

**Advantech Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2006 and 2005 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Advantech Co., Ltd. as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As disclosed in Note 8 to the financial statements, these companies which were all accounted for by the equity method were not audited by us. The carrying values of these investments were 10.31 % (NT\$1,639,515 thousand) and 11.07% (NT\$1,624,846 thousand) of the Company's total assets as of December 31, 2006 and 2005, respectively. Also, the equity in the investees' net gain were 4.97% (NT\$162,000 thousand) and 5.02% (NT\$128,542 thousand) of the Company's income before income tax in 2006 and 2005, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the above investees' amounts included herein, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Advantech Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, on January 1, 2006, Advantech Co., Ltd. adopted the new Statements of Financial Accounting Standards (“Statements”) No. 34 - “Accounting for Financial Instruments” and No. 36 - “Disclosure and Presentation of Financial Instruments” and related revisions of previously released Statements.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2006 and 2005, and have expressed a modified unqualified opinion on those consolidated financial statements in our report dated March 6, 2007.

March 6, 2007

Notice to Readers

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

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

**ADVANTECH CO., LTD.**
**BALANCE SHEETS**
**DECEMBER 31, 2006 AND 2005**
**(In Thousands of New Taiwan Dollars, Except Par Value)**

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 1,311,568	8	\$ 1,619,325	11	Financial liabilities at fair value through profit or loss (Notes 2, 3, 5 and 20)	\$ 540	-	\$ 489	-
Available-for-sale financial assets - current (Notes 2, 3, 6 and 20)	1,081,740	7	1,366,270	9	Accounts payable	535,605	3	700,014	5
Notes receivable (Note 2)	50,237	-	98,307	1	Payable to related parties (Note 17)	262,265	2	521,205	4
Accounts receivable, net of allowance for doubtful accounts of \$10,392 thousand in 2006 and \$9,645 thousand in 2005 (Note 2)	481,533	3	401,835	3	Income tax payable (Notes 2 and 14)	137,883	1	56,871	-
Receivables from related parties (Notes 2 and 17)	2,001,465	13	1,825,107	13	Accrued expenses	210,567	1	266,123	2
Tax refund receivable	37,425	-	132,247	1	Employee bonus payable (Note 13)	141,771	1	150,025	1
Inventories, net (Notes 2 and 7)	1,178,407	8	1,220,824	8	Bonds payable - current portion (Notes 2 and 11)	-	-	8,900	-
Deferred income tax assets - current (Notes 2 and 14)	64,417	-	32,716	-	Advance receipts and other current liabilities	46,438	-	26,852	-
Prepayments and other current assets	14,343	-	11,497	-					
<b>Total current assets</b>	<b>6,221,135</b>	<b>39</b>	<b>6,708,128</b>	<b>46</b>	<b>Total current liabilities</b>	<b>1,335,069</b>	<b>8</b>	<b>1,730,479</b>	<b>12</b>
<b>FUNDS AND INVESTMENTS</b>					<b>OTHER LIABILITIES</b>				
Equity method investment (Notes 2 and 8)	3,920,603	25	2,720,336	18	Accrued pension liabilities (Notes 2 and 12)	110,964	1	110,948	1
Available-for-sale financial assets - noncurrent (Notes 2, 3, 6 and 20)	3,987,961	25	3,484,906	24	Guarantee deposits received	-	-	1,227	-
<b>Total funds and investments</b>	<b>7,908,564</b>	<b>50</b>	<b>6,205,242</b>	<b>42</b>	Deferred income tax liabilities - noncurrent (Notes 2 and 14)	156,148	1	74,162	-
<b>PROPERTIES (Notes 2 and 9)</b>					Deferred credits (Notes 2 and 17)	272,830	2	263,135	2
Cost					Miscellaneous (Notes 2 and 8)	1,060	-	20,038	-
Land	640,472	4	624,779	4	<b>Total other liabilities</b>	<b>541,002</b>	<b>4</b>	<b>469,510</b>	<b>3</b>
Buildings and equipment	844,911	5	837,848	6	<b>Total liabilities</b>	<b>1,876,071</b>	<b>12</b>	<b>2,199,989</b>	<b>15</b>
Machinery and equipment	298,347	2	281,554	2	<b>SHAREHOLDERS' EQUITY</b>				
Furniture and fixtures	90,573	1	77,108	-	Capital stock, NTS10.00 par value				
Miscellaneous equipment	135,917	1	130,880	1	Authorized - 500,000 thousand shares				
Total cost	2,010,220	13	1,952,169	13	Issued and outstanding - 463,630 thousand shares in 2006 and 448,900 thousand shares in 2005	4,636,295	29	4,489,003	31
Accumulated depreciation	392,957	3	365,367	2	Capital surplus				
	1,617,263	10	1,586,802	11	Paid-in capital in excess of par value	4,362,548	28	4,342,204	30
Advances for equipment acquisition	16,387	-	11,816	-	From long-term equity investments	64,098	-	50,365	-
<b>Net properties</b>	<b>1,633,650</b>	<b>10</b>	<b>1,598,618</b>	<b>11</b>	Total capital surplus	4,426,646	28	4,392,569	30
<b>OTHER ASSETS</b>					Retained earnings				
Properties leased to others, net (Notes 2, 9 and 10)	-	-	21,344	-	Legal reserve	1,086,326	7	843,346	6
Refundable deposits	12,593	-	6,021	-	Special reserve	-	-	19,661	-
Deferred expenses, net (Note 2)	132,264	1	129,140	1	Unappropriated earnings	3,254,770	20	2,688,544	18
Certificates of deposit - pledged (Note 18)	1,600	-	4,100	-	Total retained earnings	4,341,096	27	3,551,551	24
<b>Total other assets</b>	<b>146,457</b>	<b>1</b>	<b>160,605</b>	<b>1</b>	Others				
<b>TOTAL</b>	<b>\$ 15,909,806</b>	<b>100</b>	<b>\$ 14,672,593</b>	<b>100</b>	Cumulative translation adjustments	114,993	1	39,481	-
					Unrealized valuation gain on financial instruments	514,705	3	-	-
					Total others	629,698	4	39,481	-
					<b>Total shareholders' equity</b>	<b>14,033,735</b>	<b>88</b>	<b>12,472,604</b>	<b>85</b>
					<b>TOTAL</b>	<b>\$ 15,909,806</b>	<b>100</b>	<b>\$ 14,672,593</b>	<b>100</b>

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

(With Deloitte &amp; Touche audit report dated March 6, 2007)

# ADVANTECH CO., LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 17)				
Sales	\$ 10,649,884	100	\$ 8,480,652	99
Sales returns and allowances	<u>125,349</u>	<u>1</u>	<u>30,099</u>	<u>-</u>
Net sales	10,524,535	99	8,450,553	99
Other operating revenues	<u>108,876</u>	<u>1</u>	<u>61,616</u>	<u>1</u>
Total operating revenues	10,633,411	100	8,512,169	100
OPERATING COSTS (Notes 2, 15 and 17)	<u>7,417,220</u>	<u>70</u>	<u>5,839,355</u>	<u>69</u>
GROSS PROFITS	3,216,191	30	2,672,814	31
UNREALIZED PROFITS ON INTERCOMPANY SALES (Note 2)	<u>(9,695)</u>	<u>-</u>	<u>(47,292)</u>	<u>-</u>
ADJUSTED GROSS PROFITS	<u>3,206,496</u>	<u>30</u>	<u>2,625,522</u>	<u>31</u>
OPERATING EXPENSES (Note 15)				
Marketing	249,939	2	289,190	3
Administration	324,626	3	305,925	4
Research and development	<u>635,244</u>	<u>6</u>	<u>487,926</u>	<u>6</u>
Total operating expenses	<u>1,209,809</u>	<u>11</u>	<u>1,083,041</u>	<u>13</u>
OPERATING INCOME	<u>1,996,687</u>	<u>19</u>	<u>1,542,481</u>	<u>18</u>
NONOPERATING INCOME AND GAINS				
Interest	22,855	-	15,261	-
Equity in net income of investees, net (Notes 2 and 8)	978,136	9	803,571	10
Gain on disposal of investments	101,675	1	160,896	2
Foreign exchange gain, net (Note 2)	98,081	1	-	-
Reversal of allowance for loss on inventories (Note 2)	-	-	13,368	-
Royalty revenue (Note 17)	141,100	1	115,794	1
Dividends	39,868	-	654	-
Other income (Notes 3 and 17)	<u>54,631</u>	<u>1</u>	<u>58,197</u>	<u>1</u>
Total nonoperating income and gains	<u>1,436,346</u>	<u>13</u>	<u>1,167,741</u>	<u>14</u>

(Continued)

# ADVANTECH CO., LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
<b>NONOPERATING EXPENSES AND LOSSES</b>				
Loss on disposal of scrap inventories	\$ 66,496	1	\$ 68,831	1
Foreign exchange loss, net (Note 2)	-	-	76,886	1
Provision for loss on inventories (Note 2)	89,380	1	-	-
Financial instruments revaluation loss, net (Notes 2, 3 and 5)	3,594	-	744	-
Other expenses (Note 15)	<u>14,880</u>	<u>-</u>	<u>1,613</u>	<u>-</u>
Total nonoperating expenses and losses	<u>174,350</u>	<u>2</u>	<u>148,074</u>	<u>2</u>
INCOME BEFORE INCOME TAX	3,258,683	30	2,562,148	30
INCOME TAX (Notes 2 and 14)	<u>340,792</u>	<u>3</u>	<u>132,345</u>	<u>1</u>
NET INCOME	<u>\$ 2,917,891</u>	<u>27</u>	<u>\$ 2,429,803</u>	<u>29</u>
	2006		2005	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE (Note 16)				
Basic	<u>\$ 7.04</u>	<u>\$ 6.30</u>	<u>\$ 6.18</u>	<u>\$ 5.86</u>
Diluted	<u>\$ 7.02</u>	<u>\$ 6.28</u>	<u>\$ 6.13</u>	<u>\$ 5.81</u>

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

(With Deloitte & Touche audit report dated March 6, 2007)

(Concluded)

ADVANTECH CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2006 AND 2005  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Capital Stock - Issued and Outstanding (Notes 11 and 13)		Capital Surplus (Notes 2 and 13)			Capital Surplus (Notes 2 and 13)				Cumulative Translation Adjustments (Note 2)	Unrealized Valuation Gains on Financial Instruments (Notes 2, 3 and 20)	Total Shareholders' Equity
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Long-term Equity Investments	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			
BALANCE, JANUARY 1, 2005	374,296	\$ 3,742,962	\$ 1,072,211	\$ 14,990	\$ 1,087,201	\$ 627,331	\$ -	\$ 2,280,132	\$ 2,907,463	\$ (19,661)	\$ -	\$ 7,717,965
Appropriation of the 2004 earnings												
Legal reserve	-	-	-	-	-	216,015	-	(216,015)	-	-	-	-
Special reserves	-	-	-	-	-	-	19,661	(19,661)	-	-	-	-
Bonus to employees	5,000	50,000	-	-	-	-	-	(192,448)	(192,448)	-	-	(142,448)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(19,245)	(19,245)	-	-	(19,245)
Stock dividends - 5%	18,738	187,383	-	-	-	-	-	(187,383)	(187,383)	-	-	-
Cash dividends - NT\$3.70 per share	-	-	-	-	-	-	-	(1,386,639)	(1,386,639)	-	-	(1,386,639)
Net income in 2005	-	-	-	-	-	-	-	2,429,803	2,429,803	-	-	2,429,803
Conversion of bonds into capital stock and capital surplus	5,203	52,025	230,527	-	230,527	-	-	-	-	-	-	282,552
Issuance of new shares for a share swap	44,893	448,933	3,016,828	-	3,016,828	-	-	-	-	-	-	3,465,761
Employee stock options	770	7,700	22,638	-	22,638	-	-	-	-	-	-	30,338
Decrease in capital surplus and cumulative translation adjustments due to disposal of long-term investment	-	-	-	(5,415)	(5,415)	-	-	-	-	(4,319)	-	(9,734)
Increase in carrying values of equity-method investments due to not subscribing proportionally to the additional shares issued by the investees	-	-	-	40,790	40,790	-	-	-	-	-	-	40,790
Translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	-	63,461	-	63,461
BALANCE, DECEMBER 31, 2005	448,900	4,489,003	4,342,204	50,365	4,392,569	843,346	19,661	2,688,544	3,551,551	39,481	-	12,472,604
Adjustment due to accounting changes (Note 3)	-	-	-	-	-	-	-	-	-	-	620,449	620,449
Appropriation of the 2005 earnings												
Legal reserve	-	-	-	-	-	242,980	-	(242,980)	-	-	-	-
Special reserve	-	-	-	-	-	-	(19,661)	19,661	-	-	-	-
Bonus to employees	5,000	50,000	-	-	-	-	-	(220,648)	(220,648)	-	-	(170,648)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(22,065)	(22,065)	-	-	(22,065)
Stock dividends - 2%	8,979	89,792	-	-	-	-	-	(89,792)	(89,792)	-	-	-
Cash dividends - NT\$4.00 per share	-	-	-	-	-	-	-	(1,795,841)	(1,795,841)	-	-	(1,795,841)
Net income in 2006	-	-	-	-	-	-	-	2,917,891	2,917,891	-	-	2,917,891
Conversion of bonds into capital stock and capital surplus	210	2,100	6,700	-	6,700	-	-	-	-	-	-	8,800
Employee stock options	540	5,400	13,644	-	13,644	-	-	-	-	-	-	19,044
Increase in cumulative translation adjustments due to disposal of long-term investment	-	-	-	-	-	-	-	-	-	5,993	-	5,993
Increase in carrying values of equity-method investments due to not subscribing proportionally to the additional shares issued by the investees	-	-	-	13,733	13,733	-	-	-	-	-	-	13,733
Changes in unrealized valuation losses on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	(106,113)	(106,113)
Equity in the changes in unrealized valuation gains on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	-	369	369
Translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	-	69,519	-	69,519
BALANCE, DECEMBER 31, 2006	<u>463,629</u>	<u>\$ 4,636,295</u>	<u>\$ 4,362,548</u>	<u>\$ 64,098</u>	<u>\$ 4,426,646</u>	<u>\$ 1,086,326</u>	<u>\$ -</u>	<u>\$ 3,254,770</u>	<u>\$ 4,341,096</u>	<u>\$ 114,993</u>	<u>\$ 514,705</u>	<u>\$ 14,033,735</u>

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

(With Deloitte & Touche audit report dated March 6, 2007)

# ADVANTECH CO., LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,917,891	\$ 2,429,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	111,442	101,722
Provision (reversal of allowance) for bad debts	878	(6,092)
Provision (reversal of allowance) for loss on inventories	89,380	(13,368)
Loss on disposal of scrap inventories	66,496	68,831
Gain on disposal of investments, net	(78,239)	(132,371)
Loss (gain) on disposal of properties, net	(3,597)	270
Equity in net income of investees, net	(978,136)	(803,571)
Cash dividends from equity-method investees	924,881	1,126,089
Revaluation loss on financial instruments	51	8,864
Accrued pension liabilities	16	(3,621)
Deferred income taxes	50,285	(51,372)
Net changes in operating assets and liabilities		
Notes receivable	48,070	(49,830)
Accounts receivable	(80,576)	(71,712)
Receivables from related parties	(566,500)	(849,188)
Inventories	(113,459)	(634,782)
Tax refund receivable	94,822	(9,676)
Prepayments and other current assets	(2,846)	36,089
Accounts payable	(164,409)	353,053
Payable to related parties	(258,940)	(211,128)
Income tax payable	81,012	(79,488)
Accrued expenses	(55,556)	118,365
Advance receipts and other current liabilities	19,586	(44,604)
Deferred credits	9,695	50,274
Net cash provided by operating activities	<u>2,112,247</u>	<u>1,332,557</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(9,526,778)	(10,505,093)
Proceeds of sales of available-for-sale financial assets	9,875,576	11,149,547
Acquisition of equity-method investments	(679,397)	(49,241)
Proceeds of sale of equity-method investments	18,415	389,676
Proceeds of disposal of properties	4,204	28
Acquisition of properties	(98,401)	(97,272)
Increase in deferred expense	(30,460)	(51,390)
Decrease in certificates of deposit - pledged	2,500	800
Increase in refundable deposits	(6,572)	(1,163)
Net cash provided by (used in) investing activities	<u>(440,913)</u>	<u>835,892</u>

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# ADVANTECH CO., LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

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	2006	2005
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in loans - short-term	\$ -	\$ (5,134)
Decrease in bonds payable	(100)	-
Exercise of employee stock options	19,044	30,338
Decrease in guarantee deposits received	(1,227)	(1,481)
Cash dividends paid	(1,795,841)	(1,386,639)
Bonus paid to employees and remuneration to directors and supervisors	<u>(200,967)</u>	<u>(67,164)</u>
Net cash used in financing activities	<u>(1,979,091)</u>	<u>(1,430,080)</u>
NET INCREASE (DECREASE) IN CASH	(307,757)	738,369
CASH, BEGINNING OF YEAR	<u>1,619,325</u>	<u>880,956</u>
CASH, END OF YEAR	<u>\$ 1,311,568</u>	<u>\$ 1,619,325</u>
<b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ -</u>	<u>\$ 95</u>
Income tax paid	<u>\$ 209,495</u>	<u>\$ 263,205</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Bonus to employees payable	<u>\$ 49,573</u>	<u>\$ 94,529</u>
Reclassification of properties leased to others into properties	<u>\$ 21,344</u>	<u>\$ 8,945</u>
Conversion of bonds into capital stock and capital surplus	<u>\$ 8,800</u>	<u>\$ 282,552</u>
Negative carrying value of investments recorded as part of other liabilities	<u>\$ 1,060</u>	<u>\$ 20,038</u>
Issuance of new shares for a share swap	<u>\$ -</u>	<u>\$ 3,465,761</u>

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

(With Deloitte & Touche audit report dated March 6, 2007)

(Concluded)

# ADVANTECH CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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### 1. ORGANIZATION AND OPERATIONS

Advantech Co., Ltd. (the "Company") was established in September 1981. It manufactures and sells embedded computing boards, industrial automation products, applied computers and industrial computers. Its stock has been listed on the Taiwan Stock Exchange since December 13, 1999.

As of December 31, 2006 and 2005, the Company had 1,146 and 928 employees, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Accounting Law, and Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC. Under these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, provision for loss on inventories, depreciation of properties and properties leased to others, pension cost, product warranty reserve and income tax. Actual results could differ from these estimates.

For the convenience of readers, 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 financial statements shall prevail.

The Company's significant accounting policies are summarized as follows.

#### Current and Noncurrent Assets and Liabilities

Current assets include cash, financial assets held for trading and other assets consumed or used up within twelve months. Current liabilities include financial liabilities resulted from trading and repaid or settled within twelve months. All other assets and liabilities are classified as noncurrent.

#### Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities for trading. These derivatives are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value, with the changes in fair value recognized in current earnings. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trading date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as trading financial assets or liabilities. When the fair value is a positive amount, the derivative is recognized as a financial asset; when the fair value is a negative amount, the derivative is recognized as a financial liability.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is derecognized from the balance sheet. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trading date accounting.

Cash dividends are recognized as investment income upon ex-dividend day but are accounted for as reductions of the original cost of investment if these dividends are declared on the investees' earnings before investment acquisition. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. After the receipt of stock dividends, the cost per share is recalculated on the basis of the new number of total shares.

An impairment loss should be recognized on the balance sheet date if there are objective evidences that financial asset is impaired, and this impairment loss should be charged to the net income of the current period. This impairment loss can be reversed to the extent of the original carrying value and recognized as adjustments to shareholders' equity. If the reversible amount of a debt instrument is clearly attributable to an event which occurred after the impairment loss was recognized, then recognized as income.

### **Revenue Recognition, Accounts Receivable, and Allowance for Doubtful Accounts**

Sales revenues are recognized when titles to products and material risks of ownerships are transferred to clients, primarily upon shipment, when the earnings process is mostly completed and profit is realized or is realizable. The Company does not recognize as sales those transactions involving the delivery of materials to subcontractors since ownership of materials is not transferred upon delivery of materials. Allowances and the related provision for sales returns are accounted for as a deduction from gross sales, and the related costs are deducted from cost of sales as they are incurred.

If customers' payments are due a year after a sales transaction is made, revenue is recognized on the basis of the fair value of the transaction price (which includes commercial and volume discounts negotiated with the buyer by the Company) calculated at interest rates for similar transactions. In these transactions, the fair value and the actual payments approximate the transaction price.

Allowances for doubtful accounts are provided on the basis of a periodic review of the collectibility and aging of receivables and economic circumstances.

### **Inventories**

Inventories consist of raw materials and supplies, finished goods and work in process. Inventories are stated at the lower of weighted-average cost or market. Market value refers to replacement value of raw materials and supplies and net realizable value of finished goods and work in process.

Estimation of ending inventories includes the evaluation of the possible influences of the changes in manufacturing technologies to recognize losses on disposal of scrap inventories and may include the evaluation of scraps and slow-moving raw materials, depending on future demand for the Company's products, to recognize provision for losses on inventories.

## **Long-term Equity Investments**

Investments in shares of stock of companies in which the Company owns at least 20% of their outstanding common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Stock investments accounted for by the equity method are initially carried at cost and subsequently adjusted for the Company's proportionate share in the investees' earnings or losses and changes in capital surplus. Cash dividends received are recognized as a reduction of the carrying value of the investments. Investment income (or loss) is recognized whenever the investees recognize income (or loss). If the equity in losses recognized exceeds the original investment acquisition costs plus any advance given to an equity-method investee, the excess losses should be recognized proportionately and is recorded as part of other liabilities. The difference between the cost of the investment and the Company's equity in the investee's net assets when an investment is acquired or when the equity method is first adopted, is amortized over five years. Effective January 1, 2006, under the revised Statement of Financial Accounting Standards, investment premiums, representing goodwill, are no longer being amortized, but the Company needs to make asset impairment tests regularly. And if there are indications that the goodwill is probably impaired, the Company also needs to make an impairment test. If the net fair value of an asset exceed its investment cost, the difference will be credited to depend on the proportion of noncurrent asset's (not include non-equity-method financial asset, dispose asset waiting for sale, differ tax asset and prepay pension cost or other pension pay) fair value. If the fair value of a noncurrent asset is not enough for crediting purposes, it will recognize as extraordinary gain. If the unamortized long-term investment by the equity method acquired before January 1, 2006 exceeds the Company's equity in the investee's equity in the investee's assets, represent goodwill, are no longer being amortized; the negative goodwill previously acquired should be amortized over the remaining estimated economic life.

If an investee issues additional shares and the Company acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Company's equity in its investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

For equity-method investees over which the Company has controlling influence, if the equity in losses recognized exceeds the original investment acquisition costs, the Company recognizes its investee's total losses unless other investors commit to and have the ability to assume a portion of the losses. However, when the investees return to profitable operations, the profits should be recognized by the Company totally until its previously recognized losses are covered.

All profits derived from sales of products by the Company to its subsidiaries are deferred but only profit in proportion to the Company's equity interest is deferred for other equity-method investees that are not majority owned. Profit from the sales of products by equity-method investees to the Company is deferred in proportion to the Company's equity interests in the investees and credited against the investment. Profits from sales of products between equity-method investees are deferred to the extent of the Company's equity interests in these investees. The deferred profits are included as part of other liabilities. All of these profits are realized through the subsequent sale of the related products to third parties.

Stock dividends received are recorded only as an increase in the number of shares held but not recognized as investment income. Cost or carrying value per share is recomputed on the basis of total shares held after stock dividends are received.

For all stock investments, costs of investments sold are determined using the weighted-average method.

## **Properties and Properties Leased to Others**

Properties and properties leased to others are stated at cost less accumulated depreciation. Major additions, renewals and betterments are capitalized, while maintenance and repairs are charged to current expense.

Depreciation is computed using the straight-line method over service lives initially estimated as follows (plus one year to represent estimated salvage value): buildings and equipment, 45 to 60 years; machinery and equipment, 2 to 8 years; furniture and fixtures 2 to 5 years; and miscellaneous equipment, 2 to 5 years. Properties and properties leased to others still being used by the Company beyond their initially estimated service lives are depreciated over their newly estimated service lives.

Upon sale or other disposal of properties and properties leased to others, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to nonoperating income or expenses.

### **Deferred Expenses**

Deferred expenses, consisting of computer software costs and royalties, which are amortized over two or eight years using the straight-line method.

### **Assets Impairment**

An impairment loss should be recognized the carrying amount of properties, properties leased to others, deferred expenses and long-term equity investments exceeds, as of the balance sheet date, their recoverable amount, and this impairment loss should be charged to current income. An impairment loss recognized in prior years could be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the asset carrying amount that would have been determined had no impairment loss on the asset been recognized in prior years. However, reversal of impairment loss on goodwill is prohibited.

### **Pension Costs**

The Company has two types of pension plans: Defined benefit and defined contribution.

Under the defined benefit pension plan, net periodic pension costs are recognized on the basis of actuarial calculations, and, under the defined contribution pension plan, on contribution basis throughout the employees' service period.

If the pension plans are revised, (a) the prior service costs of the defined benefit pension plan are amortized using the straight-line method over the average years from the revision date to conform to the date of benefit vesting, and (b) the prior service costs of the defined contribution pension plan are recognized as part of the net pension cost for the period.

If the defined benefit pension plan is curtailed or settled, the resulting gains or losses should be recognized as part of the net pension cost for the period.

### **Convertible Bonds**

The book value of convertible bonds issued before December 31, 2005 is based on issuance prices. The interest-premium on bonds, which is the call price in excess of par value, is recognized as liability by the interest method from the issue date to the expiry date of the call.

To convert bonds to common shares, the Company uses the book value approach, which involves writing off the recognized interest-premium and par value of the convertible bonds. The common stock exchange certificate (capital stock) should be valued at the net written-off carrying amount, and the difference of this amount from the par value of the common stock exchange certificate (capital stock) should be recognized as capital surplus - issue of stock in excess of par value.

## **Income Tax**

The Company uses inter-period allocation to account for income tax. Deferred tax assets are recognized for the tax effects of deductible temporary differences, operating loss carryforwards, investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred income tax assets or liabilities are classified as current or noncurrent according to the nature of related assets or liabilities for financial reporting. But, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent depending on the expected realization date of the temporary difference.

Investment tax credits for certain equipment or technology purchases, research expenditure, employee trainings and stock investments are recognized in the current year.

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

Income taxes (10%) on undistributed earnings generated since January 1, 1998 are recorded as income tax expense in the year when the shareholders resolve to retain the earnings.

## **Foreign-currency Transactions**

Foreign currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the spot rates of exchange in effect when the transactions occur.

At year-end, the balances of foreign-currency assets and liabilities ("Balances") which carried at fair value are restated at the prevailing exchange rates, and the resulting differences are recorded as follows: Equity-method stock investments - as cumulative translation adjustments under shareholders' equity; other assets and liabilities - as credits or charges to current income.

At year-end, the balances of foreign-noncurrency assets and liabilities are restated at the prevailing exchange rates, the resulting differences are recognized as current earnings or a separate component of shareholders' equity, and Balances carried at cost are restated at the history rates and recognized as the rate of the trading rate.

## **Reclassifications**

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of financial statements as of and for the year ended December 31, 2006.

## **3. ACCOUNTING CHANGES**

On January 1, 2006, the Company adopted the new Statements of Financial Accounting Standards ("Statements") No. 34 - "Accounting for Financial Instruments" (SFAS No. 34) and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

### **a. Effect of accounting changes**

The Company properly categorized its financial assets and liabilities upon the adoption of the new Statements. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss or hedged financial instruments at fair value were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of the accounting changes is summarized as follows:

	<b>Recognized as Cumulative Effect of Changes in Accounting Principles (Note)</b>	<b>Recognized as a Separate Component of Shareholders' Equity</b>
Financial assets or liabilities at fair value through profit or loss	\$ 104	\$ -
Available-for-sale financial assets - current	-	1,324
Available-for-sale financial assets - noncurrent	<u>-</u>	<u>619,125</u>
	<u>\$ 104</u>	<u>\$ 620,449</u>

Note: Included in nonoperating income and gains - other.

The accounting changes had no material effect on the net income in the year ended December 31, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified to be consistent with the financial statements as of and for the year ended December 31, 2006. However, the previously issued financial statements as of and for the year ended December 31, 2005 need not be restated. If the same account with different valuation method, the details will describe in the notes.

Some accounting policies before the adoption of the new Statements are summarized as follows:

1) Short-term investments

Short-term investments that were publicly traded, easily converted to cash, and not acquired for the purpose of controlling the investees or establishing close business relationship with the investees were carried at the lower of cost or market value at the balance sheet date, with any temporary decline in value charged to current income. Market values are based on the net asset values of the open-end mutual funds on the balance sheet date.

2) Long-term equity investments

Investments in shares of stock of companies in which the Company owns less than 20% of their outstanding common stock or does not exercise significant influence over the investees are accounted for by the cost method. An allowance for decline in market value of listed stocks is recognized, with the related amount debited to shareholders' equity, and the market value is based on the average closing price in the last month of the year.

3) Forward contracts

Forward contracts, which are entered into for hedging purposes are recorded in New Taiwan dollars at the spot rates on the starting dates of the contracts. The resulting difference, computed using the foreign-currency amount of the contract multiplied by the difference between the contracted forward rate and the spot rate on the contract starting dates, is amortized and recognized over the terms of the contract. A forward exchange contract used for hedging purposes should be adjusted at the rate prevailing as of the balance sheet date.

The receivables and payables related to the forward contracts are netted out, and the resulting amount is presented as either an asset or liability.

Certain accounts in the financial statements as of and for the years ended December 31, 2005 have been reclassified to be consistent with the classifications prescribed under the new and the revised Statements. The reclassifications of the entire or a part of the account balances of certain accounts are summarized as follows:

	<b>Before Reclassification</b>	<b>After Reclassification</b>
<u>Balance sheet</u>		
Short-term investments	\$ 1,366,270	\$ -
Long-term investments accounted for using cost method	3,484,906	-
Other current liabilities (forward contracts)	489	-
Available-for-sale financial assets - current	-	1,366,270
Available-for-sale financial assets - noncurrent	-	3,484,906
Financial liabilities at fair value through profit or loss	-	489
<u>Statement of income</u>		
Foreign exchange loss, net	744	-
Financial instruments revaluation loss, net	-	744

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities" and SFAS No. 25 - "Business Combinations - Accounting Treatment Under Purchase Method", which prescribe that investment premiums, representing goodwill, be assessed for impairment at least annually instead of being amortized. This accounting change had no cumulative effect on the financial statements but resulted in increases of NT\$40,180 thousand in net income and of NT\$0.09 basic earnings per share after tax for the year ended December 31, 2006.

#### 4. CASH

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 1,749	\$ 371
Checking and demand deposits	49,997	353,847
Time deposits: Interest - 1.40%-5.20% in 2006 and 1.25%-4.20% in 2005	<u>1,259,822</u>	<u>1,265,107</u>
	<u>\$ 1,311,568</u>	<u>\$ 1,619,325</u>

On December 31, 2005, deposits overseas were as follows (as of December 31, 2006: None):

	<b>December 31, 2005</b>
Hong Kong (included US\$316 and HK\$138 in 2005)	<u>\$ 11</u>

## 5. FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

Information about trading assets or liabilities of the Company are shown as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
<u>Financial liabilities resulted from trading</u>		
Forward contracts	\$ 540	\$ 489

On December 31, 2006 and 2005, information about outstanding forward contracts is shown as follows:

	<b>Currency</b>	<b>Maturity</b>	<b>Amount (Thousand)</b>
<u>December 31,2006</u>			
Sell	EUR/USD	January 2007	EUR1,000,000/USD1,299,300
		January 2007	EUR1,000,000/USD1,322,700
<u>December 31,2005</u>			
Sell	EUR/USD	January 2006	EUR1,000,000/USD1,197,200
		February 2006	EUR5,000,000/USD5,927,400

The Company entered into forward contract transactions for the years ended December 31, 2006 and 2005 is to avoid risks on exchange rate fluctuations. The hedging strategys of the Company is to avoid the major portion of the market and liquidity risks.

Net losses arising from trading financial assets or liabilities for the year ended December 31, 2006 and 2005 were \$3,594 thousand and \$744 thousand, respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Mutual funds	\$ 1,081,740	\$ -	\$ 1,366,270	\$ -
Publicly traded stocks				
ASUSTEK Computer Inc.	-	3,898,166	-	3,465,761
Firich Enterprise Co., Ltd.	-	89,795	-	19,145
	<u>\$ 1,081,740</u>	<u>\$ 3,987,961</u>	<u>\$ 1,366,270</u>	<u>\$ 3,484,906</u>

## 7. INVENTORIES, NET

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Finished goods	\$ 390,205	\$ 356,482
Work in process	381,384	421,328
Materials and supplies	590,649	541,162
Inventories in transit	<u>8,579</u>	<u>4,882</u>
	1,370,817	1,323,854
Less: Allowance for losses	<u>192,410</u>	<u>103,030</u>
	<u>\$ 1,178,407</u>	<u>\$ 1,220,824</u>

## 8. LONG-TERM EQUITY-METHOD INVESTMENTS

	<u>December 31</u>			
	<u>2006</u>		<u>2005</u>	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
<u>Listed</u>				
Axiomtek Co., Ltd.	<u>\$ 412,454</u>	33.92	<u>\$ 369,596</u>	37.25
<u>Unlisted</u>				
Advantech Automation Corp. (BVI)	1,264,763	100.00	955,493	100.00
Advantech Technology Co., Ltd.	632,386	100.00	521,862	100.00
Advansus Corp.	477,963	50.00	-	-
Advantech Europe Holding B.V.	315,168	98.37	222,732	96.67
Yin Hsin Investment Co., Ltd.	265,146	100.00	256,108	100.00
Advantech Technologies Co., Ltd.	176,335	23.89	128,622	27.47
Advantech Co. Singapore Pte, Ltd.	109,311	100.00	88,074	100.00
Advantech Japan Co., Ltd.	91,914	100.00	74,486	100.00
Advantech Australia Pty Ltd.	84,512	100.00	73,802	100.00
Advantech Co. Malaysia Sdn. Bhd.	35,842	100.00	-	-
Viewsys Technology Co., Ltd.	24,572	100.00	-	-
Advantech Hungary Ltd.	12,591	30.00	12,554	30.00
Advantech IBHA Technologies Inc.	12,208	13.29	11,647	13.29
Advantech Investment & Management Service	5,438	100.00	5,360	100.00
Advantech (H.K.) Technology Co., Ltd.	-	100.00	-	100.00
Advantech Brazil S/A	-	-	-	60.00
	<u>3,508,149</u>		<u>2,350,740</u>	
Long-term equity-method investments	<u>\$ 3,920,603</u>		<u>\$ 2,720,336</u>	

As shown in the financial statements, the financial statements of the following investees had been audited by other auditors, not the Company's auditors: (a) for 2006 and 2005 - Axiomtek Co., Ltd., Advantech Europe Holding B.V. (in 2006, Advantech Europe B.V., the subsidiary of Advantech Europe Holding B.V., was audited by the Parent Company's auditors), Advantech Technologies Co., Ltd., Advantech Japan Co., Ltd., Advantech Australia Pty Ltd. and Advantech Co., Singapore Pte, Ltd.; (b) for 2006 - Advantech Co. Malaysia Sdn. Bhd., Advansus Corp., and Viewsys Technology Co., Ltd.; and (c) for 2005 - Advantech Corp., a subsidiary of Advantech Automation Corp.(BVI), and Advantech Brazil S/A.

The calculation of the investment carrying value and the Company's equity in the net income of Advantech (H.K.) Technology Co., Ltd., Advantech Hungary Ltd., and Advantech Investment and Management Service Co., Ltd., was based on unaudited financial statements since each of these three investees' capital stock was less than \$30,000 thousand and their individual total operating revenues were less than \$50,000 thousand or 10% of the Company's total operating revenues, making the investment carrying value and equity in the net income of these investees immaterial to the Company's financial position and results of operations.

The combined ownership of the Company and its subsidiaries in Advantech IBHA Technologies Inc. ("Advantech IBHA") exceeds 20% of Advantech IBHA's outstanding common stock as of December 31, 2006 and 2005. Thus, the investment in Advantech IBHA was accounted for by the equity method.

At the meeting on September 30, 2005, the board of directors approved a proposal for Advantech and ASUSTek to enter into a strategic alliance through a share swap. Shares were exchanged at 1.13 shares of Advantech for every share of ASUSTek. Thus, Advantech issued 44,893 thousand shares in exchange for 39,729 thousand shares of ASUSTek. In addition, under the proposal, the Company and ASUSTek each invested \$500,000 thousand (i.e., 50-50 ownership) to establish a joint venture, Advansus Corp., in January 2006. The investment in Advansus Corp. was accounted for by the equity method.

The Company intended to support the operations of Advantech (H.K.) Technology Co., Ltd. in 2006 and 2005, and Advantech Brazil S/A in 2005. Under the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities" of the Republic of China, if the equity in losses recognized exceeds the original investment acquisition costs plus any advances given to the investee, the Company recognizes its investee's total losses unless other investors commit to assume, and can assume, a portion of the losses. As of December 31, 2006 and 2005, there were credit balances on this investment of \$1,060 thousand and \$20,038 thousand, respectively, included in other liability - miscellaneous as follows:

	<b>December 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying Value</b>	<b>% of Owner-ship</b>	<b>Carrying Value</b>	<b>% of Owner-ship</b>
Advantech (HK) Technology Co., Ltd.	\$ 1,060	100	\$ 893	100
Advantech Brazil S/A	-	-	<u>19,145</u>	60
	<u>\$ 1,060</u>		<u>\$ 20,038</u>	

The market value of the listed stock of the equity investment's market values, which was calculated on the basis of the closing price of December 31, 2006 and 2005 were \$1,189,935 thousand and \$913,418 thousand.

The Company has included all of its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2006 and 2005.

## 9. PROPERTIES

Accumulated depreciation was as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Buildings and equipment	\$ 102,367	\$ 84,425
Machinery and equipment	183,395	170,114
Furniture and fixtures	42,099	43,451
Miscellaneous equipment	<u>65,096</u>	<u>67,377</u>
	<u>\$ 392,957</u>	<u>\$ 365,367</u>

Depreciation expenses for properties and properties leased to others were \$84,106 thousand and \$85,677 thousand for the year ended December 31, 2006 and 2005, respectively.

## 10. PROPERTIES LEASED TO OTHERS (AS OF DECEMBER 31, 2006: NONE)

	<u>December 31,</u> <u>2005</u>
Cost	
Land	\$ 15,693
Buildings and equipment	<u>7,063</u>
	22,756
Accumulated depreciation	<u>1,412</u>
	<u>\$ 21,344</u>

## 11. CURRENT PORTION OF LONG-TERM BONDS (AS OF DECEMBER 31, 2006: NONE)

	<u>December 31,</u> <u>2005</u>
Unsecured convertible bonds	\$ 8,900
Interest-premium on convertible bonds	<u>-</u>
	<u>\$ 8,900</u>

On July 19, 2001, the Company issued domestic unsecured convertible bonds with aggregate face value of \$1,000,000 thousand (or \$100 thousand face value per unit), which were listed on the Taiwan Stock Exchange on July 31, 2001. These bonds, with maturity on July 18, 2006, were scheduled to be redeemed at 112.4864% of their face value on July 19, 2004 or 119.2519% of their face value on July 19, 2005. The bonds are convertible to capital stock at an agreed conversion price between October 19, 2001 and July 8, 2006 under certain conditions. The bonds with aggregate face value of \$999,500 thousand had been converted to 20,910 thousand shares; bonds amounting to \$400 thousand had been redeemed at the holders' request; and bonds amounting to \$100 thousand were redeemed by the Company on maturity.

## 12. PENSION PLAN

The Labor Pension Act (the “Act”) was enforced on July 1, 2005. The employees subject to the Labor Standards Law before July 1, 2005 were allowed to choose to continue to be subject to the Labor Standards Law or to be subject to the pension mechanism under this Act, with their service years accumulated until June 30, 2005 to be retained. Those hired on or after July 1, 2005 automatically become subject to the Act.

Under the Act, the Company has a defined contribution pension plan. Since July 1, 2005, the Company has made monthly contributions to the employees’ individual pension accounts in the Bureau of Labor Insurance at 6% of employees’ salaries and wages. The pension cost under the defined contribution plan was NT\$38,875 thousand and NT\$17,277 thousand for the year ended December 31, 2006 and 2005, respectively.

The Company has a defined benefit pension plan under the Labor Standards Law (the “Law”). Under this pension plan, employees can accumulate two base points for every service year within the first 15 service years and one base point for every service year thereafter. Employees can accumulate up to 45 base points, and the benefits based on employee’s average monthly salary for the six-month period prior to retirement.

Under the Law, the Company accrues pension costs individually on the basis of actuarial calculations and make monthly contributions at 2% of salaries and wages to each company’s pension fund, which is administered by each company’s pension plan committee and deposited in the respective committees’ names in the Central Trust of China.

Other information on the defined benefit pension plan is summarized as follows:

a. Components of pension cost:

	2006	2005
Service cost	\$ 3,481	\$ 9,373
Interest cost	4,116	3,781
Projected return on plan assets	(2,483)	(2,281)
Amortization of unrecognized net transition obligation and net pension plan gains or losses	<u>(4,075)</u>	<u>(4,860)</u>
	<u>\$ 1,039</u>	<u>\$ 6,013</u>

b. Reconciliation between the funded status of the pension plan and accrued pension liabilities:

	<u>December 31</u>	
	2006	2005
Benefit obligation		
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	99,855	82,953
Accumulated benefit obligation	99,855	82,953
Additional benefits based on future salaries	38,774	34,645
Projected benefit obligation	138,629	117,598
Fair value of plan assets	<u>(73,464)</u>	<u>(70,952)</u>
Funded status	65,165	46,646
Unrecognized net transition obligation	(16,399)	(18,222)
Unrecognized net gain	<u>62,198</u>	<u>82,524</u>
Accrued pension liabilities	<u>\$ 110,964</u>	<u>\$ 110,948</u>

c. Actuarial assumptions

	2006	2005
Discount rate used in determining present values	2.75%	3.50%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.75%	3.50%

d. The changes in the accrued pension liability are summarized as follows:

	<b><u>Years Ended December 31</u></b>	
	<b>2006</b>	<b>2005</b>
Balance, beginning of period	\$ 110,948	\$ 114,569
Accruals base on defined benefit pension plan	1,039	6,013
Contribution	<u>1,023</u>	<u>9,634</u>
Balance, end of period	<u>\$ 110,964</u>	<u>\$ 110,948</u>

### 13. SHAREHOLDERS' EQUITY

Based on certain laws or regulations, capital surplus from long-term equity investments accounted for by the equity method cannot be used for any purpose. Other capital surplus may be used only to offset a deficit. Capital surplus from the issue of stock in excess of par value may be capitalized by issuing new shares to shareholders in proportion to their holdings, and capitalized amounts should be within certain limits.

The Company's Articles of Incorporation provide that legal reserve should be set aside at 10% of annual net income less any cumulative losses. In addition, a special reserve should be appropriated as needed. The remainder of the income should be appropriated in the following order:

- a. 3% to 12% as bonus to employees. For stock bonuses, employees may include subsidiaries' employees who meet certain criteria as determined by the Company's board of directors.
- b. 1% as remuneration to directors and supervisors.
- c. Dividends, as proposed by the board of directors.

These appropriations and other allocations of earnings, including the distributable unappropriated earnings of prior years, should be resolved by the shareholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The special reserve should be equivalent to the debit balance of any shareholders' equity account other than the deficit. The balance of the special reserve is adjusted according to the debit balance (except for treasury stocks) of the relevant shareholders' equity account.

Under the Company Law, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. This reserve may be used only to offset a deficit. When the balance of the reserve reaches 50% of the Company's outstanding capital stock, up to 50% thereof may be transferred to capital.

Under the Integrated Income Tax System, which took effect on January 1, 1998, noncorporate local shareholders are allowed a tax credit for the income tax paid by the Parent Company on earnings generated since 1998. An imputation credit account (ICA) is maintained by the Parent Company for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the ICA balance on the dividend distribution date.

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 interest, and the sustainability of the Company's growth. The policy also requires that stock dividends be less than 75% of total dividends to retain internally generated cash within the Company to finance future capital expenditures and working capital requirements.

The appropriations of earnings for 2005 and 2004 were proposed in the Board of Directors' meeting and approved in the shareholders' meeting held on June 16, 2006 and May 24, 2005, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation Earnings</u>		<u>Dividend per Share</u> <u>(Dollars)</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Legal reserve	\$ 242,980	\$ 216,015	\$ -	\$ -
Special reserve (reversal)	(19,661)	19,661	-	-
Cash dividends	1,795,841	1,386,639	4.0	3.7
Stock dividends	89,792	187,383	0.2	0.5
Remuneration to directors and supervisors	22,065	19,245	-	-
Bonus to employees - stock	50,000	50,000	-	-
Bonus to employees - cash	170,648	142,448	-	-

The appropriation of earnings for 2005 were approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. and then the board of directors resolved the date of distributing stock dividends and cash dividends on August 8, 2006. The Company had completed the process of a revised license from the MOEA.

Had the above bonus to employees and remuneration to directors and supervisors been paid entirely in cash and charged to the earnings of 2005 and 2004, the basic earnings per share (after income tax) would have decreased from NT\$6.05 to NT\$5.44 in 2005 and from NT\$5.91 to NT\$5.33 in 2004.

The 5,000 thousand shares distributed as bonus to employees were 1.11% and 1.34% of the total outstanding common shares as of December 31, 2005 and 2004, respectively.

Information on the appropriation of bonus to employees and remuneration to directors and supervisors can be accessed online through the Market Observation Post System on the web site of the Taiwan Stock Exchange.

Because of bond conversion, the Company's capital stock and capital surplus due to issue of stock in excess of par value increased 2,100 thousand and 6,700 thousand for the year ended December 31, 2006, respectively. Also, they increased 52,025 thousand and 230,527 thousand for the year ended December 31, 2005, respectively.

On April 1, 2003, the Securities and Futures Bureau approved the Company's stock option plan. There were 3,000 thousand units authorized to be issued, which may be converted to 3,000 thousand common shares. Employees may exercise a certain percentage of the option within two and four years of the grant date, and will expire six years from the grant date. The stock options were issued on August 14, 2003, and the exercise price was set at NT\$34.44 as of December 31, 2006. As of December 31, 2006, there were 1,310 thousand units of stock options exercised, which were converted to 1,310 thousand common shares; thus, the unexercised stock options consisted of 1,350 thousand units.

## 14. INCOME TAX

The Basic Income Tax Act (the "BIT Act"), which took effect on January 1, 2006, requires that the basic income tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Law plus the tax-exempt income under the Income Tax Law or other laws. The tax payable of the current year would be the higher of the basic income tax or the income tax payable calculated in accordance with the Income Tax Law. The Company has considered the impact of the BIT Act in determining the current year's income tax expense.

- a. Reconciliation of income tax expense based on income tax at statutory income tax rates to income tax expense, and current income tax payable were as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Tax on pretax income at 25% statutory rate	\$ 814,661	\$ 640,527
Deduct tax effects of:		
Permanent differences		
Tax-exempt income	(264,543)	(448,957)
Other	(23,014)	5,851
Temporary differences	(93,843)	125,512
Income tax (10%) on undistributed earnings	10,805	-
Investment tax credit	<u>(153,559)</u>	<u>(142,592)</u>
Income tax currently payable	<u>\$ 290,507</u>	<u>\$ 180,341</u>

- b. Income tax expense consisted of the following:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Income tax currently payable	\$ 290,507	\$ 180,341
Income tax expense - deferred	50,285	(51,372)
Adjustment of prior year's income tax	<u>-</u>	<u>3,376</u>
	<u>\$ 340,792</u>	<u>\$ 132,345</u>

- c. The change of income tax payable prepaid income tax of balance sheet consisted of the following:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of period	\$ 56,871	\$ 136,359
Income tax currently payable	290,507	180,341
Payment	(209,495)	(263,205)
Adjustment of prior year's income tax	<u>-</u>	<u>3,376</u>
Balance, end of period	<u>\$ 137,883</u>	<u>\$ 56,871</u>

d. Net deferred income tax assets (liabilities) as of December 31, 2006 and 2005 were as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Current		
Deferred income tax assets		
Allowance for loss on inventories	\$ 48,102	\$ 25,758
Investment tax credit	29,478	-
Unrealized product warranty reserve	7,543	6,207
Excess provisions for doubtful receivables	6,958	6,958
Unrealized foreign exchange loss	-	7,983
Others	<u>4,773</u>	<u>6,523</u>
	96,854	53,429
Valuation allowance	<u>(29,478)</u>	<u>(20,713)</u>
	<u>67,376</u>	<u>32,716</u>
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>(2,959)</u>	<u>-</u>
Deferred income tax assets, net	<u>\$ 64,417</u>	<u>\$ 32,716</u>
Noncurrent		
Deferred income tax assets:		
Accumulated equity in the net loss of investees	\$ 104,345	\$ 136,312
Deferred credits	52,158	49,734
Pension cost	27,737	27,737
Interest-premium on convertible bonds	<u>-</u>	<u>428</u>
	184,269	214,211
Valuation allowance	<u>(104,374)</u>	<u>(136,740)</u>
	<u>79,895</u>	<u>77,471</u>
Deferred income tax liabilities:		
Accumulated equity in the net gains of foreign investees	(236,043)	(135,641)
Allowance for tax-deductible equity in net loss of foreign investees	<u>-</u>	<u>(15,992)</u>
	<u>(236,043)</u>	<u>(151,633)</u>
Deferred income tax liabilities, net	<u>\$ (156,148)</u>	<u>\$ (74,162)</u>

The income tax rate used to recognize deferred income tax was 25%.

e. As of December 31, 2006 investment tax credits consisted of the following:

Law	Item	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
	Statute for Upgrading Industries Research and development expenditures	<u>\$ 183,037</u>	<u>\$ 29,478</u>	2010

f. As of December 31, 2006, the Company's five years exemption on the income was as follows:

<u>Investment Plan</u>	<u>Exemption Period</u>
The industry network server production	From 2003 to 2007
The industry 500 MHz thin client production	From 2006 to 2010

g. The information on the Company's integrated income tax is as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Balance of the imputation credit account (ICA)	<u>\$ 188,460</u>	<u>\$ 133,891</u>
The balances of unappropriated retained earnings generated before 1997	<u>\$ 81,329</u>	<u>\$ 81,329</u>

The expected and actual creditable tax ratios for earnings were 7.97% and 7.01%, as of December 31, 2006 and 2005, respectively.

The imputation credit allocated to the shareholders is based on its balance as of the date of dividend distribution. The expected creditable ratio may change when the actual allocation of the imputation credits is made.

h. Income tax returns through 2002 had been examined and cleared by the tax authorities. However, the tax authorities made an assessment on the Company's 2003 return, but Company disagreed with this assessment. Thus, the Company requested for a reexamination of its return. As of March 6, 2007, the date of the accompanying auditors' report, the reexamination was in progress; nevertheless, the Company recognized the payable on this case.

## 15. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	<u>2006</u>			<u>2005</u>		
	<u>Included in</u>	<u>Included in</u>		<u>Included in</u>	<u>Included in</u>	
	<u>Cost of</u>	<u>Operating</u>	<u>Total</u>	<u>Cost of</u>	<u>Operating</u>	<u>Total</u>
	<u>Goods Sold</u>	<u>Expenses</u>		<u>Goods Sold</u>	<u>Expenses</u>	
Personnel expenses						
Payroll	\$ 171,979	\$ 514,352	\$ 686,331	\$ 144,514	\$ 457,367	\$ 601,881
Insurance	14,830	43,815	58,645	11,911	35,266	47,177
Pension	9,008	30,906	39,914	5,122	18,168	23,290
Others	16,324	33,395	49,719	15,955	32,132	48,087
Depreciation	35,143	48,963	84,106	41,465	44,066	85,531
Amortization	<u>1,312</u>	<u>26,024</u>	<u>27,336</u>	<u>2,778</u>	<u>13,267</u>	<u>16,045</u>
	<u>\$ 248,596</u>	<u>\$ 697,455</u>	<u>\$ 946,051</u>	<u>\$ 221,745</u>	<u>\$ 600,266</u>	<u>\$ 822,011</u>

Expenses for properties leased to others, which was \$146 thousand as of December 31, 2005 (included in nonoperating expenses and losses - other expenses), was not included in the above depreciation expenses.

## 16. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	<u>Amount (Numerator)</u>		<u>Shares</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>	<u>(Denominator)</u>	<u>Pretax</u>	<u>After-tax</u>
			<u>(Thousand)</u>		
<u>2006</u>					
Basic EPS	\$ 3,258,683	\$ 2,917,891	463,130	<u>\$ 7.04</u>	<u>\$ 6.30</u>
The impact of dilutive potential					
Stock options	-	-	1,175		
Convertible bonds	<u>-</u>	<u>-</u>	<u>111</u>		
Diluted EPS	<u>\$ 3,258,683</u>	<u>\$ 2,917,891</u>	<u>464,416</u>	<u>\$ 7.02</u>	<u>\$ 6.28</u>

	<u>Amount (Numerator)</u>		<u>Shares</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>	<u>(Denominator)</u> <u>(Thousand)</u>	<u>Pretax</u>	<u>After-tax</u>
<u>2005</u>					
Basic EPS	\$ 2,562,148	\$ 2,429,803	414,370	\$ <u>6.18</u>	\$ <u>5.86</u>
The impact of dilutive potential					
Stock options	-	-	1,230		
Convertible bonds	-	-	2,643		
Diluted EPS	\$ <u>2,562,148</u>	\$ <u>2,429,803</u>	<u>418,243</u>	\$ <u>6.13</u>	\$ <u>5.81</u>

The EPS was retroactively adjusted for the stock dividends declared. Thus, in 2005, pretax and after-tax basic EPS decreased from NT\$6.38 to NT\$6.18 and from NT\$6.05 to \$5.86, respectively, and pretax and after-tax diluted EPS decreased from NT\$6.32 to NT\$6.13 and from \$5.99 to \$5.81, respectively.

## 17. RELATED-PARTY TRANSACTIONS

### a. Related parties

	<u>Relationship with the Company</u>
Yin Hsin Investment Co., Ltd. (Yin Hsin)	Equity-method investee
Advantech IBHA Technologies Inc. (Advantech IBHA)	Equity-method investee
Axiomtek Co., Ltd. (Axiomtek)	Equity-method investee
Advantech Investment & Management Service (AIMS)	Equity-method investee
Advansus Corp.	Equity-method investee
Advantech Europe Holding B.V. (AEU)	Equity-method investee
Advantech Co. Singapore Pte, Ltd. (ASG)	Equity-method investee
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Japan Co., Ltd. (AJP)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Advantech Technology Co., Ltd. (ATC)	Equity-method investee
Advantech Italia S.p.A. (AIT)	Equity-method investee of AEU
Advantech Australia Pty Ltd. (AAU)	Equity-method investee
Advantech Automation Corp. (BVI) (AAC (BVI))	Equity-method investee
Advantech France S.A. (AFR)	Equity-method investee of AEU (merged with ADL in March 2006)
Advantech Europe GmbH (ADL, former name: AEBC)	Equity-method investee of AEU
Advantech (UK) Ltd. (AUK)	Equity-method investee of AEU
Advantech Benelux B.V. (ABB)	Equity-method investee of AEU
Advantech Europe B.V. (AESC)	Equity-method investee of AEU
Advantech Europe Design Center GmbH (AEDC)	Equity-method investee of AEU (merged with ADL in 2006)
Advantech Poland Sp. z o.o. (APL)	Equity-method investee of AEU
Advantech Technology (China) Company Ltd. (AKMC)	Equity-method investee of ATC
Advantech Electronic Technology (Dongguan) Co., Ltd. (ADMC)	Equity-method investee of ATC
Advantech Corp. (AC)	Equity-method investee of AAC (BVI)
Advan Automation Co., Ltd. (AAJP)	Equity-method investee of AAC (BVI) (before June 2005)
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Equity-method investee of AAC (BVI)

(Continued)

**Relationship with the Company**

Advantech Control (M) Sdn. Bhd. (AKL)	Equity-method investee of ASG (equity-method investee of AACB before May 2005)
Advantech Automation (Penang) Sdn. Bhd. (APN)	Equity-method investee of ASG (equity-method investee of AACB before March 2005)
Advantech Corporation (Thailand) Co. (ATH) Advantech Co., Malaysia Sdn. Bhd. (AMY) Advantech International Co., Ltd.	Equity-method investee of ASG Equity-method investee The person in charge of Advantech International Co., Ltd. is a brother-in-law of the Company's chairman
Advantech Brazil S/A (ABR)	Equity-method investee (sold to Advantech Internation Co., Ltd. in March 2006)
Firich Enterprise Co., Ltd. (Firich)	The Company's chairman is the Firich Enterprise Co., Ltd.'s director
Viewsys Technology Co., Ltd. (Viewsys) Advantech Investment Fund-C Co., Ltd. (Advantech IFC)	Equity-method investee The person in charge of Advantech IFC is a brother-in-law of the Company's chairman
Yan Hua Xng Ye Electronic (SHHQ) Mr. Andrea Zolli Immoibiliare Verdi Srl	Equity-method investee of AAC(BVI) Manager of AIT Manager of AIT

(Concluded)

- b. The significant transactions with the above related parties, in addition to those disclosed in Note 19 and Tables 2, are summarized as follows:

<u>For the year</u>	<u>2006</u>		<u>2005</u>	
	Amount	% of Total	Amount	% of Total
1) Sales				
AC	\$ 2,889,757	27	\$ 2,057,529	24
AESC	1,846,414	18	1,759,774	21
ACN	1,614,439	15	1,353,883	16
AJP	377,474	4	300,096	4
AKR	333,467	4	256,619	3
ASG	143,128	1	147,337	2
AAU	138,183	1	104,078	1
AKMC	107,812	1	65,044	1
APN	51,474	1	35,392	-
Axiomtek	34,359	-	71,359	1
AKL	23,104	-	20,865	-
ATH	19,387	-	-	-
ABR	11,797	-	16,372	-
Viewsys	5,415	-	-	-
AUK	61	-	7,287	-
ATC	-	-	22,928	-
Others	12,836	-	8,191	-
	<u>\$ 7,609,107</u>	<u>72</u>	<u>\$ 6,226,754</u>	<u>73</u>

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
2) Purchase of materials and supplies				
ATC	\$ 2,805,612	40	\$ 2,269,559	38
Advansus	152,755	2	-	-
AC	14,628	-	23,417	-
AESC	4,611	-	-	-
Axiomtek	3,051	-	4,099	-
Viewsys	2,452	-	-	-
Advantech IBHA	25	-	457	-
Others	8,649	-	940	-
	<u>\$ 2,991,783</u>	<u>42</u>	<u>\$ 2,298,472</u>	<u>38</u>
3) Royalty revenue for patent (part of nonoperating income)				
ATC	<u>\$ 141,100</u>	<u>100</u>	<u>\$ 115,794</u>	<u>100</u>
4) Management service revenues (part of nonoperating income)				
Advansus	\$ 1,020	1	\$ -	-
AC	-	-	11,031	19
Others	1,208	1	-	-
	<u>2,228</u>	<u>2</u>	<u>11,031</u>	<u>19</u>
5) Rental revenues (part of nonoperating income)				
AIMS	60	-	60	-
Yin Hsin	36	-	36	-
	<u>96</u>	<u>-</u>	<u>96</u>	<u>-</u>
	<u>\$ 2,324</u>	<u>2</u>	<u>\$ 11,127</u>	<u>19</u>
<u>At end of year</u>				
6) Receivables				
Accounts				
AESC	\$ 733,976	37	\$ 562,224	31
AC	592,182	29	388,343	21
ACN	301,238	15	271,997	15
AKMC	136,920	7	13,036	1
AJP	78,969	3	65,969	4
AKR	46,417	2	44,786	3
AAU	32,208	2	16,327	1
ABR	18,236	1	8,989	1
APN	15,272	1	3,822	-
AKL	10,829	1	3,579	-
ASG	1,890	-	22,827	1
Axiomtek	825	-	5,849	-

	2006		2005	
	Amount	% of Total	Amount	% of Total
ATC	\$ -	-	\$ 3,023	-
AUK	-	-	236	-
Others	13,476	1	6,746	-
	<u>1,982,438</u>	<u>99</u>	<u>1,417,753</u>	<u>78</u>
Dividends				
ATC	-	-	390,142	21
Royalty				
ATC	-	-	9,527	1
Other receivables				
AKMC	14,195	1	-	-
AJP	624	-	1,031	-
AC	416	-	3,194	-
Axiomtek	396	-	-	-
ADL	47	-	564	-
AESC	1	-	893	-
Others	3,348	-	2,003	-
	<u>19,027</u>	<u>1</u>	<u>7,685</u>	<u>-</u>
	<u>\$ 2,001,465</u>	<u>100</u>	<u>\$ 1,825,107</u>	<u>100</u>

7) Payables

Accounts				
ATC	\$ 246,576	94	\$ 429,928	82
Advansus	4,961	2		
AESC	4,137	2		
Viewsys	3,044	1		
AC	2,105	1	7,509	2
Advantech IBHA	-	-	14,563	3
Others	1,442	-	1,712	-
	<u>262,265</u>	<u>100</u>	<u>453,712</u>	<u>87</u>
Others - payments on behalf of others				
ADL (former name: AEBC)	-		33,969	7
AAC (BVI)	-		33,295	6
AC	-		162	-
Other	-		67	-
	-		<u>67,493</u>	<u>13</u>
	<u>\$ 262,265</u>	<u>100</u>	<u>\$ 521,205</u>	<u>100</u>

c. Securities transactions

The Company sold to Advantech International Co., Ltd. all its common shareholdings in ABR in March 2006. This transaction is summarized as follows:

Marketable Securities Issuer	Shares	Transaction Price	Carrying Value	Disposal Gain
ABR	971,055	\$ -	\$ (13,574)	\$ 13,574

The Company bought all of the shares issued by Viewsys Technology Co., Ltd. from Advantech Investment Fund-C Co., Ltd. in June 2006. The related transaction is summarized as follows:

<b>Common Stock Issuer</b>	<b>Shares</b>	<b>Cost</b>
Viewsys Technology Co., Ltd.	1,100,000	<u>\$ 22,000</u>

The Company bought AEU shares from Mr. Andrea Zolli and Immoobiliare Verdi Srl in May 2006 and 2005, respectively. The related transaction is summarized as follows:

<b>Common Stock Issuer</b>		<b>Shares</b>	<b>Cost</b>
May 2005	AEU	61,292	<u>\$ 10,302</u>
May 2006	AEU	162,364	<u>\$ 25,507</u>

To continue consolidating its European operations and reorganize and integrate its subsidiaries in Europe, the Company sold to AEU its common shareholdings in AIT in January 2005. This sale is summarized as follows:

<b>Marketable Securities Issuer</b>	<b>Shares</b>	<b>Transaction Price</b>	<b>Carrying Value</b>	<b>Disposal Gain</b>
AIT	45,000	<u>\$ 22,274</u>	<u>\$ 21,975</u>	<u>\$ 299</u>

The Company deferred the gain on the sale of long-term equity investments to AEU because AEU is an equity-method investee.

Rent contracts with related-parties were based on market prices and made under normal terms. Product sales were conducted under normal terms. The payment terms for related parties were 60 to 90 days, except those for AESC, AUK, ATC, AKMC, ADMC, AKL, ACN and Advantech IBHA, for which payment terms were based on the investees' operating conditions. Terms for third parties were 30 to 60 days.

## 18. ASSETS PLEDGED OR MORTGAGED

The certificates of deposits had been pledged or mortgaged as part of court requirements for confiscating assets to settle uncollectible accounts are \$1,600 thousand and \$4,100 thousand in 2006 and 2005, respectively.

## 19. COMMITMENTS

- a. As of December 31, 2006, the Company had the following guarantees for affiliates' loans:

	<b>Amount</b>
AKMC	<u>US\$10,000 thousand</u>

## 20. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments were as follows:

	December 31			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Nonderivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets - current	\$ 1,081,740	\$ 1,081,740	\$ 1,366,270	\$ 1,367,578
Available-for-sale financial assets - noncurrent	3,987,961	3,987,961	3,484,906	3,985,370
<u>Liabilities</u>				
Bonds payable - current portion	-	-	8,900	17,711
<u>Derivative financial instruments location</u>				
Financial liabilities at fair value through profit or loss - current				
Domestic	540	540	-	-
Foreign (foreign corporation operating in domestic district included)	-	-	489	489

On January 1, 2006, the Company adopted the new Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments" and the related accounting treatments on derivative financial instruments were not adopted in 2005, about the changes as a separate component of shareholders' equity, please see Note 3.

- b. Methods and assumptions used in the determination of fair values of financial instruments
- 1) For financial instruments such as cash, notes and accounts receivable, receivables from related parties, certificates of deposit - pledged, notes and accounts payable, payables to related parties, refundable deposits and Guarantee deposits received, the carrying amounts of these financial instruments approximate their fair values.
  - 2) Fair values of available-for-sale financial assets were based on their quoted market price.
  - 3) Fair value of the current portion of bonds payable was based on their quoted market prices.
  - 4) Fair values of derivatives were determined using the quoted market prices, using valuation techniques incorporating estimates and assumptions that are consistent with those prevailing in the market.

- c. The fair values of the Company's financial assets and liabilities were based on the quoted market prices or determined using certain valuation techniques, as follows:

<u>Asset</u>	<u>Based on the Quoted Market Price</u>		<u>Determined Using Valuation Techniques</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Available-for-sale financial assets - current	\$ 1,081,740	\$ 1,367,578	\$ -	\$ -
Available-for-sale financial assets - noncurrent	3,987,961	3,985,370	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current	-	-	540	489
Bonds payable - current portion	-	17,711	-	-

- d. As of December 31, 2006 and 2005, financial assets exposed to fair value risk from interest rate fluctuation amounted to \$1,261,422 thousand and \$1,269,207 thousand, respectively.
- e. The Company recognized an unrealized gain of \$514,336 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the year ended December 31, 2006. The Company also recognized an unrealized loss of \$369 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity-method investees for the year ended December 31, 2006.
- f. Financial risks
- 1) Market risk. The derivative financial instruments categorized as financial assets at fair value through profit or loss are mainly used to hedge exchange rate fluctuations of foreign currency-denominated assets and liabilities. Thus, the market risk of derivatives will be offset by the gain or loss on the exchange rate fluctuations of hedged assets and liabilities. Available-for-sale financial assets held by the Company are mainly mutual funds and publicly traded stocks. Thus, price fluctuations in the open market would result in changes in fair values of these financial instruments.
  - 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties breach the contracts. Contracts with positive fair values on the balance sheet date are evaluated for credit risk. Since the counter-parties to the foregoing derivative financial instruments are reputable financial institutions, management believes its exposure to default by counter-parties is low.
  - 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low. In addition, for long-term equity-method investments (mutual funds and publicly traded stocks), the Company keeps liquidity reserves, which are available on a short-term basis. Additionally, the contracted forward rate is decided on the contract starting dates. Thus, the cash flow risk on forward contracts is low.

## 21. ADDITIONAL DISCLOSURES

- a. Except for those mentioned in Note 19 and Tables 1 to 7, no additional disclosures are required by the Securities and Futures Bureau for the Company and its investees and on investment in Mainland China.
- b. Investments in mainland China
  - 1) Investee company name, main business and products, total amount of paid-in capital, investment type, investment flows, percentage ownership of direct or indirect investment, investment gains (losses), carrying value as of December 31, 2006, accumulated inward remittance of earnings as of December 31, 2006 and upper limit on investment: Table 8 (attached)
  - 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Note 17, 19 and Tables 1, 2, 5, 6 and 8.

## 22. SEGMENT INFORMATION

- a. Industry: The Company is engaged only in a single industry: The manufacture and sale of embedded computing boards, applied panel computing, industrial automation and industrial and network computing.
- b. Foreign operations: The Company had no revenue-generating foreign operating unit as of December 31, 2006.
- c. Export sales

<b>Geographic Area</b>	<b>2006</b>	<b>2005</b>
America	\$ 3,436,352	\$ 2,236,609
Asia	3,170,505	2,883,238
Europe	<u>2,251,820</u>	<u>2,146,078</u>
	<u>\$ 8,858,677</u>	<u>\$ 7,265,925</u>

- d. Major customers

<b>Customer</b>	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>% of Total</b>	<b>Amount</b>	<b>% of Total</b>
AC	\$ 2,889,757	27	\$ 2,057,529	24
AESC	1,846,414	18	1,759,774	21
ACN	<u>1,614,439</u>	<u>15</u>	<u>1,353,883</u>	<u>16</u>
	<u>\$ 6,350,610</u>	<u>60</u>	<u>\$ 5,171,186</u>	<u>61</u>

## ADVANTECH CO., LTD. AND INVESTEES

## FINANCING PROVIDED

YEAR ENDED DECEMBER 31, 2006

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

No.	Financier	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Nature of Financing (Note A)	Transaction Amount	Financing Reasons	Allowance for Bad Debt	Collateral		Maximum Amount of Financing to Individual Counter-party	Maximum Amount of Financing that Can Be Provided by the Financier
											Item	Value		
1	AEU	ADL (former name: AEBC)	Receivables from related parties	\$ 32,213 (EUR 750 thousand)	\$ 32,213 (EUR 750 thousand)	2.5%	1	\$ -	Financing need	\$ -	-	\$ -	\$ 43,488 (Note B)	\$ 86,977 (Note C)
		AEDC (Note H)	Receivables from related parties	4,295 (EUR 100 thousand)	-	2.5%	1	-	Financing need	-	-	-	"	"
2	AESC	AEU	Receivables from related parties	11,167 (EUR 260 thousand)	11,167 (EUR 260 thousand)	2.5%	1	-	Financing need	-	-	-	13,283 (Note D)	25,567 (Note E)
		ADL (former name: AEBC)	Receivables from related parties	10,738 (EUR 250 thousand)	-	2.5%	1	-	Financing need	-	-	-	"	"
3	AAC (BVI)	ACN	Receivables from related parties	32,595 (US\$ 1,000 thousand)	-	2.5%	1	-	Financing need	-	-	-	120,307 (Note F)	240,614 (Note G)

Notes: A. Nature of Financing:

There is a need for short-term financing.

B. 15% of net asset value of AEU.

C. 30% of net asset value of AEU.

D. 15% of net asset value of AESC.

E. 30% of net asset value of AESC.

F. 15% of AAC (BVI)'s issued capital stock.

G. 30% of AAC (BVI)'s issued capital stock.

H. AEDC merged with ADL (former name: AEBC) in 2006.

I. The exchange rates were US\$1.00=NT\$32.595; EUR\$1.00=NT\$42.95.

## ADVANTECH CO., LTD. AND INVESTEEES

## ENDORSEMENT/GUARANTEE PROVIDED

YEAR ENDED DECEMBER 31, 2006

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

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/Guarantee Amounts	Maximum Balance for the Year	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statements (%)	Maximum Collateral/Guarantee Amounts Allowable (Note)
		Name	Nature of Relationship						
0	Advantech Co., Ltd. (the "Company")	AKMC	Indirect subsidiary	\$ 695,444 (Note A)	\$ 325,950 ( US\$ 10,000 thousand )	\$ 325,950 ( US\$ 10,000 thousand )	\$ -	2.32%	\$ 1,390,889 (Note C)
		AC	Indirect subsidiary	"	228,165 ( US\$ 7,000 thousand )	-	-	-	1,390,889 (Note C)
		ACN	Indirect subsidiary	"	130,380 ( US\$ 4,000 thousand )	-	-	-	1,390,889 (Note C)
		AAC (BVI)	Indirect subsidiary	"	65,190 ( US\$ 2,000 thousand )	-	-	-	1,390,889 (Note C)
1	AEU	AEDC (Note E)	Subsidiary	43,784 (Note B)	11,811 ( EUR 275 thousand )	-	-	-	87,568 (Note D)

Note: A. 15% of the Company's issued capital stock.

B. 15% of AEU's issued capital stock.

C. 30% of the Company's issued capital stock.

D. 30% of AEU's issued capital stock.

E. AEDC merged with ADL (former name: AEBC) in 2006.

F. The exchange rates were US\$1.00=NT\$32.595; EUR\$1.00=NT\$42.95.

## ADVANTECH CO., LTD. AND INVESTEEES

MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS  
DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note	
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Advantech Co., Ltd. (the "Company")	<u>Stock</u>								
	AAC (BVI)	Investee	Long-term equity investments	24,606,500	\$ 1,264,763	100.00	\$ 1,264,763	Note A	
	ATC	"	"	13,450,000	632,386	100.00	632,386	Note A	
	Advansus Corp.	"	"	50,000,000	477,963	50.00	477,963	Note A	
	Axiontek	"	"	22,665,430	412,454	33.92	412,454	Note C	
	AEU	"	"	9,415,695	315,168	98.37	315,168	Note A	
	Yin Hsin Co., Ltd.	"	"	29,999,994	265,146	100.00	265,146	Note A	
	AKR	"	"	3,112,131	176,335	23.89	176,335	Note A	
	ASG	"	"	1,450,000	109,311	100.00	109,311	Note A	
	AJP	"	"	1,200	91,914	100.00	91,914	Note A	
	AAU	"	"	500,204	84,512	100.00	84,512	Note A	
	AMY	"	"	2,000,000	35,842	100.00	35,842	Note A	
	Viewsys	"	"	1,100,000	24,572	100.00	24,572	Note A	
	AHG	"	"	30	12,591	30.00	12,591	Note A	
	Advantech IBHA Inc.	"	"	1,994,000	12,208	13.29	12,208	Note A	
	Advantech Investment & Management Service	"	"	500,000	5,438	100.00	5,438	Note A	
	AHK	"	"	999,999	(1,060)	100.00	(1,060)	Notes A	
	ASUSTek Computer Inc.	-		Available-for-sale financial assets - noncurrent	43,701,412	3,898,166	1.28	3,898,166	Note C
	Firich Enterprise Co., Ltd.	Note D		"	195,207	89,795	0.36	89,795	Note C
	<u>Fund</u>								
	Capital income fund	-		Available-for-sale financial assets - current	20,160,102.10	300,214	-	300,214	Note B
	ABN AMRO Income Fund	-		"	18,915,931.26	299,492	-	299,492	Note B
	NITC Bond Fund	-		"	837,579.16	137,827	-	137,827	Note B
	ALLIANZ Bond Dam Fund	-		"	8,928,435.04	103,465	-	103,465	Note B
	Capital High Yield Fund	-		"	4,893,961.20	66,834	-	66,834	Note B
	Fubon Chi-Hsiang Fund	-		"	3,904,902.90	56,837	-	56,837	Note B
	The Wan Pao Fund	-		"	3,161,820.19	47,996	-	47,996	Note B
	ABN AMRO Bond Fund	-		"	2,285,187.59	34,439	-	34,439	Note B
	Capital Cash Reserves Fund	-		"	1,928,910.70	22,609	-	22,609	Note B
Fuh-hwa Bond Fund	-		"	902,173.80	12,027	-	12,027	Note B	

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Yin Hsin Co., Ltd.	<u>Stock</u>							
	Advantech IBHA Inc.	Investee	Long-term equity investments	10,000,000	\$ 61,243	66.67	\$ 61,243	Note A
	Timson Tech Co. (TTC)	"	"	270,000	7,782	30.00	7,782	Note A
	Superior Technology Co., Ltd.	-	Financial assets carried at cost - noncurrent	913,470	33,441	12.93	33,441	-
	COBAN Research and Technologies, Inc.	-	"	600,000	33,257	7.00	33,257	-
	Netstar Technology Corp.	-	"	621,622	7,459	3.45	7,459	-
	Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	204,000	12,362	-	12,362	Note C
	<u>Fund</u>							
	ABN AMRO Bond Fund	-	"	869,082.72	13,098	-	13,098	Note B
	Capital Cash Reserves Fund	-	"	1,923,973.70	22,552	-	22,552	Note B
Capital Income Fund	-	"	4,980,146.70	74,162	-	74,162	Note B	
Advantech IBHA Inc.	<u>Fund</u>							
	ABN AMRO Bond Fund	-	"	4,715,360.85	71,062	-	71,062	Note B
	ABN AMRO Select Bond Fund	-	"	1,638,154.13	17,932	-	17,932	Note B
Viewsys Technology Co., Ltd.	<u>Fund</u>							
	JIH SUN Bond Fund	-	"	258,884.13	3,532	-	3,532	Note B
Advansus Corp.	<u>Fund</u>							
	NITC Bond Fund	-	"	48,279	7,944	-	7,944	Note B
	Capital Income Fund	-	"	353,868	5,270	-	5,270	Note B
AIMS	<u>Fund</u>							
	JIH SUN Bond Fund	-	"	184,917.22	2,523	-	2,523	Note B
TTC	<u>Shares</u>							
	Kunshan Timson Tech Co., Ltd.	Investee	Long-term equity investments	-	25,940	100.00	25,940	Note A
ATC	<u>Shares</u>							
	AKMC	"	"	-	567,969	100.00	567,969	Note A
	ADMC	"	"	-	43,773	100.00	43,773	Note A
AAC (BVI)	<u>Stock</u>							
	AC	"	"	10,952,606	805,357	100.00	805,357	Note A
	<u>Shares</u>							
	Visual Systems GmbH	-	Financial assets carried at cost noncurrent	-	745	20.00	745	-
	ACN	Investee	Long-term equity investments	-	361,750	100.00	361,750	Note A
	SHHQ	"	"	-	97,785	100.00	97,785	Note A

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
AEU	<u>Stock</u>	Investee	Long-term equity investments					
	AESC			8,314,280	\$ 88,556	100.00	\$ 88,556	Note A
	AUK			600,000	27,842	100.00	27,842	Note A
	ABB			295,378	52,279	100.00	52,279	Note A
	ADL (former name: AEBC)			1,142,000	16,511	100.00	16,511	Note A
	AIT			45,000	3,469	100.00	3,469	Note A
	APL		2,000	6,500	80.00	6,500	Note A	
ASG	<u>Stock</u>	Investee	Long-term equity investments					
	ATH			30,000	4,422	30.00	4,422	Note A
	APN			570,570	7,601	55.00	7,601	Note A
	AKL			418,000	4,383	55.00	4,383	Note A

Note A: Net asset values were based on audited financial statements.

Note B: Market values were based on the net asset values of the open-end mutual funds on December 31, 2006.

Note C: Market value was based on the closing price on December 31, 2006.

Note D: The Company's chairman is the Firich Enterprise Co., Ltd.'s director.

(Concluded)

## ADVANTECH CO., LTD. AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Other (Note A)	Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal		Shares	Amount	
Advantech Co., Ltd. (the "Company")	<u>Fund</u>															
	ABN AMRO Bond Fund	Available-for-sale financial assets - current	-	-	19,198,556.89	\$ 298,000	56,874,612.86	\$ 895,779	57,157,238.49	\$ 900,218	\$ 894,314	\$ 5,904	\$ 27	18,915,931.26	\$ 299,492	
	Capital Income Fund	"	-	-	-	-	99,212,941.70	1,466,700	79,052,839.60	1,170,340	1,166,526	3,814	40	20,160,102.10	300,214	
	Capital Cash Reserves Fund	"	-	-	-	-	79,874,375.70	929,204	77,945,465.00	908,717	906,597	2,120	2	1,928,910.70	22,609	
	NITC Bond Fund	"	-	-	2,226,456.07	361,290	10,980,067.98	1,793,792	12,368,944.89	2,020,592	2,017,271	3,321	16	837,579.16	137,827	
	Fuh-Hwa Bond Fund	"	-	-	-	-	41,085,973.20	543,965	40,183,799.40	532,699	531,939	760	1	902,173.80	12,027	
	ABN AMRO Select Bond Fund	"	-	-	8,289,805.60	92,668	59,688,447.22	671,068	67,978,252.82	764,982	763,736	1,246	-	-	-	
	ABN AMRO Bond Fund	"	-	-	12,151,168.46	180,568	74,865,841.62	1,121,084	84,731,822.49	1,269,013	1,267,216	1,797	3	2,285,187.59	34,439	
	Fuh-Hwa Albatross Fund	"	-	-	4,497,974.70	50,081	26,019,227.90	291,565	30,517,202.60	342,235	341,646	589	-	-	-	
	AIG Taiwan Bond Fund	"	-	-	6,339,161.68	79,725	13,233,812.51	167,274	19,572,974.19	247,833	246,999	834	-	-	-	
	Dresdner Bond Dam Fund	"	-	-	6,149,013.35	70,272	55,595,285.74	640,971	52,815,864.05	608,995	607,790	1,205	12	8,928,435.04	103,465	
	The Wan Pao Fund	"	-	-	-	-	30,443,759.28	460,392	27,281,939.09	412,992	412,400	592	4	3,161,820.19	47,996	
	Fubon Chi-Hsiang I Fund	"	-	-	3,572,061.96	46,132	7,989,442.24	103,734	11,561,504.20	150,286	149,866	420	-	-	-	
	Capital High Yield Fund	"	-	-	-	-	9,787,922.40	133,628	4,893,961.20	66,828	66,800	28	6	4,893,961.20	66,834	
	Fubon Chi-Hsiang Fund	"	-	-	-	-	11,785,365.60	171,036	7,880,462.70	114,485	114,203	282	4	3,904,902.90	56,837	
	<u>Common stock</u>															
	Advansus Corp.	Long-term equity investments	-	Long-term equity investments	-	-	50,000,000.00	500,000	-	-	-	-	(22,037)	50,000,000.00	477,963	

Note A: The effect of adopting the newly released Statements of Financial Accounting Standards No. 34 "Accounting for Financial Instrument" (SFAS No. 34).

Note B: A joint venture of the Company and ASUSTEK.

Note C: Investment loss (net) recognized under equity method.

## ADVANTECH CO., LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Advantech Co., Ltd.	ATC	Subsidiary	Purchase	\$ 2,805,612	40	Depending on its operating conditions	\$ -	-	\$ (246,576)	94	
	Advansus Corp.	Subsidiary	Purchase	152,755	2	60-90 days	-	-	(4,961)	2	
	AC	Indirect subsidiary	Sale	(2,889,757)	27	60-90 days	-	-	592,182	29	
	AESC	Indirect subsidiary	Sale	(1,846,414)	18	Depending on its operating conditions	-	-	733,976	37	
	ACN	Indirect subsidiary	Sale	(1,614,439)	15	Depending on its operating conditions	-	-	301,238	15	
	AJP	Subsidiary	Sale	(377,474)	4	60-90 days	-	-	78,969	3	
	AKR	Investee	Sale	(333,467)	4	60-90 days	-	-	46,417	2	
	ASG	Subsidiary	Sale	(143,128)	1	60-90 days	-	-	1,890	-	
	AAU	Subsidiary	Sale	(138,183)	1	60-90 days	-	-	32,208	2	
	AKMC	Indirect subsidiary	Sale	(107,812)	1	Depending on its operating conditions	-	-	136,920	7	
ATC	Advantech Co., Ltd.	Parent company	Sale	(2,805,612)	99	Depending on its operating conditions	-	-	246,576	83	
Advansus Corp.	Advantech Co., Ltd.	Parent Company	Sale	(152,755)	76	60-90 days	-	-	4,961	25	
AC	Advantech Co., Ltd.	Ultimate parent company	Purchase	2,889,757	82	60-90 days	-	-	(592,182)	99	
AESC	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,846,414	66	Depending on its operating conditions	-	-	(733,976)	85	
ACN	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,614,439	72	Depending on its operating conditions	-	-	(301,238)	95	
AJP	Advantech Co., Ltd.	Parent company	Purchase	377,474	98	60-90 days	-	-	(78,969)	100	
AKR	Advantech Co., Ltd.	Parent company	Purchase	333,467	24	60-90 days	-	-	(46,417)	29	
ASG	Advantech Co., Ltd.	Parent company	Purchase	142,128	74	60-90 days	-	-	(1,890)	100	
AAU	Advantech Co. Ltd.	Parent company	Purchase	138,183	88	60-90 days	-	-	(32,208)	100	
AKMC	Advantech Co. Ltd.	Ultimate parent company	Purchase	107,812	6	Depending on its operating conditions	-	-	(136,920)	33	

**ADVANTECH CO., LTD. AND INVESTEEES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (Times)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Advantech Co., Ltd.	AESC	Indirect subsidiary	\$ 733,976	2.85	\$ -	-	\$ 342,735	\$ -
	ACN	Indirect subsidiary	301,238	5.63	-	-	328,352	-
	AC	Indirect subsidiary	592,182	5.89	-	-	548,957	-
	AKMC	Indirect subsidiary	136,920	1.44	-	-	-	-
ATC	Advantech Co., Ltd.	Parent company	246,576	8.30	-	-	391,446	-

## ADVANTECH CO., LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
 YEAR ENDED DECEMBER 31, 2006  
 (In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note
				December 31, 2006	December 31, 2005	Shares	Percentage of Ownership	Carrying Value			
Advantech Co., Ltd.	AAC (BVI)	BVI	Investment holding company	\$ 821,894	\$ 725,144	24,606,500	100.00	\$ 1,264,763	\$ 230,244	\$ 230,244	Subsidiary
	ATC	BVI	Sale of industrial automation products	427,781	427,781	13,450,000	100.00	632,386	554,738	554,738	Subsidiary
	Advansus Corp.	Taipei, Taiwan	Production and sale of industrial automation products	500,000	-	50,000,000	50.00	477,963	(44,074)	(22,037)	Equity-method investee
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	303,334	308,586	22,665,430	33.92	412,454	334,595	101,932	Equity-method investee
	AEU	Helmond, the Netherlands	Investment holding company	377,298	351,791	9,415,695	98.37	315,168	40,649	39,538	Subsidiary
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	265,146	8,810	8,810	Subsidiary
	AKR	Seoul, Korea	Sale of industrial automation products	32,989	32,989	3,112,131	23.89	176,335	94,782	23,261	Equity-method investee
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	109,311	13,990	13,990	Subsidiary
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	91,914	19,426	19,426	Subsidiary
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	84,512	5,135	5,135	Subsidiary
	Viewsys	Taipei, Taiwan	Sale of industrial automation products	22,000	-	1,100,000	100.00	24,572	2,572	2,572	Subsidiary
	AHG	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	12,591	(1,113)	(334)	Equity-method investee
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	12,208	3,619	481	Subsidiary
	AIMS	Taipei, Taiwan	Investment and management service	5,000	5,000	500,000	100.00	5,438	(4)	78	Subsidiary
	AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	(1,060)	(177)	(177)	Subsidiary (Note A)
	AMY	Malaysia		35,140	-	2,000,000	100.00	35,842	4	4	Subsidiary (Note A)
Yin Hsin Co., Ltd.	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	100,000	100,000	10,000,000	66.67	61,243	3,619	2,528	Indirect subsidiary
	TTC	Brunei	Investment holding company	8,323	8,323	270,000	30.00	7,782	-	-	Equity-method investee of a subsidiary
ATC	AKMC	Kunshan, China	Production and sale of components of industrial automation products	409,393	409,393	-	100.00	567,969	28,538	28,538	Indirect subsidiary
	ADMC	Guangzhou, China	Production and sale of industrial automation products	44,511	38,165	-	100.00	43,773	(4,658)	(4,658)	Indirect subsidiary
Timson Tech Co. (TTC)	Kunshan Timson Tech Co., Ltd.	Kunshan, China	Processes and sale of peripherals	30,222	30,222	-	100.00	25,940	-	-	Equity-method investee of a subsidiary
AAC (BVI)	AC	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	805,357	136,202	136,202	Indirect subsidiary
	ACN	Beijing, China	Sale of industrial automation products	185,356	185,356	-	100.00	361,750	93,291	93,291	Indirect subsidiary
	SHHQ	Shanghai, China	Sale of industrial automation products	96,750	-	-	100.00	97,785	-	-	Indirect subsidiary
AEU	AESC	Eindhoven, the Netherlands	Sale of industrial automation products	90,450	90,450	8,314,280	100.00	88,556	21,821	21,821	Indirect subsidiary
	AUK	Milton Keynes, England	Sale of industrial automation products	13,373	13,373	600,000	100.00	27,842	(5,654)	(5,654)	Indirect subsidiary
	ABB	Roosendaal, The Netherlands	Sale of industrial automation products	39,565	39,565	295,378	100.00	52,279	7,776	7,776	Indirect subsidiary
	ADL (former name: AEBC)	Duesseldorf, Germany	Sale of industrial automation products	46,028	46,028	1,142,000	100.00	16,511	33,880	33,880	Indirect subsidiary
	AIT	Milano, Italy	Sale of industrial automation products	22,275	22,275	45,000	100.00	3,469	(7,684)	(7,684)	Indirect subsidiary
	AEDC	Amberg, Germany	Sale of industrial automation products	-	46,446	-	-	-	-	-	Indirect subsidiary
APL	Warsaw, Poland	Sale of industrial automation products	10,285	10,285	2,000	80.00	6,500	(5,747)	(4,598)	Indirect subsidiary	
ADL (former name: AEBC)	AFR	Paris, France	Sale of industrial automation products	-	26,506	-	-	-	-	-	Indirect subsidiary (Notes C)
ASG	ATH	Thailand	Production of computers	2,495	1,199	30,000	30.00	4,422	4,085	1,225	Indirect subsidiary
	APN	Penang, Malaysia	Sale of industrial automation products	8,181	8,181	570,570	55.00	7,601	2,728	1,500	Indirect subsidiary
	AKL	Kuala Lumpur, Malaysia	Sale of industrial automation products	7,264	7,264	418,000	55.00	4,383	(355)	(195)	Indirect subsidiary

Note A: The carrying value is shown as part of other liabilities.

Note B: The calculation of investment gain (loss) was based on the audited financial statements.

Note C: AFR became ADL (former name: AEBC)'s subsidiary after reorganization.

## ADVANTECH CO., LTD. AND INVESTEEES

## INVESTMENTS IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2006

(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 Jan. 1, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2006	Accumulated Inward Remittance of Earnings as of December 31, 2006
					Outflow	Inflow					
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US\$12,000 thousand	Indirect	\$ 391,140 (US\$ 12,000 thousand)	\$ -	\$ -	\$ 391,140 (US\$ 12,000 thousand)	100%	\$ 28,538	\$ 567,969	\$ -
Yan Hua Xng Ye Electronic	Sale of industrial automation products	US\$3,000 thousand	Indirect	-	97,785 (US\$ 3,000 thousand)	-	97,785 (US\$ 3,000 thousand)	100%	-	97,785	-
Kunshan Timson Tech Co., Ltd.	Processes and sale of peripherals	US\$900 thousand	Indirect	8,801 (US\$ 270 thousand)	-	-	8,801 (US\$ 270 thousand)	30%	-	7,782	-
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US\$4,230 thousand	Indirect	173,797 (US\$ 5,332 thousand)	-	-	173,707 (US\$ 5,332 thousand)	100%	93,291	361,750	-
Advantech Electronic Technology (Dongguan) Co., Ltd.	Production and sale of industrial automation products	US\$1,400 thousand	Indirect	(Note C)	-	-	(Note C)	100%	(4,658)	43,773	-

Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$678,041 (US\$20,802 thousand) (Note D)	\$1,303,800 (US\$40,000 thousand)	\$4,306,747

Note A: The calculation of investment gain (loss) was based on the audited financial statements.

Note B: The significant events, prices, payment terms and unrealized gains or losses generated on trading between Advantech Co., Ltd. and its investees in Mainland China are described in Notes 17 and 19 to the financial statements and Tables 1, 2, 5 and 6.

Note C: Which remittance by Advantech Technology Co., Ltd.

Note D: Included the outflow of original investment in Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd. (AGZ) of US\$200 thousand; this company had been closed and the amount of investment was retired; and this had been approved by MOEA. If there has capitals inflow back, the Company will submit this incident to MOEA for approving and terminating this case under the regulation.

Note E: The exchange rate was US\$1.00=NT\$32.595.