

**Advantech Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2005 and 2004 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Advantech Co., Ltd. as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, as disclosed in Note 6 to the financial statements, we did not audit the financial statements of equity-method investees as of and for the years ended December 31, 2005 and 2004. The carrying values of these investments were 11.07% (NT\$1,624,846 thousand) and 17.46% (NT\$1,740,771 thousand) of the Company's total assets as of December 31, 2005 and 2004, respectively. The equity in the investees' net gain was 5.02% (NT\$128,542 thousand) and 7.25% (NT\$174,781 thousand) of the Company's income before income tax in 2005 and 2004, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, our opinion, insofar as it relates to the investees' amounts included herein, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Advantech Co., Ltd. as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting for Public Company and accounting principles generally accepted in the Republic of China.

March 9, 2006

Notice to Readers

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

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

# ADVANTECH CO., LTD.

## BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

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

ASSETS	2005		2004		LIABILITIES AND SHAREHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 3)	\$ 1,619,325	11	\$ 880,956	9	Bank loans - short-term (Note 9)	\$ -	-	\$ 5,134	-
Short-term investments (Notes 2 and 4)	1,366,270	9	2,010,724	20	Notes payable	12	-	819	-
Notes receivable (Note 2)	98,307	1	48,477	1	Accounts payable	700,014	5	346,961	4
Accounts receivable, net of allowance for doubtful accounts of \$9,645 in 2005 and \$16,600 in 2004 (Note 2)	401,835	3	324,031	3	Payables to related parties (Note 17)	521,205	4	732,333	7
Receivables from related parties (Notes 2 and 17)	1,825,107	13	975,919	10	Income tax payable (Notes 2 and 14)	56,871	-	136,359	1
Other financial assets - current	132,247	1	122,571	1	Accrued expenses	266,123	2	147,758	2
Inventories, net (Notes 2 and 5)	1,220,824	8	641,505	6	Bonds payable - current portion (Notes 2 and 10)	8,900	-	291,452	3
Deferred income tax assets - current (Notes 2 and 14)	32,716	-	49,289	1	Other current liabilities (Note 20)	177,354	1	117,758	1
Prepayments and other current assets (Note 20)	11,497	-	47,586	-					
<b>Total current assets</b>	<b>6,708,128</b>	<b>46</b>	<b>5,101,058</b>	<b>51</b>	<b>Total current liabilities</b>	<b>1,730,479</b>	<b>12</b>	<b>1,778,574</b>	<b>18</b>
<b>LONG-TERM EQUITY INVESTMENTS (Notes 2, 6 and 17)</b>					<b>OTHER LIABILITIES</b>				
Equity method	2,720,336	18	3,139,050	32	Accrued pension liabilities (Notes 2 and 11)	110,948	1	114,569	1
Cost method	3,484,906	24	20,000	-	Guarantee deposits received	1,227	-	2,708	-
<b>Total long-term equity investments</b>	<b>6,205,242</b>	<b>42</b>	<b>3,159,050</b>	<b>32</b>	Deferred income tax liabilities - noncurrent (Notes 2 and 14)	74,162	-	142,107	2
<b>PROPERTIES (Notes 2 and 7)</b>					Deferred income (Note 2)	263,135	2	212,861	2
Cost					Miscellaneous (Notes 2 and 6)	20,038	-	3,542	-
Land	624,779	4	621,229	6					
Buildings and equipment	837,848	6	831,872	8	<b>Total other liabilities</b>	<b>469,510</b>	<b>3</b>	<b>475,787</b>	<b>5</b>
Machinery and equipment	281,554	2	254,913	3					
Furniture and fixtures	77,108	-	80,739	1	<b>Total liabilities</b>	<b>2,199,989</b>	<b>15</b>	<b>2,254,361</b>	<b>23</b>
Miscellaneous equipment	130,880	1	108,714	1	<b>SHAREHOLDERS' EQUITY</b>				
Total cost	1,952,169	13	1,897,467	19	Capital stock, \$10 par value				
Accumulated depreciation	365,367	2	329,814	3	Authorized - 500,000 thousand shares				
	1,586,802	11	1,567,653	16	Issued - 448,900 thousand shares in 2005 and 374,296 thousand shares in 2004	4,489,003	31	3,742,962	37
Advances for equipment to be acquired	11,816	-	10,577	-	Capital surplus				
<b>Net properties</b>	<b>1,598,618</b>	<b>11</b>	<b>1,578,230</b>	<b>16</b>	Paid-in capital in excess of par value	4,342,204	30	1,072,211	11
<b>OTHER ASSETS</b>					From long-term equity investments	50,365	-	14,990	-
Properties leased to others, net (Notes 2 and 8)	21,344	-	30,435	-	Total capital surplus	4,392,569	31	1,087,201	11
Deferred expense, net (Note 2)	127,676	1	92,331	1	Retained earnings				
Certificates of deposit - restricted (Note 18)	4,100	-	4,900	-	Legal reserve	843,346	6	627,331	6
Miscellaneous	7,485	-	6,322	-	Special reserve	19,661	-	-	-
<b>Total other assets</b>	<b>160,605</b>	<b>1</b>	<b>133,988</b>	<b>1</b>	Unappropriated earnings	2,688,544	18	2,280,132	23
<b>TOTAL</b>	<b>\$ 14,672,593</b>	<b>100</b>	<b>\$ 9,972,326</b>	<b>100</b>	Total retained earnings	3,551,551	24	2,907,463	29
					Cumulative translation adjustments	39,481	-	(19,661)	-
					<b>Total shareholders' equity</b>	<b>12,472,604</b>	<b>85</b>	<b>7,717,965</b>	<b>77</b>
					<b>TOTAL</b>	<b>\$ 14,672,593</b>	<b>100</b>	<b>\$ 9,972,326</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 9, 2006)

# ADVANTECH CO., LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 17)				
Sales	\$ 8,480,652	99	\$ 7,809,199	100
Sales returns and allowances	<u>30,099</u>	-	<u>67,476</u>	<u>1</u>
Net sales	8,450,553	99	7,741,723	99
Other operating revenues	<u>61,616</u>	<u>1</u>	<u>68,240</u>	<u>1</u>
Total operating revenues	8,512,169	100	7,809,963	100
OPERATING COSTS (Notes 2, 15 and 17)	<u>5,839,355</u>	<u>69</u>	<u>5,424,472</u>	<u>70</u>
GROSS PROFIT	2,672,814	31	2,385,491	30
REALIZED (DEFERRED) PROFITS ON INTERCOMPANY SALES (Note 2)	<u>(47,292)</u>	-	<u>9,000</u>	-
ADJUSTED GROSS PROFIT	<u>2,625,522</u>	<u>31</u>	<u>2,394,491</u>	<u>30</u>
OPERATING EXPENSES (Note 15)				
Marketing	289,190	3	254,862	3
Administration	305,925	4	230,543	3
Research and development	<u>487,926</u>	<u>6</u>	<u>388,911</u>	<u>5</u>
Total operating expenses	<u>1,083,041</u>	<u>13</u>	<u>874,316</u>	<u>11</u>
OPERATING INCOME	<u>1,542,481</u>	<u>18</u>	<u>1,520,175</u>	<u>19</u>
NONOPERATING INCOME AND GAINS				
Interest	15,261	-	2,525	-
Equity in net income of investees, net (Notes 2 and 6)	803,571	10	811,108	11
Gain on disposal of investments	160,896	2	29,870	-
Royalty revenue (Note 17)	115,794	1	107,737	1
Other income (Note 17)	<u>58,851</u>	<u>1</u>	<u>39,739</u>	<u>1</u>
Total nonoperating income and gains	<u>1,154,373</u>	<u>14</u>	<u>990,979</u>	<u>13</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	95	-	24,688	-
Foreign exchange loss, net (Note 20)	77,630	1	-	-
Provision for losses on inventories	55,463	1	70,679	1
Other expenses (Note 15)	<u>1,518</u>	-	<u>5,632</u>	-
Total nonoperating expenses and losses	<u>134,706</u>	<u>2</u>	<u>100,999</u>	<u>1</u>

(Continued)

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
INCOME BEFORE INCOME TAX	\$ 2,562,148	30	\$ 2,410,155	31
INCOME TAX (Notes 2 and 14)	<u>132,345</u>	<u>1</u>	<u>250,000</u>	<u>3</u>
NET INCOME	<u>\$ 2,429,803</u>	<u>29</u>	<u>\$ 2,160,155</u>	<u>28</u>

  

	<u>2005</u>		<u>2004</u>	
	<u>Pretax</u>	<u>After-tax</u>	<u>Pre-tax</u>	<u>After-tax</u>
EARNINGS PER SHARE (Note 16)				
Basic	<u>\$ 6.38</u>	<u>\$ 6.05</u>	<u>\$ 6.21</u>	<u>\$ 5.57</u>
Diluted	<u>\$ 6.32</u>	<u>\$ 5.99</u>	<u>\$ 6.02</u>	<u>\$ 5.38</u>

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

(With Deloitte & Touche audit report dated March 9, 2006)

(Concluded)

**ADVANTECH CO., LTD.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2005 AND 2004  
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)**

	Capital Stock		Capital Surplus (Notes 2, 12 and 13)			Retained Earnings (Notes 2, 12 and 13)				Cumulative Translation Adjustments (Note 2)	Treasury Stocks (Notes 2 and 13)	Total Shareholders' Equity
	Issued (Notes 10, 12 and 13)		Paid-in Capital in Excess of Par Value	From Long-term Equity Investments	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			
	Shares (Thousands)	Amount										
BALANCE, JANUARY 1, 2004	341,304	\$ 3,413,039	\$ 455,155	\$ 33,845	\$ 489,000	\$ 520,089	\$ -	\$ 1,513,392	\$ 2,033,481	\$ 91,338	\$ (210,736)	\$ 5,816,122
Appropriation of 2003 earnings												
Legal reserve	-	-	-	-	-	107,242	-	(107,242)	-	-	-	-
Bonus to employees	5,500	55,000	-	-	-	-	-	(96,518)	(96,518)	-	-	(41,518)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(9,652)	(9,652)	-	-	(9,652)
Stock dividends - 5%	16,886	168,864	-	-	-	-	-	(168,864)	(168,864)	-	-	-
Cash dividends - \$2.5 per share	-	-	-	-	-	-	-	(844,320)	(844,320)	-	-	(844,320)
Net income in 2004	-	-	-	-	-	-	-	2,160,155	2,160,155	-	-	2,160,155
Conversion of bonds into capital stock	14,468	144,679	622,353	-	622,353	-	-	-	-	-	-	767,032
Decrease in carrying value of equity investment due to change in equity in investee	-	-	-	(18,929)	(18,929)	-	-	-	-	-	-	(18,929)
Increase in paid-in capital from equity investment due to change in equity in investee	-	-	-	74	74	-	-	-	-	-	-	74
Write-off of treasury stock	(3,862)	(38,620)	(5,297)	-	(5,297)	-	-	(166,819)	(166,819)	-	210,736	-
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(102,824)	-	(102,824)
Equity in the investees' translation adjustments	-	-	-	-	-	-	-	-	-	(8,175)	-	(8,175)
BALANCE, DECEMBER 31, 2004	374,296	3,742,962	1,072,211	14,990	1,087,201	627,331	-	2,280,132	2,907,463	(19,661)	-	7,717,965
Appropriation of 2004 earnings												
Legal reserve	-	-	-	-	-	216,015	-	(216,015)	-	-	-	-
Special reserve	-	-	-	-	-	-	19,661	(19,661)	-	-	-	-
Bonus to employees	5,000	50,000	-	-	-	-	-	(192,448)	(192,448)	-	-	(142,448)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(19,245)	(19,245)	-	-	(19,245)
Stock dividends - 5%	18,738	187,383	-	-	-	-	-	(187,383)	(187,383)	-	-	-
Cash dividends - \$3.7 per share	-	-	-	-	-	-	-	(1,386,639)	(1,386,639)	-	-	(1,386,639)
Net income in 2005	-	-	-	-	-	-	-	2,429,803	2,429,803	-	-	2,429,803
Conversion of bonds into capital stock	5,203	52,025	230,527	-	230,527	-	-	-	-	-	-	282,552
Issuance of shares to acquire long-term equity investments	44,893	448,933	3,016,828	-	3,016,828	-	-	-	-	-	-	3,465,761
Employee stock options	770	7,700	22,638	-	22,638	-	-	-	-	-	-	30,338
Decrease in capital surplus and translation adjustments due to disposal of long-term equity investments	-	-	-	(5,415)	(5,415)	-	-	-	-	(4,319)	-	(9,734)
Increase in carrying value of equity investment due to change in equity in investee	-	-	-	40,790	40,790	-	-	-	-	-	-	40,790
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	21,077	-	21,077
Equity in the investees' translation adjustments	-	-	-	-	-	-	-	-	-	42,384	-	42,384
BALANCE, DECEMBER 31, 2005	448,900	\$ 4,489,003	\$ 4,342,204	\$ 50,365	\$ 4,392,569	\$ 843,346	\$ 19,661	\$ 2,688,544	\$ 3,551,551	\$ 39,481	\$ -	\$ 12,472,604

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

(With Deloitte & Touche audit report dated March 9, 2006)

# ADVANTECH CO., LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,429,803	\$ 2,160,155
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	101,722	77,575
Provision (reversal of allowance) for bad debts	(6,092)	30,936
Provision for losses on inventories	55,463	70,679
Gain on sale of long-term equity investments	(132,371)	-
Loss on disposal of properties, net	270	1,675
Equity in net gain of investees, net	(803,571)	(811,108)
Cash dividends from equity-method investees	1,126,089	374,542
Accrued pension liabilities	(3,621)	1,505
Interest-premium on convertible bonds	-	23,318
Deferred income taxes	(51,372)	94,100
Net changes in operating assets and liabilities		
Notes receivable	(49,830)	8,206
Accounts receivable	(71,712)	8,144
Accounts receivable from related parties	(849,188)	79,616
Other financial assets - current	(9,676)	(11,116)
Inventories	(634,782)	(103,173)
Prepayments and other current assets	36,089	40,065
Notes payable	(807)	(548)
Accounts payable	353,053	(71,775)
Accounts payable to related parties	(211,128)	130,950
Income tax payable	(79,488)	136,359
Accrued expenses	118,365	(11,810)
Advance receipts and other current liabilities	(34,933)	(10,566)
Deferred income	50,274	(9,000)
Net cash provided by operating activities	<u>1,332,557</u>	<u>2,208,729</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease(increase)Short-term investments	644,454	(592,443)
Acquisition of long-term equity investments	(49,241)	(23,690)
Disposal of long-term equity investments	389,676	-
Disposal of properties	28	2,683
Acquisition of properties	(97,272)	(139,841)
Increase in deferred expense	(51,390)	(88,906)
Increase in certificates of deposit - restricted	800	(2,500)
Increase in other assets	(1,163)	(1,254)
Net cash provided by (used in) investing activities	<u>835,892</u>	<u>(845,951)</u>

(Continued)

	2005	2004
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in bank loans - short-term	\$ (5,134)	\$ 5,134
Redemption of bonds payable	-	(454)
Increase in guarantee deposits received	(1,481)	(290)
Employee stock option	30,338	-
Cash dividends paid	(1,386,639)	(844,320)
Bonus paid to employees and remuneration to directors and supervisors	<u>(67,164)</u>	<u>(12,183)</u>
Net cash used in financing activities	<u>(1,430,080)</u>	<u>(852,113)</u>
<b>NET INCREASE IN CASH</b>	738,369	510,665
<b>CASH, BEGINNING OF YEAR</b>	<u>880,956</u>	<u>370,291</u>
<b>CASH, END OF YEAR</b>	<u>\$ 1,619,325</u>	<u>\$ 880,956</u>
<b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 95</u>	<u>\$ 1,370</u>
Income tax paid	<u>\$ 253,401</u>	<u>\$ 19,541</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Issuance of shares to acquire long-term equity investments	<u>\$ 3,465,761</u>	<u>\$ -</u>
Credit balance of investments recorded as part of other liabilities	<u>\$ 20,038</u>	<u>\$ 3,542</u>
Reclassification of properties leased to others to properties	<u>\$ 8,945</u>	<u>\$ 38,479</u>
Conversion of bonds into capital stock and capital surplus	<u>\$ 282,552</u>	<u>\$ 767,032</u>
Bonus payable to employees and remuneration to directors and Supervisors	<u>\$ 94,529</u>	<u>\$ 55,496</u>
Treasury stocks retired	<u>\$ -</u>	<u>\$ 210,736</u>

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

(With Deloitte & Touche audit report dated March 9, 2006)

(Concluded)

# ADVANTECH CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

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### 1. ORGANIZATION AND OPERATIONS

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

As of December 31, 2005 and 2004, the Company had 928 and 885 employees, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

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

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

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

Assets consumed or used up within one year are classified as current. Liabilities repaid or settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

#### **Short-term Investments**

Short-term investments are open-end mutual funds. The investments are carried at the lower of aggregate cost or market value. 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 using the moving-average method.

Market values are based on the net asset values of these funds on the balance sheet date.

#### **Allowance for Doubtful Accounts**

Allowances for doubtful accounts is provided by a periodic review of the collectibility of accounts receivable based on the aging evaluation and economic circumstances.

#### **Inventories**

Inventories consist of raw materials and supplies, work in process and finished goods.

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

## **Long-term Equity Investments**

Investments in shares of stock of companies in which the Company owns at least 20% of their outstanding common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Stock investments accounted for by the equity method are initially carried at cost and subsequently adjusted for the Company's proportionate share in the investees' earnings or losses and changes in capital surplus. Cash dividends received are recognized as a reduction of the carrying value of the investments. Investment income (or loss) is recognized whenever the investees recognize income (or loss). The difference between the cost of the investment and the Company's equity in the investee's net assets when an investment is acquired or when the equity method is first adopted, is amortized over five years. If an investee issues additional shares and the Company acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Company's equity in its investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings. Upon the disposal of equity-method investments, the Company's shares in the capital surplus recognized by the investee Company, if any, will be included in current income in proportion to the investments sold. However, capital surplus from an investee's property disposal is transferred to retained earnings in proportion to the value of the investments sold.

If the equity in losses recognized exceeds the original investment acquisition costs plus any advance given to an equity-method investee, the excess losses should be recognized proportionately and be recorded as part of other liabilities. But, since 2005, for equity-method investees over which the Company has controlling influence, if the equity in losses recognized exceeds the original investment acquisition costs, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the losses. However, when the investees return to profitable operations, the profits should be recognized by the Company totally until the losses that were previously recognized are covered.

However, when the investees return to profitable operations, the profits should be recognized by the Company totally until the losses that were previously recognized are covered.

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

Other stock investments are accounted for by the cost method. An allowance for decline in market value of listed stocks is recognized, with the related amount debited to shareholders' equity. An allowance is recognized to reflect an other than temporary decline in value of unlisted stocks, with the related provision for losses charged to current income. Cash dividends received within a year of investment acquisition are accounted for as a reduction of the carrying value of the investment, but cash dividends received in subsequent years are recognized as dividend income.

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

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

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

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

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

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

### **Deferred Expenses**

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

### **Assets Impairment**

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

### **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 Company does not recognize as sales those transactions involving the delivery of materials to subcontractors since ownership of materials is not transferred upon delivery of materials. Allowances and the related provision for sales returns are accounted for as a deduction from gross sales, and the related costs are deducted from cost of sales as they are incurred.

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

### **Capital Expenditure**

When benefits of expenditure will continue in future period and its amount is material will be recognized as assets, otherwise recognized as expenses.

### **Pension Costs**

For a defined benefit pension plan, net periodic pension costs are recognized on the basis of actuarial calculation, and, for defined contribution pension plan, on contribution basis throughout the employees' service period.

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

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

### **Convertible Bonds**

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

### **Treasury Stock**

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

### **Income Tax**

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

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

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

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

### Foreign-currency Transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the spot rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing 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

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

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

### 3. CASH

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Cash on hand	\$ 371	\$ 366
Checking and demand deposits	353,847	133,025
Time deposits: Interest - 1.25%-4.20% in 2005 and 1.00%-2.00% in 2004	<u>1,265,107</u>	<u>747,565</u>
	<u>\$ 1,619,325</u>	<u>\$ 880,956</u>

On December 31, 2005 and 2004, deposits overseas were as follows:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Hong Kong (included US\$316 and HK\$138 in 2005 and US\$23 thousand and HK\$139 thousand in 2004)	<u>\$ 11</u>	<u>\$ 1,301</u>

### 4. SHORT-TERM INVESTMENTS

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Mutual funds	<u>\$ 1,366,270</u>	<u>\$ 2,010,724</u>

## 5. INVENTORIES, NET

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Finished goods	\$ 356,482	\$ 234,904
Work in process	421,328	277,099
Materials and supplies	541,162	245,757
Inventories in transit	<u>4,882</u>	<u>143</u>
	1,323,854	757,903
Allowance for losses	<u>(103,030)</u>	<u>(116,398)</u>
	<u>\$ 1,220,824</u>	<u>\$ 641,505</u>

## 6. LONG-TERM EQUITY INVESTMENTS

	<u>December 31</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
<u>Equity method</u>				
Listed				
Axiomtek Co., Ltd.	\$ 369,596	37.25	\$ -	-
Unlisted				
Advantech Automation Corp. (BVI)	955,493	100.00	686,921	100.00
Advantech Technology Co., Ltd.	521,862	100.00	947,985	100.00
Yin Hsin Investment Co., Ltd.	256,108	100.00	275,244	100.00
Advantech Europe Holding B.V.	222,732	96.67	264,608	96.44
Advantech Technologies Co., Ltd.	128,622	27.47	174,033	43.00
Advantech Co. Singapore Pte, Ltd.	88,074	100.00	82,036	100.00
Advantech Japan Co., Ltd.	74,486	100.00	68,644	100.00
Advantech Australia Pty Ltd.	73,802	100.00	69,867	100.00
Advantech Hungary Ltd.	12,554	30.00	11,105	30.00
Advantech IBHA Technologies Inc.	11,647	13.29	14,947	13.29
Advantech Investment & Management Service	5,360	100.00	5,151	100.00
Advantech Development Co., Ltd.	-	100.00	7,659	100.00
Axiomtek Co., Ltd.	-	-	508,765	60.87
Advantech Brazil S/A	-	60.00	-	60.00
Advantech (H.K.) Technology Co., Ltd.	-	100.00	110	100.00
Advantech Italia S.p.A.	-	-	<u>21,975</u>	100.00
	<u>2,350,740</u>		<u>3,139,050</u>	
Long-term stock investments accounted for by equity method	<u>2,720,336</u>		<u>3,139,050</u>	
<u>Cost method</u>				
Listed				
ASUSTek Computer Inc.	3,465,761	1.33	-	-
Firich Enterprise Co., Ltd.	19,145	0.92	-	-
Emerging				
Silicon Motion Inc.	-	-	<u>20,000</u>	0.54
	<u>3,484,906</u>		<u>20,000</u>	
	<u>\$ 6,205,242</u>		<u>\$ 3,159,050</u>	

The Company had long-term equity investments in Axiomtek Co., Ltd., Advantech Europe Holding B.V., Advantech Technologies Co., Ltd., Advantech Japan Co., Ltd., Advantech Australia Pty. Ltd., Advantech Hungary Ltd., Advantech Brazil S/A, Advantech Co., Singapore Pte, Ltd. and Advantech Corp. in 2005 and 2004, and investment in Advantech Italia S.p.A., Advantech Automation (Penang) Sdn. Bhd., Advantech Control (M) Sdn. Bhd. and Innova Tech & Management Consultant Inc. in 2004. Their financial statements were audited by other auditors, i.e., not the Company's auditors.

The calculation of the investment carrying value and the Company's equity in the net income of Advantech (H.K.) Technology Co., Ltd. and Advantech Investment and Management Service Co., Ltd., equity-method investees, was based on unaudited financial statements since each investee's capital stock was less than \$30,000 thousand and their individual total operating revenues were less than \$50,000 thousand or 10% of the Company's total operating revenues. The investment carrying value and equity in the net income of these investees were not material to the Company's financial position and results of operations. The calculation of the carrying values of other equity-method investments and the equity in their net income or net loss was based on audited financial statements. The equity in Advantech Hungary Ltd.'s net income or net loss was recognized in the subsequent year's financial statements of the Company during 2004, but is recognized in the current year since 2005.

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

At the meeting of the boards of directors on September 30, 2005, the directors approved a proposal for Advantech and ASUSTek to enter into a strategic alliance through a share swap. Shares were exchanged at 1.13 shares of Advantech for every share of ASUSTek. Thus, Advantech issued 44,893 thousand shares in exchange for 39,729 thousand shares of ASUSTek. This issuance of shares was approved by the Financial Supervisory commission, Executive Yuan, R.O.C. Then, the board of directors resolved the date of share swap as December 23, 2005. The Company had completed the process of a revised license from the Ministry of Economic Affairs (MOEA).

The Company intended to support the operations of Advantech Brazil S/A and Advantech (H.K.) Technology Co., Ltd. Under the revised Statement of Financial Accounting Standards No. 5, "Long-term Investments in Equity," of the Republic of China, starting in 2005, if the equity in losses recognized exceeds the original investment acquisition costs, the Company recognizes its investee's total losses unless other investors are obligated to and have the ability to assume a portion of the losses. As of December 31, 2005 and 2004, there were credit balances of \$20,038 thousand and \$3,542 thousand, respectively, included in other liability - miscellaneous as follows:

	<b>December 31</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Carrying Value</b>	<b>% of Owner-ship</b>	<b>Carrying Value</b>	<b>% of Owner-ship</b>
Advantech Brazil S/A	\$ 19,145	60	\$ 3,542	60
Advantech (HK) Technology Co., Ltd.	<u>893</u>	100	<u>-</u>	-
	<u>\$ 20,038</u>		<u>\$ 3,542</u>	

Market values calculated from the average closing price of December 2005 were as follows:

	<b>December 31, 2005</b>
Equity accounted equity investments - listed stocks	\$ 913,418
Cost accounted equity investment - listed stocks	3,985,370

The Company adopted revised SFAS No. 7 “Consolidated Financial Statements” to prepare consolidated financial statements as of and for the period ended December 31, 2005, which included all direct and indirect subsidiaries.

The Company prepared consolidated financial statements as of and for the year ended December 31, 2004, which included direct and indirect subsidiaries, except Axiomtek Technology Deutschland GmbH, Axiom Technology (BVI) Co., Ltd., Axiomtek SAS and Axiom Technology Trading (BVI) Co., Ltd. because they had no material influence on the consolidated financial statements.

## 7. PROPERTIES

Accumulated depreciation was as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Buildings and equipment	\$ 84,425	\$ 67,181
Machinery and equipment	170,114	137,233
Furniture and fixtures	43,451	45,747
Miscellaneous equipment	<u>67,377</u>	<u>79,653</u>
	<u>\$ 365,367</u>	<u>\$ 329,814</u>

Depreciation expenses were \$85,677 thousand in 2005 and \$63,364 thousand in 2004.

## 8. PROPERTIES LEASED TO OTHERS

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Cost		
Land	\$ 15,693	\$ 19,243
Buildings and equipment	<u>7,063</u>	<u>13,637</u>
	22,756	32,880
Accumulated depreciation	<u>1,412</u>	<u>2,445</u>
	<u>\$ 21,344</u>	<u>\$ 30,435</u>

## 9. SHORT-TERM BANK LOANS

The short-term bank loan was a credit loan with 2.20% to 2.95% interest rate in 2004.

## 10. BONDS DUE WITHIN ONE YEAR

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Unsecured convertible bonds	\$ 8,900	\$ 244,400
Interest-premium on convertible bonds	<u>-</u>	<u>47,052</u>
	<u>\$ 8,900</u>	<u>\$ 291,452</u>

On July 19, 2001, the Company issued domestic unsecured convertible bonds with aggregate face value of \$1,000,000 thousand (or \$100 thousand face value per unit), which were listed on the Taiwan Stock Exchange on July 31, 2001. These bonds 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 bondholder's 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 December 31, 2005, bonds with aggregate face value of \$990,700 thousand had been converted to 20,700 thousand shares and 400 thousand had been redeemed at the holders' request. The convertible price was \$41.9 on December 31, 2005.

## 11. PENSION PLAN

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

Based on the Act, the Company's rate of monthly contributions to employees' individual pension accounts is at 6% of the employees' monthly wages. For these contributions, the Company recognized a pension cost of \$17,277 thousand from July 1, 2005 to December 31, 2005.

Under the Labor Standards Law, benefits are based on length of service and average basic pay of the six months before retirement. The 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.

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

	2005	2004
a. Components of pension cost:		
Service cost	\$ 9,373	\$ 12,817
Interest cost	3,781	3,804
Projected return on plan assets	(2,281)	(1,800)
Amortization of unrecognized net transition obligation and net pension plan gains or losses	<u>(4,860)</u>	<u>(3,318)</u>
	<u>\$ 6,013</u>	<u>\$ 11,503</u>
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
b. Reconciliation between the funded status of the pension plan and accrued pension liabilities:		
Benefit obligation		
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	82,953	72,151
Accumulated benefit obligation	82,953	72,151
Additional benefits based on future salaries	34,645	22,869
Projected benefit obligation	117,598	95,020
Fair value of plan assets	<u>(70,952)</u>	<u>(62,094)</u>
Funded status	46,646	32,926

(Continued)

	<u>December 31</u>	
	2005	2004
Unrecognized net transition obligation	\$ (18,222)	\$ (20,043)
Unrecognized net gain	<u>82,524</u>	<u>101,686</u>
Accrued pension liabilities	<u>\$ 110,948</u>	<u>\$ 114,569</u>
c. Actuarial assumptions		
Discount rate used in determining present values	3.5%	3.5%
Future salary increase rate	2.0%	1.5%
Expected rate of return on plan assets	3.5%	3.5%

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

	<u>Years Ended December 31</u>	
	2005	2004
Balance, beginning of period	\$ 114,569	\$ 113,064
Accruals base on defined benefit pension plan	6,013	11,503
Accruals base on defined contribution pension plan	17,277	-
Contribution	<u>(26,911)</u>	<u>(9,998)</u>
Balance, end of period	<u>\$ 110,948</u>	<u>\$ 114,569</u>

## 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 be used only to offset a deficit. Capital surplus from the issue of stock in excess of par value may be capitalized by issuing new shares to shareholders in proportion to their stockholdings, and capitalized amounts should be within certain limits.

The Company's Articles of Incorporation provide that legal reserve should be set aside at 10% of annual net income after appropriate income tax and offset cumulative losses. In addition, a special reserve should be adjusted according to the debit balance. The remainder of the income should be appropriated in the following order:

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

These appropriations and other allocations of earnings, 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 (except for treasury stocks) of the relevant shareholders' equity account.

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

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

The Company operates in an industry related to computers, and its business related to network servers is new but with significant potential for growth. Thus, in formulating its dividend policy, the Company takes into account the overall business and industry conditions and trends, its objective of enhancing the shareholders' long-term interest, and the sustainability of the Company's growth. It is the 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 Company to finance future capital expenditures and working capital requirements.

On May 24, 2005 and May 27, 2004, the shareholders approved the board of directors' proposals dated on the appropriation of the 2004 and 2003 earnings. The bonus to employees, directors and supervisors was distributed as follows:

	<u>Appropriation Earnings</u>		<u>Dividend per Share (Dollars)</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Legal reserve	\$ 216,015	\$ 107,242	\$ -	\$ -
Special reserve	19,661	-	-	-
Cash dividends	1,386,639	844,320	3.70	2.50
Stock dividends	187,383	168,864	0.50	0.50
Bonus to directors and supervisors	19,245	9,652	-	-
Bonus to employees - stock	50,000	55,000	-	-
Bonus to employees - cash	142,448	41,518	-	-

The appropriation of earnings for 2004 were approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. and then the board of directors resolved the date of distributing stock dividends and cash dividends as August 8, 2005. The Company had completed the process of a revised license from the MOEA.

The basic earnings per share would have decreased from NT\$5.91 to NT\$5.33 in 2004 and from NT\$3.17 to NT\$2.85 in 2003 had the bonus to employees, directors and supervisors been expensed instead of being appropriated from retained earnings.

The employees' stock bonus consisted of 5,000 thousand shares and 5,500 thousand shares, which were 1.34% and 1.63%, respectively, of the outstanding common stock as of the end of 2004 and 2003, respectively.

As of March 9, 2006, the Company's board of directors had not decided the appropriation of the 2005 earnings. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

On April 1, 2003, the SFB approved the Company's stock option plan. There were 3,000 thousand units authorized to be issued, which may be converted to 3,000 thousand common shares. Employees may exercise a certain percentage of the option within two and four years of the grant date, and options will expire six years from the grant date. The stock options were issued on August 14, 2003, and the exercise

price was set at NT\$39.40. As of December 31, 2005, there were 1,890 thousand units of effective stock options, 770 thousand units options had been exercised, and thereby 770 thousand common shares had been purchased.

### 13. TREASURY STOCKS

Unit: In Thousand Shares

Reason for Repurchase	January 1, 2004	Increase	Decrease	December 31, 2005
<u>2004</u>				
Maintaining the Company's credit and shareholders' equity	<u>3,862</u>	-	<u>3,862</u>	-

Under a board of directors' proposal dated February 5, 2004, the Company retired 3,862 thousand treasury shares, which amounted to \$210,736 thousand. This retirement, effective March 23, 2004, resulted in reductions of \$38,620 thousand capital, \$5,297 thousand in capital surplus in excess of par value and \$166,819 thousand in unappropriated earnings.

The Securities and Exchange Law limits the number of shares of treasury stock a company may acquire to 10% of the total shares issued. It also limits the total acquisition cost of those shares to the sum of retained earnings, additional paid-in capital from issue of stock in excess of par value and realized capital surplus. In addition, the Company should not pledge treasury stocks nor exercise, before stock reissuance, shareholders' rights on those stocks.

### 14. INCOME TAX

a. The calculation of the income tax is as follows:

	2005	2004
Tax on pretax income at 25% statutory rate	\$ 640,527	\$ 602,529
Deduct tax effects of:		
Tax-exempt income	(448,957)	(233,544)
Permanent differences	5,851	(20,793)
Temporary differences	<u>125,512</u>	<u>(55,800)</u>
Income tax on tax income calculated	322,933	292,392
Investment tax credit	<u>(142,592)</u>	<u>(145,779)</u>
Income tax currently payable	180,341	146,613
Income tax expense - deferred		
Temporary differences	(78,556)	38,401
Investment tax credit	27,184	55,699
Adjustment of prior year's income tax	<u>3,376</u>	<u>9,287</u>
Income tax expense (shown in the statements of income)	<u>\$ 132,345</u>	<u>\$ 250,000</u>

b. Net deferred income taxes as of December 31, 2005 and 2004 consisted of the following:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Current		
Deferred income tax assets		
Allowance for loss on inventories	\$ 25,758	\$ 29,100
Unrealized foreign exchange loss	7,983	-
Excess provisions for doubtful receivables	6,958	780
Unrealized product warranty reserve	6,207	-
Investment tax credit	-	27,184
Others	<u>6,523</u>	<u>2,500</u>
	53,429	59,564
Valuation allowance	<u>(20,713)</u>	<u>-</u>
	32,716	59,564
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>-</u>	<u>(10,275)</u>
Deferred income tax assets, net	<u>\$ 32,716</u>	<u>\$ 49,289</u>
Noncurrent		
Deferred income tax assets:		
Accumulated equity in the net loss of investees	\$ 136,312	\$ 119,712
Deferred income	49,734	37,864
Pension cost	27,737	28,642
Interest-premium on convertible bonds	<u>428</u>	<u>31,584</u>
	214,211	217,802
Valuation allowance	<u>(136,740)</u>	<u>(151,296)</u>
	77,471	66,506
Deferred income tax liabilities:		
Accumulated equity in the net gain of foreign investees	(135,641)	(192,919)
Allowance for tax-deductible equity in net loss of foreign investees	<u>(15,992)</u>	<u>(15,694)</u>
	<u>(151,633)</u>	<u>(208,613)</u>
Deferred income tax liabilities, net	<u>\$ (74,162)</u>	<u>\$ (142,107)</u>

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

Income tax payables as of December 31, 2005 and 2004 were net of prepaid income tax of \$123,470 thousand and \$10,254 thousand.

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

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Balance of ICA	\$ 133,889	\$ 19,306
The balances of unappropriated retained earnings before 1997	<u>\$ 81,329</u>	<u>\$ 81,329</u>

The expected and actual creditable tax ratios for earnings as of December 31, 2005 and 2004, which were distributed in 2006 and 2005, were 5.14% and 7.23%, respectively. The creditable tax ratio should be based on the balance in the ICA on the date of dividend distribution. Thus, the expected creditable ratio for 2005 earnings may differ from the actual ratio depending on the ICA balance on the dividend distribution date.

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

The Company expects to get a five-year tax exemption on the income from an industry network server production, for which an investment plan was started 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.

## 15. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	2005			2004		
	Included in Cost of Goods Sold	Included in Operating Expenses	Total	Included in Cost of Goods Sold	Included in Operating Expenses	Total
Personnel expenses						
Payroll	\$ 144,514	\$ 457,367	\$ 601,881	\$ 154,978	\$ 405,443	\$ 560,421
Insurance	11,911	35,266	47,177	13,566	30,833	44,399
Pension	5,122	18,168	23,290	4,785	6,718	11,503
Others	7,064	13,901	20,965	10,864	16,623	27,487
Depreciation	41,465	44,066	85,531	36,635	26,259	62,894
Amortization	<u>2,778</u>	<u>13,267</u>	<u>16,045</u>	<u>2,464</u>	<u>11,747</u>	<u>14,211</u>
	<u>\$ 212,854</u>	<u>\$ 582,035</u>	<u>\$ 794,889</u>	<u>\$ 223,292</u>	<u>\$ 497,623</u>	<u>\$ 720,915</u>

For properties leased to others, expenses of \$146 thousand and \$470 thousand as of December 31, 2005 and 2004, respectively (included in nonoperating expenses and losses - other), were not included in the above depreciation expenses.

## 16. EARNINGS PER SHARE

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

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share	
	Pretax	After-tax	(Thousand)	Pretax	After-tax
<u>2005</u>					
Basic EPS	\$ 2,562,148	\$ 2,429,803	401,864	<u>\$ 6.38</u>	<u>\$ 6.05</u>
The impact of potentially dilutive					
Stock options	-	-	1,193		
Convertible bonds	<u>-</u>	<u>-</u>	<u>2,563</u>		
Diluted EPS	<u>\$ 2,562,148</u>	<u>\$ 2,429,803</u>	<u>405,620</u>	<u>\$ 6.32</u>	<u>\$ 5.99</u>
<u>2004</u>					
Basic EPS	\$ 2,410,155	\$ 2,160,155	388,148	<u>\$ 6.21</u>	<u>\$ 5.57</u>
The impact of potentially dilutive					
Stock options	-	-	1,004		
Convertible bonds	<u>23,318</u>	<u>17,488</u>	<u>15,300</u>		
Diluted EPS	<u>\$ 2,433,473</u>	<u>\$ 2,177,643</u>	<u>404,452</u>	<u>\$ 6.02</u>	<u>\$ 5.38</u>

The EPS was retroactively adjusted for the stock dividends declared. Thus, in 2004, pretax and after-tax primary EPS decreased from NT\$6.60 to NT\$6.21 and from NT\$5.91 to \$5.57, respectively, and pretax and after-tax diluted EPS decreased from NT\$6.39 to NT\$6.02 and from \$5.72 to \$5.38, respectively.

## 17. RELATED-PARTY TRANSACTIONS

### a. Related parties

	<u>Relationship with the Company</u>
Yin Hsin Investment Co., Ltd. (“Yin Hsin”)	Equity-method investee
Advantech IBHA Technologies Inc. (“Advantech IBHA”)	Equity-method investee
Axiomtek Co., Ltd. (Axiomtek)	Equity-method investee
Advantech Investment & Management Service (AIMS)	Equity-method investee
Advantech Europe Holding B.V. (AEU)	Equity-method investee
Advantech Co. Singapore Pte, Ltd. (ASG)	Equity-method investee
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Japan Co., Ltd. (AJP)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Advantech Technology Co., Ltd. (ATC)	Equity-method investee
Advantech Brazil S/A (ABR)	Equity-method investee
Advantech Australia Pty Ltd. (AAU)	Equity-method investee
Advantech Automation Corp. (BVI) (AAC (BVI))	Equity-method investee
Advantech France S.A. (AFR)	Equity-method investee of AEU
Advantech Italia S.p.A. (AIT)	Equity-method investee of AEU (equity method investee of ACL before December 2004)
Advantech Europe Business Center GmbH (AEBC, former name: ADL)	Equity-method investee of AEU
Advantech (UK) Ltd. (AUK)	Equity-method investee of AEU
Advantech Benelux B.V. (ABB)	Equity-method investee of AEU
Advantech Europe B.V. (AESC)	Equity-method investee of AEU
Advantech Technology (China) Company Ltd. (AKMC)	Equity-method investee of ATC
Advantech Electronic Technology (Dongguan) Co., Ltd. (ADMC)	Equity-method investee of ATC
Advantech Corp. (AC)	Equity-method investee of AAC (BVI)
Advan Automation Co., Ltd. (AAJP)	Equity-method investee of AAC (BVI) (before June 2005)
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Equity-method investee of AAC (BVI)
Advantech Control (M) Sdn. Bhd. (AKL)	Equity-method investee of ASG (equity-method investee of AACB before May 2005)
Advantech Automation (Penang) Sdn. Bhd. (APN)	Equity-method investee of ASG (equity-method investee of AACB before March 2005)
Advantech Corporation (Thailand) Co. (ATH)	Equity-method investee of ASG
Firich Enterprise Co., Ltd.	The Company’s chairman is the Firich Enterprise Co., Ltd.’s director
Mr. Andrea Zolli	Manager of AIT
Immobiliare Verdi Srl	Manager of AIT

- b. The significant transactions with the above related parties, in addition to those disclosed in Note 19 and Tables 1 and 2, are summarized as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
<u>For the year</u>				
1) Sales				
AC	\$ 2,057,529	24	\$ 1,624,008	21
AESC	1,759,774	21	1,602,783	20
ACN	1,353,883	16	1,139,550	15
AJP	300,096	4	249,493	3
AKR	256,619	3	287,920	4
ASG	147,337	2	158,647	2
AAU	104,078	1	90,361	1
Axiomtek	71,359	1	161,507	2
AKMC	65,044	1	59,813	1
APN	35,392	-	33,226	-
ATC	22,928	-	21,425	-
AKL	20,865	-	36,246	-
ABR	16,372	-	32,175	-
AUK	7,287	-	54,657	1
Advantech IBHA	-	-	14,675	-
Others	8,191	-	9,940	-
	<u>\$ 6,226,754</u>	<u>73</u>	<u>\$ 5,576,426</u>	<u>70</u>
2) Purchase of materials and supplies				
ATC	\$ 2,269,559	38	\$ 2,109,017	42
AC	23,417	-	1,669	-
Axiomtek	4,099	-	4,975	-
Advantech IBHA	457	-	21,798	-
AKMC	-	-	7	-
Others	940	-	2,710	-
	<u>\$ 2,298,472</u>	<u>38</u>	<u>\$ 2,140,176</u>	<u>42</u>
3) Royalty revenue for patent (part of nonoperating income)				
ATC	<u>\$ 115,794</u>	<u>100</u>	<u>\$ 107,737</u>	<u>100</u>

(Continued)

	2005		2004	
	Amount	% of Total	Amount	% of Total
4) Administrative (part of nonoperating income)				
AC	\$ 11,031	19	\$ -	-
ATC	-	-	1,315	4
Advantech IBHA	-	-	525	1
	<u>11,031</u>	<u>19</u>	<u>1,840</u>	<u>5</u>
5) Rental revenues (part of nonoperating income)				
AIMS	60	-	-	-
Yin Hsin	36	-	-	-
Broadwed Automation	-	-	651	2
Advantech IBHA	-	-	140	-
Axiomtek	-	-	116	-
Others	-	-	16	-
	<u>96</u>	<u>-</u>	<u>923</u>	<u>2</u>
	<u>\$ 11,127</u>	<u>19</u>	<u>\$ 2,763</u>	<u>7</u>

At end of year

6) Receivables

Accounts				
AESC	\$ 562,224	31	\$ 409,938	42
AC	388,343	21	236,851	24
ACN	271,997	15	108,299	11
AJP	65,969	4	43,476	5
AKR	44,786	3	65,211	7
ASG	22,827	1	10,275	1
AAU	16,327	1	6,249	1
AKMC	13,036	1	23,676	2
ABR	8,989	1	11,019	1
Axiomtek	5,849	-	18,165	2
APN	3,822	-	1,217	-
AKL	3,579	-	4,714	1
ATC	3,023	-	2,011	-
AUK	236	-	5,042	1
Others	6,746	-	1,867	-
	<u>1,417,753</u>	<u>78</u>	<u>948,010</u>	<u>98</u>
Dividends receivable				
ATC	390,142	21	-	-
Royalty receivable				
ATC	9,527	1	20,852	2
Other receivable				
AC	3,194	-	266	-
AJP	1,031	-	812	-
AESC	893	-	288	-
AFR	564	-	-	-
Advantech IBHA	-	-	2,607	-

(Continued)

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Axiomtek	\$ -	-	\$ 1,711	-
Others	<u>2,003</u>	<u>-</u>	<u>1,373</u>	<u>-</u>
	<u>7,685</u>	<u>-</u>	<u>7,057</u>	<u>-</u>
	<u>\$ 1,825,107</u>	<u>100</u>	<u>\$ 975,919</u>	<u>100</u>
7) Payables				
Accounts				
ATC	\$ 429,928	82	\$ 708,958	97
Advantech IBHA	14,563	3	14,214	2
AC	7,509	2	787	-
Others	<u>1,712</u>	<u>-</u>	<u>2,304</u>	<u>-</u>
	<u>453,712</u>	<u>87</u>	<u>726,263</u>	<u>99</u>
Others - payments on behalf of others				
AEBC	33,969	7	699	-
AAC (BVI)	33,295	6	-	-
AC	162	-	5,371	1
Other	<u>67</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>67,493</u>	<u>13</u>	<u>6,070</u>	<u>1</u>
	<u>\$ 521,205</u>	<u>100</u>	<u>\$ 732,333</u>	<u>100</u>

(Concluded)

## c. Long-term equity investments

In May 2005, the Company bought AEU's common shares from Mr. Andrea Zolli and Immobiliare Verdi Srl. This transaction is summarized as follows:

<b>Common Stock Name</b>	<b>Shares</b>	<b>Cost</b>
AEU	<u>61,292</u>	<u>\$ 10,302</u>

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

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

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

To continue integrating the Company's operations in Europe, the Company signed a share exchange agreement with Mr. Andrea Zolli and Immobiliare Verdi Srl in May 2004. The Company bought up the remaining 45% of AIT's common stock from Mr. Andrea Zolli and Immobiliare Verdi Srl and transferred 3.8% of AEU's common stock to them. The related transaction is summarized as follows:

<b>Transfer in Common Stock Name</b>	<b>Shares</b>	<b>Transfer out Common Stock Name</b>	<b>Shares</b>	<b>Transaction Price</b>	<b>Carrying Value</b>	<b>Disposal Gain (Loss)</b>
AIT	20,250	AEU	304,985	<u>\$9,917</u>	<u>\$9,917</u>	<u>\$ -</u>

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

## 18. ASSETS PLEDGED OR MORTGAGED

The certificates of deposits that had been pledged or mortgaged as collaterals for bank loans and as part of meeting court requirements for confiscating assets to settle uncollectible accounts amounted to \$4,100 thousand in 2005 and \$4,900 thousand in 2004.

## 19. COMMITMENTS

As of December 31, 2005, the Company had the following guarantees for affiliates' loans:

	<b>Amount</b>
AKMC	US\$ 10,000 thousand
AC	7,000 thousand
ACN	4,000 thousand
AAC (BVI)	<u>2,000 thousand</u>
	<u>US\$ 23,000 thousand</u>

## 20. FINANCIAL INSTRUMENTS

a. Outstanding contract amounts and credit risk

	<b>December 31</b>			
	<b>2005</b>		<b>2004</b>	
<b>Financial Instruments</b>	<b>Contract Amount (Thousands)</b>	<b>Credit Risk</b>	<b>Contract Amount (Thousands)</b>	<b>Credit Risk</b>
<u>For nontrading purposes</u>				
Forward contracts - sell	EUR 6,000	\$ -	EUR 500	\$ -
	US\$ -	-	US\$ 16,000	9,210

(Continued)

Financial Instruments	December 31			
	2005		2004	
	Contract Amount (Thousands)	Credit Risk	Contract Amount (Thousands)	Credit Risk
<u>Location</u>				
Domestic	EUR 3,000	\$ -	US\$ 10,000	\$ 5,744
Foreign (foreign corporation operating in domestic district included)	EUR 3,000	-	EUR 500 US\$ 6,000	- 3,466

(Concluded)

The Company is exposed to credit risk if counter-parties default on their contractual obligations. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss to be incurred by the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposure related to the potential default by those counter-parties is low.

b. Market risk

The Company entered forward contracts into to hedge the effect of foreign-currency fluctuations on net assets and liabilities. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items. Thus, market price risk is believed to be low.

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

The Company entered forward contracts into to hedge the effect of foreign-currency fluctuations on net assets and liabilities. The payments required for the forward contracts outstanding as of December 31, 2005 were EUR6,000 thousand, for which the Company will receive payments of US\$7,125 thousand in February 28, 2006. 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 Company used derivative financial instruments for nontrading purposes. Forward contracts were entered into to hedge the effect of foreign-currency fluctuations on net assets and liabilities. The Company periodically evaluated the effectiveness of the instruments.

e. Financial statement presentation

Net payables (were shown as part of other current liabilities and advance receipts) of \$489 thousand as of December 31, 2005 and net receivables (were shown as part of other current assets and prepayment) of \$8,375 thousand as of December 31, 2004 on all forward contracts for nontrading purposes. Foreign exchange losses for the years ended December 31, 2005 and 2004 were \$744 thousand and \$29,798 thousand, respectively.

f. Fair values of financial instruments

	<b>December 31</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<u>Nonderivative financial instruments</u>				
<b>Assets</b>				
Cash	\$ 1,619,325	\$ 1,619,325	\$ 880,956	\$ 880,956
Short-term investments	1,366,270	1,367,578	2,010,724	2,012,712
Notes receivable	98,307	98,307	48,477	48,477
Accounts receivable	401,835	401,835	324,031	324,031
Receivables from related parties	1,825,107	1,825,107	975,919	975,919
Other financial asset - current	132,247	132,247	122,571	122,571
Long-term equity investments	6,205,242	7,249,527	3,159,050	3,149,159
Certificates of deposit	4,100	4,100	4,900	4,900
<b>Liabilities</b>				
Bank loans - short-term	-	-	5,134	5,314
Notes payable	12	12	819	819
Accounts payable	700,014	700,014	346,961	346,961
Payables to related parties	521,205	521,205	732,333	732,333
Current portion corporate bonds payable	8,900	17,711	291,452	392,091
Guarantee deposits	1,227	1,227	2,708	2,708
<u>Derivative financial instruments</u>				
Forward contracts	(489)	(489)	8,375	8,375

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

- 1) Cash, notes and accounts receivable, receivables from related parties, other financial asset - current, bank loans - short-term, notes and accounts payable, payables to related parties and guarantee deposits: The carrying values reported in the balance sheet approximate the fair values of these assets.
- 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) Listed bonds: Fair values are based on quoted market prices.
- 4) Certificates of deposit: Fair values are based on carrying values.
- 5) Net receivables or payables on forward contracts: Fair values are determined on the basis of forward exchange rate and information provided by the bank.

## 21. ADDITIONAL DISCLOSURES

- a. Except for those mentioned in Note 20 and Tables 1 to 8, no additional disclosures are required by the Securities and Futures Bureau for the 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 December 31, 2005, accumulated inward remittance of earnings as of December 31, 2005 and upper limit on investment: Table 9 (attached)
- 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Notes 17 and 19 and Tables 1, 2, 6 and 7.

## 22. SEGMENT INFORMATION

- a. Industry: The Company is engaged only in a single industry: The manufacture and sale of embedded computing boards, applied panel computing, industrial automation and industrial and network computing.
- b. Foreign operations: The Company had no revenue-generating foreign operating unit as of December 31, 2005.
- c. Export sales

<b>Geographic Area</b>	<b>2005</b>	<b>2004</b>
Asia	\$ 2,883,238	\$ 2,637,654
America	2,236,609	1,647,628
Europe	<u>2,146,078</u>	<u>1,997,808</u>
	<u>\$ 7,265,925</u>	<u>\$ 6,283,090</u>

d. Major customers

<b>Customer</b>	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>% of Total</b>	<b>Amount</b>	<b>% of Total</b>
AC	\$ 2,057,529	24	\$ 1,624,008	21
AESC	1,759,774	21	1,602,783	20
ACN	<u>1,353,883</u>	<u>16</u>	<u>1,139,550</u>	<u>15</u>
	<u>\$ 5,171,186</u>	<u>61</u>	<u>\$ 4,366,341</u>	<u>56</u>

## ADVANTECH CO., LTD. AND INVESTEES

FINANCING PROVIDED  
YEAR ENDED DECEMBER 31, 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	AACB (BVI)	ACN	Receivables from related parties	\$ 65,700 (US\$ 2,000 thousand)	\$ 32,850 (US\$ 1,000 thousand)	2.5%	2	\$ -	Financing need	\$ -	-	\$ -	\$ 106,446 (Note C)	\$ 212,932 (Note B)
2	AEU	AEBC	Receivables from related parties	25,337 (EUR 650 thousand)	25,337 (EUR 650 thousand)	2.5%	2	-	Financing need	-	-	-	33,483 (Note D)	66,966 (Note E)
		AEDC	Receivables from related parties	3,898 (EUR 100 thousand)	3,898 (EUR 100 thousand)	2.5%	2	-	Financing need	-	-	-	33,483 (Note D)	66,966 (Note E)
		ABB	Receivables from related parties	11,694 (EUR 300 thousand)	-	2.5%	2	-	Financing need	-	-	-	-	-
		AUK	Receivables from related parties	3,508 (EUR 90 thousand)	-	2.5%	2	-	Financing need	-	-	-	-	-
		AIT	Receivables from related parties	3,898 (EUR 100 thousand)	-	2.5%	2	-	Financing need	-	-	-	-	-
3	AESC	AEU	Receivables from related parties	9,745 (EUR 250 thousand)	9,745 (EUR 250 thousand)	2.5%	2	-	Financing need	-	-	-	8,934 (Note F)	17,868 (Note G)
		AEBC	Receivables from related parties	9,745 (EUR 250 thousand)	9,745 (EUR 250 thousand)	2.5%	2	-	Financing need	-	-	-	8,934 (Note F)	17,868 (Note G)
4	AACB	ACN	Receivables from related parties	65,700 (US\$ 2,000 thousand)	-	2.5%	2	-	Financing need	-	-	-	-	-

Notes: A. Nature of Financing:

1. The borrower is the related party of Advantech Co., Ltd.
2. There is a need for short-term financing.

B. 30% of net asset value of AAC (BVI).

C. 15% of net asset value of AAC (BVI).

D. 15% of net asset value of AEU.

E. 30% of net asset value of AEU.

F. 15% of net asset value of AESC.

G. 30% of net asset value of AESC.

H. The exchange rate in 2005 were US\$1=NT\$32.85; EUR1=NT\$38.98.

## ADVANTECH CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED  
YEAR ENDED DECEMBER 31, 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")	AKMC	Indirect subsidiary	\$ 673,350  (Note A)	\$ 328,500 (US\$ 10,000 thousand)	\$ 328,500 (US\$ 10,000 thousand)	\$ -	6	\$ 1,346,701 (Note C)
		AC	Indirect subsidiary		229,950 (US\$ 7,000 thousand)	229,950 (US\$ 7,000 thousand)			
		ACN	Indirect subsidiary		131,400 (US\$ 4,000 thousand)	131,400 (US\$ 4,000 thousand)			
		AAC (BVI)	Subsidiary		65,700 (US\$ 2,000 thousand)	65,700 (US\$ 2,000 thousand)			
		AIT	Indirect subsidiary		38,980 (EUR 1,000 thousand)	-			
		AUK	Indirect subsidiary		34,538 (Including £ 80 thousand and \$30,000 thousand)	-			
		AACB	Indirect subsidiary		65,700 (US\$ 2,000 thousand)	-			
1	AEU	AEDC	Subsidiary	43,372 (Note B)	10,720 (EUR 275 thousand)	10,720 (EUR 275 thousand)	-	4.8	86,744 (Note D)

Note: A. 15% of the Company's authorized capital stock.  
B. 15% of AEU's authorized capital stock.  
C. 30% of the Company's authorized capital stock.  
D. 30% of AEU's authorized capital stock.  
E. The exchange rate in 2005 were US\$1=NT\$32.85, EUR1=NT\$38.98, GBP1=NT\$56.72.

## ADVANTECH CO., LTD. AND INVESTEEES

## MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS

DECEMBER 31, 2005

(In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2005				Note	
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Advantech Co., Ltd.	<u>Common stock</u>								
	AAC (BVI)	Investee	Long-term equity investments	21,606,500	\$ 955,493	100.00	\$ 955,493	Note A	
	ATC	Investee	Long-term equity investments	13,450,000	521,862	100.00	521,862	Note A	
	Axiomtek Co., Ltd.	Investee	Long-term equity investments	22,376,732	369,596	37.25	913,418	Note C	
	Yin Sin Co., Ltd.	Investee	Long-term equity investments	29,999,994	256,108	100.00	256,108	Note A	
	AEU	Investee	Long-term equity investments	9,253,331	222,732	96.67	222,732	Note A	
	AKR	Investee	Long-term equity investments	2,829,210	128,622	27.47	128,622	Note A	
	ASG	Investee	Long-term equity investments	1,450,000	88,074	100.00	88,074	Note A	
	AJP	Investee	Long-term equity investments	1,200	74,486	100.00	74,486	Note A	
	AAU	Investee	Long-term equity investments	500,204	73,802	100.00	73,802	Note A	
	AHG	Investee	Long-term equity investments	30	12,554	30.00	12,554	Note A	
	Advantech IBHA Inc.	Investee	Long-term equity investments	1,994,000	11,647	13.29	11,647	Note A	
	Advantech Investment & Management Service	Investee	Long-term equity investments	500,000	5,360	100.00	5,360	Note A	
	ABR	Investee	Other liabilities	971,055	(19,145)	60.00	(19,145)	Notes A and D	
	AHK	Investee	Other liabilities	999,999	(893)	100.00	(893)	Notes D and E	
	ASUSTek Computer Inc.	-	Long-term equity investments	39,728,557	3,465,761	1.33	3,916,044	Note C	
	Firich Enterprise Co., Ltd.	Note F	Long-term equity investments	334,360	19,145	0.92	69,326	Note C	
		<u>Funds</u>							
		NITC Bond Fund	-	Short-term investments	2,226,456.07	361,291	-	361,314	Note B
		ABN AMRO Income Fund	-	Short-term investments	19,198,556.89	298,000	-	299,221	Note B
		ABN AMRO Bond Fund	-	Short-term investments	12,151,168.46	180,568	-	180,581	Note B
		Mega Diamond Bond Fund	-	Short-term investments	8,766,210.88	99,500	-	99,511	Note B
		ABN AMRO Select Bond Fund	-	Short-term investments	8,289,805.60	92,668	-	92,675	Note B
		AIG Taiwan Bond Fund	-	Short-term investments	6,339,161.68	79,725	-	79,732	Note B
		Dresdner Bond Dam Fund	-	Short-term investments	6,149,013.35	70,272	-	70,278	Note B
		Fuh-Hwa Albatross Fund	-	Short-term investments	4,497,974.70	50,081	-	50,087	Note B
		Fubon Chi-Hsiang I Fund	-	Short-term investments	3,572,061.96	46,132	-	46,137	Note B
		Fuhwa Bond Fund	-	Short-term investments	2,377,857.39	30,006	-	30,009	Note B
		Fubon Ju-I II Fund	-	Short-term investments	2,059,786.70	29,603	-	29,606	Note B
		Fubon Chi-Hsiang III Fund	-	Short-term investments	2,717,812.31	28,424	-	28,427	Note B
	Yin Hsin Co., Ltd.	<u>Common stock</u>							
Advantech IBHA Inc.		Investee	Long-term equity investments	10,000,000	58,312	66.67	58,312	Note A	
Timson Tech Co. (TTC)		Investee	Long-term equity investments	270,000	7,843	30.00	7,843	Note E	
Superior Technology Co., Ltd.		-	Long-term equity investments	913,470	33,442	12.92	33,442	Note E	
	Chunghwa Telecom Co., Ltd.	-	Short-term investments	200,000	21,300	-	11,414	Note C	

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2005				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Advantech IBHA Inc.	<u>Funds</u> ABN AMRO Bond Fund	-	Short-term investments	9,809,277.03	\$ 144,380	-	\$ 145,784	Note B
	<u>Funds</u> ABN AMRO Income Fund	-	Short-term investments	4,715,360.85	69,451	-	70,076	Note B
	<u>Funds</u> ABN AMRO Select Bond Fund	-	Short-term investments	206,730.58	2,301	-	2,311	Note B
Timson Tech Co.	<u>Common stock</u> Kunshan Timson Tech Co., Ltd.	Investee	Long-term equity investments	-	26,257	100.00	26,257	Note E
ATC	<u>Common stock</u> AKMC	Investee	Long-term equity investments	-	524,938	100.00	524,938	Note A
	<u>Common stock</u> ADMC	Investee	Long-term equity investments	-	40,795	100.00	40,795	Note A
AAC (BVI)	<u>Common stock</u> AC	Investee	Long-term equity investments	10,952,606	674,125	100.00	674,125	Note A
	<u>Common stock</u> Visual Systems GmbH	-	Long-term equity investments	-	751	20.00	751	Note A
	<u>Common stock</u> ACN	Investee	Long-term equity investments	-	259,544	100.00	259,544	Note A
AEU	<u>Common stock</u> AESC	Investee	Long-term equity investments	8,314,280	59,559	100.00	59,559	Note A
	<u>Common stock</u> AUK	Investee	Long-term equity investments	600,000	29,967	100.00	29,967	Note A
	<u>Common stock</u> ABB	Investee	Long-term equity investments	295,378	40,030	100.00	40,030	Note A
	<u>Common stock</u> AEBC	Investee	Other liability	1,142,000	(17,328)	100.00	(17,328)	Note A & D
	<u>Common stock</u> AIT	Investee	Long-term equity investments	45,000	19,442	100.00	19,442	Note A
	<u>Common stock</u> Advantech Poland S.P. Z.O.O. (APL)	Investee	Prepaid for common stock	2,000	9,844	80.00	9,844	Note A
	<u>Common stock</u> Advantech Europe Design Center GmbH (AEDC)	Investee	Long-term equity investments	-	36,484	100.00	36,484	Note A
AEBC	AFR	Investee	Long-term equity investments	75,000	26,506	100.00	26,506	Note A
ASG	ATH	Investee	Long-term equity investment	15,000	1,531	30.00	1,531	Note E
	APN	Investee	Long-term equity investment	570,570	10,475	55.00	10,475	Note A
	AKL	Investee	Long-term equity investment	418,000	7,063	55.00	7,063	Note A

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

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

Note C: Market value was based on the average closing price in December 2005.

Note D: The carry value is shown as part of other liabilities.

Note E: Net asset values were based on unaudited financial statements.

Note F: The Company's chairman is a director of Firich Enterprise Co., Ltd.

(Concluded)

## ADVANTECH CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 YEAR ENDED DECEMBER 31, 2005  
 (In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal	Shares	Amount
Advantech Co., Ltd.	<u>Funds</u>													
	ABN AMRO Income Fund	Short-term investments	-	-	13,265,574.67	\$ 202,077	38,643,912.18	\$ 597,233	32,710,929.96	\$ 506,064	\$ 501,310	\$ 4,754	19,198,556.89	\$ 298,000
	CITC Safe Income Fund	Short-term investments	-	-	10,092,431.10	145,564	52,251,406.70	760,010	62,343,837.80	909,006	905,574	3,432	-	-
	CITC Cash Reserves Fund	Short-term investments	-	-	13,156,427.20	149,973	64,121,037.10	736,657	77,277,464.30	889,428	886,630	2,798	-	-
	NITC Bond Fund	Short-term investments	-	-	826,740.30	132,340	12,470,175.85	2,012,897	11,070,460.08	1,786,674	1,783,946	2,728	2,226,456.07	361,291
	Fuh-Hwa Bond Fund	Short-term investments	-	-	-	-	22,826,503.60	299,095	22,826,503.60	299,419	299,095	324	-	-
	ABN AMRO Select Bond Fund	Short-term investments	-	-	27,109,853.84	299,000	86,799,813.51	964,499	105,619,861.75	1,174,008	1,170,831	3,178	8,289,805.60	92,668
	Mega Diamond Bond Fund	Short-term investments	-	-	-	-	21,834,514.21	247,000	13,068,303.33	148,089	147,500	589	8,766,210.88	99,500
	ABN AMRO Bond Fund	Short-term investments	-	-	20,385,336.74	298,900	99,474,188.42	1,469,924	107,708,356.70	1,591,284	1,588,256	3,027	12,151,168.46	180,568
	UPAMC James Bond Fund	Short-term investments	-	-	19,498,838.00	293,013	39,430,466.70	595,092	58,929,304.70	889,732	888,105	1,627	-	-
	Shin Kong-Chi-Shin Fund	Short-term investments	-	-	13,691,602.97	191,027	74,372,410.01	1,044,195	88,064,012.98	1,237,671	1,235,222	2,449	-	-
	UPAMC Home Run Bond Fund	Short-term investments	-	-	21,865,088.20	298,830	47,657,208.70	654,485	69,522,296.90	955,479	953,315	2,164	-	-
	Fuh-Hwa Albatross Fund	Short-term investments	-	-	-	-	13,493,924.10	149,766	8,995,949.40	99,966	99,685	281	4,497,974.70	50,081
	Fuhwa Bond Fund	Short-term investments	-	-	-	-	9,516,211.84	119,806	7,138,354.45	89,948	89,800	148	2,377,857.39	30,006
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	9,632,126.60	150,579	9,632,126.60	150,691	150,579	112	-	-
	AIG Taiwan Bond Fund	Short-term investments	-	-	-	-	16,672,444.02	209,225	10,333,282.34	129,769	129,500	269	6,339,161.68	79,725
	Fubon Chi-Hsiang I Fund	Short-term investments	-	-	-	-	7,840,955.69	101,132	4,268,893.73	55,132	55,000	132	3,572,061.96	46,132
	Dresdner Bond Dam Fund	Short-term investments	-	-	-	-	14,050,030.55	160,272	7,901,017.20	90,272	90,000	272	6,149,013.35	70,272
	<u>Stock</u>													
	Axiomtek Co., Ltd.	Long-term equity investments	-	Investee	30,315,174.00	508,765	1,065,558.00 Note A	57,980 Note B	9,004,000.00	270,120	197,149 Note C	115,593	22,376,732.00	369,596

Note A: From splitting stock dividends.

Note B: Gain on investment - equity method \$38,521 thousand, accumulated translation adjustment \$2,790 thousand and capital surplus increase \$16,669 thousand which result from the investee issues additional shares and the Company acquires these shares at a percentage different from its current equity in the investee.

Note C: Included disposal cost of \$154,527 thousand and cash dividends of \$42,622 thousand declared at shareholders' meeting.

**ADVANTECH CO., LTD. AND INVESTEES**

**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2005  
(In Thousands of New Taiwan Dollars)**

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

## ADVANTECH CO., LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 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	\$ 2,269,559	38	Depending on its operating condition	\$ -	-	\$ (429,928)	(82)	
	AC	Indirect subsidiary Equity-method investee of AAC (BVI)	Sale	(2,057,529)	(24)	60-90 days	-	-	388,343	21	
	AESC	Indirect subsidiary	Sale	(1,759,774)	(21)	Depending on its operating condition	-	-	562,224	31	
	ACN	Indirect subsidiary	Sale	(1,353,883)	(16)	Depending on its operating condition	-	-	271,997	15	
	AJP	Subsidiary	Sale	(300,096)	(4)	60-90 days	-	-	65,969	4	
	AKR	Subsidiary	Sale	(256,619)	(3)	60-90 days	-	-	44,786	3	
	ASG	Subsidiary	Sale	(147,337)	(2)	60-90 days	-	-	22,827	1	
	AAU	Subsidiary	Sale	(104,078)	(1)	60-90 days	-	-	16,327	1	
ATC	Advantech Co., Ltd.	Parent company	Sale	(2,269,559)	(98)	Depending on its operating condition	-	-	429,928	98	
AC	Advantech Co., Ltd.	Ultimate parent company	Purchase	2,057,529	62	60-90 days	-	-	(388,343)	(89)	
AESC	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,759,774	76	Depending on its operating condition	-	-	(562,224)	(96)	
ACN	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,353,883	65	Depending on its operating condition	-	-	(271,997)	(73)	
AJP	Advantech Co., Ltd.	Parent company	Purchase	300,096	96	60-90 days	-	-	(65,969)	(100)	
AKR	Advantech Co., Ltd.	Parent company	Purchase	256,619	32	60-90 days	-	-	(44,786)	(29)	
ASG	Advantech Co., Ltd.	Parent company	Purchase	147,337	72	60-90 days	-	-	(22,827)	(77)	
AAU	Advantech Co., Ltd.	Parent company	Purchase	104,078	76	60-90 days	-	-	(16,327)	(100)	

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

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**DECEMBER 31, 2005**

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (Times)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Advantech Co., Ltd.	AESC	Indirect subsidiary	\$ 562,224	3.62	\$ -	-	\$ 101,595	\$ -
	AC	Indirect subsidiary	388,343	6.58	-	-	388,343	-
	ACN	Indirect subsidiary	271,997	7.12	-	-	216,677	-
ATC	Advantech Co., Ltd.	Parent company	429,928	3.99	-	-	-	-

## ADVANTECH CO., LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

YEAR ENDED DECEMBER 31, 2005

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note
				Dec. 31, 2005	Dec. 31, 2004	Shares	Percentage of Ownership	Carrying Value			
Advantech Co., Ltd.	ATC	British Virgin Islands (BVI)	Sale of industrial automation products	\$ 427,781	\$ 427,781	13,450,000	100.00	\$ 521,862	\$ 624,680	\$ 604,763	Subsidiary
	AAC (BVI)	BVI	Investment holding company	725,144	725,044	21,606,500	100.00	955,493	233,343	232,279	Subsidiary
	Axiomtek Co., Ltd.	Taipei, Taiwan	Production and sale of industrial automation products	308,586	438,964	22,376,732	37.25	369,596	191,020	38,521	Equity-method investee
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	256,108	(19,608)	(19,608)	Subsidiary
	AEU	Helmond, the Netherlands	Investment holding company	351,791	321,795	9,253,331	96.67	222,732	(67,933)	(73,370)	Subsidiary
	AKR	Seoul, Korea	Sale of industrial automation products	32,989	51,646	2,829,210	27.47	128,622	51,244	14,740	Equity-method investee
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	88,074	4,888	4,015	Subsidiary
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	74,486	12,473	12,473	Subsidiary
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	73,802	5,198	5,565	Subsidiary
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	11,647	(24,830)	(3,300)	Subsidiary
	AHG	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	12,554	7,761	2,328	Equity-method investee
	Advantech Investment & Management Service	Taipei, Taiwan	Investment and management service	5,000	5,000	500,000	100.00	5,360	126	209	Subsidiary
	ABR	Sam Paulo, Brazil	Sale of industrial automation products	15,374	15,374	971,055	60.00	(19,145)	(14,097)	(14,097)	Subsidiary
	AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	(893)	(984)	(984)	Subsidiary
	ADCL	BVI	Sale of industrial automation products	-	16,395	-	-	-	37	37	Subsidiary
	AIT	Milano, Italy	Sale of industrial automation products	-	31,277	-	-	-	-	-	Subsidiary (Note C)
	Yin Hsin Co., Ltd.	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	100,000	100,000	10,000,000	66.67	58,312	(24,831)	(16,356)
TTC		Brunei	Investment holding company	8,323	8,323	270,000	30.00	7,843	151,143	45,343	Equity-method investee of a subsidiary
Innova Tech & Management Consultant Inc.		Taipei, Taiwan	Sale and consulting on information system integration	-	15,000	-	-	-	-	(54)	Equity-method investee of a subsidiary
	Broadwed Automation Co., Ltd.	Taipei, Taiwan	Production and sale of communications equipment and automation system	-	20,000	-	-	-	1,899	633	Equity-method investee of a subsidiary
ATC	AKMC	Kunshan, China	Production and sale of components of industrial automation products	409,393	409,393	-	100.00	524,938	69,143	69,143	Indirect subsidiary
	ADMC	Guangzhou, China	Production and sale of industrial automation products	38,165	6,861	-	100.00	40,795	417	417	Indirect subsidiary
ADCL	Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd.	Guangzhou, China	Sale of industrial automation products	-	6,151	-	-	-	2,283	2,283	Indirect subsidiary
Timson Tech Co. (TTC)	Kunshan Timson Tech Co., Ltd.	Kunshan, China	Processes and sale of peripherals	30,222	30,222	-	100.00	26,257	184	184	Equity-method of a subsidiary
AAC (BVI)	AACB	Bermuda	Investment holding company	-	724,731	-	-	-	128	128	Indirect subsidiary (Note D)

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2005	Dec. 31, 2004	Shares	Percentage of Ownership	Carrying Value			
AACB	AC	Sunnyvale, USA	Assembly and sale of industrial automation products	\$ 504,179	\$ 504,179	10,952,606	100.00	\$ 674,125	\$ 146,701	\$ 138,367	Indirect subsidiary (Note E)
	ACN	Beijing, China	Sale of industrial automation products	185,356	185,356	-	100.00	259,544	96,566	96,450	Indirect subsidiary (Note E)
	AAG	Leinf-Echterdingen, Germany	Sale of industrial automation products	-	2,457	-	-	-	-	-	Indirect subsidiary (Note F)
	APN	Penang, Malaysia	Sale of industrial automation products	-	4,656	-	-	-	302	166	Indirect subsidiary (Note G)
	AKL	Kuala Lumpur, Malaysia	Sale of industrial automation products	-	3,411	-	-	-	(892)	(491)	Indirect subsidiary (Note G)
	AAJP	Tokyo, Japan	Sale of industrial automation products	-	5,990	-	-	-	16	6	Equity-method investee of a Indirect subsidiary (Note F)
AEU	AESC	Helmond, The Netherlands	Sale of industrial automation products	90,450	90,450	8,314,280	100.00	59,559	(18,927)	(18,927)	Indirect subsidiary
	AFR	Paris, France	Sale of industrial automation products	-	11,984	-	-	-	(6,828)	(15,041)	Indirect subsidiary (Note H)
	AUK	Milton Keynes, England	Sale of industrial automation products	13,373	13,373	600,000	100.00	29,967	5,849	5,191	Indirect subsidiary
	ABB	Roosendaal, The Netherlands	Sale of industrial automation products	39,565	39,565	295,378	100.00	40,030	16,823	7,972	Indirect subsidiary
	AEBC	Dusseldorf, Germany	Sale of industrial automation products	46,028	46,028	1,142,000	100.00	(17,328)	(9,442)	(14,663)	Indirect subsidiary (Note A)
	AIT	Milano, Italy	Sale of industrial automation products	22,275	-	45,000	100.00	19,442	7,904	(1,578)	Indirect subsidiary
	AEDC	Amberg, Germany	Sale of industrial automation products	46,446	10,338	-	100.00	36,484	(6,638)	(8,570)	Indirect subsidiary
	Advantech Poland SP Z.O.O. (APL)	Warsaw, Poland	Sale of industrial automation products	10,285	-	2,000	80.00	9,844	-	-	Indirect subsidiary
AEBC	AFR	Paris, France	Sale of industrial automation products	26,506	-	75,000	100.00	26,506	-	-	Indirect subsidiary (Note H)
ASG	ATH	Thailand	Production of computers	1,199	1,199	15,000	30.00	1,531	2,334	700	Indirect subsidiary
	APN	Penang, Malaysia	Sale of industrial automation products	8,181	-	570,570	55.00	10,475	3,564	1,960	Indirect subsidiary (Note G)
	AKL	Kuala Lumpur, Malaysia	Sale of industrial automation products	7,264	-	418,000	55.00	7,063	(1,180)	(649)	Indirect subsidiary (Note G)

(Continued)

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

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

Note C: AIT became AEU's subsidiary after reorganization.

Note D: AACB was consolidated by AAC (BVI) after reorganization.

Note E: AC and ACN became AAC (BVI)'s subsidiaries after reorganization.

Note F: AAG and AAJP were liquidated.

Note G: APN and AKL became ASG's subsidiary after the reorganization of Advantech Co., Ltd.

Note H: AFR became AEBC's subsidiary after the reorganization of Advantech Co., Ltd.

## ADVANTECH CO., LTD. AND INVESTEEES

## INVESTMENTS IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 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 Dec. 31, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of Dec. 31, 2005	Accumulated Inward Remittance of Earnings as of Dec. 31, 2005	Accumulated Investment in Mainland China as of Dec. 31, 2005	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US\$12,000 thousand	Indirect	\$ 394,200 (US\$ 12,000 thousand)	\$ -	\$ -	\$ 394,200 (US\$ 12,000 thousand)	100%	\$ 69,143	\$ 524,938	\$ -	\$ 584,796 ( US\$ 17,802 thousand )	\$ 814,680 ( US\$ 24,800 thousand )	\$ 4,019,139
Kunshan Timson Tech Co., Ltd.	Processes and sale of peripherals	US\$900 thousand	Indirect	8,870 (US\$ 270 thousand)	-	-	8,870 (US\$ 270 thousand)	30%	55	7,877	-	(Note D)		
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US\$4,230 thousand	Indirect	175,156 (US\$ 5,332 thousand)	-	-	175,156 (US\$ 5,332 thousand)	100%	96,450	259,544	-			
Advantech Electronic Technology (Dongguan) Co., Ltd.	Production and sale of industrial automation products	US\$1,200 thousand	Indirect	(Note C)	-	-	(Note C)	100%	417	40,795	-			

Note A: The calculation of investment gain (loss) was based on the audited financial statements of the parent company incorporated in Taiwan.

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

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

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

Note E: The exchange rate was US\$1=NT\$32.85.