

## **Advantech Co., Ltd. and Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2006 and 2005 and  
Independent Accountants' Review Report**

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Advantech Co., Ltd. and subsidiaries as of June 30, 2006 and 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on these financial statements based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Note 2 to the financial statements, we did not review the financial statements as of and for the six months ended June 30, 2006 and 2005 of the consolidated subsidiaries. As of June 30, 2006 and 2005, the subsidiaries' total assets were 35.62% (NT\$5,860,986 thousand) and 42.86% (NT\$5,042,948 thousand), respectively, of the consolidated total assets, and their total liabilities were 19.37% (NT\$908,826 thousand) and 16.77% (NT\$726,208 thousand), respectively, of the consolidated total liabilities. The operating revenues of these subsidiaries were 74.85% (NT\$5,337,898 thousand) and 77.97% (NT\$4,146,642 thousand) of the consolidated operating revenues in 2006 and 2005, respectively, and the net income of these subsidiaries was 35.19% (NT\$514,222 thousand) and 31.69% (NT\$342,957 thousand) of the consolidated total net income as of June 30, 2006 and 2005, respectively. Also, as disclosed in Note 8 to the financial statements, we did not review the financial statements of equity-method investees as of and for the six months ended June 30, 2006 and 2005. As of June 30, 2006 and 2005, the carrying values of these investments were NT\$569,054 thousand and NT\$433,487 thousand, respectively, of the consolidated total assets, and the net investment gains were NT\$77,675 thousand and NT\$10,276 thousand, respectively. These investment amounts as well as additional disclosures in Note 24 required by the Securities and Futures Bureau for the Parent Company and its investees, were based on the investees' unreviewed financial statements for the same reporting periods as those of the Parent Company.

Based on our reviews, except for any adjustments that might have been determined to be necessary had the financial statements of the equity-method investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements of Advantech Co., Ltd and subsidiaries as of and for the six months ended June 30, 2006 and 2005 for them to be in conformity with the Guidelines Governing the Preparation of Financial Report by Securities Issuers and accounting principles generally accepted in Republic of China.

As disclosed 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.

August 4, 2006

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 review such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the accountants’ 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 accountants’ report and financial statements shall prevail.*

## ADVANTECH CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 2,492,729	15	\$ 2,448,851	21	Financial liabilities at fair value through profit or loss - current (Notes 2, 3, 5 and 23)	\$ 403	-	\$ 5,282	-
Available-for-sale financial assets - current (Notes 2, 3, 6 and 23)	1,990,838	12	2,237,908	19	Short-term bank loans (Note 12)	375,706	3	474,183	4
Notes receivable (Note 2)	137,845	1	88,445	1	Notes payable	247	-	1,238	-
Accounts receivable, net of allowance for doubtful accounts of \$36,633 thousand in 2006 and \$51,597 thousand in 2005 (Note 2)	2,056,044	13	1,521,698	13	Accounts payable	851,411	5	1,016,609	9
Receivable from related parties (Notes 2 and 20)	111,507	1	95,977	1	Payables to related parties (Note 20)	514	-	783	-
Tax refund receivable	143,628	1	109,605	1	Income tax payable (Notes 2 and 17)	177,869	1	106,807	1
Inventories, net (Notes 2 and 7)	2,373,900	14	1,772,380	15	Dividend payable and employee bonus payable (Note 16)	2,079,253	13	1,529,087	13
Deferred income tax assets - current (Notes 2 and 17)	46,614	-	57,673	-	Accrued expenses	530,215	3	468,003	4
Prepayments and other current assets	350,547	2	304,169	3	Bonds payable - current portion (Notes 2 and 13)	2,700	-	88,485	1
Total current assets	9,703,652	59	8,636,706	74	Other current liabilities	346,053	2	249,477	2
					Total current liabilities	4,364,371	27	3,939,954	34
<b>FUND AND INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Equity method investments (Notes 2 and 8)	569,054	3	433,487	4	Long-term bank loans (Note 14)	71,636	-	100,486	1
Available-for-sale financial assets - noncurrent (Notes 2, 3, 6 and 23)	3,205,245	20	19,798	-					
Financial assets measured on holding cost - current (Notes 2, 3 and 9)	67,438	-	43,708	-	<b>OTHER LIABILITIES</b>				
Total funds and investments	3,841,737	23	496,993	4	Accrued pension liabilities (Notes 2 and 15)	112,117	1	112,334	1
					Guarantee deposits received	47,006	-	5,268	-
<b>PROPERTIES (Notes 2 and 10)</b>					Deferred income tax liabilities - noncurrent (Notes 2 and 17)	86,902	1	162,233	1
Cost					Deferred income (Note 2)	9,262	-	11,204	-
Land	802,368	5	754,469	6	Total other liabilities	255,287	2	291,039	2
Buildings and equipment	1,315,353	8	1,273,792	11	Total liabilities	4,691,294	29	4,331,479	37
Machinery and equipment	518,208	3	429,983	4					
Furniture and fixtures	240,534	2	265,780	2	<b>SHAREHOLDERS' EQUITY</b>				
Miscellaneous equipment	206,125	1	168,854	1	Capital stock, \$10 par value				
Total cost	3,082,588	19	2,892,878	24	Authorized - 500,000 thousand shares				
Accumulated depreciation	693,744	4	598,702	5	Issued and outstanding - 449,138 thousand shares in 2006 and 377,941 thousand shares in 2005	4,491,383	27	3,779,407	32
Construction in progress and advances for equipment acquisition	2,388,844	15	2,294,176	19	To be issued	139,792	1	237,383	2
Net properties	2,563,001	16	2,362,431	20	Capital surplus				
GOODWILL (Note 3)	108,809	1	20,103	-	Paid-in capital in excess of par value	4,349,570	26	1,238,733	11
					From equity-method investments	71,270	1	6,701	-
<b>OTHER ASSETS</b>					Total capital surplus	4,420,840	27	1,245,434	11
Properties leased to others, net (Notes 2, 10 and 11)	-	-	22,700	-	Retained earnings				
Guarantee deposits	46,720	-	25,364	-	Legal reserve	1,086,326	6	843,346	7
Deferred expenses, net (Note 2)	176,846	1	190,718	2	Special reserve	-	-	19,661	-
Certificates of deposit - pledged (Note 21)	1,600	-	4,900	-	Unappropriated earnings	1,794,233	11	1,342,197	12
Other	13,760	-	6,738	-	Total retained earnings	2,880,559	17	2,205,204	19
Total other assets	238,926	1	250,420	2	Others				
					Cumulative translation adjustments	54,970	-	(70,707)	(1)
<b>TOTAL</b>	<b>\$ 16,456,125</b>	<b>100</b>	<b>\$ 11,766,653</b>	<b>100</b>	Unrealized losses on financial instruments	(266,813)	(1)	-	-
					Total others	(211,843)	(1)	(70,707)	(1)
					Total shareholders' equity of parent company	11,720,731	71	7,396,721	63
					Minority interest	44,100	-	38,453	-
					Total shareholders' equity	11,764,831	71	7,435,174	63
					<b>TOTAL</b>	<b>\$ 16,456,125</b>	<b>100</b>	<b>\$ 11,766,653</b>	<b>100</b>

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

(With Deloitte & Touche review report dated August 4, 2006)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 20)				
Sales	\$ 7,222,220	101	\$ 5,269,668	99
Sales returns and allowances	<u>149,771</u>	<u>2</u>	<u>74,455</u>	<u>1</u>
Net sales	7,072,449	99	5,195,213	98
Other operating revenues	<u>59,070</u>	<u>1</u>	<u>122,861</u>	<u>2</u>
Total operating revenues	7,131,519	100	5,318,074	100
OPERATING COSTS (Notes 2, 18 and 20)	<u>3,942,191</u>	<u>55</u>	<u>2,824,460</u>	<u>53</u>
GROSS PROFIT	3,189,328	45	2,493,614	47
REALIZED PROFITS ON INTERCOMPANY SALES (Note 2)	<u>177</u>	<u>-</u>	<u>1,444</u>	<u>-</u>
ADJUSTED GROSS PROFIT	<u>3,189,505</u>	<u>45</u>	<u>2,495,058</u>	<u>47</u>
OPERATING EXPENSES (Note 18)				
Marketing	649,587	9	544,069	10
Administrative	674,856	10	616,877	12
Research and development	<u>307,851</u>	<u>4</u>	<u>227,480</u>	<u>4</u>
Total operating expenses	<u>1,632,294</u>	<u>23</u>	<u>1,388,426</u>	<u>26</u>
OPERATING INCOME	<u>1,557,211</u>	<u>22</u>	<u>1,106,632</u>	<u>21</u>
NONOPERATING INCOME AND GAINS				
Interest	21,274	-	11,463	-
Investment income recognized under the equity method (Notes 2 and 8)	77,675	1	10,276	-
Gain on disposal of fixed assets	-	-	19,165	-
Gain on disposal of investments	89,821	1	154,883	3
Foreign exchange gain, net (Note 2)	65,081	1	-	-
Other income (Note 3)	<u>45,771</u>	<u>1</u>	<u>42,412</u>	<u>1</u>
Total nonoperating income and gains	<u>299,622</u>	<u>4</u>	<u>238,199</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	13,384	-	13,488	-
Foreign exchange loss, net (Note 2)	-	-	28,516	1
Provision for losses on inventories (Notes 2 and 7)	92,850	1	14,812	-

(Continued)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
Financial asset revaluation loss, net (Notes 2, 3 and 5)	\$ 2,653	-	\$ 20,552	-
Other expenses (Note 18)	<u>43,681</u>	<u>1</u>	<u>24,203</u>	<u>1</u>
Total nonoperating expenses and losses	<u>152,568</u>	<u>2</u>	<u>101,571</u>	<u>2</u>
INCOME BEFORE INCOME TAX	1,704,265	24	1,243,260	23
INCOME TAX (Notes 2 and 17)	<u>243,135</u>	<u>4</u>	<u>161,202</u>	<u>3</u>
NET INCOME	<u>\$ 1,461,130</u>	<u>20</u>	<u>\$ 1,082,058</u>	<u>20</u>
ATTRIBUTABLE TO:				
Controlling interest	\$ 1,457,354		\$ 1,083,456	
Minority interest income	<u>3,776</u>		<u>(1,398)</u>	
	<u>\$ 1,461,130</u>		<u>\$ 1,082,058</u>	
	2006		2005	
	Pre-tax	After-tax	Pre-tax	After-tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 3.60</u>	<u>\$ 3.25</u>	<u>\$ 3.00</u>	<u>\$ 2.71</u>
Diluted	<u>\$ 3.59</u>	<u>\$ 3.24</u>	<u>\$ 2.95</u>	<u>\$ 2.67</u>

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

(With Deloitte & Touche review report dated August 4, 2006)

(Concluded)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Capital Stock Issued and Outstanding (Notes 2, 13, and 16)		To be Issued (Note 16)	Capital Surplus (Notes 2 and 16)			Retained Earnings(Notes 2 and 16)				Cumulative Translation Adjustments (Note 2)	Unrealized Losses on Financial Instruments (Notes 2, 3 and 23)	Minority Interest in Subsidiaries	Total Shareholders' Equity
	Shares (Thousand)	Amount		Issued of Stock in Excess of Par Value	From Equity-method Investment	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total				
BALANCE, JANUARY 1, 2006	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	\$ -	\$ 37,966	\$ 12,510,570
Adjustment of adopting newly announced and revised statement of financial accounting standards	-	-	-	-	-	-	-	-	-	-	-	622,416	-	622,416
Appropriation of the 2005 earnings														
Legal reserve	-	-	-	-	-	-	242,980	-	(242,980)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(19,661)	19,661	-	-	-	-	-
Bonus to employees	-	-	50,000	-	-	-	-	-	(220,648)	(220,648)	-	-	-	(170,648)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(22,065)	(22,065)	-	-	-	(22,065)
Stock dividends - 2%	-	-	89,792	-	-	-	-	-	(89,792)	(89,792)	-	-	-	-
Cash dividends - \$4 per share	-	-	-	-	-	-	-	-	(1,795,841)	(1,795,841)	-	-	-	(1,795,841)
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	-	1,457,354	1,457,354	-	-	3,776	1,461,130
Conversion of bonds into capital stock and capital surplus	148	1,480	-	4,720	-	4,720	-	-	-	-	-	-	-	6,200
Employee stock options	90	900	-	2,646	-	2,646	-	-	-	-	-	-	-	3,546
Increase in cumulative translation adjustments due to disposal of long-term investment	-	-	-	-	-	-	-	-	-	-	5,993	-	-	5,993
Increase in carrying value of equity-method investment due to not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	20,905	20,905	-	-	-	-	-	-	-	20,905
Changes in unrealized losses on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(889,229)	-	(889,229)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	9,496	-	-	9,496
Effect of change in consolidated entities in 2006	-	-	-	-	-	-	-	-	-	-	-	-	11,319	11,319
Adjustment due to change in subsidiaries' equity in their investees	-	-	-	-	-	-	-	-	-	-	-	-	(8,961)	(8,961)
<b>BALANCE, JUNE 30, 2006</b>	<u>449,138</u>	<u>\$ 4,491,383</u>	<u>\$ 139,792</u>	<u>\$ 4,349,570</u>	<u>\$ 71,270</u>	<u>\$ 4,420,840</u>	<u>\$ 1,086,326</u>	<u>\$ -</u>	<u>\$ 1,794,233</u>	<u>\$ 2,880,559</u>	<u>\$ 54,970</u>	<u>\$ (266,813)</u>	<u>\$ 44,100</u>	<u>\$ 11,764,831</u>

(Continued)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Capital Stock Issued and Outstanding (Notes 2, 13, and 16)		To be Issued (Note 16)	Capital Surplus (Notes 2 and 16)			Retained Earnings(Notes 2 and 16)				Cumulative Translation Adjustments (Note 2)	Unrealized Losses on Financial Instruments (Notes 2, 3 and 23)	Minority Interest in Subsidiaries	Total Shareholders' Equity
	Shares (Thousand)	Amount		Issued of Stock in Excess of Par Value	From Equity-method Investment	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)	\$ -	\$ 39,851	\$ 7,757,816
Appropriation of the 2004 earnings														
Legal reserve	-	-	-	-	-	-	216,015	-	(216,015)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	19,661	(19,661)	-	-	-	-	-
Bonus to employees	-	-	50,000	-	-	-	-	-	(192,448)	(192,448)	-	-	-	(142,448)
Remunerations to directors and supervisors	-	-	-	-	-	-	-	-	(19,245)	(19,245)	-	-	-	(19,245)
Stock dividends - 5%	-	-	187,383	-	-	-	-	-	(187,383)	(187,383)	-	-	-	-
Cash dividends - \$3.7 per share	-	-	-	-	-	-	-	-	(1,386,639)	(1,386,639)	-	-	-	(1,386,639)
Net income in the six months ended June 30, 2005	-	-	-	-	-	-	-	-	1,083,456	1,083,456	-	-	(1,398)	1,082,058
Conversion of bonds into capital stock and capital surplus	3,645	36,445	-	166,522	-	166,522	-	-	-	-	-	-	-	202,967
Decrease in capital surplus and cumulative translation adjustments due to disposal of long-term investments	-	-	-	-	(5,415)	(5,415)	-	-	-	-	(8,902)	-	-	(14,317)
Adjustment for capital surplus from long-term stock investments accounted for by the equity method	-	-	-	-	(1,640)	(1,640)	-	-	-	-	-	-	-	(1,640)
Decrease in carrying value of equity-method investment due to not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	(1,234)	(1,234)	-	-	-	-	-	-	-	(1,234)
Equity in the investees' translation adjustments	-	-	-	-	-	-	-	-	-	-	(1,264)	-	-	(1,264)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	(40,880)	-	-	(40,880)
BALANCE, JUNE 30, 2005	<u>377,941</u>	<u>\$ 3,779,407</u>	<u>\$ 237,383</u>	<u>\$ 1,238,733</u>	<u>\$ 6,701</u>	<u>\$ 1,245,434</u>	<u>\$ 843,346</u>	<u>\$ 19,661</u>	<u>\$ 1,342,197</u>	<u>\$ 2,205,204</u>	<u>\$(70,707)</u>	<u>\$ -</u>	<u>\$ 38,453</u>	<u>\$ 7,435,174</u>

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

(With Deloitte & Touche review report dated August 4, 2006)

(Concluded)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,461,130	\$ 1,082,058
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	95,734	84,878
Provision (reversal of allowance) for bad debts	6,664	(1,649)
Provision for losses on inventories	92,850	14,812
Loss (gain) on disposal of properties, net	242	(19,165)
Gain on sale of equity-method investments	(74,439)	(136,705)
Cash dividends from equity-method investees	-	8,262
Investment income recognized under the equity method	(77,675)	(10,276)
Accrued pension liabilities	1,169	(2,235)
Deferred income taxes	2,824	37,877
Deferred income	159	(1,444)
Net changes in operating assets and liabilities		
Financial instruments held for trading	(86)	13,657
Notes receivable	52,485	10,863
Accounts receivable	(448,872)	(307,364)
Receivables from related parties	(8,031)	(7,947)
Inventories	(165,933)	(454,569)
Tax refund receivable	(11,381)	12,966
Prepayments and other current assets	(220,661)	(41,508)
Notes payable	(9,881)	(20,592)
Accounts payable	(328,174)	504,272
Payables to related parties	51	(1,521)
Income tax payable	108,782	(46,137)
Accrued expenses	37,262	217,540
Other current liabilities	(10,491)	17,698
Net cash provided by operating activities	<u>503,728</u>	<u>953,771</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in available-for-sale financial assets - current	(393,992)	(101,847)
Increase in available-for-sale financial assets - noncurrent	-	(19,798)
Proceeds of sale of available-for-sale financial assets - noncurrent	64,153	-
Proceeds of sale of equity-method investments	12,782	366,746
Acquisition of properties	(124,571)	(269,471)
Proceeds of sale of properties	100	63,149
Decrease (increase) in guarantee deposits paid	(9,498)	4,384
Decrease in certificates of deposit - pledged	2,500	-
Increase in deferred expense	(60,517)	(50,609)
Decrease in other assets	80,390	30,639
Net cash provided by (used in) investing activities	<u>(428,653)</u>	<u>23,193</u>

(Continued)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in bank loans - short-term	\$ (84,311)	\$ 7,400
Increase (decrease) in long-term loans payable	343	(36,391)
Increase (decrease) in guarantee deposits received	27,714	(3,961)
Employee stock options	3,546	-
Bonus paid to employees	(57,826)	(45,844)
Remuneration to directors and supervisors	(1,500)	-
Increase in minority equity	<u>2,358</u>	<u>-</u>
Net cash used in financing activities	<u>(109,676)</u>	<u>(78,796)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>9,496</u>	<u>(18,767)</u>
NET INCREASE (DECREASE) IN CASH	(25,105)	879,401
CASH, BEGINNING OF PERIOD	<u>2,517,834</u>	<u>1,569,450</u>
CASH, END OF PERIOD	<u>\$ 2,492,729</u>	<u>\$ 2,448,851</u>
<b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 25,056</u>	<u>\$ 19,245</u>
Income tax paid	<u>\$ 114,014</u>	<u>\$ 155,012</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Cash dividends from equity-method investees	<u>\$ 51,375</u>	<u>\$ 46,032</u>
Receivable from sale of equity-method investments	<u>\$ -</u>	<u>\$ 65,303</u>
Reclassification of properties leased to others into properties	<u>\$ 68,818</u>	<u>\$ 8,945</u>
Conversion of bonds into capital stock and capital surplus	<u>\$ 6,200</u>	<u>\$ 202,967</u>
Dividends payable, compensation due to directors and supervisors and employee bonus payable	<u>\$ 1,988,554</u>	<u>\$ 1,557,984</u>

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

(With Deloitte & Touche review report dated August 4, 2006)

(Concluded)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

---

### 1. ORGANIZATION AND OPERATIONS

Advantech Co., Ltd. (the "Parent 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 June 30, 2006 and 2005, the Parent Company and the consolidated subsidiaries (collectively, the "Group") had 2,825 and 2,162 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 and accounting principles generally accepted in the ROC. Under these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, provision for losses on inventories, depreciation of properties and properties leased to others, pension cost, impairment loss, warranty liabilities 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 Group's significant accounting policies are summarized as follows.

#### Basis for Consolidation

The consolidated financial statements should include all of the Parent Company's direct and indirect subsidiaries. Thus, the consolidated entities in the six months ended June 30, 2006 and 2005 included the Parent Company and all of its subsidiaries in the six months then ended. All significant intercompany accounts and transactions have been eliminated from the consolidated financial statements.

The consolidated financial statements as of and for the six months ended June 30, 2006 included a partnership company, Advansus Corp., which was consolidated using the proportionate consolidated method. All significant accounts and transactions between the Parent and this company have been eliminated from the consolidated financial statements.

The organization of the consolidated entities as well as their intercompany relationships and percentages of ownership as of June 30, 2006 and 2005 are shown in Table 9 (attached). The names, locations and other information of investees are shown in Table 7 (attached). However, all consolidated subsidiaries were immaterial; thus, their information and related amounts were based on unreviewed financial statements.

## **Current and Noncurrent Assets and Liabilities**

Current assets include unrestricted cash or cash equivalents, assets held mainly for trading and other assets to be converted into cash or used within one year. Current liabilities include liabilities held mainly for trading and repaid or settled within one year. All other assets and liabilities are classified as noncurrent.

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

Financial assets at fair value through profit or loss include financial assets or liabilities for trading. The financial instruments are initially recognized at fair value, with transaction costs expensed as incurred. Subsequent changes in fair value are recognized as current gain or loss. 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. Subsequent changes in fair value are recognized as adjustments to shareholders' equity, and the related accumulative gains or losses should be recognized in the current period when the financial asset is derecognized. 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 is objective evidence that a 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 debit 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**

Revenues are recognized when titles to products and risks of ownerships are transferred to customers, primarily upon shipment, when the earnings process is completed or virtually completed and revenue is realizable and measurable. The Group 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. Sales returns and allowance are subtracted from sales when occur and the related costs of goods sold are eliminated.

Operating revenues are measured at fair values taking into account related sales discounts based on the prices negotiated between the Group and the customers. Since the future values of operating revenues resulting from receivables within one year approximate the fair values of these receivables, the fair values are not recalculated using the pro forma interest rate method.

Allowances for doubtful accounts are provided on the basis of a review of the estimated collectibility of individual receivable. The Corporation's periodic review also covers the aging status of the receivable, customer's credit and prevailing economic developments.

### **Inventories**

Inventories consist of raw materials and supplies, finished goods and work in process, and 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 Group 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 Group'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 Group'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 Group needs to make asset impairment tests regularly. And if there are indications that the goodwill is probably impaired, the Group 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 Group's equity in the investee's equity in the investee's assets is a deferred liability will amortized depend on its remaining useful life.

If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Group's equity in its investee's net assets is credited to capital surplus. Any decrease in the Group'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 Group has controlling influence, if the equity in losses recognized exceeds the original investment acquisition costs, the Group 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 Group totally until its previously recognized losses are covered.

All profits derived from sales of products by the Group to its subsidiaries are deferred but only profit in proportion to the Group'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 Group is deferred in proportion to the Group'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, 5 to 60 years; machinery and equipment, 2 to 10 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 Group 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, are amortized over two or eight years using the straight-line method.

### **Goodwill**

Goodwill were unamortized balances from difference between investment acquisition costs and the Group's equity in an investee's net assets which could not analysis the reason of difference, and it were amortized in 5 years. Effective January 1, 2006, under the revised Statement of Financial Accounting Standards, investment premiums, representing goodwill, are no longer being amortized

### **Assets Impairment**

An impairment loss should be recognized if the carrying amount of properties, properties leased to others, deferred expenses and investments accounted for by the equity method 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.

### **Capital Expenditures**

If an expenditure is material and will benefit a period of over one year, it will be capitalized, i.e., recognized as an asset; otherwise, it will be recognized as expense.

## **Pension Costs**

For a defined benefit pension plan of the Parent Company, net periodic pension costs are recognized on the basis of actuarial calculation. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 to 19 years and the average remaining service of employees. For a defined contribution pension plan, on contribution basis throughout the employees' service period.

If the pension plans are revised, the prior service costs (a) of the defined benefit pension plan are amortized using the straight-line method over the average years from the revision date to conform with 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.

Except for the Parent Company, the remaining companies all contribute to pension funds and recognize pension costs based on local government regulations.

## **Convertible Bonds**

To convert bonds to common shares, the Parent 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 Group uses inter-period allocation to account for income tax. Deferred tax assets are recognized for the tax effects of deductible temporary differences, 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 expense in the year when the shareholders resolve to retain the earnings.

## **Foreign-currency Transactions**

The financial statements of the intercompany's foreign operations are translated into financial statements denominated in the reporting entity currency, then translated information are shown as follow. All assets and liabilities should be translated at the current rate as at the balance sheet date. Shareholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. The current rate used for income statement accounts is the weighted-average exchange rate of the current period. The exchange gain or loss from the above translation are recorded as adjustments to shareholders' equity, and will be recognized in the current period when the foreign operations are settled or liquidated.

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 are restated at the prevailing exchange rates, and the resulting differences are recorded as follows: Equity-method 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 restated at the history rates are recognized as the rate of the trading rate.

## **Reclassifications**

The Group reclassified some accounts of the second-quarter financial statements of 2005 to be consistent with the presentation of the second-quarter financial statements of 2006.

## **3. ACCOUNTING CHANGES**

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

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

The Group 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	-	3,291
Available-for-sale financial assets - noncurrent	<u>-</u>	<u>619,125</u>
	<u>\$ 104</u>	<u>\$ 622,416</u>

Note: Included in nonoperating income and gains - other.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to be consistent with the financial statements as of and for the six months ended June 30, 2006. However, the previously issued financial statements as of and for the six months ended June 30, 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 Group 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.

3) Forward contracts

Forward exchange 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 six months ended June 30, 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	\$ 2,237,908	\$ -
Long-term investments accounted for by the cost method	63,506	-
Other current liabilities (forward contracts)	5,282	-
Available-for-sale financial assets - current	-	2,237,908
Available-for-sale financial assets - noncurrent	-	19,798
Financial assets carried at cost - noncurrent	-	43,708
Financial liabilities at fair value through profit or loss	-	5,282
<u>Statement of income</u>		
Foreign exchange loss, net	20,552	-
Valuation loss on financial instruments	-	20,552

Effective January 1, 2006, the Group 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\$25,859 thousand in net income and of NT\$0.06 basic earnings per share after tax for the six months ended June 30, 2006.

#### 4. CASH

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 2,031	\$ 1,092
Checking and demand deposits	675,090	793,941
Time deposits: Interest - 1.45%-5.14% in 2006 and 1.05%-3.20% in 2005	<u>1,815,608</u>	<u>1,653,818</u>
	<u>\$ 2,492,729</u>	<u>\$ 2,448,851</u>

On June 30, 2006 and 2005, deposits overseas were as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Hong Kong (US\$316 and HK\$138 in 2006 and US\$23 thousand and HK\$147 thousand in 2005)	<u>\$ 11</u>	<u>\$ 1,333</u>

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

Information about the financial assets and liabilities held for trading of the Parent Company are shown as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Financial liability held for trading</u>		
Forward contracts	\$ 403	\$ 5,282

On June 30, 2006 and 2005, information about outstanding forward contracts are shown as follows:

	<b>Currency</b>	<b>Maturity</b>	<b>Amount (Thousands)</b>
<u>June 30, 2006</u>			
Sell	USD/NTD	July 2006	USD4,000/NTD129,026
<u>June 30, 2005</u>			
Sell	USD/NTD	October 2005	USD21,000/NTD652,774
	EUR/USD	October 2005	EUR6,000/USD8,635

The Parent Company entered into forward contract transactions in the six months ended June 30, 2006 and 2005 to avoid risks on exchange rate fluctuations. The hedging strategy of the Parent Company is to avoid the major portion of the market and liquidity risks.

Net gains arising from trading financial assets or liabilities for the six months ended June 30, 2006 and 2005 were \$2,653 thousand and \$20,552 thousand.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>June 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Mutual funds	\$ 1,979,138	\$ -	\$ 2,224,845	\$ -
Publicly-traded stocks				
Chunghwa Telecom Co., Ltd.	11,700	-	13,063	-
ASUSTek Computer Inc.	-	3,158,420	-	-
Firich Enterprise Co., Ltd.	-	46,825	-	19,798
	<u>\$ 1,990,838</u>	<u>\$ 3,205,245</u>	<u>\$ 2,237,908</u>	<u>\$ 19,798</u>

At their 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 would be exchanged at 1.13 shares of Advantech for every share of ASUSTek. Thus, Advantech will issue 44,893 thousand shares in exchange for 39,729 thousand shares of ASUSTek. The strategic allowance through a share swap was approved by the Financial Supervisory Commission under the Executive Yuan of the R.O.C. The Parent Company resolved December 23, 2005 as the date of the share swap. The Parent Company had completed the registration with the Ministry of Economic Affairs of the change in its capital stock as a result of this share swap from the MOEA.

## 7. INVENTORIES, NET

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Finished goods	\$ 999,970	\$ 681,013
Work in process	495,862	412,332
Materials and supplies	982,555	714,521
Inventories in transit	<u>167,555</u>	<u>195,092</u>
	2,645,942	2,002,958
Allowance for losses	<u>(272,042)</u>	<u>(230,578)</u>
	<u>\$ 2,373,900</u>	<u>\$ 1,772,380</u>

## 8. LONG-TERM EQUITY INVESTMENTS

	<u>June 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Carrying</u>	<u>% of</u>	<u>Carrying</u>	<u>% of</u>
	<u>Value</u>	<u>Owner-</u>	<u>Value</u>	<u>Owner-</u>
		<u>ship</u>		<u>ship</u>
Listed				
Axiomtek Co., Ltd.	\$ 380,247	35.93	\$ 309,550	41.54
Unlisted				
Advantech Technologies Co., Ltd.	164,923	23.89	102,880	27.47
Advantech Hungary Ltd.	12,836	30.00	12,992	30.00
Timson Tech Co.,	7,729	30.00	7,288	30.00
Advantech Corporation (Thailand) Co., Ltd.	<u>3,319</u>	30.00	<u>777</u>	30.00
	<u>\$ 569,054</u>		<u>\$ 433,487</u>	

The calculation of the carrying values of the equity-method investments and the equity in their net income or net loss was based on the investees' unreviewed financial statements for the current period.

The market values of investments in listed stocks, which were calculated on the basis of the closing prices as of June 30, 2006 and 2005, were \$950,374 thousand and \$586,057 thousand, respectively.

## 9. FINANCIAL ASSETS MEASURED ON HOLDING COST

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Foreign non-listed common traded stocks		
US\$2,111 thousand in 2006 and US\$1,393 thousand in 2005	<u>\$ 67,438</u>	<u>\$ 43,708</u>

There are no market values for the above investments held by subsidiaries, therefore the investments are stated at cost.

## 10. PROPERTIES

Accumulated depreciation was as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Buildings and equipment	\$ 188,726	\$ 143,180
Machinery and equipment	271,006	213,068
Furniture and fixtures	130,715	144,405
Miscellaneous equipment	<u>103,297</u>	<u>98,049</u>
	<u>\$ 693,744</u>	<u>\$ 598,702</u>

Depreciation expenses for properties and properties leased to others were \$74,853 thousand and \$73,375 thousand in the six months ended June 30, 2006 and 2005, respectively.

## 11. PROPERTIES LEASED TO OTHERS (AS OF JUNE 30, 2006: NONE)

	<u>June 30, 2005</u>
Cost	
Land	\$ 15,693
Buildings and equipment	<u>8,348</u>
	24,041
Accumulated depreciation	<u>1,341</u>
	<u>\$ 22,700</u>

In January 2006, the Group reclassified the above assets leased to others into properties.

## 12. SHORT-TERM BANK LOANS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Credit loans - interest: 3.21%-8.07% in 2006 and 1.19%-4.65% in 2005	<u>\$ 375,706</u>	<u>\$ 474,183</u>

## 13. BONDS PAYABLE - CURRENT PORTION

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Unsecured convertible bonds	\$ 2,700	\$ 74,200
Interest-premium on convertible bonds	<u>-</u>	<u>14,285</u>
	<u>\$ 2,700</u>	<u>\$ 88,485</u>

On July 19, 2001, the Parent 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 will mature on July 18, 2006 and will be redeemed at 12.4864% of their face value on July 19, 2004 or 19.2519% 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. As of June 30, 2006, bonds with aggregate face value of \$996,900 thousand had been converted to 20,848 thousand shares and \$400 thousand in bonds had been redeemed at the holders' request. As of June 30, 2006, the transfer price of the convertible bonds was NT\$41.9.

#### 14. LONG-TERM BANK LOANS

	Current	Long-term	Total
<u>June 30, 2006</u>			
Secured loans	\$ _____ -	\$ 71,636	\$ 71,636
<u>June 30, 2005</u>			
Secured loans	\$ _____ -	\$ 100,486	\$ 100,486

The interest rate of the long-term bank loans was between 3.875% to 4.665% and 2.50% to 3.85% as of June 30, 2006 and 2005, respectively. Their maturity is in February 2015.

#### 15. PENSION PLANS

The Labor Pension Act (the "Act") was enforced on July 1, 2005. The employees of the Parent Company, Yin Hsin, Advantech IBHA, AIMS and Viewsys subject to the Labor Standards Law before July 1, 2005 may 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.

Based on the Act, the rate of monthly contributions to employees' individual pension accounts is at 6% of the employees' monthly wages. For these contributions, the Parent Company and subsidiaries recognized a pension cost \$18,890 thousand for the six month ended June 2006.

Under the Labor Standard Laws, benefits of the Parent Company is based on length of service and average basic pay of the six months before retirement. The Parent Company makes monthly contributions, equal to 2% of salaries, to a pension fund, which is administered by a pension plan committee and deposited in the committee's name in the Central Trust of China.

Some consolidated entities, have either very few or even no staff, including domestic subsidiaries-Yin Hsin, Advantech IBHA, AIMS and Viewsys before the Labor Pension Act is enforced and foreign subsidiaries ATC, ADCL, AEU, AAC (BVI) and AACB. These companies have no pension plans and thus do not contribute to pension funds and do not recognize pension costs.

Except for these companies, the remaining companies all contribute to pension funds and recognize pension costs based on local government regulations.

For the six months ended 2006 and 2005, the pension expense were \$18,065 thousand and \$12,949 thousand, respectively, which were based on the defined benefit pension and overseas subsidiaries' local government regulations. For the six months ended 2006 and 2005, the pension funds were contributed \$504 thousand and \$5,514 thousand, and as of June 30, 2006 and 2005, the balance of the Fund amounted to NT\$72,944 thousand and NT\$68,278 thousand, respectively.

## 16. 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 Parent 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 adjusted according to the debit balance. 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 Parent 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 following year and given effect to in the financial statements of the year.

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 Parent Company Law, legal reserve should be appropriated until the accumulated reserve equals the Parent 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 Parent 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. (Related information is shown in Note 15b.)

The Parent 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 Parent 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 Parent Company's growth. The policy also requires that stock dividends be less than 75% of total dividends to retain internally generated cash within the Parent 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 of Earnings</u>		<u>Dividends Per Share (Dollars)</u>	
	2005	2004	2005	2004
Legal reserve	\$ 242,980	\$ 216,015	\$ -	\$ -
Special reserve	-	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	-	-

At their meeting on June 16, 2006, the shareholders approved the board of directors' proposal to distribute stock dividends of \$89,792 thousand and stock bonus to employees amounting to \$50,000 thousand. The appropriation of the 2005 earnings was approved by the Financial Supervisory Commission under the Executive Yuan of the ROC. The board of directors resolved August 8, 2006 as the date of distributing stock dividends. The Parent Company had completed the registration with the Ministry of Economic Affairs of the change in the Parent Company's capital stock as a result of the stock dividend distribution and obtained the Parent Company's revised license in line with this change.

Because of bond conversion, the Parent Company's capital stock increased by \$1,480 thousand in 2006 and by \$36,445 thousand in 2005, also the capital surplus due to issue of stock in excess of par value increased \$4,720 thousand and \$166,522 thousand, respectively.

On April 1, 2003, the Securities and Futures Bureau approved the Parent 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\$39.40. As of June 30, 2006, there were 860 thousand units of stock options exercised, which were converted to 860 thousand common shares; thus, the unexercised stock options consisted of 1,800 thousand units.

## 17. INCOME TAX

a. The calculation of income tax was as follows:

	<u>June 30</u>	
	2006	2005
Tax on pretax income at 25% statutory rate	\$ 505,982	\$ 346,873
Deduct tax effects of:		
Permanent differences		
Tax-exempt income	(136,380)	(45,542)
Other	(23,706)	(94,840)
Temporary differences	(40,822)	(16,476)
Income tax on tax income calculated	5,848	-
Investment tax credit	<u>(70,611)</u>	<u>(70,072)</u>
Income tax currently payable	<u>\$ 240,311</u>	<u>\$ 119,943</u>

b. Income taxes expense as of June 30, 2006 and 2005 consisted of the following:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Income tax currently payable	\$ 240,311	\$ 119,943
Income tax expense - deferred	2,824	37,877
Adjustment of prior year's income tax	<u>-</u>	<u>3,382</u>
	<u>\$ 243,135</u>	<u>\$ 161,202</u>

c. Net deferred income taxes as of June 30, 2006 and 2005 were as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
<b>Current</b>		
Deferred income tax assets		
Allowance for loss on inventories	\$ 40,796	\$ 34,552
Excess provisions for doubtful receivables	6,958	3,062
Unrealized product warranty reserve	6,791	-
Investment tax credit	-	11,466
Unrealized foreign exchange loss, net	-	5,864
Others	<u>6,523</u>	<u>2,729</u>
	<u>61,068</u>	<u>57,673</u>
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>14,454</u>	<u>-</u>
Deferred income tax assets, net	<u>\$ 46,614</u>	<u>\$ 57,673</u>
<b>Noncurrent</b>		
Deferred income tax assets:		
Accumulated equity in the net loss of investees	\$ 104,258	\$ 122,226
Deferred income	43,686	41,888
Pension cost	27,737	28,791
Interest-premium on convertible bonds	-	31,572
Loss carryforward	13,140	11,488
Financial asset measured at holding cost impairment loss	-	3,500
Other	<u>6,053</u>	<u>3,953</u>
	194,874	243,418
Valuation allowance	<u>(104,258)</u>	<u>(153,798)</u>
	<u>90,616</u>	<u>89,620</u>
Deferred income tax liabilities:		
Accumulated equity in the net gains of foreign investees	(177,518)	(236,056)
Allowance for tax-deductible equity in net loss of foreign investees	-	(15,468)
Other	<u>-</u>	<u>(329)</u>
	<u>(177,518)</u>	<u>(251,853)</u>
Deferred income tax liabilities, net	<u>\$ (86,902)</u>	<u>\$ (162,233)</u>

The income tax rate of Parent Company and domestic subsidiaries used to recognize deferred income tax was 25%; otherwise the tax rate were according to oversea subsidiaries' decree.

The Group's ICA balances as of June 30, 2006 and 2005 were as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Parent Company	\$ 182,867	\$ 159,043
Yin Hsin	\$ 3,539	\$ 1,851
Advantech IBHA	\$ 265	\$ 265

The balance of unappropriated retained earnings as of 1997 were as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Parent Company	\$ 81,329	\$ 81,329

The expected creditable ratio of the ICA to the earnings generated starting January 1, 1998 (creditable tax ratio) as of December 31, 2005 and the actual creditable tax ratio for earnings as of December 31, 2004, which were distributed in 2005, were as follows:

	<u>2005</u>	<u>2004</u>
Parent Company	7.01%	7.23%

The creditable tax ratio should be based on the balance in the ICA on the date of dividend distribution. Thus, the expected creditable ratio for the 2005 earnings may differ from the actual ratio depending on the ICA balance on the dividend distribution date.

Information on the Group's loss carryforward as of June 30, 2006 is as follows:

<b>Loss Year</b>	<b>Loss Carryforward Amount</b>	<b>Expiry Year</b>
Advantech IBHA		
2001	\$ 2,738	2006
2002	6,926	2007
2003	13,088	2008
2004	19,424	2009
2005	<u>10,376</u>	2010
	<u>\$ 52,507</u>	
Yin Hsin		
2005	<u>\$ 53</u>	2010

Income tax returns through 2002 had been examined and cleared by the tax authorities.

As of June 30, 2006, the Parent Company's five year 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

## 18. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	Six Months Ended June 30					
	2006			2005		
	Included in Cost of Goods Sold	Included in Operating Expenses	Total	Included in Cost of Goods Sold	Included in Operating Expenses	Total
Personnel expenses						
Payroll	\$ 125,071	\$ 609,173	\$ 734,244	\$ 93,984	\$ 431,357	\$ 525,341
Insurance	12,964	75,931	88,625	7,360	30,244	37,604
Pension	4,463	32,492	36,955	2,208	10,741	12,949
Others	22,226	43,419	65,645	10,966	42,638	53,604
Depreciation	29,313	45,540	74,853	34,014	39,286	73,300
Amortization	1,133	19,748	20,881	2,302	9,201	11,503
	<u>\$ 194,900</u>	<u>\$ 826,303</u>	<u>\$1,021,203</u>	<u>\$ 150,834</u>	<u>\$ 563,467</u>	<u>\$ 714,301</u>

Expenses for properties leased to others, which were \$75 thousand for the six months ended June 30, 2005 (included in nonoperating expenses and losses - other expenses), were not included in the above depreciation expenses.

## 19. EARNINGS PER SHARE

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

	Amount (Numerator)		Shares (Denominator) (Thousands)	Earnings Per Share	
	Pretax	After-tax		Pretax	After-tax
<u>June 30, 2006</u>					
Basic EPS	\$ 1,616,016	\$ 1,457,354	448,951	<u>\$ 3.60</u>	<u>\$ 3.25</u>
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,035		
Convertible bonds	-	-	138		
Diluted EPS	<u>\$ 1,616,016</u>	<u>\$ 1,457,354</u>	<u>450,124</u>	<u>\$ 3.59</u>	<u>\$ 3.24</u>
<u>June 30, 2005</u>					
Basic EPS	\$ 1,196,456	\$ 1,083,456	399,321	<u>\$ 3.00</u>	<u>\$ 2.71</u>
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,323		
Convertible bonds	-	-	4,395		
Diluted EPS	<u>\$ 1,196,456</u>	<u>\$ 1,083,456</u>	<u>405,039</u>	<u>\$ 2.95</u>	<u>\$ 2.67</u>

The EPS was retroactively adjusted for the stock dividends declared. Thus, in the six months ended June 30, 2005, pretax and after-tax basic EPS decreased from NT\$3.19 to NT\$3.00 and from NT\$2.88 to NT\$2.71, respectively, and pretax and after-tax diluted EPS decreased from NT\$3.14 to NT\$2.95 and from NT\$2.85 to NT\$2.67, respectively.

The numerators and denominators used in calculating pro forma EPS based on the potential adjustment for stock dividends declared 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>(Thousands)</u>	<u>Pretax</u>	<u>After-tax</u>
<u>June 30, 2006</u>					
Basic EPS	\$ 1,616,016	\$ 1,457,354	462,922	\$ 3.49	\$ 3.15
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,067		
Convertible bonds	-	-	142		
Diluted EPS	<u>\$ 1,616,016</u>	<u>\$ 1,457,354</u>	<u>464,131</u>	<u>\$ 3.48</u>	<u>\$ 3.14</u>
<u>June 30, 2005</u>					
Basic EPS	\$ 1,196,456	\$ 1,083,456	411,748	\$ 2.91	\$ 2.63
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,364		
Convertible bonds	-	-	4,532		
Diluted EPS	<u>\$ 1,196,456</u>	<u>\$ 1,083,456</u>	<u>417,644</u>	<u>\$ 2.86</u>	<u>\$ 2.59</u>

## 20. RELATED-PARTY TRANSACTIONS

### a. Related parties

<u>Related Party</u>	<u>Relationship with the Group</u>
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Innova Tech & Management Consultant Inc. ("Innova")	Equity-method investee of Yin Hsin (has been sold in March 2005)
Broadwed Automation Co., Ltd. ("Broadwed Automation")	Equity-method investee of Yin Hsin (Yin Hsin was sold in March 2005)
Timson Tech Co. (TTC)	Equity-method investee of Yin Hsin
Advantech Corporation (Thailand) Co., Ltd. (ATH)	Equity-method investee of ASG
Advan Automation Co., Ltd. (AAJP)	Equity-method investee of AACB
Axiomtek Co., Ltd. (Axiomtek)	Equity-method investee
Axiomtek Technology (Shen Zhen) Co., Ltd.	Equity-method investee of Axiomtek
Advantech Internation Co., Ltd.	The person in charge of Advantech Internation Co., Ltd. is the brother-in-law of the Parent Company's chairman
Firich Enterprise Co., Ltd. ("Firich")	The Parent Company's chairman is a director of Firich Enterprise Co., Ltd.
Advantech Investment Fund - C Co., Ltd. (Advantech IFC)	The person in charge of Advantech IFC is the brother-in-law of the Parent Company's chairman
Mr. Andrea Zolli	Manager of AIT
Immoibiliare Verdi Srl	Manager of AIT

- b. The significant transactions with the above related parties, in addition to those disclosed in Note 22 and Tables 2, are summarized as follows:

	<u>2006</u>		<u>2005</u>	
	Amount	% of Total	Amount	% of Total
<u>Six months ended June 30</u>				
1) Sales				
AKR	\$ 173,220	3	\$ 109,383	2
Axiomtek Co., Ltd.	17,280	-	48,619	1
ATH	7,805	-	48,619	-
Other	<u>3,405</u>	<u>-</u>	<u>3,436</u>	<u>-</u>
	<u>\$ 201,710</u>	<u>3</u>	<u>\$ 161,438</u>	<u>3</u>
2) Purchase of materials and supplies				
Axiomtek Co., Ltd.	<u>\$ 1,022</u>	<u>-</u>	<u>\$ 731</u>	<u>-</u>
<u>At the end of June 30</u>				
3) Receivables				
Notes				
Innova	\$ -	-	\$ 96	-
Accounts				
AKR	51,674	46	33,704	35
Axiomtek Co., Ltd.	6,464	6	12,699	13
Firich Enterprise Co., Ltd.	53	-	2,170	2
Others	<u>1,941</u>	<u>2</u>	<u>748</u>	<u>1</u>
	<u>60,132</u>	<u>54</u>	<u>49,321</u>	<u>51</u>
Dividends				
Axiomtek Co., Ltd.	<u>51,375</u>	<u>46</u>	<u>46,032</u>	<u>49</u>
Other receivables				
Axiomtek Co., Ltd.	<u>-</u>	<u>-</u>	<u>528</u>	<u>-</u>
	<u>\$ 111,507</u>	<u>100</u>	<u>\$ 95,977</u>	<u>100</u>
4) Payables				
Accounts				
AKR	\$ 330	64	\$ -	-
Axiomtek Co., Ltd.	184	36	448	57
Axiomtek Technology (Shen Zhen) Co., Ltd.	<u>-</u>	<u>-</u>	<u>335</u>	<u>43</u>
	<u>\$ 514</u>	<u>100</u>	<u>\$ 783</u>	<u>100</u>

Product contracts with related parties were based on market prices and made under normal terms. The payment terms for third parties were 30 to 90 days, but the payment terms for related parties were 60 to 90 days.

c. Long-term equity investments

The Parent 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	\$ <u>          -</u>	\$ <u>(13,574)</u>	\$ <u>13,574</u>

The Parent Company bought all 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:

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

The Parent 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:

	Common Stock Issuer	Shares	Cost
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 Parent Company sold to AEU its common shareholdings in AIT in January 2005. This sale is summarized as follows:

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

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

## 21. ASSETS PLEDGED OR MORTGAGED

The certificates of deposits that had been pledged or mortgaged as collaterals for bank loans and as part of court requirements for confiscating assets to settle uncollectible accounts amounted to \$1,600 thousand and \$4,900 thousand in the six months ended June 30, 2006 and 2005, respectively.

## 22. COMMITMENTS

As of June 30, 2006, the Parent Company had the following guarantees for related parties' loans:

	Amount
AKMC	US\$ 10,000 thousand
ACN	<u>4,000 thousand</u>
	<u>US\$ 14,000 thousand</u>

## 23. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	June 30			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Nonderivative financial instruments</u>				
Assets				
Cash	\$ 2,492,729	\$ 2,492,729	\$ 2,448,851	\$ 2,448,851
Available-for-sale financial assets - current	1,990,838	1,990,838	2,237,908	2,237,908
Notes receivable	137,845	137,845	88,445	88,445
Accounts receivable	2,056,044	2,056,044	1,521,698	1,521,698
Receivables from related parties	111,507	111,507	95,977	95,977
Available-for-sale financial assets - noncurrent	3,205,245	3,205,245	19,798	25,192
Guarantee deposit paid	46,720	46,720	25,364	25,364
Certificates of deposit - pledged	1,600	1,600	4,900	4,900
Liabilities				
Short-term bank loans	375,706	375,706	474,183	474,183
Notes payable	247	247	1,238	1,238
Accounts payable	851,411	851,411	1,016,609	1,016,609
Payables to related parties	514	514	783	783
Bonds payable - current portion	2,700	5,980	88,485	124,040
Long-term bank loans	71,636	71,636	100,486	100,486
Guarantee deposits received	47,006	47,006	5,268	5,268
<u>Derivative financial instruments location</u>				
Financial liabilities at fair value through profit or loss- current				
Domestic	-	-	5,282	5,282
Foreign (foreign corporation operating in domestic district included)	403	403	-	-

The counter-parties are all domestic financial instruments. On January 1, 2006, the Parent 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 receivables, receivables from related parties, other financial assets - current, certificates of deposit - pledged, bank loans - short-term, notes and accounts payables and payables to related parties, 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 refundable (guarantee) deposits was based on their carrying amounts.
- 4) Fair value of the current portion of bonds payable was based on their quoted market prices.

- 5) Long-term bank loans were based on the present value of the cash flow.
- 6) 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 Group's financial assets and liabilities were based on the quoted market prices or determined using certain valuation techniques, as follows:

	<b>June 30</b>			
	<b>Based on the Quoted Market Price</b>		<b>Determined Using Valuation Techniques</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<u>Asset</u>				
Available-for-sale financial assets - current	\$ 1,990,838	\$ 2,237,908	\$ -	\$ -
Available-for-sale financial assets - noncurrent	3,205,245	25,192	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current	-	-	403	5,282
Bonds payable - current portion	5,980	124,040	-	-

- d. As of June 30, 2006 and 2005, financial assets exposed to fair value risk from interest rate fluctuation amounted to \$1,817,208 thousand and \$1,658,718 thousand, financial liabilities exposed to fair value interest rate risk amounted to \$447,342 thousand and \$574,669 thousand, respectively.
- e. The Group recognized an unrealized gain of \$889,229 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 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.
  - 2) Credit risk.

The Parent Company has kinds of financial instruments, the analysis of the best credit risk as follows:

	<b>June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying Amount</b>	<b>Best Credit Risk Amount</b>	<b>Carrying Amount</b>	<b>Best Credit Risk Amount</b>
Financial liabilities at fair value through profit or loss - current (Forward contracts)	\$ 403	\$ -	\$ 5,282	\$ -

Credit risk represents the potential loss that would be incurred by the Parent 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 Parent Company has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low.

The intercompany and subsidiaries invest fund and publicly traded stocks in the public market, then the intercompany expect to sell them in near fair value price in the public market easily.

## **24. ADDITIONAL DISCLOSURES**

- a. Except for those mentioned in Tables 1 to 7, no additional disclosures are required by the Securities and Futures Bureau for the Parent Company and investees.
- 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 June 30, 2006, accumulated inward remittance of earnings as of June 30, 2006 and upper limit on investment: Table 8 (attached)
  - 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Notes 20 and 22 and Tables 2, 5, 6 and 8
  - 3) Intercompany relationships and significant intercompany transactions: Table 10

## ADVANTECH CO., LTD. AND SUBSIDIARIES

## FINANCING PROVIDED

SIX MONTHS ENDED JUNE 30, 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	AEBC	Receivables from related parties	\$ 12,351 (EUR 300 thousand)	\$ 10,293 (EUR 250 thousand)	2.5%	2	\$ -	Financing need	\$ -	-	\$ -	40,691 (Note B)	\$ 81,383 (Note C)
		AEDC	Receivables from related parties	4,117 (EUR 100 thousand)	4,117 (EUR 100 thousand)	2.5%	2	-	Financing need	-	-	-	"	"
2	AESC	AEU	Receivables from related parties	10,704 (EUR 260 thousand)	10,704 (EUR 260 thousand)	2.5%	2	-	Financing need	-	-	-	11,483 (Note D)	22,966 (Note E)

Notes: A. Nature of Financing:

1. The borrower is the related party of Advantech Co., Ltd.
2. 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 AESC's issued capital stock.

E. 30% of AESC's issued capital stock.

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

**ENDORSEMENT/GUARANTEE PROVIDED**

**SIX MONTHS ENDED JUNE 30, 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.	ACN	Indirect subsidiary	\$ 673,707 (Note A)	\$ 129,480 (US\$ 4,000 thousand)	\$ 129,480 (US\$ 4,000 thousand)	\$ -	1.11%	\$ 1,347,415 (Note C)
		AKMC	Indirect subsidiary	"	323,700 (US\$ 10,000 thousand)	323,700 (US\$ 10,000 thousand)	-	2.77%	"
		AC	Indirect subsidiary	"	226,590 (US\$ 7,000 thousand)	-	-		"
		AAC (BVI)	Subsidiary	"	64,740 (US\$ 2,000 thousand)	-	-		"
1	AEU	AEDC	Subsidiary	41,969 (Note B)	11,322 (EUR 275 thousand)	-	-	4.07%	83,939 (Note D)

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

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

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

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

## ADVANTECH CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS

JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note	
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Advantech Co., Ltd.	<u>Common stock</u>								
	AAC (BVI)	Investee	Long-term equity investments	21,606,500	\$ 1,065,998	100.00	\$ 1,065,998	Note A	
	ATC	"	"	13,450,000	496,663	100.00	496,663	Note A	
	Advansus Corp.	"	"	50,000,000	498,480	50.00	498,480	Note A	
	Axiontek Co., Ltd.	"	"	22,101,732	380,247	35.93	380,247	Note C	
	AEU	"	"	9,415,695	295,584	98.37	295,584	Note A	
	Yin Sin Co., Ltd.	"	"	29,999,994	260,701	100.00	260,701	Note A	
	AKR	"	"	3,112,131	164,923	23.89	164,923	Note A	
	ASG	"	"	1,450,000	100,066	100.00	100,066	Note A	
	AJP	"	"	1,200	85,614	100.00	85,614	Note A	
	AAU	"	"	500,204	76,013	100.00	76,013	Note A	
	Viewsys Technology Co., Ltd.	"	"	1,100,000	22,000	100.00	22,000	Note A	
	AHG	"	"	30	12,836	30.00	12,836	Note A	
	Advantech IBHA Inc.	"	"	1,994,000	11,793	13.29	11,793	Note A	
	AIMS	"	"	500,000	5,399	100.00	5,399	Note A	
	AHK	"	"	999,999	(1,009)	100.00	(1,009)	Note A	
	ASUSTek Computer Inc.	-	-	Available for sale financial assets - noncurrent	39,728,557	3,158,420	1.31	3,158,420	Note C
	Firich Enterprise Co., Ltd.	Note D	"	"	139,360	46,825	0.37	46,825	Note C
		<u>Funds</u>							
		ABN AMRO Bond Fund	-	Available-for-sale financial assets - current	13,317,761.89	199,278	-	199,278	Note B
		Capital Income Fund	-	"	17,085,998.70	252,500	-	252,500	Note B
		CITC Cash Reserves	-	"	17,168,168.60	199,961	-	199,961	Note B
		Fuh-Hwa Bond Fund	-	"	10,198,645.50	135,020	-	135,020	Note B
		Fuh-Hwa Albatross Fund	-	"	6,343,688.10	71,124	-	71,124	Note B
		ABN AMRO Income Fund	-	"	19,042,750.34	299,186	-	299,186	Note B
		ABN AMRO Select Bond Fund	-	"	7,925,637.37	89,208	-	89,208	Note B
		NITC Bond Fund	-	"	1,836,234.68	300,054	-	300,054	Note B
		AIG Taiwan Bond Fund	-	"	6,259,508.08	79,280	-	79,280	Note B
		Fubon Chi-Hsiang I Fund	-	Available-for-sale financial assets - current	3,572,061.97	46,455	-	46,455	Note B
	Dresdner Bond Dam Fund	-	"	6,175,882.50	71,065	-	71,065	Note B	
Yin Hsin Co., Ltd.	<u>Common stock</u>								
	Advantech IBHA Inc.	Investee	Long-term equity investments	10,000,000	59,045	66.67	59,045	Note A	
	Timson Tech Co. (TTC)	"	"	270,000	7,729	30.00	7,729	Note A	

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Superior Technology Co., Ltd.	-	Financial assets carried at cost-noncurrent	913,470	\$ 33,441	12.93	\$ -	-
	COBAN Research and Technologies, Inc.	-	"	60,000	33,257	7.00	-	-
	Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	200,000	11,700	-	11,700	Note C
	<u>Funds</u>							
	ABN AMRO Bond Fund	-	"	869,082.72	13,004	-	13,004	Note B
	Fuh-Hwa Bond Fund	-	"	10,050,251.26	101,491	-	101,491	Note B
Advantech IBHA Inc.	<u>Funds</u>							
	ABN AMRO Bond Fund	-	"	4,715,360.85	70,557	-	70,557	Note B
	ABN AMRO Select Bond Fund	-	"	274,328.32	3,088	-	3,088	Note B
Viewsys Technology Co., Ltd.	<u>Funds</u>							
	JIH SUN SMALL CAP FUND	-	"	85,609.61	1,159	-	1,159	Note B
Advansus Corp.	<u>Funds</u>							
	NITC Bond Fund	-	"	369,579.91	30,196	-	30,196	Note B
	CITC Cash Reserves	-	"	2,576,500.60	15,004	-	15,004	Note B
AIMS	<u>Funds</u>							
	JIH SUN SMALL CAP FUND	-	"	111,192.65	1,507	-	1,507	Note B
Timson Tech Co.	<u>Shares</u>							
	Kunshan Timson Tech Co., Ltd.	Investee	Long-term equity investments	-	25,945	100.00	25,945	Note A
ATC	<u>Shares</u>							
	AKMC	"	"	-	528,625	100.00	528,625	Note A
	ADMC	"	"	-	46,499	100.00	46,499	Note A
AAC (BVI)	<u>Common stock</u>							
	AC	Investee	Long-term equity investments	10,952,606	738,257	100.00	738,257	Note A
	<u>Shares</u>							
	Visual Systems GmbH	-	Financial assets carried at cost - noncurrent	-	740	20.00	-	-
	ACN	Investee	Long-term equity investments	-	305,676	100.00	305,676	Note A
AEU	<u>Common stock</u>							
	AESC	"	"	8,314,280	76,554	100.00	76,554	Note A
	AUK	"	"	600,000	21,191	100.00	21,191	Note A
	ABB	"	"	295,378	53,635	100.00	53,635	Note A
	AEBC	"	"	1,142,000	18,728	100.00	18,728	Note A
	AIT	"	"	45,000	4,560	100.00	4,560	Note A
	APL	"	"	2,000	9,552	80.00	9,552	Note A

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
ASG	<u>Shares</u> AEDC	”	”	-	\$ 35,289	100.00	\$ 35,289	Note A
	<u>Stock</u> ATH	”	”	30,000	3,319	30.00	3,319	Note A
	APN	”	”	570,570	7,160	55.00	7,160	Note A
	AKL	”	”	418,000	4,458	55.00	4,458	Note A
	AMY	”	”	1,020,000	10,640	51.00	10,640	Note A

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

Note B: Market values were based on the net asset values of the open-end mutual funds on the balance sheet date.

Note C: Market value was based on the closing price in June 30, 2006.

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

(Concluded)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 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.	<u>Funds</u>														
	ABN AMRO Bond Fund	Available-for-sale financial assets - current	-	-	12,151,168.46	\$ 180,567	40,289,405.96	\$ 601,652	39,122,812.53	\$ 583,660	\$ 582,945	\$ 715	\$ 4	13,317,761.89	\$ 199,278
	Capital Income Fund	"	-	-	-	-	55,683,753.20	820,094	38,597,754.50	569,234	567,606	1,628	12	17,085,998.70	252,500
	CTIC Cash Reserves Fund	"	-	-	-	-	52,709,485.10	611,871	35,541,316.50	413,171	411,910	1,261	-	17,168,168.60	199,961
	Fuh-Hwa Bond Fund	"	-	-	-	-	24,976,479.30	330,069	14,777,833.80	195,369	195,056	313	7	10,198,645.50	135,020
	Fuh-Hwa Albatross Fund	"	-	-	4,497,974.70	50,081	17,248,316.50	193,065	15,402,603.10	172,365	172,027	338	5	6,343,688.10	71,124
	ABN AMRO Income Fund	"	-	-	19,042,750.34	298,000	19,042,750.34	298,000	19,198,556.89	300,438	298,000	2,438	1,186	19,042,750.34	299,186
	ABN AMRO Select Bond Fund	"	-	-	8,289,805.60	92,668	33,136,180.68	371,450	33,500,348.91	375,538	374,910	628	-	7,925,637.37	89,208
	NITC Bond Fund	"	-	-	2,226,456.07	361,290	7,260,959.24	1,183,552	7,651,180.63	1,246,251	1,244,810	1,441	22	1,836,234.68	300,054
	AIG Taiwan Bond Fund	"	-	-	6,339,161.68	79,725	13,233,812.51	167,274	13,313,466.11	168,291	167,725	566	6	6,259,508.08	79,280
	Dresdner Bond Dam Fund	"	-	-	6,149,013.35	70,272	22,151,501.53	254,575	22,124,632.38	254,098	253,787	311	5	6,175,882.50	71,065
	<u>Common stock</u>														
	Advansus Corp.	Equity method investments	-	-	-	-	50,000,000	500,000 (Note B)	-	-	-	-	(1,520) (Note C)	50,000,000	498,480

Note A: Unrealized gains on financial instruments.

Note B: A joint venture of the Parent Company and ASUSTek.

Note C: Equity in net loss of investee.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 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	\$ 1,306,769	39	Depending on its operating conditions	\$ -	-	\$ (490,279)	(90)	
	AC	Indirect subsidiary	Sale	(1,253,261)	(25)	60-90 days	-	-	494,469	22	
	AESC	Indirect subsidiary	Sale	(870,088)	(17)	Depending on its operating conditions	-	-	646,681	29	
	ACN	Indirect subsidiary	Sale	(657,386)	(13)	Depending on its operating conditions	-	-	441,732	20	
	AJP	Subsidiary	Sale	(193,314)	(4)	60-90 days	-	-	87,372	4	
	AKR	Investee	Sale	(173,220)	(4)	60-90 days	-	-	51,674	3	
ATC	Advantech Co., Ltd.	Parent company	Sale	(1,306,769)	(98)	Depending on its operating conditions	-	-	490,279	93	
AC	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,253,261	78	60-90 days	-	-	(494,469)	(100)	
AESC	Advantech Co., Ltd.	Ultimate parent company	Purchase	870,088	71	Depending on its operating conditions	-	-	(646,681)	(90)	
ACN	Advantech Co., Ltd.	Ultimate parent company	Purchase	657,386	59	Depending on its operating conditions	-	-	(441,732)	(78)	
AJP	Advantech Co., Ltd.	Parent company	Purchase	193,314	96	60-90 days	-	-	(87,372)	(80)	
AKR	Advantech Co., Ltd.	Parent company	Purchase	173,220	96	60-90 days	-	-	(51,674)	(18)	
ACN	AKMC	Inter-affiliate company	Purchase	238,954	21	60-90 days	-	-	(57,908)	(10)	
ATC	AKMC	Subsidiary	Purchase	744,738	79	60-90 days	-	-	(277,059)	(46)	
AKMC	ACN	Inter-affiliate company	Sale	(238,954)	(24)	30-60 days	-	-	57,908	16	
	ATC	Parent company	Sale	(744,738)	(74)	60-90 days	-	-	277,059	79	

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

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
JUNE 30, 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	\$ 646,681	2.88	\$ -	-	\$ 139,774	\$ -
	AC	Indirect subsidiary	494,469	3.68	-	-	238,207	-
	ACN	Indirect subsidiary	441,732	5.68	-	-	133,992	-
ATC	Advantech Co., Ltd.	Parent company	490,279	5.68	-	-	309,844	-

## ADVANTECH CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
SIX MONTHS ENDED JUNE 30, 2006  
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note	
				June 30, 2006	Dec. 31, 2005	Shares	Percentage of Ownership	Carrying Value				
Advantech Co., Ltd.	AAC (BVI)	BVI	Investment holding company	\$ 725,144	\$ 725,144	21,606,500	100.00	\$ 1,065,998	\$ 121,387	\$ 121,387	Subsidiary	
	ATC	BVI	Sale of industrial automation products	427,781	427,781	13,450,000	100.00	496,663	260,913	260,913	Subsidiary	
	Advansus Corp.	Taipei, Taiwan	Production and sale of industrial automation products	500,000	-	50,000,000	50.00	498,480	(3,040)	(1,520)	Equity-method investee	
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	304,794	308,586	22,101,732	35.93	380,247	181,192	65,875	Equity-method investee	
	AEU	Helmond, the Netherlands	Investment holding company	377,298	351,791	9,415,695	98.37	295,584	34,511	33,513	Subsidiary	
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	260,701	4,276	4,267	Subsidiary	
	AKR	Seoul, Korea	Sale of industrial automation products	32,989	32,989	3,112,131	23.89	164,923	45,540	11,379	Equity-method investee	
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	100,066	9,189	9,189	Subsidiary	
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	85,614	10,483	10,483	Subsidiary	
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	76,013	2,357	2,357	Subsidiary	
	Viewsys	Taipei, Taiwan	Sale of industrial automation products	22,000	-	1,100,000	100.00	22,000	-	-	Subsidiary	
	AHG	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	12,836	-	-	Equity-method investee	
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	11,793	1,099	146	Subsidiary	
	AIMS	Taipei, Taiwan	Investment and management service	5,000	5,000	500,000	100.00	5,399	39	39	Subsidiary	
	AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	(1,009)	(130)	(130)	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	59,045	1,099	733	Indirect subsidiary
		TTC	Brunei	Investment holding company	8,323	8,323	270,000	30.00	7,729	-	-	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	528,625	6,194	6,194	Indirect subsidiary	
	ADMC	Guangzhou, China	Production and sale of industrial automation products	44,511	38,165	-	100.00	46,499	(560)	(560)	Indirect subsidiary	
Timson Tech Co. (TTC)	Kunshan Timson Tech Co., Ltd.	Kunshan, China	Processes and sale of peripherals	30,222	30,222	-	100.00	25,945	-	-	Equity-method of a subsidiary	
AAC (BVI)	AC	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	738,257	73,718	73,718	Indirect subsidiary	
	ACN	Beijing, China	Sale of industrial automation products	185,356	185,356	-	100.00	305,676	47,112	47,112	Indirect subsidiary	
AEU	AESC	Helmond, The Netherlands	Sale of industrial automation products	90,450	90,450	8,314,280	100.00	76,554	13,146	13,146	Indirect subsidiary	
	AUK	Milton Keynes, England	Sale of industrial automation products	13,373	13,373	600,000	100.00	21,191	(10,053)	(10,053)	Indirect subsidiary	
	ABB	Roosendaal, The Netherlands	Sale of industrial automation products	39,565	39,565	295,378	100.00	53,635	10,937	10,937	Indirect subsidiary	
	AEBC	Duesseldorf, Germany	Sale of industrial automation products	46,028	46,028	1,142,000	100.00	18,728	35,662	35,662	Indirect subsidiary	
	AIT	Milano, Italy	Sale of industrial automation products	22,275	22,275	45,000	100.00	4,560	(7,454)	(7,454)	Indirect subsidiary	
	AEDC	Amberg, Germany	Sale of industrial automation products	46,446	46,446	-	100.00	35,289	(3,124)	(3,124)	Indirect subsidiary	
	APL	Warsaw, Poland	Sale of industrial automation products	10,285	10,285	2,000	80.00	9,552	(660)	(528)	Indirect subsidiary	
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	3,319	1,404	421	Indirect subsidiary	
	APN	Penang, Malaysia	Sale of industrial automation products	8,181	8,181	570,570	55.00	7,160	2,471	1,359	Indirect subsidiary	
	AKL	Kuala Lumpur, Malaysia	Sale of industrial automation products	7,264	7,264	418,000	55.00	4,458	118	65	Indirect subsidiary	
	AMY	Kuala Lumpur, Malaysia	Sale of industrial automation products	9,105	-	1,020,000	51.00	10,640	3,112	1,587	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 unreviewed financial statements.

Note C: AFR became AEBC's subsidiary after reorganization.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

## INVESTMENTS IN MAINLAND CHINA

SIX MONTHS ENDED JUNE 30, 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 June 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2006	Accumulated Inward Remittance of Earnings as of June 30, 2006	Accumulated Investment in Mainland China as of June 30, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US\$12,000 thousand	Indirect	\$ 388,440 (US\$ 12,000 thousand)	\$ -	\$ -	\$ 388,440 (US\$ 12,000 thousand)	100%	\$ 6,914	\$ 528,625	\$ -	\$ 576,251 ( US\$ 17,802 thousand )	\$ 809,250 ( US\$ 25,000 thousand )	\$ 3,844,146
Kunshan Timson Tech Co., Ltd.	Processes and sale of peripherals	US\$900 thousand	Indirect	8,740 (US\$ 270 thousand)	-	-	8,740 (US\$ 270 thousand)	30%	-	7,784	-	(Note D)		
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US\$4,230 thousand	Indirect	172,597 (US\$ 5,332 thousand)	-	-	172,597 (US\$ 5,332 thousand)	100%	47,112	305,676	-			
Advantech Electronic Technology (Dongguan) Co., Ltd.	Production and sale of industrial automation products	US\$1,400 thousand	Indirect	(Note C)	-	-	(Note C)	100%	(560)	46,499	-			

Note A: The calculation of investment gain (loss) was based on the unreviewed financial statements of the Parent Company incorporated in Taiwan.

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 20 and 22 to the financial statements and Tables 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 Parent Company will submit this incident to MOEA for approving and terminating this case under the regulation.

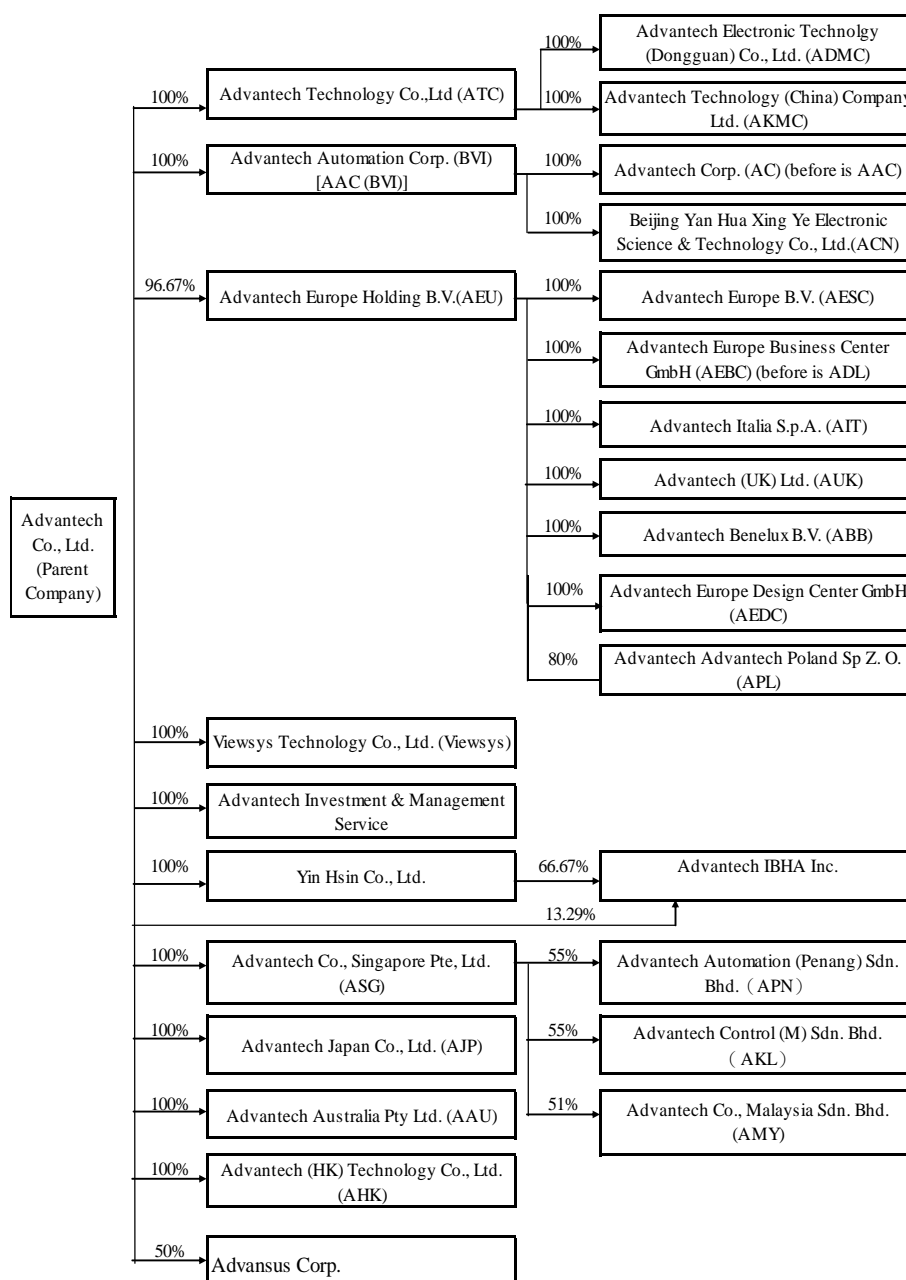
Note E: The exchange rate was US\$1.00=NT\$32.37.

**TABLE 9**

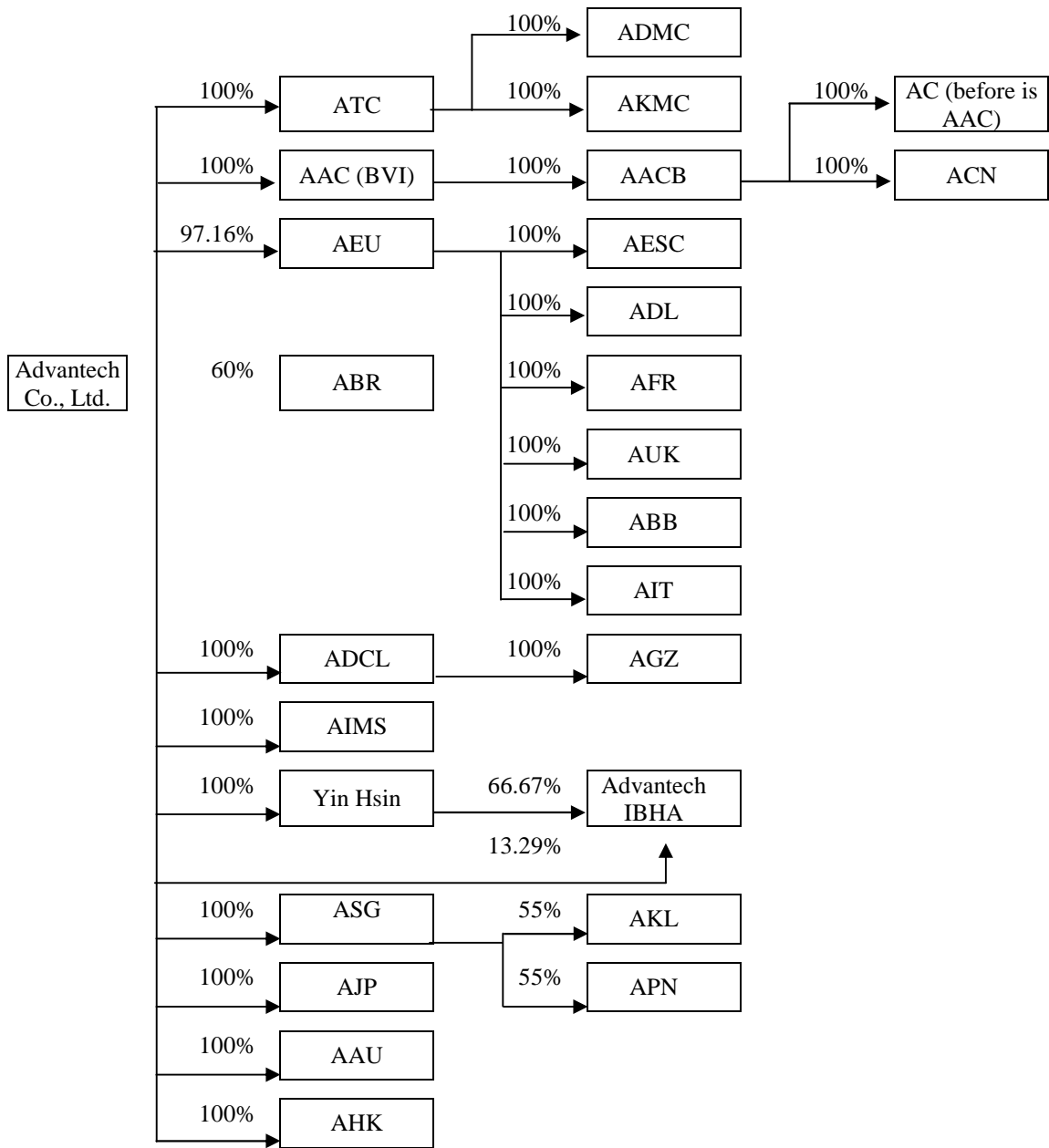
**ADVANTECH CO., LTD. AND SUBSIDIARIES**

**ORGANIZATION CHART  
JUNE 30, 2006 AND 2005**

Intercompany relationships and percentages of ownership as of June 30, 2006 are shown below:



Intercompany relationships and percentages of ownership as of June 30, 2005 are shown below:



## ADVANTECH CO., LTD. AND SUBSIDIARIES

## SIGNIFICANT INTERCOMPANY TRANSACTIONS

SIX MONTHS ENDED JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
0	June 30, 2006 Advantech Co., Ltd.	ACN	1	Sales	\$ 657,386	Note E	9
		ACN	1	Receivables from related parties	441,732	Note F	3
		ATC	1	Purchase	1,306,769	Note E	18
		ATC	1	Payables to related parties	490,279	Note F	3
		ATC	1	Receivables from related parties	248,999	Note F	2
		AC	1	Sales	1,253,261	Note E	18
		AC	1	Receivables from related parties	494,469	Note G	3
		AESC	1	Sales	870,088	Note E	12
		AESC	1	Receivables from related parties	647,242	Note F	4
		AKMC	1	Sales	50,525	Note E	1
		AKMC	1	Receivables from related parties	97,215	Note F	1
		APN	1	Sales	24,320	Note E	-
		APN	1	Receivables from related parties	15,691	Note F	-
		AAU	1	Receivables from related parties	16,257	Note G	-
		AAU	1	Sales	65,134	Note E	1
		ABR	1	Sales	11,797	Note E	-
		ASG	1	Sales	89,698	Note E	1
		ASG	1	Receivables from related parties	26,696	Note G	-
		AJP	1	Sales	193,314	Note E	3
		AJP	1	Receivables from related parties	87,372	Note G	1
		Advantech IBHA	1	Payables to related parties	14,589	Note F	-
		AKL	1	Sales	8,737	Note E	-
		AKL	1	Receivables from related parties	5,859	Note F	-
		Viewsys	1	Sales	6,307	Note E	-
		Viewsys	1	Purchase	1,953	Note E	-
		Viewsys	1	Administrative revenue	360	Note G	-
		Viewsys	1	Receivables from related parties	2,033	Note G	-
		Advansus Corp.	1	Purchase	12,524	Note E	-
		Advansus Corp.	1	Rental revenues	103	Note G	-
		Advansus Corp.	1	Receivables from related parties	119	Note G	-
		Advansus Corp.	1	Payables to related parties	13,085	Note G	-
		AIMS	1	Rental revenues	30	Note G	-
		Yin Hsin Investment Co., Ltd.	1	Rental revenues	18	Note G	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
1	ACN	Advantech Co., Ltd.	2	Purchase	\$ 657,386	Note E	9
		Advantech Co., Ltd.	2	Payables to related parties	441,732	Note F	3
		AKMC	3	Purchase	238,954	Note E	3
		AKMC	3	Receivables from related parties	105,980	Note E	1
		AKMC	3	Payables to related parties	57,960	Note E	-
		AKMC	3	Sales	76,727	Note E	1
2	ATC	Advantech Co., Ltd.	2	Sales	1,306,769	Note E	18
		Advantech Co., Ltd.	2	Payables to related parties	248,999	Note F	2
		Advantech Co., Ltd.	2	Receivables from related parties	490,279	Note F	3
		AKMC	3	Sales	7,735	Note E	-
		AKMC	3	Purchase	744,738	Note E	10
		AKMC	3	Payables to related parties	277,059	Note F	2
		AC	3	Purchase	602	Note E	-
		ADMC	3	Purchase	218,965	Note E	3
		ADMC	3	Payables to related parties	75,551	Note E	-
3	AESC	Advantech Co., Ltd.	2	Purchase	870,088	Note E	12
		Advantech Co., Ltd.	2	Payables to related parties	647,242	Note F	4
		AUK	3	Commission expense	14,960	Note E	-
		AUK	3	Sales	4,144	Note E	-
		ABB	3	Sales	5,644	Note E	-
		ABB	3	Commission expense	47,833	Note E	1
		AEBC	3	Sales	26,222	Note E	-
		AEBC	3	Commission expense	138,352	Note E	2
		AEDC	3	Commission expense	7,851	Note E	-
		APL	3	Commission expense	6,344	Note E	-
		AC	3	Payables to related parties	200	Note E	-
		AC	3	Purchase	683	Note E	-
		4	AKMC	Advantech Co., Ltd.	2	Purchase	50,252
Advantech Co., Ltd.	2			Payables to related parties	97,215	Note F	1
ACN	3			Purchase	76,727	Note E	1
ACN	3			Sales	238,954	Note E	3
ACN	3			Receivables from related parties	57,960	Note F	-
ACN	3			Payables to related parties	105,980	Note F	1
ATC	3			Purchase	7,735	Note E	-
ATC	3			Sales	744,738	Note E	10
ATC	3			Receivables from related parties	277,059	Note F	2
ADMC	3			Sales	23,506	Note E	-
ADMC	3			Purchase	542	Note E	-
ADMC	3			Payables to related parties	517	Note F	-
ADMC	3			Receivables from related parties	13,187	Note F	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
5	AC	Advantech Co., Ltd.	2	Payables to related parties	\$ 494,469	Note F	3
		Advantech Co., Ltd.	2	Purchase	1,253,261	Note E	18
		ASG	3	Sales	786	Note E	-
		APN	2	Sales	580	Note E	-
		AESC	3	Sales	683	Note E	-
		ATC	3	Sales	602	Note E	-
		AESC	3	Receivables from related parties	200	Note F	-
6	ADMC	ATC	3	Sales	218,965	Note E	3
		ATC	3	Receivables from related parties	75,551	Note F	-
		AKMC	3	Sales	542	Note E	-
		AKMC	3	Purchase	23,506	Note E	-
		AKMC	3	Payables to related parties	13,187	Note F	-
		AKMC	3	Receivables from related parties	517	Note F	-
7	AEDC	AESC	3	Commission revenue	7,851	Note E	-
8	APL	AESC	3	Commission revenue	6,344	Note E	-
9	APN	Advantech Co., Ltd.	2	Purchase	24,320	Note E	-
		Advantech Co., Ltd.	2	Payables to related parties	15,691	Note F	-
		AMY	3	Sales	4,609	Note E	-
		ASG	3	Purchase	28	Note E	-
		AKL	3	Purchase	6	Note E	-
10	ASG	Advantech Co., Ltd.	2	Purchase	89,698	Note E	1
		Advantech Co., Ltd.	2	Payables to related parties	26,696	Note G	-
		AMY	3	Sales	263	Note E	-
		AMY	3	Receivables from related parties	259	Note F	-
		APN	3	Sales	28	Note E	-
		AC	3	Purchase	786	Note E	-
11	AJP	Advantech Co., Ltd.	2	Purchase	193,314	Note E	3
		Advantech Co., Ltd.	2	Payables to related parties	87,372	Note G	1
12	AAU	Advantech Co., Ltd.	2	Purchase	65,134	Note E	1
		Advantech Co., Ltd.	2	Payables to related parties	16,257	Note G	-
13	ABR	Advantech Co., Ltd.	2	Purchase	11,797	Note E	-
14	AEBC	AESC	3	Commission revenue	138,352	Note E	2
		AESC	3	Purchase	26,222	Note E	-
15	Advantech IBHA	Advantech Co., Ltd.	2	Receivables from related parties	14,589	Note F	-
16	AUK	AESC	3	Purchase	4,144	Note E	-
		AESC	3	Commission revenue	14,960	Note E	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
17	ABB	AESC	3	Purchase	\$ 5,644	Note E	-
		AESC	3	Commission revenue	47,833	Note E	1
18	Advansus Corp.	Advantech Co., Ltd.	2	Sales	12,524	Note E	-
		Advantech Co., Ltd.	2	Rental expense	103	Note G	-
		Advantech Co., Ltd.	2	Payables to related parties	119	Note G	-
		Advantech Co., Ltd.	2	Receivables from related parties	13,085	Note G	-
19	AKL	Advantech Co., Ltd.	2	Purchase	8,773	Note E	-
		Advantech Co., Ltd.	2	Payables to related parties	5,859	Note F	-
		APN	3	Sales	6	Note E	-
		AMY	3	Sales	2,266	Note E	-
20	Viewsys Technology Co., Ltd.	Advantech Co., Ltd.	2	Purchase	6,307	Note E	-
		Advantech Co., Ltd.	2	Sales	1,953	Note E	-
		Advantech Co., Ltd.	2	Administrative expense	360	Note G	-
		Advantech Co., Ltd.	2	Payables to related parties	2,033	Note G	-
21	AIMS	Advantech Co., Ltd.	2	Rental expense	30	Note G	-
22	Yin Hsin Investment Co., Ltd.	Advantech Co., Ltd.	2	Rental expense	18	Note G	-
23	AMY	ASG	3	Purchase	263	Note E	-
		ASG	3	Payables to related parties	259	Note F	-
		APN	3	Purchase	4,609	Note E	-
		AKL	3	Purchase	2,266	Note E	-

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			% to Consolidated Assets/Revenue (Note C)
				Financial Statement Account	Amount	Payment Terms	
0	<u>June 30, 2005</u> Advantech Co., Ltd.	ACN	1	Sales	607,706	Note E	11
		ACN	1	Receivables from related parties	219,390	Note F	2
		ATC	1	Sales	11,793	Note E	-
		ATC	1	Purchase	1,061,646	Note E	20
		ATC	1	Payables to related parties	667,395	Note F	6
		ATC	1	Royalty revenue	53,932	Note E	1
		ATC	1	Receivables from related parties	12,499	Note F	-
		AC	1	Sales	906,370	Note E	17
		AC	1	Receivables from related parties	342,861	Note F	3
		AESC	1	Sales	783,086	Note E	15
		AESC	1	Receivables from related parties	484,874	Note F	4
		AKMC	1	Sales	35,833	Note E	1
		AKMC	1	Receivables from related parties	13,072	Note F	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		APN	1	Sales	\$ 11,732	Note E	-
		AAU	1	Sales	51,598	Note E	1
		AAU	1	Receivables from related parties	13,866	Note G	-
		ABR	1	Sales	17,787	Note E	-
		ABR	1	Receivables from related parties	12,936	Note F	-
		ASG	1	Sales	64,395	Note E	1
		ASG	1	Receivables from related parties	26,006	Note G	-
		AJP	1	Sales	127,257	Note E	2
		AJP	1	Receivables from related parties	41,878	Note G	-
		Advantech IBHA	1	Payables to related parties	14,493	Note F	-
1	ACN	Advantech Co., Ltd.	2	Purchase	\$ 607,706	Note E	11
		Advantech Co., Ltd.	2	Payables to related parties	219,390	Note F	2
		AKMC	3	Purchase	199,376	Note E	4
		AKMC	3	Receivables from related parties	32,177	Note F	-
		AKMC	3	Payables to related parties	21,452	Note F	-
		AKMC	3	Sales	90,027	Note E	2
2	ATC	Advantech Co., Ltd.	2	Purchase	11,793	Note E	-
		Advantech Co., Ltd.	2	Sales	1,061,646	Note E	20
		Advantech Co., Ltd.	2	Royalty expense	53,932	Note E	1
		Advantech Co., Ltd.	2	Payables to related parties	12,499	Note F	-
		Advantech Co., Ltd.	2	Receivables from related parties	667,395	Note F	6
		AKMC	3	Sales	10,240	Note E	-
		AKMC	3	Purchase	576,786	Note E	11
		AKMC	3	Payables to related parties	336,810	Note F	3
3	AESC	Advantech Co., Ltd.	2	Purchase	783,086	Note E	15
		Advantech Co., Ltd.	2	Payables to related parties	484,474	Note F	4
		AUK	3	Sales	12,201	Note E	-
		ABB	3	Sales	26,221	Note E	-
		AIT	3	Sales	11,186	Note E	-
		AIT	3	Commission expense	22,538	Note E	-
4	AKMC	Advantech Co., Ltd.	2	Purchase	35,833	Note E	1
		Advantech Co., Ltd.	2	Payables to related parties	13,072	Note F	-
		ACN	3	Purchase	90,027	Note E	2
		ACN	3	Sales	199,376	Note E	4
		ACN	3	Receivables from related parties	21,452	Note F	-
		ACN	3	Payables to related parties	32,177	Note F	-
		ATC	3	Purchase	10,240	Note E	-
		ATC	3	Sales	576,786	Note E	11
		ATC	3	Receivables from related parties	336,810	Note F	3
5	AC	Advantech Co., Ltd.	2	Payables to related parties	342,861	Note F	3
		Advantech Co., Ltd.	2	Purchase	906,370	Note E	17

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
6	APN	Advantech Co., Ltd.	2	Purchase	\$ 11,732	Note E	-
7	ASG	Advantech Co., Ltd. Advantech Co., Ltd.	2 2	Purchase Payables to related parties	64,395 26,006	Note E Note G	1 -
8	AJP	Advantech Co., Ltd. Advantech Co., Ltd.	2 2	Purchase Payables to related parties	127,257 41,878	Note E Note G	2 -
9	AAU	Advantech Co., Ltd. Advantech Co., Ltd.	2 2	Purchase Payables to related parties	51,598 13,866	Note E Note G	1 -
10	ABR	Advantech Co., Ltd. Advantech Co., Ltd.	2 2	Purchase Payables to related parties	\$ 17,787 12,936	Note E Note F	- -
11	AIT	AESC AESC	3 3	Commission revenue Purchase	22,538 11,186	Note E Note E	- -
12	Advantech IBHA	Advantech Co., Ltd.	2	Receivables from related parties	14,493	Note F	-
13	AUK	AESC	3	Purchase	12,201	Note E	-
14	ABB	AESC	3	Purchase	26,221	Note E	-

Note A: Significant transactions between Parent Company and its subsidiaries or among subsidiaries are numbered as follows:

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

Note B: Related party transactions are divided into three categories as follows:

1. Advantech Co., Ltd. to its subsidiaries.
2. Subsidiaries to its Parent Company, Advantech Co., Ltd.
3. Among Advantech Co., Ltd. subsidiaries.

Note C: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of June 30, 2006 and 2005, respectively; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended June 30, 2006 and 2005, respectively.

Note D: All intercompany transactions have been write-off.

Note E: Normal.

Note F: Depending on its operating condition.

Note G: 60-90 days.

(Concluded)