Advantech Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 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, 2017 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:

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K. C. LIU
Chairman

March 2, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017 were as follows:

<u>Assessment of Provisions for Inventory Write-downs</u>

Inventories as of December 31, 2017 amounted to NT$6,242,251 thousand and accounted for 15% of the total assets in the Group's consolidated financial statements, which had a material percentage of the total assets.

The inventories of the Group are measured at the lower of cost or net realizable value and according to the ratios of possible obsolescence for aged inventories. Due to the rapid changes in the technological environment and the significant size and variety of inventories, after analyzing the structure of provisions for inventory valuation, we noticed that the provisions were generated from obsolescent inventories which were aged longer. We considered the evaluation of inventory write-downs of aged inventories as having a significant impact on the Group's consolidated financial statements. Therefore, the assessment of provisions for inventory write-downs was deemed to be one of the key audit matters.

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

1. Assessed and analyzed the Group's policies for the inventory write-downs provisions and compared them with other competitors' policies to affirm the reasonableness and consistency of application.

2. Evaluated and tested the design and operating effectiveness of the internal controls over the provisions for inventory write-downs.

3. Reviewed the historical inventory aging reports to trace the process for the usage and scrap of aged inventories in order to assess the reasonableness of percentages for recognizing aged inventories.

4. Verified the appropriateness of logic and parameters used in the Group's inventory aging analysis reports and selected source data to validate the accuracy of the ages of inventories in the system.

Sales Revenue

Since the Group operates in the highly competitive industry, we determined that revenue recognition of the Group carries risk due to the demand for the growth of sales and the need to remain competitive in the industry. Hence, the Group's sales revenue from several product lines and customers whose sales increased materially in numbers and percentages was considered as a key audit matter.

Our audit procedures performed in respect of sales revenue included the following:

1. Analyzed the trend of the industry, categories of revenue, product lines and customer categories for two consecutive years to confirm whether there were any abnormal situations or centralized trading which might put revenue recognition at risk.

2. Interviewed with personnel who operates the control activities and reviewed related internal vouchers to understand the processes of internal controls related to revenue-recognition and evaluate the design, implementation, and operating effectiveness of internal controls over revenue recognition. Tested such internal controls to obtain sufficient and appropriate audit evidence of the effectiveness of key controls.

3. Obtained details of accounts, analyzed balances and confirmed or reconciled them with general ledgers; tested the reconciliation between detailed and general ledgers and traced the reconciliation to acquire sufficient and appropriate evidence.

4. Determined the appropriate methods of sampling and sample sizes and audited sales orders, packing lists and export declarations in order to evaluate whether the amount of revenue is recognized accurately and in accordance with the regulations for the preparation of financial reports.

5. Audited the records and vouchers of collections to evaluate whether the amounts of collections are accurate and the payers of such collections and the recipients of the related orders are consistent in order to attest the reality of sales.

Other Matter

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2016 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 the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 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 Jr-Shian Ke.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 2, 2018

<u>*Notice to Readers*</u>

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 5,204,219	13	$ 4,637,577	12
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 32)	3,098,846	8	113,028	-
Available-for-sale financial assets - current (Notes 4, 8 and 32)	229,381	1	2,956,586	8
Debt investments with no active market - current (Notes 4, 10 and 34)	38,908	-	10,007	-
Notes receivable (Notes 4 and 11)	1,255,781	3	965,081	2
Trade receivables (Notes 4 and 11)	6,596,030	16	6,384,834	17
Trade receivables from related parties (Note 33)	14,067	-	13,957	-
Other receivables	75,298	-	13,775	-
Inventories (Notes 4, 5 and 12)	6,242,251	15	5,597,236	15
Other current assets (Note 18)	445,791	1	489,630	1
Total current assets	23,200,572	57	21,181,711	55
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4, 8 and 32)	1,430,854	4	1,712,578	5
Financial assets measured at cost - non-current (Notes 4 and 9)	78,518	-	-	-
Investments accounted for using the equity method (Notes 4 and 14)	1,349,735	3	598,454	2
Property, plant and equipment (Notes 4, 15 and 34)	9,967,332	24	10,089,836	26
Goodwill (Notes 4, 5 and 16)	2,727,549	7	2,845,831	7
Other intangible assets (Notes 4, 5 and 17)	1,124,407	3	1,317,440	3
Deferred tax assets (Notes 4 and 24)	398,441	1	369,156	1
Prepayments for business facilities	68,440	-	47,578	-
Long-term prepayments for leases (Note 18)	312,708	1	325,224	1
Other non-current assets (Note 28)	45,213	-	51,145	-
Total non-current assets	17,503,197	43	17,357,242	45
TOTAL	$ 40,703,769	100	$ 38,538,953	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 19)	$ 8,400	-	$ 483,750	1
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 32)	6,226	-	10,231	-
Notes payable and trade payables (Notes 4 and 33)	5,280,728	13	4,983,381	13
Other payables (Note 20)	3,624,710	9	3,902,499	10
Current tax liabilities (Notes 4 and 24)	1,269,165	3	1,229,400	3
Short-term warranty provisions	180,975	-	167,122	1
Other current liabilities	676,457	2	659,228	2
Total current liabilities	11,046,661	27	11,435,611	30
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 19)	113,717	-	-	-
Deferred tax liabilities (Notes 4 and 24)	1,399,013	4	1,362,687	3
Net defined benefit liabilities (Notes 4 and 21)	237,225	1	212,360	1
Other non-current liabilities	146,713	-	141,398	-
Total non-current liabilities	1,896,668	5	1,716,445	4
Total liabilities	12,943,329	32	13,152,056	34
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	6,970,325	17	6,330,741	16
Advance receipts for share capital	2,500	-	100	-
Total share capital	6,972,825	17	6,330,841	16
Capital surplus	6,554,842	16	6,058,884	16
Retained earnings				
Legal reserve	5,039,962	13	4,473,276	11
Special reserve	85,204	-	-	-
Unappropriated earnings	9,297,896	23	8,435,785	22
Total retained earnings	14,423,062	36	12,909,061	33
Other equity				
Exchange differences on translation of foreign financial statements	(463,479)	(1)	(197,633)	-
Unrealized gains on available-for-sale financial assets	93,824	-	112,429	-
Total other equity	(369,655)	(1)	(85,204)	-
Total equity attributable to owners of the Company	27,581,074	68	25,213,582	65
NON-CONTROLLING INTERESTS	179,366	-	173,315	1
Total equity	27,760,440	68	25,386,897	66
TOTAL	$ 40,703,769	100	$ 38,538,953	100

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 33 and 37)				
Sales	$ 43,367,051	98	$ 40,839,800	97
Other operating revenue	1,007,700	2	1,162,398	3
Total operating revenue	44,374,751	100	42,002,198	100
OPERATING COSTS (Notes 12, 21, 23 and 33)	26,993,793	61	24,884,649	59
GROSS PROFIT	17,380,958	39	17,117,549	41
OPERATING EXPENSES (Notes 21, 23 and 33)				
Selling and marketing expenses	4,400,803	10	4,260,554	10
General and administrative expenses	2,389,863	5	2,576,210	6
Research and development expenses	3,811,815	9	3,649,292	9
Total operating expenses	10,602,481	24	10,486,056	25
OPERATING PROFIT	6,778,477	15	6,631,493	16
NONOPERATING INCOME				
Share of the profit of associates accounted for using the equity method (Note 14)	218,651	1	65,562	-
Interest income	16,461	-	15,989	-
Gains on disposal of property, plant and equipment	96,885	-	289,633	1
Gains (losses) on disposal of investments	292,441	1	(4,873)	-
Foreign exchange losses, net (Notes 23 and 35)	(76,098)	-	(205,812)	-
Gains on financial instruments at fair value through profit or loss (Note 7)	207,795	-	150,982	-
Dividend income	122,220	-	132,472	-
Other income (Notes 8, 27 and 33)	95,772	-	78,855	-
Finance costs (Note 23)	(12,117)	-	(11,556)	-
Losses on financial instruments at fair value through profit or loss (Note 7)	(84,658)	-	(43,324)	-
Impairment loss (Notes 15, 16 and 17)	(112,120)	-	-	-
Other losses	(10,166)	-	(2,056)	-
Total nonoperating income	755,066	2	465,872	1
PROFIT BEFORE INCOME TAX	7,533,543	17	7,097,365	17
INCOME TAX EXPENSES (Note 24)	1,384,254	3	1,408,411	4
NET PROFIT FOR THE YEAR	6,149,289	14	5,688,954	13

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ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss (Notes 14, 21 and 24):				
Remeasurement of defined benefit plans	$ (23,905)	-	$ (31,247)	-
Share of the other comprehensive income (loss) of associates accounted for using the equity method	(1,306)	-	1,574	-
Income tax related to items that will not be reclassified	4,064	-	5,312	-
Items that may be reclassified subsequently to profit or loss (Notes 4, 14, 22 and 24):				
Exchange differences on translation of foreign financial statements	(315,229)	(1)	(576,926)	(1)
Unrealized gains (losses) on available-for-sale financial assets	(18,605)	-	44,164	-
Share of the other comprehensive loss of associates	(6,919)	-	(4,135)	-
Income tax related to items that may be reclassified subsequently to profit or loss	54,450	-	96,161	-
Other comprehensive loss for the year, net of income tax	(307,450)	(1)	(465,097)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 5,841,839	13	$ 5,223,857	12
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	$ 6,156,516	14	$ 5,666,862	14
Non-controlling interests	(7,227)	-	22,092	-
	$ 6,149,289	14	$ 5,688,954	14
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	$ 5,850,991	13	$ 5,217,251	12
Non-controlling interests	(9,152)	-	6,606	-
	$ 5,841,839	13	$ 5,223,857	12

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ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 25)				
Basic	$ 8.84		$ 8.15	
Diluted	$ 8.77		$ 8.09	

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company												
	Issued Capital (Note 22)				Retained Earnings (Note 22)				Other Equity (Note 22)				
	Share Capital	Advance Receipts for Ordinary Shares	Total	Capital Surplus (Notes 22, 23 and 26)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total	Non-controlling Interests (Notes 22, 28 and 29)	Total Equity
BALANCE AT JANUARY 1, 2016	$ 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													
Legal reserve	-	-	-	-	510,434	-	(510,434)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	-	(3,791,118)	(3,791,118)	-	-	(3,791,118)	-	(3,791,118)
Recognition of employee share options by the Company	12,210	100	12,310	104,758	-	-	-	-	-	-	117,068	-	117,068
Compensation costs recognized for employee share options	-	-	-	338,194	-	-	-	-	-	-	338,194	-	338,194
Changes 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 or disposed of	-	-	-	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 (loss) for year ended December 31, 2016, net of income tax	-	-	-	-	-	-	(24,283)	(24,283)	(469,492)	44,164	(449,611)	(15,486)	(465,097)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	-	5,642,579	5,642,579	(469,492)	44,164	5,217,251	6,606	5,223,857
BALANCE AT DECEMBER 31, 2016	6,330,741	100	6,330,841	6,058,884	4,473,276	-	8,435,785	12,909,061	(197,633)	112,429	25,213,582	173,315	25,386,897
Appropriation of the 2016 earnings													
Legal reserve	-	-	-	-	566,686	-	(566,686)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	85,204	(85,204)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	-	(3,988,367)	(3,988,367)	-	-	(3,988,367)	-	(3,988,367)
Share dividends on ordinary shares	633,074	-	633,074	-	-	-	(633,074)	(633,074)	-	-	-	-	-
Recognition of employee share options by the Company	6,510	2,400	8,910	68,510	-	-	-	-	-	-	77,420	-	77,420
Compensation costs recognized for employee share options	-	-	-	424,637	-	-	-	-	-	-	424,637	-	424,637
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	2,054	-	-	-	-	-	-	2,054	-	2,054
Difference between consideration paid and carrying amount of subsidiaries acquired or disposed of	-	-	-	-	-	-	-	-	-	-	-	15,203	15,203
Changes in percentage of ownership interests in subsidiaries	-	-	-	757	-	-	-	-	-	-	757	-	757
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	-	-	6,156,516	6,156,516	-	-	6,156,516	(7,227)	6,149,289
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	-	(21,074)	(21,074)	(265,846)	(18,605)	(305,525)	(1,925)	(307,450)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	6,135,442	6,135,442	(265,846)	(18,605)	5,850,991	(9,152)	5,841,839
BALANCE AT DECEMBER 31, 2017	$ 6,970,325	$ 2,500	$ 6,972,825	$ 6,554,842	$ 5,039,962	$ 85,204	$ 9,297,896	$ 14,423,062	$ (463,479)	$ 93,824	$ 27,581,074	$ 179,366	$ 27,760,440

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 7,533,543	$ 7,097,365
Adjustments to reconcile profit (loss):		
Depreciation expenses	587,293	582,040
Amortization expenses	228,062	238,048
Amortization expenses for prepayments of lease obligations	8,741	6,606
Impairment loss recognized (reversed) for trade receivables	3,030	(24,032)
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(123,137)	(107,658)
Compensation costs of employee share options	424,637	338,194
Finance costs	12,117	11,556
Interest income	(16,461)	(15,989)
Dividend income	(122,220)	(132,472)
Share of profit of associates accounted for using the equity method	(218,651)	(65,562)
Gain on disposal of property, plant and equipment	(96,885)	(289,633)
Loss (gain) on disposal of investments	(292,441)	4,873
Impairment loss	112,120	-
Changes in operating assets and liabilities		
Financial assets held for trading	(2,866,686)	174,898
Notes receivable	(290,700)	5,641
Trade receivables	(193,567)	(738,014)
Trade receivables from related parties	(110)	12,807
Other receivables	(61,523)	31,402
Inventories	(614,558)	(446,618)
Other current assets	40,203	(8,478)
Notes payable and trade payables	270,599	1,569,097
Net defined benefit liabilities	960	(2,427)
Other payables	(280,286)	579,312
Short-term warranty provisions	13,853	21,476
Other current liabilities	15,583	112,933
Other non-current liabilities	5,115	(17,857)
Cash generated from operations	4,078,631	8,937,508
Interest received	16,461	15,989
Dividends received	122,220	132,472
Interest paid	(9,620)	(6,285)
Income tax paid	(1,196,403)	(1,086,369)
Net cash generated from operating activities	3,011,289	7,993,315
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(6,589,478)	(6,491,968)
Proceeds from sale of available-for-sale financial assets	9,872,540	5,364,552
Purchase of debt investments with no active market	-	(6,945)
Proceeds from sale of debt investments with no active market	26,485	-
Purchase of financial assets measured at cost	(77,333)	-

(Continued)

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Purchase of investments accounted for using the equity method	$ (615,000)	$ (135,000)
Net cash flow on the acquisition of subsidiaries	(118,847)	(1,348,172)
Dividends received from associates	75,026	88,313
Payments for property, plant and equipment	(533,741)	(1,448,423)
Proceeds from disposal of property, plant and equipment	146,582	587,468
Decrease in refundable deposits	6,858	8,038
Payments for intangible assets	(76,167)	(73,435)
Decrease in prepayments for equipment	12,820	46,599
Net cash generated from (used in) investing activities	2,129,745	(3,408,973)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(456,480)	(396,875)
Repayments of long-term borrowings	(22,733)	-
Increase (decrease) in guarantee deposits received	200	(1,540)
Payments of cash dividends	(3,988,367)	(3,791,118)
Exercise of employee share options	77,420	117,068
Increase in non-controlling interests	757	34,586
Net cash used in financing activities	(4,389,203)	(4,037,879)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(185,189)	(267,145)
NET INCREASE IN CASH AND CASH EQUIVALENTS	566,642	279,318
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	4,637,577	4,358,259
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 5,204,219	$ 4,637,577

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

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 indirectly 95.51%-owned subsidiary through a wholly-owned subsidiary, Advantech Corporate Investment. The effective merger date was July 27, 2014. As the surviving entity, the Company assumed all assets and liabilities of Netstar.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on March 2, 2018.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China

   Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

   1) Amendment to IFRS 3 "Business Combinations"

      IFRS 3 was amended by the Annual Improvements to IFRSs 2010-2012 Cycle 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 should be applied prospectively to business combinations with acquisition dates on or after January 1, 2017. Refer to Note 28 for information on business combinations that occurred in 2017.

2) Amendment to IFRS 8 "Operating Segments"

IFRS 8 was amended by the Annual Improvements to IFRSs 2010-2012 Cycle to require the disclosure of 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 judgments made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017 (refer to Note 37).

3) Amendments to IFRS 13 "Fair Value Measurement"

The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs 2010-2012 Cycle to clarify that when the amendments becomes effective in 2017, the short-term receivables and payables with no stated interest rates are measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

4) Amendments to IAS 36 "Impairment of Assets"

The amendment "Disclosures for Non-financial Assets" 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 amounts of items of property, plant and equipment, goodwill, and intangible assets for which impairment loss has been recognized is the fair value less costs of disposal measured by using the present value technique, then the Company is required to disclose the discount rate. The amendment should be applied retrospectively starting from January 1, 2017. Refer to Note 15, 16 and 17 for the related disclosures.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an 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 of the Group, 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 or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions 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 conditions after a business combination and the expected benefits at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 33 for the related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments 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
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
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 amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

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

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

2) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

With regard 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 contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest income 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 collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest income is recognized in profit or loss by using the effective interest method, and other gains or losses 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.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares measured at cost will be measured at fair value instead;

b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; and

c) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", and certain written loan commitments. A loss allowance for 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.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss - current	$ 3,098,846	$ 121,695	$ 3,220,541
Financial assets at fair value through other comprehensive income - current	-	1,617,058	1,617,058
Available-for-sale financial assets - current	229,381	(229,381)	-
Financial assets measured at amortized cost - current	-	38,908	38,908
Debt investments with no active market - current	38,908	(38,908)	-
Available-for-sale financial assets - non-current	1,430,854	(1,430,854)	-
Financial assets measured at cost - non-current	78,518	(78,518)	-
Total effect on assets	$ 4,876,507	$ -	$ 4,876,507

(Continued)

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Unappropriated earnings	$ 9,297,896	$ (32,606)	$ 9,265,290
Unrealized gain (loss) on available-for-sale financial assets	93,824	(93,824)	-
Unrealized gain (loss) on financial assets at fair value through other comprehensive income - debt instruments	-	126,430	126,430
Total effect on equity	$ 9,391,720	$ -	$ 9,391,720

(Concluded)

3) IFRS 15 "Revenue from Contracts with Customers" and related amendments

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

When applying IFRS 15, the Group 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 Group satisfies a performance obligation.

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

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

For all contract modifications that occurred on or before December 31, 2017, the Group will not apply the requirements in IFRS 15 individually to each of the modifications, and will identify the performance obligations and determine and allocate transaction prices in a manner that reflects the aggregate effect of all modifications that occurred on or before December 31, 2017.

In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

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

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

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

5) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

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

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

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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

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

   The amendments stipulate that, when 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, 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 over 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.

2) 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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the 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.

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

   IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

   On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

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

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

   When the amendments become effective, the Group shall apply the amendments retrospectively. However, the Group may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

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

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

   When the amendments become effective, the Group shall apply the amendments retrospectively. However, the Group may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

6) Annual Improvements to IFRSs 2015-2017 Cycle

   Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

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

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

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, 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 12 months after the reporting period.

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

d. Basis of consolidation

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

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

See Note 13 and Table 7 for the detailed information of subsidiaries (including the percentage of ownership and main businesses).

e. Business combinations

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

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

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

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gains on bargain purchases. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period does not exceed 1 year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Other contingent consideration is remeasured at fair value at the end of subsequent reporting period with any gain or loss recognized in profit or loss.

During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

f. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

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

g. Inventories

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

h. Investments in associates

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

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

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

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

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

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

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

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

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

i. Property, plant and equipment

Property, plant and equipment are 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 their intended use.

Freehold land is not depreciated.

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

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

j. Goodwill

Goodwill arising from the acquisition of a business is 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 pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

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

k. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

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

l. Impairment of tangible and intangible assets other than goodwill

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

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

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

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

m. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 32.

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 such investments are disposed of or are determined to be impaired.

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

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

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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 assets, 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 defaults on receivables.

For a financial asset 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 carried 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 any 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 those financial assets because of financial difficulties.

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

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

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a 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 and other 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.

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

3) Financial liabilities

a) Subsequent measurement

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

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

Financial liabilities are classified as at fair value through profit or loss when such financial liabilities are either held for trading or is designated as at fair value through profit or loss. Fair value is determined in the manner described in Note 32.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into 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 hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

n. Provisions

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

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

o. Revenue recognition

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

1) Sale of goods

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

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

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

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

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

2) Rendering of services

Service income is recognized when services are provided.

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

3) Dividends and interest income

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

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

p. Leasing

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

1) The Group as lessor

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

2) The Group as lessee

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

q. Government grants

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

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

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

r. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

s. Employee share options

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

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

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

t. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Inventory write-downs

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

b. Impairment of goodwill

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 70,453	$ 61,640
Checking accounts and demand deposits	4,942,396	4,350,538
Cash equivalents (time deposits with original maturities less than three months)	191,370	225,399
	$ 5,204,219	$ 4,637,577

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

	December 31	
	2017	2016
Demand deposits	0.0001%-6.9%	0.0001%-14.02%
Time deposits with original maturities of less than three months	1.35%-2.3%	1.35%-2.3%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets held for trading - current		
Derivative financial assets		
Foreign exchange forward contracts	$ 5,084	$ 34,348
Non-derivative financial assets		
Domestic quoted shares	289,570	78,680
Foreign quoted shares	9,334	-
Mutual funds	2,794,858	-
	$ 3,098,846	$ 113,028
Financial liabilities held for trading - current		
Derivative financial liabilities		
Foreign exchange forward contracts	$ 6,226	$ 10,231

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Sell	EUR/NTD	2018.01-2018.05	EUR14,000/NTD499,225
	EUR/USD	2018.01-2018.04	EUR1,500/USD1,805
	JPY/NTD	2018.01-2018.05	JPY500,000/NTD134,549
	RMB/NTD	2018.01-2018.03	RMB77,000/NTD346,212
December 31, 2016			
Sell	EUR/NTD	2017.01-2017.05	EUR5,500/NTD192,863
	EUR/USD	2017.01-2017.05	EUR8,500/USD9,451
	USD/NTD	2017.01-2017.04	USD11,414/NTD362,143
	JPY/NTD	2017.01-2017.06	JPY430,000/NTD128,601
	RMB/NTD	2017.01-2017.03	RMB83,000/NTD380,318

The Group entered into foreign exchange forward contracts during the years ended December 31, 2017 and 2016 to manage exposures due to exchange rate fluctuations of foreign-currency denominated assets and liabilities. The Group's financial hedging strategy is to minimize risks due to market price fluctuations and cash flows; however, because these contracts did not meet the criteria for hedge effectiveness, they were not subject to hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Current		
Domestic investments		
Mutual funds	$ -	$ 2,450,232
Quoted shares	219,000	506,354
Foreign investments		
Quoted shares	10,381	-
	$ 229,381	$ 2,956,586
Non-current		
Domestic investments		
Quoted shares	$ 1,419,479	$ 1,703,203
Unlisted shares	11,375	9,375
	$ 1,430,854	$ 1,712,578

For its securities borrowings and lending transactions, the Group placed some of its quoted domestic shares, recorded under available-for-sale assets - non-current, in a trust at Chinatrust Commercial Bank during the two months ended February 28, 2017 and for the year ended December 31, 2016. The Group ended the trust of quoted domestic shares on March 31, 2017. As of December 31, 2016, the shares held in the trust amounted to $1,257,600 thousand. For such transactions, the Group recognized gains of $53 thousand for the year ended December 31, 2016. These gains were recorded under other nonoperating income.

9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
Non-current		
Private equity	$ 78,518	$ -
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 78,518	$ -

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

10. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	2016
Time deposits with original maturities of more than three months	$ 38,908	$ 10,007

The market interest rates of the time deposits with original maturities of more than three months were 1.00%-2.30% and 1.00%-2.50% per annum, respectively, as of December 31, 2017 and 2016.

For information on pledged debt investments with no active market, refer to Note 34.

11. NOTES RECEIVABLE AND TRADE RECEIVABLES

	December 31	
	2017	2016
Notes receivable	$ 1,255,781	$ 965,081
Trade receivables	$ 6,686,485	$ 6,486,188
Less: Allowance for impairment loss	(90,455)	(101,354)
	$ 6,596,030	$ 6,384,834

Trade Receivables

The average credit period for the sales of goods was from 30 to 90 days. In determining the recoverability of a trade receivables, the Group considered any change in the credit quality of the trade receivables 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 has been that receivables that are past due beyond 1 year were not recoverable. Allowance for impairment loss was recognized against trade receivables between 90 days and 1 year based on the estimated irrecoverable amounts determined by reference to past default experience with 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	
	2017	2016
Not overdue	$ 5,663,891	$ 5,524,036
Overdue		
1 to 90 days	924,551	839,609
91 to 360 days	64,669	63,558
Over 361 days	33,374	58,985
	$ 6,686,485	$ 6,486,188

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

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

	December 31	
	2017	2016
1 to 30 days	$ 763,822	$ 693,983
31 to 60 days	117,935	93,924
61 to 90 days	42,794	51,702
	$ 924,551	$ 839,609

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 17,569	$ 131,590	$ 149,159
Plus (less): Impairment losses recognized (reversed) on receivables	96	(24,128)	(24,032)
Less: Amounts written off during the period as uncollectible	(3,979)	(26,336)	(30,315)
Business combinations	-	11,918	11,918
Foreign exchange translation losses	-	(5,376)	(5,376)
Balance at December 31, 2016	13,686	87,668	101,354
Plus: Impairment losses recognized on receivables	185	2,845	3,030
Less: Amounts written off during the period as uncollectible	(12,158)	(1,575)	(13,733)
Business combinations	-	37	37
Foreign exchange translation losses	-	(233)	(233)
Balance at December 31, 2017	$ 1,713	$ 88,742	$ 90,455

The Group recognized impairment losses on trade receivables amounting to $1,432 thousand as of December 31, 2016. This amount mainly related to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group did not hold any collateral over these balances.

12. INVENTORIES

	December 31	
	2017	2016
Raw materials	$ 3,122,276	$ 1,991,477
Work in process	1,235,097	1,033,831
Finished goods	1,335,817	1,922,816
Inventories in transit	549,061	649,112
	$ 6,242,251	$ 5,597,236

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2017 and 2016 were $26,610,027 thousand and $24,517,651 thousand, respectively.

The costs of inventories decreased by $577,528 thousand and $538,855 thousand as of December 31, 2017 and 2016, respectively, when stated at the lower of cost or net realizable value.

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements.

The entities included in the consolidated statements are listed below.

			% of Ownership December 31		
Investor	**Investee**	**Nature of Activities**	**2017**	**2016**	**Remark**
The Company	AAC (BVI)	Investment and management services	100.00	100.00	
	ATC	Sale of industrial automation products	100.00	100.00	
	Advanixs Corporation	Production and sale of industrial automation products	100.00	100.00	
	Advantech Corporate Investment	Investment holding company	100.00	100.00	
	AEUH	Investment and management services	100.00	100.00	
	ASG	Sale of industrial automation products	100.00	100.00	a
	AAU	Sale of industrial automation products	100.00	100.00	a
	AJP	Sale of industrial automation products	100.00	100.00	a
	AMY	Sale of industrial automation products	100.00	100.00	a
	AKR	Sale of industrial automation products	100.00	100.00	
	ABR	Sale of industrial automation products	80.00	80.00	a
	AIN	Sale of industrial automation products	99.99	99.99	a
	AdvanPOS	Production and sale of POS systems	100.00	100.00	
	LNC (formerly ALNC)	Production and sale of machines with computerized numerical controls	81.17	81.17	a
	AMX	Sale of industrial automation products	100.00	100.00	a
	Advantech Innovative Design Co., Ltd.	Product design	100.00	100.00	a
	BEMC	Sale of industrial network communications systems	60.00	60.00	
	AiST	Design, develop and sale of intelligent services	100.00	100.00	a
	AKST	Production and sale of intelligent medical displays	36.00	-	a, b
AKR	AKST	Production and sale of intelligent medical displays	24.00	-	a, b
Advantech Corporate Investment	Cermate	Manufacturing of electronic parts, computers, and peripheral devices	55.00	55.00	
ATC	ATC (HK)	Investment and management services	100.00	100.00	
ATC (HK)	AKMC	Production and sale of components of industrial automation products	100.00	100.00	
	Advanixs Kun Shan Corp.	Production and sale of industrial automation products	100.00	100.00	a
AAC (BVI)	ANA	Sale and fabrication of industrial automation products	100.00	100.00	
	AAC (HK)	Investment and management services	100.00	100.00	
ANA	BEMC	Sale of industrial network communications systems	40.00	40.00	
AAC (HK)	ACN	Sale of industrial automation products	100.00	100.00	
	AiSC	Production and sale of industrial automation products	100.00	100.00	a
	AXA	Development and production of software products	100.00	100.00	a
ACN	Hangzhou Advantofine Automation Tech. Co., Ltd.	Processing and sale of industrial automation products	100.00	100.00	a
AEUH	AEU	Sale of industrial automation products	100.00	100.00	
	APL	Sale of industrial automation products	100.00	100.00	a
AEU	A-DLoG	Design, R&D and sale of industrial automation vehicles and related products	100.00	100.00	
ASG	ATH	Production of computers	51.00	51.00	a
	AID	Sale of industrial automation products	100.00	100.00	a
Cermate	Land Mark	General investment	100.00	100.00	a

(Continued)

Investor	Investee	Nature of Activities	% of Ownership December 31 2017	2016	Remark
Land Mark	Cermate (Shanghai)	Sale of industrial electronic equipment	100.00	100.00	a
	Cermate (Shenzhen)	Production of LCD touch panels, USB cables, and industrial computers	90.00	90.00	
LNC (formerly ALNC)	Better Auto	General investment	100.00	100.00	a
Better Auto	Famous Now Limited	General investment	100.00	100.00	a
Famous Now Limited	Advantech LNC Dong Guan Co., Ltd.	Production and sale of industrial automation products	100.00	100.00	a
BEMC	Avtek	General investment	100.00	100.00	
Avtek	B+B	General investment	100.00	100.00	
B+B	BBI	Sale of industrial network communications systems	100.00	100.00	
	Quatech	Sale of industrial network communications systems	100.00	100.00	
	IMC	Sale of industrial network communications systems	100.00	100.00	
BBI	B&B Electronics	Sale of industrial network communications systems	100.00	100.00	
	B+B (CZ)	Manufacturing of cellular and automation solutions	99.99	99.99	
	Conel Automation	Sale of industrial network communications systems	1.00	1.00	
	B&B DMCC	Sale of industrial network communications systems	100.00	100.00	
B&B Electronics	B+B (CZ)	Manufacturing of cellular and automation solutions	0.01	0.01	
B+B (CZ)	Conel Automation	Sale of industrial network communications systems	99.00	99.00	

(Concluded)

Remark a: 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 quarter of 2017, the Group acquired 60% of the share equity of AKST, with an acquisition of 36% and 24% of AKST's share equity by the Company and AKR, respectively.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Associates

	December 31 2017	2016
Associates that are not individually material		
Listed companies		
Axiomtek Co., Ltd. ("Axiomtek")	$ 622,604	$ 464,155
Winmate Inc. ("Winmate")	544,960	-
Unlisted companies		
AIMobile Co., Ltd. ("AIMobile")	84,140	109,241
Deneng Scientific Research Co., Ltd. ("Deneng")	15,457	16,154
Jan Hsiang Electronics Co., Ltd. ("Jan Hsiang")	10,447	8,904
CDIB Innovation Accelerator Co., Ltd. ("CDIB")	72,127	-
	$ 1,349,735	$ 598,454

In the second quarter of 2016, the Group paid cash at $135,000 thousand toward the establishment of AIMobile 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.

In the second and fourth quarters of 2017, the Group paid cash at $75,000 thousand and $540,000 thousand for 20% of the share equity of CDIB Innovation Accelerator Co., Ltd. and 16.62% of the share equity of Winmate. The Group had significant influence over CDIB Innovation Accelerator Co., Ltd. and Winmate.

Aggregate Information of Associates That Are Not Individually Material

	For the Year Ended December 31	
	2017	**2016**
The Group's share of:		
Profit from continuing operations	$ 218,651	$ 65,562
Other comprehensive loss	(8,225)	(2,561)
Total comprehensive income for the year	$ 210,426	$ 63,001

Except for Axiomtek, investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have not been audited. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of the associates which have been audited.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Office Equipment	Other Facilities	Construction in Progress	Total
Cost							
Balance at January 1, 2016	$ 3,068,264	$ 5,348,990	$ 1,533,640	$ 770,295	$ 1,533,038	$ 915,128	$ 13,169,355
Additions	64,688	181,539	78,609	69,265	154,789	815,342	1,364,232
Disposals	(187,992)	(101,971)	(68,301)	(45,139)	(73,966)	-	(477,369)
Acquisitions through business combinations	12,644	308,798	84,400	89,771	25,390	-	521,003
Reclassifications	-	1,561,057	50,897	9,934	27,200	(1,686,836)	(37,748)
Effect of foreign currency exchange differences	(9,024)	(217,424)	(47,507)	(31,717)	(61,221)	(345)	(367,238)
Balance at December 31, 2016	$ 2,948,580	$ 7,080,989	$ 1,631,738	$ 862,409	$ 1,605,230	$ 43,289	$ 14,172,235
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 1,046,061	$ 1,063,028	$ 545,767	$ 937,620	$ -	$ 3,592,476
Depreciation expenses	-	169,334	124,565	100,139	188,002	-	582,040
Disposals	-	(19,099)	(61,429)	(40,515)	(58,491)	-	(179,534)
Acquisitions through business combinations	-	88,296	61,837	82,180	4,771	-	237,084
Reclassifications	-	488	(3,692)	(19,369)	18,998	-	(3,575)
Effect of foreign currency exchange differences	-	(56,407)	(28,640)	(23,767)	(37,278)	-	(146,092)
Balance at December 31, 2016	$ -	$ 1,228,673	$ 1,155,669	$ 644,435	$ 1,053,622	$ -	$ 4,082,399
Carrying amounts at December 31, 2016	$ 2,948,580	$ 5,852,316	$ 476,069	$ 217,974	$ 551,608	$ 43,289	$ 10,089,836
Cost							
Balance at January 1, 2017	$ 2,948,580	$ 7,080,989	$ 1,631,738	$ 862,409	$ 1,605,230	$ 43,289	$ 14,172,235
Additions	-	196,264	48,483	60,256	143,068	85,670	533,741
Disposals	(22,017)	(13,424)	(120,407)	(93,374)	(46,807)	(1,387)	(297,416)
Acquisitions through business combinations	29,007	44,460	24,903	6,163	4,952	-	109,485
Reclassifications	-	6,716	55,809	6,002	39,873	(123,521)	(15,121)
Effect of foreign currency exchange differences	(11,590)	(40,459)	(5,601)	(10,833)	(16,734)	206	(85,011)
Balance at December 31, 2017	$ 2,943,980	$ 7,274,546	$ 1,634,925	$ 830,623	$ 1,729,582	$ 4,257	$ 14,417,913
Accumulated depreciation and impairment							
Balance at January 1, 2017	$ -	$ 1,228,673	$ 1,155,669	$ 644,435	$ 1,053,622	$ -	$ 4,082,399
Depreciation expenses	-	193,563	115,809	86,120	191,801	-	587,293
Disposals	-	(5,741)	(111,114)	(85,344)	(45,520)	-	(247,719)
Acquisitions through business combinations	-	741	15,453	4,671	3,948	-	24,813
Reclassifications	-	5,295	5,571	7,724	1,506	-	20,096

(Continued)

	Freehold Land	Buildings	Equipment	Office Equipment	Other Facilities	Construction in Progress	Total
Impairment losses	$ -	$ -	$ 7,183	$ 1,031	$ 542	$ -	$ 8,756
Effect of foreign currency exchange differences	-	(7,835)	(2,077)	(7,393)	(7,752)	-	(25,057)
Balance at December 31, 2017	$ -	$ 1,414,696	$ 1,186,494	$ 651,244	$ 1,198,147	$ -	$ 4,450,581
Carrying amounts at December 31, 2017	$ 2,943,980	$ 5,859,850	$ 448,431	$ 179,379	$ 531,435	$ 4,257	$ 9,967,332

(Concluded)

The actual sales growth post the business combination of AKST, a subsidiary of the Company, did not turn out as expected; AKST had continuous losses for the year ended December 31, 2017. In addition, the forecasted future operations of AKST are not optimistic. Hence, the estimated future cash flows expected to arise from the related equipment of AKST decreased. The Group carried out a review of the recoverable amount of the related assets and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss of $8,756 thousand, which was recognized in other gains and losses for the year ended December 31, 2017.

The above items of property, plant and equipment 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

Property, plant and equipment pledged as collateral for borrowings are set out in Note 34.

16. GOODWILL

	For the Year Ended December 31 2017	2016
Cost		
Balance at January 1	$ 2,845,831	$ 1,139,559
Additional amounts recognized from business combinations occurring during the year (Note 28)	79,713	2,311,181
Adjustments for goodwill after acquisition	18,075	(543,042)
Effect of foreign currency exchange differences	(114,661)	(61,867)
Balance at December 31	$ 2,828,958	$ 2,845,831
Accumulated impairment losses		
Balance at January 1	$ -	$ -
Impairment losses recognized during the year	(97,788)	-
Effect of foreign currency exchange differences	(3,621)	-
Balance at December 31	$ (101,409)	$ -
Carry amount at December 31	$ 2,727,549	$ 2,845,831

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

In the fourth quarter of 2016, the Group obtained an evaluation report which stated that the total fair value of 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 of B+B. 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 adjustments	$ 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 payables	(135,526)	(188,215)
Other liabilities	(10,730)	-
Deferred tax liabilities	(30,126)	(425,349)

17. OTHER INTANGIBLE ASSETS

	Trademarks	Client Relationships	Technology Licenses	Others	Total
Cost					
Balance at January 1, 2016	$ 78,939	$ 119,860	$ 109,016	$ 493,883	$ 801,698
Additions	-	-	-	79,243	79,243
Disposals	-	-	-	(1,750)	(1,750)
Acquisitions through business combinations	461,704	419,005	340,309	73,915	1,294,933
Effect of foreign currency exchange differences	(14,987)	(16,261)	(13,852)	(27,324)	(72,424)
Balance at December 31, 2016	$ 525,656	$ 522,604	$ 435,473	$ 617,967	$ 2,101,700
Accumulated amortization and impairment					
Balance at January 1, 2016	$ -	$ 84,914	$ 97,153	$ 391,945	$ 574,012
Amortization expenses	-	43,426	93,797	100,825	238,048

(Continued)

	Trademarks	Client Relationships	Technology Licenses	Others	Total
Disposals	$ -	$ -	$ -	$ (1,691)	$ (1,691)
Effect of foreign currency exchange differences	-	(3,995)	(4,832)	(17,282)	(26,109)
Balance at December 31, 2016	$ -	$ 124,345	$ 186,118	$ 473,797	$ 784,260
Carrying amounts at December 31, 2016	$ 525,656	$ 398,259	$ 249,355	$ 144,170	$ 1,317,440
Cost					
Balance at January 1, 2017	$ 525,656	$ 522,604	$ 435,473	$ 617,967	$ 2,101,700
Additions	-	-	-	77,986	77,986
Disposals	-	-	-	(211,991)	(211,991)
Acquisitions through business combinations	-	-	-	9,921	9,921
Effect of foreign currency exchange differences	(31,152)	(26,027)	(20,595)	(37,243)	(115,017)
Balance at December 31, 2017	$ 494,504	$ 496,577	$ 414,878	$ 456,640	$ 1,862,599
Accumulated amortization and impairment					
Balance at January 1, 2017	$ -	$ 124,345	$ 186,118	$ 473,797	$ 784,260
Amortization expenses	-	29,259	58,825	139,978	228,062
Disposals	-	-	-	(211,707)	(211,707)
Impairment losses recognized	-	-	-	5,576	5,576
Effect of foreign currency exchange differences	-	2,936	(2,642)	(68,293)	(67,999)
Balance at December 31, 2017	$ -	$ 156,540	$ 242,301	$ 339,351	$ 738,192
Carrying amounts at December 31, 2017	$ 494,504	$ 340,037	$ 172,577	$ 117,289	$ 1,124,407

(Concluded)

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

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

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

18. PREPAYMENTS FOR LEASES

	December 31	
	2017	2016
Current assets (included in other current assets)	$ 8,854	$ 8,955
Non-current assets	312,708	325,224
	$ 321,562	$ 334,179

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

19. BORROWINGS

a. Short-term borrowings

	December 31	
	2017	2016
Secured borrowings		
Bank loans	$ 8,400	$ -
Unsecured borrowings		
Line of credit borrowings	-	483,750
	$ 8,400	$ 483,750

The weighted average effective interest rates on bank loans was 2.87% and 1.324% per annum as of December 31, 2017 and 2016, respectively.

b. Long-term borrowings

	December 31, 2017
Secured borrowings	
Bank loans	$ 50,258
Other loans	63,459
Long-term borrowings	$ 113,717

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

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

With demand of borrowings, the Group pledged time deposits, freehold land and buildings (refer to Note 34).

20. OTHER LIABILITIES

	December 31	
	2017	2016
Other payables		
Payables for salaries or bonuses	$ 2,324,441	$ 2,248,870
Payables for employee benefits	180,617	151,115
Payables for royalties	118,347	179,207
Others (Note)	1,001,305	1,323,307
	$ 3,624,710	$ 3,902,499

Note: Including marketing expenses and freight expenses.

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

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

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

b. Defined benefit plans

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

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

	December 31	
	2017	2016
Present value of defined benefit obligation	$ 373,581	$ 347,702
Fair value of plan assets	(136,356)	(135,342)
Deficit	237,225	212,360
Net defined benefit liabilities	$ 237,225	$ 212,360

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	$ 332,269	$ (148,729)	$ 183,540
Service cost			
Current service cost	2,645	-	2,645
Net interest expense (income)	5,405	(2,486)	2,919
Recognized in profit or loss	8,050	(2,486)	5,564
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,436	1,436
Actuarial loss - changes in demographic assumptions	8,543	-	8,543
Actuarial loss - changes in financial assumptions	10,671	-	10,671
Actuarial loss - experience adjustments	10,597	-	10,597
Recognized in other comprehensive income	29,811	1,436	31,247
Contributions from the employer	-	(7,991)	(7,991)
Benefits paid	(22,428)	22,428	-
Balance at December 31, 2016	347,702	(135,342)	212,360
Current service cost	2,137	-	2,137
Past service cost	4,589	-	4,589
Net interest expense (income)	4,787	(1,920)	2,867
Recognized in profit or loss	11,513	(1,920)	9,593
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	542	542
Actuarial loss - changes in demographic assumptions	20,380	-	20,380
Actuarial loss - experience adjustments	2,983	-	2,983
Recognized in other comprehensive income	23,363	542	23,905
Contributions from the employer	-	(8,633)	(8,633)
Benefits paid	(8,997)	8,997	-
Balance at December 31, 2017	$ 373,581	$ (136,356)	$ 237,225

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	
	2017	2016
Operating costs	$ 1,192	$ 1,238
Selling and marketing expenses	1,464	868
General and administrative expenses	1,452	1,497
Research and development expenses	5,485	1,961
	$ 9,593	$ 5,564

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	
	2017	**2016**
Discount rate(s)	1.375%-1.500%	1.375%-1.500%
Expected rate(s) of salary increase	3.000%-3.250%	3.000%-3.250%

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

	December 31	
	2017	**2016**
Discount rate(s)		
0.25% increase	$ (11,389)	$ (10,878)
0.25% decrease	$ 11,878	$ 11,353
Expected rate(s) of salary increase		
0.25% increase	$ 11,472	$ 10,963
0.25% decrease	$ (11,062)	$ (10,564)

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	
	2017	**2016**
Expected contributions to the plan for the next year	$ 1,945	$ 8,035
Average duration of the defined benefit obligation	12.6-15.5 years	12.7-16.2 years

22. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	800,000	800,000
Shares authorized	$ 8,000,000	$ 8,000,000
Number of shares issued and fully paid (in thousands)	697,283	633,084
Shares issued	$ 6,972,825	$ 6,330,841

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

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

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	$ 3,396,888	$ 3,396,888
Conversion of bonds	931,849	931,849
The difference between consideration received or paid and the carrying amount of subsidiaries' net assets during actual disposal or acquisition	17,844	17,844
May be used to offset a deficit only		
Changes in percentage of ownership interests in subsidiaries (2)	5,003	4,246
Employee share options	1,241,557	1,077,084
Employees' share compensation	78,614	78,614
May not be used for any purpose		
Share of changes in capital surplus of associates	25,285	23,231
Employee share options	857,802	529,128
	$ 6,554,842	$ 6,058,884

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 resulting from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

c. Retained earnings and dividends policy

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, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividends distribution and the addition of the policy on the distribution of employees' compensation and remuneration of directors and supervisors.

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 23, d.

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

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

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and 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 2016 and 2015 have been approved in the shareholders' meetings on May 26, 2017 and May 25, 2016, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 566,686	$ 510,434	$ -	$ -
Special reserve	85,204	-	-	-
Cash dividends	3,988,367	3,791,118	6.3	6.0
Share dividends	633,074	-	1.0	-

The appropriations of earnings for 2017 had been proposed by the Company's board of directors on March 2, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 615,651	$ -
Special reserve	284,451	-
Cash dividends	4,600,414	6.6

The appropriations of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on May 24, 2018.

d. Special reserves

	For the Year Ended December 31, 2017
Beginning at January 1	$ -
Reversal of debits to other equity items	85,204
Balance at December 31	$ 85,204

e. Other equity items

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (197,633)	$ 271,859
Exchange differences on translation of foreign financial statements	(313,377)	(561,518)
Related income tax	54,450	96,161
Share of exchange difference of associates accounted for using the equity method	(6,919)	(4,135)
Balance at December 31	$ (463,479)	$ (197,633)

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

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 112,429	$ 68,265
Unrealized gain (loss) arising on revaluation of available-for-sale financial assets	273,836	39,048
Cumulative gain (loss) reclassified to profit or loss on sale of available-for-sale financial assets	(292,441)	5,116
Balance at December 31	$ 93,824	$ 112,429

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 173,315	$ 146,276
Attributable to non-controlling interests:		
Share of profit (loss) for the year	(7,227)	22,092
Exchange difference on translation of foreign financial statements	(1,852)	(15,408)
Remeasurement on defined benefit plans	(88)	(94)
Related income tax	15	16
Non-controlling interests arising from acquisition or disposal of subsidiaries (Note 28 and 29)	15,203	20,433
Balance at December 31	$ 179,366	$ 173,315

23. NET PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on bank loans	$ 7,193	$ 5,531
Others	4,924	6,025
	$ 12,117	$ 11,556

b. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 587,293	$ 582,040
Intangible assets	228,062	238,048
	$ 815,355	$ 820,088
An analysis of depreciation by function		
Operating costs	$ 148,165	$ 137,801
Operating expenses	439,128	444,239
	$ 587,293	$ 582,040
An analysis of amortization by function		
Operating costs	$ 5,011	$ 285
Selling and marketing expenses	196	139
General and administrative expenses	191,842	208,345
Research and development expenses	31,013	29,279
	$ 228,062	$ 238,048

c. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	$ 7,809,270	$ 7,773,378
Post-employment benefits		
Defined contribution plans	284,432	282,136
Defined benefit plans (Note 21)	9,593	5,564
	294,025	287,700
Share-based payments		
Equity-settled	424,637	338,194
Other employee benefits	604,702	506,596
Total employee benefits expense	$ 9,132,634	$ 8,905,868
An analysis of employee benefits expense by function		
Operating costs	$ 2,052,280	$ 1,918,455
Operating expenses	7,080,354	6,987,413
	$ 9,132,634	$ 8,905,868

d. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation at the rates of no less than 1% and no higher than 20% and remuneration of directors and supervisors at the rates of 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, 2017 and 2016, which have been approved by the Company's board of directors on March 2, 2018 and March 6, 2017, respectively, were as follows:

	For the Year Ended December 31	
	2017	2016
Employees' compensation	$ 273,000	$ 243,000
Remuneration of directors and supervisors	10,600	12,300

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	$ 871,608	$ 860,893
Foreign exchange losses	(947,706)	(1,066,705)
Net loss	$ (76,098)	$ (205,812)

24. INCOME TAXES

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

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 1,284,064	$ 1,227,483
Income tax on unappropriated earnings	37,047	72,178
Adjustments for prior year	(3,954)	(1,702)
	1,317,157	1,297,959
Deferred tax		
In respect of the current year	15,786	110,452
Adjustments to deferred tax attributable to changes in tax rates and laws	51,311	-
	67,097	110,452
Income tax expense recognized in profit or loss	$ 1,384,254	$ 1,408,411

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

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	$ 7,533,543	$ 7,097,365
Income tax expense calculated at the statutory rate	$ 1,691,459	$ 1,630,913
Nondeductible expenses in determining taxable income	544	686
Tax-exempt income	(264,323)	(196,715)
Income tax on unappropriated earnings	37,047	72,178
Land value increment tax	7,733	7,833
Investment credits in the current year	(86,891)	(88,558)
Loss carryforwards in the current year	(7,859)	(16,594)
Unrecognized deductible temporary differences	11,174	119
Adjustments for prior years' tax	(3,954)	(1,702)
Others	(676)	251
Income tax expense recognized in profit or loss	$ 1,384,254	$ 1,408,411

The applicable corporate income tax rate used by the group entities in the ROC is 17%, 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.

In February 2018, it was announced by the President of the ROC that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by $41,906 thousand and $207,914 thousand, respectively, in 2018.

In December 2017, the United States amended the Income Tax Law, which reduces a profit-seeking enterprise's federal income tax rate from 35% to 21%, effective 2017.

As the status of the 2018 appropriations of earnings is uncertain, the potential income tax consequences of 10% income tax rate of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	**2016**
Deferred tax		
In respect of the current year		
Translation of foreign operations	$ 54,450	$ 96,161
Remeasurement on defined benefit plans	4,064	5,312
	$ 58,514	$ 101,473

c. Current tax liabilities

	December 31	
	2017	**2016**
Current tax liabilities		
Income tax payable	$ 1,269,165	$ 1,229,400

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, 2017

	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Compre-hensive Income**	**Business Combination**	**Closing Balance**
Deferred tax assets					
Temporary differences					
Unrealized gross profit	$ 44,996	$ 30,880	$ -	$ -	$ 75,876
Unrealized loss on inventory write-downs	74,052	(24,876)	-	-	49,176
Exchange differences on translation of foreign financial statements	45,115	(4,485)	54,450	-	95,080
Loss carryforwards	88,481	(43,009)	-	-	45,472
Defined benefit obligation	16,524	(1,101)	-	-	15,423
Unrealized exchange losses	1,615	1,392	-	-	3,007
Unrealized warranty liabilities	20,618	3,454	-	-	24,072
Remeasurement of defined benefit plans	11,544	(64)	4,064	-	15,544

(Continued)

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

(Concluded)

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Business Combination	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized gross profit	$ 56,143	$ (11,147)	$ -	$ -	$ 44,996
Unrealized loss on inventory write-downs	49,486	2,084	-	22,482	74,052
Exchange differences on translation of foreign financial statements	-	4,636	40,479	-	45,115
Loss carryforwards	-	(32,726)	-	121,207	88,481
Defined benefit obligation	16,915	(391)	-	-	16,524
Unrealized exchange losses (gains)	8,501	(6,886)	-	-	1,615
Unrealized warranty liabilities	26,019	(5,401)	-	-	20,618
Remeasurement of defined benefit plans	6,232	-	5,312	-	11,544
Allowance for impaired receivables	2,982	(3,568)	-	1,022	436
Others	51,711	(2,524)	-	16,588	65,775
	$ 217,989	$ (55,923)	$ 45,791	$ 161,299	$ 369,156
Deferred tax liabilities					
Temporary differences					
Undistributed earnings of subsidiaries	$ 875,958	$ 114,613	$ -	$ -	$ 990,571
Exchange differences on translation of foreign financial statements	55,682	-	(55,682)	-	-
Remeasurement of defined benefit plans	3,646	-	-	-	3,646
Unrealized exchange gains	823	2,004	-	-	2,827
Property, plant and equipment	-	(1,593)	-	11,376	9,783
Intangible assets and goodwill	-	(50,833)	-	406,249	355,416
Others	2,382	(9,662)	-	7,724	444
	$ 938,491	$ 54,529	$ (55,682)	$ 425,349	$ 1,362,687

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

	December 31	
	2017	**2016**
Loss carryforwards		
Expire in 2017	$ -	$ 18,360
Expire in 2022	-	2,295
Expire in 2024	3,056	18,359
Expire in 2025	-	9,424
Expire in 2026	24,165	-
	$ 27,221	$ 48,438

f. Information about unused investment credits

As of December 31, 2017, investment tax credits comprised:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 420	2017

g. Integrated income tax

	December 31	
	2017	**2016**
Unappropriated earnings		
Generated on and after January 1, 1998	$ 9,297,896	$ 8,435,785
Shareholder-imputed credit accounts	$ 945,178	$ 777,620

	For the Year Ended December 31	
	2017 (Expected)	**2016**
Creditable ratio for distribution of earnings	Note	14.16%

Note: Since the amended Income Tax Act which was announced in February 2018 and effective thereof, the imputation tax system has been abolished, the related information is not applicable in 2017.

h. Income tax assessments

The Company’s tax returns through 2013 have been assessed by the tax authorities.

25. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2017	**2016**
Basic earnings per share	$ 8.84	$ 8.15
Diluted earnings per share	$ 8.77	$ 8.09

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on July 8, 2017. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2016 were as follows:

Unit: NT$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	$ 8.96	$ 8.15
Diluted earnings per share	$ 8.90	$ 8.09

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

Net Profit for the Year

	For the Year Ended December 31	
	2017	**2016**
Earnings used in the computation of basic earnings per share	$ 6,156,516	$ 5,666,862
Earnings used in the computation of diluted earnings per share	$ 6,156,516	$ 5,666,862

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

	For the Year Ended December 31	
	2017	**2016**
Weighted average number of ordinary shares in computation of basic earnings per share	696,802	695,475
Effect of potentially dilutive ordinary shares:		
Employee share options	3,949	4,046
Employees' compensation	1,479	1,118
Weighted average number of ordinary shares used in the computation of diluted earnings per share	702,230	700,639

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

26. SHARE-BASED PAYMENT ARRANGEMENTS

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

Information on employee share options was as follows:

	For the Year Ended December 31			
	2017		2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	10,269	$ 98.20	5,000	$100.00
Options granted	-	-	6,500	100.00
Options exercised	(891)	86.89	(1,231)	95.10
Balance at December 31	9,378	95.15	10,269	98.20
Options exercisable, end of year	2,878	84.20	3,769	95.10
Weighted-average fair value of options granted (NT$)	-		95.10	

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2017 and 2016 were from NT$204 to NT$266 and from NT$204 to NT$269, respectively.

Information about outstanding options as of December 31, 2017 and 2016 was as follows:

	For the Year Ended December 31			
	2017		2016	
	Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)	Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)
Issuance in 2016	$ 88.50	4.45	$ 100.00	5.45
Issuance in 2014	84.20	2.63	95.10	3.63

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

	2016	2014
Grant-date share price (NT$)	$235	$239.5
Exercise price (NT$)	$100	$100
Expected volatility	31.42%-32.48%	28.18%-29.19%
Expected life (in years)	4-5.5	4-5.5
Expected dividends yield	0%	0%
Risk-free interest rate	0.52%-0.65%	1.07%-1.30%

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

Compensation costs recognized were $424,637 thousand and $338,194 thousand for the years ended December 31, 2017 and 2016, respectively.

27. GOVERNMENT GRANTS

In 2017, the Group participated in a governmental project plan and received a government grant of $12,005 thousand. The amount was recognized as other income.

28. BUSINESS COMBINATIONS

a. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Kostec Co., Ltd. (“AKST”)	Production and sale of intelligent medical display	January 20, 2017	60	$ 120,592
B+B SmartWorx, Inc. (Note)	Sale of industrial network communications	January 4, 2016	100	$ 3,296,048
Advanixs Kun Shan Corp.	Production and sale of industrial automation products	May 27, 2016	100	$ 459,648

Note: For more information on BEMC Holdings Corporation, Avtek Corporation and B+B and its subsidiaries B&B IMC. LLC, Quatech, LLC, B+B SmartWorx Limited, B&B Electronics Holdings LLC, B&B SmartWorx DMCC, Advantech B+B SmartWorx s.r.o. CZ and Conel Automation s.r.o. CZ, refer to Note 13, Table 7 and Table 9.

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

To expand the Group’s global brand market in industrial network communications, the Company made arrangements to acquire 100% of the 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% of the 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 which was to arrange a future product line, establish a machinery plant, and expand operations in China.

b. Consideration transferred

	AKST	B+B	Advanixs Kun Shan
Cash	$ 120,592	$ 3,296,048	$ 459,648
Contingent consideration arrangement	30,420	-	-
	$ 151,012 (US$4,800 thousand)	$ 3,296,048 (US$99,850 thousand)	$ 459,648 (US$92,758 thousand)

1) The Group acquired 60% equity in AKST with a partial payment of $102,517 thousand in the first quarter of the year ended December 31, 2017. Subsequently, after obtaining the audited financial statements of AKST for the year ended December 31, 2016, the Group made an additional payment of $18,075 thousand (US$600 thousand) for the full amount of the investment. In addition, the Group adjusted the goodwill based on the identifiable net assets and liabilities in AKST's audited financial statements.

2) Under a contingent consideration arrangement, the Group is required to pay the seller an additional US$500 thousand in 2017 and 2018, respectively, if AKST's revenue exceeds the agreed amount.

3) 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.

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

5) Acquisition-related costs amounting to $33,476 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 dates of acquisitions

	AKST	B+B	Advanixs Kun Shan
Current assets			
Cash and cash equivalents	$ 1,745	$ 71,336	$ 35,047
Trade receivables	20,426	188,827	-
Inventories	30,457	281,758	-
Debt investments with no active market - current	54,324	-	-
Other receivables	-	-	4,366
Other current assets	2,877	17,935	19
Non-current assets			
Plant and equipment	84,672	133,033	150,886
Intangible assets	9,921	1,294,933	-

(Continued)

	AKST	B+B	Advanixs Kun Shan
Deferred tax assets	$ 4,207	$ 153,651	$ 7,648
Long-term prepayments for leases	-	-	262,212
Other non-current assets	926	-	-
Current liabilities			
Short-term borrowings	(8,100)	-	-
Trade and other payables	(26,748)	(188,215)	(530)
Current portion of long-term borrowings	(22,733)	-	-
Other current liabilities	(1,646)	-	-
Non-current liabilities			
Long-term borrowings	(109,656)	-	-
Deferred tax liabilities	(2,665)	(425,349)	-
	$ 38,007	$ 1,527,909	$ 459,648

(Concluded)

d. Non-controlling interests

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

e. Goodwill recognized on acquisitions

	AKST	B+B
Consideration transferred	$ 120,592	$ 3,296,048
Less: Fair value of identifiable net assets acquired	(22,804)	(1,527,909)
Goodwill recognized on acquisitions	$ 97,788	$ 1,768,139

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

f. Net cash outflow on acquisitions of subsidiaries

	AKST	B+B	Advanixs Kun Shan
Consideration paid in cash	$ 120,592	$ 3,296,048	$ 459,648
Less: Prepayments for investments	-	(2,279,881)	-
Less: Cash and cash equivalent balances acquired	(1,745)	(71,336)	(35,047)
Less: Investment payables (recorded under other payables)	-	-	(21,260)
	$ 118,847	$ 944,831	$ 403,341

g. Impact of acquisitions on the results of the Group

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

	2017	2016	
	AKST	B+B	Advanixs Kun Shan
Revenue	$ 147,194	$ 1,614,067	$ 222,271
Profit (loss)	$ (45,988)	$ 53,173	$ 29,532

29. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

a. In the first and third quarters of 2016, the Group acquired 0.07% and sold 8.83% of the equity in LNC, respectively, decreasing the Group's equity interest from 89.93% to 81.17%.

b. In the first quarter of 2016, the Group acquired 40% of the equity in Hangzhou Advantofine Automation Tech. Co., Ltd., increasing the Group's equity interest from 60% to 100%.

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

	For the Year Ended December 31, 2016		
	Hangzhou Advantofine Automation Tech. Co., Ltd.	LNC	Total
Cash consideration received (paid)	$ (12,749)	$ 47,335	$ 34,586
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	9,195	(29,628)	(20,433)
Differences recognized from equity transactions	$ (3,554)	$ 17,707	$ 14,153
Line items adjusted for equity transactions			
Capital surplus - difference between consideration received or paid and carrying amount of the subsidiaries' net assets during actual disposal or acquisition	$ -	$ 17,844	$ 17,844
Retained earnings	(3,554)	(137)	(3,691)
	$ (3,554)	$ 17,707	$ 14,153

30. 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, 2017 and 2016, refundable deposits (recognized as other non-current assets) for the operating leases were $25,812 thousand and $20,030 thousand, respectively.

Recognized as expenses

	For the Year Ended December 31	
	2017	2016
Rental expenses	$ 147,187	$ 186,253

31. 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 2017 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, other equity, and non-controlling interests).

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

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

32. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 5,084	$ -	$ 5,084
Non-derivative financial assets held for trading	298,904	-	-	298,904
Mutual funds	2,794,858	-	-	2,794,858
	$ 3,093,762	$ 5,084	$ -	$ 3,098,846

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,638,479	$ -	$ -	$ 1,638,479
Unlisted securities - ROC				
Equity securities	-	-	11,375	11,375
Securities listed in other countries				
Equity securities	10,381	-	-	10,381
	$ 1,648,860	$ -	$ 11,375	$ 1,660,235
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 6,226	$ -	$ 6,226

(Concluded)

December 31, 2016

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

There were no transfers between Levels 1 and 2 in the current and prior periods.

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

	Available-for-sale Financial Assets	
	Equity Instruments	Total
Financial assets		
Balance at January 1, 2016	$ 42,632	$ 42,632
Sales	(33,257)	(33,257)
Balance at December 31, 2016	$ 9,375	$ 9,375

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

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

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

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

b. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading (Note 1)	$ 3,098,846	$ 113,028
Loans and receivables (Note 2)	13,184,303	12,025,231
Available-for-sale financial assets (Note 3)	1,738,753	4,669,164

(Continued)

	December 31	
	2017	2016
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	$ 6,226	$ 10,231
Measured at amortized cost (Note 4)	9,027,555	9,369,630
		(Concluded)

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 receivables, trade receivables from related parties and other receivables.

Note 3: The balances include the carrying amount of available-for-sale financial assets measured at cost.

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

c. Financial risk management objectives and policies

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

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

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

1) Market risk

The Group's activities exposed it primarily to financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Group entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk 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 exchange contracts were less than six months. These foreign exchange forward 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 35. As for the carrying amounts of derivatives exposing to foreign currency risk at the end of the reporting period, refer to Note 7.

Sensitivity analysis

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

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

	U.S. Dollar Impact		**Euro Impact**		**Renminbi Impact**	
	For the Year Ended December 31		**For the Year Ended December 31**		**For the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Profit or loss	$108,887 (Note 1)	$ 41,430 (Note 1)	$ 57,967 (Note 2)	$ 41,829 (Note 2)	$ 23,642 (Note 3)	$ 39,920 (Note 3)

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

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

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

b) Interest rate risk

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

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

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

	December 31	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 230,278	$ 235,400
Financial liabilities	42,698	-
Cash flow interest rate risk		
Financial assets	4,452,477	3,923,166
Financial liabilities	79,419	483,750

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, 2017 and 2016 would have increased by $21,865 thousand and $17,197 thousand, respectively. Had interest rates been 50 basis points lower for the same years, the Group's pre-tax profit would have decreased by the same respective amounts. The source of the negative effects would have been mainly the floating-interest rates on bank savings.

c) Other price risk

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

Sensitivity analysis

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

If equity prices had been 1% higher, pre-tax profits for the years ended December 31, 2017 and 2016 would have increased by $2,989 thousand and $787 thousand, respectively, as a result of changes in the fair value of held-for-trading investments and the pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would have increased by $16,489 thousand and $22,096 thousand, respectively, as a result of changes in fair value of available-for-sale investments. Had equity prices been 1% lower for the same years, the pre-tax profit and other comprehensive income for would have decreased by the same respective amounts.

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, 2017 and 2016, the Group had available unutilized short-term bank loan facilities set out in section (c) below.

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

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

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

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

December 31, 2017

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

December 31, 2016

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

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

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

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

December 31, 2017

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

December 31, 2016

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

c) Financing facilities

	December 31	
	2017	2016
Unsecured bank overdraft facilities, reviewed annually and payable on demand		
Amount used	$ -	$ 483,750
Amount unused	4,034,100	3,757,750
	$ 4,034,100	$ 4,241,500
Secured bank overdraft facilities		
Amount used	$ 122,117	$ -

33. TRANSACTIONS WITH RELATED PARTIES

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

a. Names and categories of related parties

Name	Related Party Category
Axiomtek Co., Ltd.	Associate
AIMobile Co., Ltd.	Associate
Deneng Scientific Research Co., Ltd.	Associate
Jan Hsiang Electronics Co., Ltd.	Associate
Winmate Inc.	Associate
Ke Chang Liu	Other related party (chairman's second immediate family)
Li Ting Huang	Other related party (spouse of chairman's second immediate family)

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31 2017	2016
Associates	$ 64,487	$ 51,709

c. Purchases of goods

Related Party Category/Name	For the Year Ended December 31 2017	2016
Associates	$ 66,871	$ 51,320

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

Line Item	Related Party Category/Name	December 31 2017	2016
Trade receivables from related parties	Associates	$ 14,067	$ 13,957

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized for trade receivables from related parties.

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

Line Item	Related Party Category/Name	December 31 2017	2016
Trade payables	Associates	$ 19,499	$ 29,453

The outstanding trade payables to related parties are unsecured.

f. Acquisitions of property, plant and equipment

Related Party Category/Name	Purchase Price For the Year Ended December 31 2017	2016
Associates	$ 8,381	$ -

g. Disposal of property, plant and equipment

Related Party Category/ Name	Proceeds For the Nine Months Ended September 30 2017	2016	Gain (Loss) on Disposal For the Nine Months Ended September 30 2017	2016
Other related parties	$ 74,397	$ -	$ 66,531	$ -

h. Other transactions with related parties

Related Party Category/Name	Operating Expenses For the Year Ended December 31	
	2017	2016
Research and development expenses		
Associates	$ 23,709	$ -

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

Related Party Category/Name	Other Income For the Year Ended December 31	
	2017	2016
Rental income		
Other related parties	$ 60	$ 60
Other		
Other related parties	$ 2,702	$ 2,702

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

i. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 46,617	$ 34,349
Post-employment benefits	201	113
Share-based payments	9,653	20,114
	$ 56,471	$ 54,576

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

34. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31, 2017
Pledge deposits (recognized as debt investments with no active market)	$ 29,982
Property, plant and equipment	69,552
	$ 99,534

35. 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, 2017

Unit: In Thousands for Currencies, Except Exchange Rates

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

December 31, 2016

Unit: In Thousands for Currencies, Except Exchange Rates

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 198,736	32.250 (USD:NTD)	$ 6,409,236
RMB	349,617	4.6170 (RMB:NTD)	1,614,182
EUR	23,502	33.900 (EUR:NTD)	796,718
USD	9,734	6.9851 (USD:RMB)	313,924
			$ 9,134,060
Financial liabilities			
Monetary items			
USD	140,430	32.250 (USD:NTD)	$ 4,528,868
USD	30,933	6.9851 (USD:RMB)	997,591
RMB	200,658	4.6170 (RMB:NTD)	926,438
			$ 6,452,897

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange losses were \$76,098 thousand and \$205,812 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.

36. SEPARATELY DISCLOSED ITEMS

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

1) Financing provided to others. (Table 1)

2) Endorsement/guarantee provided. (Table 2)

3) Marketable securities held. (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 4)

5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)

8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)

9) Transactions of financial instruments. (Notes 7 and 32)

10) Significant transactions between the Company and subsidiaries. (Table 10)

11) Name, locations, and other information of investees. (Table 7)

12) Organization chart. (Table 9)

c. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, their prices, payment terms, and unrealized gains or losses. (Tables 1, 5 and 6)

37. SEGMENT INFORMATION

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

- Industrial internet of things services: Focus on industry-driven services;
- Embedded board and design-in services: Provide services involving embedded boards, systems and peripheral hardware and software and customized designs and services to meet customers' demands;
- Allied design manufacture services: Provide services involving digital logistic, digital healthcare and intelligent retail;
- Intelligent services: Referring to integrated intelligent applications that can be used in various areas;
- Global customer services: Global repair, technical support and warranty services.

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

a. These operating segments have similar long-term gross profit margins; and

b. The nature of the products and production processes are similar.

Segment Revenue and Results

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

	Industrial Internet of Thing Services	Embedded Boards and Design-in Services	Allied Design Manufacture Services	Intelligent Services	Global Customer Services	Others	Total
For the year ended December 31, 2017							
Revenue from external customers	$ 14,763,233	$ 11,906,429	$ 9,005,011	$ 3,092,256	$ 5,540,815	$ 67,007	$ 44,374,751
Inter-segment revenue	-	-	-	-	-	-	-
Segment revenue	$ 14,763,233	$ 11,906,429	$ 9,005,011	$ 3,092,256	$ 5,540,815	$ 67,007	44,374,751
Eliminations	-	-	-	-	-	-	-
Consolidated revenue	-	-	-	-	-	-	44,374,751
Segment income	$ 3,118,367	$ 1,970,685	$ 1,426,348	($ 67,163)	$ 696,162	$ (994)	7,143,405
Other revenue							234,453
Central administration costs and directors' salaries							(364,928)
Other income and expense							314,079
Finance costs							(12,117)
Share of profits of associates accounted for using the equity method							218,651
Profit before tax (continuing operations)							$ 7,533,543
For the year ended December 31, 2016							
Revenue from external customers	$ 13,606,469	$ 15,817,033	$ 9,662,962	$ 2,722,384	$ 4,924,689	$ 285,913	$ 42,002,198
Inter-segment revenue	-	-	-	-	-	-	-
Segment revenue	$ 13,606,469	$ 15,817,033	$ 9,662,962	$ 2,722,384	$ 4,924,689	$ 285,913	42,002,198
Eliminations	-	-		-	-	-	-
Consolidated revenue	-	-	-	-	-	-	42,002,198
Segment income	$ 2,901,863	$ 1,997,596	$ 1,609,214	$ 208,387	$ 583,025	$ (13,524)	7,286,560
Other revenue							227,316
Central administration costs and directors' salaries							(655,068)
Other income and expense							184,550
Finance costs							(11,556)
Share of profits of associates accounted for using the equity method							65,562
Profit before tax (continuing operations)							$ 7,097,365

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' and supervisors' salaries, share of profits of associates, gain recognized on the disposal of interest in former associates, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, 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.

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	
	2017	**2016**
Embedded boards and Chassis	$ 18,596,165	$ 16,733,624
Industrial computer	9,028,906	9,666,898
Industrial control	8,141,772	5,377,597
Industry-applied computer	3,103,742	5,014,219
After-sales service and others	5,504,166	5,209,860
	$ 44,374,751	$ 42,002,198

Geographical Information

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	**2016**	**2017**	**2016**
Taiwan	$ 3,454,198	$ 3,467,452	$ 7,837,025	$ 7,924,905
Asia	18,696,453	16,781,831	2,746,244	2,821,073
USA	13,277,208	13,337,334	2,984,579	3,371,055
Europe	7,170,151	6,526,905	674,970	555,878
Others	1,776,741	1,888,676	2,831	4,143
	$ 44,374,751	$ 42,002,198	$ 14,245,649	$ 14,677,054

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

Information about Major Customers

No customers contributed 10% or more to the Group's revenue for both years ended December 31, 2017 and 2016.

ADVANTECH CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	Advantech LNC Dong Guan Co., Ltd.	Trade receivables - related parties	Yes	$ 20,729 (RMB 4,520 thousand)	$ -	$ -	-	Short-term financing	$ -	Financing need	$ -	None	None	$ 2,758,107 (Note C)	$ 5,516,214 (Note C)
		Advantech LNC Dong Guan Co., Ltd.	Trade receivables - related parties	Yes	15,673 (US$ 500 thousand)	-		-	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)
2	ANA	B+B	Trade receivables - related parties	Yes	23,509 (US$ 750 thousand)	-	-	-	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)
3	B+B	B+B (CZ)	Trade receivables - related parties	Yes	39,505 (CZK 31,756 thousand)	-	-	-	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)
4	B+B (CZ)	Conel Automation	Trade receivables - related parties	Yes	16,764 (CZK 12,000 thousand)	16,740 (CZK 12,000 thousand)	16,740 (CZK 12,000 thousand)	2	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)
5	B+B (CZ)	Conel Automation	Trade receivables - related parties	Yes	5,580 (CZK 4,000 thousand)	5,580 (CZK 4,000 thousand)	5,580 (CZK 4,000 thousand)	2	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)
6	Cermate Technologies (Shanghai) Inc.	Shenzhen Cermate Technologies Inc.	Prepayments of inventories	Yes	13,758 (RMB 3,000 thousand)	-	-	-	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)
7	Cermate Technologies (Shanghai) Inc.	Shenzhen Cermate Technologies Inc.	Prepayments of inventories	Yes	13,695 (RMB 3,000 thousand)	13,695 (RMB 3,000 thousand)	-	-	Short-term financing	-	Financing need	-	None	None	2,758,107 (Note C)	5,516,214 (Note C)

Note A: Investee companies are numbered sequentially from 1.

Note B: The exchange rates as of December 31, 2017 were RMB1=NT$4.565 and CZK1=NT$1.395.

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

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

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

TABLE 2

ADVANTECH CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(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.	Subsidiary	$ -	$ 62,690 (US$ 2,000 thousand)	$ -	$ -	$ -	-	$ -	Y	N	N
		AdvanPOS	Subsidiary	-	62,690 (US$ 2,000 thousand)	-	-	-	-	-	Y	N	N
		ANA	Subsidiary	2,758,107	940,350 (US$ 30,000 thousand)	892,800 (US$ 30,000 thousand)	-	-	3.24	8,274,321	Y	N	N
		B+B	Subsidiary	2,758,107	313,450 (US$ 10,000 thousand)	297,600 (US$ 10,000 thousand)	-	-	1.08	8,274,321	Y	N	N
		AKMC	Subsidiary	2,758,107	188,070 (US$ 6,000 thousand)	178,560 (US$ 6,000 thousand)	-	-	0.65	8,274,321	Y	N	Y
		LNC	Subsidiary	2,758,107	109,708 (US$ 3,500 thousand)	44,640 (US$ 1,500 thousand)	-	-	0.16	8,274,321	Y	N	N
		Advanixs Corp.	Subsidiary	2,758,107	50,152 (US$ 1,600 thousand)	47,616 (US$ 1,600 thousand)	-	-	0.17	8,274,321	Y	N	N
		Cermate	Subsidiary	2,758,107	48,585 (US$ 1,550 thousand)	29,760 (US$ 1,000 thousand)	-	-	0.11	8,274,321	Y	N	N
		AiST	Subsidiary	2,758,107	4,702 (US$ 150 thousand)	4,464 (US$ 150 thousand)	-	-	0.02	8,274,321	Y	N	N
		AdvanPOS	Subsidiary	2,758,107	31,345 (US$ 1,000 thousand)	29,760 (US$ 1,000 thousand)	-	-	0.11	8,274,321	Y	N	N
		A-DLoG	Subsidiary	2,758,107	35,890 (EUR 1,000 thousand)	35,570 (EUR 1,000 thousand)	-	-	0.13	8,274,321	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	$ 2,758,107	$ 47,018 (US$ 1,500 thousand)	$ 44,640 (US$ 1,500 thousand)	$ -	$ -	0.16	$ 8,274,321	Y	N	N
		AAU	Subsidiary	2,758,107	6,269 (US$ 200 thousand)	5,952 (US$ 200 thousand)	-	-	0.02	8,274,321	Y	N	N
		AKR	Subsidiary	2,758,107	1,567 (US$ 50 thousand)	1,488 (US$ 50 thousand)	-	-	0.01	8,274,321	Y	N	N
		Shenzhen Cermate Technologies Inc.	Subsidiary	2,758,107	16,731 (US$ 550 thousand)	16,368 (US$ 550 thousand)	-	-	0.06	8,274,321	Y	N	Y
		Advantech LNC Dong Guan Co., Ltd.	Subsidiary	2,758,107	60,840 (US$ 2,000 thousand)	59,520 (US$ 2,000 thousand)	-	-	0.22	8,274,321	Y	N	Y

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

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

Note C: The exchange rates as of December 31, 2017 were US$1=NT$29.76 and EUR1=NT$35.57.

Note D: The latest net equity is from the Group’s consolidated financial statements for the year ended December 31, 2017.

(Concluded)

TABLE 3

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2017
(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, 2017				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
The Company	Stock							
	ASUSTek Computer Inc.	-	Available-for-sale financial assets - non-current	4,739,461	$ 1,324,679	0.64	$ 1,324,679	Note A
	Allied Circuit Co., Ltd.	-	Same as above	1,200,000	94,800	2.41	94,800	Note A
	Fund							
	Mega Diamond Money Market	-	Financial assets at fair value through profit or loss - current	28,879,554	360,007	-	360,007	Note B
	FSITC Money Market	-	Same as above	1,578,639	280,009	-	280,009	Note B
Advantech Corporate Investment	Stock							
	Allied Circuit Co., Ltd.	-	Financial assets at fair value through profit or loss - current	2,501,000	197,579	5.03	197,579	Note A
	AzureWave Technologies, Inc.	-	Same as above	5,492,000	91,991	4.11	91,991	Note A
	Contec	-	Same as above	15,500	9,334	0.23	9,334	Note A
	BroadTec System Inc.	-	Available-for-sale financial assets - non-current	182,700	1,500	1.79	1,500	-
	BiosenseTek Corp.	-	Same as above	37,500	375	7.50	375	-
	Juguar Technology	-	Same as above	500,000	7,500	16.67	7,500	-
	Taiwan DSC PV Ltd.	-	Same as above	160,000	2,000	3.20	2,000	-
	Phison Electronics Corporation	-	Available-for-sale financial assets - current	750,000	219,000	0.38	219,000	Note A
	Xplore Technologies Corp.	-	Same as above	122,829	10,381	1.11	10,381	Note A
	Fund							
	Mega Diamond Money Market	-	Financial assets at fair value through profit or loss - current	49,657,452	619,020	-	619,020	Note B
	FSITC Money Market	-	Same as above	2,926,124	519,018	-	519,018	Note B
Advanixs Corporate	Fund							
	Jih Sun Money Market	-	Same as above	40,686,999	599,218	-	599,218	Note B
	Mega Diamond Money Market	-	Same as above	7,437,828	92,718	-	92,718	Note B
AiST	Fund							
	Jih Sun Money Market	-	Same as above	6,057,244	89,208	-	89,208	Note B
ALTC	Fund							
	Mega Diamond Money Market	-	Same as above	481,926	6,008	-	6,008	Note B
	Capital Money Market	-	Same as above	499,083	8,005	-	8,005	Note B

(Continued)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
AdvanPOS	Fund Mega Diamond Money Market	-	Financial assets at fair value through profit or loss - current	15,442,275	$ 192,500	-	$ 192,500	Note B
Advantech Innovative Design Co., Ltd.	Fund Capital Money Market	-	Same as above	600,530	9,633	-	9,633	Note B
Cermate	Fund Mega Diamond Money Market	-	Same as above	1,565,402	19,514	-	19,514	Note B
AiSC	Fund Shanghai Shangchuang Xinwei Investment Management Co., Ltd.	-	Financial assets measured at cost-non current	-	78,518	7.50	78,518	-

Note A: Market value was based on the closing price on December 31, 2017.

Note B: Market value was based on the net asset values of the open-ended mutual funds on December 31, 2017.

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition (Note)		Disposal				Ending Balance (Note)	
					Shares	Amount (Cost)	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount (Cost)
The Company	Fund													
	Capital Money Market	Available-for-sale financial assets - current	-	-	6,257,978	$ 100,000	57,235,311	$ 916,000	63,493,289	$ 1,016,513	$ 1,016,000	$ 513	-	$ -
	Mega Diamond Money Market	Available-for-sale financial assets - current	-	-	24,168,481	300,021	127,827,675	1,590,000	151,996,156	1,891,872	1,890,021	1,851	-	-
	FSITC Money Market	Available-for-sale financial assets - current	-	-	1,698,386	300,000	14,552,185	2,576,000	16,250,571	2,878,210	2,876,000	2,210	-	-
	Fund													
	Mega Diamond Money Market	Financial assets at fair value through profit or loss - current	-	-	-	-	28,879,554	360,000	-	-	-	-	28,879,554	360,000
Advantech Corporate Investment	Fund													
	FSITC Money Market	Available-for-sale financial assets - current	-	-	2,038,341	360,000	520,024	92,000	2,558,365	453,754	452,000	1,754	-	-
	Mega Diamond Money Market	Available-for-sale financial assets - current	-	-	23,861,961	296,000	25,930,564	323,000	49,792,525	620,684	619,000	1,684	-	-
	Fund													
	Mega Diamond Money Market	Financial assets at fair value through profit or loss - current	-	-	-	-	49,657,452	619,000	-	-	-	-	49,657,452	619,000
	FSITC Money Market	Financial assets at fair value through profit or loss - current	-	-	-	-	3,038,880	539,000	112,756	20,000	19,999	1	2,926,124	519,001
Advanixs Corporate	Fund													
	Jih Sun Money Market	Available-for-sale financial assets - current	-	-	38,021,440	557,118	33,850,653	497,702	71,872,093	1,057,497	1,054,820	2,677	-	-
	Fund													
	Jih Sun Money Market	Financial assets at fair value through profit or loss - current	-	-	-	-	40,686,999	599,197	-	-	-	-	40,686,999	599,197

TABLE 5

ADVANTECH CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Company	AAU	Subsidiary	Sale	$ (220,309)	0.71	60-90 days	Contract price	No significant difference in terms for related parties	$ 38,731	0.62	
	B+B	Subsidiary	Sale	(149,747)	0.48	60 days after month-end	Contract price	No significant difference in terms for related parties	36,942	0.59	
	AEU	Subsidiary	Sale	(4,316,172)	13.97	30 days after month-end	Contract price	No significant difference in terms for related parties	1,363,473	21.93	
	AiSC	Subsidiary	Sale	(159,793)	0.52	45 days after month-end	Contract price	No significant difference in terms for related parties	41,117	0.66	Note A
	AJP	Subsidiary	Sale	(778,432)	2.52	60-90 days	Contract price	No significant difference in terms for related parties	151,705	2.44	
	ACN	Subsidiary	Sale	(6,039,617)	19.55	45 days after month-end	Contract price	No significant difference in terms for related parties	964,313	15.51	Note B
	AKR	Subsidiary	Sale	(917,245)	2.97	60 days after invoice date	Contract price	No significant difference in terms for related parties	73,977	1.19	
	ANA	Subsidiary	Sale	(8,255,247)	26.72	45 days after month-end	Contract price	No significant difference in terms for related parties	1,595,920	25.67	
	ASG	Subsidiary	Sale	(269,444)	0.87	60-90 days	Contract price	No significant difference in terms for related parties	68,340	1.10	
	Advanixs Corp.	Subsidiary	Sale	(599,509)	1.94	60-90 days	Contract price	No significant difference in terms for related parties	140,428	2.26	
	A-DLoG	Subsidiary	Sale	(181,312)	0.59	30 days after invoice date	Contract price	No significant difference in terms for related parties	46,969	0.76	
	AMY	Subsidiary	Sale	(188,191)	0.61	45 days after month-end	Contract price	No significant difference in terms for related parties	23,549	0.38	
	AKMC	Subsidiary	Purchase	10,519,469	48.88	Usual trade terms	Contract price	No significant difference in terms for related parties	(966,466)	21.09	
	Advanixs Corp.	Subsidiary	Purchase	1,328,501	6.17	Usual trade terms	Contract price	No significant difference in terms for related parties	(16,222)	0.35	
	AdvanPOS	Subsidiary	Purchase	1,342,553	6.24	Usual trade terms	Contract price	No significant difference in terms for related parties	(747)	0.02	
AKMC	The Company	Parent company	Sale	(10,519,469)	94.01	Usual trade terms	Contract price	No significant difference in terms for related parties	966,466	95.48	
Advanixs Corp.	The Company	Parent company	Sale	(1,328,501)	34.38	Usual trade terms	Contract price	No significant difference in terms for related parties	16,222	14.80	

(Continued)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
AdvanPos	The Company	Parent company	Sale	$ (1,342,553)	99.65	Usual trade terms	Contract price	No significant difference in terms for related parties	$ 747	100.00	
AAU	The Company	Parent company	Purchase	220,309	81.12	60-90 days	Contract price	No significant difference in terms for related parties	(38,731)	81.66	
B+B	The Company	Parent company	Purchase	149,747	15.78	60 days after month-end	Contract price	No significant difference in terms for related parties	(36,942)	33.28	
AEU	The Company	Parent company	Purchase	4,316,172	80.31	30 days after month-end	Contract price	No significant difference in terms for related parties	(1,363,473)	81.13	
AiSC	The Company	Parent company	Purchase	159,793	35.14	45 days after month-end	Contract price	No significant difference in terms for related parties	(41,117)	47.31	
AJP	The Company	Parent company	Purchase	778,432	90.57	60-90 days	Contract price	No significant difference in terms for related parties	(151,705)	93.23	
ACN	The Company	Parent company	Purchase	6,039,617	72.58	45 days after month-end	Contract price	No significant difference in terms for related parties	(964,313)	72.28	
AKR	The Company	Parent company	Purchase	917,245	61.29	60 days after invoice date	Contract price	No significant difference in terms for related parties	(73,977)	51.47	
ANA	The Company	Parent company	Purchase	8,255,247	91.20	45 days after month-end	Contract price	No significant difference in terms for related parties	(1,595,920)	93.29	
ASG	The Company	Parent company	Purchase	269,444	75.14	60-90 days	Contract price	No significant difference in terms for related parties	(68,340)	86.69	
Advanixs Corp.	The Company	Parent company	Purchase	599,509	17.44	60-90 days	Contract price	No significant difference in terms for related parties	(140,428)	9.59	
A-DLoG	The Company	Parent company	Purchase	181,312	21.32	30 days after invoice date	Contract price	No significant difference in terms for related parties	(46,969)	54.57	
AMY	The Company	Parent company	Purchase	188,191	89.92	45 days after month-end	Contract price	No significant difference in terms for related parties	(23,549)	95.22	
Cermate	Cermate Shenzen	Related enterprise	Sale	(104,225)	1.45	Usual trade terms	Contract price	No significant difference in terms for related parties	-	-	
AKMC	ACN	Related enterprise	Sale	(511,855)	4.57	Usual trade terms	Contract price	No significant difference in terms for related parties	58,129	4.02	
Advanixs Corp.	AKMC	Related enterprise	Sale	(1,583,883)	40.99	Usual trade terms	Contract price	No significant difference in terms for related parties	5,597	5.11	

(Continued)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
LNC	Advantech LNC Dong Guan	Subsidiary	Sale	$ (267,280)	68.77	Usual trade terms	Contract price	No significant difference in terms for related parties	$ 183,546	89.05	
ACN	AiSC	Related enterprise	Sale	(157,292)	1.64	Usual trade terms	Contract price	No significant difference in terms for related parties	17,537	0.88	
Cermate Shenzen	Cermate	Related enterprise	Purchase	104,225	72.94	Usual trade terms	Contract price	No significant difference in terms for related parties	-	-	
ACN	AKMC	Related enterprise	Purchase	511,855	6.15	Usual trade terms	Contract price	No significant difference in terms for related parties	(58,129)	4.36	
AKMC	Advanixs Corp.	Related enterprise	Purchase	1,583,883	15.50	Usual trade terms	Contract price	No significant difference in terms for related parties	(5,597)	0.39	
Advantech LNC Dong Guan	LNC	Parent company	Purchase	267,280	2.49	Usual trade terms	Contract price	No significant difference in terms for related parties	(183,546)	90.64	
AiSC	ACN	Related enterprise	Purchase	157,292	34.59	Usual trade terms	Contract price	No significant difference in terms for related parties	(17,537)	20.18	

Note A: Realized gain for the year was $3,460 thousand.

Note B: Unrealized gain for the year was $14,281 thousand.

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

(Concluded)

TABLE 6

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, 2017
(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	ANA	Subsidiary	$ 1,595,920	6.08	$ -	-	$ 892,800	$ -
	AEU	Subsidiary	1,363,473	3.73	-	-	725,469	-
	ACN	Subsidiary	964,313	6.76	-	-	785,179	-
	AJP	Subsidiary	151,705	4.25	-	-	89,530	-
	Advanixs Corp.	Subsidiary	140,428	4.30	-	-	139,250	-
AKMC	The Company	Parent company	966,466	8.12	-	-	216,353	-
LNC	Advantech LNC Dong Guan	Subsidiary	183,546	1.93	-	-	21,825	-

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

ADVANTECH CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(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, 2017			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				December 31, 2017	December 31, 2016	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	$ 4,187,055	470,086	471,305	Subsidiary
	ATC	BVI	Sale of industrial automation products	998,788	998,788	33,850,000	100.00	3,518,872	334,407	333,941	Subsidiary
	Advanixs Corporate	Taipei, Taiwan	Production and sale of industrial automation products	486,000	486,000	36,000,000	100.00	856,049	296,431	313,646	Subsidiary
	Advantech Corporate Investment	Taipei, Taiwan	Investment holding company	1,400,000	1,400,000	150,000,000	100.00	1,899,479	290,136	290,555	Subsidiary
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	249,059	249,059	20,537,984	25.85	622,604	926,239	240,551	Equity-method investee
	AdvanPOS	Taipei, Taiwan	Production and sale of POS system	460,572	460,572	20,438,000	100.00	552,116	61,335	66,667	Subsidiary
	ALNC	Taichung, Taiwan	Production and sale of machines with computerized numerical control	431,634	431,634	24,350,000	81.17	492,441	10,297	8,334	Subsidiary (Note A)
	Jan Hsiang	Taipei, Taiwan	Electronic parts and components manufacturing	3,719	3,719	655,500	28.50	10,447	5,663	1,616	Equity-method investee (Note A)
	AMX	Mexico	Sale of industrial automation products	4,922	4,922	-	100.00	(399)	(1,036)	(1,036)	Subsidiary (Note A)
	AEUH	Helmond, The Netherlands	Investment and management service	1,219,124	1,219,124	12,572,024	100.00	925,225	36,775	36,448	Subsidiary
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	90,848	14,531	14,531	Subsidiary (Note A)
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	49,785	9,163	9,163	Subsidiary (Note A)
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	269,111	57,366	57,366	Subsidiary (Note A)
	AMY	Malaysia	Sale of industrial automation products	35,140	35,140	2,000,000	100.00	66,713	29,340	29,340	Subsidiary (Note A)
	AKR	Seoul, Korea	Sale of industrial automation products	73,355	73,355	600,000	100.00	278,131	42,501	42,501	Subsidiary
	ABR	Sao Paulo, Brazil	Sale of industrial automation products	43,216	43,216	1,794,996	80.00	64,801	9,547	7,637	Subsidiary (Note A)
	Advantech Innovative Design Co., Ltd.	Taipei, Taiwan	Product design	10,000	10,000	1,000,000	100.00	10,421	809	809	Subsidiary (Note A)
	AiST	Taipei, Taiwan	Design, develop and sale of intelligent services	157,915	157,915	10,000,000	100.00	171,803	9,938	9,938	Subsidiary (Note A)
	BEMC	Delaware, USA	Sale of industrial network communications systems	1,968,044	1,968,044	6	60.00	1,885,077	121,314	71,930	Subsidiary
	AIN	India	Sale of industrial automation products	19,754	5,567	999,999	99.99	11,376	(3,848)	(3,848)	Subsidiary (Note A)
	AIMobile Co., Ltd.	Taipei, Taiwan	Design and manufacture of industrial mobile systems	135,000	135,000	13,500,000	45.00	84,140	(55,780)	(25,101)	Equity-method investee (Note A)
	AKST	Gangwon-do, Korea	Production and sale of intelligent medical display	83,313	-	17,280	36.00	-	(45,988)	(16,556)	Subsidiary (Note A)
	Winmate Inc.	Taipei, Taiwan	Embedded System Modules	540,000	-	12,000,000	16.62	544,960	136,205	5,333	Equity-method investee (Note A)
AKR	AKST	Gangwon-do, Korea	Production and sale of intelligent medical display	55,579	-	11,520	24.00	-	(45,988)	(11,037)	Subsidiary (Note A)
Advantech Corporate Investment	Cermate	Taipei, Taiwan	Manufacturing of electronic parts, computer, and peripheral devices	71,500	71,500	5,500,000	55.00	121,946	25,821	14,620	Subsidiary
	Deneng	Taichung, Taiwan	Installment and sale of electronic components and software	18,095	18,095	658,000	39.69	15,457	(1,600)	(635)	Equity-method investee (Note A)
	CDIB Innovation Accelerator Co., Ltd.	Taipei, Taiwan	Investment holding company	75,000	-	7,500,000	20.00	72,127	(16,087)	(3,113)	Equity-method investee (Note A)
ATC	ATC (HK)	Hong Kong	Investment and management service	1,212,730	1,212,730	41,650,001	100.00	3,499,871	387,373	386,906	Subsidiary
AAC (BVI)	ANA	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	2,430,085	300,055	299,531	Subsidiary
	AAC (HK)	Hong Kong	Investment and management service	539,146	539,146	15,230,001	100.00	2,026,873	170,254	171,997	Subsidiary
ANA	BEMC	Delaware, USA	Sale of industrial network communications systems	1,328,004	1,328,004	4	40.00	1,270,360	121,314	48,526	Subsidiary
AEUH	AEU	Eindhoven, The Netherlands	Sale of industrial automation products	431,963	431,963	11,314,280	100.00	950,362	33,149	32,821	Subsidiary
	APL	Warsaw, Poland	Sale of industrial automation products	14,176	14,176	6,350	100.00	27,909	3,220	3,220	Subsidiary (Note A)
AEU	A-DLoG	Munich, Germany	Design, R&D and sale of industrial automation vehicles and related products	553,536	553,536	1	100.00	474,134	(34,148)	(34,475)	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				December 31, 2017	December 31, 2016	Shares	Percentage of Ownership	Carrying Value			
ASG	ATH	Thailand	Production of computers	$ 7,537	$ 7,537	51,000	51.00	$ 21,570	$ 5,819	$ 3,069	Subsidiary (Note A)
	AID	Indonesia	Sale of industrial automation products	4,797	4,797	300,000	100.00	5,006	2,603	2,603	Subsidiary (Note A)
Cermate	LandMark	BVI	General investment	28,200	28,200	972,284	100.00	94,802	19,868	19,440	Subsidiary (Note A)
LNC	Better Auto	BVI	General investment	244,615	264,445	8,556,096	100.00	47,086	(7,704)	(7,515)	Subsidiary (Note A)
Better Auto	Famous Now	BVI	General investment	US$ 4,000	US$ 4,000	1	100.00	42,336	(8,758)	(8,758)	Subsidiary (Note A)
BEMC	Avtek	Delaware, USA	Sale of industrial network communications systems	US$ 99,850	US$ 99,850	-	100.00	3,155,437	121,314	120,456	Subsidiary
Avtek	B+B	Delaware, USA	Sale of industrial network communications systems	US$ 99,850	US$ 99,850	384,111	100.00	3,155,437	121,314	120,456	Subsidiary
B+B	BBI	Ireland	Sale of industrial network communications systems	US$ 39,481	US$ 39,481	-	100.00	97,431	(43,735)	(43,735)	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	US$ 1,314	-	100.00	-	-	-	Subsidiary
	B+B (CZ)	Czech Republic	Manufacture of cellular and automation solutions	-	-	-	99.99	240,510	70,716	70,716	Subsidiary
	Conel Automation	Czech Republic	Sale of industrial network communications systems	-	-	-	1.00	70	(6,330)	(63)	Subsidiary
	B&B DMCC	Dubai	Sale of industrial network communications systems	-	-	-	100.00	-	-	-	Subsidiary
B&B Electronics	B+B (CZ)	Czech Republic	Manufacture of cellular and automation solutions	-	-	-	0.01	-	-	-	Subsidiary
B+B (CZ)	Conel Automation	Czech Republic	Sale of industrial network communications systems	-	-	-	99.00	6,929	(6,330)	(6,267)	Subsidiary

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

Note B: In the first quarter of 2017, the Group made arrangement to acquire equity in AKST for US$3,800 thousand and recognized it as impairment loss in the end of 2017.

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

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

(Concluded)

TABLE 8

ADVANTECH CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(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, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow						
Advantech Technology (China) Company Ltd. ("AKMC")	Production and sale of components of industrial automation products	US$ 43,750 thousand (Note F)	Indirect	$ 1,110,048 (US$ 37,300 thousand)	$ -	$ -	$ 1,110,048 (US$ 37,300 thousand)	$ 325,934	100	$ 325,467	2,998,770	$ -
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. ("ACN")	Sale of industrial automation products	US$ 4,230 thousand	Indirect	158,680 (US$ 5,332 thousand)	-	-	158,680 (US$ 5,332 thousand)	156,780	100	157,802	1,271,553	334,264 (US$ 11,232 thousand)
Shanghai Advantech Intelligent Services Co., Ltd. ("AiSC")	Production and sale of industrial automation products	US$ 8,000 thousand	Indirect	238,080 (US$ 8,000 thousand)	-	-	238,080 (US$ 8,000 thousand)	(10,721)	100	(10,000) (Note A)	702,327	-
Xi'an Advantech Software Ltd. ("AXA")	Development and production of software products	US$ 1,000 thousand	Indirect	(Note C)	-	-	(Note C)	22,831	100	22,831 (Note A)	30,808	-
Hangzhou Advantofine Automation Tech. Co., Ltd.	Processing and sale of industrial automation products	RMB 3,000 thousand	Indirect	(Note D)	-	-	(Note D)	(125)	100	(125) (Note A)	14,659	-
Advanixs Kun Shan Corp.	Production and sale of industrial automation products	RMB 99,515 thousand	Indirect	(Note G)	-	-	(Note G)	71,350	100	61,438 (Note A)	501,101	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Allowable Limit on Investment
$1,512,760 (US$50,832 thousand) (Note E)	$2,547,456 (US$85,600 thousand)	$16,656,264 (Note I)

(Continued)

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

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

Note C: Remittance by AAC (HK).

Note D: Remittance by ACN.

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

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

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

Note H: The exchange rate was US$1.00=NT$29.76.

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

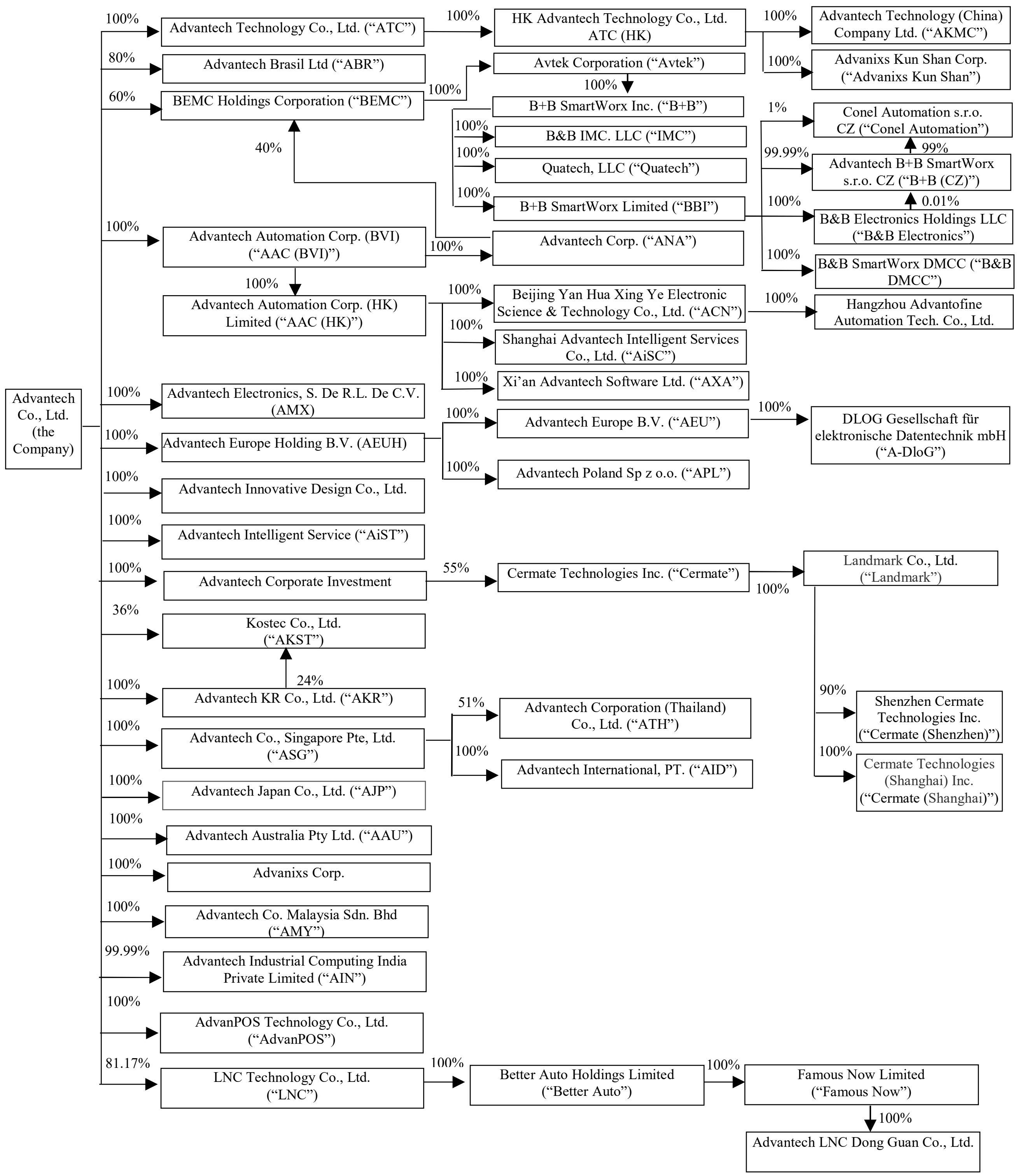
Note J: All intercompany gains and losses from investment have been eliminated from consolidation.

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

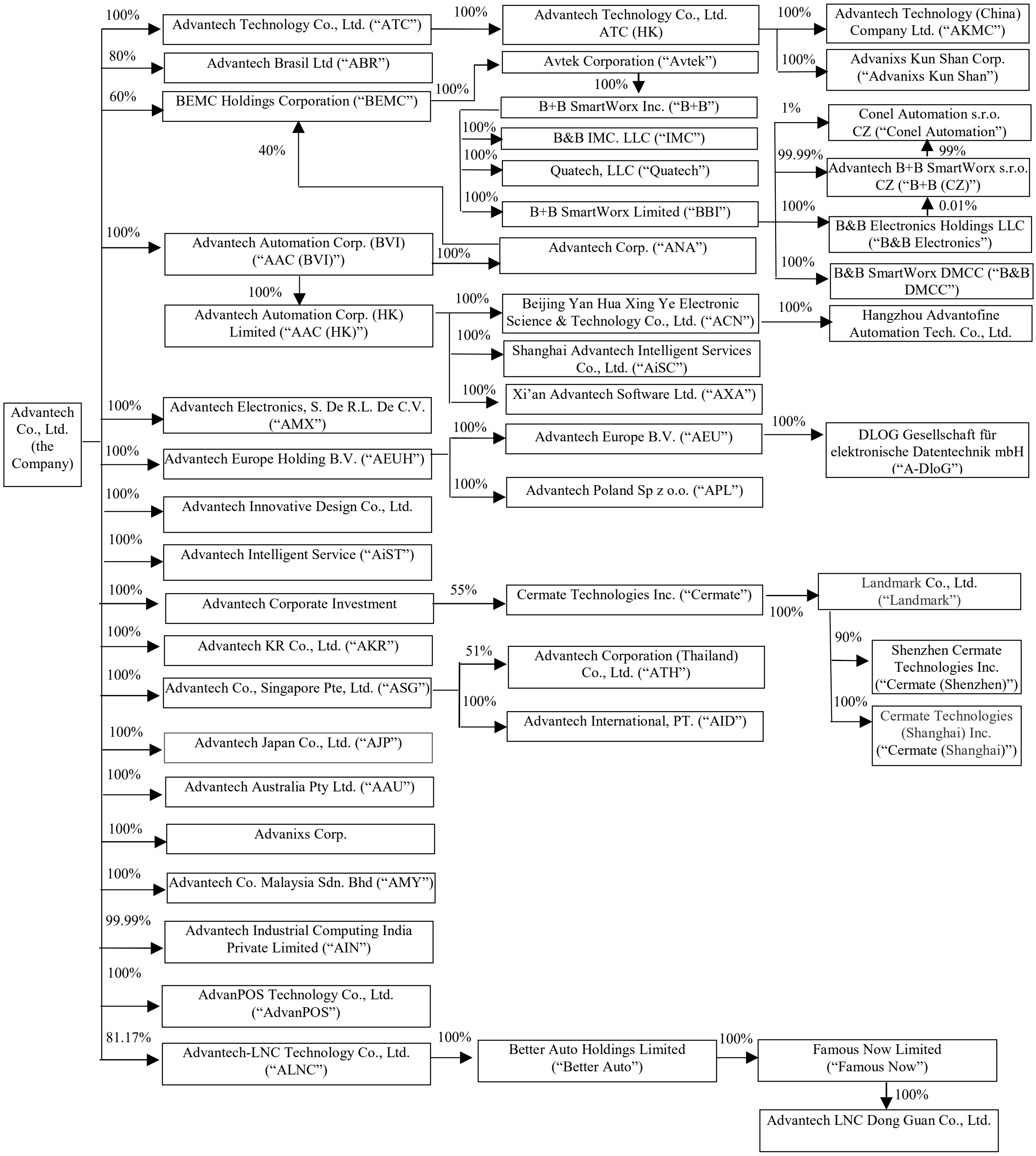
ORGANIZATION CHART
DECEMBER 31, 2017 AND 2016

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



(Continued)

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



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ADVANTECH CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS BETWEEN ADVANTECH CO., LTD. AND SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
0	The Company	AAC (HK)	1	Receivables from related parties	$ 4	45 days EOM	-
		AAC (HK)	1	Other receivables from related parties	15	45 days EOM	-
		AAC (HK)	1	Sales revenue	4	Normal	-
		AAU	1	Sales revenue	220,309	Normal	-
		AAU	1	Receivables from related parties	38,731	60-90 days	-
		AAU	1	Other revenue	2,428	Normal	-
		AAU	1	Other receivables from related parties	456	60-90 days	-
		ABR	1	Sales revenue	97,608	Normal	-
		ABR	1	Receivables from related parties	13,363	90 days EOM	-
		ABR	1	Other revenue	2,589	Normal	-
		ABR	1	Other receivables from related parties	580	90 days EOM	-
		ACN	1	Receivables from related parties	964,313	45 days EOM	2
		ACN	1	Sales revenue	6,039,617	Normal	14
		A-DLoG	1	Sales revenue	181,312	Normal	-
		A-DLoG	1	Receivables from related parties	46,969	30 days after invoice date	-
		A-DLoG	1	Other revenue	2,412	Normal	-
		A-DLoG	1	Other receivables from related parties	439	30 days after invoice date	-
		AEU	1	Sales revenue	4,316,172	Normal	10
		AEU	1	Receivables from related parties	1,363,473	30 days EOM	3
		AEU	1	Other revenue	19,257	Normal	-
		AEU	1	Other receivables from related parties	2,681	30 days EOM	-
		AID	1	Sales revenue	19,027	Normal	-
		AID	1	Receivables from related parties	4,351	45 days after invoice date	-
		AIN	1	Sales revenue	31,566	Normal	-
		AIN	1	Receivables from related parties	14,218	60 days EOM	-
		AIN	1	Other revenue	2,642	Normal	-
		AIN	1	Other receivables from related parties	300	60 days EOM	-
		AiSC	1	Sales revenue	159,793	Normal	-
		AiSC	1	Receivables from related parties	41,117	45 days EOM	-
		AJP	1	Sales revenue	778,432	Normal	2
		AJP	1	Receivables from related parties	151,705	60-90 days	-
		AJP	1	Other revenue	5,118	Normal	-
		AJP	1	Other receivables from related parties	629	60-90 days	-
		AKMC	1	Receivables from related parties	447,127	45 days EOM	1
		AKMC	1	Sales revenue	4	Normal	-
		AKR	1	Sales revenue	917,245	Normal	2
		AKR	1	Receivables from related parties	73,977	60 days after invoice date	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		AKR	1	Other revenue	$ 6,061	Normal	-
		AKR	1	Other receivables from related parties	559	60 days after invoice date	-
		AKST	1	Receivables from related parties	6,742	30 days EOM	-
		AKST	1	Sales revenue	6,834	30 days EOM	-
		AKST	1	Other receivables from related parties	399	30 days EOM	-
		AMY	1	Sales revenue	188,191	Normal	-
		AMY	1	Receivables from related parties	23,549	45 days EOM	-
		AMY	1	Other revenue	2,901	Normal	-
		AMY	1	Other receivables from related parties	414	45 days EOM	-
		ANA	1	Sales revenue	8,255,247	Normal	19
		ANA	1	Receivables from related parties	1,595,920	45 days EOM	4
		ANA	1	Other revenue	23,387	Normal	-
		ANA	1	Other receivables from related parties	5,004	45 days EOM	-
		APL	1	Sales revenue	15,384	Normal	-
		APL	1	Receivables from related parties	4,896	45 days EOM	-
		ASG	1	Sales revenue	269,444	Normal	1
		ASG	1	Receivables from related parties	68,340	60-90 days	-
		ASG	1	Other revenue	3,491	Normal	-
		ASG	1	Other receivables from related parties	853	60-90 days	-
		ATH	1	Sales revenue	57,824	Normal	-
		ATH	1	Receivables from related parties	4,774	30 days after invoice date	-
		ATH	1	Other revenue	2,829	Normal	-
		ATH	1	Other receivables from related parties	222	30 days after invoice date	-
		B+B	1	Sales revenue	149,747	Normal	-
		B+B	1	Receivables from related parties	36,942	60 days EOM	-
		B+B	1	Other receivables from related parties	4	60 days EOM	-
		B+B (CZ)	1	Sales revenue	701	Normal	-
		B+B (CZ)	1	Receivables from related parties	5	Normal	-
		Cermate	1	Other revenue	1,200	Normal	-
		Advantech Innovative Design Co., Ltd.	1	Rental revenue	36	Normal	-
		AiST	1	Sales revenue	6,523	Normal	-
		AiST	1	Receivables from related parties	1,198	30 days EOM	-
		Advanixs Corporate	1	Sales revenue	599,509	Normal	1
		Advanixs Corporate	1	Receivables from related parties	140,428	60-90 days	-
		Advanixs Corporate	1	Rental revenue	4,800	Normal	-
		Advanixs Corporate	1	Other receivables from related parties	2,690	60-90 days	-
		AdvanPOS	1	Other revenue	3,360	Normal	-
		LNC	1	Sales revenue	3,112	Normal	-
		LNC	1	Other revenue	1,200	Normal	-
		LNC	1	Receivables from related parties	548	60-90 days EOM	-
		LNC	1	Other receivables from related parties	315	60-90 days EOM	-
1	AAC (HK)	The Company	2	Other revenue	8,056	Normal	-
2	AAU	The Company	2	Receivables from related parties	358	60-90 days	-
		The Company	2	Sales revenue	104	Normal	-
		The Company	2	Other revenue	2,307	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
3	ABR	The Company	2	Receivables from related parties	$ 1,231	30 days after invoice date	-
		The Company	2	Sales revenue	52	Normal	-
		The Company	2	Other revenue	3,937	Normal	-
4	ACN	AAU	3	Sales revenue	477	Normal	-
		AEU	3	Receivables from related parties	104	30 days EOM	-
		AEU	3	Sales revenue	8,964	Normal	-
		AiSC	3	Sales revenue	157,292	Normal	-
		AiSC	3	Receivables from related parties	17,537	Immediate payment	-
		AiSC	3	Other receivables from related parties	25	30 days EOM	-
		AKMC	3	Sales revenue	38,686	Normal	-
		AKMC	3	Receivables from related parties	4,597	60-90 days	-
		AKMC	3	Other revenue	9	Normal	-
		AKR	3	Receivables from related parties	39	45 days EOM	-
		AKR	3	Sales revenue	476	Normal	-
		ANA	3	Receivables from related parties	379	30 days EOM	-
		ANA	3	Sales revenue	634	Normal	-
		The Company	2	Receivables from related parties	1,416	30 days EOM	-
		The Company	2	Sales revenue	3,750	Normal	-
		The Company	2	Other revenue	1,338	Normal	-
5	A-DLoG	AAU	3	Sales revenue	1,136	Normal	-
		AEU	3	Receivables from related parties	1,092	30 days upon delivery	-
		AEU	3	Rental revenue	2,295	Normal	-
		AEU	3	Other revenue	4,025	Normal	-
		AEU	3	Sales revenue	1,613	Normal	-
		AEU	3	Other receivables from related parties	103	30 days EOM	-
		AKMC	3	Sales revenue	484	Normal	-
		AKR	3	Sales revenue	4,966	Normal	-
		ANA	3	Receivables from related parties	193	30 days after invoice date	-
		ANA	3	Sales revenue	1,261	Normal	-
		ASG	3	Sales revenue	11	Normal	-
		The Company	2	Sales revenue	92,812	Normal	-
		The Company	2	Receivables from related parties	19,594	30 days after invoice date	-
6	AEU	AAU	3	Sales revenue	36	Normal	-
		ACN	3	Sales revenue	43	Normal	-
		A-DLoG	3	Sales revenue	27,268	Normal	-
		AIN	3	Sales revenue	11	Normal	-
		AJP	3	Sales revenue	60	Normal	-
		AKMC	3	Sales revenue	328	Normal	-
		AKR	3	Sales revenue	123	Normal	-
		ANA	3	Sales revenue	10,575	Normal	-
		ATH	3	Sales revenue	2	Normal	-
		BBI	3	Sales revenue	8,593	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		The Company	2	Sales revenue	$ 11,825	Normal	-
		The Company	2	Receivables from related parties	2,515	30 days EOM	-
		The Company	2	Other receivables from related parties	1,033	30 days EOM	-
		The Company	2	Other revenue	385	Normal	-
7	AID	ACN	3	Receivables from related parties	9	Normal	-
		ASG	3	Receivables from related parties	1,215	Financing	-
		ASG	3	Other revenue	1,871	Normal	-
8	AIN	APL	3	Prepayments of inventories	2	30 days EOM	-
		The Company	2	Receivables from related parties	190	60 days EOM	-
		The Company	2	Sales revenue	191	Normal	-
		The Company	2	Other revenue	254	Normal	-
9	AiSC	AAC (HK)	3	Other receivables from related parties	4,581	90 days	-
		ACN	3	Other receivables from related parties	31,817	Immediate payment	-
		ACN	3	Sales revenue	24,521	Normal	-
		ACN	3	Rental revenue	5,623	Normal	-
		ACN	3	Receivables from related parties	439	Immediate payment	-
		AEU	3	Sales revenue	1,411	Normal	-
		AKMC	3	Sales revenue	310	Normal	-
		AKMC	3	Receivables from related parties	132	30 days EOM	-
		ASG	3	Sales revenue	8	Normal	-
		ASG	3	Receivables from related parties	9	30 days EOM	-
		The Company	2	Sales revenue	126	Normal	-
		The Company	2	Receivables from related parties	34	45 days EOM	-
10	AJP	ACN	3	Sales revenue	21	Normal	-
		AKMC	3	Sales revenue	7,071	Normal	-
		AKMC	3	Other revenue	266	45 days EOM	-
		AKMC	3	Other receivables from related parties	37	60 days EOM	-
		AKMC	3	Receivables from related parties	2,158	45 days EOM	-
		The Company	2	Receivables from related parties	44	60-90 days	-
		The Company	2	Sales revenue	63	Normal	-
		The Company	2	Other revenue	106	Normal	-
11	AKMC	ACN	3	Sales revenue	511,855	Normal	1
		ACN	3	Receivables from related parties	58,129	60-90 days	-
		ACN	3	Rental revenue	3,876	Normal	-
		AEU	3	Sales revenue	8,029	Normal	-
		AEU	3	Receivables from related parties	355	30 days after invoice date	-
		AiSC	3	Sales revenue	39,032	Normal	-
		AiSC	3	Receivables from related parties	2,148	Immediate payment	-
		ANA	3	Sales revenue	1,811	Normal	-
		ANA	3	Receivables from related parties	164	60-90 days	-
		The Company	2	Sales revenue	10,519,469	Normal	24
		The Company	2	Receivables from related parties	966,466	60 days EOM	2

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		The Company	2	Other revenue	$ 4	Normal	-
		Advanixs Kun Shan	3	Sales revenue	2,618	Normal	-
		Advanixs Kun Shan	3	Receivables from related parties	314	30 days EOM	-
		Cermate (Shenzhen)	3	Receivables from related parties	915	60 days EOM	-
		Cermate (Shenzhen)	3	Sales revenue	782	Normal	-
		Advanixs Corporate	3	Sales revenue	4,087	Normal	-
		Advanixs Corporate	3	Receivables from related parties	469	Immediate payment	-
		AdvanPOS	3	Sales revenue	2,323	Normal	-
12	AKR	AKST	3	Sales revenue	36	Normal	-
		ASG	3	Sales revenue	420	Normal	-
		The Company	2	Receivables from related parties	75	90 days EOM	-
		The Company	2	Sales revenue	25	Normal	-
		The Company	2	Other revenue	269	Normal	-
13	AKST	AKMC	3	Sales revenue	1,118	Normal	-
		AKMC	3	Receivables from related parties	793	30 days EOM	-
		The Company	2	Receivables from related parties	5,089	30 days EOM	-
		The Company	2	Sales revenue	4,149	Normal	-
		The Company	2	Other revenue	619	Normal	-
14	AMX	The Company	2	Other revenue	6,097	Normal	-
15	AMY	ASG	3	Sales revenue	30	Normal	-
		ATH	3	Other revenue	114	Normal	-
16	ANA	AAU	3	Receivables from related parties	84	60 days after invoice date	-
		AAU	3	Sales revenue	162	Normal	-
		ABR	3	Sales revenue	1,343	Normal	-
		A-DLoG	3	Sales revenue	80	Normal	-
		A-DLoG	3	Receivables from related parties	3,280	60-90 days	-
		AEU	3	Receivables from related parties	2,898	60-90 days	-
		AEU	3	Sales revenue	29,134	Normal	-
		AJP	3	Sales revenue	3	Normal	-
		AKMC	3	Receivables from related parties	15,699	30 days EOM	-
		AKMC	3	Sales revenue	32,126	Normal	-
		AKR	3	Receivables from related parties	129	30 days EOM	-
		AKR	3	Sales revenue	450	Normal	-
		ASG	3	Sales revenue	129	Normal	-
		BBE	3	Rental revenue	1,415	Normal	-
		BBE	3	Interest revenue	225	Normal	-
		The Company	2	Sales revenue	48,010	Normal	-
		The Company	2	Receivables from related parties	4,294	45 days EOM	-
		The Company	2	Other revenue	2,157	Normal	-
		Advanixs Corporate	3	Sales revenue	1,799	Normal	-
		AdvanPOS	3	Sales revenue	47,921	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
17	APL	AEU	3	Sales revenue	$ 71,285	Normal	-
		AEU	3	Royalty revenue	19,371	Normal	-
		AEU	3	Receivables from related parties	6,753	30 days after invoice date	-
		The Company	2	Receivables from related parties	165	30 days after invoice date	-
		The Company	2	Sales revenue	4	Normal	-
		The Company	2	Other receivables from related parties	41,078	30 days after invoice date	-
		The Company	2	Other revenue	688	Normal	-
18	ASG	AEU	3	Sales revenue	3	Normal	-
		AID	3	Sales revenue	1,456	Normal	-
		AKMC	3	Receivables from related parties	27	30 days after invoice date	-
		AKMC	3	Sales revenue	27	Normal	-
		AKR	3	Sales revenue	764	Normal	-
		AMY	3	Sales revenue	7,602	Normal	-
		AMY	3	Receivables from related parties	966	30 days EOM	-
		ATH	3	Sales revenue	3,134	Normal	-
		ATH	3	Other revenue	2,550	Normal	-
		ATH	3	Receivables from related parties	957	30 days EOM	-
		The Company	2	Sales revenue	177	Normal	-
		The Company	2	Receivables from related parties	58	60-90 days	-
		The Company	2	Other revenue	872	Normal	-
19	ATC	The Company	2	Receivables from related parties	33,867	60 days EOM	-
20	ATH	The Company	2	Sales revenue	7	Normal	-
		The Company	2	Other revenue	75	Normal	-
21	AXA	ACN	3	Other revenue	42,013	Normal	-
22	B+B	The Company	2	Sales revenue	34,178	Normal	-
		The Company	2	Receivables from related parties	7,966	90 days EOM	-
23	BBE	AEU	3	Sales revenue	25,060	Normal	-
		AEU	3	Receivables from related parties	16,221	90 days EOM	-
24	BBI	AEU	3	Royalty revenue	12,882	45 days EOM	-
		B+B (CZ)	3	Other revenue	1,175	Normal	-
		B+B (CZ)	3	Other receivables from related parties	531	45 days EOM	-
25	B+B (CZ)	AEU	3	Sales revenue	72,991	Normal	-
		AEU	3	Receivables from related parties	55,824	45 days EOM	-
		BBE	3	Sales revenue	30,253	Normal	-
		BBE	3	Receivables from related parties	4,180	Normal	-
		BBI	3	Sales revenue	1,703	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		Conel Automation	3	Other revenue	$ 2,264	45 days EOM	-
		Conel Automation	3	Other receivables from related parties	498	45 days EOM	-
		Conel Automation	3	Sales revenue	339	Normal	-
		Conel Automation	3	Interest revenue	317	Normal	-
		Conel Automation	3	Receivables from related parties	38	45 days EOM	-
		The Company	2	Sales revenue	8,168	Normal	-
		The Company	2	Receivables from related parties	4,304	45 days EOM	-
		The Company	2	Other revenue	15	Normal	-
26	Conel Automation	B+B (CZ)	3	Sales revenue	632	Normal	-
		B+B (CZ)	3	Receivables from related parties	119	60 days EOM	-
27	Advantech LNC Dong Guan Co., Ltd.	ACN	3	Sales revenue	2,809	Normal	-
		ACN	3	Receivables from related parties	95	90 days EOM	-
		LNC	3	Sales revenue	1,403	Normal	-
		LNC	3	Receivables from related parties	569	90 days EOM	-
28	Cermate (Shanghai)	Cermate (Shenzhen)	3	Sales revenue	713	Normal	-
		Cermate (Shenzhen)	3	Receivables from related parties	35	60 days EOM	-
29	Cermate	The Company	2	Sales revenue	2,606	Normal	-
		The Company	2	Receivables from related parties	457	30-60 days	-
		The Company	2	Other revenue	296	Normal	-
		Cermate (Shenzhen)	3	Sales revenue	104,225	Normal	-
		LNC	3	Sales revenue	6	Normal	-
30	Cermate (Shenzhen)	ACN	3	Sales revenue	17	Normal	-
		AKMC	3	Sales revenue	39,402	Normal	-
		AKMC	3	Receivables from related parties	394	40 days EOM	-
		Cermate (Shanghai)	3	Sales revenue	29	Normal	-
		Cermate	3	Sales revenue	17,510	Normal	-
		Cermate	3	Receivables from related parties	1,964	60 days EOM	-
31	Hangzhou Advantofine Automation Tech. Co., Ltd.	ACN	3	Sales revenue	4,236	Normal	-
32	Advantech Innovative Design Co., Ltd.	The Company	2	Other revenue	1,000	Normal	-
33	AiST	The Company	2	Receivables from related parties	18	60 days EOM	-
		The Company	2	Sales revenue	26	Normal	-
34	Advanixs Corporate	AKMC	3	Sales revenue	1,583,883	Normal	4
		AKMC	3	Receivables from related parties	5,597	60-90 days	-
		The Company	2	Sales revenue	1,328,501	Normal	3
		The Company	2	Receivables from related parties	16,222	60-90 days	-
		Cermate	3	Sales revenue	202	Normal	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transaction (Notes B and D)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
35	LNC	The Company	2	Sales revenue	$ 2,451	Normal	-
		The Company	2	Rental revenue	1,539	Normal	-
		The Company	2	Receivables from related parties	359	60 days EOM	-
		The Company	2	Other revenue	6	Normal	-
		Advantech LNC Dong Guan Co., Ltd.	3	Receivables from related parties	183,546	90 days EOM	-
		Advantech LNC Dong Guan Co., Ltd.	3	Sales revenue	267,280	Normal	1
36	AdvanPOS	The Company	2	Sales revenue	1,342,553	Normal	3
		The Company	2	Receivables from related parties	747	60 days EOM	-
		The Company	2	Other revenue	76	Normal	-
		Advanixs Corporate	3	Sales revenue	4,601	Normal	-

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

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

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

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

Note C: For assets and liabilities, amounts are shown as a percentage of the Group’s consolidated total assets as of December 31, 2017, while revenue, costs and expenses are shown as a percentage of the Group’s consolidated total operating revenue for the year ended December 31, 2017.

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

(Concluded)