Advantech Co., Ltd.

Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Advantech Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters on the financial statements for the year ended December 31, 2017 were as follows:

Assessment of Provisions for Inventory Write-downs

Inventories as of December 31, 2017 amounted to NT$2,654,681 thousand and accounted for 7% of the total assets in the Company's financial statements, which had a material percentage of the total assets.

The inventories of the Company 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 Company's 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 Company'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 Company'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 Company operates in the highly competitive industry, we determined that revenue recognition of the Company carries risk due to the demand for the growth of sales and the need to remain competitive in the industry. Hence, the Company's sales revenue from several product lines 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.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 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 financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

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

ADVANTECH CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 2,436,648	7	$ 2,008,247	6
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 26)	645,100	2	34,348	-
Available-for-sale financial assets - current (Notes 4, 8 and 26)	-	-	700,269	2
Notes receivable (Notes 4 and 9)	62,468	-	67,223	-
Trade receivables (Notes 4 and 9)	1,546,135	4	1,543,604	5
Trade receivables from related parties (Notes 4 and 27)	4,603,076	12	3,908,448	11
Other receivables	143,493	-	105,929	-
Other receivables from related parties (Note 27)	15,569	-	19,002	-
Inventories (Notes 4, 5 and 10)	2,654,681	7	1,935,873	6
Other current assets	46,533	-	38,361	-
Total current assets	12,153,703	32	10,361,304	30
NONCURRENT ASSETS				
Available-for-sale financial assets - noncurrent (Notes 4, 8 and 26)	1,419,479	4	1,694,801	5
Investments accounted for using the equity method (Notes 4 and 11)	16,591,055	44	15,208,839	44
Property, plant and equipment (Notes 4 and 12)	6,865,025	19	6,938,084	20
Goodwill (Notes 4 and 13)	111,599	-	111,599	-
Other intangible assets (Note 4)	75,584	-	78,321	-
Deferred tax assets (Notes 4 and 18)	236,699	1	136,130	1
Prepayments for equipment	20,126	-	22,676	-
Other noncurrent assets	6,755	-	5,661	-
Total noncurrent assets	25,326,322	68	24,196,111	70
TOTAL	$ 37,480,025	100	$ 34,557,415	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 26)	$ 6,226	-	$ 8,845	-
Notes payable and trade payables	3,459,433	9	1,550,969	4
Trade payables to related parties (Note 27)	1,123,366	3	2,610,642	8
Other payables (Note 14)	2,548,047	7	2,699,374	8
Current tax liabilities (Notes 4 and 18)	1,108,579	3	1,036,650	3
Short-term warranty provisions (Note 4)	53,304	-	49,155	-
Other current liabilities	151,823	-	153,992	-
Total current liabilities	8,450,778	22	8,109,627	23
NONCURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 18)	1,162,514	3	988,099	3
Net defined benefit liabilities (Notes 4 and 15)	236,251	1	211,170	1
Other noncurrent liabilities	49,408	-	34,937	-
Total noncurrent liabilities	1,448,173	4	1,234,206	4
Total liabilities	9,898,951	26	9,343,833	27
EQUITY				
Share capital				
Ordinary shares	6,970,325	19	6,330,741	18
Advance receipts for share capital	2,500	-	100	-
Total share capital	6,972,825	19	6,330,841	18
Capital surplus	6,554,842	18	6,058,884	18
Retained earnings				
Legal reserve	5,039,962	13	4,473,276	13
Special reserve	85,204	-	-	-
Unappropriated earnings	9,297,896	25	8,435,785	24
Total retained earnings	14,423,062	38	12,909,061	37
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	27,581,074	74	25,213,582	73
TOTAL	$ 37,480,025	100	$ 34,557,415	100

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

ADVANTECH CO., LTD.

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 4 and 27)				
Sales	$ 30,518,459	99	$ 30,173,747	99
Other operating revenue	382,118	1	327,352	1
Total operating revenue	30,900,577	100	30,501,099	100
OPERATING COSTS (Notes 10, 17 and 27)	21,520,472	70	21,604,247	70
GROSS PROFIT	9,380,105	30	8,896,852	30
UNREALIZED LOSS ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	(446,326)	(1)	(264,679)	(1)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	264,679	1	330,254	1
REALIZED GROSS PROFIT	9,198,458	30	8,962,427	30
OPERATING EXPENSES (Notes 17 and 27)				
Selling and marketing expenses	683,065	2	659,619	2
General and administrative expenses	832,526	3	884,172	3
Research and development expenses	2,837,185	9	2,641,219	9
Total operating expenses	4,352,776	14	4,185,010	14
OPERATING PROFIT	4,845,682	16	4,777,417	16
NONOPERATING INCOME				
Share of the profit of subsidiaries and associates accounted for using the equity method (Notes 4 and 11)	1,965,070	6	1,581,818	5
Interest income (Note 4)	923	-	539	-
Gains on disposal of property, plant and equipment (Note 4)	99,749	-	146,954	1
Gains on disposal of investments (Notes 4 and 16)	165,076	1	1,431	-
Foreign exchange losses, net (Notes 4, 17 and 28)	(45,802)	-	(140,689)	-
Gains on financial instruments at fair value through profit or loss (Note 4)	65,594	-	121,348	-
Dividend income (Note 4)	89,215	-	98,800	-
Other income (Notes 8, 21 and 27)	109,510	-	101,777	-
Finance costs (Note 17)	-	-	(4,163)	-

(Continued)

ADVANTECH CO., LTD.

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**	**%**
Losses on financial instruments at fair value through profit or loss (Note 4)	$ (84,455)	-	$ (41,381)	-
Impairment loss recognized on investments accounted for using the equity method (Note 11)	(66,443)	-	-	-
Other losses	(130)	-	(155)	-
Total nonoperating income	2,298,307	7	1,866,279	6
PROFIT BEFORE INCOME TAX	7,143,989	23	6,643,696	22
INCOME TAX EXPENSE (Notes 4 and 18)	987,473	3	976,834	3
NET PROFIT FOR THE YEAR	6,156,516	20	5,666,862	19
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 15)	(23,710)	-	(31,039)	-
Share of the other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method (Note 11)	(1,395)	-	1,479	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 18)	4,031	-	5,277	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements (Notes 4 and 16)	(313,377)	(1)	(561,518)	(2)
Unrealized losses on available-for-sale financial assets (Notes 4 and 16)	(1,678)	-	(5,765)	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method (Notes 4, 11 and 16)	(23,846)	-	45,794	-
Income tax relating to item that may be reclassified subsequently to profit or loss (Notes 4, 16 and 18)	54,450	-	96,161	-
Other comprehensive loss for the year, net of income tax	(305,525)	(1)	(449,611)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 5,850,991	19	$ 5,217,251	17

(Continued)

ADVANTECH CO., LTD.

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 (Note 19)				
Basic	$ 8.84		$ 8.15	
Diluted	$ 8.77		$ 8.09	

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

ADVANTECH CO., LTD.

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

	Issued Capital (Notes 16 and 20)				Retained Earnings (Notes 4, 16 and 17)				Other Equity (Notes 4 and 16)		
	Share Capital	Advance Receipts for Share Capital	Total	Capital Surplus (Notes 4, 16 and 20)	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 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
Appropriation of the 2015 earnings											
Legal reserve	-	-	-	-	510,434	-	(510,434)	-	-	-	-
Cash dividends distributed on ordinary shares	-	-	-	-	-	-	(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
Compensation costs recognized for employee share options	-	-	-	338,194	-	-	-	-	-	-	338,194
Changes in capital surplus from investments in associates accounted for using equity method	-	-	-	10,533	-	-	-	-	-	-	10,533
Difference between considerations and carrying amounts of subsidiaries acquired or disposed of	-	-	-	17,844	-	-	(3,691)	(3,691)	-	-	14,153
Net profit for the year ended December 31, 2016	-	-	-	-	-	-	5,666,862	5,666,862	-	-	5,666,862
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	-	(24,283)	(24,283)	(469,492)	44,164	(449,611)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	-	5,642,579	5,642,579	(469,492)	44,164	5,217,251
BALANCE AT DECEMBER 31, 2016	6,330,741	100	6,330,841	6,058,884	4,473,276	-	8,435,785	12,909,061	(197,633)	112,429	25,213,582
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)
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
Compensation costs recognized for employee share options	-	-	-	424,637	-	-	-	-	-	-	424,637
Changes in capital surplus from investments in associates accounted for using equity method	-	-	-	2,054	-	-	-	-	-	-	2,054
Changes in percentage of ownership interests in subsidiaries	-	-	-	757	-	-	-	-	-	-	757
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	6,156,516	6,156,516	-	-	6,156,516
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	-	(21,074)	(21,074)	(265,846)	(18,605)	(305,525)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	6,135,442	6,135,442	(265,846)	(18,605)	5,850,991
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

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

ADVANTECH CO., LTD.

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	$ 7,143,989	$ 6,643,696
Adjustments to reconcile profit (loss):		
Depreciation expenses	272,639	239,135
Amortization expenses	81,067	78,294
Impairment loss recognized for trade receivables	185	96
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	18,861	(79,967)
Finance costs	-	4,163
Interest income	(923)	(539)
Dividend income	(89,215)	(98,800)
Compensation costs of employee share options	424,637	338,194
Share of profit of subsidiaries and associates accounted for using the equity method	(1,965,070)	(1,581,818)
Gain on disposal of property, plant and equipment	(99,749)	(146,954)
Gain on disposal of investments	(165,076)	(1,431)
Impairment loss recognized on investments accounted for using the equity method	66,443	-
Realized loss (gain) on the transactions with subsidiaries and associates	181,647	(65,575)
Changes in operating assets and liabilities		
Financial assets held for trading	(632,232)	55,503
Notes receivable	4,755	(11,743)
Trade receivables	(2,716)	(408,460)
Trade receivables from related parties	(694,628)	69,551
Other receivables	(37,564)	7,127
Other receivables from related parties	3,433	(3,406)
Inventories	(718,808)	(262,717)
Other current assets	(8,172)	21,957
Notes payable and trade payables	1,908,464	651,489
Trade payables to related parties	(1,487,276)	(76,488)
Other payables	(151,327)	357,649
Short-term warranty provisions	4,149	7,745
Net defined benefit liabilities	1,371	(2,041)
Other current liabilities	(2,169)	81,680
Other noncurrent liabilities	13,655	3,305
Cash generated from operations	4,070,370	5,819,645
Interest received	923	539
Dividends received	89,215	98,800
Interest paid	-	(4,163)
Income tax paid	(783,217)	(653,568)
Net cash generated from operating activities	3,377,291	5,261,253

(Continued)

ADVANTECH CO., LTD.

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

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	$ (5,082,000)	$ (4,128,000)
Proceeds from sale of available-for-sale financial assets	6,220,989	3,429,410
Acquisition of investments accounted for using equity method	(637,500)	(293,281)
Proceeds from disposal of investments accounted for using the equity method	-	336,958
Proceeds of the capital reduction of investments accounted for using the equity method	-	232,330
Payments for property, plant and equipment	(252,269)	(930,598)
Proceeds from disposal of property, plant and equipment	135,528	239,507
Decrease in refundable deposits	(1,094)	5,176
Payments for intangible assets	(76,794)	(76,875)
Proceeds from disposal of intangible assets	-	58
Decrease in prepayments for equipment	17,924	11,809
Dividends received from subsidiaries and associates	636,457	779,257
Net cash generated from (used in) investing activities	961,241	(394,249)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	816	-
Cash dividends paid	(3,988,367)	(3,791,118)
Exercise of employee share options	77,420	117,068
Net cash used in financing activities	(3,910,131)	(3,674,050)
NET INCREASE IN CASH AND CASH EQUIVALENTS	428,401	1,192,954
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,008,247	815,293
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 2,436,648	$ 2,008,247

The accompanying notes are an integral part of the 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, 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 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 Company'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 22 for information on business combinations that occurred in 2017.

2) 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.

3) 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 amount of an investment accounted for using the equity method 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 11 for the related disclosures.

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 27 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

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
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

(Concluded)

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

Note 2: The amendment to IFRS 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 amendment to IFRS 12 clarifies that when an entity's interest in a subsidiary or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary or associate in accordance with IFRS 12. The Company will apply the aforementioned amendment retrospectively.

2) IFRS 9 "Financial Instruments" and related amendments

<u>Classification, measurement and impairment of financial assets</u>

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

a) For debt instruments, if they are held within a business model whose objective is to collect 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 Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

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

The Company 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 Company 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 Company 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 Company 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 other comprehensive income - current	$ -	$ 1,419,479	$ 1,419,479
Available-for-sale financial assets - non-current	1,419,479	(1,419,479)	-
Total effect on assets	$ 1,419,479	$ -	$ 1,419,479
Unappropriated earnings	$ 9,297,896	$ (32,606)	$ 9,265,290
Unrealized gain on financial assets at fair value through other comprehensive income	-	126,430	126,430
Unrealized gain (loss) on available-for-sale financial assets	93,824	(93,824)	-
Total effect on equity	$ 93,824	$ -	$ 9,391,720

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

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

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

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

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

In assessing a deferred tax asset, the Company 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 Company 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 financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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 Company 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 Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the statements of comprehensive income, the Company 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 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 Company as lessor.

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

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company 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 Company 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 Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company 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 Company shall apply the amendments retrospectively. However, the Company 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 Company shall apply the amendments retrospectively. However, the Company 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 financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and other regulations.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments and net defined benefit 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 an asset or liability.

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 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 financial statements are authorized for issue; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Business combinations

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

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

Where the consideration the Company 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.

e. Foreign currencies

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

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

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

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

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

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

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work in process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. 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.

g. Investment in subsidiaries

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

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

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

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

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

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

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

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

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

h. Investment in associates

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

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

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

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

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

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

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

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

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

i. Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

j. Goodwill

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

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

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

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

k. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

l. Impairment of tangible and intangible assets other than goodwill

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

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

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

m. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to 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 the 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 dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 26.

ii. Available-for-sale financial assets

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

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

iii. Loans and receivables

Loans and receivables (including trade receivables and cash and cash equivalent) are measured 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 asset, that the estimated future cash flows of the investment have been affected.

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

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

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

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

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

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 26.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Company enters into forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of 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. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

o. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

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

c) The amount of revenue can be measured reliably;

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

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

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

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

4) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and 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 Company and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

p. Leasing

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

1) The Company as lessor

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

2) The Company as lessee

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

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

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 the earnings.

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

2) Deferred tax

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

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

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

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

3) Current and deferred 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the 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 included in the investments in subsidiaries

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 245	$ 325
Checking accounts and demand deposits	2,436,403	2,007,922
	$ 2,436,648	$ 2,008,247

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%-0.35%	0.0001%-0.35%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets at held for trading - current		
Derivative financial assets		
Foreign exchange forward contracts	$ 5,084	$ 34,348
Non-derivative financial assets		
Mutual funds	640,016	-
	$ 645,100	$ 34,348
Financial liabilities held for trading - current		
Derivative financial liabilities		
Foreign exchange forward contracts	$ 6,226	$ 8,845

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, 2017			
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	USD8,414/NTD266,779
	JPY/NTD	2017.01-2017.06	JPY430,000/NTD128,601
	RMB/NTD	2017.01-2017.03	RMB83,000/NTD380,318

The Company 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 Company's financial hedging strategy is to minimize risks due to market price fluctuations and cash flows; however, because these contracts did not meet the criteria for hedge effectiveness, they were not subject to hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Current		
Domestic investments		
Mutual funds	$ -	$ 700,269
Non-current		
Domestic investments		
Quoted shares	$ 1,419,479	$ 1,694,801

For its securities borrowings and lending transactions, the Company 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 Company 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 Company recognized gains of $53 thousand for the year ended December 31, 2016. These gains were recorded under other nonoperating income.

9. NOTES RECEIVABLE AND TRADE RECEIVABLES

	December 31	
	2017	2016
Notes receivable	$ 62,468	$ 67,223
Trade receivables	$ 1,551,178	$ 1,560,620
Less: Allowance for impairment loss	(5,043)	(17,016)
	$ 1,546,135	$ 1,543,604

Trade Receivables

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

For the trade receivables balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31	
	2017	2016
Not overdue	$ 1,375,038	$ 1,404,166
Overdue		
1 to 90 days	164,718	140,291
91 to 360 days	11,422	1,873
Over 360 days	-	14,290
	$ 1,551,178	$ 1,560,620

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 was as follows:

	December 31	
	2017	2016
1 to 30 days	$ 148,904	$ 124,761
31 to 60 days	7,821	9,590
61 to 90 days	7,993	5,940
	$ 164,718	$ 140,291

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	$ 3,330	$ 20,899
Plus: Impairment losses recognized on receivables	96	-	96
Less: Amounts written off during the year as uncollectible	(3,979)	-	(3,979)
Balance at December 31, 2016	13,686	3,330	17,016
Plus: Impairment losses recognized on receivables	185	-	185
Less: Amounts written off during the year as uncollectible	(12,158)	-	(12,158)
Balance at December 31, 2017	$ 1,713	$ 3,330	$ 5,043

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

10. INVENTORIES

	December 31	
	2017	2016
Finished goods	$ 869,571	$ 707,014
Work in process	580,887	462,358
Raw materials	1,163,823	732,715
Inventories in transit	40,400	33,786
	$ 2,654,681	$ 1,935,873

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $21,396,382 thousand and $21,532,273 thousand, respectively.

The costs of inventories decreased by $135,055 thousand and $89,589 thousand as of December 31, 2017 and 2016, respectively, when stated at the lower of cost or net realizable value.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2017	2016
Investments in subsidiaries	$ 15,328,904	$ 14,626,539
Investments in associates	1,262,151	582,300
	$ 16,591,055	$ 15,208,839

a. Investments in subsidiaries

	December 31	
	2017	2016
Unlisted companies		
Advantech Automation Corp. (BVI) ("AAC (BVI)")	$ 4,187,055	$ 4,021,994
Advantech Technology Co., Ltd. ("ATC")	3,518,872	3,243,871
Advantech Corporate Investment	1,899,479	1,639,126
Advanixs Corp.	856,049	979,563
Advantech Europe Holding B.V. ("AEUH")	925,225	864,191
LNC Technology Co., Ltd. ("LNC") (formerly Advantech-LNC Technology Co., Ltd. ("ALNC"))	492,441	493,481
AdvanPOS Technology Co., Ltd. ("AdvanPOS")	552,116	577,260
Advantech KR Co., Ltd. ("AKR")	278,131	228,407
Advantech Japan Co., Ltd. ("AJP")	269,111	218,331
Advantech Co. Singapore Pte, Ltd. ("ASG")	90,848	72,186
Advantech Brasil Ltda. ("ABR")	64,801	75,531
Advantech Co. Malaysia Sdn. Bhd. ("AMY")	66,713	45,752
Advantech Australia Pty Ltd. ("AAU")	49,785	34,737
Advantech Industrial Computing India Private Limited ("AIN")	11,376	1,663
Advantech Innovative Design Co., Ltd.	10,421	9,633
Advantech Electronics, S. De R. L. Dec. V. ("AMX")	(399)	594
BEMC Holdings Corporation ("BEMC")	1,885,077	1,959,805
Advantech Intelligent Service ("AiST")	171,803	160,414
Kostec Co., Ltd. ("AKST")	-	-
	$ 15,328,904	$ 14,626,539

	December 31	
	2017	2016
AAC (BVI)	100.00%	100.00%
ATC	100.00%	100.00%
Advantech Corporate Investment	100.00%	100.00%
Advanixs Corporation	100.00%	100.00%
AEUH	100.00%	100.00%
LNC (formerly ALNC)	81.17%	81.17%
AdvanPOS	100.00%	100.00%
AKR	100.00%	100.00%
AJP	100.00%	100.00%
ASG	100.00%	100.00%
ABR	80.00%	80.00%
AMY	100.00%	100.00%
AAU	100.00%	100.00%
AIN	99.99%	99.99%
Advantech Innovative Design Co., Ltd.	100.00%	100.00%
AMX	100.00%	100.00%
BEMC (Note 22)	60.00%	60.00%
AiST	100.00%	100.00%
AKST (Note 22)	36.00%	-

Refer to Note 28 to the Company's consolidated financial statements of the year ended December 31, 2017 for the disclosures of the Company's acquisitions of AKST and B+B SmartWorx, Inc. ("B+B").

Refer to Table 7 for the details of the subsidiaries indirectly held by the Company.

Investments in the subsidiary AKST are accounted for using the equity method. As a result of the actual sales growth of the subsidiary AKST after the business combination did not turn out as expected, AKST had the continuous losses for the ended year December 31, 2017. In addition, the forecasted future operations of AKST is not optimism. Hence, the estimated future cash flows was decreased. The Group carried out a review of the recoverable amount of that related assets and determined that the carrying amount exceeded the recoverable amount. The review led the Company to recognize an impairment loss on investments in AKST of $66,443 thousand. Since AKST is mutually owned by AKR and the Company, an impairment loss of $44,328 thousand was recognized in the share of the profit of subsidiaries and associates.

Except the financial statements of AJP, ASG, ABR, AMY, AAU, AIN, AMX, AKST, Advantech Innovative Design Co., Ltd., AiST and LNC, 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 the financial statements which have been audited. Management believes there will be no material impact on its equity method accounting or its calculation of the share of profit or loss and other comprehensive income had the financial statements of the above subsidiaries been audited.

b. 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
Jan Hsiang Electronics Co., Ltd. ("Jan Hsiang")	10,447	8,904
	$ 1,262,151	$ 582,300

	For the Year Ended December 31	
	2017	**2016**
The Company's share of:		
Profit from continuing operations	$ 222,399	$ 67,390
Other comprehensive income (loss)	(1,306)	1,575
Total comprehensive income for the year	$ 221,093	$ 68,965

The Company acquired Winmate Inc. as an associate in 2017.

The financial statements used as a basis for calculating investments in associates accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments have not been audited, except the financial statements of Axiomtek Co., Ltd. Management believes there would have been no material impact on its equity method accounting or its calculation of the share of profit or loss and other comprehensive income had the unaudited financial statements of the above subsidiaries been audited.

12. PROPERTY, PLANT, AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Office Equipment	Other Facilities	Construction in Progress	Total
Cost							
Balance at January 1, 2016	$ 2,774,795	$ 2,470,366	$ 855,781	$ 267,648	$ 573,645	$ 914,294	$ 7,856,529
Additions	-	124,964	22,004	20,968	42,814	805,658	1,016,408
Disposals	(78,305)	(16,248)	(36,127)	(15,700)	(43,656)	-	(190,036)
Reclassifications	-	1,563,490	55,691	11,053	23,000	(1,677,979)	(24,745)
Balance at December 31, 2016	$ 2,696,490	$ 4,142,572	$ 897,349	$ 283,969	$ 595,803	$ 41,973	$ 8,658,156
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 371,673	$ 636,416	$ 181,454	$ 388,877	$ -	$ 1,578,420
Disposals	-	(7,023)	(35,610)	(14,978)	(39,872)	-	(97,483)
Depreciation expenses	-	55,755	70,612	35,077	77,691	-	239,135
Balance at December 31, 2016	$ -	$ 420,405	$ 671,418	$ 201,553	$ 426,696	$ -	$ 1,720,072
Carrying amounts at December 31, 2016	$ 2,696,490	$ 3,722,167	$ 225,931	$ 82,416	$ 169,107	$ 41,973	$ 6,938,084
Cost							
Balance at January 1, 2017	$ 2,696,490	$ 4,142,572	$ 897,349	$ 283,969	$ 595,803	$ 41,973	$ 8,658,156
Additions	-	95,260	18,292	30,052	37,079	71,586	252,269
Disposals	(22,017)	(13,046)	(37,865)	(18,489)	(14,311)	-	(105,728)
Reclassifications	-	3,771	48,498	811	40,469	(110,130)	(16,581)
Balance at December 31, 2017	$ 2,674,473	$ 4,228,557	$ 926,274	$ 296,343	$ 659,040	$ 3,429	$ 8,788,116
Accumulated depreciation and impairment							
Balance at January 1, 2017	$ -	$ 420,405	$ 671,418	$ 201,553	$ 426,696	$ -	$ 1,720,072
Disposals	-	(5,381)	(32,355)	(18,375)	(13,509)	-	(69,620)
Depreciation expenses	-	81,873	66,404	39,568	84,794	-	272,639
Balance at December 31, 2017	$ -	$ 496,897	$ 705,467	$ 222,746	$ 497,981	$ -	$ 1,923,091
Carrying amounts at December 31, 2017	$ 2,674,473	$ 3,731,660	$ 220,807	$ 73,597	$ 161,059	$ 3,429	$ 6,865,025

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

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

13. GOODWILL

	For the Year Ended December 31	
	2017	2016
Cost		
Balance at January 1	$ 111,599	$ 111,599
Balance at December 31	$ 111,599	$ 111,599

14. OTHER LIABILITIES

	December 31	
	2017	2016
Other payables		
Payables for salaries or bonuses	$ 1,878,709	$ 1,840,482
Payables for royalties	118,347	179,207
Payables for annual leave	44,063	36,701
Others (Note)	506,928	642,984
	$ 2,548,047	$ 2,699,374

Note: Including marketing expenses, and freight expenses.

15. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

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

	December 31	
	2017	2016
Present value of defined benefit obligation	$ 368,670	$ 343,036
Fair value of plan assets	(132,419)	(131,866)
Deficit	236,251	211,170
Net defined benefit liabilities	$ 236,251	$ 211,170

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
Balance at January 1, 2016	$ 327,854	$ (145,682)	$ 182,172
Service cost			
Current service cost	2,645	-	2,645
Net interest expense (income)	5,328	(2,429)	2,899
Recognized in profit or loss	7,973	(2,429)	5,544
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,402	1,402
Actuarial loss - changes in demographic assumptions	8,515	-	8,515
Actuarial loss - changes in financial assumptions	10,487	-	10,487
Actuarial loss - experience adjustments	10,635	-	10,635
Recognized in other comprehensive income	29,637	1,402	31,039
Contributions from the employer	-	(7,585)	(7,585)
Benefits paid	(22,428)	22,428	-
Balance at December 31, 2016	343,036	(131,866)	211,170
Service cost			
Current service cost	2,137	-	2,137
Past service cost	4,589	-	4,589
Net interest expense (income)	4,717	(1,865)	2,852
Recognized in profit or loss	11,443	(1,865)	9,578
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	522	522
Actuarial loss - changes in demographic assumptions	20,166	-	20,166
Actuarial loss - experience adjustments	3,022	-	3,022
Recognized in other comprehensive income	23,188	522	23,710
Contributions from the employer	-	(8,207)	(8,207)
Benefits paid	(8,997)	8,997	-
Balance at December 31, 2017	$ 368,670	$ (132,419)	$ 236,251

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	$ 1,186	$ 1,230
Selling and marketing expenses	1,464	868
General and administrative expenses	927	1,010
Research and development expenses	5,479	1,954
	$ 9,056	$ 5,062

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2017	**2016**
Discount rate(s)	1.375%	1.375%
Expected rate(s) of salary increase	3.250%	3.250%

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

	December 31	
	2017	**2016**
Discount rate(s)		
0.25% increase	$ (11,203)	$ (10,694)
0.25% decrease	$ 11,684	$ 11,160
Expected rate(s) of salary increase		
0.25% increase	$ 11,284	$ 10,775
0.25% decrease	$ (10,880)	$ (10,384)

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**
The expected contributions to the plan for the next year	$ 1,491	$ 7,601
The average duration of the defined benefit obligation	12.6 years	12.7 years

16. EQUITY

a. Share capital

Ordinary shares

	December 31 2017	December 31 2016
Number of shares authorized (in thousands)	800,000	800,000
Amount of shares authorized	$ 8,000,000	$ 8,000,000
Number of shares issued and fully paid (in thousands)	697,283	633,084
Amount of shares issued and fully paid	$ 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	December 31 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 to 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 disposals or acquisitions, 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 dividend distribution and the addition of the policy on the distribution of employees' compensation and remuneration of directors and supervisors.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for 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 employee's compensation and remuneration of directors and supervisors in Note 17, 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 dividend policy, the Company takes into account the overall business and industry conditions and trends, its objective of enhancing the shareholders' long-term interests, and the sustainability of the Company's growth. The policy also requires that 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.

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	$ -
Appropriations in respect 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 translating the financial statements of foreign operations	(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) from 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	163,398	(4,334)
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	(165,076)	(1,431)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of subsidiaries accounted for using the equity method	(16,927)	49,929
Balance at December 31	$ 93,824	$ 112,429

17. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

a. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on loans from related parties	$ -	$ 3,871
Interest on short-term bank loans	-	292
	$ -	$ 4,163

b. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 272,639	$ 239,135
Intangible assets	81,067	78,294
	$ 353,706	$ 317,429
An analysis of depreciation by function		
Operating costs	$ 66,559	$ 55,527
Operating expenses	206,080	183,608
	$ 272,639	$ 239,135
An analysis of amortization by function		
Operating costs	$ 740	$ 277
Selling and marketing expenses	109	13
General and administrative expenses	49,338	52,694
Research and development expenses	30,880	25,310
	$ 81,067	$ 78,294

c. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	$ 2,996,315	$ 2,978,334
Post-employment benefits		
Defined contribution plans	121,811	118,917
Defined benefit plans (Note 15)	9,056	5,062
	130,867	123,979
Share-based payments - equity-settled	424,637	338,194
Other employee benefits	145,820	147,018
Total employee benefits expense	$ 3,697,639	$ 3,587,525

(Continued)

	For the Year Ended December 31	
	2017	2016
An analysis of employee benefits expense by function		
Operating costs	$ 793,642	$ 743,057
Operating expenses	2,903,997	2,844,468
	$ 3,697,639	$ 3,587,525

(Concluded)

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
	Cash	Cash
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 financial statements were 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 financial statements for the years 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. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	$ 473,701	$ 445,744
Foreign exchange losses	(519,503)	(586,433)
Net losses	$ (45,802)	$ (140,689)

18. 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	$ 801,950	$ 738,950
Income tax on unappropriated earnings	36,556	71,661
Adjustments for prior years	16,640	25,838
	855,146	836,449
Deferred tax		
In respect of the current year	132,327	140,385
Income tax expense recognized in profit or loss	$ 987,473	$ 976,834

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

	For the Year Ended December 31	
	2017	2016
Profit before tax	$ 7,143,989	$ 6,643,696
Income tax expense calculated at the statutory rate	$ 1,214,478	$ 1,129,428
Tax-exempt income	(214,229)	(167,214)
Unrecognized investment credits	(85,000)	(87,000)
Income tax on unappropriated earnings	36,556	71,661
Land value increment tax	7,733	4,121
Unrealized deductible temporary differences	11,295	-
Adjustments for prior years' tax	16,640	25,838
Income tax expense recognized in profit or loss	$ 987,473	$ 976,834

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

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 $41,770 thousand and $205,150 thousand, respectively, in 2018.

As the status of the 2018 appropriation 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	4,031	5,277
	$ 58,481	$ 101,438

c. Current tax liabilities

	December 31 2017	December 31 2016
Current tax liabilities		
Income tax payable	$ 1,108,579	$ 1,036,650

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 Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized gross profit	$ 44,996	$ 30,880	$ -	$ 75,876
Unrealized loss on inventory write-downs	15,230	7,729	-	22,959
Defined benefit obligation	15,656	(233)	-	15,423
Unrealized warranty liabilities	8,356	705	-	9,061
Unrealized exchange losses	-	3,007	-	3,007
Exchange differences on translating foreign operations	40,479	-	54,450	94,929
Remeasurement on defined benefit plans	11,413	-	4,031	15,444
	$ 136,130	$ 42,088	$ 58,481	$ 236,699
Deferred tax liabilities				
Temporary differences				
Unappropriated earnings of subsidiaries	$ 982,170	$ 176,547	$ -	$ 1,158,717
Government grants	-	406	-	406
Remeasurement on defined benefit plans	3,391	-	-	3,391
Unrealized exchange gains	2,538	(2,538)	-	-
	$ 988,099	$ 174,415	$ -	$ 1,162,514

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized gross profit	$ 56,143	$ (11,147)	$ -	$ 44,996
Unrealized loss on inventory write-downs	18,293	(3,063)	-	15,230
Defined benefit obligation	16,003	(347)	-	15,656
Unrealized exchange losses	8,545	(8,545)	-	-
Donation expenses	2,550	(2,550)	-	-
Unrealized warranty liabilities	7,040	1,316	-	8,356
Exchange differences on translating foreign operations	-	-	40,479	40,479
Remeasurement on defined benefit plans	6,136	-	5,277	11,413
	$ 114,710	$ (24,336)	$ 45,756	$ 136,130
Deferred tax liabilities				
Temporary differences				
Unappropriated earnings of subsidiaries	$ 868,659	$ 113,511	$ -	$ 982,170
Exchange differences on translating foreign operations	55,682	-	(55,682)	-
Remeasurement on defined benefit plans	3,391	-	-	3,391
Unrealized exchange gains	-	2,538	-	2,538
	$ 927,732	$ 116,049	$ (55,682)	$ 988,099

e. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	$ 9,279,896	$ 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 and effective in February 2018 has abolished the imputation tax system, the related information is not applicable in 2017.

f. Income tax assessments

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

19. 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 option	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 Company offered to settle compensation paid to employees in cash or shares, the Company 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.

20. 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:

	2017		2016	
Employee Share Options	**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	$100.00
Options granted	-	-	6,500	100.00
Options exercised	(891)	86.89	(1,231)	95.10
Balance at December 31	9,378	95.15	10,269	98.20
Options exercisable, end of the year	2,878	84.20	3,769	95.10
Weighted-average fair value of options granted (NT$)	$ -		$ 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:

	December 31			
	2017		2016	
Employee Share Options	**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%	28.28%-29.19%
Expected life (in years)	4-5.5	4-5.5
Expected dividend 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.

21. GOVERNMENT GRANTS

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

22. ACQUISITION OF SUBSIDIARIES - WITH OBTAINED CONTROL

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Kostec Co., Ltd.	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 Table 7 following these Notes to Financial Statements.

To expand the Company's global brand market in intelligent medical displays and industrial network communications and operations in China, the Company acquired AKST, B+B SmartWorx Inc. and Advanixs Kun Shan Corp. For details about the acquisition of AKST, B+B SmartWorx Inc. and Advanixs Kun Shan Corp., refer to Note 28 to the Company's consolidated financial statements for the year ended December 31, 2017.

23. PARTIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES - WITHOUT LOSS OF CONTROL

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

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

The above transactions were accounted for as equity transactions, since the Company did not cease to have control over these subsidiaries. For details about the above transactions, refer to Note 29 to the Company's consolidated financial statements for the year ended December 31, 2017.

24. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

Operating leases relate to leases of warehouses with lease term of 1 year. The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2017	**2016**
Not later than 1 year	$ 1,342	$ 280

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

	For the Year Ended December 31	
	2017	**2016**
Minimum lease payments	$ 4,047	$ 12,079

25. CAPITAL MANAGEMENT

The Company manages its capital to ensure it will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged in both 2017 and 2016.

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

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

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

26. 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
Mutual funds	640,016	-	-	640,016
	$ 640,016	$ 5,084	$ -	$ 645,100
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,419,479	$ -	$ -	$ 1,419,479
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 6,226	$ -	$ 6,226

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 34,348	$ -	$ 34,348
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,694,801	$ -	$ -	$ 1,694,801
Mutual funds	700,269	-	-	700,269
	$ 2,395,070	$ -	$ -	$ 2,395,070
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 8,845	$ -	$ 8,845

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

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

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

b. Categories of financial instruments

	December 31	
	2017	**2016**
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	$ 645,100	$ 34,348
Loans and receivables (Note 1)	8,807,389	7,652,453
Available-for-sale financial assets	1,419,479	2,395,070
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	6,226	8,845
Amortized cost (Note 2)	7,130,846	6,860,985

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, note receivables, trade receivables, trade receivables from related parties, other receivables and other receivables from related parties.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise trade payables, trade payables to related parties and other payables.

c. Financial risk management objectives and policies

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

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

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

1) Market risk

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

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

a) Foreign currency risk

The Company undertook operating activities and investment of foreign operations denominated in foreign currencies, which exposed the Company to foreign currency risk. The Company manages the risk that fluctuations in foreign currency could have on foreign-currency denominated assets and future cash flow by using forward exchange contracts, which allow the Company to mitigate but not fully eliminate the effect.

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Notes 28 and 7, respectively.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 5% increase in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The 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 foreign currency 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**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Profit or loss	$ 109,459 (Note 1)	$ 60,788 (Note 1)	$ 57,967 (Note 2)	$ 56,716 (Note 2)	$ 13,624 (Note 3)	$ 23,072 (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 Company's floating-rate bank savings are exposed to risk of changes in interest rates. The Company does not operate hedging instruments for interest rates. The Company's management monitors fluctuations in market interest rates regularly. If it is needed, the management might perform necessary procedures for significant interest rate risks to control the risks from fluctuations in market interest rates.

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

	December 31	
	2017	**2016**
Cash flow interest rate risk		
Financial assets	$ 2,433,560	$ 2,004,912

Sensitivity analysis

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

If interest rates had been 50 basis points higher and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2017 and 2016 would have increased by $12,168 thousand and $10,025 thousand, respectively. Had interest rates been 50 basis points lower, the effects on the Company's pre-tax profit would have been of the same amounts but negative. The source of the negative effects would have been mainly the floating-interest rates on bank savings.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. The Company manages this exposure by maintaining a portfolio of investments with different risks. The Company's equity price risks 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, the pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would have increased by $14,195 thousand and $16,948 thousand, respectively, as a result of changes in fair value of available-for-sale investments. Had equity prices been 1% lower, the effects on pre-tax other comprehensive gains would have been of the same amounts but negative.

2) Credit risk

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

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

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

3) Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2017 and 2016, the Company had available unutilized short-term bank loan facilities set out in (3) below.

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

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

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

December 31, 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	$ 4,808,601	$ 1,222,066	$ 1,100,179	$ -

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	$ 4,481,036	$ 1,320,648	$ 1,059,301	$ -

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

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

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

December 31, 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	$ 297,337	$ 693,399	$ 282,619	$ 1,273,355
Outflows	287,861	682,033	277,958	1,247,852
	$ 9,476	$ 11,366	$ 4,661	$ 25,503

c) Financing facilities

	December 31	
	2017	2016
Unsecured bank loan facilities		
Amount used	$ -	$ -
Amount unused	2,345,362	2,362,900
	$ 2,345,362	$ 2,362,900

27. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of significant transactions between the Company and other related parties are disclosed below.

a. Names and categories of related parties

Name	Related Party Category
Advantech Automation Corp. (HK) Limited ("AAC (HK)")	Subsidiary
AAU	Subsidiary
ABR	Subsidiary
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. ("ACN")	Subsidiary
DLOG Gesellschaft für elektronische Datentechnik mbH ("A-DloG")	Subsidiary
Advantech Europe B.V. ("AEU")	Subsidiary
Advantech International. PT. ("AID")	Subsidiary
AIN	Subsidiary
Shanghai Advantech Intelligent Services Co., Ltd. ("AiSC")	Subsidiary
AJP	Subsidiary
Advantech Technology (China) Company Ltd. ("AKMC")	Subsidiary
AKR	Subsidiary
Kostec Co., Ltd ("AKST")	Subsidiary
AMY	Subsidiary
Advantech Corp. ("ANA")	Subsidiary
Advantech Poland Sp z o.o. ("APL")	Subsidiary
ASG	Subsidiary
Advantech Corporation (Thailand) Co., Ltd. ("ATH")	Subsidiary
B+B	Subsidiary
Cermate Technologies Inc. ("Cermate")	Subsidiary
Advantech Corporate Investment	Subsidiary
AiST	Subsidiary
LNC (formerly ALNC)	Subsidiary
Advanixs Corp. ("Advanixs")	Subsidiary
AdvanPOS	Subsidiary
Axiomtek Co., Ltd.	Associate
AIMobile Co., Ltd.	Associate
Deneng Scientific Research Co., Ltd.	Associate
Jan Hsiang Electronics Co., Ltd.	Associate
Winmate Inc.	Associate

(Continued)

Name	Related Party Category
Ke Chang Liu	Other related party (chairman's second immediate family)
Li Ting Huang	Other related party (spouse of chairman's second immediate family)
Advantech Foundation	Other related party

(Concluded)

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
ANA	$ 8,255,247	$ 8,315,279
ACN	6,039,617	5,414,546
AEU	4,316,172	3,835,119
Others	3,702,568	5,254,151
Associates	36,628	17,108
Other related parties	-	10
	$ 22,350,232	$ 22,836,213

c. Purchases of goods

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
AKMC	$ 10,519,469	$ 9,739,690
Advanixs	1,328,501	2,343,971
Others	1,551,277	2,624,668
Associates	51,565	21,126
	$ 13,450,812	$ 14,729,455

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

Line Item	Related Party Category/Name	December 31 2017	2016
Trade receivables - related parties	Subsidiaries		
	ANA	$ 1,595,920	$ 1,114,946
	AEU	1,363,473	946,893
	ACN	964,313	821,752
	Others	671,867	1,022,640
	Associates	7,203	2,206
	Other related parties	300	11
		$ 4,603,076	$ 3,908,448

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)

Related Party Category/Name	December 31 2017	December 31 2016
Subsidiaries		
AKMC	$ 932,599	$ 1,212,521
Advanixs	16,222	626,010
AdvanPOS	747	607,545
Others	154,299	155,770
Associates	19,499	8,796
	$ 1,123,366	$ 2,610,642

The outstanding trade payables to related parties are unsecured.

f. Other receivables from related parties

Related Party Category	December 31 2017	December 31 2016
Subsidiaries	$ 15,569	$ 19,002

g. Acquisitions of property, plant and equipment

	Purchase Price	
	For the Year Ended December 31	
Related Party Category	2017	2016
Subsidiaries	$ -	$ 10,408
Associates	8,381	-
	$ 8,381	$ 10,408

h. Disposals of property, plant and equipment

	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
Related Party Category/Name	2017	2016	2017	2016
Other related parties	$ 74,397	$ -	$ 66,531	$ -

i. Other transactions with related parties

	Operating Expenses	
	For the Year Ended December 31	
	2017	2016
Administration expenses		
Subsidiaries	$ 23,235	$ 16,570
Research and development expenses		
Associates	$ 23,709	$ -
Subsidiaries	5,267	1,285
	$ 28,976	$ 1,285

Research and development expenses formed between the Company 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.

	Operating Expenses	
	For the Year Ended December 31	
	2017	2016
Rent expenses		
Subsidiaries	$ 1,539	$ 1,518
Others		
Subsidiaries	$ -	$ 3,871

	Other Income	
	For the Year Ended December 31	
	2017	2016
Rent income		
Subsidiaries	$ 4,836	$ 4,836
Other related parties	60	60
	$ 4,896	$ 4,896
Others		
Subsidiaries	$ 78,876	$ 88,537
Other related parties	2,702	2,702
	$ 81,578	$ 91,239

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

j. 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.

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's 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

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 188,935	29.76 (USD:NTD)	$ 5,622,706
RMB	326,570	4.565 (RMB:NTD)	1,490,792
EUR	32,336	35.57 (EUR:NTD)	1,150,192
			$ 8,263,690
Non-monetary items			
Subsidiaries and associates accounted for using the equity method			
USD	332,724	29.76 (USD:NTD)	$ 9,901,866
EUR	30,536	35.57 (EUR:NTD)	1,086,166
KRW	10,914,513	0.028 (KRW:NTD)	305,606
JPY	1,044,091	0.264 (JPY:NTD)	275,640
			$ 11,569,278
Financial liabilities			
Monetary items			
USD	115,373	29.76 (USD:NTD)	$ 3,433,500
RMB	189,882	4.565 (RMB:NTD)	866,811
			$ 4,300,311

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 125,577	32.25 (USD:NTD)	$ 4,049,858
RMB	329,147	4.167 (RMB:NTD)	1,519,672
EUR	23,502	33.90 (EUR:NTD)	796,718
			$ 6,366,248

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
Non-monetary items			
Subsidiaries and associates accounted for using the equity method			
USD	$ 290,712	32.25 (USD:NTD)	$ 9,375,462
EUR	29,470	33.90 (EUR:NTD)	999,033
KRW	9,340,408	0.027 (KRW:NTD)	252,191
JPY	832,407	0.276 (JPY:NTD)	229,744
			$ 10,856,430
Financial liabilities			
Monetary items			
USD	79,465	32.25 (USD:NTD)	$ 2,562,746
RMB	200,202	4.617 (RMB:NTD)	924,333
			$ 3,487,079

(Concluded)

For the years ended December 2017 and 2016, realized and unrealized net foreign exchange losses were $45,802 thousand and $140,689 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

29. SEPARATELY DISCLOSED ITEMS

a. Information 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 (excluding investments in subsidiaries and associates). (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 26)

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

c. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, investment gains or losses, carrying amount of the investment at the end of the period, repatriated investment gains, and limit on the amount of investment in the mainland China area. (Table 8)

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

ADVANTECH CO., LTD. AND INVESTEES

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.

ADVANTECH CO., LTD. AND INVESTEES

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 Name	Endorsee/Guarantee Relationship	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
		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 given 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 financial statements for the year ended December 31, 2017.

(Concluded)

ADVANTECH CO., LTD. AND INVESTEES

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
LNC (formerly ALNC)	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)

TABLE 4

ADVANTECH CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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

ADVANTECH CO., LTD. AND INVESTEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to 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	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to 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 (Shenzhen)	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	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to 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	Cermate (Shenzhen)	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.

(Concluded)

ADVANTECH CO., LTD. AND INVESTEES

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

TABLE 7

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
	LNC (formerly 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	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	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
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 (formerly ALNC)	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

(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			
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 entity is an immaterial subsidiary; its financial statements have not been audited, which would not result in a significant impact on the Company’s 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.

(Concluded)

ADVANTECH CO., LTD. AND INVESTEES

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 entity is an immaterial subsidiary; its financial statements have not been audited, which would not result in a significant impact on the Company's 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.

(Concluded)