

Stock Code: 2395

**ADVANTECH**

*Enabling an Intelligent Planet*

Advantech Co.,Ltd.

Annual General Shareholders Meeting for 2016

Meeting Handbook

May 25 , 2016

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# Advantech Co., Ltd.

## Procedure for the 2016 General Shareholders' Meeting

1. Call the Meeting to Order
2. Chairperson Remarks
3. Discussion (一)
4. Management Presentation
5. Matters to be approved
6. Discussion (二)
7. Motions
8. Adjournment

# **I. Agenda of Annual Meeting**

## **Advantech Co., Ltd. Agenda of 2016 General Shareholders' Meeting**

Time: 9:00 a.m. on May 25 (Wednesday), 2016

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

**1. Call the Meeting to Order**

**2. Chairperson Remarks**

**3. Discussion (一)**

(1) Amendment to the Company's Corporate Charter

**4. Management Presentations**

(1) The 2015 Business Report

(2) Supervisor's Review Report on the 2015 Financial Statements

(3) To report 2015 employees' profit sharing bonus and directors' compensation

(4) The Status of Endorsement and Guarantee in 2015

**5. Matters to be approved**

(1) Adoption of the 2015 Business Report and Financial Statements

(2) Adoption of the Proposal for Distribution of 2015 Profits

**6. Discussion(二)**

(1) The Company plans to issue employee share options with price lower than fair market value

**7. Motions**

**8. Adjournment**

## 1. Discussion(一)

### Proposal: 1

(Proposed by the board of directors)

Cause of action : Amendment to the Company's Corporate Charter (Articles of Incorporation). Please proceed to discuss.

1. The Article of Association is amended according to Article 235.1 and Article 235 s of the Company Law regarding bonus to employees and remuneration to directors and supervisor in compliance with Hua.Chong.I.Yi.Tzi No. 10400058161 Order dated May 20, 2015.
2. In order to comply with law and regulations and conform to the needs of commercial practice, the Company hereby proposes to amend Article 13, Article 20, Article 20.2, and Article 22 of the Corporate Charter.
3. Corporate Charter (Articles of Incorporation) Article Amendments Table. Please refer to Attachment 5.
4. Please proceed to discuss.

Resolution :

## 2. Management Presentations

### Report No. 1

Cause of action : The 2015 Business Reports

Explanation : The 2015 Business Report is attached as Attachment I.

### Report No. 2

Cause of action : Supervisor's Review Report on the 2015 Financial Statements

Explanation : 1. The Supervisor's Review Report is attached as Attachment II.  
2. Supervisors are urged to read out the review report.

### Report No. 3

Cause of action : The distribution of bonus to the company's employees and remuneration to directors and supervisors in 2015.  
1. It is processed in accordance with Article 235.1 of the Company Law, Jin.sun.tzi No. 10402413890 Letter of the MOEA dated June 11, 2015, and Jin.sun.tzi No. 10402427800 Letter of the MOEA dated October 15, 2015.  
2. In consideration of the company's overall business operations and the payment standard of the industry, it is recommended to appropriate an amount of NT\$200,000,000 as bonus to employees and NT\$12,000,000 as remuneration to directors and supervisors paid in cash from the net income of 2015.  
3. The proposal is passed in the Remuneration Committee meeting.

### Report No. 4

Cause of action : The Status of Endorsement and Guarantee in 2015

Explanation : 1. In compliance with the Company's "Procedure for Making of Endorsements / Guarantees"  
2. The Company issued a letter of guarantee to endorse and guarantee the subsidiary's purchase of materials in response to the subsidiary's business operation. The balance of endorsement and guarantee amounted to NT\$131,300 thousand as of December 31, 2015, representing 2.08% of the Company's paid-in capital.  
3. Please review the statement of endorsement and guaranteed amount enclosed.

Guarantor (Company)	Subsidiary of the guaranteed company	Category	Amount (original currency __K)	NTD (NTD__K)	Remarks
Advantech (ACL)	ADVANSUS	Endorsement and guarantee for purchase of materials	USD4,000	131,300	
Total				\$131,300	Under the limit (Note)

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

(1)Maximum endorsement and guarantee amounted to NT\$6,992,250 thousand.

(2)Maximum endorsement and guarantee for one single enterprise amounted to NT\$ 2,330,750 thousand.

(3)The amount of limit referred to above is calculated in accordance with the net value NT\$23,307,501 thousand stated in the 2015 audited financial statements.

### 3. Matters to be approved

#### Proposal 1:

(Proposed by the board of directors)

Cause of action : Adoption of the 2015 Business Report and Financial Statements

Explanation : 1. The 2015 business report and standalone financial statements (including consolidated financial statements) were composed by the Board of Directors. The Company's financial statements were audited by independent auditors, M.J. Chiou and C.S. Chen, of Deloitte & Touche and were reviewed by the supervisor along with the business report with a written audit report issued.

2. The Business Report, independent auditor's report, and Financial Statements are enclosed as Attachment I and Attachment III.

3. Please acknowledge.

Resolution :

#### Proposal: 2

(Proposed by the board of directors)

Cause of action : Adoption of the Proposal for Distribution of 2015 Profits

Explanation : 1. Please refer to the 2015 prorofit distribution table in Attachment IV.

2. The company's 2015 business operation is with net income of NT\$5,104,346,793, plus the beginning unappropriated earnings of NT\$2,080,287,842, net of the retained earnings adjustment for NT\$62,905,864 due to long-term equity investments, defined benefit plans revaluation amount of NT\$23,278,914 credited to the retained earnings, and the legal reserve of NT\$510,434,679 appropriated that is with the distributable earnings of NT\$6,588,015,178 resulted to be distributed as follows:

- (1) An amount of NT\$3,791,118,600 out of the 2015 earnings is appropriated for distribution as shareholder's dividend (cash dividend). There were 631,853,100 shares of common stock outstanding on December 31, 2015 that are entitled to the distribution of shareholder's dividend at NT\$6 per share.
- (2) The distribution of cash dividend is calculated to the dollar (round up to the dollar). The total amount of the odd shares with a distribution of less than NT\$1 will be booked as the other income or other expense of the company.
- (3) The current distribution of earnings is scheduled before the dividend benchmark date. If there is any change in the yield rate as a result of any change in the Company's outstanding shares, a request is to be made in the shareholders' meeting having the Board authorized to handle matters related to the changes.
- (4) In addition, in line with the implementation of the income tax integration, while calculating the tax credit distributed to shareholders in accordance with Article 66.6 of the Income

Tax Act, the earnings of 1998 and thereafter should be distributed with priority; also, while calculating the distribution of unappropriated earnings with 10% business tax levied in accordance with Article 66.9 of the Income Tax Act, the earnings of the most recent years should be distributed with priority in accordance with Tai.Fin.Tax No. 871941343 Letter dated April 30, 1998 by the Ministry of Finance and by itemized recognition.

(5) Please acknowledge.

Resolution :

### 3. Discussion(二)

(Proposed by the board of directors)

#### Proposal: 1

Cause of action : The company's plan of issuing employee stock warrants at a price below market price is hereby proposed for a resolution.

1. The company intends to have employee stock warrant issued at a price below market price in accordance with Article 28.3 of the Securities Exchange Act and the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers" published by the Securities and Futures Bureau, Financial Supervisory Commission, R.O.C.

2. According to Article 56-1 of the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers:"

(1) Total number of employee stock warrants issued, the number of shares to be subscribed for each unit of stock warrant, and the total number of stock shares to be issued for the stock option exercised:

A total of 6,500 units of employee stock warrants are issued currently and each unit of stock warrant are entitled to the subscription of 1,000 stock shares. A total of 6,500,000 common stock shares are issued for the stock option exercised.

(2) The reference and reasonability of stock price:

Stock price is NT\$100 per share.

(3) Stock subscriber's qualification and the number of subscriber shares:

It is limited to the full-time employees in particular level or position or who have made a special contribution to the Company and the full-time employees of the domestic and overseas subsidiaries that are with over 50% (inclusive) shareholding held by the Company directly or indirectly. The stock subscription qualification base date is decided by the chairman. The employees who qualified for stock subscription and the number of stock shares to be subscribed by each qualified employee are determined according to their job performance, overall contributions, or special achievements with the approval of the chairman and the consent of the board of directors. According to Article 56-1 Paragraph 1 of the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers," the stock warrant issued by the company and subscribe by one single subscriber accumulatively plus the new shares with limited

rights accumulated by the subscriber together may not exceed 0.3% of the total outstanding stock shares; moreover, together with the stock warrant issued by the issuer in accordance with Article 56 Paragraph 1 and subscribe by one single subscriber accumulatively may not exceed 1% of the total outstanding stock shares.

(4) The reasons for issuing current employee stock warrant:

The Company aims to attract and retain talents that are needed by the company and to motivate employees and enhance employee's loyalty in order to create common interests of the Company and shareholders.

(5) The impacts on shareholders' equity:

I. The potential expense amount and its impact on the company's earnings per share dilution:

Input the common stock closing price on February 1, 2016 and the actuarial assumptions and estimates in the stock option evaluation model for calculations. The annual amortized expense amount in 2016~2021: NT\$111,700,153 (estimate of six months), NT\$268,080,367, NT\$206,005,367, NT\$98,123,422, NT\$52,887,575, and NT\$17,892,116 (estimate of six months), respectively, for a grand total of NT\$754,689,000. According to the stock closing price on February 1, 2016 and the actuarial assumptions and estimates, the annual earnings per share dilution in 2016~2021: NT\$0.18, NT\$0.42, NT\$0.32, NT\$0.15, NT\$0.08, and NT\$0.03, respectively.

II. Please explain the Company's financial burden resulted from those who have the contract performed with the outstanding stock shares: Not applicable.

III. Please resolve.

Resolution :

## **4. Motions**

## **5. Adjournment**

## II. Attachments

<Attachment 1>

### Business Report

Dear shareholders:

#### 2015 Summary of Results

In 2015, Advantech reported consolidated revenues of NT\$ 38 billion, an increase of six percent over the NT\$35 billion of 2014. Net income was NT\$5.13 billion and diluted earnings per share were NT\$8.08. Gross profit margin was 40.4 percent, compared with 40.3 percent in 2014, and operating profit margin was 15.6 percent compared with 15.4 percent a year earlier. Net profit margin was 13.49 percent, a decrease of 0.31 percentage points from the previous year's 13.8 percent.

#### Our Vision for IoT

As the industrial PC and intelligent system leader, Advantech has experienced increasing demand from the Internet of Things (IoT) industry over the past few years, and envisions that IoT may drive the next 15 years growth for the industry. According to a report published by McKinsey Global Institute in June 2015, IoT may create a US\$ 4~11 trillion economic impact in 2025. In addition, applications related to smart factories and smart cities may create a US\$2~5 trillion economic impact in 2025. Although IoT is still in the early stage, Advantech believe its tremendous economic impact will change the direction of the Information Technology Industry over the next 20 years. At the same time, both startup companies and existing technology enterprises will invest and develop their business models and technology to catch up IoT tremendous business opportunities. Advantech, as the leading intelligent system platform provider, will play a major part in this ecosystem.

Opportunities always come with challenges. We aim to provide differentiated services to create greater customer value. Given this standpoint, we are developing a new software platform, WISE-PaaS, and we are cooperating with cross-sector partners to form a vertical market IoT ecosystem. Internal incubation and external investment are critical in the process to build the SRP (Solution Ready Platform) services and to strength our leadership in the IoT industry.

#### Advantech's Key Strategies to Achieve 2020 Vision

- **SRP and Differentiated Value-added Services.** Advantech designed the WISE-PaaS platform to fulfill the needs of the IoT industry. Especially, PaaS (Platform as a Service) will form the key element that accelerates the deployment of Smart City and IoT industry solutions in Taiwan; this will be Advantech's investment focus. We will employ a PaaS "sharing economy" strategy to accelerate the development of the IoT industry, and we hope to deploy value-added software as a PaaS building block provider. Furthermore, SRP, a collection of IoT software API's designed for system integrators, will be a key element for Advantech to provide differentiated value-added services to our customers.

- **Cross-sector Alliance to Form Vertical Market IoT Ecosystem.** Advantech has positioned itself as the accelerator of the intelligent planet since 2010, and has consistently created great value for its customers for the past three decades. IoT applications provide tremendous business opportunities. At the same time, challenges also face system integrators. A common difficulty is that system integrators cannot find the right partner to consolidate all the intelligent systems into a total IoT solution. Given this, Advantech transformed its business model from product-oriented to vertical market solution-oriented. We now focus on selective vertical markets such as smart hospitals, smart retail, digital logistics & fleet management, and smart buildings—where Advantech is in good position and has great potential.
- **Internal Incubation and External Investment.** Looking forward, incubation and investment will play important roles to facilitate the IoT penetration and strengthen Advantech’s leadership. Incubation combines internal technology development and external collaboration. Investment includes IoT accelerator and M&A. In November 2015, we announced the 100% acquisition stake of B+B SmartWorx, with a US\$99.85mn transaction price. The deal was successfully closed in January, 2016 and we will fully consolidate B+B SmartWorx in 2016. Thanks to B+B SmartWorx, Advantech will have a stronger position in the industrial communication sector. At the same time, B+B SmartWorx will also help us to reach out to new customers, and thereby speed up global market expansion.

## **2016 Outlook**

Advantech reported record high revenues and net income in 2015. However, the growth rate did not reach our original goal due to the weakening global macro situation and increasing currency risks in the second half of 2015. Looking forward in 2016, Advantech expects to achieve its profitable revenues growth target on the back of the increasing penetration of IoT adoption, our leadership in intelligent systems, and our differentiated value-added services, which should reduce the uncertainty from macro-economic impacts.

## **Strengthening Corporate Governance and Business Leadership**

Advantech expects to strengthen its execution of good corporate governance and actively participate in corporate governance evaluation. Our goal is the pursuit of excellence and sustainable operation and Advantech has established its altruistic spirit at the core of its business culture, along with the pursuit of the best and balanced interests of society, shareholders, customers, and employees.

Advantech Co., Ltd.

Chairman K.C. Liu

President Chaney Ho

Chief Financial officer Rorie Kang

## **Supervisor's Review Report**

The supervisors have reviewed the 2015 annual business reports, profit distribution proposals and individual financial statements and consolidated financial statements prepared and presented by the Company's Board of Directors, and the independent auditor's report issued by CPA Meng Chieh Chiu and CAP Chin Hsiang Chen of Deloitte & Touche with an independent auditor's report issued.

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

Sincerely yours,

The 2016 General Shareholders' Meeting of Advantech Co., Ltd.

Supervisor: AIDC Investment Corp.  
Representative: Gary Tseng

March 04, 2016

## **Supervisor's Review Report**

The supervisors have reviewed the 2015 annual business reports, profit distribution proposals and individual financial statements and consolidated financial statements prepared and presented by the Company's Board of Directors, and the independent auditor's report issued by CPA Meng Chieh Chiu and CAP Chin Hsiang Chen of Deloitte & Touche with an independent auditor's report issued.

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

Sincerely yours,

The 2016 General Shareholders' Meeting of Advantech Co., Ltd.

Supervisor: Thomas Chen

March 04, 2016

## **Supervisor's Review Report**

The supervisors have reviewed the 2015 annual business reports, profit distribution proposals and individual financial statements and consolidated financial statements prepared and presented by the Company's Board of Directors, and the independent auditor's report issued by CPA Meng Chieh Chiu and CAP Chin Hsiang Chen of Deloitte & Touche with an independent auditor's report issued.

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

Sincerely yours,

The 2016 General Shareholders' Meeting of Advantech Co., Ltd.

Supervisor: James Wu

March 04, 2016

## 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	%
<b>CURRENT ASSETS</b>				
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	7,853,529	25	9,411,709	32
<b>NONCURRENT ASSETS</b>				
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	23,411,876	75	20,067,413	68
<b>TOTAL</b>	<b>\$ 31,265,405</b>	<b>100</b>	<b>\$ 29,479,122</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
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	6,816,368	22	6,038,793	20
<b>NONCURRENT LIABILITIES</b>				
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	1,141,536	3	1,094,310	4
Total liabilities	7,957,904	25	7,133,103	24
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE EQUITY</b>				
Share capital				
Ordinary shares	6,318,531	20	6,301,031	22
Advance receipts for share capital	-	-	11,060	-
Total share capital	6,318,531	20	6,312,091	22
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	11,061,291	36	9,825,337	33
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	340,124	1	901,633	3
Total equity	23,307,501	75	22,346,019	76
<b>TOTAL</b>	<b>\$ 31,265,405</b>	<b>100</b>	<b>\$ 29,479,122</b>	<b>100</b>

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)	-

(Continued)

## 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	(53)	-	(17)	-
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>

(Continued)

**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)**

---

	<u>2015</u>		<u>2014 (Restated)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
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	\$ 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	8,509,112	130,041	(75,534)	19,253,254
Appropriation of the 2013 earnings	-	-	-	-	410,640	-	-	-	-
Legal reserve	-	-	-	-	(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	9,825,337	338,356	563,277	22,346,019
Appropriation of the 2014 earnings	-	-	-	-	490,778	-	-	-	-
Legal reserve	-	-	-	-	(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)	-	-	-	-	(11,457)
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	\$ 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)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(234,104)</b>	<b>14,192</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u><b>1,049,397</b></u>	<u><b>1,035,205</b></u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><b>\$ 815,293</b></u>	<u><b>\$ 1,049,397</b></u>

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

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

(Concluded)

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Advantech Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. However, as stated in Note 12 to the consolidated financial statements, we did not audit the consolidated financial statements as of and for the years ended December 31, 2015 and 2014 of some subsidiaries. The consolidated financial statements of these subsidiaries were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the subsidiaries' amounts included herein, is based solely on the reports of other auditors. The total assets of these subsidiaries were 4.17% (NT\$1,418,592 thousand) and 4.77% (NT\$1,505,128 thousand) of the consolidated assets as of December 31, 2015 and 2014, respectively. The operating revenues of these subsidiaries were 7.76% (NT\$2,947,500 thousand) and 8.67% (NT\$3,099,173 thousand) of the consolidated operating revenues for 2015 and 2014, respectively. Also, as stated in Note 13 to the consolidated 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 using the equity method. The consolidated financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the investees' amounts included herein, is based solely on the reports of the other auditors. Investments accounted for using the equity method were 1.41% (NT\$477,984 thousand) and 1.42% (NT\$447,663 thousand) of the consolidated assets as of and for the years ended December 31, 2015 and 2014. Also, the equity in the investees' net gains was 1.75% (NT\$110,226 thousand) and 1.66% (NT\$100,264 thousand) of the consolidated pretax profits in 2015 and 2014, respectively.

We conducted our audits in accordance with the Regulations Governing the Auditing and Attestation 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014, and the results of its financial performance and its consolidated cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission (FSC) of the Republic of China.

We have also audited the financial statements of the parent company, Advantech Co., Ltd., as of and for the years ended December 31, 2015 and 2014 and have expressed a modified unqualified opinion on those financial statements.

March 4, 2016

Notice to Readers

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

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

ASSETS	2015		2014 (Restated)	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 4,358,259	13	\$ 3,122,007	10
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 28)	176,389	1	165,402	-
Available-for-sale financial assets - current (Notes 4, 8 and 28)	1,755,843	5	3,431,359	11
Debt investments with no active market - current (Notes 4 and 9)	3,171	-	5,487	-
Notes receivable (Notes 4, 5, 10 and 29)	970,722	3	949,861	3
Accounts receivable (Notes 4, 5 and 10)	5,428,574	16	4,960,373	16
Accounts receivable from related parties (Note 29)	26,775	-	5,400	-
Other receivables	40,811	-	36,550	-
Inventories (Notes 4, 5 and 11)	4,868,860	14	4,781,550	15
Other current financial assets (Note 30)	-	-	18,650	-
Other current assets (Note 16)	456,342	1	513,393	2
Total current assets	18,085,746	53	17,990,032	57
<b>NONCURRENT ASSETS</b>				
Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 28)	1,747,598	5	2,428,569	8
Investments accounted for using the equity method (Notes 4 and 13)	477,984	2	447,663	1
Property, plant and equipment (Notes 4 and 14)	9,576,879	28	8,876,606	28
Goodwill (Notes 4, 5 and 15)	1,139,559	3	1,168,727	4
Other intangible assets	227,686	1	286,312	1
Deferred tax assets (Notes 4 and 22)	217,989	1	161,268	1
Prepayments for business facilities	65,753	-	45,511	-
Prepayments for investments (Note 32)	2,279,881	7	-	-
Long-term prepayments for lease (Note 16)	100,875	-	96,516	-
Other noncurrent assets (Note 26)	59,183	-	42,616	-
Total noncurrent assets	15,893,387	47	13,553,788	43
<b>TOTAL</b>	<b>\$ 33,979,133</b>	<b>100</b>	<b>\$ 31,543,820</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 17 and 28)	\$ 880,625	3	\$ 3,080	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 28)	6,352	-	8,698	-
Trade payables (Note 29)	3,226,069	9	3,166,195	10
Other payables (Notes 18 and 21)	3,380,317	10	3,174,189	10
Current tax liabilities (Notes 4 and 22)	1,057,226	3	787,404	3
Short-term warranty provision (Note 4)	145,646	-	141,354	-
Other current liabilities	546,295	2	498,900	2
Total current liabilities	9,242,530	27	7,779,820	25
<b>NONCURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 22)	938,491	3	897,940	3
Long-term accounts payable	-	-	43,028	-
Net defined benefit liabilities (Notes 4, 5 and 19)	183,540	1	165,428	1
Other noncurrent liabilities	160,795	-	124,585	-
Total noncurrent liabilities	1,282,826	4	1,230,981	4
Total liabilities	10,525,356	31	9,010,801	29
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital				
Ordinary shares	6,318,531	19	6,301,031	20
Advance receipts for share capital	-	-	11,060	-
Total share capital	6,318,531	19	6,312,091	20
Capital surplus	5,587,555	16	5,306,958	17
Retained earnings				
Legal reserve	3,962,842	12	3,472,064	11
Unappropriated earnings	7,098,449	21	6,353,273	20
Total retained earnings	11,061,291	33	9,825,337	31
Other equity				
Exchange differences on translation of foreign financial statements	271,859	1	338,356	1
Unrealized gains on available-for-sale financial assets	68,265	-	563,277	2
Total other equity	340,124	1	901,633	3
Total equity attributable to owners of the Company	23,307,501	69	22,346,019	71
<b>NON-CONTROLLING INTERESTS</b>	<b>146,276</b>	<b>-</b>	<b>187,000</b>	<b>-</b>
Total equity	23,453,777	69	22,533,019	71
<b>TOTAL</b>	<b>\$ 33,979,133</b>	<b>100</b>	<b>\$ 31,543,820</b>	<b>100</b>

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

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

## ADVANTECH CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED 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 (Note 29)				
Sales	\$ 36,978,961	97	\$ 34,662,269	97
Other operating revenue	<u>1,021,621</u>	<u>3</u>	<u>1,069,430</u>	<u>3</u>
Total operating revenue	38,000,582	100	35,731,699	100
OPERATING COSTS (Notes 11, 21 and 29)	<u>22,655,592</u>	<u>59</u>	<u>21,339,035</u>	<u>60</u>
GROSS PROFIT	<u>15,344,990</u>	<u>41</u>	<u>14,392,664</u>	<u>40</u>
OPERATING EXPENSES (Notes 21 and 29)				
Selling and marketing expenses	3,889,856	10	3,533,354	10
General and administrative expenses	1,982,879	5	2,115,760	6
Research and development expenses	<u>3,543,748</u>	<u>10</u>	<u>3,235,226</u>	<u>9</u>
Total operating expenses	<u>9,416,483</u>	<u>25</u>	<u>8,884,340</u>	<u>25</u>
OPERATING PROFIT	<u>5,928,507</u>	<u>16</u>	<u>5,508,324</u>	<u>15</u>
NONOPERATING INCOME				
Share of the profit of associates accounted for using the equity method (Notes 4 and 13)	110,226	-	100,264	1
Interest income	40,613	-	54,355	-
Gains (losses) on disposal of property, plant and equipment (Note 4)	(5,410)	-	56,473	-
Gains on disposal of investments (Note 4)	202,458	1	27,143	-
Foreign exchange gains (losses), net (Notes 4, 21 and 33)	(186,889)	-	78,206	-
Gains on financial instruments at fair value through profit or loss (Note 4)	83,798	-	85,664	-
Dividend income	139,725	-	130,737	1
Other income (Note 8)	121,329	-	91,185	-
Finance costs (Note 21)	(10,041)	-	(14,420)	-
Losses on financial instruments at fair value through profit or loss (Note 4)	(130,409)	-	(49,171)	-
Other losses	<u>(4,372)</u>	<u>-</u>	<u>(13,815)</u>	<u>-</u>
Total nonoperating income	<u>361,028</u>	<u>1</u>	<u>546,621</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	6,289,535	17	6,054,945	17
INCOME TAX EXPENSE (Notes 4 and 22)	<u>1,162,560</u>	<u>3</u>	<u>1,123,069</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>5,126,975</u>	<u>14</u>	<u>4,931,876</u>	<u>14</u>

(Continued)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED 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	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 3, 19 and 20)	\$ (19,303)	-	\$ (5,562)	-
Share of the other comprehensive income (loss) of associates accounted for using the equity method (Note 13)	(2,424)	-	199	-
Income tax relating to items that will not be reclassified (Notes 3 and 22)	3,281	-	945	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 20)	(101,490)	-	243,904	-
Unrealized gains (losses) on available-for-sale financial assets (Notes 4 and 20)	(495,012)	(2)	638,811	2
Share of the other comprehensive income of associates (Notes 4, 13 and 20)	2,449	-	4,512	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4, 20 and 22)	<u>13,620</u>	<u>-</u>	<u>(42,667)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(598,879)</u>	<u>(2)</u>	<u>840,142</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,528,096</u>	<u>12</u>	<u>\$ 5,772,018</u>	<u>16</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 5,104,346	13	\$ 4,907,648	14
Non-controlling interests	<u>22,629</u>	<u>-</u>	<u>24,228</u>	<u>-</u>
	<u>\$ 5,126,975</u>	<u>13</u>	<u>\$ 4,931,876</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 4,524,603	12	\$ 5,750,571	16
Non-controlling interests	<u>3,493</u>	<u>-</u>	<u>21,447</u>	<u>-</u>
	<u>\$ 4,528,096</u>	<u>12</u>	<u>\$ 5,772,018</u>	<u>16</u>

(Continued)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

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

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	<u>2015</u>		<u>2014 (Restated)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 23)				
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 consolidated financial statements.

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

(Concluded)

**ADVANTECH CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company									
	Issued Capital (Notes 20 and 24)		Capital Surplus (Notes 20, 24 and 25)		Retained Earnings (Notes 20 and 25)		Other Equity (Note 20)		Total	
	Share Capital	Advance Receipts for Ordinary Shares	Legal Reserve	Unappropriated Earnings	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Non-controlling Interests (Notes 20 and 25)	Total Equity
BALANCE AT JANUARY 1, 2014	\$ 5,669,249	\$ 24,751	\$ 3,061,424	\$ 5,452,733	\$ 3,061,424	\$ 8,514,157	\$ 130,041	\$ (75,534)	\$ 161,891	\$ 19,420,190
Effect of respective application and respective restatement	-	-	-	(5,045)	-	(5,045)	-	-	-	(5,045)
BALANCE AT JANUARY 1, 2014 AS RESTATED	5,669,249	24,751	3,061,424	5,447,688	3,061,424	8,509,112	130,041	(75,534)	161,891	19,415,145
Appropriation of the 2013 earnings	-	-	410,640	(410,640)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	(3,017,820)	-	(3,017,820)	-	-	-	(3,017,820)
Stock dividends on ordinary shares	569,400	-	-	(569,400)	-	(569,400)	-	-	-	-
Recognition of employee share options by the Company	51,410	(4,850)	-	-	-	-	-	-	-	214,085
Compensation cost recognized for employee share options	-	-	-	-	-	-	-	-	-	111,393
Change in capital surplus from investments in associates accounted for using equity method	-	-	-	-	-	-	-	-	-	8,966
Difference between consideration paid and carrying amount of subsidiaries acquired	-	-	-	-	-	-	-	-	-	11,457
Changes in percentage of ownership in interest in subsidiaries	-	-	-	-	-	-	-	-	-	(1,873)
Convertible bonds converted to ordinary shares	10,972	(8,841)	-	-	-	-	-	-	-	15,986
Net profit for the year ended December 31, 2014	-	-	-	4,907,648	-	4,907,648	-	-	-	24,228
Other comprehensive income for the year ended December 31, 2014, net of income tax	-	-	-	(4,203)	-	(4,203)	-	-	-	(2,781)
Total comprehensive income for the year ended December 31, 2014	-	-	-	4,903,445	-	4,903,445	-	638,811	-	842,923
BALANCE AT DECEMBER 31, 2014 AS RESTATED	6,301,031	11,060	3,472,064	6,353,273	3,472,064	9,825,337	338,356	563,277	187,000	22,533,019
Appropriation of the 2014 earnings	-	-	490,778	(490,778)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	(3,787,255)	-	(3,787,255)	-	-	-	(3,787,255)
Recognition of employee share options by the Company	17,500	(11,060)	-	-	-	-	-	-	-	30,878
Compensation cost recognized for employee share options	-	-	-	-	-	-	-	-	-	261,877
Change in capital surplus from investments in associates accounted for using equity method	-	-	-	-	-	-	-	-	-	2,172
Difference between consideration paid and carrying amount of subsidiaries acquired	-	-	-	(62,903)	-	(62,903)	-	-	-	(74,360)
Changes in percentage of ownership in interest in subsidiaries	-	-	-	-	-	-	-	-	-	3,567
Net profit for the year ended December 31, 2015	-	-	-	5,104,346	-	5,104,346	-	-	-	22,629
Other comprehensive loss for the year ended December 31, 2015, net of income tax	-	-	-	(18,334)	-	(18,334)	-	(495,012)	-	(19,136)
Total comprehensive income for the year ended December 31, 2015	-	-	-	5,086,112	-	5,086,112	-	(495,012)	-	3,493
BALANCE AT DECEMBER 31, 2015	6,318,531	-	3,962,842	7,098,449	3,962,842	11,061,291	271,859	68,265	146,276	23,453,272

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 4, 2016)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2015	2014 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 6,289,535	\$ 6,054,945
Adjustments for:		
Depreciation expenses	568,241	504,211
Amortization expenses	97,953	90,709
Amortization expenses for prepayments of lease obligation	2,577	2,519
Impairment loss recognized on trade receivables	23,360	9,991
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	46,611	(36,493)
Compensation cost of employee share options	261,877	111,393
Finance costs	10,041	14,420
Interest income	(40,613)	(54,355)
Dividend income	(139,725)	(130,737)
Share of profit of associates	(110,226)	(100,264)
Loss (gain) on disposal of property, plant and equipment	5,410	(56,473)
Gain on disposal of investments	(202,458)	(27,143)
Loss on bond redemption	-	17
Changes in operating assets and liabilities		
Financial assets held for trading	(59,944)	(141,210)
Notes receivable	(20,861)	(200,332)
Accounts receivable	(495,148)	(366,727)
Account receivables from related parties	(21,375)	1,179
Other receivables	(1,724)	(383)
Inventories	(87,310)	(750,893)
Other current assets	57,051	(141,365)
Other financial assets	18,650	90,660
Trade payables	59,874	393,344
Net defined benefit liabilities	(1,191)	(1,785)
Other payables	151,859	243,045
Other current liabilities	47,395	(40,587)
Other noncurrent liabilities	36,812	95,481
Cash generated from operations	<u>6,496,671</u>	<u>5,563,167</u>
Interest received	38,076	31,578
Dividend received	221,642	130,737
Interest paid	(1,467)	(5,233)
Income tax paid	<u>(850,763)</u>	<u>(809,008)</u>
Net cash generated from operating activities	<u>5,904,159</u>	<u>4,911,241</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(9,713,717)	(5,847,515)
Proceeds on sale of available-for-sale financial assets	11,766,699	5,213,858
Acquisition of investments with no active market	1,805	(643)
Acquisition of investments accounted for using the equity method	-	(18,095)
		(Continued)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2015	2014 (Restated)
Proceeds from disposal of investments accounted for using equity method	\$ -	\$ 1,407
Increase in prepayments for investments	(2,279,881)	-
Net cash flow on the acquisition of subsidiaries	-	(31,033)
Dividends received from associates	-	54,774
Acquisition of property, plant and equipment	(1,333,481)	(1,213,769)
Proceeds from disposal of property, plant and equipment	22,867	151,867
Decrease (increase) in refundable deposits	(16,567)	17,265
Acquisition of intangible assets	(73,145)	(48,841)
Increase in prepayments for business facilities	(18,015)	(20,212)
Decrease in long-term accounts payables	<u>-</u>	<u>(6,709)</u>
Net cash generated from investing activities	<u>(1,643,435)</u>	<u>(1,747,646)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans	877,545	(120,064)
Repayments of bonds	-	(2,400)
Increase (decrease) in guarantee deposits received	(602)	1,515
Payment of cash dividends	(3,787,255)	(3,017,820)
Exercise of employee share options	30,878	214,085
Increase (decrease) in non-controlling interests	<u>(118,577)</u>	<u>15,119</u>
Net cash used in financing activities	<u>(2,998,011)</u>	<u>(2,909,565)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(26,461)</u>	<u>35,619</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,236,252	289,649
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>3,122,007</u>	<u>2,832,358</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 4,358,259</u>	<u>\$ 3,122,007</u>

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

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

(Concluded)

**Advantech Co., Ltd.**  
**2014 Profit Distribution Table**

Item	Total
Unappropriated retained earnings - beginning	2,080,287,842
Less: Long-term equity investments	(62,905,864)
Less: Defined benefit plans revaluation	(23,278,914)
Add: Net income	5,104,346,793
Less: 10% legal reserve appropriated	(510,434,679)
Current earnings available for distribution	6,588,015,178
Distributions:	
Common stock cash dividend (EPS \$6)	(3,791,118,600)
Unappropriated retained earnings - ending	2,796,896,578

Chairman: K.C. Liu

President: Chaney Ho

Chief Financial officer: Rorie Kang

Advantech Co., Ltd.

Corporate Charter (Articles of Incorporation) Article Amendments Table

<b>No.</b>	<b>After amendment</b>	<b>Before amendment</b>	<b>Remark</b>
Article 13	<p>The company has <u>seven</u> ~ <u>nine</u> directors and three supervisors nominated for a term of three years and they are elected from the capable candidates in the shareholders' meeting; also, they can be re-elected. There must be at least two independent directors (not less than one fifth of the total number of directors) out of the number of directors referred to above. The independent directors are to be elected from the candidates in the shareholders' meeting. The professional qualifications of the independent directors, shareholdings, limitation of nomination and appointment method, and other matters to be complied with must be processed according to the relevant provisions of the competent authorities.</p>	<p>The company has <u>five</u> ~ <u>seven</u> directors and three supervisors who are nominated for a term of three years and elected from the capable candidates in the shareholders' meeting; also, they can be re-elected. There must be at least two independent directors (not less than one fifth of the total number of directors) out of the number of directors referred to above. The independent directors are to be elected from the candidates in the shareholders' meeting. The professional qualifications of the independent directors, shareholdings, limitation of part-time job, the nomination and appointment method, and other matters to be complied with must be processed according to the relevant provisions of the competent authorities.</p>	<p>According to the actual practice</p>
Article 20	<p>The company's annual profits, if any, should be with 1~20% appropriated as bonus to employees; also, it is to be resolved in the board meeting with stock dividend or cash distributed to employees, including employees of the subsidiaries that meet certain conditions. The Company's Board of Directors may determine to appropriate an amount less than 1% of the profits referred to above as remuneration to directors and supervisors. The proposed bonus to employees and remuneration to directors and supervisors should be presented in the shareholders' meeting for a resolution. If the company is with accumulated losses, an amount for making up the losses should be reserved in advance before appropriating bonus to employees and remuneration to directors and supervisors according to the ratio referred to above.</p>	<p>The company's annual earnings, if any, are subject to paying taxes, making up losses of prior years, appropriating 10% legal reserve thereafter, and appropriating or reversing special reserve according to law and the regulations of the competent authorities, then the balance amount, if any, plus the accumulated unappropriated earnings, after reserving part of the earnings as necessary fund for business growth, should be allocated proportionally as follows:                      1. Bonus to employees for 1~20%                      2. Remuneration to directors and supervisors for less than 1%                      3. The remaining amount is for shareholders' dividend.                      The bonus to employees referred to above may include the employees of the subsidiaries that meet certain conditions, which are to be determined by the Board of Directors.</p>	<p>According to the governing law and regulations</p>

No.	After amendment	Before amendment	Remark
Article 20.2	<p>The company's annual earnings, if any, are subject to paying taxes, making up losses, appropriating 10% legal reserve thereafter or it can be exempted if the legal reserve amount is equivalent to the company's paid-in capital amount. The remaining balance thereafter should be applied to have the special reserve appropriated or reversed lawfully. The board of directors should present a proposal for the distribution of the remaining amount, if any, plus the accumulated unappropriated earnings as shareholders' dividend and bonus in the shareholders' meeting.</p>	<p>New clause</p>	
Article 22	<p>The Corporate Charter (Article of Incorporation) was established on September 25, 1981 (the first time ~ Twentieth are omitted).</p> <p>The 21st amendment of the Corporate Charter (Article of Incorporation) was made on May 2, 2003.</p> <p>The 22nd amendment of the Corporate Charter (Article of Incorporation) was made on May 27, 2003.</p> <p>The 23rd amendment of the Corporate Charter (Article of Incorporation) was made on May 24, 2005.</p> <p>The 24th amendment of the Corporate Charter (Article of Incorporation) was made on November 18, 2005.</p> <p>The 25th amendment of the Corporate Charter (Article of Incorporation) was made on June 16, 2006.</p> <p>The 26th amendment of the Corporate Charter (Article of Incorporation) was made on June 15, 2007.</p> <p>The 27th amendment of the Corporate Charter (Article of Incorporation) was made on June 12, 2008.</p> <p>The 28th amendment of the Corporate Charter (Article of Incorporation) was made on May 15, 2009.</p> <p>The 29th amendment of the Corporate Charter (Article of Incorporation) was made on May 18, 2010.</p> <p>The 30th amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2011.</p> <p>The 31st amendment of the Corporate Charter (Article</p>	<p>The Corporate Charter (Article of Incorporation) was established on September 25, 1981 (the first time ~ Twentieth are omitted).</p> <p>The 21st amendment of the Corporate Charter (Article of Incorporation) was made on May 2, 2003.</p> <p>The 22nd amendment of the Corporate Charter (Article of Incorporation) was made on May 27, 2003.</p> <p>The 23rd amendment of the Corporate Charter (Article of Incorporation) was made on May 24, 2005.</p> <p>The 24th amendment of the Corporate Charter (Article of Incorporation) was made on November 18, 2005.</p> <p>The 25th amendment of the Corporate Charter (Article of Incorporation) was made on June 16, 2006.</p> <p>The 26th amendment of the Corporate Charter (Article of Incorporation) was made on June 15, 2007.</p> <p>The 27th amendment of the Corporate Charter (Article of Incorporation) was made on June 12, 2008.</p> <p>The 28th amendment of the Corporate Charter (Article of Incorporation) was made on May 15, 2009.</p> <p>The 29th amendment of the Corporate Charter (Article of Incorporation) was made on May 18, 2010.</p> <p>The 30th amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2011.</p> <p>The 31st amendment of the Corporate Charter (Article of</p>	

<b>No.</b>	<b>After amendment</b>	<b>Before amendment</b>	<b>Remark</b>
	<p>of Incorporation) was made on June 13, 2012.  The 32nd amendment of the Corporate Charter (Article of Incorporation) was made on June 18, 2014.  The 33rd amendment of the Corporate Charter (Article of Incorporation) was made on May 28, 2015.  The 34rd amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2016.</p>	<p>Incorporation) was made on June 13, 2012.  The 32nd amendment of the Corporate Charter (Article of Incorporation) was made on June 18, 2014.  The 33rd amendment of the Corporate Charter (Article of Incorporation) was made on May 28, 2015.</p>	

### III. Appendices

< Appendix 1 >

#### Corporate Charter (Articles of Incorporation) (Before Amendment)

- Chapter 1           General Rules**
- Article 1**       : The Company was organized in accordance with the provisions of the Company Law and was known as “Advantech Co., Ltd.”
- Article 2**       : The Company’s business operation is as follows:
1. CC01060 Wire communications machinery and equipment manufacturing
  2. CC01070 Wireless communications machinery and equipment manufacturing
  3. CC01080 Electronic Components Manufacturing
  4. CC01110 Computer and peripheral equipment manufacturing
  5. CE01010 General equipment manufacturing
  6. E605010 Computer equipment installation industry
  7. EZ05010 Instrument and meters installation engineering
  8. I301010 IT software services industry
  9. I301020 Data processing services
  10. I301030 Electronic information supply services
  11. CC01101 RF controlled telecommunications equipment manufacturing
  12. F401021 RF controlled telecommunications equipment importing
  13. IG03010 Energy and Technical Services
  14. CC01030 Electrical appliances and audio-video electronic products manufacturing
  15. F113020 Electrical appliances wholesale
  16. F213010 Electrical appliances retail
  17. ZZ99999 In addition to the licensed businesses, may conduct other businesses that are not prohibited or restricted.
- Article 2.1**     : The Company for business needs may conduct the making of endorsement and guarantee.
- Article 3**       : The Company’s headquarters is in Taipei and may setup offshore branches with the resolution of the board of directors.
- Article 4**       : The Company may have announcements made in accordance with Article 28 of the Company Law.
- Chapter 1           Shares**
- Article 5**       : The Company’s total capital amounted to NT\$8 billion with 800 million shares authorized at NT\$10 par. The board of directors is authorized to have stock shares issue separately. For the total capital referred to above, NT\$500 million is reserved for exercising stock option with warrant or bonds with attached warrants. The Company has stock shares transferred to employees at a price below the average repurchase price; also, the transaction prior to the transfer of shares should be presented in the most recent shareholders’ meeting that is attended by the shareholders with a majority shareholding and approved by the attending shareholders with two thirds of the shareholding.
- Article 5.1**     : When the Company issuing employee warrants at a price below the Company’s common stock closing price on the issuing date, the transaction of share issuance should be presented in the shareholders’ meeting that is attended by the shareholders with a majority shareholding and approved by the attending shareholders with two thirds of the shareholding.
- Article 6**       : Deleted
- Article 6.1**     : The Company may be requested by Taiwan Depository and Clearing Corp. to issue large denomination stocks.

Article 7 : The Company's stock shares are ordered with the signature or seal of three or more directors affixed and numbered; also, are issued after proper certification. The Company is exempted from having the stock shares printed out after issuance; however, the Company should contact the securities depository and clearing institution for registration.

Article 8 : The registration for any change made to the Shareholder Registry should be ceased 60 days prior to the general shareholders' meeting, 30 days prior to the extraordinary shareholders' meeting, or 5 days prior to the Company's deciding to distribute dividends and bonuses or other benefits.

### **Chapter 3 Shareholders' meeting**

Article 9 : Shareholders' meeting includes general shareholders' meeting and extraordinary shareholders' meeting. General shareholders' meeting is held annually and it is convened by the board of directors lawfully six months after the fiscal year. Extraordinary shareholders' meeting is convened when it is necessary.

Article 10 : Shareholders who are unable to attend the shareholders' meeting in person may have a representative appointed to attend the meeting by issuing the proxy that is printed by the Company with the scope of authorization specified and then signed or sealed. The proxy referred to above is regulated in accordance with the "Regulations for the Use of Proxies for Shareholders' Meeting of Public Companies."

Article 11 : It is one voting right per share for the shareholders of the Company, except for those subject to restrictions or those who have no voting right according to the Company Law.

Article 12 : The resolution reached in the shareholders' meeting, unless otherwise provided by law, can be enforced after being presented in the shareholders' meeting that is attended by a majority of shareholders in person or by proxy and approved by the attending shareholders with a majority shareholding.

### **Chapter 4 Directors and supervisors**

Article 13 : The Company has 5~7 directors and 3 supervisors who are candidates by nomination elected for a 3-year term in the shareholders' meeting and can be elected for a second term.

The number of directors referred to above shall include at least two independent directors that is not less than one fifths of the board of directors. Independent directors are elected from the nominated candidates list in the shareholders' meeting. The professional qualifications of the independent directors, shareholding, part-time restriction, nomination and election means, and other matters to be complied with are to be processed in accordance with the relevant provisions of the competent authorities.

Article 13.1 : The exercise of power by the board of directors is as follows:

1. The elaboration of the Corporate Charter
2. The elaboration of the Company's business plan
3. The elaboration of the Company's profit distribution
4. The elaboration of the Company's capital increase and decrease
5. The review and approval of the Company's budget and the preparation of the Company's final account
6. The elaboration of the acquisition and disposal of fixed assets by the Company and the investment in other businesses
7. The powers endowed in accordance with the law and regulations and in the shareholders' meeting

Article 13.2 : The exercise of power by the supervisors is as follows:

1. Reviewing the operations and financial condition of the Company
2. Auditing the accounting books and documents of the Company

3. Other responsibilities assigned in accordance with the law and regulations
- Article 13.3 : The total shares of the Company held by all directors and supervisors are to be processed in accordance with the “Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies” published by the competent authorities.
- Article 13.4 : The Company may purchase liability insurance for directors and supervisors throughout the tenure based on their scope of responsibility.
- Article 13.5 : The board of directors is authorized to deliberate and determine the remuneration of all directors and supervisors according to their participation in and contribution to the Company’s business operation and by referring to the remuneration standard of the domestic industry.
- Article 13.6 : The Company has an Audit Committee setup in accordance with Article 14.4 of the Securities Exchange Act, which is organized by all the independent directors. The exercise of power by the Audit Committee and its members and the related matters are to be processed in accordance with the provisions of the competent authorities. Supervisors will be discharged on the date the Audit Committee established, which will be in effect on the expiry date of the term of office in 2017.
- Article 14 : The Board of Directors is formed by the directors. The Chairman is elected by a majority of the attending directors at the board meeting that is attended by two thirds of the directors.
- Article 14.1 : The Company may at any time in case of emergency convene a board meeting and with the directors and supervisors informed in writing or by E-mail or fax.
- Article 15 : When the Chairman is unable to exercise powers due to a leave or for other reasons, the matter regarding the deputy of the Chairman should be handled in accordance with Article 208 of the Company Law.
- Article 15.1 : The resolutions of the board of directors, unless otherwise provided by the Company Law and the Corporate Charter, shall be exercised with the consent of a majority of the attending directors at the board meeting that is attended by a majority of the directors. Directors should attend board meetings in person. The director who is unable to attend board meetings in person may authorize another director in writing to attend the board meetings; however, a proxy should be issued each time with the scope of authorization detailed to have one and only deputy delegated.
- Article 16 : Deleted
- Chapter 5 Managers**
- Article 17 : The Company may have several managers appointed; also, the appointment, dismissal, and remuneration should be processed in accordance with Article 29 of the Company Law.
- Chapter 6 Accountant**
- Article 18 : The Company’s board of directors shall at the end of each fiscal year have the following composed (1) Business Report (2) Financial Reports (3) Profit Distribution Proposals for the audit of the supervisors 30 days prior to the shareholders’ meeting and for acknowledgement in the shareholders’ meeting.
- Article 19 : Deleted
- Article 19.1 : The Company engages in high-tech computer and Internet-related industries and is in the growth stage of the business life cycle. In response to the overall business environment and industry growth characteristics and the pursuit of the Company’s sustainable development, the long-term interests of shareholders, the stable operating performance goal, and the stable growth of earnings per share in accordance with the Company’s future capital expenditure budget and fund needs, the Company’s stock dividend distribution is limited to 75% of the total dividend

- planned for distribution.
- Article 20 : The remaining balance of the Company's earnings, if any, after being applied to pay tax and make up for losses in previous years, with 10% legal reserve appropriated thereafter, and special reserve appropriated or reversed in accordance with the law and the regulations of the competent authorities, along with the unappropriated retained earnings of prior periods will be distributed proportionally as follows after reserving certain percentage of the earnings needed for business growth:  
The stock bonuses referred to above can be distributed to all employees of the subsidiaries who meet certain criteria and conditions that are to be determined by the Company's board of directors.
- Article 20.1 : The Company's reinvestment may exceed 40% of the paid-in capital and with the board of directors authorized to execute it.
- Chapter 7 Annexes**
- Article 21 : The matters that are not addressed in the Corporate Charter should be processed in accordance with the Company Law and the related regulations.
- Article 22 : The Corporate Charter (Article of Incorporation) was established on September 25, 1981 (the first time ~ Twentieth are omitted).  
The 21<sup>st</sup> amendment of the Corporate Charter (Article of Incorporation) was made on May 2, 2003.  
The 22<sup>nd</sup> amendment of the Corporate Charter (Article of Incorporation) was made on May 27, 2003.  
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The 29<sup>th</sup> amendment of the Corporate Charter (Article of Incorporation) was made on May 18, 2010.  
The 30<sup>th</sup> amendment of the Corporate Charter (Article of Incorporation) was made on May 25, 2011.  
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The 32<sup>nd</sup> amendment of the Corporate Charter (Article of Incorporation) was made on June 18, 2014.  
The 33<sup>rd</sup> amendment of the Corporate Charter (Article of Incorporation) was made on May 28, 2015.

## Rules of Procedure for Shareholders' Meetings

Article 1 : The process of the Company shareholders' meeting is subject to the "Rules of Procedure for Shareholders' Meetings."

Article 2 : The Company shall include the information of shareholders reporting time, reporting place, and others on the written notice.

The shareholder's reporting to meeting referred to above should be processed at least thirty minutes before the meeting in session; there should be clearly marked signs at the reporting place with sufficient and competent staff at the place to assist.

The shareholders or the shareholders' commissioned representatives (hereinafter referred to as "the Shareholders") shall attend the meeting with the attendance certificate, attendance cards, or other identification documents presented; the proxies shall attend the meeting with the identity documents presented for verification.

The shareholders or the shareholders' commissioned representatives while attending the meeting should sign on the attendance registry or submit the attendance card instead; also, the number of attending shares is calculated in accordance with the number of shares documented on the attendance card.

Article 2.1 : The attendance and resolution in the shareholders' meeting shall be based on the shares.

Article 2.2 : The Company may assign the commissioned lawyer, accountant, or the relevant personnel to attend the shareholders' meeting.

Article 2.3 : Shareholders' meeting will be held at the Company's premise or a suitable location for the convenience of the shareholders. The starting time of the shareholders' meeting should not be before 9:00am or after 3:00pm.

Article 2.4 : The Company should have the proceeding of the shareholders' meeting from the shareholder's reporting to meeting, meeting in session, to votes counting recorded in audio or video uninterruptedly.

The audio-visual materials referred to above shall be kept for at least one year; however, they should be reserved until the end of the legal proceeding that is filed by the shareholders in accordance with Article 189 of the Company Law.

Article 3 : The Chairman is to announce the meeting in session when the attending shareholders are with a majority shareholding. If the attending shareholders are without the statutory shareholding at the meeting time, the Chairman may announce to have the meeting postponed. If the attending shareholders are without the statutory shareholding but with one thirds of the total number of shares issued after two postpones (30 minutes per postpone), it can be processed in accordance with Article 175 of the Company Law and a pseudo resolution can be reached with the consent of a majority votes. For the proceeding referred to above, if the attending shareholders qualify the statutory shareholding, the Chairman may announce the meeting in session at any time and has the pseudo resolution submitted in the shareholders' meeting for ratification.

Article 4 : The shareholders' meeting should be conducted in accordance with the procedures

prescribed in the agenda and no change can be made without a resolution reached in the shareholders' meeting. The agenda is drafted up in accordance with the following provisions:

1. General shareholders' meeting: The agenda is to be drafted up by the Board of Directors.
2. Extraordinary shareholders' meeting: The agenda is to be drafted up by the authorized convening department.

The Chairman may not announce to have the meeting adjourned before the proposals (including motions) in the two agenda referred to above resolved.

Once the meeting is adjourned, shareholders may not elect another Chairman to continue the meeting at the current meeting place or another location.

Article 5 : The Chairman may announce to have a recess during the meeting in session.

Article 6 : The attending shareholders who wish to speak at the meeting must first fill out the speech note with the gist, shareholders account number, and name detailed to the Chairman in advance and the Chairman shall prioritize the speaking order.

Attending shareholders who have submitted a speech note but failed to give a speech at the meeting is deemed as a non-speaker. If the speech made by the shareholder differs from the contents of the speech note submitted, the speech shall prevail.

The attending shareholders may not interrupt the speaking shareholder without the consent of the Chairman and the speaking shareholder. The Chairman must have the interfering shareholder restrained from interrupting the speaking shareholder's speech.

Article 7 : The motions should be discussed in accordance with the prioritized agenda. For any violation against the planned procedures or agenda, the Chairman may immediately stop the speaking shareholder and announce ending the discussion in due course or ceasing the discussion when it is necessary.

Article 8 : The shareholder is to have the proposal explained in five minutes and the Chairman or the personnel designated by the Chairman are to answer the questions of the shareholders. The inquiry or reply of the shareholder is limited to three minutes unless it is otherwise permitted by the Chairman.

Article 9 : Deleted

Article 10 : Each shareholder may not speak more than twice on the same proposal and five minutes each time. For any violation against the planned procedures or agenda referred to above, the Chairman may immediately stop the speaking shareholder.

Article 10.1 : The legal person attending the shareholders' meeting by proxy may have only one representative designated to attend the meeting.

For the two or more representatives designated by the legal person shareholder to attend the meeting, only one of them may speak on the same proposal.

Article 11 : The proposal that is announced by the Chairman ceased for discussion should be put to vote for a resolution. The voting right of each shareholder is calculated in accordance with the Corporate Charter.

Article 12 : The vote on the motion, unless otherwise provided by the Company Law, is approved by the attending shareholders with a majority shareholding. If there is no objection raised when the Chairman consulted the attending shareholders, it is deemed as approved and the effect is same as voting.

Article 12.1 : The Chairman is to have the amendment or substitute of a motion consolidated and prioritized its voting order. When one of the motions is passed, the other motions

- shall be deemed as vetoed without the need of further voting.
- Article 12.2 : The Chairman is to have ballot inspectors and tellers designated for the vote on motions. Ballot inspectors must be a shareholder of the Company. The results of the vote should be announced in the meeting and recorded.
- Article 13 : For the shareholders attending the shareholders' meeting by proxy, except for the agencies for trust businesses or stock services approved by the securities authorities, when one person delegated by more than two shareholders at the same time, the voting rights by proxy shall not exceed 3% of the total number of voting rights issued; also, the number of voting right exceeding the threshold will not be accounted for.
- Article 14 : The shareholders who may have a conflict of interest regarding a motion to be resolved in the shareholders' meeting may not vote on the said motion and may not exercise voting right on behalf of other shareholders by proxy.
- Article 14.1 : The election of directors and supervisors, if any, in the shareholders' meeting should be handled in accordance with the relevant norms of the Company and the election result should be announced immediately in the meeting, including the name of the elected directors and supervisors and the respective number of voting rights.  
The ballots casted in the election referred to above shall be sealed and signed by the ballot inspectors for safekeeping for at least one year; however, they should be reserved until the end of the legal proceeding that is filed by the shareholders in accordance with Article 189 of the Company Law.
- Article 15 : The meeting in session should be suspended in case of air raid drill and the meeting should be resumed in one hour after the evacuation alert is lifted.
- Article 15.1 : The Chairman may direct pickets (or security guards) to assist maintaining the order at the meeting place. The pickets (or security guards) who are at the meeting place to assist maintaining order should wear the "picket" armband.
- Article 16 : The resolutions reached in the shareholders' meeting should be documented in the minutes of meeting for the signature or seal of the Chairman; also the minutes of meeting should be distributed to all shareholders within twenty days after the meeting. The Company's minutes of meeting can be distributed to shareholders by an announcement after the public offering of the Company's shares.  
The preparation and distribution of the minutes of meeting referred to above can be completed in an electronic form.
- Article 17 : The matters that are not addressed in the "Rules of Procedure for Shareholders' Meetings" should be processed in accordance with the Company Law and the related regulations.
- Article 18 : The "Rules of Procedure for Shareholders' Meetings" is in effect after it is passed in the shareholders' meeting, same for the amendments made.
- Article 19 : The "Rules of Procedure for Shareholders' Meetings" was established on May 3, 1997.  
The 1<sup>st</sup> amendment of the "Rules of Procedure for Shareholders' Meetings" was made on April 24, 1999.  
The 2<sup>nd</sup> amendment of the "Rules of Procedure for Shareholders' Meetings" was made on May 30, 2002.  
The 3<sup>rd</sup> amendment of the "Rules of Procedure for Shareholders' Meetings" was made on June 16, 2006.  
The 4<sup>th</sup> amendment of the "Rules of Procedure for Shareholders' Meetings" was made on May 18, 2010.  
The 5<sup>th</sup> amendment of the "Rules of Procedure for Shareholders' Meetings" was made on June 13, 2012.  
The 6<sup>th</sup> amendment of the "Rules of Procedure for Shareholders' Meetings" was made on June 13, 2013.

## Current Shareholding of Directors and Supervisors

1. The total shares of the Company held by all directors and supervisors are to be processed in accordance with the “Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies:”
- (1) As of March 27, 2016 (final day for stock transfer), the Company had issued 631,853,100 shares of stock. The board of directors should hold 4% of the stock shares issued by law, that was, 25,274,124 shares. All supervisors should hold 0.4% of the stock shares issued by law, that was, 2,527,412 shares.
- (2) The Company has two independent directors elected. The board of directors other than independent directors and supervisors should hold 80% of the stock shares calculated in the preceding paragraph; therefore, the Company’s board of directors should hold 20,219,299 shares and supervisors should hold 2,021,929 shares.
2. As of March 27, 2016 (final day for stock transfer), the shareholding of the Company’s directors and supervisors on the shareholders’ registry was as follows:

Title	Name	Representative	Shareholding on the shareholder’s registry	
			Shares	% Ratio (%)
Chairman	K.C. Liu		23,292,484	3.69%
Director	Advantech Foundation.	Donald Chang	18,244,889	2.89%
Director	Ted Hsu		0	0
Independent Director	Jeff Chen		0	0
Independent Director	Joseph Yu		249	0
Total			41,537,622	6.58%
Supervisor	AIDC Investment Corp.	Gary Tseng	74,636,266	11.81%
Supervisor	Thomas Chen		561,963	0.09%
Supervisor	James Wu		0	0
Total			75,198,229	11.90%

## **Employee Bonuses and Remuneration to Directors and Supervisors**

**On March 4, 2016, according to the revised charter based on the resolution, the company will disburse annual profit sharing:**

- 1. Employee bonuses : NT\$200,000,000.**
- 2. Remuneration to directors and supervisors : NT\$12,000,000.**
- 3. Payments will be made in cash. The above amounts accurately reflect 2015 expenses already accounted for.**