

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

**Consolidated Financial Statements for the  
Six Months Ended June 30, 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 sheet of Advantech Co., Ltd. and subsidiaries as of June 30, 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 Company's management. Our responsibility is to express an opinion on these financial statements based on our review.

Except as stated in the following paragraph, we conducted our review 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, the subsidiaries' financial statements were unaudited. The total assets and liabilities of these subsidiaries were 42.86% (NT\$5,042,948 thousand) and 61.23% (NT\$2,652,156 thousand) of the Company's consolidated total assets and liabilities as of June 30, 2005. The operating revenues and net income of these subsidiaries were 77.97% (NT\$4,146,642) and 31.69% (NT\$342,957 thousand) thousand of the Company's consolidated operating revenues and net income in the six months ended of June 30, 2005. As disclosed in Note 6 to the financial statements, Advantech Co., Ltd. and subsidiaries had investments accounted for by the equity method. As of June 30, 2005, these investments had a carrying value of NT\$433,487 thousand. In the six months ended June 30, 2005, the related net investment gain of NT\$10,276 thousand and additional disclosures (Note 21) required by the Securities and Futures Bureau for the Parent Company and its subsidiaries and investees were based on unreviewed financial statements for the same period.

Based on our review, with the exception of the matter described in the preceding paragraph, 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 six months ended June 30, 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 in Note 2 to the financial statements, Advantech Co., Ltd. is subject to the requirement of the Securities and Futures Bureau under the Financial Supervisory Commission of the Executive Yuan of the Republic of China to file consolidated semiannual financial statements starting in 2005. These financial statements may cover only a single period the first time these financial statements are filed.

August 4, 2005

Notice to Readers

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

## ADVANTECH CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

JUNE 30, 2005

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

(Reviewed, Not Audited)

ASSETS	Amount	%	LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash (Note 3)	\$ 2,448,851	21	Short-term bank loans (Note 9)	\$ 474,183	4
Short-term investments (Notes 2 and 4)	2,237,908	19	Notes payable	1,238	-
Notes receivable (Note 2)	88,445	1	Accounts payable	1,016,609	9
Accounts receivable, net of allowance for doubtful accounts of \$51,597 thousand (Note 2)	1,521,698	13	Payables to related parties (Note 17)	783	-
Receivables from related parties (Notes 2 and 17)	95,977	1	Income tax payable (Notes 2 and 13)	106,807	1
Inventories, net (Notes 2 and 5)	1,772,380	15	Dividends and employee bonus payable (Note 12)	1,529,087	13
Deferred income tax assets - current (Notes 2 and 13)	57,673	-	Accrued expenses	468,003	4
Other current assets	413,774	4	Corporate bonds payable - current portion (Notes 2 and 10)	88,485	1
			Other current liabilities (Note 20)	254,759	2
Total current assets	8,636,706	74	Total current liabilities	3,939,954	34
<b>LONG-TERM EQUITY INVESTMENTS (Notes 2 and 6)</b>			<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>		
Equity method	433,487	4	Long-term bank loans payable (Note 11)	100,486	1
Cost method	63,506	-			
Total long-term equity investments	496,993	4	<b>OTHER LIABILITIES</b>		
<b>PROPERTIES (Notes 2 and 7)</b>			Accrued pension liabilities (Notes 2 and 16)	112,334	1
Cost			Deferred income tax liabilities - noncurrent (Notes 2 and 13)	162,233	1
Land	754,469	6	Deferred income (Note 2)	11,204	-
Buildings and equipment	1,273,792	11	Miscellaneous	5,268	-
Machinery and equipment	429,983	4	Total other liabilities	291,039	2
Furniture and fixtures	265,780	2	Total liabilities	4,331,479	37
Miscellaneous equipment	168,854	1			
Total cost	2,892,878	24	<b>SHAREHOLDERS' EQUITY</b>		
Accumulated depreciation	598,702	5	Capital stock, \$10 par value		
Advances for equipment acquisition	68,255	1	Authorized - 500,000 thousand shares		
Net properties	2,362,431	20	Issued - 377,941 thousand shares	3,779,407	32
<b>OTHER ASSETS</b>			Stock dividend and bonus to employees to be issued	237,383	2
Properties leased to others (Notes 2 and 8)	22,700	-	Capital surplus		
Refundable deposits	25,364	-	Issue of stock in excess of par value	1,238,733	11
Deferred charges, net (Note 2)	190,718	2	Long-term equity investments	6,701	-
Consolidated debit (Note 2)	20,103	-	Total capital surplus	1,245,434	11
Certificates of deposit - restricted (Note 18)	4,900	-	Retained earnings		
Miscellaneous	6,738	-	Legal reserve	843,346	7
Total other assets	270,523	2	Special reserve	19,661	-
			Unappropriated earnings	1,342,197	12
			Total retained earnings	2,205,204	19
			Cumulative translation adjustments	(70,707)	(1)
			Parent company's shareholders' equity	7,396,721	63
			Minority interest	38,453	-
			Total shareholders' equity	7,435,174	63
<b>TOTAL</b>	<b>\$ 11,766,653</b>	<b>100</b>	<b>TOTAL</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, 2005)

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

**CONSOLIDATED STATEMENT OF INCOME**

**SIX MONTHS ENDED JUNE 30, 2005**

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

**(Reviewed, Not Audited)**

	Amount	%
OPERATING REVENUES (Notes 2 and 17)		
Sales	\$ 5,269,668	99
Sales returns and allowances	<u>74,455</u>	<u>1</u>
Net sales	5,195,213	98
Other operating revenues	<u>122,861</u>	<u>2</u>
Total operating revenues	5,318,074	100
OPERATING COSTS (Notes 2, 14 and 17)	<u>2,824,460</u>	<u>53</u>
GROSS PROFIT	2,493,614	47
REALIZED (DEFERRED) PROFITS ON INTERCOMPANY SALES (Note 2)	<u>1,444</u>	<u>-</u>
ADJUSTED GROSS PROFIT	<u>2,495,058</u>	<u>47</u>
OPERATING EXPENSES (Note 14)		
Marketing	297,876	6
Administrative	863,070	16
Research and development	<u>227,480</u>	<u>4</u>
Total operating expenses	<u>1,388,426</u>	<u>26</u>
OPERATING INCOME	<u>1,106,632</u>	<u>21</u>
NONOPERATING INCOME AND GAINS		
Gain on disposal of investments	154,883	3
Gain on disposal of properties	19,165	-
Interest	11,463	-
Equity in net income of investees, net (Notes 2 and 6)	10,276	-
Other income	<u>42,412</u>	<u>1</u>
Total nonoperating income and gains	<u>238,199</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES		
Foreign exchange loss, net (Notes 2 and 20)	49,068	1
Provision for losses on inventories	14,812	-
Interest	13,488	-
Losses on disposal of scrap inventories	8,983	-
Other expenses (Note 14)	<u>15,220</u>	<u>1</u>
Total nonoperating expenses and losses	<u>101,571</u>	<u>2</u>

(Continued)

	<b>Amount</b>	<b>%</b>
INCOME BEFORE INCOME TAX	\$ 1,243,260	23
INCOME TAX (Notes 2 and 13)	<u>161,202</u>	<u>3</u>
COMPREHENSIVE INCOME	<u>\$ 1,082,058</u>	<u>20</u>
BELONGS TO:		
Parent company's shareholders	\$ 1,083,456	
Minority interest	<u>(1,398)</u>	
	<u>\$ 1,082,058</u>	
	<b>Pretax</b>	<b>After-tax</b>
CONSOLIDATED EARNINGS PER SHARE (Note 17)		
Consolidated basic earnings per share		
Net income	<u>\$ 3.19</u>	<u>\$ 2.88</u>
Pro forma EPS assuming that EPS is retroactively adjusted for stock dividends	<u>\$ 3.00</u>	<u>\$ 2.71</u>
Consolidated diluted earnings per share		
Net income	<u>\$ 3.14</u>	<u>\$ 2.85</u>
Pro forma EPS assuming that EPS is retroactively adjusted for stock dividends	<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, 2005)

(Concluded)

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**SIX MONTHS ENDED JUNE 30, 2005**

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

(Reviewed, Not Audited)

	Capital Stock - Issued (Notes 2, 10 and 12)		Stock Dividend and Bonus to Employees to be Issued (Note 12)	Capital Surplus (Notes 2 and 12)			Retained Earnings (Notes 2 and 12)				Cumulative Translation Adjustments (Note 2)	Minority Interest	Total Shareholders' Equity
				Issue of Stock in Excess of Par Value	From long-term Equity Investments	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			
	Shares (Thousands)	Amount											
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 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)
Bonus 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 first six months of 2005	-	-	-	-	-	-	-	-	1,083,456	1,083,456	-	(1,398)	1,082,058
Conversion of bonds into entitlement certificates	3,645	36,445	-	166,523	-	166,522	-	-	-	-	-	-	202,967
Decrease in capital surplus and cumulative translation adjustments due to disposal of long-term investment	-	-	-	-	(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 change in equity in investee	-	-	-	-	(1,234)	(1,234)	-	-	-	-	-	-	(1,234)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	(1,264)	-	(1,264)
Equity in the investees' translation adjustments	-	-	-	-	-	-	-	-	-	-	(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>\$ 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, 2005)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

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

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### CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income	\$ 1,082,058
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	84,878
Provision of allowance for losses on inventories	14,812
Gain on disposal of properties, net	(19,165)
Gain on sale of long-term equity investments	(136,705)
Cash dividends from equity-method investees	8,262
Equity in net gain of investees, net	(10,276)
Accrued pension liabilities	(2,235)
Deferred income taxes	37,877
Net changes in operating assets and liabilities	
Short-term investments	(101,847)
Notes receivable	10,863
Accounts receivable	(309,013)
Receivables from related parties	(7,947)
Inventories	(454,569)
Other current assets	(28,542)
Notes payable	(20,592)
Accounts payable	504,272
Payables to related parties	(1,521)
Income tax payable	(46,137)
Accrued expenses	217,540
Other current liabilities	31,355
Deferred income	<u>(1,444)</u>
Net cash provided by operating activities	<u>851,924</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of long-term equity investments	(19,798)
Proceeds from sale of long-term equity investments	366,746
Acquisition of properties	(269,471)
Proceeds from sale of properties	63,149
Decrease in certificates of deposit	4,384
Increase in deferred charges	(50,609)
Decrease in other assets	<u>30,639</u>
Net cash used in investing activities	<u>125,040</u>

### CASH FLOWS FROM FINANCING ACTIVITIES

Increase in short-term bank loans	7,400
Decrease in long-term loans payable	(36,391)
Decrease in other liabilities	(3,961)
Payment of bonus to employees and remuneration to directors and supervisors	<u>(45,844)</u>
Net cash used in financing activities	<u>(78,796)</u>

(Continued)

EFFECT OF EXCHANGE RATE CHANGES	<u>\$ (18,767)</u>
NET INCREASE IN CASH	879,401
CASH, BEGINNING OF PERIOD	<u>1,569,450</u>
CASH, END OF PERIOD	<u>\$ 2,448,851</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION	
Interest paid (excluding capitalized interest)	<u>\$ 19,245</u>
Income tax paid	<u>\$ 155,012</u>
NONCASH INVESTING AND FINANCING ACTIVITIES	
Dividends receivable from long-term equity investments	<u>\$ 46,032</u>
Receivable from sale of long-term equity investments	<u>\$ 65,303</u>
Reclassification of properties leased to others as properties	<u>\$ 8,945</u>
Conversion of bonds into capital stock and capital surplus	<u>\$ 202,967</u>
Payable bonus to employees and remuneration to directors and supervisors	<u>\$ 1,557,984</u>
ACQUISITION OF PROPERTIES	
Increase in properties	\$ (249,089)
Increase in payable for equipment	<u>(20,382)</u>
	<u>\$ (269,471)</u>

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

(With Deloitte & Touche review report dated August 4, 2005)

(Concluded)

# ADVANTECH CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2005

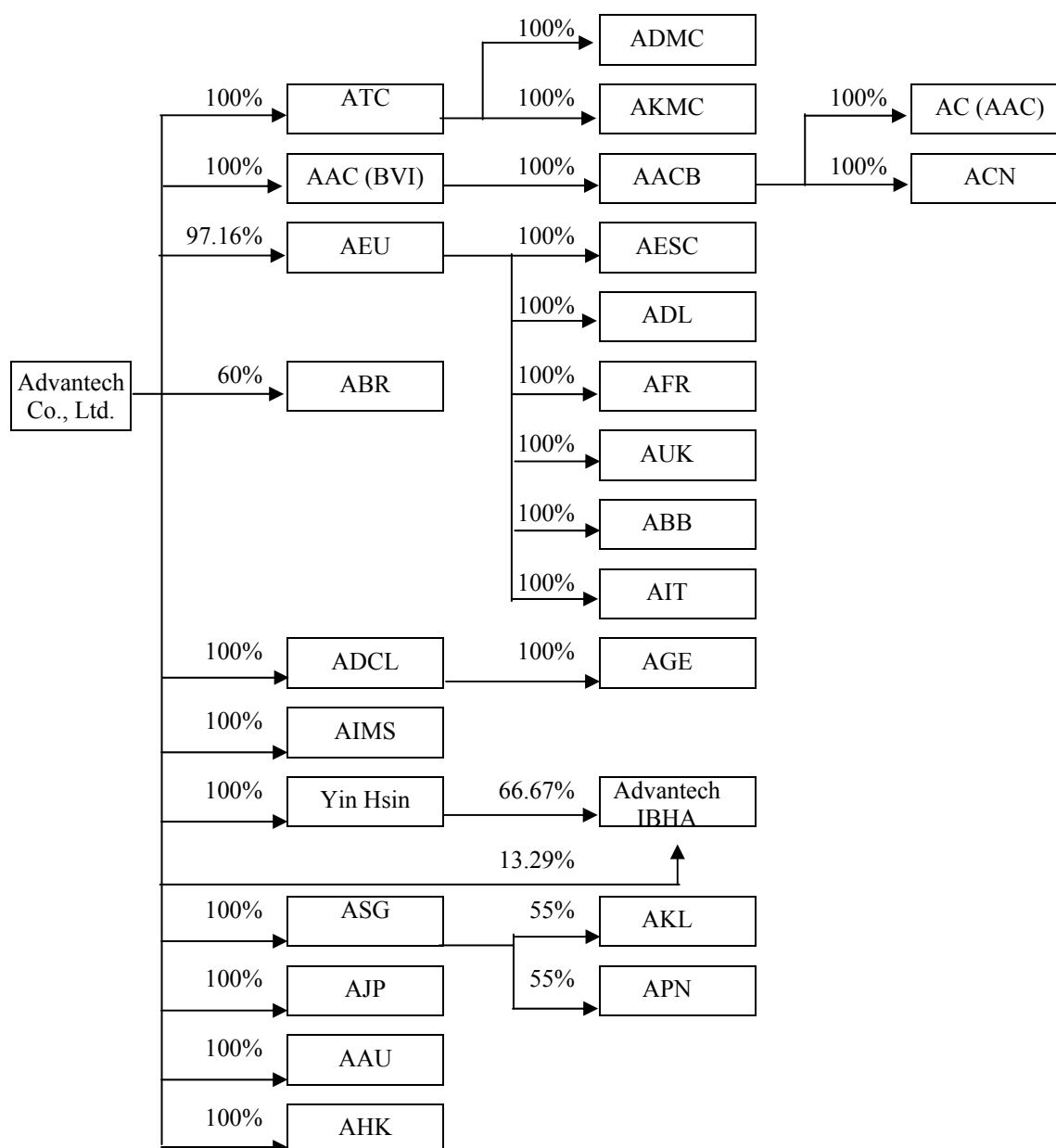
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

(Reviewed, Not Audited)

### 1. ORGANIZATION AND OPERATIONS

Advantech Co., Ltd. (the “Parent Company”) was established in September 1981. It manufactures and sells embedded computing boards, applied panel computing, industrial automation and industrial and network computing.

The intercompany relationships and percentages of ownership as of June 30, 2005 are shown in the following diagram:



The business activities of the above investees are as follows:

- a. Yin Hsin Investment Co., Ltd. (“Yin Hsin”), Advantech Europe Holding B.V. (AEU), Advantech Automation Corp. (BVI) (AAC (BVI)) and Advantech Automation Corp., Ltd. (AACB) - investments;
- b. Advantech Technology Co., Ltd. (ATC), Advantech Europe B.V. (AESC), Advantech Europe GmbH (ADL), Advantech Benelux B.V. (ABB), Advantech (UK) Ltd. (AUK), Advantech France S.A. (AFR), Advantech Co. Singapore Pte, Ltd. (ASG), Advantech Japan Co., Ltd. (AJP), Advantech Australia Pty Ltd., (AAU), Advantech (H.K.) Technology Co., Ltd. (AHK), Advantech Brasil S/A (ABR), Advantech Italia S.p.A. (AIT), Advantech Development Co., Ltd. (ADCL), Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd. (AGZ), Advantech Corp. (Advantech Automation Corp. AAC) (AC), Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN), Advantech Automation (Penang) Sdn. Bhd. (APN), Advantech Control (M) Sdn. Bhd. (AKL) - sale of embedded personal computers (PCS), industrial automation products, industrial computers and panel PCs;
- c. Advantech IBHA Technologies Inc. (“Advantech IBHA”) - computer assembly and production;
- d. Advantech Technology (China) Company Ltd. (AKMC) and Advantech Dongguan Manufacturing Co., Ltd. (ADMC) - production and sale of boards, chassis and periphery;
- e. Advantech Investment & Management Service (AIMS) - investment and management services.

As of June 30, 2005, the Parent Company and the consolidated subsidiaries (collectively, the “Group”) had 2,162 employees, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of Presentation**

The Group’s financial statements have been prepared in conformity with the Guidelines for Securities Issuers’ Financial Reporting for Public Companies and accounting principles generally accepted in the ROC. In preparing financial statements in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the amounts of the allowance for doubtful accounts, provision for losses on inventories, depreciation of properties, pension cost and warranty liabilities. Actual results could differ from these estimates.

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

The Group’s significant accounting policies are summarized as follows.

### **Basis of Consolidation**

The Parent Company adopted revised Statement of Financial Accounting Standards No. 7 “Consolidated Financial Statements,” to prepare consolidated financial statements as of and for the six months ended June 30, 2005 that included all direct and indirect subsidiaries. Thus, the consolidated financial statements included those of the Parent Company, ATC, AEU, AAC (BVI), ADCL, AIT, ABR, Yin Hsin, Advantech IBHA, AIMS, AHK, AAU, AJP, ASG, AKMC, ADMC, AACB, AESC, ADL, AFR, AUK, ABB, AGZ, AC (AAC), ACN, AAG, APN and AKL.

Axiomtek Co., Ltd. and Axiom Technology Inc. U.S.A. were included in consolidated financial statements in 2004, because the Parent Company owned these companies' outstanding common stock below 50% and had no controllability, the Parent Company excluded these companies from consolidated financial statements entities of preparation for the period ended of June 30, 2005.

The Parent Company is subject to the requirement of the Securities and Futures Bureau under the Financial Supervisory Commission of the Executive Yuan of the Republic of China to file consolidated semiannual financial statements starting in 2005. These financial statements may cover only a single period the first time these financial statements are filed.

When preparing consolidated financial statements, the foreign subsidiaries' balance sheet accounts should be translated at the balance sheet date exchange rates and income statements accounts should be translated at the average exchange rate for the period, and the resulting differences are recorded as cumulative translation adjustments under shareholders' equity.

### **Short-term Investments**

Short-term investments consist of stocks with quoted market prices, convertible bonds and open-end mutual funds. The investments are carried at the lower of aggregate cost or market value. Stock dividends received are recorded only as an increase in the number of shares held but are not recognized as investment income. Cash dividends received within a year from investment acquisition are accounted for as a reduction of the carrying value of the investment and are recognized as investment income in subsequent years. If the aggregate carrying value of the investments exceeds their total market value, an allowance for losses is recognized and charged to current year's income. Any annual recovery of the market value to the extent of the original carrying value is recognized as income. Costs of investments sold are determined as follows: Parent company - first-in, first-out method; Yin Hsin - moving-average method.

Market values are based on average closing prices of stocks with quoted market prices of the last month of the reporting period, the net asset values of the open-end mutual funds on the balance sheet date and the reference prices of over-the-counter securities for convertible bonds.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of receivables.

### **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.

### **Long-term Equity Investments**

Investments in shares of stock of companies in which the Group owns at least 20% of their outstanding common stock and exercises significant influence over their operating and financial decisions are accounted for by the equity method.

Investments accounted for by the equity method are carried at cost on the acquisition date 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 investments. The negative carrying value of investments due to equity in losses recognized that exceeded the original investment acquisition costs is recorded as part of other liabilities. The difference between investment acquisition cost and the Group's equity in an investee's net assets when an investment is acquired or when the equity method is first adopted, is amortized over five years. 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 the 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 less than majority-owned investees, the Group's equity in their net income or net loss is recognized in the following year on the basis of the current year's equity if the current year's financial statements are not available before 2004, and the Group's equity in their net income or net loss is recognized in the current year from 2005. The Group also recognizes losses on declines in investment value.

The profit from the Group's sale of products to its subsidiaries is wholly deferred, but only the profit in proportion to the Group's equity is deferred for those investees that are not majority-owned. The deferred profits are recognized as part of other liabilities. Profit from the sale of products by investees to the Group or by one investee to another is deferred on the basis of equity in the investee and credited against the investment. All of these profits are realized on the subsequent sale of related products to third parties.

Investments in shares of stock of companies in which the Group owns less than 20% of their outstanding common stock and does not exercise significant influence over their operating and financial decisions are accounted for by the cost method. For investments in stocks with no quoted market prices, an allowance is recognized to reflect an other than temporary decline in value below carrying value and is charged to current income. Cash dividends received within a year from investment acquisition is made are accounted for as a reduction of the carrying value of the investment and are recognized as investment income in subsequent years.

For both equity-method and cost-method investments, stock dividends received are recorded only as an increase in the number of shares held but are not recognized as investment income.

Costs of investments sold are determined using the weighted-average method, except for the moving-average method used by Yin Hsin.

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

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

The Group recognizes losses when properties and properties leased to other materially decline and the carrying amount of those assets exceeds their recoverable amount. Asset impairment losses (except those on goodwill) are reversed and income is recognized when the recoverable amounts of properties and properties leased to others increase. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

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, 3 to 60 years; machinery and equipment, 2 to 10 years; furniture and fixtures 2 to 10 years; and miscellaneous equipment, 2 to 5 years. Properties that have reached their full residual value but are still being used by the Group 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 are amortized over 2 to 50 years.

## **Consolidated Debits**

Consolidated debits are unamortized balances from the difference between investment acquisition costs and the Group's equity in an investee's net assets for which the reason for the difference cannot be determined. These debits are amortized over 5 to 20 years.

## **Revenue Recognition**

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 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. 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.

## **Capital Expenditure**

When benefits of expenditure are for a long term and the expenditure exceeds \$60 thousand, the expenditure is capitalized. Otherwise, the expenditure is expensed as it is incurred.

## **Pension Costs**

The Parent Company has a defined benefit pension plan. Pension payments are based on the number of service years and average basic salary of the last six months before retirement.

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligations and actuarial gain or loss are amortized using the straight-line method over 19 years or 15 years and the average remaining service years of employees, respectively. When plan curtailment or settlement occurs, the curtailment and settlement gains or losses should be recognized as part of the net pension cost for the period.

AESC, ADL, AUK, AFR, ABB, AIT, ASG, AJP, AAU, ABR, AHK, AKMC, ADMC, AGZ, AC (AAC), ACN, APN and AKL contribute monthly to a pension fund, and these contributions are recognized as expenses.

Yin Hsin, Advantech IBHA, AIMS, ATC, ADCL, AEU, AAC (BVI) and AACB have no pension plans.

The Labor Pension Act (the "Act"), a portable defined contribution type scheme, will be enforced on July 1, 2005. The Parent Company's employees may choose to remain to be subject to the pension mechanism under the Labor Standards Law or to be subject to the pension mechanism under the Act with their with their service years accumulated before the enforcement of the Act to be retained. Under the Act, the rate of an employer's monthly contribution to the Labor Pension Fund should be at least 6% of the employee's monthly wages.

## **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 carrying amount net of the write-offs, and the difference of this amount from the par value of the common stock exchange certificate (capital stock) should be recognized as additional paid-in capital.

## **Treasury Stock**

The Parent Company accounts for the cost of purchasing its outstanding stock as a deduction to arrive at shareholders' equity.

Upon disposal of the treasury stock, the sales proceeds in excess of the cost are accounted for as capital surplus - treasury stock. If the sales proceeds are less than the cost, the difference is accounted for as a reduction of the remaining balance of capital surplus - treasury stock. If the remaining balance of capital surplus - treasury stock is insufficient to cover the difference, the remainder is recorded as a reduction of retained earnings.

If treasury stock is retired, the weighted-average cost of the retired treasury stock is written off to offset the par value and the capital surplus premium, if any, of the stock retired. If the weighted-average cost written off exceeds the sum of both the par value and the capital surplus premium, the difference is accounted for as a reduction of capital surplus - treasury stock or as a reduction of retained earnings if capital surplus - treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of both the par value and any premium of the stock retired, the difference is accounted for as an increase in capital surplus - treasury stock of the same type.

## **Income Tax**

The Parent Company applies inter-period allocation for income tax. Deferred tax assets are recognized for the tax effects of deductible temporary differences, unused loss carryforwards and investment tax credit, 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**

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the year of settlement. 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 stock investments - as cumulative translation adjustments under shareholders' equity; other assets and liabilities - as credits or charges to current income.

## Derivative Transactions

A forward exchange contract used for nontrading purposes should be adjusted at the rate prevailing as of the balance sheet date. Any exchange gain or loss should be recognized in the current period. If a forward contract is used to hedge an identifiable foreign-currency sales/purchase commitment, the contract settlement dates are ahead of the actual sale/purchase dates, and the contract settlement rate will result in a gain on sale/purchase, the gain should be deferred to the actual sales/purchase transaction date and recorded as an increase in the transaction price. But if the contract settlement rate will result in a loss on actual sale/purchase, the exchange loss should not be deferred. A forward exchange contract used for trading purposes should be adjusted on the balance sheet date at the forward rate available for the remaining maturity of the contract. Any exchange gain or loss should be recognized as current gain or loss.

On balance sheet dates, receivables or payables on open forward contracts are restated at prevailing spot rates, and the resulting differences are recognized as income or loss. The receivables and payables on the forward contracts are netted out, and the resulting amount is presented as an asset or a liability.

### 3. CASH

	<b>June 30, 2005</b>
Cash on hand	\$ 1,092
Checking and demand deposits	793,941
Time deposits: Interest - 1.05%-3.20% in 2005	<u>1,653,818</u>
	<u>\$ 2,448,851</u>

The Parent Company's foreign-currency deposits placed overseas as of June 30, 2005 were as follows:

Hong Kong (\$23 thousand U.S. dollars and \$147 thousand H.K. dollars)	<u>\$ 1,333</u>
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### 4. SHORT-TERM INVESTMENTS

	<b>June 30, 2005</b>
Mutual funds	\$ 2,224,647
Listing company stocks	21,300
Convertible bonds	<u>-</u>
	2,245,947
Allowance for losses	<u>(8,039)</u>
	<u>\$ 2,237,908</u>

### 5. INVENTORIES, NET

	<b>June 30, 2005</b>
Finished goods	\$ 681,013
Work in process	412,332
Materials and supplies	714,521
Inventories in transit	<u>195,092</u>
	2,002,958
Allowance for losses	<u>(230,578)</u>
	<u>\$ 1,772,380</u>

## 6. LONG-TERM EQUITY INVESTMENTS

	<u>June 30, 2005</u>	
	Carrying Value	% of Owner- ship
<u>Equity method</u>		
Axiomtek Co., Ltd.	\$ 309,550	41.54
Advantech Technologies Co., Ltd.	102,880	27.47
Advantech Hungary Ltd.	12,992	30.00
Timson Tech Co.	7,288	30.00
Advantech Corporation (Thailand) Co., Ltd.	<u>777</u>	30.00
	<u>433,487</u>	
<u>Cost method</u>		
Superior Technology Co., Ltd.	33,442	13.43
Firich Enterprise Co., Ltd.	19,798	0.98
Marekmicro GmbH	9,543	19.87
Visual Systems GmbH	<u>723</u>	20.00
	<u>63,506</u>	
	<u>\$ 496,993</u>	

The Group owned 20% of Visual System GmbH's outstanding common stock. However, this investment was accounted for by the cost method because the Group had no material influence on Visual Systems GmbH.

The financial statements as of and for the six months ended June 30, 2005 and 2004 on which the calculation of the investment carrying value and the Group's equity in the net income was based, were unaudited, except those of Advantech Hungary Ltd. (AHG), which was based on audited financial statements as of and for the years ended December 31, 2003. To comply with the revised Statement of Financial Accounting Standards (SFAS) No. 5, "Long-term Investment in Equity Securities," the Company's calculation of the investment carrying value and the Company's equity in the net income was based on audited financial statements as of and for the years ended December 31, 2004, and the current period's financial statements. This accounting change had no material effect on the Company's financial statement as of and for the six months ended June 30, 2005.

As of June 30, 2005, the Group's equities in the net assets of cost-method investees were about \$59,664 thousand, based on year-end unaudited financial statements.

## 7. PROPERTIES

	<u>June 30, 2005</u>
Costs	<u>\$ 2,892,878</u>
Accumulated depreciation	
Buildings and equipment	143,180
Machinery and equipment	213,068
Furniture and fixtures	144,405
Miscellaneous equipment	<u>98,049</u>
	<u>598,702</u>

(Continued)

	<b>June 30, 2005</b>
Unfinished construction	\$ 35,600
Advances for equipment acquisition	<u>32,655</u>
	<u>\$ 2,362,431</u>
	(Concluded)

Depreciation expenses were \$73,375 thousand in the six months ended June 30, 2005.

## 8. PROPERTIES LEASED TO OTHERS

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

## 9. SHORT-TERM LOANS

	<b>June 30, 2005</b>
Credit loans - Interest: 1.19%-4.65% in 2005	<u>\$ 474,183</u>

## 10. BONDS

	<b>June 30, 2005</b>
Unsecured convertible bonds	\$ 74,200
Interest-premium on convertible bonds	<u>14,285</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 112.4864% of their face value on July 19, 2004 or 119.2519% of their face value on July 19, 2005 upon the bondholders' request. 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, 2005, bonds with aggregate face value of \$925,400 thousand had been converted to 19,142 thousand shares and 400 thousand had been redeemed at the holders' request.

As of June 30, 2005, the transfer price of the convertible bonds was NT\$46.70.

## 11. LONG-TERM LOANS

Long-term bank loans had 2.50% to 3.80% interest in June 2005. Their maturity is in February 2015.

## 12. 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 only be used 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 stockholdings, 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 accumulated losses. In addition, a special reserve may be made according to relevant laws or the regulating authorities' requirements. 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; and
- c. Dividends as proposed by the board of directors.

These appropriations and other allocations of earnings, together with the distributable unappropriated earnings of prior years, should be resolved by the shareholders in the following year and given effect to in the financial statements of that 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 of the relevant shareholders' equity account.

Under the 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 paid-in capital, up to 50% of this reserve may be transferred to capital.

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

The 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. It is the Parent Company's policy to distribute less than 90% of the distributable earnings as dividends. 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.

On May 24, 2005, the Parent Company's shareholders approved the board of directors' proposal dated April 8, 2005 on the appropriation of the 2004 earnings. The bonus to employees and remuneration to directors and supervisors were appropriated as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (Dollars)</b>
	<b>2004</b>	<b>2004</b>
Legal reserve	\$ 216,015	\$ -
Special reserve	19,661	-
Cash dividends	1,386,639	3.70
Stock dividends	187,383	0.50
Remuneration to directors and supervisors	19,245	-
Bonus to employees - stock	50,000	-
Bonus to employees - cash	<u>142,448</u>	<u>-</u>
	<u>\$ 2,021,391</u>	<u>\$ 4.20</u>

The shareholders also approved the board of directors' proposal dated May 24, 2005 to increase capital from stock dividends of \$187,383 thousand and stock bonus to employees of \$50,000 thousand, (which were recorded as "stock dividend and bonus to employees to be issued"). This capital increase, which had been registered with the Securities and Futures Bureau (SFB), requires the Parent Company to get a revised license from the MOEA.

The Parent Company's capital stock increased by \$36,445 thousand because of bond conversion to stocks, and related capital surplus increased by \$166,522 thousand.

On April 1, 2003, the Securities and Futures Commission approved the Parent Company's stock option plan. There were 3,000 thousand units authorized to be issued, which could be converted to 3,000 thousand common shares. Employees will be granted a certain percentage of options within two and four years of the grant date, and the grant is valid up to six years from the grant date. The stock options were issued on August 14, 2003, and the exercise price was set at NT\$45.50. As of June 30, 2005, there were 2,840 thousand units of effective stock options, and no options were exercised.

### 13. INCOME TAX

a. Income tax was calculated as follows:

	<b>June 30, 2005</b>
Tax on pretax income at 25% statutory rate	\$ 346,873
Add (deduct) tax effects of:	
Permanent differences	(94,840)
Temporary differences	(16,476)
Tax-exempt income	(45,542)
Investment tax credit	<u>(70,072)</u>
Income tax currently payable	119,943
Prior year adjustment	37,877
Income tax expense - deferred	<u>3,382</u>
Income tax expense (shown in the statement of income)	<u>\$ 161,202</u>

b. Net deferred income taxes as of June 30, 2005 were as follows:

	<b>June 30, 2005</b>
<b>Current</b>	
Allowance for loss on inventories	\$ 34,552
Investment tax credit	11,466
Unrealized foreign exchange loss (gain)	5,864
Allowance for doubtful accounts	3,062
Others	<u>2,729</u>
Deferred income tax assets	<u>\$ 57,673</u>
<b>Noncurrent</b>	
Deferred income tax assets:	
Accumulated equity in the net loss of investees	\$ 122,226
Deferred income	41,888
Pension cost	28,791
Interest-premium on convertible bonds	31,572
Impairment loss on investment in share of stock	3,500
Loss carryforward	11,488
Other	<u>3,953</u>
	243,418
Valuation allowance	<u>(153,798)</u>
	<u>89,620</u>
Deferred income tax liabilities:	
Accumulated equity in the net gain of foreign investees	(236,056)
Allowance for tax-deductible equity in net loss of foreign investees	(15,468)
Others	<u>(329)</u>
	<u>(251,853)</u>
Net deferred income tax liabilities	<u>\$ (162,233)</u>

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

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

	<b>June 30, 2005</b>
Parent Company	<u>\$ 159,043</u>
Yin Hsin	<u>\$ 1,851</u>
Advantech IBHA	<u>\$ 265</u>

The ratio of the ICA to the earnings generated starting January 1, 1998 (creditable tax ratio) as of June 30, 2005 and the actual creditable tax ratio for earnings as of June 30, 2005, which were distributed in 2004, were as follows:

	<b>2005</b>
Parent Company	7.23%

The Group's deductible income tax is summarized as follows:

<b>Regulatory Basis Tax Credits</b>	<b>Deductible Item</b>	<b>Tax Credits Obtained</b>	<b>Unused Tax Credits</b>
<u>2005</u>			
Statute for Upgrading Industries	R&D and training expenses	\$ 76,902	\$ 11,466
	Purchase of automated mechanical equipment	4,475	-

The Group's tax credits and loss carryforwards as of June 30, 2005 were as follows:

<b>Year</b>	<b>Tax Credit</b>	<b>Loss Carryforward</b>
2006	\$ -	\$ 684
2007	-	1,732
2008	11,466	3,272
2009	-	5,800

The balance of unappropriated retained earnings as of June 30, 2005 included earnings of \$81,329 thousand generated up to December 31, 1997.

Income taxes payable as of June 30, 2005 was net of prepayments of \$13,136 thousand.

Income tax returns through 2002 (except 1999) had been examined and cleared by the tax authorities.

The Parent Company expects to get a five-year tax exemption on the income from an industry network server production, for which an investment plan was framed in 2003. The plan was approved by the Industrial Development Bureau of the Ministry of Economic Affairs in February 2003 and by the Ministry of Finance in December 2003.

#### 14. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	<b>2005</b>		
	<b>Included in Cost of Goods Sold</b>	<b>Included in Operating Expenses</b>	<b>Total</b>
Personnel expenses			
Payroll	\$ 93,984	\$ 431,357	\$ 525,341
Insurance	7,360	30,244	37,604
Pension	2,208	10,741	12,949
Others	10,966	42,638	53,604
Depreciation	34,014	39,286	73,300
Amortization	2,302	9,201	11,503
	<u>\$ 150,834</u>	<u>\$ 563,467</u>	<u>\$ 714,301</u>

Expenses for properties leased to others, which were \$75 thousand in 2005 (included in nonoperating expenses - other expenses), were not included in the above depreciation expenses.

## 15. EARNINGS PER SHARE

The numerators and denominators used in calculating the Parent Company's earnings per share (EPS) were as follows:

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (Thousands)</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>		<u>Pretax</u>	<u>After-tax</u>
<u>2005</u>					
Parent Company's basic EPS	\$ 1,196,456	\$ 1,083,456	375,583	<u>\$ 3.19</u>	<u>\$ 2.88</u>
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,088		
Convertible bonds	-	-	<u>3,943</u>		
Parent Company's diluted EPS	<u>\$ 1,196,456</u>	<u>\$ 1,083,456</u>	<u>380,614</u>	<u>\$ 3.14</u>	<u>\$ 2.85</u>

The numerators and denominators used in calculating pro forma EPS for potential adjustment for stock dividends declared were as follows:

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (Thousand)</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>		<u>Pretax</u>	<u>After-tax</u>
<u>2005</u>					
Basic parent company EPS	\$ 1,196,456	\$ 1,083,456	399,321	<u>\$ 3.00</u>	<u>\$ 2.71</u>
The impact of dilutive potential common stock					
Employees' stock options	-	-	1,323		
Convertible bonds	-	-	<u>4,395</u>		
Diluted parent company EPS	<u>\$ 1,196,456</u>	<u>\$ 1,083,456</u>	<u>405,039</u>	<u>\$ 2.95</u>	<u>\$ 2.67</u>

## 16. PENSION PLAN

The Parent Company has a pension plan for all regular employees, which provides benefits 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.

AESC, ADL, ABB, AUK, AFR, AIT, ASG, AJP, AAU, ABR, AHK, AKMC, ADMC, ACN, AGZ, AC, APN and AKL contribute certain percentages of employees' salaries to their respective pension funds, which are deposited in treasury and administered by a local insurance or trust company. Employees who resign or retire are entitled to retirement pay.

Yin Hsin, Advantech IBHA, AIMS, ATC, ADCL, AEU, AAC (BVI) and AACB had no pension plans.

The Parent Company's other pension information is summarized as follows:

	<b>Parent Company</b>
Pension expenses	<u>\$ 12,949</u>
Contributions	<u>\$ 5,514</u>
Pension fund account balance, end of period	<u>\$ 68,278</u>

## 17. RELATED-PARTY TRANSACTIONS

### a. Related parties

	<u>Relationship with the Group</u>
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Axiomtek Co., Ltd.	Equity-method investee
Innova Tech & Management Consultant Inc. (Innova)	Equity-method investee of Yin Hsin (before February 2005)
Broadwed Automation Co., Ltd. (Broadwed Automation)	Equity-method investee of Yin Hsin (before February 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 Technology (Shen Zhen) Co., Ltd.	Equity-method investee of Axiomtek
Firich Enterprise Co., Ltd.	A director is the Parent Company's chairman

### b. The significant transactions with the above related parties, in addition to those disclosed in Note 19 and Table 2 (attached), are summarized as follows:

	<u>2005</u>	
	Amount	% of Total
<u>Six months ended June 30</u>		
Sales		
AKR	\$ 109,383	3
Axiomtek Co., Ltd.	48,619	-
Others	<u>3,436</u>	<u>-</u>
	<u>\$ 161,438</u>	<u>3</u>
Purchase of materials and supplies		
Axiomtek Co., Ltd.	<u>\$ 731</u>	<u>-</u>

(Continued)

	<u>2005</u>	
	<u>Amount</u>	<u>% of Total</u>
<u>June 30</u>		
Notes receivable		
Innova	\$ 96	-
Accounts Receivables		
AKR	33,704	35
Axiomtek Co., Ltd.	12,699	13
Firich Enterprise Co., Ltd.	2,170	2
Others	<u>748</u>	<u>1</u>
	<u>49,321</u>	<u>51</u>
Dividend receivable		
Axiomtek Co., Ltd.	<u>46,032</u>	<u>49</u>
Other receivables - financing provided		
Axiomtek Co., Ltd.	<u>528</u>	<u>-</u>
	<u>\$ 95,977</u>	<u>100</u>
Accounts Payable		
Axiomtek Co., Ltd.	\$ 448	57
Axiomtek Technology (Shen Zhen) Co., Ltd.	<u>335</u>	<u>43</u>
	<u>\$ 783</u>	<u>100</u>

Product sales transactions were conducted under normal terms. The payment terms for related parties were 60 to 90 days. Terms for third parties were 30 to 90 days.

## 18. ASSETS PLEDGED OR MORTGAGED

The following assets had been pledged or mortgaged as collaterals as part of court requirements for confiscating assets to settle uncollectible accounts of the Parent Company:

	<u>2005</u>
Certificates of deposits	<u>\$ 4,900</u>

## 19. COMMITMENTS

As of June 30, 2005, the Parent Company had the following significant commitments:

Guarantees for affiliates' loans:

	<u>Amount</u>
AKMC	\$ 316,200
AC	221,340
ACN	126,480
AAC (BVI)	63,240
AIT	19,085
AUK	<u>4,569</u>
	<u>\$ 750,914</u>

## 20. FINANCIAL INSTRUMENTS

The Parent Company's financial instruments were as follows:

- a. Outstanding contract amounts and credit risk

<b>Financial Instruments</b>	<b>June 30, 2005</b>	
	<b>Contract Amount (Thousands)</b>	<b>Credit Risk</b>
<u>For nontrading purposes</u>		
Forward contracts - sell	US\$ 21,000	-
	EUR 6,000	-

Credit risk refers to counter-parties' default on currency option and forward contracts. Since the Parent Company transacts only with financial institutions with good credit ratings, no material losses on counter-party defaults are anticipated.

- b. Market risk

The Parent Company is exposed to market risk arising from adverse exchange rate fluctuations on the forward exchange and currency option contracts. The Corporation used these contracts to hedge the effects of adverse exchange rate fluctuations on foreign-currency net assets or liabilities. The contracts will be settled at net or nominal amounts. Thus, the market risk is not material.

For contracts used for trading purposes, the Parent Company used value-at-risk to evaluate market risk. The value-at-risk refers to the potential losses on financial instruments or investments in specific periods at predetermined confidence intervals. The Parent Company calculated value-at-risk according to the historical price fluctuations of all financial assets and liabilities.

The value-at-risk of the Parent Company was calculated according to potential loss per day of the financial instrument, and the confidence interval was stated at the daily exchange rate for the financial assets and liabilities to a 95% level of confidence. Based on this assumption, there is a 5% chance that the loss on the financial instrument will exceed the exchange rate for the day.

- c. Liquidity risk, cash-flow risk and uncertainty of amount and term of future cash demand

The payments required for the Parent Company's forward contracts outstanding as of October 31, 2005 were EUR6,000 thousand and US\$21,000 thousand, for which the Parent Company will receive payments of US\$8,635 thousand and NT\$652,774 thousand before March 2005. Management believes it has sufficient operating capital to meet those requirements. Thus, there is no fund-raising risk. There is also no material cash-flow risk because the exchange rates for foreign-currency option and forward contracts are fixed.

- d. Purpose of derivative financial instruments and strategies to meet the purpose

The Parent Company used derivative financial instruments for nontrading purposes. Currency option and forward contracts were entered into to hedge the effect of exchange rate fluctuations of net assets and liabilities. The Parent Company periodically evaluated the effectiveness of the instruments.

- e. Financial statement presentation

The Parent Company's net payables of \$5,282 thousand as of June 30, 2005 on all forward contracts for nontrading purposes were shown as part of other current liabilities. Exchange losses in the six months ended June 30, 2005 were \$20,552 thousand.

f. Fair values of Parent Company's financial instruments

	<u>June 30, 2005</u>	
	<u>Carrying</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
<u>Nonderivative financial instruments</u>		
Assets		
Cash	\$ 2,448,851	\$ 2,448,851
Short-term investments	2,237,908	2,237,908
Notes receivable	88,445	88,445
Accounts receivable	1,521,698	1,521,698
Receivables from related parties	95,977	95,977
Long-term equity investments	496,993	493,151
Refundable deposits	25,364	25,364
Certificates of deposit	4,900	4,900
Liabilities		
Short-term bank loans	474,183	474,183
Notes payable	1,238	1,238
Accounts payable	1,016,609	1,016,609
Payables to related parties	783	783
Current portion corporate bonds payable	88,485	124,040
Long-term bank loans	100,486	100,486
<u>Derivative financial instruments</u>		
Forward contracts	5,282	5,282

The methods and assumptions used in estimating fair values are as follows:

- 1) Cash, notes receivable and payable and accounts receivable and payable: The carrying values reported in the balance sheet approximate the fair values of these assets because of their short maturities.
- 2) Short-term and long-term equity investments: Fair values are based on quoted market prices, or on carrying values if quoted market prices are not available.
- 3) Current portion corporate bond payable: Fair values are based on quoted market prices.
- 4) Long-term bank loans: Fair value is based on discounted cash flow.
- 5) Certificates of deposit: Fair values are based on carrying values.
- 6) Forward exchange contracts and premiums in advance on foreign-currency options: Fair values are based on carrying values.

## 21. ADDITIONAL DISCLOSURES

- a. In addition to those mentioned in Note 20 and Tables 1 to 8 (attached), 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, 2005, accumulated inward remittance of earnings as of June 30, 2005 and upper limit on investment: Table 9 (attached)
- 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Note 19 and Tables 1, 2, 3, 6, 7, 8, 9 and 10
- 3) Operation relationship between the Parent Company and subsidiaries and significant intercompany transactions: Table 10 (attached)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED  
SIX MONTHS ENDED JUNE 30, 2005  
(In Thousands of New Taiwan Dollars)

No.	Financier	Counterparty	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	Axiomtek Co., Ltd.	Axiomtek Technology Deutschland GmbH	Other receivables	\$ 14,258	\$ 14,258	-	1	\$ 12,471	Financing need	\$ -	-	\$ -	\$ 146,102 (Note C)	\$ 292,211 (Note B)
		Axiomtek Technology Trading (BVI) Co., Ltd.	Other receivables	15,935	15,935	-	1	40,539	Financing need	-	-	-		
		Axiomtek SAS	Other receivables	3,320	3,320	-	1	16,212	Financing need	-	-	-		
2	Advantech Europe Holding B.V. ("AEU")	ABB	Receivables from related parties	11,451 (EUR 300 thousand)	7,634 (EUR 200 thousand)	2.5%	2	-	Financing need	-	-	-	32,105 (Note E)	64,209 (Note D)
		ADL	Receivables from related parties	24,811 (EUR 650 thousand)	24,811 (EUR 650 thousand)	2.5%	2	-	Financing need	-	-	-		
		AIT	Receivables from related parties	3,817 (EUR 100 thousand)	1,909 (EUR 50 thousand)	2.5%	2	-	Financing need	-	-	-		
		AUK	Receivables from related parties	3,435 (EUR 90 thousand)	-	2.5%	2	-	Financing need	-	-	-		
3	AACB	ACN	Receivable from related parties	63,240 (US\$ 2,000 thousand)	-	2.5%	2	-	Financing need	-	-	-	112,423 (Note G)	204,844 (Note F)
4	ACC (BVI)	ACN	Receivable from related parties	63,240 (US\$ 2,000 thousand)	63,240 (US\$ 2,000 thousand)	2.5%	2	-	Financing need	-	-	-	102,466 (Note I)	204,931 (Note H)

Notes: A. Nature of Financing:

1. The borrower is the a related party of Advantech Co., Ltd..
2. There is a need for short-term financing.
- B. 40% of net asset value of Axiomtek Co., Ltd.
- C. 20% of net asset value of Axiomtek Co., Ltd.
- D. 30% of net asset value of AEU.
- E. 15% of net asset value of AEU.
- F. 30% of net asset value of AACB.
- G. 15% of net asset value of AACB.
- H. 30% of net asset value of AAC (BVI).
- I. 15% of net asset value of AAC (BVI).
- J. All financing transactiona were eliminated.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED  
SIX MONTHS ENDED JUNE 30, 2005  
(In Thousands of New Taiwan Dollars)

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")	AC	Subsidiary of a wholly owned subsidiary	\$ 566,911 (Note C)	\$ 221,340 (US\$ 7,000 thousand)	\$ 221,340 (US\$ 7,000 thousand)	\$ -	6%	\$ 1,133,822 (Note A)
		ACN	Subsidiary of a wholly owned subsidiary		126,480 (US\$ 4,000 thousand)	126,480 (US\$ 4,000 thousand)	-	3%	
		AIT	Subsidiary		38,170 (EUR 1,000 thousand)	19,085 (EUR 500 thousand)	-	1%	
		AUK	Subsidiary of a wholly owned subsidiary		34,568 (Includes NT\$30,000 thousand and £80 thousand)	4,569 (£ 80 thousand)	-	1%	
		AKMC	Subsidiary of a wholly owned subsidiary		316,200 (US\$ 10,000 thousand)	316,200 (US\$ 10,000 thousand)	-	2%	
		AAC (BVI)	Subsidiary		63,240 (US\$ 2,000 thousand)	63,240 (US\$ 2,000 thousand)	-	2%	
1	Axiomtek Co., Ltd.	Axiom Technology Inc. U.S.A.	Subsidiary	146,106 (Note D)	78,925	78,925	-	11%	365,264 (Note B)

Note A: 30% of the Company's authorized capital stock.

Note B: 50% of the net asset value of Axiomtek Co., Ltd.

Note C: 15% of the Company's paid-in capital stock.

Note D: 20% of the net asset value of Axiomtek Co., Ltd.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS

JUNE 30, 2005

(In Thousands of New Taiwan Dollars)

<u>Company Holding the Securities</u>	Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2005				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Advantech Co., Ltd.	<u>Common stock</u>							
	ATC	Investee	Long-term equity investments	12,550,000	\$ 860,572	100.00	\$ 860,572	Note A
	AAC (BVI)	Investee	Long-term equity investments	21,603,485	749,922	100.00	749,922	Note A
	Axiomtek Co., Ltd.	Investee	Long-term equity investments	21,311,174	309,550	41.54	309,550	Note A
	Yin Sin Co., Ltd.	Investee	Long-term equity investments	29,999,994	273,329	100.00	273,329	Note A
	AEU	Investee	Long-term equity investments	8,324,459	222,160	97.16	222,160	Note A
	AKR	Investee	Long-term equity investments	2,829,210	102,880	27.47	102,880	Note A
	ASG	Investee	Long-term equity investments	1,450,000	81,176	100.00	81,176	Note A
	AAU	Investee	Long-term equity investments	500,204	71,204	100.00	71,204	Note A
	AJP	Investee	Long-term equity investments	1,200	69,891	100.00	69,891	Note A
	Advantech IBHA Inc.	Investee	Long-term equity investments	1,994,000	14,451	13.29	14,451	Note A
	AHG	Investee	Long-term equity investments	30	12,992	30.00	12,992	Note A
	ADCL	Investee	Long-term equity investments	500,000	7,673	100.00	7,673	Note A
	AIMS	Investee	Long-term equity investments	500,000	5,335	100.00	5,335	Note A
	AHK	Investee	Long-term equity investments	999,999	111	100.00	111	Note A
	ABR	Investee	Other liabilities	971,055	(2,728)	60.00	(2,728)	Note A
	Firich Enterprise Co., Ltd.	-	Long-term equity investments	269,000	19,798	0.98	25,192	Note A
	<u>Funds</u>							
	ABN AMRO Select Bond Fund	-	Short-term investments	19,445,355.29	299,233	-	300,621	Note B
	President Home Run Fund	-	Short-term investments	21,713,371.20	298,696	-	298,754	Note B
	ABN AMRO Select Bond Fund	-	Short-term investments	26,731,276.48	296,781	-	296,813	Note B
	Shinong Chi-Shin Fund	-	Short-term investments	19,643,573.95	275,913	-	275,943	Note B
	ABN AMRO Bond Fund	-	Short-term investments	16,495,556.36	243,435	-	243,486	Note B
	Capital high Yield Fund	-	Short-term investments	19,865,722.50	228,124	-	228,184	Note B
	Capital Cash Reserves Fund	-	Short-term investments	14,303,845.70	207,952	-	208,027	Note B
	NITC Bond Fund	-	Short-term investments	679,095.10	109,456	-	109,460	Note B
	President James Bond Fund	-	Short-term investments	4,262,453.70	64,467	-	64,487	Note B
Axiomtek Co., Ltd.	<u>Common stock</u>							
	Axiom Technology Inc. U.S.A.	Investee	Long-term equity investments	23,418	224,647	100.00	170,659	Note A
	Etherwan System Inc.	Investee	Long-term equity investments	4,983,270	94,701	39.87	75,168	Note A
	Hi-top Industrial Co., Ltd.	Investee	Long-term equity investments	1,050	25,310	30.00	16,183	Note A
	Axiom Technology Trading (BVI) Co., Ltd.	Investee	Long-term equity investments	600,000	17,103	100.00	17,103	Note A
	Axiomtek Frances SAS	Investee	Long-term equity investments	-	6,302	100.00	6,302	Note A
	Alextek Company Limited, Ltd.	-	Long-term equity investments	190	1,823	19.00	1,333	Note A
	Axiom Technology (BVI) Co., Ltd.	Investee	Long-term equity investments	410,000	-	100.00	(3,424)	Note A
	Axiomtek Technology Deutschland GmbH	Investee	Long-term equity investments	-	-	100.00	(3,141)	Note A

(Continued)

<u>Company Holding the Securities</u>	Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2005				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Yin Hsin Co., Ltd.	<u>Common stock</u>							
	Advantech IBHA Inc.	Investee	Long-term equity investments	10,000,000	\$ 72,278	66.67	\$ 72,278	Note A
	Timson Tech Co. (TTC)	Investee	Long-term equity investments	270,000	7,288	30.00	7,288	Note A
	Superior Technology Co., Ltd.	-	Long-term equity investments	874,960	33,442	13.43	31,666	Note A
	Chunghwa Telecom Co., Ltd.	-	Short-term investments	200,000	21,300	-	12,690	Note D
	<u>Funds</u>							
	ABN AMRO Bond Fund	-	Short-term investments	9,620,852.99	141,589	-	142,011	Note B
Advantech Technology Co., Ltd. (ATC)	<u>Common stock</u>							
	Advantech Technology (China) Company Ltd.	Investee	Long-term equity investments	-	460,765	100.00	460,765	Note A
	Advantech Dongguan Manufacturing Co., Ltd.	Investee	Long-term equity investments	-	37,846	100.00	37,846	Note A
Timson Tech Co.	<u>Common stock</u>							
	Kunshan Timson Tech Co., Ltd.	Investee	Long-term equity investments	-	24,555	100.00	24,555	Note A
Advantech Automation Corp. (BVI) (AAC (BVI))	<u>Common stock</u>							
	AACB	Investee	Long-term equity investments	21,594,307	748,752	100.00	748,752	Note A
Advantech Automation Corp. Ltd. (AACB)	<u>Common stock</u>							
	Advantech Corp.	Investee	Long-term equity investments	10,952,606	552,614	100.00	552,614	Note A
	Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Investee	Long-term equity investments	-	173,743	100.00	173,743	Note A
	Visual Systems GmbH	-	Long-term equity investments	-	723	20.00	723	Note A
Advantech Co. Singapore Pte. Ltd. (ASG)	Advantech Corporation (Thailand) Co., Ltd. (ATH)	Investee	Long-term equity investments	15,000	777	30.00	777	Note A
	Advantech Automation (Penang) Sdn. Bhd.	Investee	Long-term equity investments	570,570	8,600	55.00	8,600	Note A
	Advantech Control (M) Sdn. Bhd.	Investee	Long-term equity investments	418,000	6,610	55.00	6,610	Note A
Advantech Europe Holding B.V. (AEU)	<u>Common stock</u>							
	Advantech Europe B.V. AESC	Investee	Long-term equity investments	8,314,280	69,285	100.00	69,285	Note A
	Advantech France S.A. AFR	Investee	Long-term equity investments	75,000	23,018	100.00	23,018	Note A
	Advantech Benelux B.V. ABB	Investee	Long-term equity investments	295,378	31,624	100.00	31,624	Note A
	Advantech (UK) Ltd. AUK	Investee	Long-term equity investments	600,000	40,484	100.00	40,484	Note A
	Advantech Europe GmbH ADL	Investee	Other liability	1,142,000	(10,216)	100.00	(10,216)	Note A
	Advantech Italia S.p.A	Investee	Long-term equity investments	45,000	17,263	100.00	17,263	Note A
Marekmicro GmbH, Germany	Investee	Long-term equity investments	6,200	9,543	19.87	2,083	Note A	
Axion Technology Trading (BVI) Co., Ltd.	<u>Common stock</u>							
	Axiomtek Technology (Shen Zhen) Co., Ltd.	Investee	Long-term equity investments	-	6,300	100.00	6,300	Note A

Note A: Market values were based on unaudited 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 average closing price in June 2005.

Note D: Market value was based on the reference price on the balance sheet date of over-the-counter securities corresponding to the convertible bonds.

Note E: All investment incomes and losses from subsidiaries and related long-term investments were eliminated.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2005  
(In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				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	Short-term investments	-	-	20,385,336.74	\$ 298,900	55,319,888.88	\$ 815,200	59,209,669.26	\$ 872,500	\$ 870,665	\$ 1,835	16,495,556.36	\$ 243,435
	Capital Cash Reserves Fund	Short-term investments	-	-	10,092,431.10	145,564	29,585,682.90	429,183	25,374,268.30	368,183	366,795	1,388	14,303,845.70	207,952
	Capital High Yield Fund	Short-term investments	-	-	13,156,427.20	149,973	37,557,117.90	430,686	30,847,822.60	353,686	352,535	1,151	19,865,722.50	228,124
	President James Bond Fund	Short-term investments	-	-	19,498,838.00	293,013	38,637,405.60	583,056	53,873,789.90	813,056	811,602	1,454	4,262,453.70	64,467
	ABN AMRO Income Fund	Short-term investments	-	-	13,265,574.67	202,077	19,445,355.29	299,233	13,265,574.67	204,233	202,077	2,156	19,445,355.29	299,233
	President Home Run Fund	Short-term investments	-	-	21,865,088.20	298,830	47,657,208.70	654,485	47,808,925.70	656,485	654,619	1,866	21,713,371.20	298,696
	ABN AMRO Select Bond Fund	Short-term investments	-	-	27,109,853.84	299,000	53,750,778.91	595,830	54,129,356.27	600,030	598,049	1,981	26,731,276.48	296,781
	Shinong Chi-Shi Fund	Short-term investments	-	-	13,691,602.97	191,027	55,315,953.89	775,038	49,363,982.91	691,838	690,152	1,686	19,643,573.95	275,913
	NITC Bond Fund	Short-term investments	-	-	826,740.30	132,340	4,930,850.83	791,997	5,078,496.03	816,527	814,881	1,646	679,095.10	109,456
	<u>Common stock</u>													
	Axiomtek Co., Ltd.	Long-term investments	-	-	30,315,174.00	508,765	-	-	9,004,000.00	270,120	109,839	115,593	21,311,174	309,550
Axiomtek Co., Ltd.	<u>Barits Bond Fund</u>	Short-term investments	-	-	1,492,695.40	17,673	12,032,063.60	143,016	13,524,159.00	160,759	160,689	70	-	-

## ADVANTECH CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 SIX MONTHS ENDED JUNE 30, 2005  
 (In Thousands of New Taiwan Dollars)

Company Name	Property	Transaction Date	Acquisition Date	Book Value	Transaction Amount	Payment Term	Disposal Gain (Loss)	Counter-party	Nature of Relationship	Price Reference	Purpose of Disposal	Other Terms
Axiomtek Co., Ltd.	Long-term investment	April 2005	January 21, 2002	\$154,527	\$270,120	Collected	\$115,593	-	-	According to offering circular for listing of OTC.	For Axiomtek Co., Ltd.'s listing of OTC.	-

## 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, 2005  
(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	\$ 1,061,646	39	Depending on ATC's operating condition	\$ -	-	\$ (667,395)	(96)	
	AC	Subsidiary of a wholly owned subsidiary	Sale	(906,370)	(24)	60-90 days	-	-	342,861	26	
	AESC	Subsidiary of a wholly owned subsidiary	Sale	(783,086)	(21)	Depending on AESC's operating condition	-	-	484,874	36	
	ACN	Subsidiary of a wholly owned subsidiary	Sale	(607,706)	(16)	Depending on ACN's operating condition	-	-	219,390	17	
	AJP	Subsidiary	Sale	(127,257)	(3)	60-90 days	-	-	41,878	3	
	AKR	Equity-method investee	Sale	(109,383)	(3)	60-90 days	-	-	33,704	3	
Advantech Technology Co., Ltd. (ATC)	Advantech Co., Ltd.	Parent company	Sale	(1,061,646)	(98)	Depending on ATC's operating condition	-	-	667,395	87	
Advantech Corp. (AC)	Advantech Co., Ltd.	Parent company	Purchase	906,370	52	60-90 days	-	-	(342,861)	(87)	
Advantech Europe B.V. (AESC)	Advantech Co., Ltd.	Parent company	Purchase	783,086	85	Depending on AESC's operating condition	-	-	(484,874)	(93)	
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Advantech Co., Ltd.	Parent company	Purchase	607,706	61	Depending on ACN's operating condition	-	-	(219,390)	(1)	
Advantech Japan Co., Ltd. (AJP)	Advantech Co., Ltd.	Parent company	Purchase	127,257	95	60-90 days	-	-	(41,878)	(95)	
Advantech Technologies Co., Ltd. (AKR)	Advantech Co., Ltd.	Parent company	Purchase	109,383	48	60-90 days	-	-	(33,704)	(48)	
ACN	AKMC	Same parent company	Purchase	199,376	20	Depending on ACN operating condition	-	-	(21,452)	(6)	
ATC	AKMC	Subsidiary	Purchase	576,786	53	Depending on ATC operating condition	-	-	(336,810)	(85)	
AKMC	ACN	Same parent company	Sale	(199,376)	(25)	30-60 days	-	-	21,452	6	
	ATC	Parent company	Sale	(576,786)	(73)	60-90 days	-	-	336,810	92	

(Continued)

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	
Axiomtek Co., Ltd.	Axiom Technology Inc. U.S.A.	Equity-method investee	Sale	\$ (122,735 )	(21 )	31-90 days	\$ -	-	\$ 59,127	22	
Axiom Technology Inc. U.S.A.	Axiomtek Co., Ltd.	Parent company	Purchase	122,735	72	31-90 days	-	-	(59,127)	(83)	

Note: All sales and purchase transactions and related receivables and payables between the Parent Company and subsidiaries were eliminated.

(Concluded)

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

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**JUNE 30, 2005**

**(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (%)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Advantech Co., Ltd.	AESC	Subsidiary of a wholly owned subsidiary	\$484,874	3.40	\$ -	-	\$ 99,242	\$ -
	ACN	Subsidiary of a wholly owned subsidiary	219,390	7.42	-	-	113,832	-
	AC	Subsidiary of a wholly owned subsidiary	342,861	6.25	-	-	118,233	-

Note: All sales and purchase transactions and related receivables and payables between the Parent Company and subsidiaries were eliminated.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
SIX MONTHS ENDED JUNE 30, 2005  
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2005	June 30, 2004	Shares	Percentage of Ownership	Carrying Value			
Advantech Co., Ltd.	ATC	BVI	Sale of industrial automation products	\$ 427,781	\$ 427,781	12,550,000	100.00	\$ 860,572	\$ 295,191	\$ 295,191	Subsidiary
	AAC (BVI)	BVI	Investment holding company	725,044	725,044	21,603,485	100.00	749,922	64,968	64,968	Subsidiary
	Axiomtek Co., Ltd.	Taipei, Taiwan	Production and sale of industrial automation products	308,586	438,964	21,311,174	41.54	309,550	44,562	5,187	Equity-method investee
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	273,329	(1,877)	(1,877)	Subsidiary
	AEU	Helmond, the Netherlands	Investment holding company	332,097	321,795	8,324,459	97.16	222,160	(27,198)	(26,345)	Subsidiary
	Advantech Technologies Co., Ltd. (AKR)	Seoul, Korea	Sale of industrial automation products	32,989	51,646	2,829,210	27.47	102,880	5,802	1,744	Equity-method investee
	Advantech Co. Singapore Pte, Ltd.	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	81,176	1,242	1,242	Subsidiary
	Advantech Japan Co., Ltd. (AJP)	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	69,891	6,237	6,237	Subsidiary
	Advantech Australia Pty Ltd.	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	71,204	2,353	2,739	Subsidiary
	AIT	Milano, Italy	Sale of industrial automation products	-	31,277	-	-	-	-	-	Subsidiary of a wholly owned subsidiary
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	14,451	(3,735)	(496)	Subsidiary
	Advantech Hungary Ltd.	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	12,992	9,245	2,774	Equity-method investee
	Advantech Development Co., Ltd.	BVI	Sale of industrial automation products	16,395	16,395	500,000	100.00	7,673	23	23	Subsidiary
	Advantech Investment & Management Service	Taipei, Taiwan	Investment and management service	5,000	5,000	500,000	100.00	5,335	143	184	Subsidiary
	Advantech Brasil S/A	Sam Paulo, Brazil	Sale of industrial automation products	15,374	15,374	971,055	60.00	(2,728)	1,874	1,124	Subsidiary (Note A)
Advantech (H.K.) Technology Co., Ltd.	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	111	1	1	Subsidiary	
Axiomtek Co., Ltd.	Axiom Technology Inc. U.S.A.	U.S.A.	Sale of industrial automation products	121,060	121,060	23,418	100.00	224,647	2,836	1,273	Equity-method investee
	Hi-top Industrial Co., Ltd.	Taipei, Taiwan	Production of electronic parts	22,000	22,000	1,050	30.00	25,310	6,388	2,416	Equity-method investee
	Etherwan Systems Inc.	Taipei, Taiwan	Sale of ethernet converters	84,737	84,737	4,983,270	39.87	94,701	28,615	9,747	Equity-method investee
	Axiomtek Technology Deutschland GmbH	Germany	Sale of industrial automation products	14,770	14,770	-	100.00	-	(8,673)	(8,673)	Equity-method investee
	Axiom Technology (BVI) Co., Ltd.	BVI	Holding company	19,735	19,735	600,000	100.00	17,103	975	975	Equity-method investee
	Axiomtek France SAS	France	Sale of industrial automation products	23,880	9,832	-	100.00	6,302	(8,632)	(8,632)	Equity-method investee
Axiom Technology Trading (BVI) Co., Ltd.	BVI	Holding company	13,290	13,290	410,000	100.00	-	(1,024)	(1,024)	Equity-method investee	
Yin Hsin Co., Ltd.	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	100,000	100,000	10,000,000	66.67	72,278	(3,735)	(2,391)	Subsidiary of a wholly owned subsidiary
	TTC	Brunei	Investment holding company	8,323	8,323	270,000	30.00	7,288	-	-	Equity-method investee of a subsidiary
	Broadwed Automation Co., Ltd.	Taipei, Taiwan		-	20,000	-	-	-	1,899	633	Equity-method investee of a subsidiary
	Innova Tech & Management Consultant Inc.	Taipei, Taiwan		-	15,000	-	-	-	-	(54)	Equity-method investee of a subsidiary
Advantech Technology Co., Ltd. (ATC)	Advantech Technology (China) Company Ltd.	Kunshan, China	Production and sale of components of industrial automation products	409,393	409,393	-	100.00	460,765	35,639	35,639	Subsidiary of a wholly owned subsidiary
	ADMC	Guangzhou, China	Production and sale of industrial automation products	38,165	6,861	-	100.00	37,846	-	-	Subsidiary of a wholly owned subsidiary
Advantech Development Co., Ltd.	Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd.	Guangzhou, China	Sale of industrial automation products	-	6,151	-	100.00	-	2,283	2,283	Subsidiary of a wholly owned subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2005	June 30, 2004	Shares	Percentage of Ownership	Carrying Value			
Timson Tech Co. (TTC)	Kunshan Timson Tech Co., Ltd.	Kunshan, China	Processing and sale of peripherals	\$ 30,222	\$ 30,222	-	100.00	\$ 24,555	\$ 89	\$ 89	Equity-method investee of a subsidiary
Advantech Automation Corp. (BVI) (AAC (BVI))	AACB	Bermuda	Investment holding company	724,731	724,731	21,594,307	100.00	748,752	65,055	65,055	Subsidiary of a wholly owned subsidiary
Advantech Automation Corp., Ltd. (AACB)	Advantech Corp.	Sunnyvale, USA	Assembly and sale of industrial automation products	504,179	504,179	10,952,606	100.00	552,614	44,666	39,521	Subsidiary of a wholly owned subsidiary
	Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Beijing, China	Sale of industrial automation products	185,356	185,356	-	100.00	173,743	23,927	23,870	Subsidiary of a wholly owned subsidiary
	APN	Penang, Malaysia	Sale of industrial automation products	-	4,656	-	-	-	302	166	Subsidiary of a wholly owned subsidiary
	Advantech Control (M) Sdn. Bhd.	Kuala Lumpur, Malaysia	Sale of industrial automation products	-	3,411	-	-	-	(892)	(491)	
	Advantech Automation GbmH	Leinf-Echterdingen, Germany	Sale of industrial automation products	-	2,457	-	-	-	-	-	Subsidiary of a wholly owned subsidiary
	Advan Automation Co., Ltd.	Tokyo, Japan	Sale of industrial automation products	-	5,990	-	-	-	16	6	Equity-method investee of a wholly owned subsidiary
Advantech Europe Holding B.V. (AEU)	Advantech Europe B.V.	Helmond, The Netherlands	Sale of industrial automation products	90,450	90,450	8,314,280	100.00	69,285	(7,507)	(7,507)	Subsidiary of a wholly owned subsidiary
	Advantech France S.A.	Paris, France	Sale of industrial automation products	11,984	11,984	75,000	100.00	23,018	(7,731)	(11,883)	Subsidiary of a wholly owned subsidiary
	Advantech Benelux B.V.	Roosendaal, The Netherlands	Sale of industrial automation products	39,565	39,565	295,378	100.00	31,624	4,501	26	Subsidiary of a wholly-owned subsidiary
	Advantech (UK) Ltd.	Milton Keynes, England	Sale of industrial automation products	13,373	13,373	600,000	100.00	40,484	16,136	15,802	Subsidiary of a wholly-owned subsidiary
	Advantech Europe GmbH	Dusseldorf, Germany	Sale of industrial automation products	46,028	46,028	1,142,000	100.00	(10,216)	(5,024)	(7,663)	Subsidiary of a wholly-owned subsidiary (Note A)
	Advantech Italia S.p.A.	Milano Italy	Sale of industrial automation products	22,275	-	45,000	100.00	17,263	(2,519)	(3,478)	Subsidiary of a wholly-owned subsidiary
Advantech Co. Singapore Pte, Ltd. (ASG)	Advantech Corporation (Thailand) Co., Ltd. (ATH)	Thailand	Production of computers	1,199	1,199	15,000	30.00	777	(44)	(14)	Subsidiary of a wholly owned subsidiary
	APN	Penang, Malaysia	Sale of industrial automation products	8,181	-	570,570	55.00	8,600	884	486	Subsidiary of a wholly owned subsidiary
	Advantech Automation (Penang) Sdn. Bhd.	Penang, Malaysia	Sale of industrial automation products	7,264	-	418,000	55.00	6,610	(1,429)	(786)	Subsidiary of a wholly owned subsidiary
Axion Technology (BVI) Co., Ltd.	Axiomtek Technology (Shen Zhen) Co., Ltd.	Guangzhou, China	Production and sale of electronic calculating machines and statistics interface card	15,474	15,474	-	100.00	6,300	(480)	(480)	Equity-method investee of a wholly owned subsidiary

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

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

Note C: All investment income and losses about subsidiaries and its relate long-term equity investments were eliminated.

(Concluded)

## ADVANTECH CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA  
SIX MONTHS ENDED JUNE 30, 2005  
(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, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2005	Accumulated Inward Remittance of Earnings as of June 30, 2005	Accumulated Investment in Mainland China as of June 30, 2005	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd.	Sale of industrial automation products	US\$200 thousand	Indirect	\$ 6,324	\$ -	\$ -	\$ 6,324	100%	\$ 2,283	\$ -	\$ -	\$ 600,843 (US\$ 19,002 thousand)	\$ 790,500 (US\$ 25,000 thousand)	\$ 2,719,016
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US\$12,000 thousand	Indirect	379,440	-	-	379,440	100%	35,639	460,765	-			
Kunshan Timson Tech Co., Ltd.	Processing and sale of peripherals	US\$900 thousand	Indirect	8,537	-	-	8,537	30%	27	7,367	-			
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US\$4,230 thousand	Indirect	168,598	-	-	168,598	100%	23,870	173,743	-			
Advantech Electronic Technology (Dongguan) Co., Ltd.	Production and sale of industrial automation products	US\$1,200 thousand	Indirect	6,640	31,304	-	37,944 (Note C)	100%	-	37,846	-			

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 on the trading between Advantech Co., Ltd. and its investees in Mainland China are described in Notes 16 and 19 to the financial statements and Table 2.

Note C: The outstanding capital of Advantech Electronic Technology (Dongguan) Co., Ltd. was an outward remittance from Advantech Technology Co., Ltd.

Note D: All investment incomes and losses on subsidiaries and the related long-term equity investment were eliminated.

## ADVANTECH CO., LTD. AND SUBSIDIARIES

OPERATING RELATIONSHIP BETWEEN THE PARENT COMPANY AND SUBSIDIARIES AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
SIX MONTHS ENDED JUNE 30, 2005  
(In Thousands of New Taiwan Dollars)

No.	Counter-party	Nature of Relationship (Note A)	Account	Amounts	Payment Term	Ration of Consolidated Net Income or Consolidated Total Assets (Note C)
0	Advantech Co., Ltd. ("Parent Company")	ACN	Sales revenues	\$ 607,706	Under normal terms	11
		ACN	Receivable from related parties	219,390	Based on the investees' operating conditions	2
		ATC	Sales revenues	11,793	Under normal terms	-
		ATC	Purchases	1,061,646	Under normal terms	20
		ATC	Payable to related parties	667,395	Based on the investees' operating conditions	6
		ATC	Royalty revenues	53,932	Under normal terms	1
		ATC	Receivable from related parties	12,499	Based on the investees' operating conditions	-
		AC	Sales revenues	906,370	Under normal terms	17
		AC	Receivable from related parties	342,861	Based on the investees' operating conditions	3
		AESC	Sales revenues	783,086	Under normal terms	15
		AESC	Receivable from related parties	484,874	Based on the investees' operating conditions	4
		AKMC	Sales revenues	35,833	Under normal terms	1
		AKMC	Receivable from related parties	13,072	Based on the investees' operating conditions	-
		APN	Sales revenues	11,732	Under normal terms	-
		AAU	Sales revenues	51,598	Under normal terms	1
		AAU	Receivable from related parties	13,866	60-90 days	-
		ABR	Sales revenues	17,787	Under normal terms	-
		ABR	Receivable from related parties	12,936	Based on the investees' operating conditions	-
		ASG	Sales revenues	64,395	Under normal terms	1
		ASG	Receivable from related parties	26,006	60-90 days	-
AJP	Sales revenues	127,257	Under normal terms	2		
AJP	Receivable from related parties	41,878	60-90 days	-		
	Advantech IBHA		Payable to related parties	14,493	Based on the investees' operating conditions	-
1	ACN	Parent company	Purchases	607,706	Under normal terms	11
		Parent company	Payable to related parties	219,390	Based on the investees' operating conditions	2
		AKMC	Purchases	199,376	Under normal terms	4
		AKMC	Receivable from related parties	32,177	Based on the investees' operating conditions	-
		AKMC	Payable to related parties	21,452	Based on the investees' operating conditions	-
		AKMC	Sales revenues	90,027	Under normal terms	2
2	ATC	Parent company	Purchases	11,793	Under normal terms	-
		Parent company	Sales revenues	1,061,646	Under normal terms	20
		Parent company	Royalty expenses	53,932	Under normal terms	1
		Parent company	Payable to related parties	12,499	Based on the investees' operating conditions	-
		Parent company	Receivable from related parties	667,395	Based on the investees' operating conditions	6
		AKMC	Sales revenues	10,240	Under normal terms	-

(Continued)

No.	Counter-party	Nature of Relationship (Note A)	Account	Amounts	Payment Term	Ration of Consolidated Net Income or Consolidated Total Assets (Note C)	
		AKMC	3	Purchases	\$ 576,786	Under normal terms	11
		AKMC	3	Payable to related parties	336,810	Based on the investees' operating conditions	3
3	AESC	Parent company	2	Purchases	783,086	Under normal terms	15
		Parent company	2	Payable to related parties	484,474	Based on the investees' operating conditions	4
		AUK	3	Sales revenues	12,201	Under normal terms	-
		ABB	3	Sales revenues	26,221	Under normal terms	-
		AIT	3	Sales revenues	11,186	Under normal terms	-
		AIT	3	Commission expenses	22,538	Under normal terms	-
4	AKMC	Parent company	2	Purchases	35,833	Under normal terms	1
		Parent company	2	Payable to related parties	13,072	Based on the investees' operating conditions	-
		ACN	3	Purchases	90,027	Under normal terms	2
		ACN	3	Sales revenues	199,376	Under normal terms	4
		ACN	3	Receivable from related parties	21,452	Based on the investees' operating conditions	-
		ACN	3	Payable to related parties	32,177	Based on the investees' operating conditions	-
		ATC	3	Purchases	10,240	Under normal terms	-
		ATC	3	Sales revenues	576,786	Under normal terms	11
		ATC	3	Receivable from related parties	336,810	Based on the investees' operating conditions	3
5	AC	Parent company	2	Payable to related parties	342,861	Based on the investees' operating conditions	3
		Parent company	2	Purchases	906,370	Under normal terms	17
6	APN	Parent company	2	Purchases	11,732	Under normal terms	-
7	ASG	Parent company	2	Purchases	64,395	Under normal terms	1
		Parent company	2	Payable to related parties	26,006	60-90 days	-
8	AJP	Parent company	2	Purchases	127,257	Under normal terms	2
		Parent company	2	Payable to related parties	41,878	60-90 days	-
9	AAU	Parent company	2	Purchases	51,598	Under normal terms	1
		Parent company	2	Payable to related parties	13,866	60-90 days	-
10	ABR	Parent company	2	Purchases	17,787	Under normal terms	-
		Parent company	2	Payable to related parties	12,936	Based on the investees' operating conditions	-
11	AIT	AESC	3	Commission expenses	22,538	Under normal terms	-
		AESC	3	Purchases	11,186	Under normal terms	-
12	Advantech IBHA	Parent company	2	Receivable from related parties	14,493	Based on the investees' operating conditions	-
13	AUK	AESC	3	Purchases	12,201	Under normal terms	-
14	ABB	AESC	3	Purchases	26,221	Under normal terms	-

(Continued)

Note A: 1. Upstream transactions.  
2. Downstream transactions.  
3. Sidestream transactions.

Note B: All transactions had been eliminated.