

Advantech Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

ADVANTECH CO., LTD.

By:

K. C. LIU
Chairman

March 6, 2017

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

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

Business acquisitions

Due to the operation plan of 2016, the Group acquired 100% of the shares of B+B SmartWorx, Inc. (B+B) for NT\$3,296,048 thousand on January 4, 2016.

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

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

1. Tested the acquisition balance sheet prepared by management in accordance with the requirements of IFRS 3 Business Combinations by:
 - a. Checking that the record matched against the fair value of the assets and liabilities as of the date of acquisition.
 - b. Recalculating the value of goodwill recognized on the acquisition balance sheet.
2. Evaluated and tested the management's judgments, through the engagement of valuation experts by:
 - a. Testing the completeness of the identification, recognition, and valuation of the potential intangible assets of B+B and the fixed assets of its subsidiaries.
 - b. Testing the valuation methodologies and assumptions used to value each identified intangible asset, fixed asset, and goodwill.

B+B obtained the specialists' Purchase Price Allocation Report in December 2016. Through the above performed procedures, B+B recognized goodwill at NT\$1,768,139 thousand and intangible assets, including client relationships, core techniques, trademarks and software, at NT\$1,294,933 thousand in total.

Impairment loss recognized on goodwill

If an asset has an indefinite useful life or there is any indication that an asset is impaired, the management should assess if the carrying amount of the assets is impaired. We have expressed our concerns on the related risks since the impairment assessment of goodwill is based on the management's significant judgment that involves assumptions of the future profitability and costs of equity and debts; the impairment of goodwill is hence recognized as a critical accounting estimate in Note 5 to the consolidated financial statements.

The consolidated balance of goodwill amounted to NT\$2,845,831 thousand as of December 31, 2016. We are mainly concerned about the addition of cash-generating units from the acquisition of B+B, from which the goodwill from the cash-generating units amounted to NT\$1,768,139 thousand. Since the actual operations condition of B+B was not to the level as was evaluated as of the date of acquisition, which might cause an impairment of goodwill, the assessment of impairment of goodwill was deemed to be a key audit matter.

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

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

Other Matter

We have also audited the parent company only financial statements of Advantech Co., Ltd as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 6, 2017

Notice to Readers

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

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 4,637,577	12	\$ 4,358,259	13
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30)	113,028	-	176,389	1
Available-for-sale financial assets - current (Notes 4, 8 and 30)	2,956,586	8	1,755,843	5
Debt investments with no active market - current (Notes 4 and 9)	10,007	-	3,171	-
Notes receivable (Notes 4, 10 and 31)	965,081	3	970,722	3
Trade receivables (Notes 4 and 10)	6,384,834	17	5,428,574	16
Trade receivables from related parties (Note 31)	13,957	-	26,775	-
Other receivables	13,775	-	40,811	-
Inventories (Notes 4 and 11)	5,597,236	15	4,868,860	14
Other current assets (Note 17)	<u>489,630</u>	<u>1</u>	<u>456,342</u>	<u>1</u>
Total current assets	<u>21,181,711</u>	<u>56</u>	<u>18,085,746</u>	<u>53</u>
NONCURRENT ASSETS				
Available-for-sale financial assets - noncurrent (Notes 4, 8 and 30)	1,712,578	4	1,747,598	5
Investments accounted for using the equity method (Notes 4 and 13)	598,454	2	477,984	2
Property, plant and equipment (Notes 4 and 14)	10,089,836	26	9,576,879	28
Goodwill (Notes 4, 5 and 15)	2,845,831	7	1,139,559	3
Other intangible assets (Notes 4, 5 and 16)	1,317,440	3	227,686	1
Deferred tax assets (Notes 4 and 23)	369,156	1	217,989	1
Prepayments for business facilities	47,578	-	65,753	-
Prepayments for investments (Note 26)	-	-	2,279,881	7
Long-term prepayments for leases (Note 17)	325,224	1	100,875	-
Other noncurrent assets (Note 28)	<u>51,145</u>	<u>-</u>	<u>59,183</u>	<u>-</u>
Total noncurrent assets	<u>17,357,242</u>	<u>44</u>	<u>15,893,387</u>	<u>47</u>
TOTAL	<u>\$ 38,538,953</u>	<u>100</u>	<u>\$ 33,979,133</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 18 and 30)	\$ 483,750	1	\$ 880,625	3
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 30)	10,231	-	6,352	-
Trade payables (Note 31)	4,983,381	13	3,226,069	9
Other payables (Notes 19 and 22)	3,902,499	10	3,380,317	10
Current tax liabilities (Notes 4 and 23)	1,229,400	3	1,057,226	3
Short-term warranty provisions (Note 4)	167,122	-	145,646	-
Other current liabilities	<u>659,228</u>	<u>2</u>	<u>546,295</u>	<u>2</u>
Total current liabilities	<u>11,435,611</u>	<u>29</u>	<u>9,242,530</u>	<u>27</u>
NONCURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 23)	1,362,687	4	938,491	3
Net defined benefit liabilities (Notes 4 and 20)	212,360	1	183,540	1
Other noncurrent liabilities	<u>141,398</u>	<u>-</u>	<u>160,795</u>	<u>-</u>
Total noncurrent liabilities	<u>1,716,445</u>	<u>5</u>	<u>1,282,826</u>	<u>4</u>
Total liabilities	<u>13,152,056</u>	<u>34</u>	<u>10,525,356</u>	<u>31</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	6,330,741	16	6,318,531	19
Advance receipts for share capital	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total share capital	<u>6,330,841</u>	<u>16</u>	<u>6,318,531</u>	<u>19</u>
Capital surplus	<u>6,058,884</u>	<u>16</u>	<u>5,587,555</u>	<u>16</u>
Retained earnings				
Legal reserve	4,473,276	12	3,962,842	12
Unappropriated earnings	<u>8,435,785</u>	<u>22</u>	<u>7,098,449</u>	<u>21</u>
Total retained earnings	<u>12,909,061</u>	<u>34</u>	<u>11,061,291</u>	<u>33</u>
Other equity				
Exchange differences on translation of foreign financial statements	(197,633)	-	271,859	1
Unrealized gains on available-for-sale financial assets	<u>112,429</u>	<u>-</u>	<u>68,265</u>	<u>-</u>
Total other equity	<u>(85,204)</u>	<u>-</u>	<u>340,124</u>	<u>1</u>
Total equity attributable to owners of the Company	25,213,582	66	23,307,501	69
NON-CONTROLLING INTERESTS	<u>173,315</u>	<u>-</u>	<u>146,276</u>	<u>-</u>
Total equity	<u>25,386,897</u>	<u>66</u>	<u>23,453,777</u>	<u>69</u>
TOTAL	<u>\$ 38,538,953</u>	<u>100</u>	<u>\$ 33,979,133</u>	<u>100</u>

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

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Note 31)				
Sales	\$ 40,839,800	97	\$ 36,978,961	97
Other operating revenue	<u>1,162,398</u>	<u>3</u>	<u>1,021,621</u>	<u>3</u>
Total operating revenue	42,002,198	100	38,000,582	100
OPERATING COSTS (Notes 11, 22 and 31)	<u>24,884,649</u>	<u>59</u>	<u>22,655,592</u>	<u>59</u>
GROSS PROFIT	<u>17,117,549</u>	<u>41</u>	<u>15,344,990</u>	<u>41</u>
OPERATING EXPENSES (Notes 22 and 31)				
Selling and marketing expenses	4,260,554	10	3,889,856	10
General and administrative expenses	2,576,210	6	1,982,879	5
Research and development expenses	<u>3,649,292</u>	<u>9</u>	<u>3,543,748</u>	<u>10</u>
Total operating expenses	<u>10,486,056</u>	<u>25</u>	<u>9,416,483</u>	<u>25</u>
OPERATING PROFIT	<u>6,631,493</u>	<u>16</u>	<u>5,928,507</u>	<u>16</u>
NONOPERATING INCOME				
Share of the profit of associates accounted for using the equity method (Notes 4 and 13)	65,562	-	110,226	-
Interest income	15,989	-	40,613	-
Gains (losses) on disposal of property, plant and equipment (Note 4)	289,633	1	(5,410)	-
Gains (losses) on disposal of investments (Note 4)	(4,873)	-	202,458	1
Foreign exchange gains (losses), net (Notes 4, 22 and 33)	(205,812)	-	(186,889)	-
Gains on financial instruments at fair value through profit or loss (Note 4)	150,982	-	83,798	-
Dividend income	132,472	-	139,725	-
Other income (Note 8)	78,855	-	121,329	-
Finance costs (Note 22)	(11,556)	-	(10,041)	-
Losses on financial instruments at fair value through profit or loss (Note 4)	(43,324)	-	(130,409)	-
Other losses	<u>(2,056)</u>	<u>-</u>	<u>(4,372)</u>	<u>-</u>
Total nonoperating income	<u>465,872</u>	<u>1</u>	<u>361,028</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	7,097,365	17	6,289,535	17
INCOME TAX EXPENSE (Notes 4 and 23)	<u>1,408,411</u>	<u>3</u>	<u>1,162,560</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>5,688,954</u>	<u>14</u>	<u>5,126,975</u>	<u>14</u>

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss (Notes 20, 21 and 23):				
Remeasurement of defined benefit plans	\$ (31,247)	-	\$ (19,303)	-
Share of the other comprehensive income (loss) of associates accounted for using the equity method	1,574	-	(2,424)	-
Income tax related to items that will not be reclassified	5,312	-	3,281	-
Items that may be reclassified subsequently to profit or loss (Notes 4, 21 and 23):				
Exchange differences on translating foreign operations	(576,926)	(1)	(101,490)	-
Unrealized gains (losses) on available-for-sale financial assets	44,164	-	(495,012)	(2)
Share of the other comprehensive income of associates	(4,135)	-	2,449	-
Income tax related to items that may be reclassified subsequently to profit or loss	<u>96,161</u>	<u>-</u>	<u>13,620</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(465,097)</u>	<u>(1)</u>	<u>(598,879)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,223,857</u>	<u>12</u>	<u>\$ 4,528,096</u>	<u>12</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 5,666,862	13	\$ 5,104,346	13
Non-controlling interests	<u>22,092</u>	<u>-</u>	<u>22,629</u>	<u>-</u>
	<u>\$ 5,688,954</u>	<u>14</u>	<u>\$ 5,126,975</u>	<u>13</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 5,217,251	12	\$ 4,524,603	12
Non-controlling interests	<u>6,606</u>	<u>-</u>	<u>3,493</u>	<u>-</u>
	<u>\$ 5,223,857</u>	<u>12</u>	<u>\$ 4,528,096</u>	<u>12</u>

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2016		2015	
	Amount	%	Amount	%
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 24)				
Basic	<u>\$ 8.96</u>		<u>\$ 8.08</u>	
Diluted	<u>\$ 8.90</u>		<u>\$ 8.05</u>	

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

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

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company											
	Issued Capital (Notes 21 and 25)			Capital Surplus (Notes 21, 25 and 27)	Retained Earnings (Notes 21 and 27)			Other Equity (Note 21)		Non-controlling Interests (Notes 21 and 27)	Total Equity	
	Share Capital	Advance Receipts for Ordinary Shares	Total		Legal Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets			Total
BALANCE AT JANUARY 1, 2015	\$ 6,301,031	\$ 11,060	\$ 6,312,091	\$ 5,306,958	\$ 3,472,064	\$ 6,353,273	\$ 9,825,337	\$ 338,356	\$ 563,277	\$ 22,346,019	\$ 187,000	\$ 22,533,019
Appropriation of the 2014 earnings	-	-	-	-	490,778	(490,778)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(3,787,255)	(3,787,255)	-	-	(3,787,255)	-	(3,787,255)
Cash dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Recognition of employee share options by the Company	17,500	(11,060)	6,440	24,438	-	-	-	-	-	30,878	-	30,878
Compensation cost recognized for employee share options	-	-	-	261,877	-	-	-	-	-	261,877	-	261,877
Change in capital surplus from investments in associates accounted for using the equity method	-	-	-	2,172	-	-	-	-	-	2,172	-	2,172
Difference between consideration paid and carrying amount of subsidiaries acquired	-	-	-	(11,457)	-	(62,903)	(62,903)	-	-	(74,360)	(44,217)	(118,577)
Changes in percentage of ownership interest in subsidiaries	-	-	-	3,567	-	-	-	-	-	3,567	-	3,567
Net profit for the year ended December 31, 2015	-	-	-	-	-	5,104,346	5,104,346	-	-	5,104,346	22,629	5,126,975
Other comprehensive loss for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(18,234)	(18,234)	(66,497)	(495,012)	(579,743)	(19,136)	(598,879)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	5,086,112	5,086,112	(66,497)	(495,012)	4,524,603	3,493	4,528,096
BALANCE AT DECEMBER 31, 2015	6,318,531	-	6,318,531	5,587,555	3,962,842	7,098,449	11,061,291	271,859	68,265	23,307,501	146,276	23,453,777
Appropriation of the 2015 earnings	-	-	-	-	510,434	(510,434)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(3,791,118)	(3,791,118)	-	-	(3,791,118)	-	(3,791,118)
Cash dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Recognition of employee share options by the Company	12,210	100	12,310	104,758	-	-	-	-	-	117,068	-	117,068
Compensation cost recognized for employee share options	-	-	-	338,194	-	-	-	-	-	338,194	-	338,194
Change in capital surplus from investments in associates accounted for using the equity method	-	-	-	10,533	-	-	-	-	-	10,533	-	10,533
Difference between consideration paid and carrying amount of subsidiaries acquired	-	-	-	17,844	-	(3,691)	(3,691)	-	-	14,153	20,433	34,586
Net profit for the year ended December 31, 2016	-	-	-	-	-	5,666,862	5,666,862	-	-	5,666,862	22,092	5,688,954
Other comprehensive income for year ended December 31, 2016, net of income tax	-	-	-	-	-	(24,283)	(24,283)	(469,492)	44,164	(449,611)	(15,486)	(465,097)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	5,642,579	5,642,579	(469,492)	44,164	5,217,251	6,606	5,223,857
BALANCE AT DECEMBER 31, 2016	<u>\$ 6,330,741</u>	<u>\$ 100</u>	<u>\$ 6,330,841</u>	<u>\$ 6,058,884</u>	<u>\$ 4,473,276</u>	<u>\$ 8,435,785</u>	<u>\$ 12,909,061</u>	<u>\$ (197,633)</u>	<u>\$ 112,429</u>	<u>\$ 25,213,582</u>	<u>\$ 173,315</u>	<u>\$ 25,386,897</u>

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

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,097,365	\$ 6,289,535
Adjustments for:		
Depreciation expenses	582,040	568,241
Amortization expenses	238,048	97,953
Amortization expenses for prepayments of lease obligations	6,606	2,577
Impairment loss recognized (reversal of impairment loss) on trade receivables	(24,032)	23,360
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(107,658)	46,611
Compensation cost of employee share options	338,194	261,877
Finance costs	11,556	10,041
Interest income	(15,989)	(40,613)
Dividend income	(132,472)	(139,725)
Share of profit of associates	(65,562)	(110,226)
Loss (gain) on disposal of property, plant and equipment	(289,633)	5,410
Loss (gain) on disposal of investments	4,873	(202,458)
Changes in operating assets and liabilities		
Financial assets held for trading	174,898	(59,944)
Notes receivable	5,641	(20,861)
Trade receivables	(738,014)	(495,148)
Trade receivables from related parties	12,807	(21,375)
Other receivables	31,402	(1,724)
Inventories	(446,618)	(87,310)
Other current assets	(8,478)	57,051
Other financial assets	-	18,650
Trade payables	1,569,097	59,874
Net defined benefit liabilities	(2,427)	(1,191)
Other payables	600,572	147,567
Short-term warranty provisions	21,476	4,292
Other current liabilities	112,933	47,395
Other noncurrent liabilities	<u>(17,857)</u>	<u>36,812</u>
Cash generated from operations	8,958,768	6,496,671
Interest received	15,989	38,076
Dividends received	132,472	139,725
Interest paid	(6,285)	(1,467)
Income tax paid	<u>(1,086,369)</u>	<u>(850,763)</u>
Net cash generated from operating activities	<u>8,014,575</u>	<u>5,822,242</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(6,491,968)	(9,713,717)
Proceeds from sale of available-for-sale financial assets	5,364,552	11,766,699
Acquisition of investments with no active market	(6,945)	1,805
Acquisition of investments accounted for using the equity method	(135,000)	-

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

	2016	2015
Increase in prepayments for investments	\$ -	\$ (2,279,881)
Net cash flow on the acquisition of subsidiaries	(1,369,432)	-
Dividends received from associates	88,313	81,917
Acquisition of property, plant and equipment	(1,448,423)	(1,333,481)
Proceeds from disposal of property, plant and equipment	587,468	22,867
Decrease (increase) in refundable deposits	8,038	(16,567)
Acquisition of intangible assets	(73,435)	(73,145)
Increase in prepayments for business facilities	46,599	(18,015)
Net cash used from investing activities	<u>(3,430,233)</u>	<u>(1,561,518)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	(396,875)	877,545
Decrease in guarantee deposits received	(1,540)	(602)
Payment of cash dividends	(3,791,118)	(3,787,255)
Exercise of employee share options	117,068	30,878
Increase (decrease) in non-controlling interests	<u>34,586</u>	<u>(118,577)</u>
Net cash used in financing activities	<u>(4,037,879)</u>	<u>(2,998,011)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(267,145)</u>	<u>(26,461)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	279,318	1,236,252
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>4,358,259</u>	<u>3,122,007</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 4,637,577</u>	<u>\$ 4,358,259</u>

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

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

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on March 6, 2017.

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

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

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

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

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

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

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

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

2) IFRIC 21 “Levies”

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Group accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

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

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

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

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

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

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

4) Annual Improvements to IFRSs: 2011-2013 Cycle

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

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

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

5) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

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

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

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

- a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or
 - b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
- 6) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

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

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

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

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

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

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

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

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

Impairment of financial assets

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

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

Transition

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

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

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

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

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

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

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

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

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

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate, i.e. the entity’s share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence in an associate, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate, i.e. the entity’s share of the gain or loss is eliminated.

4) IFRS 16 “Leases”

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

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

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

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

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

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

6) Annual Improvements to IFRSs 2014-2016 Cycle

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

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

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

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

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries, including structured entities). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12 and Table 8 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

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

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

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

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

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

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries and associates in other countries that use currency different from the currency of the Company) are translated into the presentation currency – the New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

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

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost.

h. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate that are not related to the Group.

i. Property, plant and equipment

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

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets other than goodwill

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

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

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

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

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

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

ii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, and debt investments with no active market), are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or is designated as at fair value through profit or loss. Fair value is determined in the manner described in Note 30.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

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

n. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products at the best estimate by the management of the Group of the expenditure required to settle the Group's obligation.

o. Revenue recognition

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

1) Sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

2) Rendering of services

Service income is recognized when services are provided.

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

3) Dividend and interest income

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

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

p. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current and past service cost) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

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

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

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

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Fair value measurements of intangible assets

Intangible assets acquired from any business combination were recognized at their fair values as of the date of acquisition. When measuring fair values of intangible assets, the Group discounted cash flows to a present value by adopting the income approach to reflect the expectation of the current market with the future cash flows.

The Group's management used the estimated future cash flows of intangible assets with the estimated growth rates of sales and determined suitable discount rates to measure the fair values of intangible assets.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	\$ 61,640	\$ 65,144
Checking accounts and demand deposits	4,350,538	4,144,007
Cash equivalents (time deposits with original maturities less than three months)	<u>225,399</u>	<u>149,108</u>
	<u>\$ 4,637,577</u>	<u>\$ 4,358,259</u>

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

	December 31	
	2016	2015
Demand deposits	0.0001%-14.02%	0.001%-13.26%
Time deposits with original maturities of less than three months	1.35%-2.30%	1.60%-5.00%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets held for trading - current</u>		
Derivative financial assets		
Forward exchange contracts	\$ 34,348	\$ 7,391
Non-derivative financial assets		
Domestic quoted shares	78,680	67,554
Foreign quoted shares	<u>-</u>	<u>101,444</u>
	<u>\$ 113,028</u>	<u>\$ 176,389</u>
<u>Financial liabilities held for trading - current</u>		
Derivative financial liabilities		
Forward exchange contracts	<u>\$ 10,231</u>	<u>\$ 6,352</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, 2016</u>			
Sell	EUR/NTD	2017.01-2017.05	EUR5,500/NTD192,863
	EUR/USD	2017.01-2017.05	EUR8,500/USD9,451
	USD/NTD	2017.01-2017.04	USD11,414/NTD362,143
	JPY/NTD	2017.01-2017.06	JPY430,000/NTD128,601
	RMB/NTD	2017.01-2017.03	RMB83,000/NTD380,318
<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

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Domestic investments		
Mutual funds	\$ 2,450,232	\$ 1,271,302
Quoted shares	<u>506,354</u>	<u>484,541</u>
	<u>\$ 2,956,586</u>	<u>\$ 1,755,843</u>
<u>Noncurrent</u>		
Domestic investments		
Quoted shares	\$ 1,703,203	\$ 1,704,966
Unlisted shares	9,375	9,375
Foreign investments		
Unlisted foreign shares	<u>-</u>	<u>33,257</u>
	<u>\$ 1,712,578</u>	<u>\$ 1,747,598</u>

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

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Time deposits with original maturities more than three months	<u>\$ 10,007</u>	<u>\$ 3,171</u>

The market interest rates of the time deposits with original maturity more than three months were 1.00%-2.50% and 1.00%-2.55% per annum respectively as of December 31, 2016 and 2015.

10. NOTES AND TRADE RECEIVABLE

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Notes receivable (include related parties)	<u>\$ 965,081</u>	<u>\$ 970,722</u>
Trade receivable	\$ 6,486,188	\$ 5,577,733
Less: Allowance for impairment loss	<u>(101,354)</u>	<u>(149,159)</u>
	<u>\$ 6,384,834</u>	<u>\$ 5,428,574</u>

Trade Receivable

The average credit period of sales of goods was from 30 to 90 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 1 year because historical experience had been that receivables that are past due beyond 1 year were not recoverable. Allowance for impairment loss were recognized against trade receivables between 90 days and 1 year based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

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

The aging of receivables was as follows:

	December 31	
	2016	2015
Not overdue	\$ 5,524,036	\$ 4,457,975
Overdue		
1 to 90 days	839,609	909,380
91 to 360 days	63,558	131,727
Over 360 days	<u>58,985</u>	<u>78,651</u>
	<u>\$ 6,486,188</u>	<u>\$ 5,577,733</u>

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

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

	December 31	
	2016	2015
1 to 30 days	\$ 693,983	\$ 714,634
31 to 60 days	93,924	127,378
61 to 90 days	<u>51,702</u>	<u>55,384</u>
	<u>\$ 839,609</u>	<u>\$ 897,396</u>

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	\$ 19,802	\$ 130,200	\$ 150,002
Plus (less): Impairment losses recognized (reversed) on receivables	(2,203)	25,563	23,360
Less: Amounts written off during the period as uncollectible	(30)	(20,586)	(20,616)
Foreign exchange translation losses	<u>-</u>	<u>(3,587)</u>	<u>(3,587)</u>
Balance at December 31, 2015	<u>\$ 17,569</u>	<u>\$ 131,590</u>	<u>\$ 149,159</u>
Balance at January 1, 2016	\$ 17,569	\$ 131,590	\$ 149,159
Plus (less): Impairment losses recognized (reversed) on receivables	96	(24,128)	(24,032)
Less: Amounts written off during the period as uncollectible	(3,979)	(26,336)	(30,315)
Business combinations	-	11,918	11,918
Foreign exchange translation losses	<u>-</u>	<u>(5,376)</u>	<u>(5,376)</u>
Balance at December 31, 2016	<u>\$ 13,686</u>	<u>\$ 87,668</u>	<u>\$ 101,354</u>

The Group recognized impairment losses on trade receivables amounting to \$1,432 thousand as of both December 31, 2016 and 2015. These amounts mainly related to customers that were in liquidation or in severe financial difficulties. The Group did not hold any collateral over these balances.

11. INVENTORIES

	December 31	
	2016	2015
Raw materials	\$ 1,991,477	\$ 1,489,432
Work in process	1,033,831	974,373
Finished goods	1,922,816	1,875,649
Inventories in transit	<u>649,112</u>	<u>529,406</u>
	<u>\$ 5,597,236</u>	<u>\$ 4,868,860</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2016 and 2015 were \$24,517,651 thousand and \$22,221,007 thousand, respectively.

The costs of inventories were decreased by \$538,855 thousand and \$443,926 thousand as of December 31, 2016 and 2015, respectively, when stated at the lower of cost or net realizable values.

12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements.

The entities included in the consolidated statements are listed below.

Investor	Investee	Nature of Activities	% of Ownership		Remark	
			2016	2015		
The Company	AAC (BVI)	Investment and management service	100.00	100.00		
	ATC	Sale of industrial automation products	100.00	100.00		
	Advantix Corporation (formerly Advansus Corp.)	Production and sale of industrial automation products	100.00	100.00		
	Advantech Corporate Investment	Investment holding company	100.00	100.00		
	AEUH	Investment and management service	100.00	100.00		
	ASG	Sale of industrial automation products	100.00	100.00		
	AAU	Sale of industrial automation products	100.00	100.00		
	AJP	Sale of industrial automation products	100.00	100.00		
	AMY	Sale of industrial automation products	100.00	100.00		
	AKR	Sale of industrial automation products	100.00	100.00		
	ABR	Sale of industrial automation products	80.00	80.00		
	ACA	Production and sale of portable industrial automation products	-	100.00	i.	
	AIN	Sale of industrial automation products	99.99	99.99	a.	
	AdvanPOS	Production and sale of POS system	100.00	100.00		
	ALNC	Production and sale of machines with computerized numerical control	81.17	89.93	b.	
	AMX	Sale of industrial automation products	100.00	100.00	a.	
	Advantech Innovative Design Co., Ltd.	Product design	100.00	100.00	a.	
	Advantech iFactory Co., Ltd.	Cybernation equipment manufacturing	-	100.00	c.	
	BEMC	Sale of industrial network communications systems	60.00	-	d.	
	AiST	Design, develop and sale of intelligent service	100.00	-	h.	
	Advantech Corporate Investment	AiST	Design, develop and sale of intelligent service	-	100.00	h.
		Cermate	Manufacturing of electronic parts, computer, and peripheral devices	55.00	55.00	
	ATC	ATC (HK)	Investment and management service	100.00	100.00	
	ATC (HK)	AKMC	Production and sale of components of industrial automation products	100.00	100.00	
		Advantix Kun Shan Corp. (formerly Yeh-Chiang Technology Kun Shan Co., Ltd.)	Production and sale of industrial automation products	100.00	-	f.
	AAC (BVI)	ANA	Sale and fabrication of industrial automation products	100.00	100.00	
	ANA	AAC (HK)	Investment and management service	100.00	100.00	
BEMC		Sale of industrial network communications systems	40.00	-	d.	
AAC (HK)	ACN	Sale of industrial automation products	100.00	100.00		
	AiSC	Production and sale of industrial automation products	100.00	100.00		
ACN	AXA	Development and production of software products	100.00	100.00		
	Hangzhou Advantofine Automation Tech. Co., Ltd.	Processing and sale of industrial automation products	100.00	60.00	e.	
AEUH	AEU	Sale of industrial automation products	100.00	100.00		
	APL	Sale of industrial automation products	100.00	100.00		
AEU	A-DLoG	Design, R&D and sale of industrial automation vehicles and related products	100.00	100.00		
ASG	ATH	Production of computers	51.00	51.00		
	AID	Sale of industrial automation products	100.00	100.00		
Cermate	Land Mark	General investment	100.00	100.00		
Land Mark	Cermate (Shanghai)	Sale of industrial electronic equipment	100.00	100.00		
	Cermate (Shenzhen)	Production of LCD touch panel, USB cable, and industrial computer	90.00	90.00		
AdvanPOS	Bright Mind Ltd.	General investment	-	100.00	g.	

(Continued)

Investor	Investee	Nature of Activities	% of Ownership		Remark
			2016	2015	
Bright Mind Ltd.	AdvanPOS Shanghai	Production and sale of POS system	-	100.00	g.
ALNC	Better Auto	General investment	100.00	100.00	
Better Auto	Famous Now Limited	General investment	100.00	100.00	
Famous Now Limited	Dongguan Pou Yuen Digital Technology Co., Ltd.	Production and sale of industrial automation products	100.00	100.00	
BEMC	Avtek	General investment	100.00	-	d.
Avtek	B+B	General investment	100.00	-	d.
B+B	BBI	Sale of industrial network communications systems	100.00	-	d.
	Quatech	Sale of industrial network communications systems	100.00	-	d.
	IMC	Sale of industrial network communications systems	100.00	-	d.
BBI	B&B Electronics	Sale of industrial network communications systems	100.00	-	d.
	B+B (CZ) (formerly Conel)	Manufacturing of cellular and automation solution	99.99	-	d.
	Conel Automation (formerly Softcon)	Sale of industrial network communications systems	1.00	-	d.
	B&B DMCC	Sale of industrial network communications systems	100.00	-	d.
B&B Electronics	B+B (CZ)	Manufacturing of cellular and automation solution	0.01	-	d.
B+B (CZ)	Conel Automation	Sale of industrial network communications systems	99.00	-	d.

(Concluded)

Remark a: Non-significant subsidiaries and their financial statements were not audited. Management of the Group believes that there would not be material impacts had the financial statements of these subsidiaries been audited.

Remark b: In the first and third quarter of 2016, the Company acquired 0.07% and sold 8.83% equity in ALNC, respectively, decreasing the Company's equity interest from 89.93% to 81.17%.

Remark c: In the fourth quarter of 2016, Advantech iFactory Co., Ltd. was in the process of liquidation, which was not included in the 2016 consolidated financial statements.

Remark d: In the first quarter of 2016, the Group acquired 100% share equity of BEMC with an acquisition of 60% and 40% of BEMC's share equity by the Company and ANA, respectively.

Remark e: In the first quarter of 2016, ACN acquired 40% equity of Hangzhou Advantofine Automation Tech. Co., Ltd., which led ACN's equity investment in the above subsidiary increased from 60% to 100%.

Remark f: In the second quarter of 2016, ATC, in an issuance of ordinary shares for cash to ATC (HK), acquired 100% equity of Advanixs Kun Shan Corp.

Remark g: In the second quarter of 2016, Bright Mind Ltd. and AdvanPOS Shanghai were in the process of liquidation, which were not included in the 2016 consolidated financial statements.

Remark h: In 2016, the Group has adjusted its investment structure and the Company directly acquired 100% share equity of AiST.

Remark i: In the third quarter of 2016, ACA was merged by AdvanPOS and ACA ceased to exist.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Associates

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Associates that are not individually material</u>		
Listed companies		
Axiomtek Co., Ltd. (Axiomtek)	\$ 464,155	\$ 450,246
Unlisted companies		
AIMobile Co., Ltd. (AIMobile)	109,241	-
Deneng Scientific Research Co., Ltd. (Deneng)	16,154	18,228
Jan Hsiang Electronics Co., Ltd. (Jan Hsiang)	<u>8,904</u>	<u>9,510</u>
	<u>\$ 598,454</u>	<u>\$ 477,984</u>

In the second quarter 2016, the Group paid cash at \$135,000 thousand toward the establishment of "AIMobile Co., Ltd." by a joint investment with Inventec Corporation. The Group and Inventec Corporation held equity interests of 45% and 55%, respectively. The Group had significant influence over AIMobile.

Aggregate Information on the Associates

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
The Group's share of		
Profit from continuing operations	\$ 65,562	\$ 110,226
Other comprehensive income	<u>(2,561)</u>	<u>25</u>
	<u>\$ 63,001</u>	<u>\$ 110,251</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, 2016 and 2015 was based on the associates' financial statements audited by the auditors for the same years.

14. PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	<u>Freehold Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Office Equipment</u>	<u>Other Facilities</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2015	\$ 3,065,315	\$ 5,320,186	\$ 1,554,609	\$ 757,649	\$ 1,364,432	\$ 40,886	\$ 12,103,077
Additions	-	82,554	63,060	53,497	198,133	947,502	1,344,746
Disposals	-	-	(112,157)	(30,856)	(49,361)	-	(192,374)
Reclassifications	-	(5,438)	40,501	(875)	33,588	(73,138)	(5,362)
Effect of foreign currency exchange differences	<u>2,949</u>	<u>(48,312)</u>	<u>(12,373)</u>	<u>(9,120)</u>	<u>(13,754)</u>	<u>(122)</u>	<u>(80,732)</u>
Balance at December 31, 2015	<u>\$ 3,068,264</u>	<u>\$ 5,348,990</u>	<u>\$ 1,533,640</u>	<u>\$ 770,295</u>	<u>\$ 1,533,038</u>	<u>\$ 915,128</u>	<u>\$ 13,169,355</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2015	\$ -	\$ 899,536	\$ 1,044,178	\$ 490,419	\$ 792,338	\$ -	\$ 3,226,471
Disposals	-	-	(108,408)	(28,122)	(27,567)	-	(164,097)
Depreciation expense	-	159,248	134,207	94,943	179,843	-	568,241
Reclassifications	-	(857)	29	(4,715)	2,408	-	(3,135)
Effect of foreign currency exchange differences	<u>-</u>	<u>(11,866)</u>	<u>(6,978)</u>	<u>(6,758)</u>	<u>(9,402)</u>	<u>-</u>	<u>(35,004)</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 1,046,061</u>	<u>\$ 1,063,028</u>	<u>\$ 545,767</u>	<u>\$ 937,620</u>	<u>\$ -</u>	<u>\$ 3,592,476</u>
Carrying amounts at December 31, 2015	<u>\$ 3,068,264</u>	<u>\$ 4,302,929</u>	<u>\$ 470,612</u>	<u>\$ 224,528</u>	<u>\$ 595,418</u>	<u>\$ 915,128</u>	<u>\$ 9,576,879</u>

(Continued)

	Freehold Land	Buildings	Equipment	Office Equipment	Other Facilities	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 3,068,264	\$ 5,348,990	\$ 1,533,640	\$ 770,295	\$ 1,533,038	\$ 915,128	\$ 13,169,355
Additions	64,688	181,539	78,609	69,265	154,789	815,342	1,364,232
Disposals	(187,992)	(101,971)	(68,301)	(45,139)	(73,966)	-	(477,369)
Acquisitions through business combinations	12,644	308,798	84,400	89,771	25,390	-	521,003
Reclassifications	-	1,561,057	50,897	9,934	27,200	(1,686,836)	(37,748)
Effect of foreign currency exchange differences	(9,024)	(217,424)	(47,507)	(31,717)	(61,221)	(345)	(367,238)
Balance at December 31, 2016	<u>\$ 2,948,580</u>	<u>\$ 7,080,989</u>	<u>\$ 1,631,738</u>	<u>\$ 862,409</u>	<u>\$ 1,605,230</u>	<u>\$ 43,289</u>	<u>\$ 14,172,235</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2016	\$ -	\$ 1,046,061	\$ 1,063,028	\$ 545,767	\$ 937,620	\$ -	\$ 3,592,476
Depreciation expense	-	169,334	124,565	100,139	188,002	-	582,040
Disposals	-	(19,099)	(61,429)	(40,515)	(58,491)	-	(179,534)
Acquisitions through business combinations	-	88,296	61,837	82,180	4,771	-	237,084
Reclassifications	-	488	(3,692)	(19,369)	18,998	-	(3,575)
Effect of foreign currency exchange differences	-	(56,407)	(28,640)	(23,767)	(37,278)	-	(146,092)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 1,228,673</u>	<u>\$ 1,155,669</u>	<u>\$ 644,435</u>	<u>\$ 1,053,622</u>	<u>\$ -</u>	<u>\$ 4,082,399</u>
Carrying amounts at December 31, 2016	<u>\$ 2,948,580</u>	<u>\$ 5,852,316</u>	<u>\$ 476,069</u>	<u>\$ 217,974</u>	<u>\$ 551,608</u>	<u>\$ 43,289</u>	<u>\$ 10,089,836</u>

(Concluded)

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

Buildings

Main buildings 20-60 years

Electronic equipment 5 years

Engineering systems 5 years

Equipment 2-8 years

Office equipment 2-8 years

Other facilities 2-10 years

15. GOODWILL

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Cost</u>		
Balance at January 1	\$ 1,139,559	\$ 1,168,727
Additional amounts recognized from business combinations occurring during the year (Note 26)	2,311,181	-
Adjustments for goodwill after acquisition	(543,042)	-
Effect of exchange differences	<u>(61,867)</u>	<u>(29,168)</u>
Balance at December 31	<u>\$ 2,845,831</u>	<u>\$ 1,139,559</u>

In the fourth quarter of 2016, the Group obtained an evaluation report which stated that the total fair value of the cash and cash equivalents, trade receivables, inventories, other current financial assets, other current assets, intangible assets, deferred tax assets, trade payables, other payables, other liabilities, and deferred tax liabilities was \$1,394,876 thousand as of the date of acquisition. Thus, the Group made adjustments on the accounting treatment and the fair value of assets as of the date of acquisition and re-presented the comparative information.

Adjusted items on the balance sheet of B+B were as follows:

	Acquisition Date (Provisional Amount)	Acquisition Date (Fair Value)
Goodwill adjustment	\$ 2,311,181	\$ 1,768,139
Cash and cash equivalents	-	71,336
Trade receivables	211,332	188,827
Inventories	301,938	281,758
Other current financial assets	33,010	-
Other current assets	30,446	17,935
Intangible assets	416,365	1,294,933
Deferred tax assets	35,125	153,651
Trade payables and other payable	(135,526)	(188,215)
Other liabilities	(10,730)	-
Deferred tax liabilities	(30,126)	(425,349)

16. OTHER INTANGIBLE ASSETS

	Trademark	Client relationship	Technology license	Others	Total
<u>Cost</u>					
Balance at January 1, 2015	\$ 84,637	\$ 128,513	\$ 116,884	\$ 522,936	\$ 852,970
Additions	-	-	-	73,175	73,175
Disposals	-	-	-	(76,262)	(76,262)
Effect of foreign currency exchange differences	(5,698)	(8,653)	(7,868)	(25,966)	(48,185)
Balance at December 31, 2015	<u>\$ 78,939</u>	<u>\$ 119,860</u>	<u>\$ 109,016</u>	<u>\$ 493,883</u>	<u>\$ 801,698</u>
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2015	\$ -	\$ 54,288	\$ 64,780	\$ 447,590	\$ 566,658
Amortization expense	-	6,702	21,680	69,571	97,953
Disposals	-	-	-	(76,232)	(76,232)
Effect of foreign currency exchange differences	-	(3,533)	(9,245)	(1,589)	(14,367)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 57,457</u>	<u>\$ 77,215</u>	<u>\$ 439,340</u>	<u>\$ 574,012</u>
Carrying amounts at December 31, 2016	<u>\$ 78,939</u>	<u>\$ 62,403</u>	<u>\$ 31,801</u>	<u>\$ 54,543</u>	<u>\$ 227,686</u>
<u>Cost</u>					
Balance at January 1, 2016	\$ 78,939	\$ 119,860	\$ 109,016	\$ 493,883	\$ 801,698
Additions	-	-	-	79,243	79,243
Disposals	-	-	-	(1,750)	(1,750)
Acquisitions through business combinations	461,704	419,005	340,309	73,915	1,294,933
Effect of foreign currency exchange differences	(14,987)	(16,261)	(13,852)	(27,324)	(72,424)
Balance at December 31, 2016	<u>\$ 525,656</u>	<u>\$ 522,604</u>	<u>\$ 435,473</u>	<u>\$ 617,967</u>	<u>\$ 2,101,700</u>

(Continued)

	Trademark	Client relationship	Technology license	Others	Total
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2016	\$ -	\$ 57,457	\$ 77,215	\$ 439,340	\$ 574,012
Additions	-	43,426	93,797	100,825	238,048
Disposals	-	-	-	(1,691)	(1,691)
Effect of foreign currency exchange differences	-	(3,995)	(4,832)	(17,282)	(26,109)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 96,888</u>	<u>\$ 166,180</u>	<u>\$ 521,192</u>	<u>\$ 784,260</u>
Carrying amounts at December 31, 2016	<u>\$ 525,656</u>	<u>\$ 425,716</u>	<u>\$ 269,293</u>	<u>\$ 96,775</u>	<u>\$ 1,317,440</u> (Concluded)

17. PREPAYMENTS FOR LEASE OBLIGATIONS

	<u>December 31</u>	
	2016	2015
Current assets (included in other current assets)	\$ 8,955	\$ 2,557
Noncurrent assets	<u>325,224</u>	<u>100,875</u>
	<u>\$ 334,179</u>	<u>\$ 103,432</u>

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

18. BORROWINGS

Short-term Borrowings

	<u>December 31</u>	
	2016	2015
Unsecured borrowings		
Line of credit borrowings	<u>\$ 483,750</u>	<u>\$ 880,625</u>

The range of weighted average effective interest rates on bank loans were 1.324% and 1.28%-1.84% per annum as of December 31, 2016 and 2015, respectively.

19. OTHER LIABILITIES

	<u>December 31</u>	
	2016	2015
Other payables		
Payable for salaries or bonuses	\$ 2,248,870	\$ 2,167,475
Payable for employee benefits	151,115	138,206
Payable for royalties	179,207	105,186
Others (Note)	<u>1,323,307</u>	<u>969,450</u>
	<u>\$ 3,902,499</u>	<u>\$ 3,380,317</u>

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

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

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

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

b. Defined benefit plans

The defined benefit plan adopted by the Company and Cermate of the Group in accordance with the Labor Standards Law, is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and Cermate Technologies Inc. each contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by pension fund monitoring committees. Pension contributions are deposited in the Bank of Taiwan in the committees' name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

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

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 347,702	\$ 332,269
Fair value of plan assets	<u>(135,342)</u>	<u>(148,729)</u>
Deficit	<u>212,360</u>	<u>183,540</u>
Net defined benefit liability	<u>\$ 212,360</u>	<u>\$ 183,540</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	<u>\$ 312,216</u>	<u>\$ (146,788)</u>	<u>\$ 165,428</u>
Service cost			
Current service cost	2,344	-	2,344
Past service cost	1,340	-	1,340
Net interest expense (income)	<u>5,859</u>	<u>(2,830)</u>	<u>3,029</u>
Recognized in profit or loss	<u>9,543</u>	<u>(2,830)</u>	<u>6,713</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (1,032)	\$ (1,032)
Actuarial (gain) loss - changes in demographic assumptions	12,407	-	12,407
Actuarial (gain) loss - changes in financial assumptions	10,070	-	10,070
Actuarial (gain) loss - experience adjustments	<u>(2,142)</u>	<u>-</u>	<u>(2,142)</u>
Recognized in other comprehensive income	<u>20,335</u>	<u>(1,032)</u>	<u>19,303</u>
Contributions from the employer	-	(7,904)	(7,904)
Benefits paid	<u>(9,825)</u>	<u>9,825</u>	<u>-</u>
Balance at December 31, 2015	332,269	(148,729)	183,540
Service cost			
Current service cost	2,645	-	2,645
Net interest expense (income)	<u>5,405</u>	<u>(2,486)</u>	<u>2,919</u>
Recognized in profit or loss	<u>8,050</u>	<u>(2,486)</u>	<u>5,564</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,436	1,436
Actuarial (gain) loss - changes in demographic assumptions	8,543	-	8,543
Actuarial (gain) loss - changes in financial assumptions	10,671	-	10,671
Actuarial (gain) loss - experience adjustments	<u>10,597</u>	<u>-</u>	<u>10,597</u>
Recognized in other comprehensive income	<u>29,811</u>	<u>1,436</u>	<u>31,247</u>
Contributions from the employer	-	(7,991)	(7,991)
Benefits paid	<u>(22,428)</u>	<u>22,428</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 347,702</u>	<u>\$ (135,342)</u>	<u>\$ 212,360</u> (Concluded)

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

	For the Year Ended December 31	
	2016	2015
Operating costs	\$ 1,238	\$ 1,083
Selling and marketing expenses	868	838
General and administrative expenses	1,497	2,823
Research and development expenses	<u>1,961</u>	<u>1,969</u>
	<u>\$ 5,564</u>	<u>\$ 6,713</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	2015
Discount rate(s)	1.375%-1.500%	1.625%-1.750%
Expected rate(s) of salary increase	3.000%-3.250%	3.000%-3.250%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	2015
Discount rate(s)		
0.25% increase	<u>\$ (10,878)</u>	<u>\$ (10,434)</u>
0.25% decrease	<u>\$ 11,353</u>	<u>\$ 10,894</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 10,963</u>	<u>\$ 10,544</u>
0.25% decrease	<u>\$ (10,564)</u>	<u>\$ (10,156)</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	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 8,035</u>	<u>\$ 7,977</u>
The average duration of the defined benefit obligation	12.7-16.2 years	12.8-16.8 years

21. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2016</u>	<u>2015</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>633,084</u>	<u>631,853</u>
Amount of shares issued and fully paid	<u>\$ 6,330,841</u>	<u>\$ 6,318,531</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, 2016, the changes in shares are due to employees' exercise of their employee share options.

b. Capital surplus

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Arising from issuance of ordinary shares	\$ 3,396,888	\$ 3,396,888
Arising from conversion of bonds	931,849	931,849
Arising from the difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	17,844	-
<u>May be used to offset a deficit only</u>		
Arising from changes in percentage of ownership interest in subsidiaries (2)	4,246	4,246
Arising from employee share options	1,077,084	792,341
Arising from distribution of share dividends	78,614	78,614
<u>May not be used for any purpose</u>		
Arising from share of changes in capital surplus of associates	23,231	12,698
Arising from employee share options	<u>529,128</u>	<u>370,919</u>
	<u>\$ 6,058,884</u>	<u>\$ 5,587,555</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 dividends policy

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

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to c Employee benefits expense in Note 22.

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

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

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

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

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

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

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

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

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

d. Other equity items

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

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 271,859	\$ 338,356
Exchange differences arising on translating the financial statements of foreign operations	(561,518)	(82,566)
Related income tax	96,161	13,620
Share of exchange difference of associates accounted for using the equity method	<u>(4,135)</u>	<u>2,449</u>
Balance at December 31	<u>\$ (197,633)</u>	<u>\$ 271,859</u>

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

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 68,265	\$ 563,277
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	39,048	(292,554)
Cumulative gain (loss) reclassified to profit or loss on sale of available-for-sale financial assets	<u>5,116</u>	<u>(202,458)</u>
Balance at December 31	<u>\$ 112,429</u>	<u>\$ 68,265</u>

e. Non-controlling interests

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 146,276	\$ 187,000
Attributable to non-controlling interests:		
Share of profit for the year	22,092	22,629
Exchange difference arising on translation of foreign entities	(15,408)	(18,924)
		(Continued)

	For the Year Ended December 31	
	2016	2015
Remeasurement on defined benefit plans	\$ (94)	\$ (255)
Related income tax	16	43
Non-controlling interests arising from acquisition or disposal of subsidiaries (Note 27)	<u>20,433</u>	<u>(44,217)</u>
Balance at December 31	<u>\$ 173,315</u>	<u>\$ 146,276</u> (Concluded)

22. NET PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank loans	\$ 5,531	\$ 1,285
Others	<u>6,025</u>	<u>8,756</u>
	<u>\$ 11,556</u>	<u>\$ 10,041</u>

b. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	\$ 582,040	\$ 568,241
Intangible assets	<u>238,048</u>	<u>97,953</u>
	<u>\$ 820,088</u>	<u>\$ 666,194</u>
An analysis of depreciation by function		
Operating costs	\$ 137,801	\$ 130,104
Operating expenses	<u>444,239</u>	<u>438,137</u>
	<u>\$ 582,040</u>	<u>\$ 568,241</u>
An analysis of amortization by function		
Operating costs	\$ 285	\$ 319
Selling and marketing expense	139	298
General and administrative expense	208,345	71,090
Research and development expense	<u>29,279</u>	<u>26,246</u>
	<u>\$ 238,048</u>	<u>\$ 97,953</u>

c. Employee benefit expense

	For the Year Ended December 31	
	2016	2015
Short-term benefits	\$ 7,723,656	\$ 6,906,701
Post-employment benefits		
Defined contribution plans	276,942	270,504
Defined benefit plans (Note 20)	<u>5,564</u>	<u>6,713</u>
	282,506	277,217
Share-based payments		
Equity-settled	338,194	261,877
Other employee benefits	<u>518,091</u>	<u>492,356</u>
Total employee benefit expense	<u>\$ 8,862,447</u>	<u>\$ 7,938,151</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 1,907,784	\$ 1,783,857
Operating expenses	<u>6,954,663</u>	<u>6,154,294</u>
	<u>\$ 8,862,447</u>	<u>\$ 7,938,151</u>

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on May 25, 2016, the Company accrued employees' compensation at the rates no less than 1% and no higher than 20%, and remuneration of directors and supervisors at the rates no higher than 1%, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 6, 2017 and March 4, 2016, respectively, were as follows:

	2016	2015
Employees' compensation	\$ 243,000	\$ 200,000
Remuneration of directors and supervisors	12,300	12,000

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on May 28, 2015 were as follows:

	For the Year Ended December 31, 2014
Bonus to employees	\$ 126,000
Remuneration of directors and supervisors	12,000

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on May 28, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	\$ 860,893	\$ 1,113,263
Foreign exchange losses	<u>(1,066,705)</u>	<u>(1,300,152)</u>
Net loss	<u>\$ (205,812)</u>	<u>\$ (186,889)</u>

23. INCOME TAX

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

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	\$ 1,227,483	\$ 1,098,440
Income tax expense for unappropriated earnings	72,178	62,909
Adjustments for prior year	<u>(1,702)</u>	<u>480</u>
	1,297,959	1,161,829
Deferred tax		
In respect of the current year	110,452	1,872
Adjustments for prior year	<u>-</u>	<u>(1,141)</u>
	<u>110,452</u>	<u>731</u>
Income tax expense recognized in profit or loss	<u>\$ 1,408,411</u>	<u>\$ 1,162,560</u>

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

	For the Year Ended December 31	
	2016	2015
Profit before tax from continuing operations	<u>\$ 7,097,365</u>	<u>\$ 6,289,535</u>
Income tax expense calculated at the statutory rate	\$ 1,630,913	\$ 1,393,286
Nondeductible expenses in determining taxable income	686	3,755
Tax-exempt income	(196,715)	(219,899)
Income tax on unappropriated earnings	72,178	62,909
Land value increment tax	7,833	-
Investment credits in the current year	(88,558)	(57,000)
Loss carryforwards in the current year	(16,594)	(229)
Unrecognized deductible temporary differences	119	(20,742)
Adjustments for prior years' tax	(1,702)	480
Others	<u>251</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 1,408,411</u>	<u>\$ 1,162,560</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25%, except for subsidiaries qualified for 15% preferential tax rate for Hi-Tech Industries. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 10% income tax rate of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ 96,161	\$ 13,620
Remeasurement on defined benefit plan	<u>5,312</u>	<u>3,281</u>
	<u>\$ 101,473</u>	<u>\$ 16,901</u>

c. Current tax liabilities

	December 31	
	2016	2015
Current tax liabilities		
Income tax payable	<u>\$ 1,229,400</u>	<u>\$ 1,057,226</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, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Business Combination	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized gross profit	\$ 56,143	\$ (11,147)	\$ -	\$ -	\$ 44,996
Unrealized loss on inventory write-down	49,486	2,084	-	22,482	74,052
Exchange difference on foreign operations	-	4,636	40,479	-	45,115
Loss carryforwards	-	(32,726)	-	121,207	88,481
Defined benefit obligation	16,915	(391)	-	-	16,524
Unrealized exchange losses (gains)	8,501	(6,886)	-	-	1,615
Unrealized warranty liabilities	26,019	(5,401)	-	-	20,618
Remeasurement of defined benefit plans	6,232	-	5,312	-	11,544
Allowance for impaired receivables	2,982	(3,568)	-	1,022	436
Others	<u>51,711</u>	<u>(2,524)</u>	<u>-</u>	<u>16,588</u>	<u>65,775</u>
	<u>\$ 217,989</u>	<u>\$ (55,923)</u>	<u>\$ 45,791</u>	<u>\$ 161,299</u>	<u>\$ 369,156</u>

Deferred tax liabilities

Temporary differences					
Undistributed earnings of subsidiaries	\$ 875,958	\$ 114,613	\$ -	\$ -	\$ 990,571
Exchange difference on foreign operations	55,682	-	(55,682)	-	-
Remeasurement of defined benefit plans	3,646	-	-	-	3,646
Unrealized exchange gains	823	2,004	-	-	2,827
Property, plant and equipment	-	(1,593)	-	11,376	9,783
Intangible assets and goodwill	-	(50,833)	-	406,249	355,416
Others	<u>2,382</u>	<u>(9,662)</u>	<u>-</u>	<u>7,724</u>	<u>444</u>
	<u>\$ 938,491</u>	<u>\$ 54,529</u>	<u>\$ (55,682)</u>	<u>\$ 425,349</u>	<u>\$ 1,362,687</u>

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized gross profit	\$ 40,938	\$ 15,205	\$ -	\$ 56,143
Unrealized loss on inventory write-down	46,167	3,319	-	49,486
Defined benefit obligation	16,680	235	-	16,915

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
Unrealized warranty liabilities	\$ 23,540	\$ 2,479	\$ -	\$ 26,019
Remeasurement of defined benefit plans	2,951	-	3,281	6,232
Unrealized exchange losses	64	8,437	-	8,501
Allowance for impaired receivables	2,839	143	-	2,982
Others	<u>28,089</u>	<u>23,622</u>	<u>-</u>	<u>51,711</u>
	<u>\$ 161,268</u>	<u>\$ 53,440</u>	<u>\$ 3,281</u>	<u>\$ 217,989</u>

Deferred tax liabilities

Temporary differences				
Undistributed earnings of subsidiaries	\$ 812,609	\$ 63,349	\$ -	\$ 875,958
Exchange difference on foreign operations	69,302	-	(13,620)	55,682
Remeasurement of defined benefit plans	3,646	-	-	3,646
Unrealized exchange gains (losses)	11,091	(10,268)	-	823
Others	<u>1,292</u>	<u>1,090</u>	<u>-</u>	<u>2,382</u>
	<u>\$ 897,940</u>	<u>\$ 54,171</u>	<u>\$ (13,620)</u>	<u>\$ 938,491</u>

(Concluded)

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Loss carryforwards		
2017	\$ 18,360	\$ 23,013
2018	-	37,282
2019	-	29,410
2021	-	16,487
2022	2,295	13,126
2024	18,359	-
2025	<u>9,424</u>	<u>-</u>
	<u>\$ 48,438</u>	<u>\$ 119,318</u>

f. Integrated income tax

	<u>December 31</u>	
	2016	2015
Unappropriated earnings		
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 8,435,785</u>	<u>\$ 7,098,449</u>
Shareholder-imputation credit account	<u>\$ 777,620</u>	<u>\$ 608,917</u>
	<u>For the Year Ended December 31</u>	
	2016 (Expected)	2015
Creditable ratio for distribution of earning	18.69%	13.86%

g. Income tax assessments

The Company's tax returns through 2011 have been assessed by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2008 tax returns and applied for reexamination. Nevertheless, to be conservative, the Company provided for the income tax assessed by the tax authorities.

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2016	2015
Basic earnings per share	<u>\$ 8.96</u>	<u>\$ 8.08</u>
Diluted earnings per share	<u>\$ 8.90</u>	<u>\$ 8.05</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2016	2015
Earnings used in the computation of basic earnings per share	<u>\$ 5,666,862</u>	<u>\$ 5,104,346</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 5,666,862</u>	<u>\$ 5,104,346</u>

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

	<u>For the Year Ended December 31</u>	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	632,148	631,633
Effect of potentially dilutive ordinary shares:		
Employee share option	3,492	1,372
Employees' compensation	<u>1,168</u>	<u>1,202</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>636,808</u>	<u>634,207</u>

If the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

25. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of the Company and its subsidiaries were granted 6,500 options in 2016, 5,000 options in 2014, and 3,000 options in 2010. Each option entitles the holder to subscribe for one thousand common shares of the Company. The holders of these shares include employees whom meet certain criteria set by the Company, from both domestic and overseas subsidiaries in which the Company directly or indirectly invests over 50%. Options issued in 2016, 2014, and 2010 are valid for six, six and five years, respectively. All are exercisable at certain percentages after the second anniversary year from the grant date. Options granted in 2010 had an exercise prices equal to the closing price of the Company's common shares listed on the grant date, and the exercise price of those granted in 2016 and 2014 was both NT\$100 per share. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options will be adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2016		2015	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	5,000	\$100.00	5,644	\$ 94.10
Options granted	6,500	100.00	-	-
Options exercised	<u>(1,231)</u>	95.10	<u>(644)</u>	47.95
Balance at December 31	<u>10,269</u>	-	<u>5,000</u>	100.00
Options exercisable, end of the year	<u>3,769</u>	95.10	<u>-</u>	-
Weighted-average fair value of options granted (NT\$)	<u>95.10</u>		<u>-</u>	

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2016 and 2015 were from NT\$204 to NT\$269 and from NT\$210 to NT\$254, respectively.

Information about outstanding options as of December 31, 2016 and 2015 was as follows:

	For the Year Ended December 31			
	2016		2015	
	Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)	Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)
Issuance in 2016	\$ 100.00	5.45	\$ -	-
Issuance in 2014	95.10	3.63	100.00	4.63

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

	2016	2014	2010
Grant-date share price (NT\$)	\$235	\$239.5	\$67.4
Exercise price (NT\$)	\$100	\$100	\$67.4
Expected volatility	31.42%-32.48%	28.28%-29.19%	34.11%-35.15%
Expected life (years)	4-5.5 years	4-5.5 years	3.5-4.5 years
Expected dividends yield	0%	0%	0%
Risk-free interest rate	0.52%-0.65%	1.07%-1.30%	0.92%-1.10%

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

Compensation cost recognized was \$338,194 thousand and \$261,877 thousand for the years ended December 31, 2016 and 2015, respectively.

Qualified employees of AdvanPOS, a subsidiary of the Company, were granted 800 options in December 2010. Each option entitles the holder to subscribe for one thousand common shares of AdvanPOS. These option were valid for two years. All were exercisable at certain percentages after the first anniversary year from the grant date. For the exercise of options, AdvanPOS issued new shares to the employees at NT\$10 per share.

Information on employee share options was as follows:

	For the Year Ended December 31, 2015	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	446	\$10.00
Options exercised	(423)	10.00
Options expired	(23)	-
Options forfeited	<u>-</u>	-
Balance at December 31	<u><u>-</u></u>	-
Options exercisable, end of the year	<u><u>-</u></u>	-

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

	For the Year Ended December 31, 2015	
	Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)
Issuance in 2010	\$ 10.00	-

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

	2010
Grant-date share price (NT\$)	\$12.39
Exercise price (NT\$)	\$10
Expected volatility	30.43%
Expected life (years)	2 years
Expected dividends yield	0%
Risk-free interest rate	1.345%

26. BUSINESS COMBINATION

a. Subsidiary acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
B+B SmartWorx, Inc. (Note)	Sale of industrial network communications	January 4, 2016	100	<u>\$ 3,296,048</u>
Advanixs Kun Shan Corp. (formerly Yeh-Chiang Technology Kun Shan Co., Ltd.)	Production and sale of industrial automation products	May 27, 2016	100	<u>\$ 459,648</u>

Note: For more information of BEMC, Avtek and B+B and its subsidiaries IMC, Quatech, BBI, B&B Electronics, B&B DMCC, B+B (CZ) (formerly Conel) and Conel Automation (formerly Softcon), refer to Note 12, Table 8 and Table 10.

To expand the Group's global brand market in industrial network communications, the Company made arrangements to acquire 100% equity in B+B SmartWorx Inc. (B+B) from Graham Partners. The Group will expand its Industrial Connectivity product portfolio and increase its global market share by leveraging B+B SmartWorx' branding and sales channels in the U.S., Europe, and the Middle East.

The Group acquired 100% share equity of Advanixs Kun Shan Corp. (Advanixs Kun Shan, formerly Yeh-Chiang Technology Kun Shan Co., Ltd.) from Yeh-Chiang Technology (Cayman), the purpose of this acquisition was to arrange future product line, establish a machinery plant, and expand operations in China.

b. Considerations transferred

	B+B	Advanixs Kun Shan
Cash	<u>\$ 3,296,048</u> (US\$ 99,850 thousand)	<u>\$ 459,648</u> (RMB92,758 thousand)

On January 4, 2016, the Group acquired 100% share equity of B+B and its subsidiaries from Graham Partners. The Company and ANA obtained share equity of B+B mutually.

On May 27, 2016, ATC acquired 100% share equity of Advanix Kun Shan from Yeh-Chiang Technology (Cayman) Corp. The cash of acquisition was provided by capital increase from ATC.

Acquisition-related costs amounting to \$34,209 thousand were excluded from the consideration transferred and were recognized as current expenses under administrative expenses in the consolidated statement of comprehensive income.

c. Assets acquired and liabilities assumed at the date of acquisition

	B+B	Advanix Kun Shan
Current assets		
Cash and cash equivalents	\$ 71,336	\$ 35,047
Trade receivables	188,827	-
Inventories	281,758	-
Other receivables	-	4,366
Other current assets	17,935	19
Non-current assets		
Plant and equipment	133,033	150,886
Intangible assets	1,294,933	-
Deferred tax assets	153,651	7,648
Long-term prepayments for leases	-	262,212
Current liabilities		
Trade and other payables	(188,215)	(530)
Non-current liabilities		
Deferred tax liabilities	<u>(425,349)</u>	<u>-</u>
	<u>\$ 1,527,909</u>	<u>\$ 459,648</u>

d. Goodwill recognized on acquisition

	B+B
Consideration transferred	\$ 3,296,048
Less: Fair value of identifiable net assets acquired	<u>(1,527,909)</u>
Goodwill recognized on acquisition	<u>\$ 1,768,139</u>

The goodwill recognized in the acquisition of B+B mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of B+B. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on acquisition of subsidiaries

	B+B	Advanixs Kun Shan
Consideration paid in cash	\$ 3,296,048	\$ 459,648
Less: Prepayments for investments	(2,279,881)	-
Less: Cash and cash equivalent balance acquired	<u>(71,336)</u>	<u>(35,047)</u>
	<u>\$ 944,831</u>	<u>\$ 424,601</u>

f. Impact of acquisitions on the results of the Group

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

	B+B	Advanixs Kun Shan
Revenue	<u>\$ 1,614,067</u>	<u>\$ 222,271</u>
Profit	<u>\$ 53,173</u>	<u>\$ 29,532</u>

27. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

- In 2015, the Group subscribed for an additional 6,533 thousand shares of AdvanPOS, increasing the Group's equity interest from 84.01% to 100.00%.
- In the first and third quarter of 2016, the Group acquired 0.07% and sold 8.83% equity in ALNC, respectively, decreasing the Group's equity interest from 89.93% to 81.17%.
- In the first quarter of 2016, the Group acquired 40% equity in Hangzhou Advantofine Automation Tech. Co., Ltd., increasing the Group's equity interest from 60% to 100%.

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

	<u>For the Year Ended December 31, 2016</u>		
	Hangzhou Advantofine Automation Tech. Co., Ltd.	ALNC	Total
Cash consideration received (paid)	\$ (12,749)	\$ 47,335	\$ 34,586
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	<u>9,195</u>	<u>(29,628)</u>	<u>(20,433)</u>
Differences recognized from equity transaction	<u>\$ (3,554)</u>	<u>\$ 17,707</u>	<u>\$ 14,153</u>

(Continued)

For the Year Ended December 31, 2016

	Hangzhou Advantofine Automation Tech. Co., Ltd.	ALNC	Total
<u>Line items adjusted for equity transaction</u>			
Capital surplus - difference between consideration received or paid and carrying amounts of the subsidiaries' net assets during actual disposal or acquisition	\$ -	\$ 17,844	\$ 17,844
Retained earnings	<u>(3,554)</u>	<u>(137)</u>	<u>(3,691)</u>
	<u>\$ (3,554)</u>	<u>\$ 17,707</u>	<u>\$ 14,153</u> (Concluded)

2015
AdvanPOS

Cash consideration paid	\$ (118,577)
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>44,217</u>
Differences recognized from equity transaction	<u>\$ (74,360)</u>
<u>Line items adjusted for equity transaction</u>	
Capital surplus - difference between consideration received or paid and carrying amounts of the subsidiaries' net assets during actual disposal or acquisition	\$ (11,457)
Retained earnings	<u>(62,903)</u>
	<u>\$ (74,360)</u>
Capital surplus - changes in percentage of ownership interest in subsidiaries	<u>\$ 3,567</u>

28. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

Lease arrangements

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

As of December 31, 2016 and 2015, refundable deposits (recognized as other noncurrent assets) for the operating leases were \$20,030 thousand and \$23,612 thousand, respectively.

Recognized as expenses

	For the Year Ended December 31 2016	2015
Rental expenses	<u>\$ 186,253</u>	<u>\$ 192,248</u>

29. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in both 2015 and 2016.

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

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

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

30. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 34,348	\$ -	\$ 34,348
Non-derivative financial asset held for trading	<u>78,680</u>	<u>-</u>	<u>-</u>	<u>78,680</u>
	<u>\$ 78,680</u>	<u>\$ 34,348</u>	<u>\$ -</u>	<u>\$ 113,028</u>
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	\$ 2,209,557	\$ -	\$ -	\$ 2,209,557
Unlisted securities - ROC				
Equity securities	-	-	9,375	9,375
Mutual funds	<u>2,450,232</u>	<u>-</u>	<u>-</u>	<u>2,450,232</u>
	<u>\$ 4,659,789</u>	<u>\$ -</u>	<u>\$ 9,375</u>	<u>\$ 4,669,164</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 10,231</u>	<u>\$ -</u>	<u>\$ 10,231</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 7,391	\$ -	\$ 7,391
Non-derivative financial asset held for trading	<u>168,998</u>	<u>-</u>	<u>-</u>	<u>168,998</u>
	<u>\$ 168,998</u>	<u>\$ 7,391</u>	<u>\$ -</u>	<u>\$ 176,389</u>
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	\$ 2,189,507	\$ -	\$ -	\$ 2,189,507
Unlisted securities - ROC				
Equity securities	-	-	9,375	9,375
Unlisted securities - other countries				
Equity securities	-	-	33,257	33,257
Mutual funds	<u>1,271,302</u>	<u>-</u>	<u>-</u>	<u>1,271,302</u>
	<u>\$ 3,460,809</u>	<u>\$ -</u>	<u>\$ 42,632</u>	<u>\$ 3,503,441</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	<u>-</u>	<u>6,352</u>	<u>-</u>	<u>6,352</u>

As of December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2016

	<u>Available-for-sale Financial Assets</u>	
	Equity Instruments	Total
<u>Financial assets</u>		
Balance at January 1, 2016	\$ 42,632	\$ 42,632
Disposal	<u>(33,257)</u>	<u>(33,257)</u>
Balance at December 31, 2016	<u>\$ 9,375</u>	<u>\$ 9,375</u>

For the year ended December 31, 2015

	Available-for-sale Financial Assets		Total
	Equity Instruments	Investment Products	
<u>Financial assets</u>			
Balance at January 1, 2015	\$ 42,632	\$ 947,116	\$ 989,748
Purchases	-	3,629,130	3,629,130
Disposal	-	(4,565,265)	(4,565,265)
Effect of foreign exchange	-	(10,981)	(10,981)
Balance at December 31, 2015	<u>\$ 42,632</u>	<u>\$ -</u>	<u>\$ 42,632</u>

- 3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

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

- 4) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

The fair values of investment products denominated in RMB were using income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. Had the inputs to the valuation model been changed to reflect reasonably possible alternative assumptions and had all the other variables been held constant, the fair value of the shares would have increased/decreased.

b. Categories of financial instruments

	December 31	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading (Note 1)	\$ 113,028	\$ 176,389
Loans and receivables (Note 2)	12,025,231	10,828,312
Available-for-sale financial assets	4,669,164	3,503,441
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	10,231	6,352
Measured at amortized cost (Note 3)	9,369,630	7,487,011

Note 1: The balance included the carrying amount of held-for-trading financial assets measured at cost.

Note 2: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market - current, notes receivable, trade receivable, trade receivables from related parties, and other receivables.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings and trade and other payables.

c. Financial risk management objectives and policies

The Group's major financial instruments included equity investments, trade receivables, trade payables, and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk, and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instrument, including derivative financial instruments, for speculative purposes.

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

1) Market risk

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

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

a) Foreign currency risk

The Group undertook operating activities and investment of foreign operations denominated in foreign currencies, which exposed it to foreign currency risk. The Group manages the risk that fluctuations in foreign currency could have on foreign-currency denominated assets and future cash flow by entering into a variety of derivative financial instruments, which allow the Group to mitigate but not fully eliminate the effect.

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) are set out in Note 33. As for the carrying amounts of derivatives exposing to foreign currency risk at the end of the reporting period, refer to Note 7.

Sensitivity analysis

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

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

	<u>U.S. Dollar Impact</u>		<u>Euro Impact</u>		<u>Renminbi Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>		<u>December 31</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Profit or loss	\$ 41,430 (Note 1)	\$ 40,853 (Note 1)	\$ 56,716 (Note 2)	\$ 41,829 (Note 2)	\$ 39,920 (Note 3)	\$ 79,712 (Note 3)

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

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

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

b) Interest rate risk

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

The Group's fixed-term bank deposits are exposed to fair value interest rate risk; however, this expected risk is insignificant.

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

	<u>December 31</u>	
	2016	2015
Fair value interest rate risk		
Financial assets	\$ 235,400	\$ 152,279
Financial liabilities	-	60,000
Cash flow interest rate risk		
Financial assets	3,923,166	2,817,236
Financial liabilities	483,750	820,625

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would increase by \$17,197 thousand and \$9,983 thousand, respectively. Had interest rates been 50 basis points lower, the effects on the Group's pre-tax profit would have been of the same amounts but negative. The source of the negative effects would have been mainly the floating-interest rates on bank savings.

c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 1% higher, pre-tax profits for the years ended December 31, 2016 and 2015 would have increased by \$787 thousand and \$1,690 thousand as a result of changes in fair value of held-for-trading investments, respectively, and the pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would have increased by \$46,598 thousand and \$34,608 thousand, respectively, as a result of changes in fair value of available-for-sale investments. Had equity prices been 1% lower, the effects on pre-tax other comprehensive gains would have been of the same amounts but negative.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance are made for irrecoverable amounts. In this regard, the management believes the Group's credit risk as significantly reduced.

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

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Group had available unutilized short-term bank loan facilities set out in (3) below.

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

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

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

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

December 31, 2016

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Over 1 Year- 5 Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 7,013,061	\$ 855,392	\$ 1,017,427	\$ -
Variable interest rate liabilities	<u>534</u>	<u>1,067</u>	<u>488,554</u>	<u>-</u>
	<u>\$ 7,013,595</u>	<u>\$ 856,459</u>	<u>\$ 1,505,981</u>	<u>\$ -</u>

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>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 3,891,231	\$ 1,687,755	\$ 1,027,400	\$ -
Variable interest rate liabilities	1,258	2,516	831,583	-
Fixed interest rate liabilities	<u>64</u>	<u>60,070</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,892,553</u>	<u>\$ 1,750,341</u>	<u>\$ 1,858,983</u>	<u>\$ -</u>

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

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

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

December 31, 2016

	On Demand or Less than 1 Month	1-3 Months	Over 3 Months to 1 Year	Total
<u>Gross settled</u>				
Foreign exchange forward contracts				
Inflows	\$ 325,858	\$ 753,831	\$ 289,030	\$ 1,368,719
Outflows	<u>316,886</u>	<u>743,308</u>	<u>284,408</u>	<u>1,344,602</u>
	<u>\$ 8,972</u>	<u>\$ 10,523</u>	<u>\$ 4,622</u>	<u>\$ 24,117</u>

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>

c) Financing facilities

	<u>December 31</u>	
	2016	2015
Unsecured overdraft loan facility, reviewed annually and payable at call		
Amount used	\$ 483,750	\$ 880,625
Amount unused	<u>3,757,750</u>	<u>2,268,275</u>
	<u>\$ 4,241,500</u>	<u>\$ 3,148,900</u>

31. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Sales of goods

Related Party Categories	<u>For the Year Ended December 31</u>	
	2016	2015
Associates	<u>\$ 51,709</u>	<u>\$ 69,760</u>

b. Purchases of goods

Related Party Categories	<u>For the Year Ended December 31</u>	
	2016	2015
Associates	<u>\$ 51,320</u>	<u>\$ 22,241</u>

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

Line Items	Related Party Categories	<u>December 31</u>	
		2016	2015
Trade receivable from related parties	Associates	<u>\$ 13,957</u>	<u>\$ 26,775</u>
Notes receivable	Associates	<u>\$ -</u>	<u>\$ 183</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for trade receivables from related parties.

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

Line Items	Related Party Categories	<u>December 31</u>	
		2016	2015
Trade payables	Associates	<u>\$ 29,453</u>	<u>\$ 1,171</u>

The outstanding trade payables to related parties are unsecured.

e. Other transactions with related parties

	Other Income	
	For the Year Ended December 31	
	2016	2015
Rental income		
Other related parties	\$ <u>60</u>	\$ <u>50</u>
Other		
Other related parties	\$ 2,702	\$ 2,712
Associates	<u>-</u>	<u>787</u>
	<u>\$ 2,702</u>	<u>\$ 3,499</u>

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

f. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 34,349	\$ 36,643
Post-employment benefits	113	116
Share-based payments	<u>20,114</u>	<u>26,188</u>
	<u>\$ 54,576</u>	<u>\$ 62,947</u>

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

32. SIGNIFICANT COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 were as follows.

Significant Commitments

As of December 31, 2015, the Company had a construction contract amounting to \$1,627,500 thousand for a newly constructed science park located in Linkou in Taoyuan City. The remaining payables were \$701,927 thousand.

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2016

Unit: In Thousands of New Taiwan Dollars and Foreign Currencies, Except for Exchange Rate

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 198,736	32.250 (USD:NTD)	\$ 6,409,236
RMB	349,617	4.6170 (RMB:NTD)	1,614,182
EUR	23,502	33.900 (EUR:NTD)	796,718
USD	9,734	6.9851 (USD:RMB)	<u>313,924</u>
			<u>\$ 9,134,060</u>

Financial liabilities

Monetary items			
USD	140,430	32.250 (USD:NTD)	\$ 4,528,868
USD	30,933	6.9851 (USD:RMB)	997,591
RMB	200,658	4.6170 (RMB:NTD)	<u>926,438</u>
			<u>\$ 6,452,897</u>

December 31, 2015

Unit: In Thousands of New Taiwan Dollars and Foreign Currencies, Except for Exchange Rate

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 146,799	32.825 (USD:NTD)	\$ 4,818,677
RMB	328,441	4.9950 (RMB:NTD)	1,640,563
RMB	213,731	0.1522 (RMB:USD)	1,067,567
EUR	24,409	35.880 (EUR:NTD)	875,795
USD	5,064	6.5716 (USD:RMB)	<u>166,224</u>
			<u>\$ 8,568,826</u>

Nonmonetary items			
USD	3,763	32.825 (USD:NTD)	<u>\$ 123,296</u>

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 100,579	32.825 (USD:NTD)	\$ 3,301,506
RMB	207,665	4.9950 (RMB:NTD)	1,037,287
USD	25,988	6.5716 (USD:RMB)	853,056
RMB	62,341	0.1522 (RMB:USD)	<u>311,378</u>
			<u>\$ 5,503,227</u> (Concluded)

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange losses were \$205,812 thousand and \$186,889 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

34. SEPARATELY DISCLOSED ITEMS

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

- 1) Financing provided to others. (Table 1)
- 2) Endorsement/guarantee provided. (Table 2)
- 3) Marketable securities held. (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (Table 6)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 7)
- 9) Transactions of financial instruments. (Notes 7 and 30)
- 10) Significant transactions between the Company and subsidiaries. (Table 11)
- 11) Name, locations, and other information of investees. (Table 8)
- 12) Organization chart. (Table 10)

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, investment gains or losses, carrying amount of the investment at the end of the period, repatriated investment gains, and limit on the amount of investment in the mainland China area. (Table 9)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third area, their prices, and payment terms, and unrealized gains or losses. (Tables 1, 6 and 7)

35. SEGMENT INFORMATION

Segment information is provided to the Group's chief operating decision maker for allocating resources to the segments and assessing their performance. The information focuses on every type of products sold or services provided. The Groups segment information disclosed is as follows:

- Industrial internet of thing services: Focus on industry-driven services;
- Embedded board and design-in services: provides Services involving embedded boards, systems and peripheral hardware and software and customizes designs and services to meet customers' demands;
- Smart city solution services: Referring to integrated intelligent applications that can be used in various areas;
- Global customer services: Global repair, technical support and warranty services.

a. Segment revenues and results

The following was an analysis of the Group's revenues and results by reportable segment:

	Industrial Internet of Thing Services	Embedded Boards and Design-in Services	Smart City Solution Services	Global Customer Services	Others	Total
For the year ended <u>December 31, 2016</u>						
Revenues from external customers	\$ 13,606,469	\$ 15,817,033	\$ 7,368,095	\$ 4,925,786	\$ 284,815	\$ 42,002,198
Inter-segment revenues	-	-	-	-	-	-
Segment revenues	<u>\$ 13,606,469</u>	<u>\$ 15,817,033</u>	<u>\$ 7,368,095</u>	<u>\$ 4,925,786</u>	<u>\$ 284,815</u>	42,002,198
Eliminations	-	-	-	-	-	-
Consolidated revenues	-	-	-	-	-	42,002,198
Segment income	<u>\$ 2,901,863</u>	<u>\$ 2,950,064</u>	<u>\$ 865,132</u>	<u>\$ 583,025</u>	<u>\$ (13,524)</u>	7,286,560
Other revenues						227,316
Central administration costs and directors' salaries						(655,067)
Other income and expense						184,550
Finance costs						(11,556)
Share of profits of associates accounted for using the equity method						<u>65,562</u>
Profit before tax (continuing operations)						<u>\$ 7,097,365</u>

(Continued)

	Industrial Internet of Thing Services	Embedded Boards and Design-in Services	Smart City Solution Services	Global Customer Services	Others	Total
For the year ended <u>December 31, 2015</u>						
Revenues from external customers	\$ 11,338,475	\$ 15,197,230	\$ 6,903,032	\$ 4,556,156	\$ 5,689	\$ 38,000,582
Inter-segment revenues	-	-	-	-	-	-
Segment revenues	<u>\$ 11,338,475</u>	<u>\$ 15,197,230</u>	<u>\$ 6,903,032</u>	<u>\$ 4,556,156</u>	<u>\$ 5,689</u>	38,000,582
Eliminations	-	-	-	-	-	-
Consolidated revenues	-	-	-	-	-	<u>38,000,582</u>
Segment income	<u>\$ 2,579,111</u>	<u>\$ 2,547,943</u>	<u>\$ 765,703</u>	<u>\$ 537,244</u>	<u>\$ (7,332)</u>	6,422,669
Other revenues						301,667
Central administration costs and directors' salaries						(494,162)
Other income						(40,824)
Finance costs						(10,041)
Share of profits of associates accounted for using the equity method						<u>110,226</u>
Profit before tax (continuing operations)						<u>\$ 6,289,535</u> (Concluded)

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

b. Revenue from major products and services

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

	For the Year Ended December 31	
	2016	2015
Embedded boards and Chassis	\$ 16,733,624	\$ 15,474,001
Industrial computer	9,666,898	8,762,095
Industrial control	5,377,597	5,619,222
Industry-applied computer	5,014,219	3,696,050
After-sales service and others	<u>5,209,860</u>	<u>4,449,214</u>
	<u>\$ 42,002,198</u>	<u>\$ 38,000,582</u>

c. Geographical information

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

	Revenue from		Non-current Assets	
	External Customers			
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Taiwan	\$ 3,467,452	\$ 3,394,536	\$ 7,924,905	\$ 7,462,380
Asia	16,781,831	15,442,152	2,821,073	2,702,187
USA	13,337,334	10,973,966	3,371,055	419,584
Europe	6,526,905	6,454,993	555,878	584,908
Others	<u>1,888,676</u>	<u>1,734,935</u>	<u>4,143</u>	<u>876</u>
	<u>\$ 42,002,198</u>	<u>\$ 38,000,582</u>	<u>\$ 14,677,054</u>	<u>\$ 11,169,935</u>

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

d. Information about major customers

No customers contributed 10% or more to the Group's revenue for both 2016 and 2015.

ADVANTECH CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

No. (Note A)	Lender	Borrower	Financial Statement Account	Related Parties	Credit Line (Note D)		Actual Borrowing	Interest Rate (%)	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limits
					Highest Balance for the Year	Ending Balance	Ending Balance						Item	Value		
1	Better Auto	Dongguan Pou Yuen Digital Technology Co., Ltd.	Trade receivables - related parties	Yes	\$ 22,980 (RMB 4,520 thousand)	\$ 20,869 (RMB 4,520 thousand)	\$ 20,869 (RMB 4,520 thousand)	-	Short-term financing	\$ -	Financing need	\$ -	None	None	\$ 2,521,358 (Note C)	\$ 5,042,716 (Note C)
		Dongguan Pou Yuen Digital Technology Co., Ltd.	Trade receivables - related parties	Yes	16,725 (US\$ 500 thousand)	16,125 (US\$ 500 thousand)	12,900 (US\$ 400 thousand)	-	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
2	ANA	B+B	Trade receivables - related parties	Yes	66,900 (US\$ 2,000 thousand)	64,500 (US\$ 2,000 thousand)	24,188 (US\$ 750 thousand)	2	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
3	B+B	B+B (CZ) (formerly Conel)	Trade receivables - related parties	Yes	133,408 (CZK 31,756 thousand)	39,949 (CZK 31,756 thousand)	4,382 (CZK 3,483 thousand)	2	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
4	B+B (CZ) (formerly Conel)	Conel Automation (formerly Softcon)	Trade receivables - related parties	Yes	16,111 (CZK 12,000 thousand)	15,096 (CZK 12,000 thousand)	15,096 (CZK 12,000 thousand)	1	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
5	Cermate Technologies (Shanghai) Inc.	Shenzhen Cermate Technologies Inc.	Prepayments of inventories	Yes	15,252 (RMB 3,000 thousand)	13,851 (RMB 3,000 thousand)	-	-	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
6	ALNC	Dongguan Pou Yuen Digital Technology Co., Ltd.	Prepayments of inventories	Yes	150,000	150,000	93,532	-	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
7	AdvaniX Corp.	The Company	Trade receivables - related parties	Yes	200,000	200,000	-	1	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
8	Advantech Corporate Investment	The Company	Trade receivables - related parties	Yes	500,000	-	-	1	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)
9	AdvanPOS	The Company	Trade receivables - related parties	Yes	100,000	-	-	1	Short-term financing	-	Financing need	-	None	None	2,521,358 (Note C)	5,042,716 (Note C)

Note A: Investee companies are numbered sequentially from 1.

Note B: The exchange rates as of December 31, 2016 were US\$1=NT\$32.25, RMB1=NT\$4.617 and CZK1=NT\$1.258.

Note C: The financing limit for each borrower and for the aggregate financing were 10% and 20%, respectively, of the Company's net asset values.

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

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

No.	Endorser/ Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note A)	Maximum Amount Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note B)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	The Company	Advanixs Corp. (formerly Advansus Corp.)	Subsidiary	\$ 2,521,358	\$ 64,500 (US\$ 2,000 thousand)	\$ 64,500 (US\$ 2,000 thousand)	\$ -	\$ -	0.27	\$ 7,564,074	Y	N	N
		AdvanPos	Subsidiary	2,521,358	64,500 (US\$ 2,000 thousand)	64,500 (US\$ 2,000 thousand)	-	-	0.27	7,564,074	Y	N	N
		ANA	Subsidiary	2,521,358	978,450 (US\$ 30,000 thousand)	967,500 (US\$ 30,000 thousand)	483,750 (US\$ 15,000 thousand)	-	4.07	7,564,074	Y	N	N
		B+B	Subsidiary	2,521,358	326,150 (US\$ 10,000 thousand)	322,500 (US\$ 10,000 thousand)	-	-	1.36	7,564,074	Y	N	N
		AKMC	Subsidiary	2,521,358	195,690 (US\$ 6,000 thousand)	193,500 (US\$ 6,000 thousand)	-	-	0.81	7,564,074	Y	N	Y
		ALNC	Subsidiary	2,521,358	114,153 (US\$ 3,500 thousand)	112,875 (US\$ 3,500 thousand)	-	-	0.47	7,564,074	Y	N	N
		Advanixs Corp. (formerly Advansus Corp.)	Subsidiary	2,521,358	52,184 (US\$ 1,600 thousand)	51,600 (US\$ 1,600 thousand)	-	-	0.22	7,564,074	Y	N	N
		Cermate	Subsidiary	2,521,358	50,553 (US\$ 1,550 thousand)	49,988 (US\$ 1,550 thousand)	-	-	0.21	7,564,074	Y	N	N
		AiST	Subsidiary	2,521,358	4,892 (US\$ 150 thousand)	4,838 (US\$ 150 thousand)	-	-	0.02	7,564,074	Y	N	N
		AdvanPOS	Subsidiary	2,521,358	32,615 (US\$ 1,000 thousand)	32,250 (US\$ 1,000 thousand)	-	-	0.14	7,564,074	Y	N	N
		A-DLoG	Subsidiary	2,521,358	36,300 (EUR 1,000 thousand)	33,900 (EUR 1,000 thousand)	-	-	0.14	7,564,074	Y	N	N

(Continued)

No.	Endorser/ Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note A)	Maximum Amount Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note B)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
		ABR	Subsidiary	\$ 2,521,358	\$ 48,923 (US\$ 1,500 thousand)	\$ 48,375 (US\$ 1,500 thousand)	\$ -	\$ -	0.20	\$ 7,564,074	Y	N	N
		AAU	Subsidiary	2,521,358	6,523 (US\$ 200 thousand)	6,450 (US\$ 200 thousand)	-	-	0.03	7,564,074	Y	N	N
		AKR	Subsidiary	2,521,358	1,631 (US\$ 50 thousand)	1,613 (US\$ 50 thousand)	-	-	0.01	7,564,074	Y	N	N

Note A: 10% of the Company's net asset value.

Note B: 30% of the Company's net asset value.

Note C: The exchange rates as of December 31, 2016 were US\$1=NT\$32.25 and EUR1=NT\$33.90.

Note D: The latest net equity is from the financial statements on ended September 30, 2016.

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

FOR THE YEAR ENDED DECEMBER 31, 2016

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
The Company	<u>Stock</u>							
	ASUSTek Computer Inc.	-	Available for sale financial assets - noncurrent	5,239,461	\$ 1,388,457	0.71	\$ 1,388,457	Note A and C
	Pegatron Corp.	-	"	3,540,570	272,624	0.14	272,624	Note A and D
	Allied Circuit Co., Ltd.	-	"	1,200,000	33,720	2.41	33,720	Note A
	<u>Fund</u>							
	Capital Money Market	-	Available for sale financial assets - current	6,257,979	100,016	-	100,016	Note B
	Mega Diamond Money Market	-	"	24,168,482	300,131	-	300,131	Note B
FSITC Money Market	-	"	1,698,386	300,122	-	300,122	Note B	
Advantech Corporate Investment	<u>Stock</u>							
	Allied Circuit Co., Ltd.	-	Financial assets at fair value through profit or loss - current	2,800,000	78,680	5.63	78,680	Note A
	BroadTec System Inc.	-	Available for sale financial assets - noncurrent	150,000	1,500	6.16	1,500	-
	BiosenseTek Corp.	-	"	37,500	375	1.79	375	-
	Jaguar Technology	-	"	500,000	7,500	16.67	7,500	-
	Allied Circuit Co., Ltd.	-	"	299,000	8,402	0.60	8,402	Note A
	Phison Electronics Corporation	-	Available for sale financial assets - current	1,500,000	383,250	0.76	383,250	Note A
	Radiant Opto-Electronics Corporation	-	"	500,000	28,100	0.11	28,100	Note A
	Lelon Electronics Corporation	-	"	2,436,000	95,004	1.86	95,004	Note A
	<u>Fund</u>							
	Mega Diamond Money Market	-	Available for sale financial assets - current	23,861,961	296,325	-	296,325	Note B
	FSITC Money Market	-	"	2,038,341	360,195	-	360,195	Note B
	Taishin 1699 Money Market	-	"	14,932,171	200,073	-	200,073	Note B
Advanix Corp. (formerly Advansus Corp.)	<u>Fund</u>							
	Jih Sun Money Market	-	"	38,021,440	557,763	-	557,763	Note B
	CTBC Hwa-win Money Market Fund	-	"	2,290,363	25,000	-	25,000	Note B
	Mega Diamond Money Market	-	"	2,416,413	30,008	-	30,008	Note B
AiST	<u>Fund</u>							
Jih Sun Money Market	-	"	1,226,167	17,987	-	17,987	Note B	

(Continued)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
ALTC	<u>Fund</u> Mega Diamond Money Market	-	"	5,677,549	\$ 70,506	-	\$ 70,506	Note B
	Capital Money Market	-	"	2,132,508	34,082	-	34,082	Note B
AdvanPOS	<u>Fund</u> Mega Diamond Money Market	-	"	11,231,810	139,480	-	139,480	Note B
Advantech Innovative Design Co., Ltd.	<u>Fund</u> Capital Money Market	-	"	281,756	4,503	-	4,503	Note B
Cermate	<u>Fund</u> Mega Diamond Money Market	-	"	1,130,641	14,041	-	14,041	Note B

Note A: Market value was based on the closing price on December 31, 2016.

Note B: Market value was based on the net asset values of the open-ended mutual funds on December 31, 2016.

Note C: The amount included \$1,099,750 thousand, the carrying value of 4,150,000 shares held in trust with CTBC Bank. Refer to Note 8 of the financial statements for more information.

Note D: The amount included \$157,850 thousand, the carrying value of 2,050,000 shares held in trust with CTBC Bank. Refer to Note 8 of the financial statements for more information.

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition (Note)		Disposal			Ending Balance (Note)		
					Shares	Amount (Cost)	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount (Cost)
The Company	<u>Fund</u> Capital Money Market	Available for sale financial assets - current	-	-	-	\$ -	77,706,012	\$ 1,240,000	71,448,034	\$ 1,140,484	\$ 1,140,000	\$ 484	6,257,978	\$ 100,000
	Mega Diamond Money Market	Available for sale financial assets - current	-	-	-	-	126,440,929	1,568,000	102,272,448	1,268,601	1,267,979	622	24,168,481	300,021
	FSITC Money Market	Available for sale financial assets - current	-	-	-	-	6,174,911	1,090,000	4,476,525	790,207	790,000	207	1,698,386	300,000
	<u>Stock</u> B+B	Investments accounted for using the equity method	-	-	-	-	230,467	1,968,044 (US\$ 59,910)	-	-	-	-	230,467	1,968,044
Advantech Corporate Investment	<u>Fund</u> FSITC Money Market	Available for sale financial assets - current	-	-	-	-	2,038,341	360,000	-	-	-	-	2,038,341	360,000
Advanix Corp. (formerly Advansus Corp.)	<u>Fund</u> Jih Sun Money Market	Available for sale financial assets - current	-	-	19,537,275	285,055	50,635,993	742,004	32,151,828	471,000	469,941	1,059	38,021,440	557,118
AdvanPOS	<u>Fund</u> Mega Diamond Money Market	Available for sale financial assets - current	-	-	242,411	3,000	35,288,731	437,021	24,299,332	301,358	300,824	534	11,231,810	139,197
ANA	<u>Fund</u> B+B	Investments accounted for using the equity method	-	-	-	-	153,644	1,328,004 (US\$ 39,940)	-	-	-	-	153,644	1,328,004
ATC (HK)	<u>Stock</u> Advanix Kunshan Corp.	Investments accounted for using the equity method	-	-	-	-	-	459,648 (RMB 92,758)	-	-	-	-	-	459,648

TABLE 5

ADVANTECH CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	AAU	Subsidiary	Sale	\$ (228,239)	0.75	60-90 days	Contract price	No significant difference in terms for related parties	\$ 74,609	1.35	
	ACN	Subsidiary	Sale	(5,414,546)	17.75	45 days after month-end	Contract price	No significant difference in terms for related parties	821,752	14.84	Note A
	AEU	Subsidiary	Sale	(3,835,119)	12.57	30 days after month-end	Contract price	No significant difference in terms for related parties	946,905	17.10	
	AiSC	Subsidiary	Sale	(495,184)	1.62	45 days after month-end	Contract price	No significant difference in terms for related parties	116,622	2.11	Note B
	AJP	Subsidiary	Sale	(811,326)	2.66	60-90 days	Contract price	No significant difference in terms for related parties	212,728	3.84	
	AKMC	Subsidiary	Sale	(1,493,414)	4.90	45 days after month-end	Contract price	No significant difference in terms for related parties	227,740	4.11	Note C
	AKR	Subsidiary	Sale	(799,440)	2.62	60 days after invoice date	Contract price	No significant difference in terms for related parties	97,049	1.75	
	ANA	Subsidiary	Sale	(8,315,279)	27.26	45 days after month-end	Contract price	No significant difference in terms for related parties	1,114,946	20.14	
	ASG	Subsidiary	Sale	(223,551)	0.73	60-90 days	Contract price	No significant difference in terms for related parties	53,059	0.96	
	Advanixs Corp.	Subsidiary	Sale	(559,010)	1.83	60-90 days	Contract price	No significant difference in terms for related parties	119,452	2.16	
	A-DLoG	Subsidiary	Sale	(174,205)	0.57	30 days after invoice date	Contract price	No significant difference in terms for related parties	9,774	0.18	
	AMY	Subsidiary	Sale	(145,199)	0.48	45 days after month-end	Contract price	No significant difference in terms for related parties	52,188	0.94	
	ACA	Subsidiary	Purchase	1,903,339	8.81	Usual trade terms	Contract price	No significant difference in terms for related parties	-	-	
	AKMC	Subsidiary	Purchase	9,739,690	45.08	Usual trade terms	Contract price	No significant difference in terms for related parties	(1,212,521)	29.14	
	Advanixs Corp.	Subsidiary	Purchase	2,343,971	10.85	Usual trade terms	Contract price	No significant difference in terms for related parties	(626,010)	15.04	
	AdvanPOS	Subsidiary	Purchase	566,683	2.62	Usual trade terms	Contract price	No significant difference in terms for related parties	(349,650)	8.40	
ACA	The Company	Parent company	Sale	(1,903,339)	100.00	Usual trade terms	Contract price	No significant difference in terms for related parties	-	-	
AKMC	The Company	Parent company	Sale	(9,739,690)	92.60	Usual trade terms	Contract price	No significant difference in terms for related parties	1,212,521	90.85	

(Continued)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Advanixs Corp.	The Company	Parent company	Sale	\$ (2,343,971)	37.52	Usual trade terms	Contract price	No significant difference in terms for related parties	\$ 626,010	45.72	
AdvanPOS	The Company	Parent company	Sale	(566,683)	48.24	Usual trade terms	Contract price	No significant difference in terms for related parties	349,650	57.55	
AAU	The Company	Parent company	Purchase	228,239	84.80	60-90 days	Contract price	No significant difference in terms for related parties	(74,609)	86.01	
ACN	The Company	Parent company	Purchase	5,414,546	72.60	45 days after month-end	Contract price	No significant difference in terms for related parties	(821,752)	67.59	
AEU	The Company	Parent company	Purchase	3,835,119	83.12	30 days after month-end	Contract price	No significant difference in terms for related parties	(946,905)	94.96	
AiSC	The Company	Parent company	Purchase	495,184	49.27	45 days after month-end	Contract price	No significant difference in terms for related parties	(116,622)	62.28	
AJP	The Company	Parent company	Purchase	811,326	97.66	60-90 days	Contract price	No significant difference in terms for related parties	(212,728)	98.63	
AKMC	The Company	Parent company	Purchase	1,493,414	15.63	45 days after month-end	Contract price	No significant difference in terms for related parties	(227,740)	10.70	
AKR	The Company	Parent company	Purchase	799,440	66.35	60 days after invoice date	Contract price	No significant difference in terms for related parties	(97,049)	60.47	
ANA	The Company	Parent company	Purchase	8,315,279	89.02	45 days after month-end	Contract price	No significant difference in terms for related parties	(1,114,946)	94.36	
ASG	The Company	Parent company	Purchase	223,551	71.28	60-90 days	Contract price	No significant difference in terms for related parties	(53,059)	86.20	
Advanixs Corp.	The Company	Parent company	Purchase	559,010	10.05	60-90 days	Contract price	No significant difference in terms for related parties	(119,452)	8.16	
A-DLoG	The Company	Parent company	Purchase	174,205	18.58	30 days after invoice date	Contract price	No significant difference in terms for related parties	(9,774)	16.93	
AMY	The Company	Parent company	Purchase	145,199	86.05	45 days after month-end	Contract price	No significant difference in terms for related parties	(52,188)	100.00	
AiSC	AKMC	Related enterprise	Sale	(123,469)	11.03	Usual trade terms	Contract price	No significant difference in terms for related parties	1,185	0.51	
AKMC	ACN	Related enterprise	Sale	(509,668)	4.85	Usual trade terms	Contract price	No significant difference in terms for related parties	88,163	6.61	
	AiSC	Related enterprise	Sale	(185,452)	1.76	Usual trade terms	Contract price	No significant difference in terms for related parties	28,687	2.15	

(Continued)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Advanixs Corp.	AKMC	Related enterprise	Sale	\$ (2,900,081)	46.42	Usual trade terms	Contract price	No significant difference in terms for related parties	\$ 637,941	46.59	
ALNC	Dongguan Pou Yuen Digital Technology Co., Ltd.	Subsidiary	Sale	(205,457)	42.70	Usual trade terms	Contract price	No significant difference in terms for related parties	92,766	84.22	
ACN	AiSC	Related enterprise	Sale	(127,420)	1.48	Usual trade terms	Contract price	No significant difference in terms for related parties	31,012	1.53	
ANA	AdvanPOS	Related enterprise	Sale	(126,312)	1.04	Usual trade terms	Contract price	No significant difference in terms for related parties	85,622	5.46	
Advanixs Kun Shan Corp.	AKMC	Related enterprise	Sale	(222,271)	100.00	Usual trade terms	Contract price	No significant difference in terms for related parties	144,232	100.00	
AKMC	AiSC	Related enterprise	Purchase	123,469	1.29	Usual trade terms	Contract price	No significant difference in terms for related parties	(1,185)	0.06	
ACN	AKMC	Related enterprise	Purchase	509,671	6.83	Usual trade terms	Contract price	No significant difference in terms for related parties	(88,163)	7.46	
AiSC	AKMC	Related enterprise	Purchase	185,452	18.45	Usual trade terms	Contract price	No significant difference in terms for related parties	(28,687)	15.75	
AKMC	Advanixs Corp.	Related enterprise	Purchase	2,900,081	30.35	Usual trade terms	Contract price	No significant difference in terms for related parties	(637,941)	30.83	
Dongguan Pou Yuen Digital Technology Co., Ltd.	ALNC	Parent company	Purchase	205,457	80.96	Usual trade terms	Contract price	No significant difference in terms for related parties	(92,766)	72.36	
AiSC	ACN	Related enterprise	Purchase	127,420	12.68	Usual trade terms	Contract price	No significant difference in terms for related parties	(31,012)	17.03	
AdvanPOS	ANA	Related enterprise	Purchase	126,312	11.65	Usual trade terms	Contract price	No significant difference in terms for related parties	(85,622)	17.49	
AKMC	Advanixs Kun Shan Corp.	Related enterprise	Purchase	222,271	2.33	Usual trade terms	Contract price	No significant difference in terms for related parties	(144,232)	6.97	

Note A: Unrealized gain for the year was \$9,702 thousand.

Note B: Realized gain for the year was \$816 thousand.

Note C: Realized gain for the year was \$5,429 thousand.

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

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Real estate	2014.4.15	\$ 1,627,500	Under the contract, based on percentage of construction completed; accumulated payments of \$1,627,500 thousand were made as of December 31, 2016 and \$93,113 thousand were made in the fourth quarter of 2016.	Chung-Lin General Contractors, Ltd.	None	-	-	-	\$ -	Contract price	For the Company's expansion	None

ADVANTECH CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	ACN	Subsidiary	\$ 821,752	5.30	\$ -	-	\$ 249,318	\$ -
	AEU	Subsidiary	951,281	3.96	-	-	155,587	-
	AiSC	Subsidiary	116,622	4.60	-	-	34,166	-
	AJP	Subsidiary	214,660	5.21	-	-	38,854	-
	AKMC	Subsidiary	227,749	7.54	-	-	189,659	-
	ANA	Subsidiary	1,117,501	7.61	-	-	751,425	-
	Advanixs Corp.	Subsidiary	119,511	6.37	-	-	63,848	-
AKMC	The Company	Parent company	1,212,521	7.45	-	-	983,962	-
Advanixs Corp.	AKMC	Related enterprise	637,941	5.34	-	-	280,810	-
	The Company	Parent company	626,010	2.79	-	-	301,471	-
AdvanPOS	The Company	Parent company	349,650	3.21	-	-	156,987	-

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note A)	Note
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
The Company	AAC (BVI)	BVI	Investment and management service	\$ 1,000,207	\$ 1,000,207	29,623,834	100.00	\$ 4,021,994	\$ 429,541	\$ 427,865	Subsidiary
	ATC	BVI	Sale of industrial automation products	998,788	1,231,118	33,850,000	100.00	3,243,871	104,114	96,661	Subsidiary
	Advanix Corporate (formerly Advansus Corp.)	Taipei, Taiwan	Production and sale of industrial automation products	486,000	486,000	36,000,000	100.00	979,563	486,566	462,195	Subsidiary
	Advantech Corporate Investment	Taipei, Taiwan	Investment holding company	1,400,000	1,400,000	150,000,000	100.00	1,639,126	34,108	33,632	Subsidiary
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	249,059	249,059	20,537,984	25.99	464,155	360,023	93,560	Equity-method investee
	AdvanPOS	Taipei, Taiwan	Production and sale of POS system	460,572	460,572	20,438,000	100.00	577,260	224,493	218,495	Subsidiary
	ALNC	Taichung, Taiwan	Production and sale of machines with computerized numerical control	431,634	478,825	24,350,000	81.17	493,481	11,514	10,606	Subsidiary
	Jan Hsiang	Taipei, Taiwan	Electronic parts and components manufacturing	3,719	3,719	655,500	28.50	8,904	(1,322)	(411)	Equity-method investee
	AMX	Mexico	Sale of industrial automation products	4,922	4,922	-	100.00	594	(771)	(771)	Subsidiary
	AEUH	Helmond, The Netherlands	Investment and management service	1,219,124	1,219,124	12,572,024	100.00	864,191	17,978	17,702	Subsidiary
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	72,186	5,100	5,100	Subsidiary
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	34,737	5,704	5,704	Subsidiary
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	218,331	45,585	45,585	Subsidiary
	AMY	Malaysia	Sale of industrial automation products	35,140	35,140	2,000,000	100.00	45,752	19,416	19,416	Subsidiary
	AKR	Seoul, Korea	Sale of industrial automation products	73,355	73,355	600,000	100.00	228,407	63,563	63,563	Subsidiary
	ABR	Sao Paulo, Brazil	Sale of industrial automation products	43,216	43,216	1,794,996	80.00	75,531	24,253	19,403	Subsidiary
	ACA	Taipei, Taiwan	Production and sale of portable industrial automation products	-	146,440	-	-	-	59,906	65,577	Subsidiary (Note D)
	Advantech Innovative Design Co., Ltd.	Taipei, Taiwan	Product design	10,000	10,000	1,000,000	100.00	9,633	1,054	1,054	Subsidiary
	Advantech iFactory Co., Ltd.	Taipei, Taiwan	Cybernation equipment manufacturing	-	60,000	-	100.00	-	201	201	Subsidiary
	AiST	Taipei, Taiwan	Design, develop and sale of intelligent services	157,915	-	10,000,000	100.00	160,414	(23,860)	2,511	Subsidiary (Note E)
BEMC	Delaware, USA	Sale of industrial network communications systems	1,968,044	-	230,467	60.00	1,959,805	53,173	31,903	Subsidiary (Note C)	
AIN	India	Sale of industrial automation products	5,567	5,567	999,999	99.99	1,663	(11,974)	(11,974)	Subsidiary	
AIMobile Co., Ltd.	Taipei, Taiwan	Design and manufacture of industrial mobile systems	135,000	-	13,500,000	45.00	109,241	(57,243)	(25,759)	Equity-method investee	
Advantech Corporate Investment	AiST	Taipei, Taiwan	Design, develop and sale of intelligent services	-	142,063	-	-	-	(23,860)	(26,371)	Subsidiary (Note E)
	Cermate	Taipei, Taiwan	Manufacturing of electronic parts, computer, and peripheral devices	71,500	71,500	5,500,000	55.00	117,913	27,681	14,844	Subsidiary
	Deneng	Taichung, Taiwan	Installment and sale of electronic components and software	18,095	18,095	658,000	39.69	16,154	(4,606)	(1,828)	Equity-method investee
ATC	ATC (HK)	Hong Kong	Investment and management service	1,212,730	1,212,730	41,650,001	100.00	3,135,926	251,893	244,440	Subsidiary
AAC (BVI)	ANA	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	2,296,976	236,063	235,733	Subsidiary
	AAC (HK)	Hong Kong	Investment and management service	539,146	539,146	15,230,001	100.00	1,873,641	194,940	193,595	Subsidiary
ANA	BEMC	Delaware, USA	Sale of industrial network communications	1,328,004	-	153,644	40.00	1,306,537	53,173	21,270	Subsidiary (Note C)
AEUH	AEU	Eindhoven, The Netherlands	Sale of industrial automation products	431,963	431,963	11,314,280	100.00	874,511	17,819	17,542	Subsidiary
	APL	Warsaw, Poland	Sale of industrial automation products	14,176	14,176	6,350	100.00	22,127	801	801	Subsidiary
AEU	A-DLoG	Munich, Germany	Design, R&D and sale of industrial automation vehicles and related products	553,536	553,536	1	100.00	485,607	(34,598)	(45,520)	Subsidiary
ASG	ATH	Thailand	Production of computers	7,537	7,537	51,000	51.00	18,044	4,696	2,395	Subsidiary
	AID	Indonesia	Sale of industrial automation products	4,797	4,797	300,000	100.00	2,380	(1,883)	(1,883)	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note A)	Note
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
Cermate	LandMark	BVI	General investment	\$ 28,200	\$ 28,200	972,284	100.00	\$ 75,241	\$ 15,296	\$ 15,296	Subsidiary
ALNC	Better Auto	BVI	General investment	264,445	264,445	8,556,096	100.00	79,770	(12,359)	(12,307)	Subsidiary
Better Auto	Famous Now	BVI	General investment	US\$ 4,000	US\$ 4,000	1	100.00	51,779	(11,654)	(11,654)	Subsidiary
AdvanPOS	Bright Mind Limited	Samoa	General investment	-	US\$ 200	-	-	-	-	-	Subsidiary
BEMC	Avtek	Delaware, USA	General investment	US\$ 99,850	-	-	100.00	3,266,342	53,173	53,173	Subsidiary
Avtek	B+B	Delaware, USA	General investment	US\$ 99,850	-	-	100.00	3,266,342	53,173	53,173	Subsidiary
B+B	BBI	Ireland	Sale of industrial network communications systems	US\$ 39,481	-	-	100.00	128,294	(18,762)	(18,762)	Subsidiary
	Quatech	Delaware, USA	Sale of industrial network communications systems	-	-	-	100.00	-	-	-	Subsidiary
	IMC	Delaware, USA	Sale of industrial network communications systems	-	-	-	100.00	-	-	-	Subsidiary
BBI	B&B Electronics	Delaware, USA	Sale of industrial network communications systems	US\$ 1,314	-	-	100.00	-	-	-	Subsidiary
	B+B (CZ) (formerly Conel)	Czech Republic	Sale of industrial network communications systems	-	-	-	99.99	141,999	49,588	49,588	Subsidiary
	Conel Automation (formerly Softcon)	Czech Republic	Sale of industrial network communications systems	-	-	-	1.00	112	5,717	57	Subsidiary
	B&B DMCC	Dubai	Sale of industrial network communications systems	-	-	-	100.00	-	-	-	Subsidiary
B&B Electronics	B+B (CZ) (formerly Conel)	Czech Republic	Sale of industrial network communications systems	-	-	-	0.01	-	-	-	Subsidiary
B+B (CZ) (formerly Conel)	Conel Automation (formerly Softcon)	Czech Republic	Sale of industrial network communications systems	-	-	-	99.00	11,111	5,717	5,660	Subsidiary

Note A: The financial statements used as basis of net asset values had not been audited by independent CPAs, except those of AIN, AMX and Advantech Innovative Design Co., Ltd.

Note B: Refer to Table 9 for investments in mainland China.

Note C: In the first quarter of 2016, the Group made arrangements to acquire 100% equity in BEMC for US\$99,850 thousand.

Note D: In the third quarter of 2016, ACA and AdvanPOS merged and ACA ceased to exist.

Note E: In the third quarter of 2016, the Group has adjusted its investment structure and the Company directly acquired 100% share equity of AiST.

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

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow						
Advantech Technology (China) Company Ltd. (AKMC)	Production and sale of components of industrial automation products	US\$ 43,750 thousand (Note F)	Indirect	\$ 1,202,925 (US\$ 37,300 thousand)	\$ -	\$ -	\$ 1,202,925 (US\$ 37,300 thousand)	\$ 235,499	100	\$ 227,951	\$ 2,691,960	\$ -
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Sale of industrial automation products	US\$ 4,230 thousand	Indirect	171,957 (US\$ 5,332 thousand)	-	-	171,957 (US\$ 5,332 thousand)	199,635	100	199,052	1,123,813	362,232 (US\$ 11,232 thousand)
Shanghai Advantech Intelligent Services Co., Ltd. (AiSC)	Production and sale of industrial automation products	US\$ 8,000 thousand	Indirect	258,000 (US\$ 8,000 thousand)	-	-	258,000 (US\$ 8,000 thousand)	28,343	100	27,581	739,662	-
Xi'an Advantech Software Ltd. (AXA)	Development and production of software products	US\$ 1,000 thousand	Indirect	(Note C)	-	-	(Note C)	(33,654)	100	(33,654)	7,771	-
Hangzhou Advantofine Automation Tech. Co., Ltd.	Processing and sale of industrial automation products	RMB 3,000 thousand	Indirect	(Note D)	-	-	(Note D)	(6,478)	100	(6,478)	14,954	-
Advanixs Kun Shan Corp.	Production and sale of industrial automation products	RMB 99,515 thousand	Indirect	(Note G)	-	-	(Note G)	29,532	100	16,394	443,870	-

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Allowable Limit on Investment
\$1,639,332 (US\$50,832 thousand) (Note E)	\$2,760,600 (US\$85,600 thousand)	\$15,232,138 (Note I)

(Continued)

Note A: The financial statements used as basis of asset values had been audited.

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

Note C: Remittance by AAC (H.K.) Limited.

Note D: Remittance by ACN.

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

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

Note G: ATC, parent company of ATC (HK), increased the share capital of ATC (HK) and ATC (HK) acquired 100% share equity of Advanixs Kun Shan Corp. from Yeh-Chiang Technology (Cayman).

Note H: The exchange rate was US\$1=NT\$32.25.

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

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

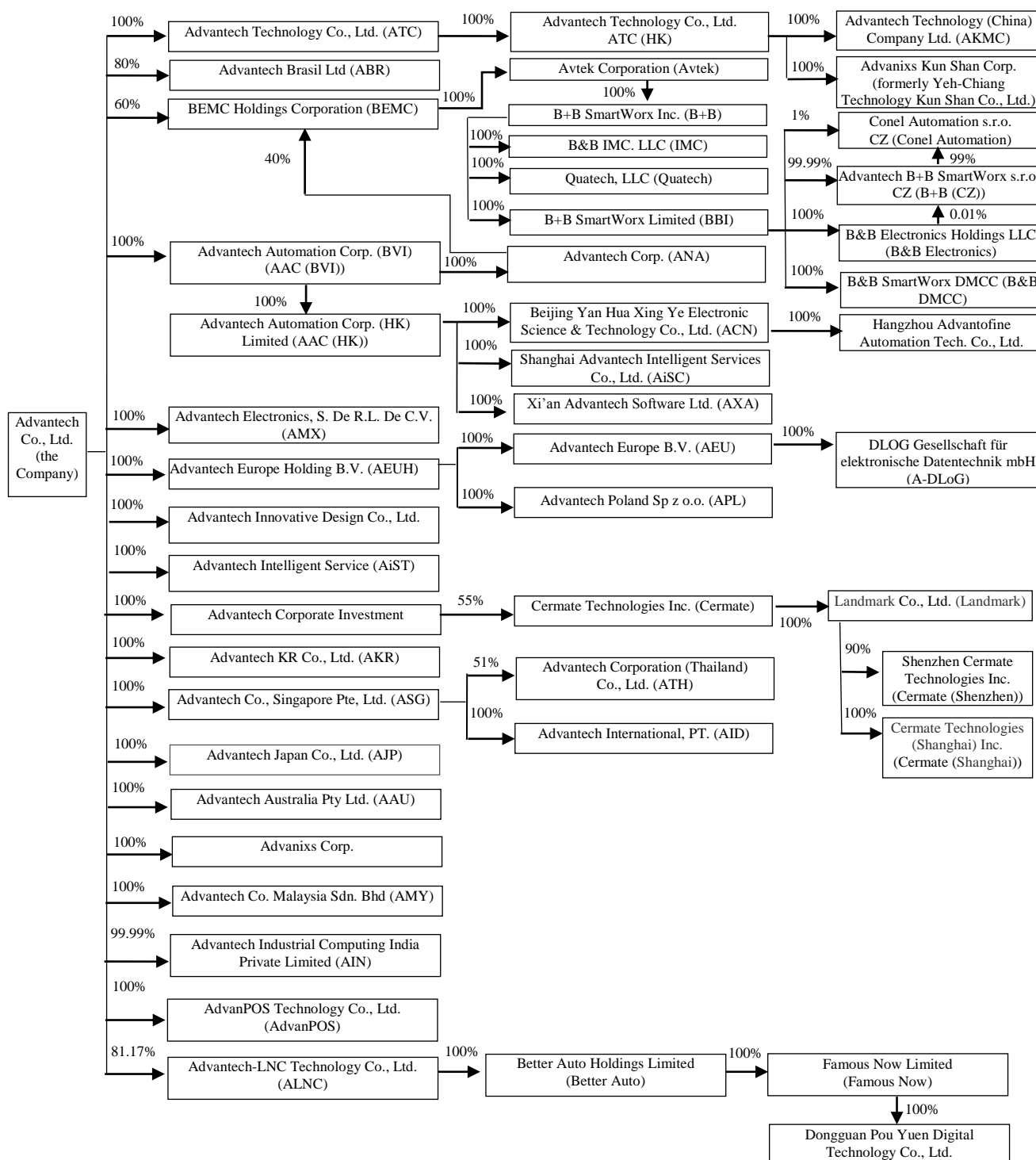
(Concluded)

TABLE 10

ADVANTECH CO., LTD. AND SUBSIDIARIES

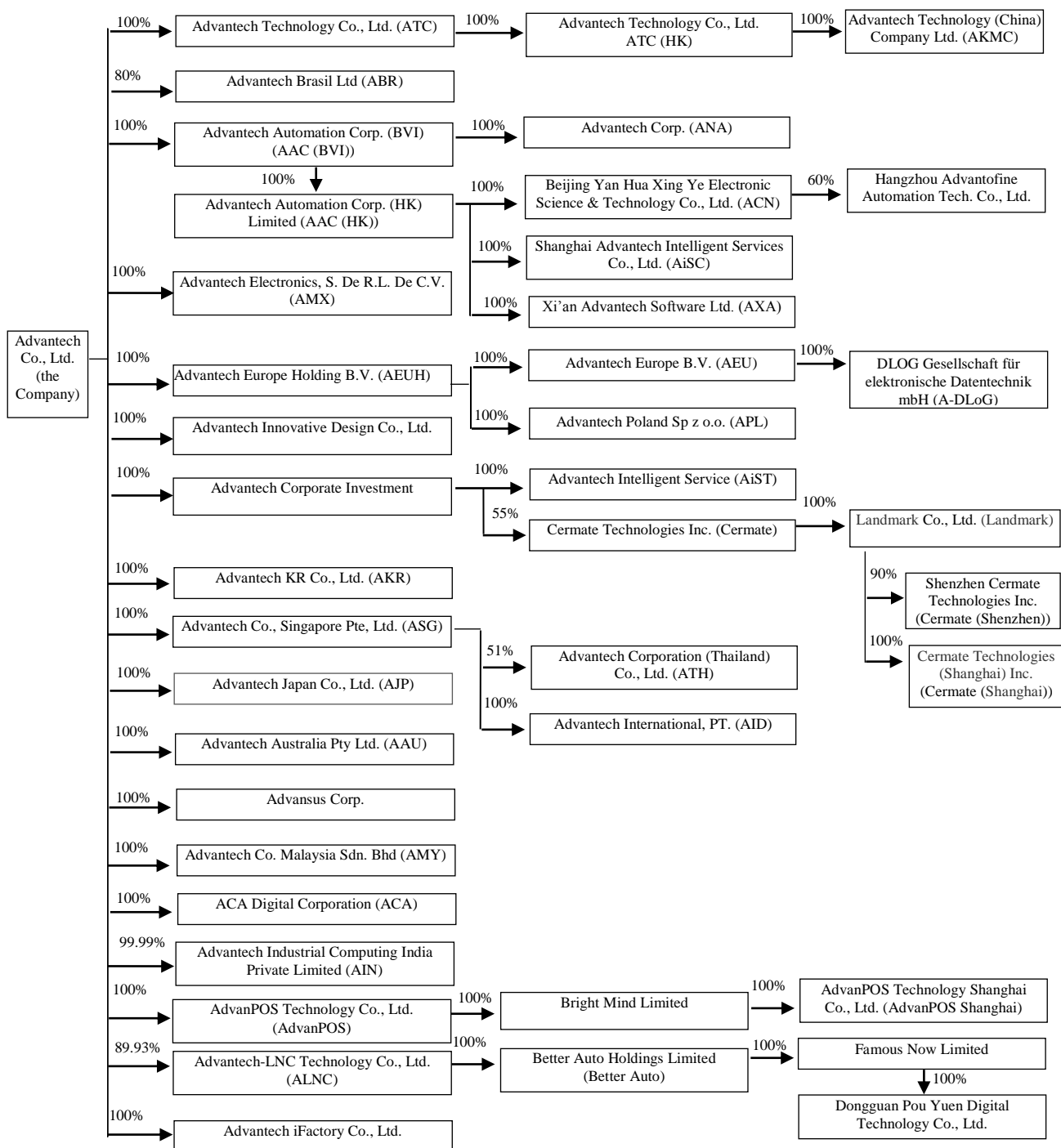
**ORGANIZATION CHART
DECEMBER 31, 2016 AND 2015**

Intercompany relationships and percentages of ownership as of December 31, 2016 are shown below:



(Continued)

Intercompany relationships and percentages of ownership as of December 31, 2015 are shown below:



(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS BETWEEN ADVANTECH CO., LTD. AND SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
0	The Company	AAC (HK)	1	Sales revenue	\$ 16	Normal	-
		AAC (HK)	1	Other receivables from related parties	38	45 days EOM	-
		AAU	1	Other revenue	3,053	Normal	-
		AAU	1	Other receivables from related parties	1,424	60-90 days	-
		AAU	1	Receivables from related parties	74,609	60-90 days	-
		AAU	1	Sales revenue	228,239	Normal	1
		ABR	1	Other revenue	3,165	Normal	-
		ABR	1	Other receivables from related parties	710	90 days EOM	-
		ABR	1	Receivables from related parties	13,377	90 days EOM	-
		ABR	1	Sales revenue	99,256	Normal	-
		ACN	1	Receivables from related parties	821,752	45 days EOM	2
		ACN	1	Sales revenue	5,414,546	Normal	13
		A-DLoG	1	Other revenue	4,397	Normal	-
		A-DLoG	1	Other receivables from related parties	674	30 days after invoice date	-
		A-DLoG	1	Receivables from related parties	9,774	30 days after invoice date	-
		A-DLoG	1	Sales revenue	174,205	Normal	-
		AEU	1	Sales revenue	3,835,119	Normal	9
		AEU	1	Other revenue	21,706	Normal	-
		AEU	1	Other receivables from related parties	4,376	30 days EOM	-
		AEU	1	Receivables from related parties	946,905	30 days EOM	2
		AID	1	Other receivables from related parties	3	45 days after invoice date	-
		AID	1	Receivables from related parties	8,202	45 days after invoice date	-
		AID	1	Other revenue	337	Normal	-
		AID	1	Sales revenue	14,491	Normal	-
		AIN	1	Sales revenue	8,406	Normal	-
		AIN	1	Other receivables from related parties	3,319	60 days EOM	-
		AIN	1	Receivables from related parties	18,368	60 days EOM	-
		AIN	1	Other revenue	3,204	Normal	-
		AiSC	1	Receivables from related parties	116,622	45 days EOM	-
		AiSC	1	Sales revenue	495,184	Normal	1
		AJP	1	Other revenue	4,395	Normal	-
		AJP	1	Other receivables from related parties	1,932	60-90 days	-
		AJP	1	Receivables from related parties	212,728	60-90 days	1
		AJP	1	Sales revenue	811,326	Normal	2
		AKMC	1	Receivables from related parties	227,740	45 days EOM	1
		AKMC	1	Other receivables from related parties	9	45 days EOM	-
		AKMC	1	Sales revenue	1,493,414	Normal	4

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		AKR	1	Other revenue	\$ 6,238	Normal	-
		AKR	1	Other receivables from related parties	617	60 days after invoice date	-
		AKR	1	Receivables from related parties	97,049	60 days after invoice date	-
		AKR	1	Sales revenue	799,440	Normal	2
		AMY	1	Other revenue	2,900	Normal	-
		AMY	1	Other receivables from related parties	881	45 days EOM	-
		AMY	1	Receivables from related parties	52,188	45 days EOM	-
		AMY	1	Sales revenue	145,199	Normal	-
		ANA	1	Other revenue	25,885	Normal	-
		ANA	1	Other receivables from related parties	2,555	45 days EOM	-
		ANA	1	Receivables from related parties	1,114,946	45 days EOM	3
		ANA	1	Sales revenue	8,315,279	Normal	20
		APL	1	Receivables from related parties	2,313	45 days EOM	-
		APL	1	Other receivables from related parties	43	45 days EOM	-
		APL	1	Sales revenue	18,386	Normal	-
		ASG	1	Other revenue	1,930	Normal	-
		ASG	1	Other receivables from related parties	805	60-90 days	-
		ASG	1	Receivables from related parties	53,059	60-90 days	-
		ASG	1	Sales revenue	223,551	Normal	1
		ATH	1	Other revenue	2,887	Normal	-
		ATH	1	Other receivables from related parties	289	30 days after invoice date	-
		ATH	1	Receivables from related parties	5,332	30 days after invoice date	-
		ATH	1	Sales revenue	59,515	Normal	-
		B+B	1	Receivables from related parties	5,059	60 days EOM	-
		B+B	1	Sales revenue	44,692	Normal	-
		Cermate	1	Other revenue	1,200	Normal	-
		ACA	1	Other revenue	2,520	Normal	-
		Advantech Corporate Investment	1	Rental revenue	36	Normal	-
		Advantech Innovative Design Co., Ltd.	1	Other receivables from related parties	1	60 days EOM	-
		AiST	1	Receivables from related parties	6,375	30 days EOM	-
		AiST	1	Sales revenue	46,574	Normal	-
		AiST	1	Other receivables from related parties	3	30 days EOM	-
		AiST	1	Other revenue	1,000	Normal	-
		Advanixs Corporate	1	Rental revenue	4,800	Normal	-
		Advanixs Corporate	1	Other receivables from related parties	59	60-90 days	-
		Advanixs Corporate	1	Receivables from related parties	119,452	60-90 days	-
		Advanixs Corporate	1	Sales revenue	559,010	Normal	1
		ALNC	1	Other revenue	1,200	Normal	-
		ALNC	1	Sales revenue	2,419	Normal	-
		ALNC	1	Other receivables from related parties	381	60-90 days EOM	-
		ALNC	1	Receivables from related parties	392	60-90 days EOM	-
		AdvanPOS	1	Sales revenue	30,826	Normal	-
		AdvanPOS	1	Other revenue	2,520	Normal	-
		AdvanPOS	1	Other receivables from related parties	883	60 days EOM	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
1	ACN	The Company	2	Receivables from related parties	\$ 185	30 days EOM	-
		The Company	2	Sales revenue	717	Normal	-
		AAU	3	Sales revenue	77	Normal	-
		AEU	3	Sales revenue	591	Normal	-
		AiSC	3	Sales revenue	127,420	Normal	-
		AiSC	3	Receivables from related parties	31,012	Immediate payment	-
		AiSC	3	Other receivables from related parties	52	60 days EOM	-
		AKMC	3	Receivables from related parties	7,939	60-90 days	-
		AKMC	3	Sales revenue	32,896	Normal	-
		AKR	3	Sales revenue	85	Normal	-
		ANA	3	Sales revenue	398	Normal	-
		AXA	3	Other receivables from related parties	30,095	60 days EOM	-
		Advanixs Kun Shan Corp.	3	Receivables from related parties	4,014	Normal	-
		Advanixs Kun Shan Corp.	3	Sales revenue	3,603	Normal	-
		Hangzhou Advantofine Automatin Tech. Co., Ltd.	3	Sales revenue	3,687	Normal	-
Hangzhou Advantofine Automatin Tech. Co., Ltd.	3	Receivables from related parties	749	60 days after invoice date	-		
2	AAU	The Company	2	Receivables from related parties	374	60-90 days	-
		The Company	2	Sales revenue	50	Normal	-
		The Company	2	Other revenue	3,791	Normal	-
		ANA	3	Sales revenue	10	Normal	-
3	ABR	The Company	2	Other revenue	2,010	Normal	-
		The Company	2	Receivables from related parties	270	30 days after invoice date	-
4	ACA	The Company	2	Sales revenue	1,903,339	Normal	5
		ACN	3	Sales revenue	1,249	Normal	-
		AKMC	3	Other receivables from related parties	4	45 days EOM	-
		Advanixs Corporate	3	Sales revenue	4,264	Normal	-
		Advanixs Corporate	3	Receivables from related parties	826	45 days EOM	-
5	AEU	The Company	2	Receivables from related parties	1,644	30 days EOM	-
		The Company	2	Sales revenue	10,373	Normal	-
		The Company	2	Other revenue	6,425	Normal	-
		AAU	3	Sales revenue	37	Normal	-
		AAU	3	Receivables from related parties	35	30 days EOM	-
		ACN	3	Receivables from related parties	269	30 days after invoice date	-
		A-DLoG	3	Receivables from related parties	213	30 days upon delivery	-
		A-DLoG	3	Sales revenue	20,522	Normal	-
		AKMC	3	Receivables from related parties	322	30 days EOM	-
		AKMC	3	Sales revenue	9	Normal	-
		AKR	3	Sales revenue	141	Normal	-
		ANA	3	Royalty revenue	933	Normal	-
		ANA	3	Receivables from related parties	187	30 days after invoice date	-
		ANA	3	Sales revenue	16,518	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		APL	3	Sales revenue	\$ 3,224	Normal	-
		B+B	3	Receivables from related parties	219	30 days after invoice date	-
		BBI	3	Sales revenue	1,121	Normal	-
6	Better Auto	Dongguan Pou Yuen Digital Technology Co., Ltd.	3	Receivables from related parties	34,421	Financing	-
		Dongguan Pou Yuen Digital Technology Co., Ltd.	3	Interest revenue	351	Financing	-
7	ALNC	The Company	2	Receivables from related parties	1,855	60 days EOM	-
		The Company	2	Rental revenue	1,518	Normal	-
		The Company	2	Sales revenue	7,949	Normal	-
		AKMC	3	Sales revenue	430	Normal	-
		Better Auto	3	Royalty revenue	92	Normal	-
		Dongguan Pou Yuen Digital Technology Co., Ltd.	3	Sales revenue	205,457	Normal	-
		Dongguan Pou Yuen Digital Technology Co., Ltd.	3	Receivables from related parties	92,766	90 days EOM	-
8	AiSC	The Company	2	Receivables from related parties	496	45 days EOM	-
		The Company	2	Sales revenue	2,032	Normal	-
		AAC (HK)	3	Other receivables from related parties	4,633	90 days	-
		ACN	3	Sales revenue	22,541	Normal	-
		ACN	3	Other receivables from related parties	62,676	Immediate payment	-
		ACN	3	Receivables from related parties	1,441	Immediate payment	-
		ACN	3	Rental revenue	5,842	Normal	-
		AEU	3	Sales revenue	119	Normal	-
		AEU	3	Receivables from related parties	113	Immediate payment	-
		AKMC	3	Sales revenue	123,469	Normal	-
		AKMC	3	Receivables from related parties	1,185	30 days EOM	-
		ANA	3	Sales revenue	209	Normal	-
9	AJP	The Company	2	Receivables from related parties	361	60-90 days	-
		The Company	2	Sales revenue	63	Normal	-
		ACN	3	Receivables from related parties	12	45 days EOM	-
		ACN	3	Sales revenue	13	Normal	-
		AKMC	3	Other receivables from related parties	47	45 days EOM	-
		AKMC	3	Other revenue	51	Normal	-
		ASG	3	Sales revenue	9	Normal	-
10	AKMC	The Company	2	Sales revenue	9,739,690	Normal	23
		The Company	2	Receivables from related parties	1,212,521	60 days EOM	3
		ACN	3	Rental revenue	4,212	Normal	-
		ACN	3	Sales revenue	509,671	Normal	1
		ACN	3	Other receivables from related parties	723	60-90 days	-
		ACN	3	Receivables from related parties	88,163	60-90 days	-
		AEU	3	Sales revenue	3,392	Normal	-
		AEU	3	Receivables from related parties	1,093	30 days after invoice date	-
		AiSC	3	Sales revenue	185,453	Normal	-
		AiSC	3	Receivables from related parties	28,687	Immediate payment	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
		ANA	3	Sales revenue	\$ 8,451	Normal	-
		ANA	3	Receivables from related parties	292	60-90 days	-
		Hangzhou Advantofine Automatin Tech. Co., Ltd.	3	Sales revenue	21	Normal	-
		Hangzhou Advantofine Automatin Tech. Co., Ltd.	3	Receivables from related parties	15	60 days EOM	-
		Advanixs Corporate	3	Receivables from related parties	413	Immediate payment	-
		Advanixs Corporate	3	Sales revenue	3,453	Normal	-
		ALNC	3	Sales revenue	6	Normal	-
		AdvanPOS	3	Sales revenue	5,558	Normal	-
		AdvanPOS	3	Receivables from related parties	1,075	30 days EOM	-
11	AKR	The Company	2	Receivables from related parties	115	90 days EOM	-
		The Company	2	Sales revenue	14	Normal	-
		ANA	3	Sales revenue	49	Normal	-
		ASG	3	Sales revenue	447	Normal	-
		AdvanPOS	3	Receivables from related parties	227	30 days EOM	-
		AdvanPOS	3	Sales revenue	371	Normal	-
12	AMY	The Company	2	Receivables from related parties	37	45 days EOM	-
		AID	3	Other receivables from related parties	20	30 days EOM	-
		ASG	3	Other revenue	97	Normal	-
		ATH	3	Other revenue	279	Normal	-
		ATH	3	Sales revenue	144	Normal	-
		ATH	3	Other receivables from related parties	58	30 days EOM	-
13	ANA	The Company	2	Receivables from related parties	18,860	45 days EOM	-
		The Company	2	Sales revenue	34,433	Normal	-
		AAU	3	Receivables from related parties	10	60 days after invoice date	-
		AAU	3	Sales revenue	10	Normal	-
		ABR	3	Sales revenue	1,470	30 days after invoice date	-
		ABR	3	Receivables from related parties	1,433	30 days after invoice date	-
		ACN	3	Sales revenue	161	Normal	-
		A-DLoG	3	Sales revenue	113	30 days after invoice date	-
		A-DLoG	3	Receivables from related parties	4,099	60 days after invoice date	-
		AEU	3	Sales revenue	66,489	Normal	-
		AEU	3	Receivables from related parties	5,178	60-90 days	-
		AJP	3	Sales revenue	441	Normal	-
		AKMC	3	Receivables from related parties	8,625	30 days EOM	-
		AKMC	3	Sales revenue	34,789	Normal	-
		AKR	3	Sales revenue	169	Normal	-
		AMY	3	Sales revenue	3	Normal	-
		ASG	3	Sales revenue	396	Normal	-
		B+B	3	Other receivables from related parties	24,345	Normal	-
		B+B	3	Sales revenue	2,631	Normal	-
		B+B	3	Rental revenue	826	60-90 days	-
		B+B	3	Interest revenue	999	Normal	-
		ACA	3	Sales revenue	14,229	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		Advanixs Corporate	3	Sales revenue	\$ 994	Normal	-
		Advanixs Corporate	3	Receivables from related parties	994	90 days after invoice date	-
		AdvanPOS	3	Receivables from related parties	85,622	30 days after invoice date	-
		AdvanPOS	3	Sales revenue	126,312	Normal	-
14	APL	The Company	2	Receivables from related parties	312	30 days after invoice date	-
		The Company	2	Sales revenue	38	Normal	-
		AEU	3	Receivables from related parties	7,829	30 days after invoice date	-
		AEU	3	Sales revenue	57,763	Normal	-
		AEU	3	Commission revenue	12,029	Normal	-
		AJP	3	Receivables from related parties	27	60 days EOM	-
		ANA	3	Receivables from related parties	33	30 days after invoice date	-
15	ASG	The Company	2	Sales revenue	460	Normal	-
		The Company	2	Other revenue	891	Normal	-
		AID	3	Sales revenue	4	Normal	-
		AKR	3	Sales revenue	898	Normal	-
		AMY	3	Receivables from related parties	550	30 days EOM	-
		AMY	3	Sales revenue	7,125	Normal	-
		AMY	3	Other receivables from related parties	5	30 days EOM	-
		ATH	3	Sales revenue	2,505	Normal	-
		ATH	3	Other receivables from related parties	206	30 days EOM	-
		ATH	3	Receivables from related parties	887	30 days EOM	-
16	ATC	The Company	2	Receivables from related parties	93,590	60 days EOM	-
17	ATH	The Company	2	Receivables from related parties	173	30 days after invoice date	-
		AKR	3	Sales revenue	11	Normal	-
18	AXA	ACN	3	Other receivables from related parties	392	30 days EOM	-
		ACN	3	Other revenue	40,732	Normal	-
19	A-DLoG	The Company	2	Receivables from related parties	5,406	30 days after invoice date	-
		The Company	2	Sales revenue	87,724	Normal	-
		AEU	3	Sales revenue	1,061	Normal	-
		AEU	3	Receivables from related parties	131	30 days EOM	-
		AEU	3	Other revenue	187	Normal	-
		AEU	3	Receivables from related parties	1,104	30 days after invoice date	-
		AKMC	3	Receivables from related parties	44	60 days after invoice date	-
		ANA	3	Receivables from related parties	96	30 days EOM	-
20	Cermate (Shenzhen)	ACN	3	Receivables from related parties	878	Immediate payment	-
		ACN	3	Sales revenue	803	Normal	-
		AKMC	3	Receivables from related parties	6,868	40 days EOM	-
		AKMC	3	Sales revenue	32,160	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		Cermate (Shanghai)	3	Sales revenue	\$ 26,272	Normal	-
		Cermate	3	Sales revenue	20,048	Normal	-
		Cermate	3	Receivables from related parties	2,876	30 days EOM	-
21	Cermate (Shanghai)	Cermate (Shenzhen)	3	Sales revenue	535	Normal	-
22	Advanixs Corporate	The Company	2	Receivables from related parties	626,010	60-90 days	2
		The Company	2	Sales revenue	2,343,971	Normal	6
		The Company	2	Interest revenue	603	Normal	-
		AKMC	3	Receivables from related parties	637,941	60-90 days	2
		AKMC	3	Sales revenue	2,900,081	Normal	7
		Cermate	3	Sales revenue	1,541	Normal	-
23	AAC (HK)	The Company	2	Receivables from related parties	1,419	45 days EOM	-
		The Company	2	Other revenue	7,447	Normal	-
24	Advantech Corporate Investment	The Company	2	Interest revenue	3,268	Normal	-
		The Company	2	Other receivables from related parties	355	90 days EOM	-
25	AIN	The Company	2	Receivables from related parties	123	60 days EOM	-
		The Company	2	Other revenue	3,220	Normal	-
		The Company	2	Sales revenue	10	Normal	-
26	AID	The Company	2	Receivables from related parties	69	60 days EOM	-
		ASG	3	Other revenue	2,094	Normal	-
		ASG	3	Other receivables from related parties	1,301	30 days EOM	-
		AiST	3	Other revenue	29	Normal	-
27	AiST	The Company	2	Receivables from related parties	10,368	60 days EOM	-
		The Company	2	Sales revenue	283	Normal	-
28	AMX	The Company	2	Other revenue	3,558	Normal	-
29	AdvanPOS	The Company	2	Receivables from related parties	349,650	60 days EOM	1
		The Company	2	Sales revenue	566,683	Normal	1
		Advanixs Corporate	3	Sales revenue	622	Normal	-
30	Dongguan Pou Yuen Digital Technology Co., Ltd.	ACN	3	Sales revenue	9,025	Normal	-
		ACN	3	Receivables from related parties	893	90 days EOM	-
		ALNC	3	Sales revenue	2,887	Normal	-
		ALNC	3	Receivables from related parties	2,107	90 days EOM	-
31	Advantech Innovative Design Co., Ltd.	The Company	2	Receivables from related parties	5,329	30 days EOM	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
32	B+B	The Company	2	Receivables from related parties	\$ 4,528	90 days EOM	-
		The Company	2	Sales revenue	6,492	Normal	-
		ANA	3	Receivables from related parties	1,847	45 days EOM	-
		ANA	3	Sales revenue	5,668	Normal	-
		B+B (CZ)	3	Receivables from related parties	800	45 days EOM	-
		B+B (CZ)	3	Interest revenue	840	Normal	-
		B+B (CZ)	3	Other revenue	3,778	Normal	-
		B+B (CZ)	3	Other receivables from related parties	42	45 days EOM	-
		BBI	3	Receivables from related parties	23,498	45 days EOM	-
33	Cermate	The Company	2	Receivables from related parties	4,673	30-60 days	-
		The Company	2	Sales revenue	4,005	Normal	-
		Cermate (Shenzhen)	3	Sales revenue	85,779	Normal	-
		Cermate (Shenzhen)	3	Receivables from related parties	26,681	30 days EOM	-
34	BBI	AEU	3	Receivables from related parties	65	45 days EOM	-
		AEU	3	Sales revenue	87	45 days EOM	-
		Conel Automation	3	Sales revenue	19	45 days EOM	-
35	B+B (CZ)	B+B	3	Sales revenue	16,617	Normal	-
		BBI	3	Receivables from related parties	263	45 days EOM	-
		BBI	3	Sales revenue	1,581	Normal	-
		BBI	3	Other revenue	608	45 days EOM	-
		Conel Automation	3	Receivables from related parties	452	45 days EOM	-
		Conel Automation	3	Other receivables from related parties	1,429	45 days EOM	-
		Conel Automation	3	Other revenue	2,975	45 days EOM	-
		Conel Automation	3	Sales revenue	1,800	Normal	-
36	Conel Automation	B+B (CZ)	3	Interest revenue	186	Normal	-
37	Hangzhou Advantofine Automatin Tech. Co., Ltd.	ACN	3	Other receivables from related parties	505	30 days after invoice date	-
38	Advanixs Kun Shan Corp.	AKMC	3	Receivables from related parties	144,232	30 days EOM	-
		AKMC	3	Sales revenue	222,271	Normal	1

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

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

(Continued)

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

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

Note C: For assets and liabilities, amounts are shown as a percentage to consolidated total assets as of December 31, 2016, while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended December 31, 2016.

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

(Concluded)