

Advantech Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2015 and 2014 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Advantech Co., Ltd. (the "Company") as of December 31, 2015 and 2014, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, as stated in Note 11 to the financial statements, we did not audit the financial statements as of and for the years ended December 31, 2015 and 2014 of some companies in which the Company had investments accounted for by the equity method. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the investees' amounts included herein, is based solely on the reports of the other auditors. The carrying amounts of these investments were 4.60% (NT\$1,439,156 thousand) and 4.95% (NT\$1,460,624 thousand) of the Company's total assets as of December 31, 2015 and 2014, respectively. Also, the shares of profit and loss of subsidiaries and associates accounted for using the equity method were 3.17% (NT\$186,253 thousand) and 3.13% (NT\$176,571 thousand) of the Company's profit before income tax in 2015 and 2014, respectively.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Advantech Co., Ltd. as of December 31, 2015 and 2014, and its financial performance and cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") endorsed by the FSC.

The accompanying schedules of major accounting items of Advantech Co., Ltd. as of and for the year ended December 31, 2015 are presented for the purpose of additional analysis. Such schedules have been subjected to the auditing procedures described in the second paragraph. In our opinion, such schedules are consistent, in all material respects, with the financial statements referred to in the first paragraph.

March 4, 2016

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 accepted and applied in the Republic of China.

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

ADVANTECH CO., LTD.

BALANCE SHEETS DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

| ASSETS | 2015 | | 2014 (Restated) | |
|--|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 815,293 | 3 | \$ 1,049,397 | 4 |
| Financial assets at fair value through profit or loss - current (Notes 4, 7 and 24) | 7,391 | - | 14,879 | - |
| Available-for-sale financial assets - current (Notes 4, 8 and 24) | - | - | 1,717,756 | 6 |
| Notes receivable (Notes 4, 9 and 25) | 55,480 | - | 45,319 | - |
| Trade receivables (Notes 4 and 9) | 1,135,240 | 4 | 993,742 | 3 |
| Trade receivables to related parties (Notes 4 and 25) | 3,977,999 | 13 | 4,014,411 | 14 |
| Other receivables | 113,056 | - | 86,064 | - |
| Other receivables from related parties (Note 25) | 15,596 | - | 15,641 | - |
| Inventories (Notes 4 and 10) | 1,673,156 | 5 | 1,404,202 | 5 |
| Other current financial assets (Note 26) | - | - | 18,650 | - |
| Other current assets | 60,318 | - | 51,648 | - |
| Total current assets | <u>7,853,529</u> | <u>25</u> | <u>9,411,709</u> | <u>32</u> |
| NONCURRENT ASSETS | | | | |
| Available-for-sale financial assets - noncurrent (Notes 4, 8 and 24) | 1,700,814 | 6 | 2,385,937 | 8 |
| Investments accounted for using the equity method (Notes 4 and 11) | 13,138,225 | 42 | 12,020,741 | 41 |
| Property, plant and equipment (Notes 4 and 12) | 6,278,109 | 20 | 5,354,959 | 18 |
| Goodwill (Notes 4 and 13) | 111,599 | - | 111,599 | 1 |
| Other intangible assets (Note 4) | 74,049 | - | 86,240 | - |
| Deferred tax assets (Notes 4 and 18) | 114,710 | 1 | 81,941 | - |
| Prepayments for business facilities | 15,489 | - | 14,972 | - |
| Prepayment for investments (Note 28) | 1,968,044 | 6 | - | - |
| Other noncurrent assets | 10,837 | - | 11,024 | - |
| Total noncurrent assets | <u>23,411,876</u> | <u>75</u> | <u>20,067,413</u> | <u>68</u> |
| TOTAL | <u>\$ 31,265,405</u> | <u>100</u> | <u>\$ 29,479,122</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 24) | \$ 6,352 | - | \$ 8,698 | - |
| Trade payables | 899,480 | 3 | 777,932 | 3 |
| Trade payables to related parties (Note 25) | 2,687,130 | 9 | 2,433,936 | 8 |
| Other payables (Notes 14 and 17) | 2,255,915 | 7 | 2,070,485 | 7 |
| Current tax liabilities (Notes 4 and 18) | 853,769 | 3 | 650,399 | 2 |
| Short-term warranty provision (Note 4) | 41,410 | - | 36,119 | - |
| Other current liabilities | 72,312 | - | 61,224 | - |
| Total current liabilities | <u>6,816,368</u> | <u>22</u> | <u>6,038,793</u> | <u>20</u> |
| NONCURRENT LIABILITIES | | | | |
| Deferred tax liabilities (Notes 4 and 18) | 927,732 | 3 | 889,049 | 3 |
| Net defined benefit liabilities (Notes 4, 15 and 17) | 182,172 | - | 164,249 | 1 |
| Credit balance of investments accounted for using the equity method (Notes 4 and 11) | - | - | 7,286 | - |
| Other noncurrent liabilities | 31,632 | - | 33,726 | - |
| Total noncurrent liabilities | <u>1,141,536</u> | <u>3</u> | <u>1,094,310</u> | <u>4</u> |
| Total liabilities | <u>7,957,904</u> | <u>25</u> | <u>7,133,103</u> | <u>24</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE EQUITY | | | | |
| Share capital | | | | |
| Ordinary shares | 6,318,531 | 20 | 6,301,031 | 22 |
| Advance receipts for share capital | - | - | 11,060 | - |
| Total share capital | <u>6,318,531</u> | <u>20</u> | <u>6,312,091</u> | <u>22</u> |
| Capital surplus | 5,587,555 | 18 | 5,306,958 | 18 |
| Retained earnings | | | | |
| Legal reserve | 3,962,842 | 13 | 3,472,064 | 12 |
| Unappropriated earnings | 7,098,449 | 23 | 6,353,273 | 21 |
| Total retained earnings | <u>11,061,291</u> | <u>36</u> | <u>9,825,337</u> | <u>33</u> |
| Other equity | | | | |
| Exchange differences on translating foreign operations | 271,859 | 1 | 338,356 | 1 |
| Unrealized gains (losses) on available-for-sale financial assets | 68,265 | - | 563,277 | 2 |
| Total other equity | <u>340,124</u> | <u>1</u> | <u>901,633</u> | <u>3</u> |
| Total equity | <u>23,307,501</u> | <u>75</u> | <u>22,346,019</u> | <u>76</u> |
| TOTAL | <u>\$ 31,265,405</u> | <u>100</u> | <u>\$ 29,479,122</u> | <u>100</u> |

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

(With Deloitte & Touche audit report dated March 4, 2016)

ADVANTECH CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2015 | | 2014 (Restated) | |
|---|-------------------|-----------|-------------------|-----------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 4 and 25) | | | | |
| Sales | \$ 28,673,906 | 99 | \$ 25,839,025 | 98 |
| Other operating revenue | <u>321,746</u> | <u>1</u> | <u>458,113</u> | <u>2</u> |
| Total operating revenue | 28,995,652 | 100 | 26,297,138 | 100 |
| OPERATING COSTS (Notes 10, 17 and 25) | <u>20,758,574</u> | <u>72</u> | <u>19,267,227</u> | <u>73</u> |
| GROSS PROFIT | 8,237,078 | 28 | 7,029,911 | 27 |
| UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4) | (330,254) | (1) | (240,811) | (1) |
| REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4) | <u>240,811</u> | <u>1</u> | <u>246,869</u> | <u>1</u> |
| REALIZED GROSS PROFIT | <u>8,147,635</u> | <u>28</u> | <u>7,035,969</u> | <u>27</u> |
| OPERATING EXPENSES (Notes 17 and 25) | | | | |
| Selling and marketing expenses | 704,299 | 3 | 634,611 | 2 |
| General and administrative expenses | 693,290 | 2 | 709,880 | 3 |
| Research and development expenses | <u>2,568,723</u> | <u>9</u> | <u>2,375,816</u> | <u>9</u> |
| Total operating expenses | <u>3,966,312</u> | <u>14</u> | <u>3,720,307</u> | <u>14</u> |
| OPERATING PROFIT | <u>4,181,323</u> | <u>14</u> | <u>3,315,662</u> | <u>13</u> |
| NONOPERATING INCOME | | | | |
| Share of the profit of subsidiaries and associates accounted for using the equity method (Notes 4 and 11) | 1,344,991 | 5 | 1,493,406 | 6 |
| Interest income (Note 4) | 1,665 | - | 20,510 | - |
| Gains (losses) on disposal of property, plant and equipment (Note 4) | (161) | - | 59,702 | - |
| Gains on disposal of investments (Notes 4 and 16) | 198,848 | 1 | 43,163 | - |
| Foreign exchange gains (losses), net (Notes 4, 17 and 29) | (88,859) | - | 53,744 | - |
| Gains on financial instruments at fair value through profit or loss (Note 4) | 83,798 | - | 60,072 | - |
| Dividend income (Note 4) | 105,445 | - | 124,466 | 1 |
| Other income (Notes 8 and 25) | 112,567 | - | 528,395 | 2 |
| Finance costs (Note 17) | - | - | (421) | - |

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ADVANTECH CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2015 | | 2014 (Restated) | |
|--|---------------------|------------|---------------------|-----------|
| | Amount | % | Amount | % |
| Losses on financial instruments at fair value through profit or loss (Note 4) | \$ (67,063) | - | \$ (49,171) | - |
| Other losses | <u>(53)</u> | <u>-</u> | <u>(17)</u> | <u>-</u> |
| Total nonoperating income | <u>1,691,178</u> | <u>6</u> | <u>2,333,849</u> | <u>9</u> |
| PROFIT BEFORE INCOME TAX | 5,872,501 | 20 | 5,649,511 | 22 |
| INCOME TAX EXPENSE (Notes 4 and 18) | <u>768,155</u> | <u>2</u> | <u>741,863</u> | <u>3</u> |
| NET PROFIT FOR THE YEAR | <u>5,104,346</u> | <u>18</u> | <u>4,907,648</u> | <u>19</u> |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 3 and 15) | (18,736) | - | (4,989) | - |
| Share of the other comprehensive loss of subsidiaries and associates accounted for using the equity method (Notes 3 and 11) | (2,683) | - | (62) | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 3 and 18) | <u>3,185</u> | <u>-</u> | <u>848</u> | <u>-</u> |
| | <u>(18,234)</u> | <u>-</u> | <u>(4,203)</u> | <u>-</u> |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations (Notes 4 and 16) | (82,566) | - | 246,470 | 1 |
| Unrealized gains (losses) on available-for-sale financial assets (Notes 4 and 16) | (557,594) | (2) | 659,064 | 2 |
| Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method (Notes 4, 11 and 16) | 65,031 | - | (15,741) | - |
| Income tax relating to item that may be reclassified subsequently to profit or loss (Notes 4, 16 and 18) | <u>13,620</u> | <u>-</u> | <u>(42,667)</u> | <u>-</u> |
| | <u>(561,509)</u> | <u>(2)</u> | <u>847,126</u> | <u>3</u> |
| Other comprehensive income (loss) for the year, net of income tax | <u>(579,743)</u> | <u>(2)</u> | <u>842,923</u> | <u>3</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 4,524,603</u> | <u>16</u> | <u>\$ 5,750,571</u> | <u>22</u> |

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ADVANTECH CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2015 | | 2014 (Restated) | |
|------------------------------|---------------|---|-----------------|---|
| | Amount | % | Amount | % |
| EARNINGS PER SHARE (Note 19) | | | | |
| Basic | <u>\$8.08</u> | | <u>\$7.80</u> | |
| Diluted | <u>\$8.05</u> | | <u>\$7.77</u> | |

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

(With Deloitte & Touche audit report dated March 4, 2016)

(Concluded)

ADVANTECH CO., LTD.
**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(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 21) | | | Other Equity (Notes 4 and 16) | | Total Equity |
|--|----------------------------------|---------------------------------------|--------------|---|--|----------------------------|---------------|---|--|---------------|
| | 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 | |
| | | | | | | | | | | |
| BALANCE AT JANUARY 1, 2014 | \$ 5,669,249 | \$ 24,751 | \$ 5,694,000 | \$ 4,995,635 | \$ 3,061,424 | \$ 5,452,733 | \$ 8,514,157 | \$ 130,041 | \$ (75,534) | \$ 19,258,299 |
| Effect of retrospective application and retrospective restatement | - | - | - | - | - | (5,045) | (5,045) | - | - | (5,045) |
| BALANCE AT JANUARY 1, 2014 AS RESTATED | 5,669,249 | 24,751 | 5,694,000 | 4,995,635 | 3,061,424 | 5,447,688 | 8,509,112 | 130,041 | (75,534) | 19,253,254 |
| Appropriation of the 2013 earnings | | | | | | | | | | |
| Legal reserve | - | - | - | - | 410,640 | (410,640) | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (3,017,820) | (3,017,820) | - | - | (3,017,820) |
| Share dividends distributed by the Company | 569,400 | - | 569,400 | - | - | (569,400) | (569,400) | - | - | - |
| Issue of ordinary shares under employee share options | 51,410 | (4,850) | 46,560 | 167,525 | - | - | - | - | - | 214,085 |
| Compensation cost recognized for employee share options | - | - | - | 111,393 | - | - | - | - | - | 111,393 |
| Change in capital surplus from investments in associates | - | - | - | 8,966 | - | - | - | - | - | 8,966 |
| Convertible bonds converted to ordinary shares | 10,972 | (8,841) | 2,131 | 13,855 | - | - | - | - | - | 15,986 |
| Difference between considerations and carrying amounts of subsidiaries acquired or disposed of | - | - | - | 11,457 | - | - | - | - | - | 11,457 |
| Changes in percentage of ownership interest in subsidiaries | - | - | - | (1,873) | - | - | - | - | - | (1,873) |
| Net profit for the year ended December 31, 2014 | - | - | - | - | - | 4,907,648 | 4,907,648 | - | - | 4,907,648 |
| Other comprehensive income for the year ended December 31, 2014, net of income tax | - | - | - | - | - | (4,203) | (4,203) | 208,315 | 638,811 | 842,923 |
| Total comprehensive income for the year ended December 31, 2014 | - | - | - | - | - | 4,903,445 | 4,903,445 | 208,315 | 638,811 | 5,750,571 |
| BALANCE AT DECEMBER 31, 2014 | 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 earnings | | | | | | | | | | |
| 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 | - | - | - | 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 |

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

(With Deloitte & Touche audit report dated March 4, 2016)

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

| | 2015 | 2014 (Restated) |
|--|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 5,872,501 | \$ 5,649,511 |
| Adjustments for: | | |
| Depreciation expenses | 242,916 | 202,173 |
| Amortization expenses | 74,874 | 61,530 |
| Impairment loss recognized (reversal of impairment loss) of trade receivables | (2,203) | 8,703 |
| Net gain on financial assets or liabilities at fair value through profit or loss | (16,735) | (10,901) |
| Finance costs | - | 421 |
| Interest income | (1,665) | (20,510) |
| Dividend income | (105,445) | (124,466) |
| Compensation cost of employee share options | 261,877 | 111,393 |
| Share of profit of subsidiaries and associates accounted for using the equity method | (1,344,991) | (1,493,406) |
| Loss (gain) on disposal of property, plant and equipment | 161 | (59,702) |
| Gain on disposal of investments | (198,848) | (43,163) |
| Loss on bond redemption | - | 17 |
| Realized loss (gain) on the transactions with subsidiaries and associates | 89,443 | (6,058) |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | 21,877 | (16,279) |
| Notes receivable | (10,161) | (10,454) |
| Trade receivables | (139,295) | (132,090) |
| Trade receivables to related parties | 36,412 | (909,350) |
| Other receivables | (26,584) | 45,967 |
| Other receivable due from related parties | 45 | 135,447 |
| Inventories | (268,954) | (127,130) |
| Other current assets | (8,670) | (34,931) |
| Other financial assets | 18,650 | 90,460 |
| Trade payables | 121,548 | 201,512 |
| Trade payables to related parties | 253,194 | 333,229 |
| Other payables | 190,449 | 201,004 |
| Net defined benefit liabilities | (813) | (1,880) |
| Other current liabilities | 11,088 | (5,225) |
| Other noncurrent liabilities | (1,975) | 6,126 |
| Cash generated from operations | 5,068,696 | 4,051,948 |
| Interest received | 1,257 | 20,448 |
| Dividend received | 105,445 | 124,466 |
| Income tax paid | (542,066) | (464,022) |
| Net cash generated from operating activities | <u>4,633,332</u> | <u>3,732,840</u> |

(Continued)

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

| | 2015 | 2014 (Restated) |
|--|--------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | \$ (3,710,080) | \$ (3,423,628) |
| Proceeds on sale of available-for-sale financial assets | 5,754,213 | 3,284,544 |
| Acquisition of investments accounted for using equity method | (688,577) | (149,643) |
| Proceeds from disposal of investments accounted for using the equity method | - | 51,175 |
| Prepayment for investments | (1,968,044) | - |
| Proceeds of the capital reduction of investments accounted for using the equity method | 42,927 | - |
| Payments for property, plant and equipment | (1,181,375) | (875,370) |
| Proceeds from disposal of property, plant and equipment | 294 | 127,362 |
| Decrease in refundable deposits | 187 | 15,009 |
| Payments for intangible assets | (62,714) | (47,706) |
| Proceeds from disposal of intangible assets | 31 | - |
| Net cash outflows from business combination | - | (296,297) |
| Decrease (increase) in prepayments for equipment | 14,609 | (87,760) |
| Dividends received from subsidiaries and associates | <u>687,589</u> | <u>489,682</u> |
| Net cash used in investing activities | <u>(1,110,940)</u> | <u>(912,632)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of bond payables | - | (2,400) |
| Decrease (increase) in guarantee deposits received | (119) | 119 |
| Cash dividends paid | (3,787,255) | (3,017,820) |
| Exercise of employee share options | <u>30,878</u> | <u>214,085</u> |
| Net cash used in financing activities | <u>(3,756,496)</u> | <u>(2,806,016)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (234,104) | 14,192 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>1,049,397</u> | <u>1,035,205</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 815,293</u> | <u>\$ 1,049,397</u> |

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

(With Deloitte & Touche audit report dated March 4, 2016)

(Concluded)

ADVANTECH CO., LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Advantech Co., Ltd. (the “Company”) is a listed company established in September 1981. It manufactures and sells embedded computing boards, industrial automation products, applied computers 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 survivor 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 survivor 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 4, 2016.

3. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial applications of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Company should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version would not have any material impact on the Company’s accounting policies:

- 1) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, associates and unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive, please refer to Note 11 for related disclosures.

2) Revision to IAS 28 “Investments in Associates and Joint Ventures”

Revised IAS 28 requires when a portion of an investment in an associate meets the criteria to be classified as held for sale, that portion is classified as held for sale. Any retained portion that has not been classified as held for sale is accounted for using the equity method. Under current IAS 28, when a portion of an investment in associates meets the criteria to be classified as held for sale, the entire investment is classified as held for sale and ceases to apply the equity method.

3) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive, for example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015. Refer to Note 24 for related disclosures.

4) Amendment to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendment to IAS 1 requires items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

The Company retrospectively applied the above amendments starting in 2015. Items not expected to be reclassified to profit or loss are the remeasurements of the defined benefit plans. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, unrealized gain (loss) on available-for-sale financial assets and share of the other comprehensive income (except the share of the remeasurements of the defined benefit plans) of associates accounted for using the equity method. However, the application of the above amendments will not have any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

5) Revision to IAS 19 “Employee Benefits”

Revised IAS 19 requires the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminates the “corridor approach” permitted under current IAS 19 and accelerate the recognition of past service costs. The revision requires all remeasurements of the defined benefit plans to be recognized immediately through other comprehensive income in order for the net pension asset or liability to reflect the full value of the plan deficit or surplus.

Furthermore, the interest cost and expected return on plan assets used in current IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, the revised IAS 19 introduces certain changes in the presentation of the defined benefit cost, and also includes more extensive disclosures.

On initial application of the revised IAS 19, the changes in cumulative employee benefit costs as of December 31, 2013 resulting from the retrospective application are adjusted to net defined benefit liabilities and retained earnings; and the carrying amounts of inventories are not adjusted.

The impact on the current period is set out below:

| Impact on Assets, Liabilities and Equity | December 31, 2015 |
|---|------------------------------|
| Decrease in net defined benefit liabilities | \$ <u>(376)</u> |
| Increase in retained earnings | \$ <u>376</u> |
| Decrease in operating expense | \$ (376) |
| Increase in income tax expense | <u>64</u> |
| Decrease in net profit for the year | <u>\$ (312)</u> |
| Decrease in total comprehensive income for the year | <u>\$ (312)</u> |
| Impact on earnings per share: | |
| Increase in basic earnings per share | <u>\$ -</u> |
| Increase in diluted earnings per share | <u>\$ -</u> |

The impact in the prior year is set out below:

| Impact on Assets, Liabilities and Equity | As Originally Stated | Adjustments Arising from Initial Application | Restated |
|---|---------------------------------|---|---------------------|
| <u>December 31, 2014</u> | | | |
| Net defined benefit liabilities | \$ <u>159,204</u> | \$ <u>5,045</u> | \$ <u>164,249</u> |
| Retained earnings | \$ <u>6,358,318</u> | \$ <u>(5,045)</u> | \$ <u>6,353,273</u> |
| <u>January 1, 2014</u> | | | |
| Net defined benefit liabilities | \$ <u>154,184</u> | \$ <u>5,045</u> | \$ <u>159,229</u> |
| Retained earnings | \$ <u>5,452,733</u> | \$ <u>(5,045)</u> | \$ <u>5,447,688</u> |

| Impact on Total Comprehensive Income | As Originally Stated | Adjustments Arising from Initial Application | Restated |
|---|---------------------------------|---|------------------|
| <u>For the year ended December 31, 2014</u> | | | |
| Operating expense | \$ (3,720,146) | \$ (161) | \$ (3,720,307) |
| Income tax expense | <u>(741,890)</u> | <u>27</u> | <u>(714,863)</u> |
| Total effect on net profit for the year | <u>4,907,782</u> | <u>(134)</u> | <u>4,907,648</u> |

(Continued)

| Impact on Total Comprehensive Income | As Originally Stated | Adjustments Arising from Initial Application | Restated |
|--|-------------------------|---|---------------------|
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of defined benefit plan | \$ (5,150) | \$ 161 | \$ (4,989) |
| Income tax relating to items that will not be reclassified | <u>875</u> | <u>(27)</u> | <u>848</u> |
| Total effect on other comprehensive income for the year, net of income tax | <u>842,789</u> | <u>134</u> | <u>842,923</u> |
| Total effect on total comprehensive income for the year | <u>\$ 5,750,571</u> | <u>\$ -</u> | <u>\$ 5,750,571</u> |
| Impact on earnings per share: | | | |
| For the year ended December 31, 2015 | | | |
| Basic | <u>\$ 7.80</u> | <u>\$ -</u> | <u>\$ 7.80</u> |
| Diluted | <u>\$ 7.77</u> | <u>\$ -</u> | <u>\$ 7.77</u> |
| | | | (Concluded) |

6) Amendments to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”

The amendments to IFRS 7 require disclosure of information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting arrangements and similar arrangements.

Annual Improvements to IFRSs: 2009-2011 Cycle on IAS 1 “Presentation of Financial Statements”.

The amendments to IAS 1 clarify that an entity is required to present a balance sheet as at the beginning of the preceding period when a) it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassifies items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period. The amendments also clarify that related notes are not required to accompany the balance sheet at the beginning of the preceding period.

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

The Company has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the financial statements were authorized for issue, the FSC has not announced their effective dates.

| 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) |
| IFRS 9 “Financial Instruments” | January 1, 2018 |

(Continued)

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| 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 |
| 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 |
| IFRS 15 “Revenue from Contracts with Customers” | January 1, 2018 |
| IFRS 16 “Leases” | January 1, 2019 |
| Amendment to IAS 1 “Disclosure Initiative” | January 1, 2016 |
| Amendment to IAS 7 “Disclosure Initiative” | January 1, 2017 |
| Amendments to IAS 12 “Recognition of Deferred Tax Asset for Unrealized Losses” | January 1, 2017 |
| 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 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 of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies, except for the following:

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 above, all other financial assets are measured at fair value through in 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.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is 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.

2) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Company is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

3) 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 Company 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.

4) 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.

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.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate 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.

5) 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 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 if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

6) 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” requires 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” requires 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.

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

7) IFRS 15 “Revenue from Contracts with Customers”

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, 2017.

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 contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is 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.

8) 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.

9) 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 lease. 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.

10) 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 to 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 this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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 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, which 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 consolidated 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, the amount of any non-controlling interests in the acquiree, 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 financial statements of each individual group entity, 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 on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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

For the purpose of presenting financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries and associates in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. 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 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, 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 equals or 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 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 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 a subsidiary are eliminated in full. Profits and losses resulting from upstream with a subsidiary and sidestream transactions between subsidiaries are recognized in the financial statements only to the extent of interests in the subsidiary 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, an investment in an associate 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 associate. The Company also recognizes the changes in the Company's share of 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. 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 of interests in the associate that are not related to the Company.

i. Property, plant and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent 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 method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset 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 Company 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.

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 are 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.

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 24.

ii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when 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, 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 that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, 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 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 a trade receivable is considered uncollectible, it is 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 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 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:

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 it is designated as at fair value through profit or loss. Fair value is determined in the manner described in Note 24.

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 of the expenditure required to settle the Company's obligation by the management of the Company.

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 effective interest rate applicable.

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 rereasurement) under the 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 they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit 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, 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 tax 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.

a. 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 value in use calculation 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.

b. Estimated impairment of trade receivables

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

c. Fair value measurements and valuation processes

If some of the Company's assets and liabilities measured at fair value have no quoted prices in active markets, the Company determines whether it will (a) engage third party qualified valuers, (b) determine the appropriate valuation techniques for fair value measurements in accordance with relevant laws and regulations, or (c) use judgment.

Where Level 1 inputs are not available, the Company or engaged valuers would determine appropriate inputs by referring to agreed-upon rewards stated in the investment contracts of financial products, quoted prices of similar instruments in active markets, valuation multiples of comparable entities/market prices or rates, and specific features of derivatives. However, since projected inputs are subject to changes in the future and could thus result in significant changes in fair value, the Company updates inputs every quarter to assess the appropriateness of fair value measurement.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Note 24

d. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

e. Impairment of investment in the associate

The Company immediately recognizes impairment loss on its net investment in the associate when there is any indication that the investment may be impaired and the carrying amount may not be recoverable. The Company's management evaluates the impairment based on the estimated future cash flow expected to be generated by the associate, including growth rate of sale and capacity of production facilities estimated by the associate's management. The Company also takes into consideration the market conditions and industry development to evaluate the appropriateness of assumptions.

f. Recognition and measurement of defined benefit plans

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

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|--------------------|---------------------|
| | 2015 | 2014 |
| Cash on hand | \$ 325 | \$ 2,671 |
| Checking accounts and demand deposits | 814,968 | 863,414 |
| Time deposits with original maturities less than three months | <u>-</u> | <u>183,312</u> |
| | <u>\$ 815,293</u> | <u>\$ 1,049,397</u> |

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

| | December 31 | |
|--|--------------------|---------------|
| | 2015 | 2014 |
| Demand deposits | 0.001%-0.300% | 0.010%-0.300% |
| Time deposits with original maturities of less than three months | - | 5.500%-5.600% |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <u>December 31</u> | |
|---|--------------------|------------------|
| | 2015 | 2014 |
| <u>Financial assets at held for trading - current</u> | | |
| Forward exchange contracts | \$ <u>7,391</u> | \$ <u>14,879</u> |
| <u>Financial liabilities held for trading - current</u> | | |
| Forward exchange contracts | \$ <u>6,352</u> | \$ <u>8,698</u> |

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) |
|--------------------------|--------------------------|-----------------|-----------------------------------|
| <u>December 31, 2015</u> | | | |
| 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 |
| | <u>December 31, 2014</u> | | |
| Sell | EUR/NTD | 2015.01-2015.04 | EUR10,500/NTD415,900 |
| | EUR/USD | 2015.01-2015.04 | EUR1,000/USD1,263 |
| | USD/NTD | 2015.01-2015.04 | USD1,263/NTD38,634 |
| | JPY/NTD | 2015.01-2015.03 | JPY70,000/NTD20,011 |
| | RMB/NTD | 2015.01-2015.05 | RMB65,000/NTD322,421 |

The Company entered into forward exchange contracts during the years ended December 31, 2015 and 2014 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

| | <u>December 31</u> | |
|----------------------|---------------------|---------------------|
| | 2015 | 2014 |
| <u>Current</u> | | |
| Domestic investments | | |
| Mutual funds | \$ _____ | \$ <u>1,717,756</u> |
| <u>Noncurrent</u> | | |
| Domestic investments | | |
| Quoted shares | \$ <u>1,700,814</u> | \$ <u>2,385,937</u> |

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, 2015 and 2014, the stocks held in trust amounted to \$1,276,400 thousand and \$1,792,025 thousand, respectively. Refer to Table 3 for more information. On the transactions, the Company recognized gains of \$235 thousand and \$144 thousand during the years ended December 31, 2015 and 2014, respectively. These gains were recorded under other nonoperating income.

9. NOTES AND ACCOUNTS RECEIVABLES

| | <u>December 31</u> | |
|--|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Notes receivable (include related parties) | \$ 55,480 | \$ 45,319 |
| Accounts receivable | \$ 1,156,139 | \$ 1,016,874 |
| Less: Allowance for impairment loss | <u>(20,899)</u> | <u>(23,132)</u> |
| | <u>\$ 1,135,240</u> | <u>\$ 993,742</u> |

a. Trade receivables

The average credit period on 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 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 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:

| | <u>December 31</u> | |
|----------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Not overdue | \$ 968,470 | \$ 907,403 |
| Overdue | | |
| 1 to 90 days | 177,970 | 80,665 |
| 91 to 360 days | 2,060 | 25,722 |
| Over 360 days | <u>7,639</u> | <u>3,084</u> |
| | <u>\$ 1,156,139</u> | <u>\$ 1,016,874</u> |

The above aging schedule was based on the past due date.

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

| | December 31 | |
|---------------|--------------------|------------------|
| | 2015 | 2014 |
| 1 to 30 days | \$ 141,583 | \$ 74,135 |
| 31 to 60 days | 12,722 | 4,342 |
| 61 to 90 days | <u>11,681</u> | <u>2,188</u> |
| | <u>\$ 165,986</u> | <u>\$ 80,665</u> |

The above aging schedule was based on the past due dates.

The movements in the allowance for impairment loss recognized on trade receivables was as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|------------------|
| Balance at January 1, 2014 | \$ 3,150 | \$ 10,533 | \$ 13,683 |
| Add (deduct): Impairment losses recognized (reversed) on receivables | 16,652 | (7,949) | 8,703 |
| Business combination | <u>-</u> | <u>746</u> | <u>746</u> |
| Balance at December 31, 2014 | <u>\$ 19,802</u> | <u>\$ 3,330</u> | <u>\$ 23,132</u> |
| Balance at January 1, 2015 | \$ 19,802 | \$ 3,330 | \$ 23,132 |
| Add (deduct): Impairment losses recognized on receivables | (2,203) | - | (2,203) |
| Less: Amounts written off during the year as uncollectible | <u>(30)</u> | <u>-</u> | <u>(30)</u> |
| Balance at December 31, 2015 | <u>\$ 17,569</u> | <u>\$ 3,330</u> | <u>\$ 20,899</u> |

The Company recognized impairment losses of \$1,432 thousand both on trade receivables as of December 31, 2015 and 2014.

These amounts mainly related to customers that were in liquidation or in severe financial difficulties. The Company had no collaterals for these impaired trade receivables.

10. INVENTORIES

| | December 31 | |
|------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Finished goods | \$ 673,949 | \$ 539,378 |
| Work in process | 351,292 | 321,035 |
| Raw materials | 637,327 | 518,427 |
| Inventories in transit | <u>10,588</u> | <u>25,362</u> |
| | <u>\$ 1,673,156</u> | <u>\$ 1,404,202</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2015 and 2014 was \$20,682,645 thousand and \$19,198,089 thousand, respectively.

The costs of inventories were decreased by \$107,604 thousand and \$92,772 thousand as of December 31, 2015 and 2014.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | <u>December 31</u> | |
|-----------------------------|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| Investments in subsidiaries | \$ 12,678,469 | \$ 11,590,836 |
| Investments in associates | <u>459,756</u> | <u>429,905</u> |
| | <u>\$ 13,138,225</u> | <u>\$ 12,020,741</u> |

a. Investments in subsidiaries

| | <u>December 31</u> | |
|---|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| Unlisted companies | | |
| Advantech Automation Corp. (BVI) (AAC (BVI)) | \$ 3,735,761 | \$ 3,445,935 |
| Advantech Technology Co., Ltd. (ATC) | 3,626,645 | 3,513,745 |
| Advantech Corporate Investment | 1,558,953 | 988,173 |
| Advansus Corp. | 999,983 | 761,954 |
| Advantech Europe Holding B.V. (AEUH) | 898,536 | 959,009 |
| Advantech-LNC Technology Co., Ltd. (ALTC) | 516,626 | 511,128 |
| AdvanPOS Technology Co., Ltd. (AdvanPOS) | 358,662 | 319,139 |
| ACA Digital Corp. (ACA) | 319,859 | 474,164 |
| Advantech KR Co., Ltd. (AKR) | 202,503 | 234,924 |
| Advantech Japan Co., Ltd. (AJP) | 179,407 | 145,000 |
| Advantech Co. Singapore Pte, Ltd. (ASG) | 82,906 | 96,662 |
| Advantech iFactory Co., Ltd. | 60,088 | - |
| Advantech Brasil Ltda. (ABR) | 48,320 | 60,238 |
| Advantech Co. Malaysia Sdn. Bhd. (AMY) | 36,439 | 35,428 |
| Advantech Australia Pty Ltd. (AAU) | 30,171 | 44,556 |
| Advantech Industrial Computing India Private Limited (AIN) | 13,479 | (7,286) |
| Advantech Innovative Design Co., Ltd. | 8,569 | - |
| Advantech Electronics, S. De R. L. Dec. V. (AMX) | <u>1,562</u> | <u>781</u> |
| | 12,678,469 | 11,583,550 |
| Add: Credit balances of investments accounted for using the equity method | <u>-</u> | <u>7,286</u> |
| | <u>\$ 12,678,469</u> | <u>\$ 11,590,836</u> |

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

| | <u>December 31</u> | |
|--------------------------------|--------------------|-------------|
| | <u>2015</u> | <u>2014</u> |
| AAC (BVI) | 100.00% | 100.00% |
| ATC | 100.00% | 100.00% |
| Advantech Corporate Investment | 100.00% | 100.00% |
| Advansus Corp. | 100.00% | 100.00% |

(Continued)

| | December 31 | |
|---------------------------------------|--------------------|-------------|
| | 2015 | 2014 |
| AEUH | 100.00% | 100.00% |
| ALTC (Note 21) | 89.93% | 89.93% |
| AdvanPOS (Note 21) | 100.00% | 69.47% |
| ACA | 100.00% | 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% | - |
| AMX | 100.00% | 100.00% |
| | | (Concluded) |

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. 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 financial statements of the following subsidiaries had been audited by other independent CPAs: AEUH and its subsidiaries except for AEU; Deneng Scientific Research Co Ltd., held by Advantech Corporate Investment; AJP; AAU; ASG; AMY; and ABR.

b. Investments in associates

| | December 31 | |
|---|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Listed companies | | |
| Axiomtek Co., Ltd. | \$ 450,246 | \$ 420,063 |
| Unlisted companies | | |
| Jan Hsiang Electronics Co., Ltd. (Jan Hsiang) | <u>9,510</u> | <u>9,842</u> |
| | <u>\$ 459,756</u> | <u>\$ 429,905</u> |
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| The Company's share of: | | |
| Profit from continuing operations | \$ 110,142 | \$ 98,984 |
| Other comprehensive income | <u>25</u> | <u>4,711</u> |
| Total comprehensive income for the year | <u>\$ 110,167</u> | <u>\$ 103,695</u> |

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, 2015 and 2014 was based on the associates' financial statements audited by the other CPAs for the same years.

12. PROPERTY, PLANT, AND EQUIPMENT

| | Freehold Land | Buildings | Equipment | Office Equipment | Other Facilities | Construction in Progress | Total |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|--------------------------|---------------------|
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2014 | \$ 2,596,325 | \$ 1,210,305 | \$ 647,912 | \$ 170,686 | \$ 347,522 | \$ 833,423 | \$ 5,806,173 |
| Additions | 165,222 | 70,174 | 30,759 | 54,931 | 117,920 | 436,364 | 875,370 |
| Disposals | (35,506) | (28,745) | (5,349) | (8,332) | (4,608) | - | (82,540) |
| Acquisitions through business combinations | 35,506 | 28,745 | 28,016 | 3,744 | 2,847 | - | 98,858 |
| Reclassifications | 13,248 | 1,107,872 | 133,829 | 29,389 | 25,378 | (1,237,791) | 71,925 |
| Balance at December 31, 2014 | <u>\$ 2,774,795</u> | <u>\$ 2,388,351</u> | <u>\$ 835,167</u> | <u>\$ 250,418</u> | <u>\$ 489,059</u> | <u>\$ 31,996</u> | <u>\$ 6,769,786</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | | | |
| Balance at January 1, 2014 | \$ - | \$ 283,937 | \$ 526,751 | \$ 124,858 | \$ 262,512 | \$ - | \$ 1,198,058 |
| Disposals | - | (9,690) | (5,287) | (8,219) | (3,029) | - | (26,225) |
| Depreciation expense | - | 40,048 | 73,406 | 30,842 | 57,877 | - | 202,173 |
| Acquisitions through business combinations | - | 9,504 | 26,926 | 3,047 | 1,344 | - | 40,821 |
| Balance at December 31, 2014 | <u>\$ -</u> | <u>\$ 323,799</u> | <u>\$ 621,796</u> | <u>\$ 150,528</u> | <u>\$ 318,704</u> | <u>\$ -</u> | <u>\$ 1,414,827</u> |
| Carrying amounts at December 31, 2014 | <u>\$ 2,774,795</u> | <u>\$ 2,064,552</u> | <u>\$ 213,371</u> | <u>\$ 99,890</u> | <u>\$ 170,355</u> | <u>\$ 31,996</u> | <u>\$ 5,354,959</u> |
| <u>Cost</u> | | | | | | | |
| 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 | <u>\$ 2,774,795</u> | <u>\$ 2,470,366</u> | <u>\$ 855,781</u> | <u>\$ 267,648</u> | <u>\$ 573,645</u> | <u>\$ 914,294</u> | <u>\$ 7,856,529</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | | | |
| 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 | <u>\$ -</u> | <u>\$ 371,673</u> | <u>\$ 636,416</u> | <u>\$ 181,454</u> | <u>\$ 388,877</u> | <u>\$ -</u> | <u>\$ 1,578,420</u> |
| Carrying amounts at December 31, 2015 | <u>\$ 2,774,795</u> | <u>\$ 2,098,693</u> | <u>\$ 219,365</u> | <u>\$ 86,194</u> | <u>\$ 184,768</u> | <u>\$ 914,294</u> | <u>\$ 6,278,109</u> |

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful life 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 | |
|---|-------------------|-------------------|
| | 2015 | 2014 |
| <u>Cost</u> | | |
| Balance at January 1 | \$ 111,599 | \$ - |
| Additional amounts recognized during the year | - | 111,599 |
| Balance at December 31 | <u>\$ 111,599</u> | <u>\$ 111,599</u> |

The Company merged with Netstar Technology Co., Ltd. in July 2014, with the Company as the survivor entity. The goodwill acquired through the merger is periodically tested for impairment loss.

14. OTHER LIABILITIES

| | <u>December 31</u> | |
|--------------------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Other payables | | |
| Salaries or bonuses | \$ 1,753,360 | \$ 1,682,704 |
| Payable for royalties | 105,186 | 47,230 |
| Payable for annual leave | 25,650 | 20,905 |
| Others | <u>371,719</u> | <u>319,646</u> |
| | <u>\$ 2,255,915</u> | <u>\$ 2,070,485</u> |

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:

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Present value of defined benefit obligation | \$ 327,854 | \$ 308,456 |
| Fair value of plan assets | <u>(145,682)</u> | <u>(144,207)</u> |
| Deficit (surplus) | <u>182,172</u> | <u>164,249</u> |
| Net defined benefit liability (asset) | <u>\$ 182,172</u> | <u>\$ 164,249</u> |

Movements in net defined benefit liability (asset) 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, 2014 | \$ 284,160 | \$ (124,931) | \$ 159,229 |
| Service cost | | | |
| Current service cost | 2,832 | - | 2,832 |
| Net interest expense (income) | 5,233 | (2,411) | 2,832 |
| Recognized in profit or loss | <u>8,065</u> | <u>(2,411)</u> | <u>5,654</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,824) | (1,824) |
| Actuarial (gain) loss - changes in demographic assumptions | 6,527 | - | 6,527 |
| Actuarial (gain) loss - experience adjustments | 286 | - | 286 |
| Recognized in other comprehensive income | <u>6,813</u> | <u>(1,824)</u> | <u>4,989</u> |
| Contributions from the employer | - | (7,448) | (7,448) |
| Benefits paid | (1,092) | 1,092 | - |
| Business combinations | <u>10,510</u> | <u>(8,685)</u> | <u>1,825</u> |
| Balance at December 31, 2014 | <u>308,456</u> | <u>(144,207)</u> | <u>164,249</u> |
| 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 | <u>9,468</u> | <u>(2,774)</u> | <u>6,694</u> |
| 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 | <u>19,755</u> | <u>(1,019)</u> | <u>18,736</u> |
| Contributions from the employer | - | (7,507) | (7,507) |
| Benefits paid | <u>(9,825)</u> | <u>9,825</u> | <u>-</u> |
| Balance at December 31, 2015 | <u>\$ 327,854</u> | <u>\$ (145,682)</u> | <u>\$ 182,172</u> |

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

| | For the Year Ended December 31 | |
|-------------------------------------|---------------------------------------|-----------------|
| | 2015 | 2014 |
| Operating costs | \$ 1,075 | \$ 1,082 |
| Selling and marketing expenses | 838 | 776 |
| General and administrative expenses | 2,368 | 1,370 |
| Research and development expenses | <u>1,963</u> | <u>2,003</u> |
| | <u>\$ 6,244</u> | <u>\$ 5,231</u> |

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 | |
|-------------------------------------|--------------------|-------------|
| | 2015 | 2014 |
| Discount rate(s) | 1.625% | 1.875% |
| 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 | |
|-------------------------------------|--------------------|-------------------|
| | 2015 | 2014 |
| Discount rate(s) | | |
| 0.25% increase | <u>\$ (10,254)</u> | <u>\$ (9,786)</u> |
| 0.25% decrease | <u>\$ 10,705</u> | <u>\$ 10,216</u> |
| Expected rate(s) of salary increase | | |
| 0.25% increase | <u>\$ 10,360</u> | <u>\$ 9,908</u> |
| 0.25% decrease | <u>\$ (9,980)</u> | <u>\$ (9,543)</u> |

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

| | December 31 | |
|--|--------------------|-----------------|
| | 2015 | 2014 |
| The expected contributions to the plan for the next year | <u>\$ 7,563</u> | <u>\$ 7,428</u> |
| The average duration of the defined benefit obligation | 12.8 years | 13.0 years |

16. EQUITY

a. Share capital

Ordinary shares

| | <u>December 31</u> | |
|---|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Number of shares authorized (in thousands) | <u>800,000</u> | <u>800,000</u> |
| Amount of shares authorized | <u>\$ 8,000,000</u> | <u>\$ 8,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>631,853</u> | <u>631,209</u> |
| Amount of shares issued and fully paid | <u>\$ 6,318,531</u> | <u>\$ 6,312,091</u> |

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, 2015, the changes in shares are due to employees' exercise of their employee share options.

b. Capital surplus

| | <u>December 31</u> | |
|--|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u> | | |
| 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 | - | 11,457 |
| <u>May be used to offset a deficit only</u> | | |
| Arising from changes in percentage of ownership interest in subsidiaries (2) | 4,246 | 679 |
| Arising from employee share options | 792,341 | 736,092 |
| Arising from distribution of stock dividends | 78,614 | 78,614 |
| <u>May not be used for any purpose</u> | | |
| Arising from share of changes in capital surplus of associates | 12,698 | 10,526 |
| Arising from employee share options | <u>370,919</u> | <u>140,853</u> |
| | <u>\$ 5,587,555</u> | <u>\$ 5,306,958</u> |

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

Under the Company's Articles of Incorporation, if the Company has earnings for the year, it should primarily make taxation payments, offset any past years' deficits and then make appropriations for its legal reserve at 10% of annual net income. In addition, a special reserve should be appropriated or reversed as needed, adding cumulative retained earnings from previous periods and retaining partially, retained earnings for corporate growth. The remainder of the income should be appropriated in the following order:

- 1) 1% to 20% as bonus to employees;
- 2) 1% or less as remuneration to directors and supervisors; and
- 3) Dividends, as proposed by the board of directors.

Recipients of stock bonuses may include subsidiaries' employees who meet the criteria set by the Company's board of directors.

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.

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 consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors on November 12, 2015 and are subject to the resolution of the shareholders in their meeting to be held on May 25, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to c. Employee benefits expense in Note 17.

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", the Company should appropriate or reverse to a special reserve.

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

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 2014 and 2013 have been approved in the shareholders' meetings on May 28, 2015 and June 18, 2014, respectively, were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|-----------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | For the Year Ended December 31 | | For the Year Ended December 31 | |
| | 2014 | 2013 | 2014 | 2013 |
| Legal reserve | \$ 490,778 | \$ 410,640 | \$ - | \$ - |
| Cash dividends | 3,787,255 | 3,017,820 | 6.0 | 5.3 |
| Stock dividends | - | 569,400 | - | 1.0 |

The appropriations of earnings for 2015 had been proposed by the Company's board of directors on March 4, 2016. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT\$) |
|----------------|----------------------------------|-----------------------------------|
| Legal reserve | \$ 510,434 | \$ - |
| Cash dividends | 3,791,118 | 6.0 |

The appropriations of earnings for 2015 are subject to the resolution of the shareholders' meeting to be held on May 25, 2016.

d. Other equity items

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

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Balance at January 1 | \$ 338,356 | \$ 130,041 |
| Exchange differences on translating the net assets of foreign operations | (82,566) | 246,470 |
| Related income tax | 13,620 | (42,667) |
| Share of exchange difference of associates accounted for using the equity method | <u>2,449</u> | <u>4,512</u> |
| Balance at December 31 | <u>\$ 271,859</u> | <u>\$ 338,356</u> |

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

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Balance at January 1 | \$ 563,277 | \$ (75,534) |
| Unrealized gain (loss) on revaluation of available-for-sale financial assets | (358,746) | 702,227 |
| Cumulative gain reclassified to profit or loss on disposal of available-for-sale financial assets | (198,848) | (43,163) |
| Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method | <u>62,582</u> | <u>(20,253)</u> |
| Balance at December 31 | <u>\$ 68,265</u> | <u>\$ 563,277</u> |

17. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

a. Finance costs

| | For the Year Ended December 31 | |
|-----------------------------------|---------------------------------------|---------------|
| | 2015 | 2014 |
| Interest on short-term bank loans | \$ - | \$ 400 |
| Interest on convertible bonds | <u>-</u> | <u>21</u> |
| | <u>\$ -</u> | <u>\$ 421</u> |

b. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Property, plant and equipment | \$ 242,916 | \$ 202,173 |
| Intangible assets | <u>74,874</u> | <u>61,530</u> |
| | <u>\$ 317,790</u> | <u>\$ 263,703</u> |
| An analysis of depreciation by function | | |
| Operating costs | \$ 51,653 | \$ 34,007 |
| Operating expenses | <u>191,263</u> | <u>168,166</u> |
| | <u>\$ 242,916</u> | <u>\$ 202,173</u> |
| An analysis of amortization by function | | |
| Operating costs | \$ 210 | \$ 90 |
| Selling and marketing expenses | 52,752 | 39,579 |
| General and administrative expenses | 145 | 259 |
| Research and development expenses | <u>21,767</u> | <u>21,602</u> |
| | <u>\$ 74,874</u> | <u>\$ 61,530</u> |

c. Employee benefits expense

| | For the Year Ended December 31 | |
|--|---------------------------------------|---------------------|
| | 2015 | 2014 |
| Short-term benefits | \$ <u>2,792,674</u> | \$ <u>2,842,017</u> |
| Post-employment benefits | | |
| Defined contribution plans | 115,737 | 100,542 |
| Defined benefit plans (Note 15) | <u>6,244</u> | <u>5,231</u> |
| | 121,981 | 105,773 |
| Share-based payments-Equity-settled | 261,877 | 111,393 |
| Other employee benefits | <u>141,631</u> | <u>92,979</u> |
| Total employee benefits expense | <u>\$ 3,318,163</u> | <u>\$ 3,152,162</u> |
| An analysis of employee benefits expense by function | | |
| Operating costs | \$ 685,258 | \$ 552,361 |
| Operating expenses | <u>2,632,905</u> | <u>2,599,801</u> |
| | <u>\$ 3,318,163</u> | <u>\$ 3,152,162</u> |

The existing Articles of Incorporation of the Company stipulates the distribution of bonus to employees at rates no less than 1% and no higher than 20%, and remuneration to directors and supervisors at a rate no higher than 1%, of net income (net of the bonus and remuneration). For the year ended December 31, 2014, the bonus to employees and the remuneration to directors and supervisors were \$126,000 thousand and \$12,000 thousand, respectively (recognized as other payables).

To be in compliance with the Company Act as amended in May 2015, the proposed amendments to the Company's Articles of Incorporation stipulate the distribution of employees' compensation at rates no less than 1% and no higher than 20%, and remuneration to directors and supervisors at a rate no higher than 1%, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the year ended December 31, 2015, the employees' compensation and the remuneration to directors and supervisors were \$200,000 thousand and \$12,000 thousand, respectively. The bonus to employees and remuneration to directors and supervisors in the form of cash for the year ended December 31, 2015 were proposed by the Company's board of directors on March 4, 2016 and are subject to the resolution of the amendments to the Company's Articles of Incorporation for adoption by the shareholders in their meeting to be held on May 25, 2016, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of bonuses to employees and remuneration to directors and supervisors for 2014 and 2013 approved in the shareholders' meetings on May 28, 2015 and June 18, 2014, respectively, were as follows:

| | Cash Dividends | |
|---|---------------------------------------|-------------|
| | For the Year Ended December 31 | |
| | 2014 | 2013 |
| Bonus to employees | \$ 126,000 | \$ 70,000 |
| Remuneration to directors and supervisors | 12,000 | 12,000 |

There was no significant difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings on May 28, 2015 and June 18, 2014 and the amounts recognized in the financial statements for the years ended December 31, 2014 and 2013, respectively.

Information on employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2016 and bonuses to employees and supervisors resolved by the shareholders' meetings in 2015 and 2014 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 | |
|-------------------------|---------------------------------------|------------------|
| | 2015 | 2014 |
| Foreign exchange gains | \$ 603,588 | \$ 511,481 |
| Foreign exchange losses | <u>(692,447)</u> | <u>(457,737)</u> |
| | <u>\$ (88,859)</u> | <u>\$ 53,744</u> |

18. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Current tax | | |
| In respect of the current year | \$ 682,972 | \$ 500,117 |
| Income tax on unappropriated earnings | 62,541 | 10,854 |
| Adjustments for prior years | <u>(77)</u> | <u>1,498</u> |
| | <u>745,436</u> | <u>512,469</u> |
| Deferred tax | | |
| In respect of the current year | 23,860 | 229,394 |
| Adjustments for prior years | <u>(1,141)</u> | <u>-</u> |
| | <u>22,719</u> | <u>229,394</u> |
| Income tax expense recognized in profit or loss | <u>\$ 768,155</u> | <u>\$ 741,863</u> |

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

| | For the Year Ended December 31 | |
|--|---------------------------------------|---------------------|
| | 2015 | 2014 |
| Profit before tax from continuing operations | <u>\$ 5,872,501</u> | <u>\$ 5,649,511</u> |
| Income tax expense calculated at the statutory rate | \$ 998,325 | \$ 960,417 |
| Nondeductible expenses in determining taxable income | - | 114 |
| Tax-exempt income | (214,892) | (219,331) |
| Unrecognized deductible temporary differences | (20,742) | (11,689) |
| Unrecognized investment credits | (57,000) | - |
| Income tax on unappropriated earnings | 62,541 | 10,854 |
| Adjustments for prior years' tax | <u>(77)</u> | <u>1,498</u> |
| Income tax expense recognized in profit or loss | <u>\$ 768,155</u> | <u>\$ 741,863</u> |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company.

As the status of 2016 appropriations of earnings is uncertain, the potential income tax consequences of 10% income tax rate of 2015 unappropriated earnings are not reliably determinable.

- b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---------------------------------------|---------------------------------------|--------------------|
| | 2015 | 2014 |
| <u>Deferred tax</u> | | |
| In respect of the current year | | |
| Translation of foreign operations | \$ 13,620 | \$ (42,667) |
| Remeasurement on defined benefit plan | <u>3,185</u> | <u>848</u> |
| | <u>\$ 16,805</u> | <u>\$ (41,819)</u> |

c. Current tax assets and liabilities

| | December 31 | |
|-------------------------|--------------------|-------------------|
| | 2015 | 2014 |
| Current tax liabilities | | |
| Income tax payable | <u>\$ 853,769</u> | <u>\$ 650,399</u> |

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|--|----------------------------|---|---|------------------------|
| <u>Deferred tax assets</u> | | | | |
| 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 |
| Unrealized warranty liabilities | 6,140 | 900 | - | 7,040 |
| Remeasurement on defined benefit plans | <u>2,951</u> | <u>-</u> | <u>3,185</u> | <u>6,136</u> |
| | <u>\$ 81,941</u> | <u>\$ 29,584</u> | <u>\$ 3,185</u> | <u>\$ 114,710</u> |
| <u>Deferred tax liabilities</u> | | | | |
| 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 | <u>8,520</u> | <u>(8,520)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 889,049</u> | <u>\$ 52,303</u> | <u>\$ (13,620)</u> | <u>\$ 927,732</u> |

For the year ended December 31, 2014

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensiv e Income | Acquisitions Through Business Combinations | Closing Balance |
|--|--------------------|---------------------------------|--|---|--------------------|
| <u>Deferred tax assets</u> | | | | | |
| Temporary differences | | | | | |
| Unrealized gross profit | \$ 41,968 | \$ (1,030) | \$ - | \$ - | \$ 40,938 |
| Unrealized loss on inventory write-down | 16,700 | (929) | - | - | 15,771 |
| Defined benefit obligation | 16,488 | (347) | - | - | 16,141 |
| Unrealized warranty liabilities | 5,680 | 460 | - | - | 6,140 |
| Remeasurement on defined benefit plans | <u>1,949</u> | <u>27</u> | <u>848</u> | <u>127</u> | <u>2,951</u> |
| | <u>\$ 82,785</u> | <u>\$ (1,819)</u> | <u>\$ 848</u> | <u>\$ 127</u> | <u>\$ 81,941</u> |
| <u>Deferred tax liabilities</u> | | | | | |
| Temporary differences | | | | | |
| Unappropriated earnings of subsidiaries | \$ 588,210 | \$ 219,626 | \$ - | \$ - | \$ 807,836 |
| Exchange difference on foreign operations | 26,635 | - | 42,667 | - | 69,302 |
| Remeasurement on defined benefit plans | 2,081 | - | - | 1,310 | 3,391 |
| Unrealized exchange gain | <u>571</u> | <u>7,949</u> | <u>-</u> | <u>-</u> | <u>8,520</u> |
| | <u>\$ 617,497</u> | <u>\$ 227,575</u> | <u>\$ 42,667</u> | <u>\$ 1,310</u> | <u>\$ 889,049</u> |

e. Items for which no deferred tax assets have been recognized

| | <u>December 31</u> | |
|-----------------------------------|--------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| Deductible temporary differences | | |
| Cumulative losses of subsidiaries | <u>\$ -</u> | <u>\$ 20,742</u> |

f. As of December 31, 2015, profits attributable to the following expansion projects were exempted from income tax for a five-year period:

| <u>Expansion Project</u> | <u>Tax-exemption Period</u> |
|---|-----------------------------|
| Investments in production of intelligent integrated commodities | 2011-2015 |

g. Integrated income tax

| | <u>December 31</u> | |
|--|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Unappropriated earnings | | |
| Generated on and after January 1, 1998 | <u>\$ 7,098,449</u> | <u>\$ 6,353,273</u> |
| Imputation credits accounts | <u>\$ 608,917</u> | <u>\$ 271,571</u> |

| | <u>For the Year Ended December 31</u> | |
|--|---------------------------------------|-------------|
| | <u>2015</u> | <u>2014</u> |
| Creditable ratio for distribution of earning | 15.07% | 13.14% |

h. Income tax assessments

The Company's tax returns through 2010 have been assessed by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2008 and 2009 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 | |
|----------------------------|---------------------------------------|----------------|
| | 2015 | 2014 |
| Basic earnings per share | <u>\$ 8.08</u> | <u>\$ 7.80</u> |
| Diluted earnings per share | <u>\$ 8.05</u> | <u>\$ 7.77</u> |

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

Net Profit for the Year

| | For the Year Ended December 31 | |
|--|---------------------------------------|-----------------------------|
| | 2015 | 2014 |
| Earnings used in the computation of basic earnings per share | \$ 5,104,346 | \$ 4,907,648 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible bonds | <u> -</u> | <u> 21</u> |
| Earnings used in the computation of diluted earnings per share | <u>\$ 5,104,346</u> | <u>\$ 4,907,669</u> |

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

| | For the Year Ended December 31 | |
|--|---------------------------------------|----------------|
| | 2015 | 2014 |
| Weighted average number of ordinary shares in computation of basic earnings per share | 631,633 | 628,853 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible bonds | - | 18 |
| Employee share options | 1,372 | 2,367 |
| Employees' compensation or bonus issue to employees | <u>1,202</u> | <u>336</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>634,207</u> | <u>631,574</u> |

If the Company offered to settle bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonus would be settled in shares, and the resulting potential shares will be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was 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 5,000 options in August 2014, 3,000 options in July 2010, and 10,000 options in December 2009. 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 net by the Company, from both domestic and overseas subsidiaries in which the Company directly or indirectly invests over 50%. Options issued in August 2014, July 2010, and December 2009 are valid for six, five and five years, respectively. All are exercisable at certain percentages after the second anniversary year from the grant date. Options granted in 2009 and 2010 had at an exercise price equal to the closing price of the Company's common shares listed on the grant date and the exercise price of those granted in 2014 was 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 as of December 31, 2015 and 2014 was as follows:

| | 2015 | | 2014 | |
|---|----------------------------------|--|----------------------------------|--|
| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) |
| Employee Share Options | | | | |
| Balance at January 1 | 5,644 | \$ 94.10 | 5,300 | \$ 48.80 |
| Options granted | - | - | 5,000 | 100.00 |
| Options exercised | <u>(644)</u> | 47.95 | <u>(4,656)</u> | 45.98 |
| Balance at December 31 | <u>5,000</u> | 100.00 | <u>5,644</u> | 94.10 |
| Options exercisable, end of the year | <u>-</u> | - | <u>644</u> | 48.30 |
| Weighted-average fair value of options granted (NT\$) | <u>\$ -</u> | | <u>\$145.77-\$150.16</u> | |

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2015 and 2014 were from NT\$198 to NT\$278 and from NT\$189 to NT\$280.5, respectively.

Information about outstanding options as of December 31, 2015 and 2014 was as follows:

| | For the Year Ended December 31 | | | |
|------------------------|--------------------------------|---|-----------------------|---|
| | 2015 | | 2014 | |
| Employee Share Options | Exercise Price (NT\$) | Weighted-average Remaining Contractual Life (Years) | Exercise Price (NT\$) | Weighted-average Remaining Contractual Life (Years) |
| Issuance in 2014 | \$100.00 | 4.63 | \$100.00 | 5.63 |
| Issuance in 2010 | - | - | 48.30 | 0.53 |

Options granted in 2014 were priced using the Black-Scholes model, and the inputs to the model were as follows:

| | 2014 | 2010 | 2009 |
|-------------------------------|---------------|---------------|---------------|
| Grant-date share price (NT\$) | \$239.5 | \$67.4 | \$61.9 |
| Exercise price (NT\$) | \$100 | \$67.4 | \$61.9 |
| Expected volatility | 28.28%-29.19% | 34.11%-35.15% | 37.78%-35.22% |
| Expected life (years) | 4-5.5 years | 3.5-4.5 years | 3.5-4.5 years |
| Expected dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 1.07%-1.30% | 0.92%-1.10% | 0.58-0.79% |

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

Compensation cost recognized was \$261,877 thousand and \$111,393 thousand for the years ended December 31, 2015 and 2014, respectively.

21. EQUITY TRANSACTIONS WITH NONCONTROLLING INTERESTS

- a. In November 2013, the Company acquired an additional 0.03% equity in ALTC, increasing its interest to 100%. In the first quarter of 2014, the Company sold 10.27% of its holding of ALTC shares to ALTC's employees; in the second and third quarters of 2014, the Company bought 0.14% and 0.06%, respectively, of ALTC's outstanding shares. These share transactions reduced its continuing interest from 100% to 89.93%.
- b. AdvanPOS issued ordinary shares for the exercise of employee share options, decreasing the Company's holding interest by 8.08% since 2014. In the fourth quarter of 2015 and 2014, the Company subscribed for an additional 6,533 thousand shares and 1,127 thousand shares of AdvanPOS, increasing its continuing interest by 37.89%. These transactions increased its continuing from 70.19% to 100.00%.
- c. The Company merged with Netstar at the end of the third quarter of 2014 as a result of investment restructuring.

The above transactions were accounted for as equity transactions, since the Company did not cease to have control over these subsidiaries. For more detailed information, refer to Note 25 to consolidated financial report for 2015.

22. 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 | |
|-----------------------|--------------------|-----------------|
| | 2015 | 2014 |
| Not later than 1 year | <u>\$ 5,352</u> | <u>\$ 5,942</u> |

The lease payments recognized in profit or loss for the current year were as follows:

| | <u>For the Year Ended December 31</u> | |
|-----------------------|--|------------------|
| | 2015 | 2014 |
| Minimum lease payment | <u>\$ 15,455</u> | <u>\$ 21,200</u> |

23. 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 from 2014 through 2015.

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.

24. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|---------------------|-----------------|----------------|---------------------|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | <u>\$ -</u> | <u>\$ 7,391</u> | <u>\$ -</u> | <u>\$ 7,391</u> |
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | <u>\$ 1,700,814</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,700,814</u> |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | <u>\$ -</u> | <u>\$ 6,352</u> | <u>\$ -</u> | <u>\$ 6,352</u> |

December 31, 2014

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|-----------------------|----------------------|-----------------------|---------------------|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | \$ <u> -</u> | \$ <u> 14,879</u> | \$ <u> -</u> | \$ <u> 14,879</u> |
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | \$ 2,385,937 | \$ - | \$ - | \$ 2,385,937 |
| Mutual funds | <u> 1,717,756</u> | <u> -</u> | <u> -</u> | <u> 1,717,756</u> |
| | <u>\$ 4,103,693</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,103,693</u> |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | \$ <u> -</u> | \$ <u> 8,698</u> | \$ <u> -</u> | \$ <u> 8,698</u> |

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

| | <u>December 31</u> | |
|---|--------------------|-------------|
| | 2015 | 2014 |
| <u>Financial assets</u> | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | \$ 7,391 | \$ 14,879 |
| Loans and receivables (Note 1) | 6,112,664 | 6,204,574 |
| Available-for-sale financial assets | 1,700,814 | 4,103,693 |
| <u>Financial liabilities</u> | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | 6,352 | 8,698 |
| Measured at amortized cost (Note 2) | 5,842,525 | 5,282,353 |

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, note receivables, trade receivables 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 trade financial instrument including derivative financial instruments for speculative purposes.

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

1) Market risk

The Company's activities expose 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

Several subsidiaries of the Company had foreign currency sales and purchases, 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 29 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>U.S. Dollar Impact</u> | | <u>Euro Impact</u> | | <u>Chinese Yuan Impact</u> | |
|----------------|---------------------------|-----------------------|-----------------------|-----------------------|----------------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Profit or loss | \$ 33,883 (Note 1) | \$ 45,210 (Note 1) | \$ 41,827 (Note 2) | \$ 55,691 (Note 2) | \$ 41,897 (Note 3) | \$ 41,358 (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's management monitors fluctuations in market interest rates regularly to ensure that interest rate risks are minimized.

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:

| | <u>December 31</u> | |
|-------------------------------|--------------------|------------|
| | 2015 | 2014 |
| Fair value interest rate risk | | |
| Financial assets | \$ - | \$ 201,962 |
| Cash flow interest rate risk | | |
| Financial assets | 813,331 | 862,306 |

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 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, 2015 and 2014 would increase by \$4,067 thousand and \$4,312 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, 2015 and 2014 would have increased by \$17,008 thousand and \$41,037 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 to discharge an obligation by the counterparties arises 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.

Bank borrowings are a significant source of the Company's liquidity. As of December 31, 2015 and 2014, the Company had available unutilized short-term bank loan facilities set out in (c) below.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the 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.

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.

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.

For the liabilities with floating interests, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2015

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year - 5 Years |
|--|---|---------------------|--|----------------------------------|
| <u>Nonderivative financial liabilities</u> | | | | |
| Noninterest bearing | <u>\$ 3,017,559</u> | <u>\$ 1,790,626</u> | <u>\$ 1,034,340</u> | <u>\$ -</u> |

December 31, 2014

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Over 1 Year - 5 Years |
|--|---|---------------------|--|----------------------------------|
| <u>Nonderivative financial liabilities</u> | | | | |
| Noninterest bearing | <u>\$ 2,319,821</u> | <u>\$ 2,076,529</u> | <u>\$ 886,003</u> | <u>\$ -</u> |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities were subject to change if variable interest rates at the end of the reporting period differed from estimates of interest rates.

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

The following tables show the Company's liquidity analysis of 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, 2015

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Total |
|------------------------------------|---|-------------------|--|-----------------|
| <u>Gross settled</u> | | | | |
| Foreign exchange forward contracts | | | | |
| Inflows | \$ 314,246 | \$ 523,146 | \$ 93,795 | \$ 931,187 |
| Outflows | <u>310,013</u> | <u>526,535</u> | <u>93,600</u> | <u>930,148</u> |
| | <u>\$ 4,233</u> | <u>\$ (3,389)</u> | <u>\$ 195</u> | <u>\$ 1,039</u> |

December 31, 2014

| | On Demand or Less than 1 Month | 1-3 Months | Over 3 Months to 1 Year | Total |
|------------------------------------|---|-------------------|--|-----------------|
| <u>Gross settled</u> | | | | |
| Foreign exchange forward contracts | | | | |
| Inflows | \$ 229,050 | \$ 602,341 | \$ 5,024 | \$ 836,415 |
| Outflows | <u>225,029</u> | <u>600,162</u> | <u>5,043</u> | <u>830,234</u> |
| | <u>\$ 4,021</u> | <u>\$ 2,179</u> | <u>\$ (19)</u> | <u>\$ 6,181</u> |

c) Financing facilities

| | <u>December 31</u> | |
|--------------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Unsecured bank loan facilities | | |
| Amount used | \$ - | \$ - |
| Amount unused | <u>3,148,900</u> | <u>3,091,350</u> |
| | <u>\$ 3,148,900</u> | <u>\$ 3,091,350</u> |

25. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Company and its related parties are disclosed below.

a. Sales of goods

| Related Party Categories | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|----------------------|
| | 2015 | 2014 |
| Subsidiaries | \$ 21,850,199 | \$ 19,470,162 |
| Associates | 29,337 | 80,889 |
| Other related parties | <u>-</u> | <u>221</u> |
| | <u>\$ 21,879,536</u> | <u>\$ 19,551,272</u> |

b. Purchases of goods

| Related Party Categories | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|----------------------|
| | 2015 | 2014 |
| Subsidiaries | \$ 15,254,030 | \$ 14,201,284 |
| Associates | <u>22,241</u> | <u>24,357</u> |
| | <u>\$ 15,276,271</u> | <u>\$ 14,225,641</u> |

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

| Line Item | Related Party Categories | December 31 | |
|---------------------------------------|---------------------------------|---------------------|---------------------|
| | | 2015 | 2014 |
| Account receivables - related parties | Subsidiaries | \$ 3,961,514 | \$ 4,009,011 |
| | Associates | <u>16,485</u> | <u>5,400</u> |
| | | <u>\$ 3,977,999</u> | <u>\$ 4,014,411</u> |
| Note receivable | Associates | <u>\$ 183</u> | <u>\$ 370</u> |

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2015 and 2014 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 | |
|---------------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Subsidiaries | \$ 2,685,959 | \$ 2,432,390 |
| Associates | <u>1,171</u> | <u>1,546</u> |
| | <u>\$ 2,687,130</u> | <u>\$ 2,433,936</u> |

The outstanding trade payables from related parties are unsecured.

- e. Other receivables from related parties (excluding loans to related parties)

| Related Party Categories | December 31 | |
|---------------------------------|--------------------|------------------|
| | 2015 | 2014 |
| Subsidiaries | \$ <u>15,596</u> | \$ <u>15,641</u> |

- f. Property, plant and equipment acquired

| Related Party Categories | Price | |
|---------------------------------|---------------------------------------|-------------------|
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| Subsidiaries | \$ 42,912 | \$ - |
| Other related parties | <u>-</u> | <u>193,240</u> |
| | \$ <u>42,912</u> | \$ <u>193,240</u> |

- g. Loans to related parties (under other receivables from related parties)

| Related Party Categories | December 31 | |
|---------------------------------|--------------------|-----------------|
| | 2015 | 2014 |
| <u>Interest income</u> | | |
| Subsidiaries | \$ <u>-</u> | \$ <u>1,954</u> |

The Company provided unsecured short-term loans to AEU, at rates comparable to market interests.

- h. Other transactions with related parties

| | Operating Expenses | |
|-------------------------|---------------------------------------|------------------|
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| Administration expenses | | |
| Subsidiaries | \$ <u>13,244</u> | \$ <u>12,229</u> |
| Rent expenses | | |
| Subsidiaries | \$ 1,518 | \$ 552 |
| Other related parties | <u>-</u> | <u>4,405</u> |
| | \$ <u>1,518</u> | \$ <u>4,957</u> |
| Others | | |
| Subsidiaries | \$ <u>2,391</u> | \$ <u>-</u> |

| | Other Income | |
|--------------|---------------------------------------|-------------------|
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| Royalties | | |
| Subsidiaries | \$ <u>-</u> | \$ <u>439,706</u> |

| | Other Income | |
|-----------------------|---------------------------------------|------------------|
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| Rent income | | |
| Subsidiaries | \$ 6,416 | \$ 1,676 |
| Other related parties | <u>50</u> | <u>-</u> |
| | <u>\$ 6,466</u> | <u>\$ 1,676</u> |
| Others | | |
| Subsidiaries | \$ 87,367 | \$ 67,229 |
| Other related parties | 2,712 | 2,762 |
| Associates | <u>787</u> | <u>502</u> |
| | <u>\$ 90,866</u> | <u>\$ 70,493</u> |

Contracts on lease arrangements, technical services, and royalty between the Company and its subsidiaries were based on market rental prices and stipulated normal payment terms. There were no significant differences between the selling prices and payment terms for related parties and those for unrelated parties.

i. Compensation of key management personnel

| | For the Year Ended December 31 | |
|------------------------------|---------------------------------------|------------------|
| | 2015 | 2014 |
| Short-term employee benefits | \$ 36,643 | \$ 41,098 |
| Post-employment benefits | 116 | 109 |
| Share-based payments | <u>26,188</u> | <u>11,063</u> |
| | <u>\$ 62,947</u> | <u>\$ 52,270</u> |

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

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

As of December 31, 2014, as requested by suppliers, the Company pledged time deposits of \$18,650 thousand, for a bank guarantee for the Company's purchases.

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2015 were as follows.

Significant commitments

As of December 31, 2015 and 2014, 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 and \$1,491,661 thousand, respectively.

28. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

To expand global brand marketing in industrial network communications, the Company made arrangements to acquire 100% equity in B+B SmartWorx Inc. from Graham Partners, for \$3,300,000 thousand (US\$99,850 thousand) in November 2015. The Company and its subsidiary ANA will invest jointly to obtain all interest in B+B SmartWorx, Inc. As of December 31, 2015, the Company had paid \$2,279,881 thousand, which was recognized as prepayments for investment. The transaction was scheduled for completion by January 2016.

On March 4, 2016 the Company's board of directors approved ATC (HK) to complete an arrangement with Yeh-Chiang Technology (Cayman) to acquire Yeh-Chiang Technology Kun Shan Co., Ltd. at an acquisition cost of RMB93,000 thousand (around \$480,000 thousand). The purpose of this acquisition was to arrange future product line, establish a machinery plant, and expand operations in China.

Please refer to Note 32-"Significant Events after the Reporting Period" for more information on the acquisition in B+B SmartWorx, Inc. and Yeh-Chiang Technology Co. Ltd.

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities 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, 2015

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|--|-----------------------|------------------|---------------------|
| <u>Financial assets</u> | | | |
| 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) | <u>875,759</u> |
| | | | <u>\$ 5,288,950</u> |
| 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) | <u>185,346</u> |
| | | | <u>\$ 9,020,451</u> |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 63,419 | 32.825 (USD:NTD) | \$ 2,081,729 |
| RMB | 207,665 | 4.9950 (RMB:NTD) | <u>1,037,287</u> |
| | | | <u>\$ 3,119,016</u> |

December 31, 2014

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|--|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| RMB | \$ 489,568 | 5.092 (RMB:NTD) | \$ 2,492,880 |
| USD | 76,271 | 31.65 (USD:NTD) | 2,413,977 |
| EUR | 17,712 | 38.47 (EUR:NTD) | <u>681,381</u> |
| | | | <u>\$ 5,588,238</u> |
| Non-monetary items | | | |
| Subsidiaries and associates accounted for using the equity method | | | |
| USD | 224,549 | 31.65 (USD:NTD) | \$ 7,106,976 |
| EUR | 28,377 | 38.47 (EUR:NTD) | 1,091,663 |
| KRW | 8,813,163 | 0.029 (KRW:NTD) | 255,582 |
| JPY | 559,607 | 0.265 (JPY:NTD) | 148,296 |
| SGD | 4,278 | 23.94 (JPY:NTD) | <u>102,415</u> |
| | | | <u>\$ 8,704,932</u> |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 46,439 | 31.65 (USD:NTD) | \$ 1,469,794 |
| RMB | 262,127 | 5.092 (RMB:NTD) | <u>1,334,751</u> |
| | | | <u>\$ 2,804,545</u> |

For the years ended December 2015 and 2014, realized and unrealized net foreign exchange gains (losses) were \$(88,859) thousand and \$53,744 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.

30. 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. (None)

- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
 - 9) Transactions of financial instruments. (Notes 7 and 24)
 - 10) Name, locations, and other information of investees. (Table 7)
- 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 8)
 - 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 Table 5.

ADVANTECH CO., LTD. AND INVESTEEES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2015
(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 Period | Ending Balance | Ending Balance | | | | | | Item | Value | | |
| 1 | AEUH | AEU | Accounts receivable - related parties | Yes | \$ 26,910 (EUR 750 thousand) | \$ 26,910 (EUR 750 thousand) | \$ - | 4 | Short-term financing | \$ - | Financing need | \$ - | None | None | \$ 2,330,750 (Note C) | \$ 4,661,500 (Note C) |
| 2 | ANA | AKMC | Accounts receivable - related parties | Yes | 134,583 (US\$ 4,100 thousand) | 134,583 (US\$ 4,100 thousand) | - | 2 | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |
| 3 | Better Auto Holdings Limited (Better Auto) | Dongguan Pou Yuen Digital Technology Co., Ltd. | Accounts receivable - related parties | Yes | 22,577 (RMB 4,520 thousand) | 22,577 (RMB 4,520 thousand) | 22,577 (RMB 4,520 thousand) | - | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |
| | | Dongguan Pou Yuen Digital Technology Co., Ltd. | Accounts receivable - related parties | Yes | 16,413 (US\$ 500 thousand) | 16,413 (US\$ 500 thousand) | 16,413 (US\$ 500 thousand) | - | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |
| 4 | Advantech Corporate Investment | AdvanPOS | Accounts receivable - related parties | Yes | 100,000 | - | - | 1.15 | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |
| | | The Company | Accounts receivable - related parties | Yes | 500,000 | 500,000 | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |
| 5 | Cermate Technologies (Shanghai) Inc. | Shenzhen Cermate Technologies Inc. | Prepayments of inventories | Yes | 14,985 (RMB 3,000 thousand) | 14,985 (RMB 3,000 thousand) | - | - | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |
| 6 | ACA | The Company | Accounts receivable - related parties | Yes | 100,000 | 100,000 | - | 1 | Short-term financing | - | Financing need | - | None | None | 2,330,750 (Note C) | 4,661,500 (Note C) |

Note A: Investee companies are numbered sequentially from 1.

Note B: The exchange rates as of December 31, 2015 were EUR1=NT\$35.88, US\$1=NT\$32.825 and RMB1=NT\$4.995.

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.

ADVANTECH CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2015

(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 Period | Outstanding Endorsement/ Guarantee at the End of the Period | 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 | ACA Advansus Corp. | Subsidiary Subsidiary | \$ 2,330,750 2,330,750 | \$ 126,000 131,300 (US\$ 4,000 thousand) | \$ - 131,300 (US\$ 4,000 thousand) | \$ - - | \$ - - | - 0.6 | \$ 6,992,250 6,992,250 | Y Y | N N | 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, 2015 was US\$1=NT\$32.825.

ADVANTECH CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD

FOR THE YEAR ENDED DECEMBER 31, 2015

(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, 2015 | | | | Note |
|--------------------------------------|--|---------------------------------------|---|-------------------|-----------------|-------------------------|--------------|---------------|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value | |
| The Company | <u>Stock</u> ASUSTek Computer Inc. | - | Available for sale financial assets - noncurrent | 5,239,461 | \$ 1,425,133 | 0.71 | \$ 1,425,133 | Notes A and C |
| | Pegatron Corp. | - | " | 3,540,570 | 254,921 | 0.14 | 254,921 | Notes A and D |
| | Allied Circuit Co., Ltd. | - | " | 1,200,000 | 20,760 | 2.41 | 20,760 | Note A |
| Advantech Corporate Investment | <u>Stock</u> Allied Circuit Co., Ltd. | - | Financial assets at fair value through profit or loss - current | 2,800,000 | 48,440 | 5.63 | 48,440 | Note A |
| | Wistron NeWeb Corp. | - | " | 129,900 | 11,392 | 0.04 | 11,392 | Note A |
| | Senao Networks, Inc. | - | " | 36,000 | 7,722 | 0.07 | 7,722 | Note A |
| | NXP Semiconductors N.V. | - | " | 5,350 | 14,795 | - | 14,795 | Note A |
| | Honeywell International Inc. | - | " | 3,365 | 11,440 | - | 11,440 | Note A |
| | Google Inc. - Class A | - | " | 733 | 18,720 | - | 18,720 | Note A |
| | Linear Technology Corporation | - | " | 9,704 | 13,528 | - | 13,528 | Note A |
| | Skyworks Solutions Inc. | - | " | 3,267 | 8,239 | - | 8,239 | Note A |
| | Ambarella, Inc. | - | " | 3,653 | 6,684 | 0.01 | 6,684 | Note A |
| | Arm Holdings Plc | - | " | 6,056 | 8,993 | - | 8,993 | Note A |
| | Murata Manufacturing Co., Ltd. | - | " | 2,000 | 9,593 | - | 9,593 | Note A |
| | Avago Technologies Ltd. | - | " | 1,034 | 4,927 | - | 4,927 | Note A |
| | Softbank Corp. | - | " | 2,700 | 4,525 | - | 4,525 | Note A |
| | COBAN Research and Technologies, Inc. | - | Available for sale financial assets - noncurrent | 600,000 | 33,257 | 6.85 | 33,257 | - |
| | BroadTec System Inc. | - | " | 150,000 | 1,500 | 7.50 | 1,500 | - |
| | BiosenseTek Corp. | - | " | 37,500 | 375 | 1.79 | 375 | - |
| | Jaguar Technology | - | " | 500,000 | 7,500 | 16.67 | 7,500 | - |
| | Allied Circuit Co., Ltd. | - | " | 240,000 | 4,152 | 0.48 | 4,152 | Note A |
| | Phison Electronics Corporation | - | Available for sale financial assets - current | 1,500,000 | 348,750 | 0.76 | 348,750 | Note A |
| | Vanguard International Semiconductor Corp. | - | " | 427,000 | 18,276 | 0.03 | 18,276 | Note A |
| Radiant Opto-Electronics Corporation | - | " | 500,000 | 37,700 | 0.11 | 37,700 | Note A | |
| Lelon Electronics Corporation | - | " | 2,550,000 | 79,815 | 1.94 | 79,815 | Note A | |

(Continued)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2015 | | | | Note |
|---------------------------------------|---|---------------------------------------|---|-------------------|-----------------|-------------------------|------------|--------|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value | |
| | <u>Fund</u> Taishin 1699 Money Market | - | Available for sale financial assets - current | 1,944,661 | \$ 25,974 | - | \$ 25,974 | Note B |
| | Mega Diamond Money Market | - | " | 20,343,352 | 256,292 | - | 256,292 | Note B |
| | Franklin Templeton SinoAm First Fund | - | " | 20,453,638 | 208,586 | - | 208,586 | Note B |
| Advansus Corp. | <u>Fund</u> Jih Sun Money Market | - | " | 19,537,275 | 285,664 | - | 285,664 | Note B |
| | Mega Diamond Money Market | - | " | 1,375,894 | 17,029 | - | 17,029 | Note B |
| | | | | | | | | |
| Cermate | <u>Fund</u> Mega Diamond Money Market | - | " | 3,565,982 | 44,136 | - | 44,136 | Note B |
| AiST | <u>Fund</u> Franklin Templeton SinoAm First Fund | - | " | 1,388,712 | 14,162 | - | 14,162 | Note B |
| | Jill Sun Money Market | - | " | 2,052,110 | 30,005 | - | 30,005 | Note B |
| ACA | <u>Fund</u> Mega Diamond Money Market | - | " | 18,860,525 | 233,435 | - | 233,435 | Note B |
| ALTC | <u>Fund</u> Mega Diamond Money Market | - | " | 5,996,318 | 74,216 | - | 74,216 | Note B |
| | Capital Money Market | - | " | 816,016 | 13,002 | - | 13,002 | Note B |
| AdvanPOS | <u>Fund</u> Mega Diamond Money Market | - | " | 242,411 | 3,000 | - | 3,000 | Note B |
| Advantech Innovative Design Co., Ltd. | <u>Fund</u> Capital Money Market | - | " | 420,935 | 6,707 | - | 6,707 | Note B |
| Advantech iFactory Co., Ltd. | <u>Fund</u> Capital Money Market | - | " | 3,708,709 | 59,094 | - | 59,094 | Note B |

Note A: Market value was based on the closing price on December 31, 2015.

Note B: Market value was based on the net asset values of the open-ended mutual funds on December 31, 2015.

Note C: The amount included \$1,128,800 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 \$147,600 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)

ADVANTECH CO., LTD. AND INVESTEEES

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, 2015
(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 | <u>Fund</u> Capital Money Market | Available for sale financial assets - current | - | - | 35,357,851 | \$ 560,000 | 86,331,608 | \$ 1,373,000 | 121,689,459 | \$ 1,935,978 | \$ 1,933,000 | \$ 2,978 | - | \$ - |
| | Mega Diamond Money Market | Available for sale financial assets - current | - | - | 76,853,657 | 945,000 | 53,339,232 | 658,000 | 130,192,889 | 1,608,385 | 1,603,000 | 5,385 | - | - |
| | CTBC Hwa-Win Money Market Fund | Available for sale financial assets - current | - | - | - | - | 57,141,073 | 619,000 | 57,141,073 | 620,085 | 619,000 | 1,085 | - | - |
| | Taishin 1699 Money Market | Available for sale financial assets - current | - | - | - | - | 26,840,013 | 357,000 | 26,840,013 | 357,630 | 357,000 | 630 | - | - |
| | Franklin Templeton SinoAm First Fund | Available for sale financial assets - current | - | - | - | - | 66,725,118 | 678,000 | 66,725,118 | 678,870 | 678,000 | 870 | - | - |
| | <u>Stock</u> Pegatron Corp. | Available for sale financial assets - noncurrent | - | - | 7,814,570 | 281,325 | - | - | 4,274,000 | 341,504 | 153,864 | 187,640 | 3,540,570 | 127,461 |
| Advansus Corp. | <u>Fund</u> Jih Sun Money Market | Available for sale financial assets - current | - | - | 7,656,351 | 111,151 | 35,655,276 | 520,000 | 23,774,352 | 346,444 | 346,096 | 348 | 19,537,275 | 285,055 |
| ACN | <u>Investment product</u> 90 days guaranteed-yield investment product denominated in RMB | Available for sale financial assets - current | - | - | - | 549,450 (RMB 110,000) | - | 449,550 (RMB 90,000) | - | 1,012,816 (RMB 202,745) | 999,000 (RMB 200,000) | 13,816 (RMB 2,745) | - | - |
| AiSC | 33 days guaranteed-yield investment product denominated in RMB | Available for sale financial assets - current | - | - | - | - | - | 454,545 (RMB 91,000) | - | 457,459 (RMB 91,579) | 454,545 (RMB 91,000) | 2,914 (RMB 579) | - | - |

Note: The exchange rate as of December 31, 2015 was RMB1=NT\$4.995.

TABLE 5

ADVANTECH CO., LTD. AND INVESTEEES

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, 2015

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

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|----------------|--|----------------|---------------------|--------------|------------|----------------------------|----------------------|--|-------------------------------------|------------|--------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| The Company | AAU | Subsidiary | Sale | \$ (211,356) | 0.73 | 60-90 days | Contract price | No significant difference in terms for related parties | \$ 64,989 | 1.25 | Note A |
| | ABR | Subsidiary | Sale | (105,031) | 0.36 | 90 days after month-end | Contract price | No significant difference in terms for related parties | 1,504 | 0.03 | |
| | ACN | Subsidiary | Sale | (5,253,505) | 18.12 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 1,223,356 | 23.62 | |
| | A-DLoG | Subsidiary | Sale | (135,719) | 0.47 | 30 days after invoice date | Contract price | No significant difference in terms for related parties | 46,111 | 0.89 | |
| | AEU | Subsidiary | Sale | (3,532,528) | 12.18 | 30 days after month-end | Contract price | No significant difference in terms for related parties | 982,086 | 18.96 | |
| | Shanghai Advantech Intelligent Services Co., Ltd. (AiSC) | Subsidiary | Sale | (618,949) | 2.13 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 98,466 | 1.90 | |
| | AJP | Subsidiary | Sale | (508,049) | 1.75 | 60-90 days | Contract price | No significant difference in terms for related parties | 96,045 | 1.85 | |
| | AKMC | Subsidiary | Sale | (1,396,273) | 4.82 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 168,142 | 3.25 | |
| | AKR | Subsidiary | Sale | (801,727) | 2.76 | 60 days after invoice date | Contract price | No significant difference in terms for related parties | 36,464 | 0.70 | |
| | ANA | Subsidiary | Sale | (8,255,607) | 28.77 | 45 days after month-end | Contract price | No significant difference in terms for related parties | 1,066,498 | 20.59 | |
| | ASG | Subsidiary | Sale | (168,220) | 0.58 | 60-90 days | Contract price | No significant difference in terms for related parties | 26,056 | 0.50 | |
| | Advansus Corp. | Subsidiary | Sale | (499,193) | 1.72 | 60-90 days | Contract price | No significant difference in terms for related parties | 55,944 | 1.08 | |
| | ATC | Subsidiary | Purchase | 9,629,246 | 46.39 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,403,404) | 39.13 | |
| | Advansus Corp. | Subsidiary | Purchase | 3,636,577 | 17.52 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,053,185) | 29.36 | |
| | ACA | Subsidiary | Purchase | 1,860,639 | 8.96 | Usual trade terms | Contract price | No significant difference in terms for related parties | (195,485) | 5.45 | |
| ATC | The Company | Parent company | Sale | (9,629,246) | 99.15 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,403,404 | 98.00 | |
| Advansus Corp. | The Company | Parent company | Sale | (3,636,577) | 49.70 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,053,185 | 64.56 | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|----------------|--|--------------------|---------------------|----------------|------------|----------------------------|----------------------|--|-------------------------------------|------------|------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| ACA | The Company | Parent company | Sale | \$ (1,860,639) | 81.31 | Usual trade terms | Contract price | No significant difference in terms for related parties | \$ 195,485 | 98.09 | |
| AAU | The Company | Parent company | Purchase | 211,356 | 83.10 | 60-90 days | Contract price | No significant difference in terms for related parties | (64,989) | 88.17 | |
| ABR | The Company | Parent company | Purchase | 105,031 | 62.56 | 90 days after month-end | Contract price | No significant difference in terms for related parties | (1,504) | 27.50 | |
| ACN | The Company | Parent company | Purchase | 5,253,505 | 76.85 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (1,223,356) | 80.55 | |
| A-DLoG | The Company | Parent company | Purchase | 135,719 | 17.65 | 30 days after invoice date | Contract price | No significant difference in terms for related parties | (46,111) | 54.47 | |
| AEU | The Company | Parent company | Purchase | 3,532,528 | 80.97 | 30 days after month-end | Contract price | No significant difference in terms for related parties | (982,086) | 100.00 | |
| AiSC | The Company | Parent company | Purchase | 618,949 | 54.65 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (98,466) | 63.63 | |
| AJP | The Company | Parent company | Purchase | 508,049 | 91.95 | 60-90 days | Contract price | No significant difference in terms for related parties | (96,045) | 99.58 | |
| AKMC | The Company | Parent company | Purchase | 1,396,273 | 15.47 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (168,142) | 10.76 | |
| AKR | The Company | Parent company | Purchase | 801,727 | 73.01 | 60 days after invoice date | Contract price | No significant difference in terms for related parties | (36,464) | 49.91 | |
| ANA | The Company | Parent company | Purchase | 8,255,607 | 90.30 | 45 days after month-end | Contract price | No significant difference in terms for related parties | (1,066,498) | 94.57 | |
| ASG | The Company | Parent company | Purchase | 168,220 | 70.56 | 60-90 days | Contract price | No significant difference in terms for related parties | (26,056) | 66.74 | |
| Advansus Corp. | The Company | Parent company | Purchase | 499,193 | 7.55 | 60-90 days | Contract price | No significant difference in terms for related parties | (55,944) | 5.48 | |
| ACA | Advansus Corp. | Related enterprise | Sale | (319,742) | 13.97 | Usual trade terms | Contract price | No significant difference in terms for related parties | 227 | 0.11 | |
| ALNC | Dongguan Pou Yuen Digital Technology Co., Ltd. | Subsidiary | Sale | (173,704) | 7.59 | Usual trade terms | Contract price | No significant difference in terms for related parties | 39,654 | 45.14 | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|--|----------------|--------------------|---------------------|--------------|------------|-------------------|----------------------|--|-------------------------------------|------------|------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| AKMC | ACN | Related enterprise | Sale | \$ (282,163) | 2.83 | Usual trade terms | Contract price | No significant difference in terms for related parties | \$ 75,626 | 13.50 | |
| | AiSC | Related enterprise | Sale | (226,745) | 2.28 | Usual trade terms | Contract price | No significant difference in terms for related parties | 20,640 | 3.69 | |
| | ATC | Parent company | Sale | (9,390,156) | 94.32 | Usual trade terms | Contract price | No significant difference in terms for related parties | 457,038 | 81.60 | |
| Advansus Corp. | AKMC | Related enterprise | Sale | (2,634,209) | 36.00 | Usual trade terms | Contract price | No significant difference in terms for related parties | 447,522 | 27.43 | |
| AiSC | AKMC | Related enterprise | Sale | (101,554) | 1.39 | Usual trade terms | Contract price | No significant difference in terms for related parties | 19,019 | 6.16 | |
| ACN | AiSC | Related enterprise | Sale | (100,010) | 1.37 | Usual trade terms | Contract price | No significant difference in terms for related parties | 1,681 | 0.10 | |
| Advansus Corp. | ACA | Related enterprise | Purchase | 319,742 | 4.83 | Usual trade terms | Contract price | No significant difference in terms for related parties | (227) | 0.02 | |
| Dongguan Pou Yuen Digital Technology Co., Ltd. | ALNC | Parent company | Purchase | 173,704 | 83.56 | Usual trade terms | Contract price | No significant difference in terms for related parties | (39,654) | 47.29 | |
| ACN | AKMC | Related enterprise | Purchase | 282,163 | 4.13 | Usual trade terms | Contract price | No significant difference in terms for related parties | (75,626) | 4.98 | |
| AiSC | AKMC | Related enterprise | Purchase | 226,745 | 20.02 | Usual trade terms | Contract price | No significant difference in terms for related parties | (20,640) | 13.34 | |
| ATC | AKMC | Parent company | Purchase | 9,390,156 | 98.36 | Usual trade terms | Contract price | No significant difference in terms for related parties | (457,038) | 97.06 | |
| AKMC | Advansus Corp. | Related enterprise | Purchase | 2,634,209 | 29.19 | Usual trade terms | Contract price | No significant difference in terms for related parties | (447,522) | 28.65 | |
| | AiSC | Related enterprise | Purchase | 101,554 | 1.13 | Usual trade terms | Contract price | No significant difference in terms for related parties | (19,019) | 1.22 | |
| AiSC | ACN | Related enterprise | Purchase | 100,010 | 1.46 | Usual trade terms | Contract price | No significant difference in terms for related parties | (1,681) | 1.09 | |

Note A: Unrealized gain for the year was \$6,076 thousand.

Note B: Realized gain for the year was \$3,563 thousand.

Note C: Realized gain for the year was \$1,469 thousand.

(Concluded)

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, 2015

(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 | \$ 1,223,356 | 3.99 | \$ - | - | \$ 791,160 | \$ - |
| | AEU | Subsidiary | 985,806 | 4.04 | - | - | 417,295 | - |
| | AKMC | Subsidiary | 168,142 | 6.29 | - | - | 144,581 | - |
| | ANA | Subsidiary | 1,068,921 | 8.51 | - | - | 560,238 | - |
| ATC | The Company | Parent company | 1,403,404 | 6.25 | - | - | 1,197,763 | - |
| ACA | The Company | Parent company | 195,485 | 8.43 | - | - | 109,096 | - |
| Advansus Corp. | The Company | Parent company | 1,053,185 | 4.81 | - | - | 393,904 | - |
| AKMC | ATC | Parent company | 457,038 | 16.48 | - | - | 457,038 | - |
| Advansus Corp. | AKMC | Related enterprise | 447,522 | 5.71 | - | - | 196,432 | - |

ADVANTECH CO., LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2015

(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, 2015 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note A) | Note |
|--------------------------------|---------------------------------------|----------------------------|---|-------------------|-------------------|---------------------------------|-------------------------|----------------|-----------------------------------|---------------------------------|------------------------|
| | | | | December 31, 2015 | December 31, 2014 | 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 | \$ 3,735,761 | \$ 303,287 | \$ 306,889 | Subsidiary |
| | ATC | BVI | Sale of industrial automation products | 1,231,118 | 1,231,118 | 40,850,000 | 100.00 | 3,626,645 | 128,416 | 134,333 | Subsidiary |
| | Advansus Corp. | Taipei, Taiwan | Production and sale of industrial automation products | 486,000 | 486,000 | 36,000,000 | 100.00 | 999,983 | 536,439 | 521,190 | Subsidiary |
| | Advantech Corporate Investment | Taipei, Taiwan | Investment holding company | 1,400,000 | 900,000 | 150,000,000 | 100.00 | 1,558,953 | 10,362 | 10,472 | Subsidiary |
| | Axiomtek | Taipei, Taiwan | Production and sale of industrial automation products | 249,059 | 249,059 | 20,537,984 | 25.99 | 450,246 | 424,099 | 110,474 | Equity-method investee |
| | AdvanPOS | Taipei, Taiwan | Production and sale of POS system | 460,572 | 341,995 | 20,438,000 | 100.00 | 358,662 | (9,938) | (8,252) | Subsidiary |
| | ALTC | Taichung, Taiwan | Production and sale of machine control solution | 478,825 | 478,825 | 26,980,000 | 89.93 | 516,626 | 6,131 | 5,730 | Subsidiary |
| | Jan Hsiang | Taipei, Taiwan | Electronic parts and components manufacturing | 3,719 | 3,719 | 655,500 | 28.50 | 9,510 | (1,161) | (332) | Equity-method investee |
| | AMX | Mexico | Sale of industrial automation products | 4,922 | 4,922 | - | 100.00 | 1,562 | 924 | 924 | Subsidiary |
| | AEUH | Helmond, The Netherlands | Investment and management service | 1,219,124 | 1,262,051 | 12,572,024 | 100.00 | 898,536 | 67,967 | 68,758 | Subsidiary |
| | ASG | Techplace, Singapore | Sale of industrial automation products | 27,134 | 27,134 | 1,450,000 | 100.00 | 82,906 | 13,065 | 13,065 | Subsidiary |
| | AAU | Sydney, Australia | Sale of industrial automation products | 40,600 | 40,600 | 500,204 | 100.00 | 30,171 | (6,648) | (6,648) | Subsidiary |
| | AJP | Tokyo, Japan | Sale of industrial automation products | 15,472 | 15,472 | 1,200 | 100.00 | 179,407 | 31,380 | 31,380 | Subsidiary |
| | AMY | Malaysia | Sale of industrial automation products | 35,140 | 35,140 | 2,000,000 | 100.00 | 36,439 | 7,277 | 7,277 | Subsidiary |
| | AKR | Seoul, Korea | Sale of industrial automation products | 73,355 | 73,355 | 600,000 | 100.00 | 202,503 | 17,462 | 17,462 | Subsidiary |
| | ABR | Sao Paulo, Brazil | Sale of industrial automation products | 43,216 | 43,216 | 1,794,996 | 80.00 | 48,320 | 10,126 | 8,101 | Subsidiary |
| | ACA | Taipei, Taiwan | Production and sale of industrial automation products | 146,440 | 146,440 | 8,000,000 | 100.00 | 319,859 | 100,220 | 105,075 | Subsidiary |
| | Advantech Innovative Design Co., Ltd. | Taipei, Taiwan | Product design | 10,000 | - | 1,000,000 | 100.00 | 8,569 | (1,441) | (1,441) | Subsidiary |
| | Advantech iFactory Co., Ltd. | Taipei, Taiwan | Cybernation equipment construction | 60,000 | - | 6,000,000 | 100.00 | 60,088 | (6) | (6) | Subsidiary |
| | AIN | India | Sale of industrial automation products | 5,567 | 5,567 | 999,999 | 99.99 | 13,479 | 20,540 | 20,540 | Subsidiary |
| Advantech Corporate Investment | AiST | Taipei, Taiwan | Design, develop and sale of intelligent services | 142,063 | 142,063 | 10,000,000 | 100.00 | 196,152 | 24,092 | 24,092 | Subsidiary |
| | Cermate Technologies Inc. | Taipei, Taiwan | Manufacturing of electronic parts, computer, and peripheral devices | 71,500 | 71,500 | 5,500,000 | 55.00 | 121,042 | 35,311 | 19,531 | Subsidiary |
| | Deneng Scientific Research Co., Ltd. | Taichung, Taiwan | Installment and sale of electronic components and software | 18,095 | 18,095 | 658,000 | 39.69 | 18,228 | 212 | 84 | Equity-method investee |
| ATC | ATC (HK) | Hong Kong | Investment and management service | 1,212,730 | 1,212,730 | 41,650,001 | 100.00 | 2,683,857 | 203,353 | 209,271 | Subsidiary |
| AAC (BVI) | ANA | Sunnyvale, USA | Sale and fabrication of industrial automation products | 504,179 | 504,179 | 10,952,606 | 100.00 | 2,101,666 | 147,648 | 148,385 | Subsidiary |
| | AAC (HK) | Hong Kong | Investment and management service | 539,146 | 539,146 | 15,230,001 | 100.00 | 1,826,597 | 155,698 | 158,562 | Subsidiary |
| AEUH | AEU | Eindhoven, The Netherlands | Sale of industrial automation products | 431,963 | 431,963 | 11,314,280 | 100.00 | 913,908 | 67,256 | 68,048 | Subsidiary |
| | APL | Warsaw, Poland | Sale of industrial automation products | 14,176 | 14,176 | 6,350 | 100.00 | 23,403 | 1,078 | 1,078 | 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 | 560,527 | 32,551 | 21,774 | Subsidiary |
| ASG | ATH | Thailand | Production of computers | 7,537 | 7,537 | 51,000 | 51.00 | 15,968 | 9,358 | 4,773 | Subsidiary |
| | AID | Indonesia | Sale of industrial automation products | 4,797 | 4,797 | 300,000 | 100.00 | 4,356 | 2,524 | 2,524 | Subsidiary |
| Cermate | LandMark | BVI | General investment | 28,200 | 28,200 | 972,284 | 100.00 | 74,923 | 15,152 | 15,262 | Subsidiary |
| ALTC | Better Auto | BVI | General investment | 264,445 | 264,445 | 8,556,096 | 100.00 | 106,456 | (49,267) | (48,722) | Subsidiary |
| Better Auto | Famous Now | BVI | General investment | US\$ 4,000 | US\$ 4,000 | 1 | 100.00 | 68,034 | (42,589) | (42,589) | Subsidiary |
| AdvanPOS | Bright Mind Limited | Samoa | General investment | US\$ 200 | US\$ 200 | 200 | 100.00 | (571) | (496) | (1,096) | Subsidiary |

Note A: The financial statements used as basis of net asset values had been audited by independent CPAs, except those of AIN, AMX, Advantech Innovative Design Co., Ltd. and Advantech iFactory Co., Ltd.

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

ADVANTECH CO., LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2015

(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, 2015 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2015 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note A) | Carrying Value as of December 31, 2015 | Accumulated Inward Remittance of Earnings as of December 31, 2015 |
|---|---|---------------------------------|--|---|------------------|--------|---|-----------------------------------|--|---------------------------------|--|---|
| | | | | | Outflow | Inflow | | | | | | |
| Advantech Technology (China) Company Ltd. (AKMC) | Production and sale of components of industrial automation products | US\$ 43,750 thousand (Note F) | Indirect | \$ 1,224,373 (US\$ 37,300 thousand) | \$ - | \$ - | \$ 1,224,373 (US\$ 37,300 thousand) | \$ 203,353 | 100 | \$ 203,458 | \$ 2,678,044 | \$ - |
| Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN) | Sale of industrial automation products | US\$ 4,230 Thousand | Indirect | 175,023 (US\$ 5,332 thousand) | - | - | 175,023 (US\$ 5,332 thousand) | 132,777 | 100 | 133,216 | 1,008,347 | 368,690 (US\$ 11,232 thousand) |
| Shanghai Advantech Intelligent Services Co., Ltd. (AiSC) | Sale of industrial automation products | US\$ 8,000 Thousand | Indirect | 262,600 (US\$ 8,000 thousand) | - | - | 262,600 (US\$ 8,000 thousand) | 23,659 | 100 | 26,085 | 773,904 | - |
| Xi'an Advantech Software Ltd. (AXA) | Development and production of software products | US\$ 1,000 Thousand | Indirect | (Note C) | - | - | (Note C) | 871 | 100 | 871 | 42,783 | - |
| Hangzhou Advantofine Automation Tech. Co., Ltd. | Processing and sale of industrial automation products | RMB 3,000 Thousand | Indirect | (Note D) | - | - | (Note D) | 524 | 60 | 314 | 13,711 | - |

| Accumulated Investment in Mainland China as of December 31, 2015 | Investment Amounts Authorized by Investment Commission, MOEA | Allowable Limit on Investment |
|--|--|-------------------------------|
| \$1,668,560 (US\$50,832 thousand) (Note E) | \$2,333,858 (US\$71,100 thousand) | \$14,072,266 (Note H) |

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.

(Continued)

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: The exchange rate was US\$1.00=NT\$32.825.

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

(Concluded)