derivatives, the purpose is to hedge the exchange rate risks arising from business operation; also, it is to be processed in accordance with the Company's "Procedures for the Trading of Financial Derivatives."

(III) Future R&D plans and the projected R&D investment:

1. Future R&D plans:

With the concept of sharing economy, Advantech as a platform and biological system will load the key technologies and solutions on the platform to share with customers, who can make the value maximum, reduce the threshold of transferring to industrial intelligence and popularize IoT to all industries. Our key R&D items in 2017 will be described as follows:

M2.COM is an open interface standard for the connection of wireless communication module and system motherboard. For communication technology, it can support Bluetooth, Wi-Fi, IEEE 802.15.4 and long-distance communication for many Sub-1GHz. For the embedded OS, not only can select the embedded OS proposed by ARM but also choose Real-time Operating System (RTOS) developed by the micro control unit (MCU) suppliers. The developers can easily change the product specifications and features by changing the modules to speed up the product development and save the cost. The M2.com modules in support of Wi-Fi have been commercialized. Until the upper half of 2017, we will still continuously promote support to meet the customer's demands in all applications.

We continuously invest to develop the WISE-PaaS platform. In order to strengthen the completeness of software service, we will build the WISE-PaaS Marketplace in 2017 to sell software from the third party. In the meantime, we also develop the Edge Intelligence Server to carry customer's software in advance, solving the difficulty in downward acquiring data and opening upward value-added application interface from data acquisition, remote management to data analysis. Customers can build the IoT applications by the simple steps.

We also cooperate with our supply-chain partners by Sector-Lead to develop the Solution

Ready Platform (SRP), including smart factory, smart retail, smart medical treatment, digital logistics and energy saving, which will speed up the solutions into practice.

2. The projected R&D investment: 10% of the annual turnover

(IV) The impact of significant changes in domestic and foreign policies and law on the Company's financial operations and the countermeasures:

There had not any significant changes in domestic and foreign policies and law that had a significant impact on the Company in the most recent year. In addition to irregularly collect and assess the impact of significant changes in domestic and foreign policies and law on the Company's finance and business operation, the Company will consult relevant professionals to take countermeasures in a timely manner.

(V) The impact of changes in technology and industry on the Company's financial operations and the countermeasures:

With the rise of IoT, the global embedded market will also change, including: diversified CPU, the market demand from the hardware board to the integrated system, the transfer of global embedded suppliers from the European brands to the Asian ones as well as the move from the commercial model of manufacture and design in the past to the sale model of IoT concept. The four technologies to achieve IoT include sensor, wireless technology, IoT-PaaS, Big Data analysis and so on.

We make great investments on the software resources from the hardware company in the past to the hardware + software one. It will be expected in 2030 our software and solution business will contribute over 50% of revenue. The profit margin will be higher 40% than the current one.

We have established the targets to develop IoT in three phases. The first phase is IoT Devices, based on IoT's infrastructure and intelligent hardware platform, which are our advantages in many years; we have entered the second phase with IoT SRP (Solution Ready Platform), not only devoting to the integration of hardware and software platform but also reducing the workload of building the application for the system integrator; we will continuously move to IoT Cloud Services in the third phase, cooperating with partners in different fields to provide customized cloud services and IoT solutions.

(VI) The impact of changes in corporate image on the crisis management of the Company and the countermeasures:

The Company is with a good corporate image. In addition to irregularly receive domestic and international juristic persons, technical symposium and corporate seminars are held on a regular basis to help the investors and customers understand the Company.

(VII) The expect benefit of initiating acquisition, the possible risks, and the countermeasures:

1. On November 16, 2015, the Board of Directors made the decision to acquire B+B SmartWorx Inc. with Advantech's subsidiary company, Advantech Corp., for US$99.85 million, possessing 100 % stake of B+B SmartWorx Inc. This acquisition aimed to make Advantech the leading brand of Industrial Connectivity, and Advantech will expand its Industrial Connectivity product portfolio and increase its global market share by leveraging B+B SmartWorx. The Industrial Connectivity products of B+B SmartWorx will complement those of Advantech since they enjoy brand awareness and sales channels in the US, Europe and the Middle East. In the future, advantages of both sides will be integrated to complement each other in the hope of making a full expansion in the Industrial Connectivity market.

2. On March 4, 2016, the Board of Directors made the decision to agree that HK Advantech Technology Co. Limited acquired Yeh-Chiang Kunshan Technology Corp. with less than 93.5 million yuan and its 100 % stake. The purpose of this acquisition is considering the production line of painting, the fact that Chinese government has tightened the control over environmental protection, fire protection, and security, the future establishment of Type C machinery plant, and

the space reserved for the future development in China.

3. Advantech and Inventec Appliance Corp set up a joint venture, AI Mobile Co.. Inventec owns a 55 percent share of the firm, with Advantech holding the rest 45 percent, and it is a phase-wise investment. The purpose is to combine Advantech's brand awareness, its industrial fields, and the global sales channels with Investec's expertise in wireless handheld devices' software and hardware design and its advantages in producing and material purchasing so as to share the global market share of industrial wireless handheld devices.

4. Advantech and Advantech KR Co., Ltd. announced it will acquire a 60% stake in South Korea's medical display company Kostec. The combination of Kostec's medical display expertise and its great business exposure in South Korean, Southeast Asian, and North American markets, together with Advantech's global brand and comprehensive sales, marketing, and services network in Europe, Greater China, the Middle East, and Australia, will enable Advantech to grow and develop even faster in the smart medical field.

5. The above acquisitions were all carefully assessed by the Board, the possible risks of which may include the overall recession in the market and the demand falling short of expectations. In response to the risks, Advantech reduces costs by actively developing the innovative product technology and makes every effort to secure market share to maintain the stability of the company's revenue growth rate.

6. Lately and as of the date of printing the annual report, apart from the above matters, Advantech and its subsidiaries has had no other acquisition plans.

(VIII) The expected benefits of a plant expansion, the possible risks, and the countermeasures:

We had completed the construction of Linko phase2 building last year, with floor space around 60,000 square meters. It will be the integration manufacturing center of Advantech in Taiwan. We moved Hsintien and Donghu board plant to Linko for the first stage integration. To fulfill business growth and keep the self-manufacturing strategy, we build a new SMT line and many iFactory solutions. About the production in Kunshan, we plan to build two plants for the capacity expansion of chassis factory. In conclusion, our planning with the area/factory can fulfill the growth for at least ten years, and the investment of equipment will be according with products and business requirement, to ensure the balancing of business fulfillment and capacity stability.

(IX) Risks faced by the centralized purchase or sales and the countermeasures:

The Company's main source of raw materials is from the well-known domestic and international manufacturers that have a good reputation and product quality; also, have maintained a stable relation of cooperation with the Company and provide a stable supply of raw materials. In terms of sales, the Company is a market leader in brand with a smooth sales channel I service; therefore, the Company is free of any risk from the centralized purchase and sale.

(X) The impact of the massive equity transfer or exchange by the directors, supervisors, or shareholders holding more than 10% shareholding on the Company, the risk, and the countermeasures: None

(XI) The impact of the changes in the ownership on the Company, the risk, and the countermeasures: None

(XII) For litigation or non-litigation events, the closed or in-pending material litigation, non-litigation, or administrative contentious events, which may have a significant impact on the shareholder's equity or security price, of the Company, the Company's directors, supervisors, President, responsible person, shareholders holding more than 10% shareholding, and the subsidiaries should be illustrated: None

(XIII) Other important risks and countermeasures: None

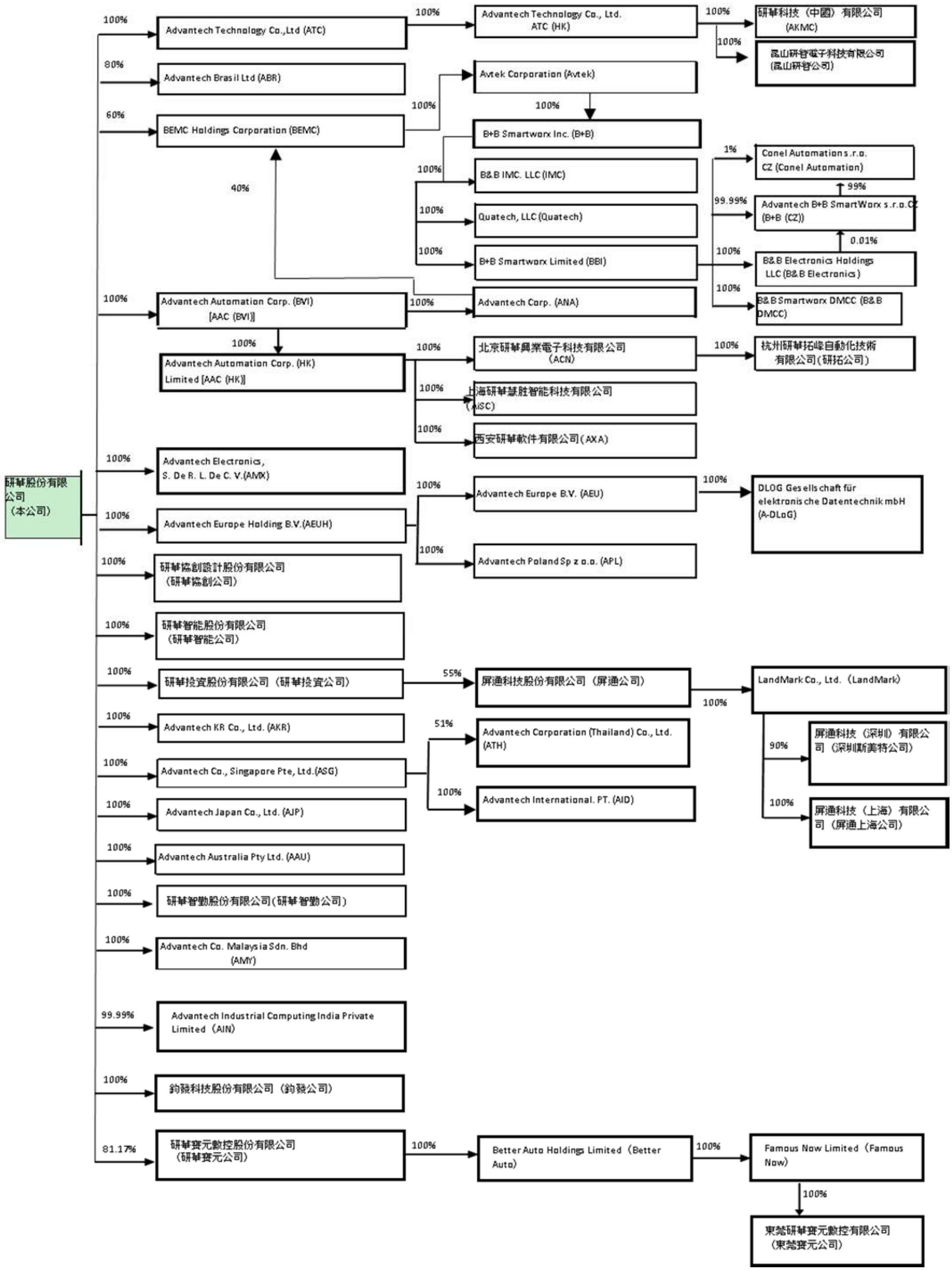
VII. Other Important matters: None

## pplementary disclosures

# I. Affiliated company's information

## (I) Affiliated company's Consolidated Business Report

### Organization Chart of the Affiliated Companies



2. Basic information of affiliated companies

Unit: NT$ Thousand

| No. | Name | Establishing Date | Address | Paid-in capital | Main Business or Production Items |
|---|---|---|---|---|---|
| 01 | Advanixs Corporation. | Jan. 2006 | Taipei | NTD360,000 | Manufacturing, marketing, and trade of industrial use PC |
| 02 | Advantech Corporate Investment | Feb. 2000 | Taipei | NTD1,500,000 | Investment in marketable securities |
| 03 | Hangzhou Advantofine Automation Tech Co.,Ltd. | Sep. 2007 | Hangzhou | RMB3,000 | Processing and sale of computer peripheral components |
| 04 | Advantech Co. Singapore Pte, Ltd. (ASG) | Dec. 1995 | Techplace, Singapore | SGD1,450 | Marketing and trade of industrial use PC |
| 05 | Advantech Japan Co.,Ltd. (AJP) | Sep. 1997 | Tokyo, Japan | JPY60,000 | Marketing and trade of industrial use PC |
| 06 | Advantech Australia Pty Ltd. (AAU) | Dec. 1994 | Sydney, Australia | AUD500 | Marketing and trade of industrial use PC |
| 07 | Advantech Co. Malaysia Sdn. Bhd (AMY) | Mar. 2006 | Malaysia | MYR2,000 | Marketing and trade of industrial use PC |
| 08 | Advantech Europe Holding B.V. (AEUH) | Dec. 1995 | Helmond, The Netherlands | EUR11,364 | Overseas investment of manufacturing and service industry |
| 09 | Advantech Technology Co., Ltd. (ATC) | Sep. 1998 | British Virgin Islands | USD33,850 | Marketing and trade of industrial use PC |
| 10 | Advantech Automation Corp.(AAC（BVI）) | Mar. 2000 | British Virgin Islands | USD29,623 | Overseas investment of manufacturing and service industry |
| 11 | Advantech Europe B.V.(AEU) | Jun. 1998 | Helmond, The Netherlands | EUR12,572 | Marketing and trade of industrial use PC |
| 12 | Advantech Poland Sp. z.o.o(APL) | Jan. 2006 | Warsaw, Poland | PLZ1,000 | Marketing and trade of industrial use PC |
| 13 | Advantech Technology (China) Company., Ltd.(AKMC) | Jan. 2006 | Jiangsu Province | USD43,750 | Marketing and trade of industrial use PC |
| 14 | Advantech Corporation (ANA) | Aug. 1987 | Sunnyvale, USA | USD11,139 | Assembly, marketing, and trade of industrial use PC |
| 15 | Beijing Yan Hua Xing Ye Electronics Science &Technology Co., Ltd. (ACN) | Apr. 1994 | Beijing City | USD4,230 | Marketing and trade of industrial use PC |
| 16 | Advantech Technology (HK) Co., Limited(ATC HK) | Apr. 2008 | Hong Kong | USD57,891 | Overseas investment of manufacturing and service industry |
| 17 | Advantech Automation Corp.(HK) Limited (AAC HK) | Dec. 2007 | Hong Kong | USD15,230 | Overseas investment of manufacturing and service industry |
| 18 | Shanghai Advantech Intelligent Services Co., Ltd. (AiSC) | Sep. 2008 | Shanghai City | USD8,000 | Marketing and trade of industrial use PC |
| 19 | Xi'An Advantech Software Co., Ltd. (AXA) | Sep. 2008 | Xi'an | USD1,000 | Marketing and trade of industrial use PC |
| 20 | Advantech Brazil S/A (ABR) | Apr. 2000 | Sao Paulo, Brazil | BRL2,244 | Marketing and trade of industrial use PC |
| 21 | Advantech Intelligent Service. | Dec. 2009 | Taipei City | NTD100,000 | Marketing and trade of industrial use PC |
| 22 | Advantech KR Co., Ltd. | Feb. 2009 | Seoul Korea | KRW300,000 | Marketing and trade of industrial use PC |
| 23 | DLoG GmbH | Oct. 1984 | Munich, Germany | EUR512 | The industrial on-board computer product design, R&D, sales, and trading |

| No. | Name | Establishing date | Address | Paid-in capital | Main Business or Production Items |
|---|---|---|---|---|---|
| 24 | Cermate Technology Inc. | Mar. 2003 | Taipei City | NTD100,000 | Electronic Components Manufacturing Industry |
| 25 | Advantech Corporation (Thailand) Co., Ltd. | Aug. 2004 | Thailand | THB10,000 | The production and manufacturing of computer products |
| 26 | LandMark Co., Ltd. | May. 2007 | Samoa | USD977 | Investment company |
| 27 | Cermate Technologies (Shanghai) Inc. | Aug. 2007 | Shanghai City | RMB3,903 | Networking Electronic Equipment for industrial use |
| 28 | Shenzhen Cermate Technologies Inc. | Nov. 2003 | Shenzhen City | RMB2,000 | The production of LCD touch screen, USB data cable, and industrial use PC |
| 29 | PT. Advantech International (AID) | Mar.2012 | Indonesia | USD300 | Marketing and trade of industrial use PC |
| 30 | Advantech Industrial Computing India Pvt. Ltd. (AIN) | Dec. 2012 | India | INR10,000 | Marketing and trade of industrial use PC |
| 31 | Advantech Electronics, S.De R.L.De C. (AMX) | Dec. 2012 | Mexico | MXN2,057 | Marketing and trade of industrial use PC |
| 32 | AdvanPOS Technology Co., Ltd.. | Oct. 2005 | New Taipei City | NT204,380 | Manufacturing and trading of endpoint sales system |
| 33 | Advantech-LNC Technology Co.,Ltd. | Aug. 2007 | Taichung City | NT300,000 | manufacturing and trading of controllers |
| 34 | Better Auto Holdings Limited | Sep. 2007 | British Virgin Islands | USD8,556 | Investment company |
| 35 | Famous Now Limited | -- | British Virgin Islands | USD4,000 | Investment company |
| 36 | Dongguan Pou Yuen Digital Technology Co.,Ltd. Co., Ltd. | Sep. 2009 | Dongguan City | USD4,000 | The manufacturing and trading of controllers |
| 37 | Advantech InnoCo Design Co., Ltd | May.2015 | Taipei City | NT10,000 | product design |
| 38 | ADVANIXS KUN SHAN CORPORATION | Jun,2004 | Jiangsu Province | RMB99,515 | Manufacturing, marketing, and trade of industrial use PC |
| 39 | BEMC Holdings Corportation (BEMC) | 1981 | Delware,USA | 10 | Industrial network communication |
| 40 | Avtek Corporation. (Avtek) | 1981 | Delware,USA | - | Industrial network communication |
| 41 | B+B SmartWorx Inc.(B+B) | 1981 | Delware,USA | - | Industrial network communication |
| 42 | B+B SmartWorx Limited(BBI) | 1981 | Ireland | USD384,111 | Industrial network communication |
| 43 | B&B IMC, LLC.(IMC) | 1981 | Delware,USA | - | Industrial network communication |
| 44 | Quatech,LLC.(Quatech) | 1981 | Delware,USA | - | Industrial network communication |
| 45 | B&B Electronics Holdings LLC (B&B Electronics) | 1981 | Delware,USA | - | Industrial network communication |
| 46 | Advantech B+B SmartWorx s.r.o.CZ(B+B(CZ)) | 1981 | Czech Republic | - | Automatic control manufacturing |
| 47 | Conel Automation s.r.o. (Conel Automation) | 1981 | Czech Republic | - | Industrial network communication |
| 48 | B&B SmartWorx DMCC. (B&B DMCC) | 1981 | Dubi | - | Industrial network communication |

3. The Company does not have any other affiliated companies with a presumed controlling and dependency relationship according to Article 369.3 of the Company Law.
4. The overall affiliated company's business operation covers the assembly of the computer, the marketing and sales, the trade of electronic control automation system equipment, the manufacturing, trade, and production of automation control equipment engineering, and the overseas investment of the service industry.
   The division of labor among the affiliated companies is as follows:
   A. Purchase of finished goods (including three-way trade)
   B. Purchasing raw materials

5. Each affiliated company's Director, Supervisor, and President:

| No. | Company Name | Title | Name or representative | Shareholding | |
|---|---|---|---|---|---|
| | | | | Shares or investment amount (NT$ housand) | Shareholding or investment ratio (%) |
| 01 | Advanixs Corporation. | Director | Representatives of Advantech: K.C. Liu , MingChin Wu, Eric Chen | 36,000,000 shares | 100 |
| | | Supervisor | Representatives of Advantech: Jessica Tsai | | |
| 02 | Advantech Corporate Investment . | Director | Representatives of Advantech: K.C. Liu, Mary Chang, Mary Chang | 150,000,000 shares | 100 |
| | | Supervisor | Representatives of Advantech: Jessica Tsai | | |
| 03 | Hangzhou Advantofine Automation Tech Co.,Ltd. | Director | Chi Hsu (To-Feng), Jun Liu (To-Feng), Chaney Ho (Advantech), Nan Chi (Advantech) | RMB 3,000 | 60 |
| | | Supervisor | Jun Shi (Advantech), Yen Pu (To-Feng) | | |
| 04 | Advantech Co. Singapore Pte, Ltd. (ASG) | Director | Representatives of Advantech: K.C. Liu, David Soon | 1,450,000 shares | 100 |
| 05 | Advantech Japan Co., Ltd. (AJP) | Director | Representatives of Advantech: K.C. Liu, Eric Chen | 1,200 shares | 100 |
| | | Supervisor | Representatives of Advantech: Mary Chang | | |
| | | President | Chaney Ho | | |
| 06 | Advantech Australia Pty Ltd. (AAU) | Director | Representatives of Advantech: David Soon, Santo Gazzo | 500,204 shares | 100 |
| 07 | Advantech Co. Malaysia Sdn. Bhd (AMY) | Director | Representatives of Advantech: K.C. Liu, David Soon, Chaney Ho, Ng Hock Chuan, Choong Beng Chou | 2,000,000 shares | 100 |
| 08 | Advantech Europe Holding B.V. (AEUH ) | Director | Representatives of Advantech: K.C. Liu | 12,572,024 shares | 100 |
| 09 | Advantech Technology Co., Ltd. (ATC) | Director | Representatives of Advantech: K.C. Liu | 33,850,000 shares | 100 |
| 10 | Advantech Automation Corp.(AAC BVI) | Director | Representatives of Advantech: K.C. Liu | 29,623,834 shares | 100 |
| 11 | Advantech Europe B.V.(AEU) | Director | Representatives of Advantech Europe Holding B.V.: K.C. Liu | 11,314,280 shares | 100 |
| 12 | Advantech Poland Sp. z.o.o(APL) | Director | Representative of Advantech Europe Holding B.V.: Jeff Shy | 6,350 shares | 100 |
| 13 | Advantech Technology (China) Company., Ltd. (AKMC) | Director | Representative of Advantech Europe Holding B.V.: K.C. Liu, Shun-Long Chen, Chaney Ho | USD43,750 shares | 100 |
| 14 | Advantech Corporation (ANA) | Director | Representative of Advantech Automation Corp.: K.C. Liu | 10,952,606 shares | 100 |
| 15 | Beijing Yan Hua Xing Ye Electronics Science &Technology Co., Ltd (ACN) | Director | Representative of Advantech Automation Corp.: K.C. Liu, Chaney Ho, Shih-Yang Tsai | USD4,230 | 100 |
| 16 | Advantech Technology( HK) Co., Limited (ATC HK) | Director | K.C. Liu | 41,650,001 shares | 100 |
| 17 | Advantech Automation Corp.(HK) Limited (AAC HK) | Director | Representative of Advantech Automation Corp.: K.C. Liu | 15,230,001 shares | 100 |

| No. | Company Name | Title | Name or representative | Shareholding | |
|---|---|---|---|---|---|
| | | | | Shares or investment amount (NT$ housand) | Shareholding or investment ratio (%) |
| 18 | Shanghai Advantech Intelligent Services Co., Ltd. AiSC | Director | Representative of Advantech Automation Corp.(HK): K.C. Liu | USD8,000 | 100 |
| | | Supervisor | Eric Chen | | |
| | | President | Chaney Ho | | |
| 19 | Xi'An Advantech Software Co., Ltd. AXA | Director | Representative of Advantech Automation Corp.(HK): K.C. Liu | USD1,000 | 100 |
| | | Supervisor | Chaney Ho | | |
| 20 | Advantech Brazil S/A (ABR) | Director | Advantech Co., Ltd. Representative:Mario Franco Neto | 1,794,996 shares | 80 |
| 21 | Advantech Intelligent Service. AiST | Director | Representatives of Advantech: K.C. Liu, MingChin Wu,Deryu Yin | 10,000,000 shares | 100 |
| | | Supervisor | Jessica Tsai | | |
| 22 | Advantech KR Co., Ltd. | Director | Representatives of Advantech: K.C. Liu, ChaneyHo, YJ Choi | 600,000 shares | 100 |
| | | Supervisor | Representatives of Advantech: Eric Chen | | |
| 23 | DLoG GmbH (A-DLoG) | President | K.C. Liu | 1 share | 100 |
| 24 | Cermate Technology Inc.. | Director | Representatives of Advantech Corporate Investment.: Jonney Chang,Allan Tsai, Tony Liu<br>Representative of Wen Xin International Investment Company: Sunny.Lee, Chris Chiang | 5,500,000 shares | 55 |
| | | Supervisor | Yuzhen Liu | | |
| 25 | Advantech Corporation (Thailand) Co., Ltd. | Director | Representative of Advantech Co. Singapore Pte, Ltd.: KC. Liu, David Soon | 51,000 shares | 51 |
| 26 | LandMark Co., Ltd. | Director | Yuling Liu | 972,284 shares | 100 |
| 27 | Cermate Technologies (Shanghai) Inc. | Director | Sunny.Lee | USD572 | 100 |
| | | Supervisor | Jun Shi | | |
| 28 | Shenzhen Cermate Technologies Inc. | Director | Sunny.Lee | USD308 | 90 |
| | | Supervisor | Chris Chiang | | |
| 29 | PT. Advantech International (AID) | Director | Representative of Advantech Co. Singapore Pte, Ltd. (ASG): K.C. Liu | 300,000 shares | 100 |
| 30 | Advantech Industrial Computing India Pvt. Ltd. (AIN) | Director | Representative of Advantech: K.C. Liu, Chaney Ho | 999,999 shares | 99.99 |
| 31 | Advantech Electronics, S.De R.L.De C. (AMX) | Director | Representative of Advantech Corporation.(ANA): K.C. Liu | MNX2,057 | 100 |
| 32 | AdvanPOS Technology Co., Ltd. | Director | Representative of Advantech: K.C. Liu, Mary Chang, Kenny Deng | 20,438,000 shares | 100 |
| | | Supervisor | Representatives of Advantech: Jessica Tsai | | |

| No. | Company Name | Title | Name or representative | Shareholding | |
|---|---|---|---|---|---|
| | | | | Shares or investment amount (NT$ Thousand) | Shareholding or investment ratio (%) |
| 32 | AdvanPOS Technology Co., Ltd. | Director | Representative of Advantech: K.C. Liu, Mary Chang, Kenny Deng | 20,438,000 shares | 100 |
| | | Supervisor | Representatives of Advantech: Jessica Tsai | | |
| 33 | Advantech LNC Technology Co., Ltd. | Director | Representative of Advantech: K.C. Liu, Allan Tsai, Michael Kuo | 24,350,000Shares | 81.17 |
| | | Supervisor | Representatives of Advantech: Jessica Tsai | | |
| 34 | Better Auto Holdings Limited | Director | Representative of Advantech LNC Technology Co., Ltd.: K.C. Liu | USD8,556 | 100 |
| 35 | Famous Now Limited | Director | Representative of Better Auto Holdings Limited: K.C. Liu | USD4,000 | 100 |
| 36 | Dongguan Pou Yuen Digital Technology Co.,Ltd. | Director | Representative of Famous Now Limited: K.C. Liu, Allan Tsai, Michael Kuo | USD4,000 | 100 |
| 37 | Advantech InnoCo Design Co., Ltd | Director | Chaney Ho,Deryu Yin,EricChen | 1,000,000股 | 100 |
| | | Supervisor | Jessica Tsai | | |
| 38 | ADVANIXS KUN SHAN CORPORATION | Director | HK Advantech Technology Co., Limited.. Representative: K.C.Liu, MingChin Wu, Shunlang Chen. | RMB99,515 | 100 |
| 39 | BEMC Holdings Corportation (BEMC) | Director | Advantech Co.,Ltd. Representative: K.C.Liu | 10股 | 100 |
| 40 | Avtek Corporation. (Avtek) | Director | Advantech Co.,Ltd. Representative: K.C.Liu | - | 100 |
| 41 | B+B SmartWorx Inc.(B+B) | Director | Advantech Co.,Ltd. Representative: K.C.Liu | USD384,111 | 100 |

## 6. Affiliated company's Operating Results

Unit: NT$ Thousand, Except Earnings per Share in NT$

| No. | Company Name | Capital stock | Total assets | Total liabilities | Net worth | Operating income | Operating profit (loss) | Net Income (Loss) | EPS (Loss) / NT$ (after tax) |
|---|---|---|---|---|---|---|---|---|---|
| 01 | Advanixs Corporation. | 360,000 | 2,550,054 | 1,561,556 | 988,498 | 6,247,190 | 600,752 | 486,566 | 13.52 |
| 02 | Advantech Corporate Investment . | 1,500,000 | 1,779,114 | 137,960 | 1,641,154 | 612,832 | 28,631 | 34,108 | 0.23 |
| 03 | Hangzhou Advantofine Automation Tech Co.,Ltd. | 22,970 | 16,842 | 1,888 | 14,954 | 17,373 | (6,681) | (6,478) | - |
| 04 | Advantech Co. Singapore Pte, Ltd. (ASG) | 33,800 | 150,543 | 73,193 | 77,350 | 367,862 | 917 | 4,789 | 3.30 |
| 05 | Advantech Japan Co., Ltd. (AJP) | 21,480 | 501,828 | 272,084 | 229,744 | 1,120,577 | 74,145 | 45,585 | 37,987 |
| 06 | Advantech Australia Pty Ltd. (AAU) | 14,846 | 142,317 | 100,730 | 41,587 | 367,354 | 812 | 5,705 | 11.41 |
| 07 | Advantech Co., Malaysia Sdn.Bhd (AMY) | 18,138 | 94,322 | 52,237 | 42,085 | 220,699 | 26,707 | 19,416 | 9.71 |
| 08 | Advantech Europe Holding B.V. (AEUH) | 338,906 | 945,838 | 3,333 | 942,505 | - | (642) | 17,978 | 1.43 |
| 09 | Advantech Technology Co., Ltd. (ATC) | 1,009,108 | 3,264,528 | 14,971 | 3,249,557 | - | (147,631) | 104,114 | 3.08 |
| 10 | Advantech Automation Corp. (AAC(BVI)) | 896,862 | 4,172,324 | 6,237 | 4,166,087 | - | (1,462) | 429,541 | 14.50 |
| 11 | Advantech Europe B.V. (AEU) | 312,019 | 2,248,365 | 1,394,479 | 853,886 | 5,531,016 | 80,904 | (17,819) | (1.57) |
| 12 | Advantech Poland Sp z.o.o(APL) | 10,145 | 29,128 | 7,804 | 21,324 | 76,325 | 2,631 | 801 | 126.14 |
| 13 | Advantech Technology (China) Company., Ltd. AKMC | 1,475,414 | 5,081,689 | 2,382,181 | 2,699,508 | 10,518,360 | 295,839 | 235,499 | - |
| 14 | Advantech Corporation (ANA) | 337,232 | 4,322,156 | 2,031,793 | 2,290,363 | 11,075,702 | 383,662 | 236,063 | 21.55 |
| 15 | Beijing Yan Hua Xing Ye Electronics Science&Technology Co.,Ltd. | 164,856 | 2,721,790 | 1,597,712 | 1,124,078 | 8,630,893 | 217,190 | 199,635 | - |
| 16 | Advantech Technology(HK) Co., Limited (ATC HK) | 1,790,224 | 3,143,379 | - | 3,143,379 | - | - | 251,893 | 6.05 |
| 17 | Advantech Automation Corp.(HK) Limited (AAC HK) | 461,088 | 1,885,100 | 10,114 | 1,874,986 | 23,910 | 503 | 194,940 | 12.80 |
| 18 | Shanghai Advantech Intelligent Services Co., Ltd. AiSC | 252,065 | 977,004 | 236,581 | 740,423 | 1,119,618 | 20,773 | 28,343 | - |
| 19 | Xi'An Advantech Software Co., Ltd. AXA | 31,589 | 52,937 | 45,166 | 7,771 | 40,732 | (33,716) | (33,654) | - |
| 20 | Advantech Brazil S/A (ABR) | 39,595 | 123,658 | 33,598 | 90,060 | 222,727 | 13,973 | 24,253 | 13.51 |
| 21 | Advantech Intelligent Service. AiST | 100,000 | 119,570 | 34,375 | 85,195 | 142,549 | (29,914) | (23,860) | (2.38) |
| 22 | Advantech KR Co., Ltd.（AKR） | 7,800 | 496,521 | 218,294 | 278,227 | 1,464,120 | 85,626 | 63,563 | 105.94 |
| 23 | DLoG GmbH (DLoG) | 20,060 | 427,456 | 139,345 | 288,111 | 1,313,917 | (55,629) | (34,598) | - |
| 24 | Cermate Technology Inc. | 100,000 | 211,654 | 56,125 | 155,529 | 209,255 | 18,271 | 27,681 | 2.77 |
| 25 | Advantech Corporation（Thailand）Co., Ltd.（ATH） | 9,557 | 44,923 | 9,890 | 35,033 | 88,977 | 5,355 | 4,410 | 86.47 |
| 26 | Land Mark | 27,057 | 75,950 | - | 75,950 | - | - | 15,296 | 15.73 |

| No. | Company name | Capital stock | Total assets | Total liabilities | Net worth | Operating income | Operating profit (loss) | Net Income (Loss) | EPS (Loss) / NT$ (after tax) |
|---|---|---|---|---|---|---|---|---|---|
| 27 | Cermate Technologies (Shanghai) Inc. | 18,760 | 23,090 | 2,221 | 20,869 | 33,096 | (512) | (387) | - |
| 28 | Shenzhen Cermate Technologies Inc. | 9,614 | 94,672 | 35,668 | 59,004 | 203,529 | 25,105 | 17,450 | - |
| 29 | PT. ADVANTECH INTERNATIONAL (AID) | 5,465 | 11,008 | 8,690 | 2,318 | 21,073 | (3,442) | (1,768) | (5.89) |
| 30 | ADVANTECH INDUSTRIAL COMPUTING INDIA (AIN) | 2,904 | 36,020 | 33,459 | 2,561 | 52,082 | (15,150) | (11,974) | (11.97) |
| 31 | Advantech Electronics, S. De R. L. De C. (AMX) | 2,047 | 735 | 141 | 594 | 3,438 | (771) | (771) | - |
| 32 | AdvanPOS Technology Co., Ltd. | 204,380 | 862,929 | 494,140 | 368,789 | 1,174,614 | 82,866 | 224,493 | 10.98 |
| 33 | Advantech LNC Technology Co., Ltd. | 300,000 | 422,921 | 94,831 | 328,090 | 375,112 | 33,417 | 11,514 | 0.38 |
| 34 | Better Auto Holdings Limited | 264,445 | 90,088 | 2,700 | 87,388 | - | (2,604) | (11,912) | - |
| 35 | Famous Now Limited | 123,630 | 158,227 | 171 | 158,056 | - | - | - | - |
| 36 | Dongguan Pou Yuen Digital Technology Co.,Ltd. | 123,630 | 187,598 | 144,752 | 42,846 | 303,053 | (11,694) | (11,232) | - |
| 37 | Advantech InnoCo Design Co., Ltd | 10,000 | 10,913 | 1,280 | 9,633 | 7,471 | (2,501) | 1,054 | 1.05 |
| 38 | ADVANIXS KUN SHAN CORPORATION | 492,500 | 273,123 | 95,656 | 177,467 | 222,271 | 29,114 | 29,532 | - |
| 39 | BEMC Holdings Corportation (BEMC) | 3,280,073 | 3,636,581 | 370,239 | 3,266,342 | 1,555,634 | 33,205 | 51,248 | 5,124,800 |
| 40 | B+B SmartWorx Inc.(B+B) | 3,280,073 | 3,293,102 | 308,276 | 2,984,826 | 1,024,205 | (15,170) | 51,248 | 133.42 |
| 41 | B+B SmartWorx Limited (BBI) | 1,273,262 | 129,678 | 1,384 | 128,294 | 165,913 | (20,178) | (18,082) | - |
| 42 | Advantech B+B SmartWorx s.r.o.CZ(B+B CZ) | - | 176,223 | 34,224 | 141,999 | 324,511 | 70,602 | 47,792 | - |
| 43 | Conel Automation s.r.o. (Conel Automation) | - | 37,578 | 26,355 | 11,223 | 41,005 | (2,049) | (5,510) | - |

(II) The companies to be included in the affiliate's consolidated financial statements are same as the companies to be included in the parent company-subsidiary consolidated financial statements in accordance with Article 7 of the "Taiwan's Financial Accounting Standards;" therefore, the affiliate's consolidated financial statements will not be prepared separately.

(III) The Company is not a subsidiary of other companies; therefore, it is not necessary to have the relationship report prepared.

II. The status of issuing private placement securities in the most recent year and up to the publication of the annual report: None

III. Acquisition or disposal of the Company's stock shares by subsidiaries in the most recent year and up to the publication of the annual report: None

IV. Other necessary supplementary notes: None

Nine. The occurrence of any events as stated in Section 3 Paragraph 2 in Article 36 of the Securities Exchange Act that had significant impact on shareholders' equity or securities prices in the most recent year and up to the publication of the annual report: None

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Advantech Co., Ltd.

K.C. Liu , Chairman

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