

Advantech Co., Ltd.

**Financial Statements for the
Nine Months Ended September 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 balance sheets of Advantech Co., Ltd. as of September 30, 2006 and 2005 and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with the 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 8 to the financial statements, Advantech Co., Ltd. had investments accounted for by the equity method. As of September 30, 2006 and 2005, these investments had a carrying value of NT\$3,603,250 thousand and NT\$3,240,219 thousand, respectively. As of September 30, 2006 and 2005, the credit balance of equity-method investees with carrying value were NT\$961 thousand and NT\$13,853 thousand, respectively. The net investment gains of NT\$794,037 thousand and NT\$605,940 thousand in the nine months ended September 30, 2006 and 2005, respectively, as well as additional disclosures in Note 21 required by the Securities and Futures Bureau for the Company and its investees were based on the investees' unaudited financial statements for the same reporting periods as those of the Company.

Based on our reviews, except for the effects of any adjustments that might have been required had the investment amounts and related information mentioned in the preceding paragraph been based on the investees' reviewed financial statements, we are not aware of any material modifications that should be made to the financial statements of Advantech Co., Ltd. as of and for the nine months ended September 30, 2006 and 2005 for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the 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.

October 18, 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.

BALANCE SHEETS
SEPTEMBER 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	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 3)	\$ 856,674	6	\$ 622,040	6	Financial liabilities at fair value through profit or loss (Notes 2, 3, 5 and 20)	\$ -	-	\$ 3,989	-
Available-for-sale financial assets - current (Notes 2, 3, 6 and 20)	1,300,115	9	1,707,472	16	Notes payable	-	-	2,658	-
Notes receivable (Note 2)	50,938	-	50,853	-	Accounts payable	733,390	5	651,660	6
Accounts receivable, net of allowance for doubtful accounts of \$10,481 thousand in 2006 and \$10,095 thousand in 2005 (Note 2)	623,125	4	403,854	4	Payable to related parties (Note 17)	564,213	4	827,451	8
Receivable from related parties (Notes 2 and 17)	2,156,065	14	1,521,121	14	Income tax payable (Notes 2 and 14)	88,374	1	-	-
Tax refund receivable	150,310	1	137,909	1	Accrued expenses	285,739	2	235,255	2
Inventories, net (Notes 2 and 7)	1,306,347	9	1,308,108	12	Dividend payable and employee bonus payable (Note 13)	232,968	1	151,098	2
Deferred income tax assets - current (Notes 2 and 14)	53,081	-	53,331	-	Bonds payable - current portion (Notes 2, 11 and 13)	-	-	12,998	-
Prepayments and other current assets (Note 14)	25,776	-	68,246	1	Other current liabilities	44,564	-	40,397	-
Total current assets	6,522,431	43	5,872,934	54	Total current liabilities	1,949,248	13	1,925,506	18
LONG-TERM FUNDS AND INVESTMENTS					OTHER LIABILITIES				
Equity method investment (Notes 2 and 8)	3,603,250	23	3,240,219	30	Accrued pension liabilities (Notes 2 and 12)	110,964	1	117,020	1
Available-for-sale financial assets - noncurrent (Notes 2, 3, 6 and 20)	3,459,042	23	19,145	-	Guarantee deposits received	279	-	1,227	-
Total long-term funds and investments	7,062,292	46	3,259,364	30	Deferred income tax liabilities - noncurrent (Notes 2 and 14)	116,437	1	220,121	2
PROPERTIES (Notes 2 and 9)					Deferred income (Notes 2 and 17)	248,438	1	226,862	2
Cost					Miscellaneous (Notes 2 and 8)	961	-	13,853	-
Land	640,472	4	624,779	6	Total other liabilities	477,079	3	579,083	5
Buildings and equipment	844,912	5	837,849	8	Total liabilities	2,426,327	16	2,504,589	23
Machinery and equipment	302,030	2	274,054	2	SHAREHOLDERS' EQUITY (Notes 2, 11, 13 and 20)				
Furniture and fixtures	93,888	1	87,223	1	Capital stock, \$10.00 par value				
Miscellaneous equipment	146,375	1	113,921	1	Authorized - 500,000 thousand shares				
Total cost	2,027,677	13	1,937,826	18	Issued and outstanding - 463,365 thousand shares in 2006 and 403,889 thousand shares in 2005	4,633,645	30	4,038,893	37
Accumulated depreciation	426,361	3	362,380	3	Capital surplus				
Advances for equipment acquisition	1,601,316	10	1,575,446	15	Paid-in capital in excess of par value	4,356,071	29	1,319,697	12
	5,535	-	38,881	-	From long-term equity investments	57,583	-	52,922	1
Net properties	1,606,851	10	1,614,327	15	Total capital surplus	4,413,654	29	1,372,619	13
OTHER ASSETS					Retained earnings				
Properties leased to others, net (Notes 2, 9 and 10)	-	-	21,379	-	Legal reserve	1,086,326	7	843,346	8
Refundable deposits	10,201	-	7,171	-	Special reserve	-	-	19,661	-
Deferred expenses, net (Note 2)	123,620	1	91,036	1	Unappropriated earnings	2,662,593	17	2,029,243	19
Certificates of deposit - pledged (Note 18)	1,600	-	4,900	-	Total retained earnings	3,748,919	24	2,892,250	27
Total other assets	135,421	1	124,486	1	Others				
TOTAL	\$ 15,326,995	100	\$ 10,871,111	100	Cumulative translation adjustments	120,144	1	62,760	-
					Unrealized losses on financial instruments	(15,694)	-	-	-
					Total others	104,450	1	62,760	-
					Total shareholders' equity	12,900,668	84	8,366,522	77
					TOTAL	\$ 15,326,995	100	\$ 10,871,111	100

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

(With Deloitte & Touche review report dated October 18, 2006)

ADVANTECH CO., LTD.

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 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 17)				
Sales	\$ 7,829,165	100	\$ 6,086,546	99
Sales returns and allowances	<u>58,981</u>	<u>1</u>	<u>15,718</u>	<u>-</u>
Net sales	7,770,184	99	6,070,828	99
Other operating revenues	<u>68,020</u>	<u>1</u>	<u>36,702</u>	<u>1</u>
Total operating revenues	7,838,204	100	6,107,530	100
OPERATING COSTS (Notes 2, 15 and 17)	<u>5,474,768</u>	<u>70</u>	<u>4,176,999</u>	<u>69</u>
GROSS PROFIT	2,363,436	30	1,930,531	31
REALIZED (UNREALIZED) PROFITS ON INTERCOMPANY SALES (Note 2)	<u>14,695</u>	<u>-</u>	<u>(11,020)</u>	<u>-</u>
ADJUSTED GROSS PROFIT	<u>2,378,131</u>	<u>30</u>	<u>1,919,511</u>	<u>31</u>
OPERATING EXPENSES (Note 15)				
Marketing	203,832	3	207,645	3
Administration	237,393	3	233,177	4
Research and development	<u>436,632</u>	<u>5</u>	<u>342,913</u>	<u>6</u>
Total operating expenses	<u>877,857</u>	<u>11</u>	<u>783,735</u>	<u>13</u>
OPERATING INCOME	<u>1,500,274</u>	<u>19</u>	<u>1,135,776</u>	<u>18</u>
NONOPERATING INCOME AND GAINS				
Interest	19,118	-	10,941	-
Equity in net income of investees, net (Notes 2 and 8)	794,037	10	605,940	10
Gain on disposal of investments	92,939	1	155,679	3
Foreign exchange gain, net (Note 2)	93,459	1	-	-
Reversal of allowance for losses on inventories (Note 2)	-	-	22,640	-
Royalty revenue (Note 17)	103,791	2	84,336	1
Other income (Notes 3 and 17)	<u>72,605</u>	<u>1</u>	<u>28,396</u>	<u>1</u>
Total nonoperating income and gains	<u>1,175,949</u>	<u>15</u>	<u>907,932</u>	<u>15</u>

(Continued)

ADVANTECH CO., LTD.

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Loss on disposal of scrap inventories	\$ 31,128	-	\$ 31,085	-
Foreign exchange loss, net (Note 2)	-	-	40,091	1
Provision for loss on inventories (Note 2)	51,173	1	-	-
Financial asset revaluation loss, net (Notes 2, 3 and 5)	4,062	-	2,649	-
Other expenses (Note 15)	<u>1,552</u>	<u>-</u>	<u>8,542</u>	<u>-</u>
Total nonoperating expenses and losses	<u>87,915</u>	<u>1</u>	<u>82,367</u>	<u>1</u>
INCOME BEFORE INCOME TAX	2,588,308	33	1,961,341	32
INCOME TAX (Notes 2 and 14)	<u>262,594</u>	<u>3</u>	<u>190,839</u>	<u>3</u>
NET INCOME	<u>\$ 2,325,714</u>	<u>30</u>	<u>\$ 1,770,502</u>	<u>29</u>
	2006		2005	
	Pretax	After-tax	Pretax	After-tax
EARNINGS PER SHARE (Note 16)				
Basic	<u>\$ 5.59</u>	<u>\$ 5.02</u>	<u>\$ 4.76</u>	<u>\$ 4.29</u>
Diluted	<u>\$ 5.57</u>	<u>\$ 5.01</u>	<u>\$ 4.70</u>	<u>\$ 4.24</u>

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

(With Deloitte & Touche review report dated October 18, 2006)

(Concluded)

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,325,714	\$ 1,770,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,738	77,125
Provision for bad debts	836	98
Provision (reversal of allowance) for loss on inventories	51,173	(22,640)
Loss on disposal of scrap inventories	31,128	31,085
Gain on disposal of long-term equity investments, net	(74,439)	(136,705)
Loss (gain) on disposal of properties, net	(82)	253
Equity in net income of investees, net	(794,037)	(605,940)
Cash dividends from equity-method investees	724,897	435,822
Accrued pension liabilities	16	2,451
Deferred income taxes	21,910	73,972
Net changes in operating assets and liabilities		
Notes receivable	47,369	(2,376)
Accounts receivable	(222,126)	(79,921)
Receivable from related parties	(516,206)	(545,202)
Tax refund receivable	(18,063)	(85,909)
Inventories	(167,824)	(675,048)
Prepayments and other current assets	(14,279)	49,911
Notes payable	(12)	1,839
Accounts payable	33,376	304,699
Payable to related parties	43,008	95,118
Income tax payable	31,503	(136,359)
Accrued expenses	19,616	87,497
Other current liabilities	17,235	(69,874)
Deferred income	(14,697)	14,001
Net cash provided by operating activities	<u>1,603,754</u>	<u>584,399</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in available-for-sale financial assets - current	66,155	303,252
Proceeds of sales of available-for-sale financial assets - noncurrent	64,153	-
Acquisition of equity-method investments	(547,507)	(29,997)
Proceeds of sale of equity-method investments	12,782	442,042
Proceeds of disposal of properties	100	2
Acquisition of properties	(61,290)	(93,171)
Decrease in certificates of deposit - pledged	2,500	-
Increase in deferred expense	(3,941)	(7,342)
Increase in other assets	(2,716)	(3,462)
Net cash provided by (used in) investing activities	<u>(469,764)</u>	<u>611,324</u>

(Continued)

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in loans - short-term	\$ -	\$ (5,134)
Employee stock option	9,918	-
Increase (decrease) in guarantee deposits received	(948)	1,227
Cash dividends paid	(1,795,841)	(1,386,639)
Bonus paid to employees and remuneration to directors and supervisors	<u>(109,770)</u>	<u>(64,093)</u>
Net cash used in financing activities	<u>(1,896,641)</u>	<u>(1,454,639)</u>
NET DECREASE IN CASH	(762,651)	(258,916)
CASH, BEGINNING OF PERIOD	<u>1,619,325</u>	<u>880,956</u>
CASH, END OF PERIOD	<u>\$ 856,674</u>	<u>\$ 622,040</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ -</u>	<u>\$ 94</u>
Income tax paid	<u>\$ 160,204</u>	<u>\$ 253,227</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Reclassification of properties leased to others into properties	<u>\$ 21,344</u>	<u>\$ 8,945</u>
Conversion of bonds into capital stock and capital surplus	<u>\$ 10,513</u>	<u>\$ 278,454</u>
Remuneration to directors and supervisors and bonus to employees payable	<u>\$ 142,270</u>	<u>\$ 153,096</u>
Dividends receivable from equity-method investees	<u>\$ 199,984</u>	<u>\$ -</u>
Credit balances on carrying values of investments recorded as part of other liabilities	<u>\$ 961</u>	<u>\$ 13,853</u>

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

(With Deloitte & Touche review report dated October 18, 2006)

(Concluded)

ADVANTECH CO., LTD.

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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

(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

As of September 30, 2006 and 2005, the Company had 1,090 and 922 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 Company is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, provision for loss on inventories, depreciation of properties and properties leased to others, pension cost, product warranty reserve and income tax. Actual results could differ from these estimates.

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

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

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash, financial assets held for trading and other assets consumed or used up within one year. Current liabilities include financial liabilities resulted from 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 instruments at fair value through profit or loss include financial assets or liabilities for trading. These derivatives are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value, with the changes in fair value recognized in current earnings. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trading date accounting.

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

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

Available-for-sale Financial Assets

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

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

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

Revenue Recognition, Accounts Receivable, and Allowance for Doubtful Accounts

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

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

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

Inventories

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

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

Long-term Equity Investments

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

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

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

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

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

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

Properties and Properties Leased to Others

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

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

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

Deferred Expenses

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

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.

Pension Costs

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

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

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

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

Convertible Bonds

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

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

Income Tax

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

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

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

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

Foreign-currency Transactions

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

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

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

Reclassifications

Certain accounts in the financial statements as of and for the nine months ended September 30, 2005 have been reclassified to be consistent with the presentation of financial statements as of and for the nine months ended September 30, 2006.

3. ACCOUNTING CHANGES

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

a. Effect of accounting changes

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

The effect of the accounting changes is summarized as follows:

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

Note: Included in nonoperating income and gains - other.

The accounting changes had no material effect on the net income in the nine months ended September 30, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the nine months ended September 30, 2005 were reclassified to be consistent with the financial statements as of and for the nine months ended September 30, 2006. However, the previously issued financial statements as of and for the nine months ended September 30, 2005 need not be restated. If the same account with different valuation method, the details will describe in the notes. If there has a difficulty for practical reasons, the Company would not show the pro-forma informations.

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

1) Short-term investments

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

2) Long-term equity investments

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

3) Forward contracts

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

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

Certain accounts in the financial statements as of and for the nine months ended September 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:

	Before Reclassification	After Reclassification
<u>Balance sheet</u>		
Short-term investments	\$ 1,707,472	\$ -
Long-term investments accounted for using cost method	19,145	-
Other current liabilities (forward contracts)	3,989	-
Available-for-sale financial assets - current	-	1,707,472
Available-for-sale financial assets - noncurrent	-	19,145
Financial liabilities at fair value through profit or loss	-	3,989
<u>Statement of income</u>		
Foreign exchange loss, net	2,649	-
Valuation loss on financial instruments	-	2,649

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities" and SFAS No. 25 - "Business Combinations - Accounting Treatment Under Purchase Method", which prescribe that investment premiums, representing goodwill, be assessed for impairment at least annually instead of being amortized. This accounting change had no cumulative effect on the financial statements but resulted in increases of NT\$38,789 thousand in net income and of NT\$0.08 basic earnings per share after tax for the nine months ended September 30, 2006.

4. CASH

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 1,547	\$ 210
Checking and demand deposits	142,122	106,785
Time deposits: Interest - 1.40%-5.11% in 2006 and 1.15%- 3.55% in 2005	<u>713,005</u>	<u>515,045</u>
	<u>\$ 856,674</u>	<u>\$ 622,040</u>

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

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Hong Kong (US\$277 thousand and HK\$136 thousand in 2006 and US\$23 thousand and HK\$217 thousand in 2005)	<u>\$ 10</u>	<u>\$ 1,702</u>

5. FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Financial liabilities resulted from trading</u>		
Forward contracts	\$ <u> -</u>	\$ <u> 3,989</u>

On September 30, 2005, information about outstanding forward contracts is shown as follows:

<u>September 30, 2005</u>	<u>Currency</u>	<u>Maturity</u>	<u>Amount (Thousand)</u>
Sell	USD/NTD	November 2005	USD9,000/NTD288,204
	EUR/USD	December 2005	EUR5,000/USD6,168

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

Net losses arising from trading financial assets or liabilities for the nine months ended September 30, 2006 and 2005 were \$4,062 thousand and \$2,649 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>September 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Mutual funds	\$ 1,300,115	\$ -	\$ 1,707,472	\$ -
Publicly traded stocks				
ASUSTEK Computer Inc.	-	3,395,600	-	-
Firich Enterprise Co., Ltd.	-	63,442	-	19,145
	<u>\$ 1,300,115</u>	<u>\$ 3,459,042</u>	<u>\$ 1,707,472</u>	<u>\$ 19,145</u>

7. INVENTORIES, NET

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Finished goods	\$ 382,118	\$ 357,443
Work in process	477,699	453,338
Materials and supplies	591,629	591,085
Inventories in transit	<u>9,104</u>	<u>-</u>
	1,460,550	1,401,866
Allowance for losses	<u>(154,203)</u>	<u>(93,758)</u>
	<u>\$ 1,306,347</u>	<u>\$ 1,308,108</u>

8. LONG-TERM EQUITY INVESTMENTS

	September 30			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Listed</u>				
Axiomtek Co., Ltd.	\$ 397,876	33.30	\$ 344,846	37.54
<u>Unlisted</u>				
Advantech Automation Corp. (BVI)	1,151,689	100.00	915,824	100.00
Advansus Corp.	490,436	50.00	-	-
Advantech Technology Co., Ltd.	487,227	100.00	1,060,326	100.00
Advantech Europe Holding B.V.	310,832	98.37	249,988	96.51
Yin Hsin Investment Co., Ltd.	259,418	100.00	274,887	100.00
Advantech Technologies Co., Ltd.	176,548	23.89	114,984	27.47
Advantech Co. Singapore Pte, Ltd.	104,839	100.00	88,531	100.00
Advantech Japan Co., Ltd.	93,296	100.00	74,698	100.00
Advantech Australia Pty Ltd.	78,432	100.00	75,844	100.00
Viewsys Technology Co., Ltd.	22,604	100.00	-	-
Advantech Hungary Ltd.	12,786	30.00	12,389	30.00
Advantech IBHA Technologies Inc.	11,906	13.29	14,503	13.29
Advantech Investment & Management Service	5,361	100.00	5,347	100.00
Advantech (H.K.) Technology Co., Ltd.	-	100.00	-	100.00
Advantech Development Co., Ltd.	-	-	8,052	100.00
Advantech Brazil S/A	-	-	-	60.00
	<u>3,205,374</u>		<u>2,895,373</u>	
Long-term stock investments accounted for by equity method	<u>\$ 3,603,250</u>		<u>\$ 3,240,219</u>	-

The calculation of the investment carrying value and the Company's equity in the equity-method investees' net income was based on the investees' unreviewed financial statements as of and for the nine months ended September 30, 2006 and 2005.

The combined ownership of the Company and its subsidiaries in Advantech IBHA Technologies Inc. ("Advantech IBHA") exceeds 20% of Advantech IBHA's outstanding common stock as of September 30, 2006. Thus, the investment in Advantech IBHA was accounted for by the equity method.

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

The Company intended to support the operations of Advantech (H.K.) Technology Co., Ltd. in 2006 and 2005, and Advantech Brazil S/A in 2005. Under the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities" of the Republic of China, if the equity in losses recognized exceeds the original investment acquisition costs plus any advances given to the investee, the Company recognizes its investee's total losses unless other investors commit to assume, and can assume, a portion of the losses. As of September 30, 2006 and 2005, there were credit balances on this investment of \$961 thousand and \$13,853 thousand, respectively, included in other liability - miscellaneous as follows:

	September 30			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Advantech (HK) Technology Co., Ltd.	\$ 961	100	\$ 612	100
Advantech Brazil S/A	-	-	<u>13,241</u>	60
	<u>\$ 961</u>		<u>\$ 13,853</u>	

The market value of the listed stock of the equity investment's market values, which was calculated on the basis of the closing price of September 30, 2006 and 2005 were \$1,022,527 thousand and \$513,599 thousand.

9. PROPERTIES

Accumulated depreciation was as follows:

	September 30	
	2006	2005
Buildings and equipment	\$ 98,234	\$ 80,328
Machinery and equipment	225,767	162,028
Furniture and fixtures	57,663	56,125
Miscellaneous equipment	<u>44,697</u>	<u>63,899</u>
	<u>\$ 426,361</u>	<u>\$ 362,380</u>

Depreciation expenses for properties and properties leased to others were \$62,124 thousand and \$65,875 thousand for the nine months ended September 30, 2006 and September 30, 2005, respectively.

10. PROPERTIES LEASED TO OTHERS (AS OF SEPTEMBER 30, 2006: NONE)

	September 30, 2005
Cost	
Land	\$ 15,693
Buildings and equipment	<u>7,063</u>
	22,756
Accumulated depreciation	<u>1,377</u>
	<u>\$ 21,379</u>

11. CURRENT PORTION OF LONG-TERM BONDS (AS OF SEPTEMBER 30, 2006: NONE)

	September 30, 2005
Unsecured convertible bonds	\$ 10,900
Interest-premium on convertible bonds	<u>2,098</u>
	<u>\$ 12,998</u>

On July 19, 2001, the Company issued domestic unsecured convertible bonds with aggregate face value of \$1,000,000 thousand (or \$100 thousand face value per unit), which were listed on the Taiwan Stock Exchange on July 31, 2001. These bonds, with maturity on July 18, 2006, were scheduled to be redeemed at 112.4864% of their face value on July 19, 2004 or 119.2519% of their face value on July 19, 2005. The bonds are convertible to capital stock at an agreed conversion price between October 19, 2001 and July 8, 2006 under certain conditions. As of September 30, 2006, bonds with aggregate face value of \$999,500 thousand had been converted to 20,910 thousand shares; bonds amounting to \$400 thousand had been redeemed at the holders' request; and bonds amounting to \$100 thousand were redeemed by the Company on maturity.

12. PENSION PLAN

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

Under the Act, the Company has a defined contribution pension plan. Since July 1, 2005, the Company has made monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance at 6% of employees' salaries and wages. The pension cost under the defined contribution plan was NT\$28,267 thousand and NT\$8,576 thousand for the nine months ended September 30, 2006 and 2005, respectively.

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

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

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

Fund changes -

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of period	\$ 70,952	\$ 62,094
Contribution	764	8,389
Interest	1,488	670
Payment	<u>-</u>	<u>1,446</u>
Balance, end of period	<u>\$ 73,204</u>	<u>\$ 69,707</u>

Changes in the accrued pension liability -

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of period	\$ 110,948	\$ 114,569
Pension cost	780	10,840
Contributions	<u>764</u>	<u>8,389</u>
Balance, end of period	<u>\$ 110,964</u>	<u>\$ 117,020</u>

13. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

	<u>Appropriation Earnings</u>		<u>Dividend per Share</u> <u>(Dollars)</u>	
	2005	2004	2005	2004
Legal reserve	\$ 242,980	\$ 216,015	\$ -	\$ -
Special reserve	-	19,661	-	-
Cash dividends	1,795,841	1,386,639	4.0	3.70
Stock dividends	89,792	187,383	0.2	0.50
Remuneration to directors and supervisors	22,065	19,245	-	-
Bonus to employees - stock	50,000	50,000	-	-
Bonus to employees - cash	170,648	142,448	-	-

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

Because of bond conversion, the Company's capital stock and capital surplus due to issue of stock in excess of par value increased 2,100 thousand and 8,413 thousand for the nine months ended September 30, 2006, respectively. Also, they increased 51,548 thousand and 226,906 thousand for the nine months ended September 30, 2005, respectively.

On April 1, 2003, the Securities and Futures Bureau approved the Company's stock option plan. There were 3,000 thousand units authorized to be issued, which may be converted to 3,000 thousand common shares. Employees may exercise a certain percentage of the option within two and four years of the grant date, and will expire six years from the grant date. The stock options were issued on August 14, 2003, and the exercise price was set at NT\$34.44 as of September 30, 2006. As of September 30, 2006, there were 1,045 thousand units of stock options exercised, which were converted to 1,045 thousand common shares; thus, the unexercised stock options consisted of 1,615 thousand units.

14. INCOME TAX

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

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Tax on pretax income at 25% statutory rate	\$ 647,067	\$ 490,325
Deduct tax effects of:		
Permanent differences		
Tax-exempt income	(236,116)	(77,236)
Other	(30,007)	(122,495)
Temporary differences	(42,293)	(73,418)
Income tax (10%) on undistributed earnings	5,847	-
Investment tax credit	<u>(103,814)</u>	<u>(103,686)</u>
Income tax currently payable	<u>\$ 240,684</u>	<u>\$ 113,490</u>

- b. Income tax expense consisted of the following:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Income tax currently payable	\$ 240,684	\$ 113,490
Income tax expense - deferred	21,910	73,972
Adjustment of prior year's income tax	<u>-</u>	<u>3,377</u>
	<u>\$ 262,594</u>	<u>\$ 190,839</u>

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

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of period	\$ 56,871	\$ 136,359
Income tax currently payable	240,684	113,491
Payment	(209,181)	(262,774)
Adjustment of prior year's income tax	<u>-</u>	<u>3,377</u>
Balance, end of period	<u>\$ 88,374</u>	<u>\$ (9,547)</u>

Prepaid income tax is included in prepayments and other current assets.

- d. Net deferred income tax assets (liabilities) as of September 30, 2006 and 2005 were as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Current		
Deferred income tax assets		
Allowance for loss on inventories	\$ 38,551	\$ 23,439
Unrealized product warranty reserve	7,110	-
Excess provisions for doubtful receivables	6,958	-
Investment tax credit	-	26,828

(Continued)

	September 30	
	2006	2005
Unrealized foreign exchange loss	\$ -	\$ 564
Others	<u>4,773</u>	<u>2,500</u>
	<u>57,392</u>	<u>53,331</u>
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>4,311</u>	<u>-</u>
Deferred income tax assets, net	<u>\$ 53,081</u>	<u>\$ 53,331</u>
Noncurrent		
Deferred income tax assets:		
Accumulated equity in the net loss of investees	\$ 104,345	\$ 119,279
Deferred income	46,061	36,181
Pension cost	27,737	27,820
Interest-premium on convertible bonds	<u>-</u>	<u>534</u>
	178,143	183,814
Valuation allowance	<u>(104,345)</u>	<u>(119,813)</u>
	<u>73,798</u>	<u>64,001</u>
Deferred income tax liabilities:		
Accumulated equity in the net gains of foreign investees	(190,235)	(266,815)
Allowance for tax-deductible equity in net loss of foreign investees	<u>-</u>	<u>(17,307)</u>
	<u>(190,235)</u>	<u>(284,122)</u>
Deferred income tax liabilities, net	<u>\$ (116,437)</u>	<u>\$ (220,121)</u>

(Concluded)

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

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

	September 30	
	2006	2005
Balance of the imputation credit account (ICA)	<u>\$ 18,059</u>	<u>\$ 12,896</u>
The balances of unappropriated retained earnings generated before 1997	<u>\$ 81,329</u>	<u>\$ 81,329</u>

The expected and actual creditable tax ratios for earnings were 7.01% and 7.23%, as of December 31, 2005 and 2004, respectively.

Income tax returns through 2002 had been examined and cleared by the tax authorities. However, the tax authorities made an assessment on the Company's 2003 return, and Company is unwilling to accept this assessment. The Company has requested for a reexamination of its return, but, as of October 18, 2006, the date of the accompanying accountants' report, the Company had not received a response on its request.

As of September 30, 2006, the Company's five years exemption on the income was as follows:

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

15. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	For the Nine Months Ended September 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	\$ 125,263	\$ 377,919	\$ 503,182	\$ 107,138	\$ 350,837	\$ 457,975
Insurance	9,954	30,218	40,172	8,800	26,062	34,862
Pension	6,513	22,534	29,047	3,047	16,369	19,416
Others	12,847	11,592	24,439	9,628	22,293	31,921
Depreciation	26,178	35,946	62,124	33,068	32,697	65,765
Amortization	1,165	14,449	15,614	2,142	9,108	11,250
	<u>\$ 181,920</u>	<u>\$ 492,658</u>	<u>\$ 674,578</u>	<u>\$ 163,823</u>	<u>\$ 457,366</u>	<u>\$ 621,189</u>

Expenses for properties leased to others, which was \$110 thousand as of September 30, 2005 (included in nonoperating expenses and losses - other expenses), was not included in the above depreciation expenses.

16. EARNINGS PER SHARE

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

	Amount (Numerator)		Shares (Denominator) (Thousand)	Earnings Per Share	
	Pretax	After-tax		Pretax	After-tax
For the nine months ended <u>September 30, 2006</u>					
Basic EPS	\$ 2,588,308	\$ 2,325,714	463,019	<u>\$ 5.59</u>	<u>\$ 5.02</u>
Impact of dilutive potential common stock					
Employee stock options	-	-	1,168		
Convertible bonds	-	-	148		
Diluted EPS	<u>\$ 2,588,308</u>	<u>\$ 2,325,714</u>	<u>464,335</u>	<u>\$ 5.57</u>	<u>\$ 5.01</u>
For the nine months ended <u>September 30, 2005</u>					
Basic EPS	\$ 1,961,341	\$ 1,770,502	412,311	<u>\$ 4.76</u>	<u>\$ 4.29</u>
Impact of dilutive potential common stock					
Employee stock options	-	-	1,284		
Convertible bonds	-	-	4,024		
Diluted EPS	<u>\$ 1,961,341</u>	<u>\$ 1,770,502</u>	<u>417,619</u>	<u>\$ 4.70</u>	<u>\$ 4.24</u>

The EPS was retroactively adjusted for the stock dividends declared. Thus in the nine months ended September 30, 2006, pretax and after-tax basic EPS decreased from NT\$4.90 to NT\$4.76 and from NT\$4.43 to NT\$4.29, respectively, in the nine months ended 2005, and pretax and after-tax diluted EPS decreased from NT\$4.84 to NT\$4.70 and from \$4.37 to \$4.24, respectively.

17. RELATED-PARTY TRANSACTIONS

a. Related parties

	<u>Relationship with the Company</u>
Yin Hsin Investment Co., Ltd. (Yin Hsin)	Equity-method investee
Advantech IBHA Technologies Inc. (Advantech IBHA)	Equity-method investee
Axiomtek Co., Ltd. (Axiomtek)	Equity-method investee
Advantech Investment & Management Service (AIMS)	Equity-method investee
Advansus Corp.	Equity-method investee
Advantech Europe Holding B.V. (AEU)	Equity-method investee
Advantech Co. Singapore Pte, Ltd. (ASG)	Equity-method investee
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Japan Co., Ltd. (AJP)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Advantech Technology Co., Ltd. (ATC)	Equity-method investee
Advantech Italia S.p.A. (AIT)	Equity-method investee of AEU
Advantech Brazil S/A (ABR)	Equity-method investee (sold to Advantech Internation Co., Ltd. in March 2006)
Advantech Australia Pty Ltd. (AAU)	Equity-method investee
Advantech Automation Corp. (BVI) (AAC (BVI))	Equity-method investee
Advantech France S.A. (AFR)	Equity-method investee of AEU (merged with AEBC in March 2006)
Advantech Europe Business Center GmbH (AEBC, former name: ADL)	Equity-method investee of AEU
Advantech (UK) Ltd. (AUK)	Equity-method investee of AEU
Advantech Benelux B.V. (ABB)	Equity-method investee of AEU
Advantech Europe B.V. (AESC)	Equity-method investee of AEU
Advantech Technology (China) Company Ltd. (AKMC)	Equity-method investee of ATC
Advantech Electronic Technology (Dongguan) Co., Ltd. (ADMC)	Equity-method investee of ATC
Advantech Corp. (AC)	Equity-method investee of AAC (BVI)
Advan Automation Co., Ltd. (AAJP)	Equity-method investee of AAC (BVI) (before June 2005)
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Equity-method investee of AAC (BVI)
Advantech Control (M) Sdn. Bhd. (AKL)	Equity-method investee of ASG (equity-method investee of AACB before May 2005)
Advantech Automation (Penang) Sdn. Bhd. (APN)	Equity-method investee of ASG (equity-method investee of AACB before March 2005)
Advantech Corporation (Thailand) Co. (ATH)	Equity-method investee of ASG
Advantech Co., Malaysia Sdn. Bhd. (AMY)	Equity-method investee of ASG
Advantech Internation Co., Ltd.	The person in charge of Advantech Internation Co., Ltd. is a brother-in-law of the Company's chairman
Firich Enterprise Co., Ltd. (Firich)	The Company's chairman is the Firich Enterprise Co., Ltd.'s director
Viewsys Technology Co., Ltd. (Viewsys)	Equity-method investee
Advantech Investment Fund-C Co., Ltd. (Advantech IFC)	The person in charge of Advantech IFC is a brother-in-law of the 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 19 and Table 2, are summarized as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
<u>For the nine months ended September 30</u>				
1) Sales				
AC	\$ 2,047,147	27	\$ 1,513,303	25
AESC	1,326,594	17	1,248,661	21
ACN	1,204,044	16	970,327	16
AJP	303,203	4	206,868	3
AKR	242,555	3	192,864	3
ASG	117,459	2	107,747	2
AAU	97,599	1	77,561	1
AKMC	66,810	1	46,312	1
APN	36,467	-	26,152	-
Axiomtek	31,883	-	60,973	1
AKL	14,005	-	15,679	-
ATH	12,407	-	-	-
ABR	11,797	-	30,768	1
AUK	39	-	7,011	-
ATC	-	-	42,563	1
Others	10,839	-	7,018	-
	<u>\$ 5,522,848</u>	<u>71</u>	<u>\$ 4,553,807</u>	<u>75</u>
2) Purchase of materials and supplies				
ATC	\$ 2,050,184	38	\$ 1,638,042	36
Advansus Corp.	135,646	3	-	-
AC	8,809	-	13,559	-
AAC (BVI)	3,853	-	99	-
Axiomteck	1,716	-	1,587	-
Advantech IBHA	25	-	424	-
Others	2,605	-	1,006	-
	<u>\$ 2,202,838</u>	<u>41</u>	<u>\$ 1,654,717</u>	<u>36</u>
3) Royalty revenue for patent (part of nonoperating income)				
ATC	<u>\$ 103,791</u>	<u>8</u>	<u>\$ 84,336</u>	<u>100</u>
4) Administrative revenues (part of nonoperating income)				
Viewsys	<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
5) Rental revenues (part of nonoperating income)				
Advansus Corp.	\$ 520	-	\$ -	-
AIMS	45	-	45	-
Yin Hsin	27	-	27	-
Viewsys	5	-	-	-
	<u>597</u>	<u>-</u>	<u>72</u>	<u>-</u>
	<u>\$ 104,868</u>	<u>8</u>	<u>\$ 84,408</u>	<u>-</u>

At the end of nine months

6) Receivables

Notes

Firch Enterprise Co., Ltd.	\$ -	-	\$ 1,171	-
Accounts				
AESC	677,273	32	555,291	37
AC	500,048	23	430,643	28
ACN	446,527	21	219,628	15
AJP	110,546	5	57,861	4
AKMC	89,612	4	58,051	4
AKR	39,599	2	46,990	3
AAU	19,609	1	9,100	1
ASG	18,008	1	31,911	2
ABR	14,830	1	10,732	1
APN	12,748	1	8,554	-
Axiomtek	9,138	-	13,559	1
AKL	7,130	-	4,798	-
ADMC	2,733	-	7	-
Viewsys	2,214	-	-	-
ATH	913	-	-	-
Firich Enterprise Co., Ltd.	239	-	1,000	-
ATC	-	-	9,066	-
AUK	-	-	1,682	-
Others	519	-	757	-
	<u>1,951,686</u>	<u>91</u>	<u>1,459,630</u>	<u>96</u>
Dividends				
ATC	177,099	8	46,032	3
ACC (BVI)	22,885	1	-	-
	<u>199,984</u>	<u>9</u>	<u>46,032</u>	<u>3</u>
Royalty				
ATC	-	-	10,136	1
Other receivables				
Advansus Corp.	723	-	-	-
AEBC	1,640	-	-	-
AC	324	-	860	-
AJP	183	-	518	-
AESC	94	-	1,456	-

(Continued)

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
AFR	\$ -	-	\$ 433	-
Others	1,431	-	2,056	-
	<u>4,395</u>	<u>-</u>	<u>5,323</u>	<u>-</u>
	<u>\$ 2,156,065</u>	<u>100</u>	<u>\$ 1,521,121</u>	<u>100</u>

7) Payables

Accounts				
ATC	\$ 474,552	84	\$ 769,758	93
Advansus Corp.	68,974	12	-	-
AC	3,587	1	36,921	4
Advantech IBHA	-	-	14,563	2
Others	3,295	-	429	-
	<u>550,408</u>	<u>97</u>	<u>821,671</u>	<u>99</u>
Other - payments on behalf of others				
AC	9,990	2	5,501	1
Others	3,815	1	279	-
	<u>13,805</u>	<u>3</u>	<u>5,780</u>	<u>1</u>
	<u>\$ 564,213</u>	<u>100</u>	<u>\$ 827,451</u>	<u>100</u>

(Concluded)

c. Long-term equity investments

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

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

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

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

The Company bought in AEU shares from Mr. Andrea Zolli and Immobiliare 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 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 Company deferred the gain on the sale of long-term equity investments to AEU because AEU is an equity-method investee.

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

18. ASSETS PLEDGED OR MORTGAGED

The certificates of deposits 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 nine months ended September 30, 2006 and 2005, respectively.

19. COMMITMENTS

- a. As of September 30, 2006, the Company had the following guarantees for related parties' loans:

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

- b. To expand the Company's market in mainland China, the board of directors invested US\$15 million in Advantech Automation Corp. (BVI) and applied to the ROC Ministry of Economic Affairs (MOEA) for approval to make this investee a wholly owned subsidiary of the Company in Shanghai. The MOEA is reviewing the proposal as of October 18, 2006.

20. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Nonderivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets - current	\$ 1,300,115	\$ 1,300,115	\$ 1,707,472	\$ 1,707,888
Available-for-sale financial assets - noncurrent	3,459,042	3,459,042	19,145	53,832
<u>Liabilities</u>				
Bonds payable - current portion	-	-	12,998	20,710
<u>Derivative financial instruments location</u>				
Financial liabilities at fair value through profit or loss - current				
Domestic	-	-	3,989	3,989

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

b. Methods and assumptions used in the determination of fair values of financial instruments

- 1) For financial instruments such as cash, notes and accounts receivable, receivables from related parties, certificates of deposit - pledged, notes and accounts payable 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 the current portion of bonds payable was based on their quoted market prices.
- 4) Fair values of derivatives were determined using the quoted market prices, using valuation techniques incorporating estimates and assumptions that are consistent with those prevailing in the market.

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

	September 30			
	Based on the Quoted Market Price		Determined Using Valuation Techniques	
	2006	2005	2006	2005
<u>Asset</u>				
Available-for-sale financial assets - current	\$ 1,300,115	\$ 1,707,888	\$ -	\$ -
Available-for-sale financial assets - noncurrent	3,459,042	53,832	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current	-	-	-	3,989
Bonds payable - current portion	-	20,710	-	-

- d. As of September 30, 2006 and 2005, financial assets exposed to fair value risk from interest rate fluctuation amounted to \$714,605 thousand and \$519,945 thousand, respectively.
- e. The Company recognized an unrealized gain of \$634,779 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2006. The Company also recognized an unrealized loss of \$1,364 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity-method investees for the nine months ended September 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. Available-for-sale financial assets held by the Company are mainly mutual funds and publicly traded stocks. Thus, price fluctuations in the open market would result in changes in fair values of these financial instruments.
 - 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties breach the contracts. Contracts with positive fair values on the balance sheet date are evaluated for credit risk. Since the counter-parties to the foregoing derivative financial instruments are reputable financial institutions, management believes its exposure to default by counter-parties is low.
 - 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low. In addition, for long-term equity-method investments (mutual funds and publicly traded stocks), the Company keeps liquidity reserves, which are available on a short-term basis. Additionally, the contracted forward rate is decided on the contract starting dates. Thus, the cash flow risk on forward contracts is low.

21. ADDITIONAL DISCLOSURES

- a. Except for those mentioned in Note 21 and Tables 1 to 7, no additional disclosures are required by the Securities and Futures Bureau for the Company and its investees and on investment in Mainland China.
- b. Investments in mainland China
 - 1) Investee company name, main business and products, total amount of paid-in capital, investment type, investment flows, percentage ownership of direct or indirect investment, investment gains (losses), carrying value as of September 30, 2006, accumulated inward remittance of earnings as of September 30, 2006 and upper limit on investment: Table 8 (attached)
 - 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Note 17, 19 and Tables 2, 5, 6 and 8.

ADVANTECH CO., LTD. AND INVESTEES

FINANCING PROVIDED

NINE MONTHS ENDED SEPTEMBER 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	\$ 27,268 (EUR 650 thousand)	\$ 27,268 (EUR 650 thousand)	2.5%	1	\$ -	Financing need	\$ -	-	\$ -	\$ 42,764 (Note B)	\$ 85,529 (Note C)
		AEDC	Receivables from related parties	4,195 (EUR 100 thousand)	4,195 (EUR 100 thousand)	2.5%	1	-	Financing need	-	-	-		
2	AESC	AEU	Receivables from related parties	10,907 (EUR 260 thousand)	10,907 (EUR 260 thousand)	2.5%	1	-	Financing need	-	-	-	14,219 (Note D)	28,439 (Note E)

Notes: A. Nature of Financing:

There is a need for short-term financing.

B. 15% of net asset value of AEU.

C. 30% of net asset value of AEU.

D. 15% of net asset value of AESC.

E. 30% of net asset value of AESC.

ADVANTECH CO., LTD. AND INVESTEEES

**ENDORSEMENT/GUARANTEE PROVIDED
NINE MONTHS ENDED SEPTEMBER 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. (the "Company")	AKMC	Indirect subsidiary	\$ 695,047 (Note A)	\$ 331,000 (US\$ 10,000 thousand)	\$ 331,000 (US\$ 10,000 thousand)	\$ -	2.57%	\$ 1,390,094 (Note C)
		ACN	Indirect subsidiary	"	132,400 (US\$ 4,000 thousand)	-	-	-	-
		AC	Indirect subsidiary	"	231,700 (US\$ 7,000 thousand)	-	-	-	-
		AAC (BVI)	Subsidiary	"	66,200 (US\$ 2,000 thousand)	-	-	-	-
1	AEU	AEDC	Subsidiary	42,765 (Note B)	11,536 (EUR 275 thousand)	-	-	-	85,529 (Note D)

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

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

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

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

ADVANTECH CO., LTD. AND INVESTEEES

MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS
 SEPTEMBER 30, 2006
 (In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note	
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Advantech Co., Ltd. (the "Company")	<u>Stock</u>								
	AAC (BVI)	Investee	Long-term equity investments	21,606,500	\$ 1,151,689	100.00	\$ 1,151,689	Note A	
	ATC	"	"	13,450,000	487,227	100.00	487,227	Note A	
	Advansus Corp.	"	"	50,000,000	490,436	50.00	490,436	Note A	
	Axiontek	"	"	22,773,430	397,876	33.30	1,022,527	Note C	
	AEU	"	"	9,415,695	310,832	98.37	310,832	Note A	
	Yin Hsin Co., Ltd.	"	"	29,999,994	259,418	100.00	259,418	Note A	
	AKR	"	"	3,112,131	176,548	23.89	176,548	Note A	
	ASG	"	"	1,450,000	104,839	100.00	104,839	Note A	
	AJP	"	"	1,200	93,296	100.00	93,296	Note A	
	AAU	"	"	500,204	78,432	100.00	78,432	Note A	
	Viewsys	"	"	1,100,000	22,604	100.00	22,604	Note A	
	AHG	"	"	30	12,786	30.00	12,786	Note A	
	Advantech IBHA Inc.	"	"	1,994,000	11,906	13.29	11,906	Note A	
	Advantech Investment & Management Service	"	"	500,000	5,361	100.00	5,361	Note A	
	AHK	"	"	999,999	(961)	100.00	(961)	Notes A	
	ASUSTek Computer Inc.	-		Available-for-sale financial assets - noncurrent	43,701,412	3,395,600	1.28	3,395,600	Note C
	Firich Enterprise Co., Ltd.	Note D		"	195,207	63,442	0.36	63,442	Note C
	<u>Fund</u>								
	ABN AMRO Bond Fund	-		Available-for-sale financial assets - current	4,732,736.92	71,067	-	71,067	Note B
	Capital Income Fund	-		"	20,160,102.10	299,067	-	299,067	Note B
	CITC Cash Reserves Fund	-		"	12,852,029.50	150,181	-	150,181	Note B
The IIT Wan Pao Fund	-		"	936,923.07	14,177	-	14,177	Note B	
ABN AMRO Income Fund	-		"	18,915,931.26	298,327	-	298,327	Note B	
ABN AMRO Select Bond Fund	-		"	8,691,085.89	98,168	-	98,168	Note B	
NITC Bond Fund	-		"	1,110,080.94	182,019	-	182,019	Note B	
Dresdner Bond Dam Fund	-		"	11,990,713.41	138,455	-	138,455	Note B	
Fubon Chi-Hsiang I Fund	-		"	3,354,938.60	48,654	-	48,654	Note B	
Yin Hsin Co., Ltd.	<u>Stock</u>								
	Advantech IBHA Inc.	Investee	Long-term equity investments	10,000,000	59,611	66.67	59,611	Note A	
Timson Tech Co. (TTC)	"	"	"	270,000	7,903	30.00	7,903	Note A	

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 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	204,000	11,206	-	11,206	Note C
	<u>Fund</u>							
	ABN AMRO Bond Fund	-	"	869,082.72	13,050	-	13,050	Note B
	Fuh-Hwa Bond Fund	-	"	10,050,251.26	99,929	-	99,929	Note B
Advantech IBHA Inc.	<u>Fund</u>							
	ABN AMRO Bond Fund	-	"	4,715,360.85	70,806	-	70,806	Note B
	ABN AMRO Select Bond Fund	-	"	1,638,154.13	18,503	-	18,503	Note B
Viewsys Technology Co., Ltd.	<u>Fund</u>							
	JIH SUN Bond Fund	-	"	321,256.68	4,369	-	4,369	Note B
Advansus Corp.	<u>Fund</u>							
	NITC Bond Fund	-	Financial assets held for trading current	137,101.10	22,479	-	22,479	Note B
	CITC Cash Reserves Fund	-	"	385,109.10	4,500	-	4,500	Note B
	Capital Income Fund	-	"	303,357.15	4,500	-	4,500	Note B
AIMS	<u>Fund</u>							
	JIH SUN Bond Fund	-	"	184,917.22	2,515	-	2,515	Note B
TTC	<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	"	"	-	556,772	100.00	556,772	Note A
	ADMC	"	"	-	45,300	100.00	45,300	Note A
AAC (BVI)	<u>Stock</u>							
	AC	"	"	10,952,606	797,610	100.00	797,610	Note A
	<u>Shares</u>							
	Visual Systems GmbH	-	Financial assets carried at cost noncurrent	-	757	20.00	-	-
	ACN	Investee	Long-term equity investments	-	354,298	100.00	354,298	-
AEU	<u>Stock</u>							
	AESC	Investee	Long-term equity investments	8,314,280	94,795	100.00	94,795	Note A
	AUK	"	"	600,000	26,216	100.00	26,216	Note A
	ABB	"	"	295,378	55,134	100.00	55,134	Note A
	AEBC	"	"	1,142,000	15,756	100.00	15,756	Note A
	AIT	"	"	45,000	4,647	100.00	4,647	Note A
	APL	"	"	2,000	7,906	80.00	7,906	Note A

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
ASG	<u>Shares</u> AEDC	Investee	Long-term equity investments	-	\$ 30,985	100.00	\$ 30,985	Note A
	<u>Stock</u> ATH	”	”	30,000	4,293	30.00	4,293	Note A
	APN	”	”	570,570	7,337	55.00	7,337	Note A
	AKL	”	”	418,000	4,155	55.00	4,155	Note A
	AMY	”	”	1,020,000	12,434	51.00	12,434	Note A

Note A: Net asset values were based on unreviewed financial statements as of September 30, 2006.

Note B: Market values were based on the net asset values of the open-end mutual funds on September 30, 2006.

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

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

(Concluded)

ADVANTECH CO., LTD. AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 NINE MONTHS ENDED SEPTEMBER 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. (the "Company")	<u>Fund</u>														
	ABN AMRO Bond Fund	Available-for-sale financial assets - current	-	-	19,198,556.89	\$ 298,000	37,958,681.60	\$ 596,314	38,241,307.23	\$ 600,752	\$ 596,000	\$ 4,752	\$ 13	18,915,931.26	\$ 298,327
	Capital Income Fund	Available-for-sale financial assets - current	-	-	-	-	79,052,839.60	1,166,526	58,892,737.50	870,166	867,594	2,572	135	20,160,102.10	299,067
	CTTC Cash Reserves Fund	Available-for-sale financial assets - current	-	-	-	-	76,016,554.30	883,997	63,164,524.80	735,797	733,871	1,926	55	12,852,029.50	150,181
	NITC Bond Fund	Available-for-sale financial assets - current	-	-	2,226,456.07	361,290	9,356,724.76	1,526,981	10,473,099.89	1,708,680	1,706,312	2,368	60	1,110,080.94	182,019
	Fuh-Hwa Bond Fund	Available-for-sale financial assets - current	-	-	-	-	39,281,625.60	519,939	39,281,625.60	520,674	519,939	735	-	-	-
	ABN AMRO Select Bond Fund	Available-for-sale financial assets - current	-	-	8,289,805.60	92,668	59,688,447.22	671,068	59,287,166.93	666,656	665,618	1,038	50	8,691,085.89	98,168
	ABN AMRO Income Fund	Available-for-sale financial assets - current	-	-	12,151,168.46	180,567	58,418,466.89	873,649	65,836,898.43	984,657	983,181	1,476	32	4,732,736.92	71,067
	Fuh-Hwa Albatross Fund	Available-for-sale financial assets - current	-	-	4,497,974.70	50,081	26,019,227.90	291,565	30,517,202.60	342,235	341,646	589	-	-	-
	AIG Taiwan Bond Fund	Available-for-sale financial assets - current	-	-	6,339,161.68	79,725	13,233,812.51	167,274	19,572,974.19	247,833	246,999	834	-	-	-
	Dresdner Bond Dam Fund	Available-for-sale financial assets - current	-	-	6,149,013.35	70,272	44,982,389.21	518,019	39,140,689.15	450,542	449,847	695	11	11,990,713.41	138,455
	The IIT Wan Pao Fund	Available-for-sale financial assets - current	-	-	-	-	16,804,691.67	253,700	15,867,768.60	240,000	239,532	468	9	936,923.07	14,177
	Fubon Chi-Hsiang I Fund	Available-for-sale financial assets - current	-	-	3,572,061.96	46,132	7,989,442.24	103,734	11,561,504.20	150,285	149,866	419	-	-	-
	<u>Common stock</u>														
Advansus Corp.	Long-term equity investments	-	-	-	-	50,000,000.00	500,000	-	-	-	-	(9,564)	50,000,000.00	490,436	

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

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

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

ADVANTECH CO., LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 NINE MONTHS ENDED SEPTEMBER 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	\$ 2,050,184	38	Depending on its operating conditions	\$ -	-	\$ (474,552)	84	
	AC	Indirect subsidiary	Sale	(2,047,147)	27	60-90 days	-	-	500,048	23	
	AESC	Indirect subsidiary	Sale	(1,326,594)	17	Depending on its operating conditions	-	-	677,273	32	
	ACN	Indirect subsidiary	Sale	(1,204,044)	16	Depending on its operating conditions	-	-	446,527	21	
	AJP	Subsidiary	Sale	(303,203)	4	60-90 days	-	-	110,546	5	
	AKR	Investee	Sale	(242,555)	3	60-90 days	-	-	39,599	2	
	ASG	Subsidiary	Sale	(117,459)	2	60-90 days	-	-	18,008	1	
ATC	Advantech Co., Ltd.	Parent company	Sale	(2,050,184)	99	Depending on its operating conditions	-	-	474,552	95	
AC	Advantech Co., Ltd.	Ultimate parent company	Purchase	2,047,147	79	60-90 days	-	-	(500,048)	91	
AESC	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,326,594	70	Depending on its operating conditions	-	-	(677,273)	96	
ACN	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,204,044	71	Depending on its operating conditions	-	-	(446,527)	86	
AJP	Advantech Co., Ltd.	Parent company	Purchase	303,203	95	60-90 days	-	-	(110,546)	100	
AKR	Advantech Co., Ltd.	Parent company	Purchase	242,555	48	60-90 days	-	-	(39,599)	23	
ASG	Advantech Co., Ltd.	Parent company	Purchase	117,459	54	60-90 days	-	-	(18,008)	46	

ADVANTECH CO., LTD. AND INVESTEEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 SEPTEMBER 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	\$ 677,273	2.14	\$ -	-	\$ -	\$ -
	ACN	Indirect subsidiary	446,527	3.35	-	-	99,720	-
	AC	Indirect subsidiary	500,048	4.61	-	-	-	-
	AJP	Subsidiary	110,546	3.44	-	-	33,764	-
ATC	Advantech Co., Ltd.	Parent company	474,552	4.53	-	-	-	-

ADVANTECH CO., LTD. AND INVESTEEES

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

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note	
				September 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	\$ 1,151,689	\$ 200,671	\$ 200,671	Subsidiary	
	ATC	BVI	Sale of industrial automation products	427,781	427,781	13,450,000	100.00	487,227	408,058	408,058	Subsidiary	
	Advansus Corp.	Taipei, Taiwan	Production and sale of industrial automation products	500,000	-	50,000,000	50.00	490,436	(9,564)	(9,564)	Equity-method investee	
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	304,794	308,586	22,773,430	33.30	397,876	275,746	95,163	Equity-method investee	
	AEU	Helmond, the Netherlands	Investment holding company	377,298	351,791	9,415,695	98.37	310,832	43,844	42,687	Subsidiary	
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	259,418	4,652	4,652	Subsidiary	
	AKR	Seoul, Korea	Sale of industrial automation products	32,989	32,989	3,112,131	23.89	176,548	82,991	18,432	Equity-method investee	
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	104,839	11,877	11,877	Subsidiary	
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	93,296	18,477	18,477	Subsidiary	
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	78,432	2,679	2,679	Subsidiary	
	Viewsys	Taipei, Taiwan	Sale of industrial automation products	22,000	-	1,100,000	100.00	22,604	604	604	Subsidiary	
	AHG	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	12,786	(1,110)	(333)	Equity-method investee	
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	11,906	1,663	221	Subsidiary	
	AIMS	Taipei, Taiwan	Investment and management service	5,000	5,000	500,000	100.00	5,361	1	1	Subsidiary	
	AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	(961)	(64)	(64)	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	59,611	1,663	1,109	Indirect subsidiary
		TTC	Brunei	Investment holding company	8,323	8,323	270,000	30.00	7,903	-	-	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	556,772	15,449	15,449	Indirect subsidiary	
	ADMC	Guangzhou, China	Production and sale of industrial automation products	44,511	38,165	-	100.00	45,300	(3,305)	(3,305)	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 investee of a subsidiary	
AAC (BVI)	AC	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	797,610	115,949	115,949	Indirect subsidiary	
	ACN	Beijing, China	Sale of industrial automation products	185,356	185,356	-	100.00	354,298	84,061	84,061	Indirect subsidiary	
AEU	AESC	Eindhoven, the Netherlands	Sale of industrial automation products	90,450	90,450	8,314,280	100.00	94,795	29,535	29,535	Indirect subsidiary	
	AUK	Milton Keynes, England	Sale of industrial automation products	13,373	13,373	600,000	100.00	26,216	(6,275)	(6,275)	Indirect subsidiary	
	ABB	Roosendaal, The Netherlands	Sale of industrial automation products	39,565	39,565	295,378	100.00	55,134	11,597	11,597	Indirect subsidiary	
	AEBC	Duesseldorf, Germany	Sale of industrial automation products	46,028	46,028	1,142,000	100.00	15,756	33,100	33,100	Indirect subsidiary	
	AIT	Milano, Italy	Sale of industrial automation products	22,275	22,275	45,000	100.00	4,647	(7,588)	(7,588)	Indirect subsidiary	
	AEDC	Amberg, Germany	Sale of industrial automation products	46,446	46,446	-	100.00	30,985	(7,965)	(7,965)	Indirect subsidiary	
	APL	Warsaw, Poland	Sale of industrial automation products	10,285	10,285	2,000	80.00	7,906	(3,157)	(2,525)	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	4,293	4,118	1,237	Indirect subsidiary	
	APN	Penang, Malaysia	Sale of industrial automation products	8,181	8,181	570,570	55.00	7,337	2,630	1,446	Indirect subsidiary	
	AKL	Kuala Lumpur, Malaysia	Sale of industrial automation products	7,264	7,264	418,000	55.00	4,155	(533)	(293)	Indirect subsidiary	
	AMY	Kuala Lumpur, Malaysia	Sale of industrial automation products	9,105	-	1,020,000	51.00	12,434	6,318	3,222	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 INVESTEEES

INVESTMENTS IN MAINLAND CHINA

NINE MONTHS ENDED SEPTEMBER 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 September 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of September 30, 2006	Accumulated Inward Remittance of Earnings as of September 30, 2006
					Outflow	Inflow					
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US\$12,000 thousand	Indirect	\$ 397,200 (US\$ 12,000 thousand)	\$ -	\$ -	\$ 397,200 (US\$ 12,000 thousand)	100%	\$ 15,449	\$ 556,772	\$ -
Kunshan Timson Tech Co., Ltd.	Processes and sale of peripherals	US\$900 thousand	Indirect	8,937 (US\$ 270 thousand)	-	-	8,937 (US\$ 270 thousand)	30%	-	7,784	-
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US\$4,230 thousand	Indirect	176,489 (US\$ 5,332 thousand)	-	-	176,489 (US\$ 5,332 thousand)	100%	84,061	354,298	-
Advantech Electronic Technology (Dongguan) Co., Ltd.	Production and sale of industrial automation products	US\$1,400 thousand	Indirect	(Note C)	-	-	(Note C)	100%	(3,305)	45,300	-

Accumulated Investment in Mainland China as of September 30, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$589,246 (US\$17,802 thousand) (Note D)	\$827,500 (US\$25,000 thousand)	\$4,080,134

Note A: The calculation of investment gain (loss) was based on the unaudited 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 17 and 19 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 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\$33.10.