

**Advantech Co., Ltd.**

**Financial Statements for the  
Nine Months Ended September 30, 2011 and 2010 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

We have reviewed the accompanying balance sheets of Advantech Co., Ltd. as of September 30, 2011 and 2010, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue an accountants' review report based on our reviews.

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

As stated in Note 8 to the financial statements, Advantech Co., Ltd. had investments accounted for by the equity method. As of September 30, 2011 and 2010, of these investments, some had carrying values of NT\$8,148,316 thousand and NT\$7,120,694 thousand, respectively. As of September 30, 2011 and 2010, the credit balances on the carrying values of some equity-method investees were NT\$1,860 thousand and NT\$9,800 thousand, respectively. The foregoing investment amounts and the net investment gains of NT\$654,571 thousand and NT\$784,558 thousand in the nine months ended September 30, 2011 and 2010, respectively, as well as additional disclosures in Note 21 required by the Securities and Futures Bureau for the Company and its investees, were based on the investees' unreviewed financial statements for the same reporting periods as those of the Company.

Based on our reviews, except for any adjustments that might have been determined to be necessary had the investees' financial statements mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the financial statements of Advantech Co., Ltd. as of and for the nine months ended September 30, 2011 and 2010 for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have reviewed the consolidated financial statements of Advantech Co., Ltd. and its subsidiaries as of and for the nine months ended September 30, 2011 and 2010 and have issued an accountants' review report thereon dated October 20, 2011 (not presented herewith) with an explanatory paragraph.

October 20, 2011

Notice to Readers

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

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

**ADVANTECH CO., LTD.**
**BALANCE SHEETS**
**SEPTEMBER 30, 2011 AND 2010**
**(In Thousands of New Taiwan Dollars, Except Par Value)**
**(Reviewed, Not Audited)**

ASSETS	2011		2010		LIABILITIES AND SHAREHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 337,905	2	\$ 473,304	3	Short-term loans (Note 10)	\$ 341,440	2	\$ 250,000	2
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 20)	31,683	-	23,813	-	Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 20)	118,274	1	45,046	-
Notes receivable (Note 2)	56,662	-	36,690	-	Accounts payable	525,326	2	625,445	4
Accounts receivable, net of allowance for doubtful accounts of \$18,629 thousand in 2011 and \$16,120 thousand in 2010 (Note 2)	826,428	4	736,228	4	Accounts payable - related parties (Note 18)	1,231,809	6	1,266,291	7
Accounts receivable - related parties (Notes 2 and 18)	2,437,404	12	2,163,382	13	Income tax payable (Notes 2 and 15)	431,012	2	351,156	2
Other receivable	52,377	-	71,344	-	Accrued expenses (Note 13)	1,009,184	5	833,430	5
Other receivable - related parties (Note 18)	17,487	-	34,053	-	Other payables - related parties (Note 18)	260,000	1	200,027	1
Inventories, net (Notes 2 and 7)	1,895,516	10	1,463,398	9	Advance receipts and other current liabilities	82,567	-	104,013	1
Deferred income tax assets - current (Notes 2 and 15)	20,063	-	24,553	-					
Prepayments and other current assets	207,605	1	27,623	-	Total current liabilities	3,999,612	19	3,675,408	22
Total current assets	5,883,130	29	5,054,388	29	<b>LONG-TERM LIABILITIES</b>				
<b>LONG-TERM FUNDS AND INVESTMENTS</b>					Convertible bonds payable (Notes 11 and 20)	756,294	4	-	-
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 20)	2,346,567	12	2,414,255	14	<b>OTHER LIABILITIES</b>				
Investments accounted for by the equity method (Notes 2 and 8)	8,148,316	40	7,120,694	42	Accrued pension liabilities (Notes 2 and 12)	103,441	1	103,894	1
Total long-term funds and investments	10,494,883	52	9,534,949	56	Guarantee deposits received	6,300	-	-	-
<b>PROPERTIES (Notes 2 and 9)</b>					Deferred income tax liabilities - noncurrent (Notes 2 and 15)	415,590	2	338,063	2
Cost					Deferred income (Note 2)	296,724	1	234,721	1
Land	2,613,941	13	1,113,352	6	Others (Notes 2 and 8)	1,860	-	9,800	-
Buildings	1,216,733	6	1,182,812	7	Total other liabilities	823,915	4	686,478	4
Machinery and equipment	525,585	2	446,271	3	Total liabilities	5,579,821	27	4,361,886	26
Furniture and fixtures	129,774	1	111,564	1	<b>SHAREHOLDERS' EQUITY (Note 13)</b>				
Other equipment	274,657	1	210,378	1	Capital stock, NT\$10.00 par value				
Total cost	4,760,690	23	3,064,377	18	Authorized - 600,000 thousand shares				
Accumulated depreciation	855,224	4	713,349	4	Issued and outstanding - 551,797 thousand shares in 2011 and 516,134 thousand shares in 2010	5,517,971	27	5,161,337	30
Construction-in-progress and prepayments for equipment	32,675	-	21,339	-	Capital surplus (Notes 2, 11 and 13)				
Net properties	3,938,141	19	2,372,367	14	Additional paid-in capital from share issuance in excess of par	3,751,469	19	4,376,041	26
<b>OTHER ASSETS</b>					From treasury stock	-	-	13,612	-
Refundable deposits	6,349	-	6,848	-	From long-term equity investments	57,473	-	59,911	-
Deferred expenses, net (Note 2)	80,695	-	102,617	1	Stock options	188,477	1	58,545	-
Total other assets	87,044	-	109,465	1	Total capital surplus	3,997,419	20	4,508,109	26
<b>TOTAL</b>	<b>\$ 20,403,198</b>	<b>100</b>	<b>\$ 17,071,169</b>	<b>100</b>	Retained earnings (Notes 2 and 13)				
					Legal reserve	2,359,910	11	2,102,592	12
					Special reserve	621,663	3	70,136	1
					Unappropriated earnings	2,783,507	14	2,908,050	17
					Total retained earnings	5,765,080	28	5,080,778	30
					Others (Notes 2, 14 and 20)				
					Cumulative translation adjustments	156,749	1	162,654	1
					Net loss not recognized as pension cost	(2,121)	-	(2,353)	-
					Unrealized loss on financial instruments	(611,721)	(3)	(815,544)	(5)
					Treasury stock - 14,500 thousand shares	-	-	(1,385,698)	(8)
					Total others	(457,093)	(2)	(2,040,941)	(12)
					Total shareholders' equity	14,823,377	73	12,709,283	74
					<b>TOTAL</b>	<b>\$ 20,403,198</b>	<b>100</b>	<b>\$ 17,071,169</b>	<b>100</b>

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

(With Deloitte &amp; Touche review report dated October 20, 2011)

# ADVANTECH CO., LTD.

## STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 18)				
Sales	\$ 14,077,726	99	\$ 11,830,649	100
Sales returns and allowances	<u>57,433</u>	<u>-</u>	<u>92,230</u>	<u>1</u>
Net sales	14,020,293	99	11,738,419	99
Other operating revenues	<u>188,963</u>	<u>1</u>	<u>125,665</u>	<u>1</u>
Total operating revenues	14,209,256	100	11,864,084	100
OPERATING COSTS (Notes 7, 16 and 18)	<u>10,320,375</u>	<u>72</u>	<u>8,880,780</u>	<u>75</u>
GROSS PROFIT	3,888,881	28	2,983,304	25
UNREALIZED INTERCOMPANY GAINS (Note 2)	(232,335)	(2)	(170,333)	(1)
REALIZED INTERCOMPANY GAINS (Note 2)	<u>185,219</u>	<u>1</u>	<u>120,265</u>	<u>1</u>
ADJUSTED GROSS PROFIT	<u>3,841,765</u>	<u>27</u>	<u>2,933,236</u>	<u>25</u>
OPERATING EXPENSES (Notes 16 and 18)				
Marketing	344,944	2	279,431	2
Administration	342,247	2	327,640	3
Research and development	<u>1,224,313</u>	<u>9</u>	<u>931,077</u>	<u>8</u>
Total operating expenses	<u>1,911,504</u>	<u>13</u>	<u>1,538,148</u>	<u>13</u>
OPERATING INCOME	<u>1,930,261</u>	<u>14</u>	<u>1,395,088</u>	<u>12</u>
NONOPERATING INCOME AND GAINS				
Interest income (Note 18)	748	-	1,818	-
Investment income recognized under the equity method, net (Notes 2 and 8)	654,571	4	784,558	6
Dividend income	117,612	1	102,470	1
Foreign exchange gain, net (Note 2)	122,953	1	-	-
Royalty revenue (Note 18)	247,754	2	202,270	2
Rental income (Note 18)	26,587	-	5,877	-
Financial instrument revaluation gain, net (Notes 2 and 5)	20,869	-	71,228	-
Other income (Note 18)	<u>164,798</u>	<u>1</u>	<u>85,267</u>	<u>1</u>
Total nonoperating income and gains	<u>1,355,892</u>	<u>9</u>	<u>1,253,488</u>	<u>10</u>

(Continued)

# ADVANTECH CO., LTD.

## STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2, 11 and 18)	\$ 9,602	-	\$ 1,309	-
Loss on sale of investments, net	33,381	-	8,006	-
Exchange loss, net (Note 2)	-	-	39,875	-
Financial instrument revaluation loss, net (Notes 2 and 5)	87,784	1	50,986	1
Other expenses	<u>52</u>	<u>-</u>	<u>3,420</u>	<u>-</u>
Total nonoperating expenses and losses	<u>130,819</u>	<u>1</u>	<u>103,596</u>	<u>1</u>
INCOME BEFORE INCOME TAX	3,155,334	22	2,544,980	21
INCOME TAX (Notes 2 and 15)	<u>380,450</u>	<u>2</u>	<u>274,833</u>	<u>2</u>
NET INCOME	<u>\$ 2,774,884</u>	<u>20</u>	<u>\$ 2,270,147</u>	<u>19</u>
	2011		2010	
	Pretax	After-tax	Pretax	After-tax
EARNINGS PER SHARE (NEW TAIWAN DOLLARS, Note 17)				
Basic	<u>\$ 5.72</u>	<u>\$ 5.03</u>	<u>\$ 4.61</u>	<u>\$ 4.11</u>
Diluted	<u>\$ 5.71</u>	<u>\$ 5.03</u>	<u>\$ 4.58</u>	<u>\$ 4.09</u>

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

(With Deloitte & Touche review report dated October 20, 2011)

(Concluded)

# ADVANTECH CO., LTD.

## STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,774,884	\$ 2,270,147
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	167,091	133,613
Amortization of bond discount	5,351	-
Allowance for bad debts	14,395	-
Allowance (reversal of allowance) for loss on inventories	(10,552)	35,894
Loss on disposal of scrap inventories	30,043	18,258
Gain on disposal of long-term equity investments, net	(13,508)	(2,231)
Loss on the sale of available-for-sale financial assets, net	46,889	10,237
Loss (gain) on disposal of properties, net	5	(13)
Investment income recognized under the equity method, net	(654,571)	(784,558)
Cash dividends received from equity-method investees	168,510	130,128
Compensation cost of employee stock options	63,911	53,288
Accrued pension liabilities	(769)	929
Deferred income taxes	67,275	51,742
Net changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	98,270	32,307
Notes receivable	(12,653)	(15,536)
Accounts receivable	(131,173)	(137,692)
Accounts receivable - related parties	(485,347)	(684,862)
Other receivable	(3,816)	(32,185)
Other receivable - related parties	21,229	(2,651)
Inventories	(600,087)	(688,011)
Prepayments and other current assets	(193,514)	83,295
Accounts payable	26,550	192,657
Accounts payable - related parties	33,384	152,298
Income tax payable	65,956	206,755
Accrued expenses	100,257	125,736
Advance receipts and other current liabilities	(1,471)	17,864
Deferred credits	47,116	50,068
Net cash provided by operating activities	<u>1,623,655</u>	<u>1,217,477</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds of capital reduction of available-for-sale financial assets	3,109	1,645
Proceeds of the disposal of available-for-sale financial assets	111,727	17,497
Acquisition of investments accounted for by the equity method	(141,562)	(811,709)
Proceeds of the disposal of equity-method investments	26,872	5,074
Cash acquired through merger	20,622	-
Proceeds of the disposal of properties	147	152
Acquisition of properties	(1,681,535)	(86,843)

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# ADVANTECH CO., LTD.

## STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

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	2011	2010
Increase in deferred expense	\$ (30,509)	\$ (20,199)
Decrease (increase) in refundable deposits	<u>676</u>	<u>(158)</u>
Net cash (used in) provided by investing activities	<u>(1,690,453)</u>	<u>(894,541)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits	6,300	-
Issuance of corporate bonds	800,000	-
Increase in short-term loans	341,440	250,000
Other payables - related parties	260,000	200,000
Cash dividends	<u>(1,755,718)</u>	<u>(2,006,535)</u>
Net cash used in financing activities	<u>(347,978)</u>	<u>(1,556,535)</u>
NET DECREASE IN CASH	(414,776)	(1,233,599)
CASH, BEGINNING OF PERIOD	<u>752,681</u>	<u>1,706,903</u>
CASH, END OF PERIOD	<u>\$ 337,905</u>	<u>\$ 473,304</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Income tax paid	<u>\$ 247,219</u>	<u>\$ 16,336</u>

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

(With Deloitte & Touche review report dated October 20, 2011)

(Concluded)

# ADVANTECH CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

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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.

To improve the entire operating efficiency of the group, the Company's board of directors resolved to have a short-form merger with Advantech Investment and Management Service (AIMS). The effective merger date was July 30, 2009. As the survivor entity, the Company assumed all assets and liabilities of AIMS.

As of September 30, 2011 and 2010, the Company had 1,735 and 1,468 employees, respectively.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

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

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

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

#### Current and Noncurrent Assets and Liabilities

Current assets include cash, those assets held primarily for trading purposes and to be realized, sold or consumed within one year from the balance sheet date. All other assets such as properties are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

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

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to issue of initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

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

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

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same with those of financial assets at FVTPL.

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

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

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

Sales 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 allowance 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.

Sales are measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. This review involves the aging analysis of the outstanding receivables and assessing relevant economic circumstances.

As discussed in Note 3 to the financial statements, the Company early adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- The accounts receivable becoming overdue; or
- It becoming probable that the debtor will enter into bankruptcy or undergo financial reorganization.

Accounts receivable that are assessed as not impaired individually are further assessed for collective impairment. Objective evidence of impairment for a portfolio of accounts receivable could include the Company's past difficulty in collecting payments and an increase in the number of delayed payments as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collaterals and guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

## **Inventories**

Inventories consist of raw materials and supplies, work-in-process, and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventory costs are determined using the weighted-average method.

## **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.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

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

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

Profits derived from sales of products by the Company to its subsidiaries are entirely 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 all equity-method investees to the Company is entirely deferred in proportion to the Company's equity interests in the investees and credited against the investment. Profits from sales of products between equity-method investees are deferred to the extent of the Company's equity interests in these investees. The deferred profits are included as part of other liabilities. All of these profits are realized through the subsequent sale of the related products to third parties.

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

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

## **Properties**

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

Depreciation is computed using the straight-line method over service lives initially estimated as follows (plus one year to represent estimated salvage value): buildings and equipment, 45 to 60 years; machinery and equipment, 2 to 8 years; furniture and fixtures 2 to 5 years; and miscellaneous equipment, 2 to 5 years. Properties 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, 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 in the year of disposal.

### **Deferred Expenses**

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

### **Asset Impairment**

An impairment loss should be recognized if the carrying amount of properties, 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.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (CGUs) that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long-term equity investments on which the Company has significant influence but over which it has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

### **Stock-based Compensation**

Employee stock options granted on or after January 1, 2008 are accounted for under Statement of Financial Accounting Standards (SFAS) No. 39 - "Share-based Payment." Under SFAS No. 39, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

### **Convertible Bonds Payable**

For convertible bonds issued on or after January 1, 2006, the Company first determines the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding embedded derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Company uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

Pursuant to the newly released Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement," transaction costs of bonds issued on or after January 1, 2006, net of related income tax benefit, are allocated in proportion to the liability and equity components of the bonds.

## **Pension Costs**

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses on the defined benefit plan are recognized as part of the net pension cost for the year.

## **Treasury Stock**

Treasury stock is stated at cost and shown as a deduction in shareholders' equity. Upon disposal, the selling price in excess of the book value is recorded under capital surplus - treasury stock transaction. If the selling price is lower than book value, the difference is charged against capital surplus from treasury stock, and any deficit is debited to unappropriated retained earnings. Upon write-off, the capital surplus - additional paid-in capital from share issuance in excess of par is debited pro rata. If the book value exceeds the premium on issuance of capital stock, the difference is offset against capital surplus - treasury stock and any deficit is charged against unappropriated retained earnings. If the book value of treasury stock is lower than the total of capital stock and premium on stock issuance, the difference is credited to capital surplus - treasury stock.

## **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.

If the Company can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

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

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

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

## **Foreign-currency Transactions**

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

### 3. ACCOUNTING CHANGES

#### Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables being now covered by SFAS No. 34; (2) amendment of the scope of the applicability of SFAS No. 34 to insurance contracts; (3) inclusion of loans and receivables originated by the Company in the items covered by SFAS No. 34; (4) the requirement to disclose additional guidelines on impairment testing of financial assets carried at amortized cost if the asset issuer or obligor has financial difficulties and the terms of obligations on the assets have been modified; and (5) the requirement to disclose a debtor's accounting treatment for modifications in the terms of its obligations. This accounting change had no significant impact on the Company's financial statements as of and for the nine months ended September 30, 2011.

#### Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information on the components of the Company that management uses to make decisions about operating matters. SFAS No. 41 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20 - "Segment Reporting." For this accounting change, the Company restated the segment information as of and for the nine months ended September 30, 2010 to conform to the disclosures as of and for the nine months ended September 30, 2011.

### 4. CASH

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 1,544	\$ 1,523
Checking and demand deposits	336,361	461,783
Time deposits: Interest - 0.25%-0.705% in 2010	<u>-</u>	<u>9,998</u>
	<u>\$ 337,905</u>	<u>\$ 473,304</u>

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

The Company's financial instruments for trading purposes were as follows:

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
<u>Financial assets resulting from trading</u>		
Forward contracts	\$ 31,683	\$ 23,813
<u>Financial liabilities resulting from trading</u>		
Forward contracts	\$ 118,274	\$ 45,046

As of September 30, 2011 and 2010, the outstanding forward contracts were as follows:

	<b>Currency</b>	<b>Maturity</b>	<b>Amount (Thousands)</b>
<u>September 30, 2011</u>			
Sell	USD/NTD	October 2011-May 2012	USD67,809/NTD1,955,097
	JPY/USD	October 2011-April 2012	JPY290,000/USD3,608
	JPY/NTD	January 2012-March 2012	JPY100,000/NTD36,607
	EUR/USD	October 2011-May 2012	EUR19,000/USD26,691
	EUR/NTD	December 2011-May 2012	EUR5,500/NTD221,466
<u>September 30, 2010</u>			
Sell	USD/NTD	October 2010-August 2011	USD54,146/NTD1,715,593
	JPY/USD	October 2010-July 2011	JPY370,000/USD4,204
	EUR/USD	October 2010-August 2011	EUR17,500/USD22,617
	EUR/NTD	January 2011	EUR500/NTD21,359

The Company entered into forward contract transactions for the nine months ended September 30, 2011 and 2010 to avoid risks on exchange rate fluctuations. The hedging strategy of the Company is to avoid the major portion of the fair value risks.

On the trading financial assets or liabilities for the nine months ended September 30, 2011 and 2010, the Company had net gains of \$66,915 thousand and \$20,242 thousand, respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
	<b>Noncurrent</b>	<b>Noncurrent</b>
Quoted domestic stocks		
ASUSTEK Computer Inc.	\$ 1,689,641	\$ 1,521,287
Pegatron Corp.	528,716	755,176
Chunghwa Telecom Co., Ltd.	126,229	108,818
Quoted overseas stocks		
SG Advantech Co., Ltd.	1,981	28,974
	<u>\$ 2,346,567</u>	<u>\$ 2,414,255</u>

## 7. INVENTORIES, NET

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
Finished goods	\$ 658,500	\$ 481,437
Work in process	302,668	355,739
Materials and supplies	912,923	604,292
Inventories in transit	<u>21,425</u>	<u>21,930</u>
	<u>\$ 1,895,516</u>	<u>\$ 1,463,398</u>

As of September 30, 2011 and 2010, the allowances for loss were \$112,266 thousand and \$126,653 thousand, respectively.

As of September 30, 2011 and 2010, the costs of goods sold related to inventories were \$10,320,375 thousand and \$8,880,780 thousand, respectively, which included an allowance for loss of \$10,552 thousand and a loss of \$35,894 thousand on inventory scrap disposal for the nine months ended September 30, 2011, and an allowance for loss of \$30,043 thousand and a loss of \$18,258 thousand on inventory scrap disposal for the nine months ended September 30, 2010.

## 8. LONG-TERM EQUITY INVESTMENTS

	<u>September 30</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
<u>Listed</u>				
Axiomtek Co., Ltd.	\$ 316,466	26.55	\$ 359,140	27.41
<u>Unlisted</u>				
Advantech Technology Co., Ltd.	2,557,403	100.00	2,260,308	100.00
Advantech Automation Corp. (BVI)	2,380,063	100.00	2,054,382	100.00
Advantech Europe Holding B.V.	971,165	100.00	787,426	100.00
Advantech Investment Fund-A Co., Ltd.	854,750	100.00	885,296	100.00
Advansus Corp.	228,348	50.00	232,787	50.00
Advantech Japan Co., Ltd.	192,194	100.00	153,145	100.00
ACA Digital Corporation	168,760	99.36	-	-
Advantech KR Co., Ltd.	140,025	100.00	76,461	50.50
Advantech Co. Singapore Pte, Ltd.	98,443	100.00	78,348	100.00
Advantech Intelligence Service	83,900	100.00	50,046	100.00
Advantech Australia Pty Ltd.	74,920	100.00	92,119	100.00
Advantech Co., Malaysia Sdn. Bhd.	39,697	100.00	39,563	100.00
Advantech Hungary Ltd.	14,598	30.00	14,823	30.00
Advantech Brazil S/A (ABR)	27,584	60.00	14,567	43.28
Advantech (Yanshun) Holding Co., Ltd.	-	100.00	22,283	100.00
	<u>7,831,850</u>		<u>6,761,554</u>	
	<u>\$ 8,148,316</u>		<u>\$ 7,120,694</u>	

The calculation of the investment carrying value and the Company's equity in the equity-method investees' net income was based on the investees' unreviewed financial statements as of and for the nine months ended September 30, 2011 and 2010.

In January 2011, the Company acquired ACA Digital Corporation for \$91,650 thousand to complete the Company's line of robust industrial products in portable computing and to expand the Company's product development for a stronger presence in the automation industry.

On November 2, 2010, the Company wholly acquired, through AEU, Innocore Holding Ltd., a firm based in the United Kingdom, for £3,340 thousand to integrate the gaming computing industry with the Company's R&D on its embedded computing products, manufacturing capacity, and resources in the European market. Through this acquisition, the Company also aims to provide solutions to the problems faced by the gaming industry as well as explore more opportunities in the gaming business.

On March 15, 2010, the Company wholly acquired, through AEUH, DLoG GmbH, a subsidiary of Augusta Technologie AG and maker of industrial vehicles, for EUR12,852 thousand to integrate the marketing, sales, R&D and manufacturing systems of the Company and DLoG GmbH; accelerate expansion in major markets; and enhance the Company's leadership position in the industrial vehicle market.

Movements in the nine months ended September 30, 2011 and 2010 of the difference allocated to goodwill arising from the above acquisition were as follows:

	<b><u>Nine Months Ended September 30</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Cost		
Balance, beginning of period	\$ 93,108	\$ 115,712
Amount recognized on acquisition of investments	68,970	18,374
Amount derecognized on disposal of investments	(357)	-
Translation adjustment	<u>3,924</u>	<u>(5,866)</u>
Balance, end of period	<u>\$ 165,645</u>	<u>\$ 128,220</u>

The Company intended to support the operations of Advantech (H.K.) Technology Co., Ltd. in the nine months ended September 30, 2011 and 2010. Under the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities" of the Republic of China, if the equity in losses recognized exceeds the original investment acquisition costs plus any advances given to the investee, the Company recognizes its investee's total losses unless other investors commit to assume, and can assume, a portion of the losses. As of September 30, 2011 and 2010, there were credit balances on the carrying value of this investment of \$1,860 thousand and \$9,800 thousand, respectively, included in other liability - others.

The market values of the listed shares, which were calculated on the basis of the closing prices as of September 30, 2011 and 2010, were \$452,863 thousand and \$612,473 thousand, respectively.

The Company has included all of its direct and indirect subsidiaries in the consolidated financial statements as of and for the nine months ended September 30, 2011 and 2010.

## 9. PROPERTIES

The changes in properties were as follows:

	Nine Months Ended September 30, 2011				Ending Balance
	Beginning Balance	Acquisition	Disposal	Reclassification	
Properties					
Cost					
Land	\$ 1,113,352	\$ 1,500,589	\$ -	\$ -	\$ 2,613,941
Buildings	1,182,812	33,921	-	-	1,216,733
Machinery and equipment	451,039	45,627	5,668	34,587	525,585
Furniture and fixtures	115,997	15,124	1,347	-	129,774
Other equipment	<u>242,815</u>	<u>26,345</u>	<u>176</u>	<u>5,673</u>	<u>274,657</u>
	<u>3,106,015</u>	<u>\$ 1,621,606</u>	<u>\$ 7,191</u>	<u>\$ 40,260</u>	<u>4,760,690</u>
Accumulated depreciation					
Buildings	181,600	\$ 30,021	\$ -	\$ -	211,621
Machinery and equipment	337,884	46,875	5,580	-	379,179
Furniture and fixtures	79,777	12,040	1,282	-	90,535
Other equipment	<u>144,310</u>	<u>29,755</u>	<u>176</u>	<u>-</u>	<u>173,889</u>
	<u>743,571</u>	<u>\$ 118,691</u>	<u>\$ 7,038</u>	<u>\$ -</u>	<u>855,224</u>
	2,362,444				3,905,466
Prepayments for equipment	<u>13,964</u>	<u>\$ 59,930</u>	<u>\$ -</u>	<u>\$ (41,219)</u>	<u>32,675</u>
	<u>\$ 2,376,408</u>				<u>\$ 3,938,141</u>

	Nine Months Ended September 30, 2010				Ending Balance
	Beginning Balance	Acquisition	Disposal	Reclassification	
Properties					
Cost					
Land	\$ 1,113,352	\$ -	\$ -	\$ -	\$ 1,113,352
Buildings	1,182,812	-	-	-	1,182,812
Machinery and equipment	404,105	18,584	2,472	26,054	446,271
Furniture and fixtures	102,026	12,502	2,964	-	111,564
Other equipment	<u>196,481</u>	<u>16,363</u>	<u>3,707</u>	<u>1,241</u>	<u>210,378</u>
	<u>2,998,776</u>	<u>\$ 47,449</u>	<u>\$ 9,143</u>	<u>\$ 27,295</u>	<u>3,064,377</u>
Accumulated depreciation					
Buildings	158,406	\$ 17,396	\$ -	\$ -	175,802
Machinery and equipment	291,543	37,684	2,473	-	326,754
Furniture and fixtures	65,456	13,153	2,826	-	75,783
Other equipment	<u>112,756</u>	<u>25,959</u>	<u>3,705</u>	<u>-</u>	<u>135,010</u>
	<u>628,161</u>	<u>\$ 94,192</u>	<u>\$ 9,004</u>	<u>\$ -</u>	<u>713,349</u>
	2,370,615				2,351,028
Prepayments for equipment	<u>9,390</u>	<u>\$ 39,394</u>	<u>\$ -</u>	<u>\$ (27,445)</u>	<u>21,339</u>
	<u>\$ 2,380,005</u>				<u>\$ 2,372,367</u>

## 10. SHORT-TERM LOANS

	September 30	
	2011	2010
Credit loans - interest rate: 0.93%-1.02% in 2011 and 0.82%-0.90% in 2010	<u>\$ 341,440</u>	<u>\$ 250,000</u>

As of September 30, 2011, unused short-term credit lines amounted to \$1,932,560 thousand.

## 11. BONDS PAYABLE

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
Unsecured domestic convertible bonds	\$ 800,000	\$ -
Deduct: Unamortized discount on bonds payable	<u>(43,706)</u>	<u>-</u>
	<u>\$ 756,294</u>	<u>\$ -</u>

On May 26, 2011, the Company issued 3-year unsecured convertible bonds, with an aggregate face value of \$800,000 thousand and a coupon rate of 0%, the effective interest rate was 2.13%. If the bonds are not converted, the Company should redeem the bonds at their face value upon maturity. Under Statement of Financial Accounting Standard (SFAS) No. 36 - "Financial Instruments: Disclosure and Presentation," the Company has bifurcated the bonds into their liability and equity components. The bonds had been recorded as stock options from capital surplus amounting to \$44,716 thousand and bonds payable amounting to \$750,943 thousand. As of September 30, 2011, the conversion price was NT\$82.36 per share.

## 12. PENSION PLAN

Under the Labor Pension Act, the Company has a defined contribution pension plan. Since July 1, 2005, the Company has made monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance at 6% of employees' salaries and wages. The pension costs under the defined contribution plan were \$49,725 thousand and \$40,123 thousand for the nine months ended September 30, 2011 and 2010, respectively.

The Company has a defined benefit pension plan under the Labor Standards Law (the "Law"). Under this pension plan, employees can accumulate two base points for every service year within the first 15 service years and one base point for every service year thereafter. Employees can cumulate up to 45 base points, and the benefits are based on the average monthly salary or wage for the nine months before retirement. Under the Law, the Company accrues pension costs individually on the basis of actuarial calculations and make monthly contributions at 2% of salaries and wages to each company's pension fund, which is administered by each company's pension plan committee and deposited in the respective committees' names in the Bank of Taiwan. The pension costs under the defined benefit pension plan were \$5,571 thousand and \$6,129 thousand for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011 and 2010, the balances of the pension fund were \$115,163 thousand and \$109,066 thousand, respectively.

## 13. SHAREHOLDERS' EQUITY

### Capital Surplus

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

## **Appropriation of Earnings and Dividend Policy**

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

- a. 1% to 20% as bonus to employees;
- b. 1% or less as remuneration to directors and supervisors; and
- c. Dividends, as proposed by the board of directors.

For stock bonuses, employees may include subsidiaries' employees who meet certain criteria as determined by the Company's board of directors.

Any appropriations of earnings are recorded in the year of shareholders' approval following the year of earnings generation.

The bonus to employees and remunerations to directors and supervisors of \$38,000 thousand and \$39,000 thousand for the nine months ended September 30, 2011 and 2010, respectively (classified under accrued expenses), were estimated and accrued on the basis of past experience. If there are material differences between these estimates and the amounts proposed by the Board of Directors in the following year, these estimates adjusted in the year of the proposal. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the eve of the shareholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized gain or loss on financial instruments and cumulative transaction adjustments) should be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

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

The appropriations of earnings for 2010 and 2009 were approved in the shareholders' meeting held on May 25, 2011 and May 18, 2010, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (Dollars)</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Legal reserve	\$ 257,319	\$ 175,133		
Special reserve	551,526	-		
Cash dividends	1,755,718	2,006,535	\$3.5	\$4.0

The bonus to employees and the remuneration to directors and supervisors for 2010 and 2009 approved in the shareholders' meetings on May 25, 2011 and May 18, 2010, respectively, were as follows:

	<b>Cash</b>	
	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Bonus to employees	\$ 20,000	\$ 175,000
Remuneration to directors and supervisors	10,000	3,000

The amounts of the bonus to employees and the remuneration to directors and supervisors were not different from the accrual amounts reflected in the financial statements.

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

At their meeting on May 25, 2011, the shareholders approved the issuance of 50,163 thousand common shares from capital surplus, which amounted to \$501,634 thousand (recorded as capital stock for issuance). This issuance was approved by the Financial Supervisory Commission under the Executive Yuan of the ROC. The board of directors resolved July 17, 2011 as the date of issuance, and the Company then completed its revised registration with the Ministry of Economic Affairs.

Qualified employees of the Company and its subsidiaries were granted stock options at 3,000 thousand units in July 2010 and 10,000 thousand units in December 2009. Each option entitles the holder to subscribe for one thousand common shares of the Company. Options issued in July 2010 and December 2009 are valid for 5 years. Both are exercisable at certain percentages after the second anniversary year from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the grant date. For any changes in the Company's paid-in capital, the exercise price and the number of options are adjusted accordingly.

The status of employee stock options is as follows:

	<b>Nine Months Ended September 30</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
Balance, beginning of year	13,000	\$60.35	10,000	\$58.24
Options granted	-	-	3,000	67.40
Options exercised	-	-	-	-
Balance, end of year	<u>13,000</u>		<u>13,000</u>	
Options exercisable, end of year	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (NT\$)		\$16.45-\$20.25		\$16.45-\$20.25

Information on outstanding options as of September 30, 2011 and 2010 is as follows:

	<b>September 30</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Range of Exercise Price (NT\$)</b>	<b>Weighted- average Remaining Contractual Life (Years)</b>	<b>Range of Exercise Price (NT\$)</b>	<b>Weighted- average Remaining Contractual Life (Years)</b>
Issuance in 2010	\$59.03	3.78	\$67.40	4.78
Issuance in 2009	51.01	3.17	58.24	4.17

Options granted in 2010 were priced using the Black-Scholes model, and the inputs to the model were as follows:

Grant-date share price (NT\$)	\$67.4
Exercise price (NT\$)	\$67.4
Expected volatility	34.11%-35.15%
Expected life (years)	3.5-4.5
Expected dividend yield	0%
Risk-free interest rate	0.92%-1.10%

Options granted in 2009 were priced using the Black-Scholes model, and the inputs to the model were as follows:

Grant-date share price (NT\$)	61.9
Exercise price (NT\$)	61.9
Expected volatility	33.78%-35.22%
Expected life (years)	3.5-4.5
Expected dividend yield	0%
Risk-free interest rate	0.58%-0.79%

Expected volatility is based on the historical stock price volatility over the past five years.

Compensation costs recognized were \$63,911 thousand and \$53,288 thousand for the nine months ended September 30, 2011 and 2010, respectively.

#### 14. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Nine months ended September 30, 2010</u>				
For transfer to employees	<u>14,500</u>	-	-	<u>14,500</u>

At their meeting on November 2, 2010, the board of directors approved the retirement of the Company's treasury stock since this treasury stock had not been transferred for three years since the date of acquisition. The Company completed the registration of this retirement with the Ministry of Economic Affairs.

Under the Securities and Exchange Act, the Company should neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

#### 15. INCOME TAX

- a. Reconciliation of income tax expense based on income tax at (17%) statutory income tax rates to income tax expense and current income tax payable were as follows:

	<u>September 30</u>	
	<b>2011</b>	<b>2010</b>
Tax on pretax income at statutory rate	\$ 536,407	\$ 432,647
Deduct tax effects of:		
Permanent differences		
Tax-exempt income	(33,134)	212
Other	(23,645)	(39,308)
Temporary differences	(57,066)	(93,208)
Additional 10% income tax on unappropriated earnings	862	-
Investment tax credit	<u>(110,249)</u>	<u>(77,252)</u>
Income tax currently payable	<u>\$ 313,175</u>	<u>\$ 223,091</u>

- b. Income tax expense consisted of the following:

	<u>September 30</u>	
	<b>2011</b>	<b>2010</b>
Income tax currently payable	\$ 313,175	\$ 223,091
Income tax expense		
Temporary differences	67,275	94,646
Effect of tax law changes on deferred income tax	-	(34,816)
Adjustment in valuation allowance due to changes in tax laws	-	<u>(8,088)</u>
	<u>\$ 380,450</u>	<u>\$ 274,833</u>

The tax law changes mentioned above refer to the Legislative Yuan's passing of the following amendments to tax laws:

- 1) Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive is effective from January 1, 2010 and till December 31, 2019.
  - 2) In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.
- c. The change in the income tax payable shown in the balance sheet was as follows:

	<u>September 30</u>	
	<b>2011</b>	<b>2010</b>
Balance, beginning of period	\$ 365,056	\$ 144,401
Income tax currently payable	313,175	223,091
Payment	<u>(247,219)</u>	<u>(16,336)</u>
Balance, end of period	<u>\$ 431,012</u>	<u>\$ 351,156</u>

- d. Net deferred income taxes as of September 30, 2011 and 2010 were as follows:

	<u>September 30</u>	
	<b>2011</b>	<b>2010</b>
<b>Current</b>		
Deferred income tax assets		
Allowance for loss on inventories	\$ 19,085	\$ 21,531
Unrealized product warranty reserve	<u>6,416</u>	<u>4,893</u>
	25,501	26,424
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>(5,438)</u>	<u>(1,871)</u>
Deferred income tax assets, net	<u>\$ 20,063</u>	<u>\$ 24,553</u>
<b>Noncurrent</b>		
Deferred income tax assets:		
Accumulated equity in the net loss of foreign investees	\$ 50,443	\$ 41,348
Deferred income	31,016	28,957
Pension cost	<u>17,725</u>	<u>17,602</u>
	99,184	87,907
Valuation allowance	<u>(31,016)</u>	<u>(41,348)</u>
	68,168	46,559
Deferred income tax liabilities:		
Accumulated equity in the net gains of foreign investees	<u>(483,758)</u>	<u>(384,622)</u>
Deferred income tax liabilities, net	<u>\$ (415,590)</u>	<u>\$ (338,063)</u>

The income tax rate used to recognize deferred income tax was 17% for the nine months ended September 30, 2010.

e. As of September 30, 2011, the Company's five years' exemption status was as follows:

<u>Investment Plan</u>	<u>Exemption Period</u>
Manufacturing products that integrate life science and business intelligence	From 2011 to 2015

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

	<u>September 30</u>	
	<u>2011</u>	<u>2010</u>
Balance of the imputation credit account (ICA)	<u>\$ 22,099</u>	<u>\$ 77,376</u>
The balances of unappropriated retained earnings generated before 1997	<u>\$ -</u>	<u>\$ 2,779</u>

The actual creditable tax ratios for the earnings of 2010 and 2009 were 9.89% and 11.34%, respectively.

g. Income tax returns through 2005 had been examined and cleared by the tax authorities.

## 16. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	<u>Nine Months Ended September 30</u>					
	<u>2011</u>			<u>2010</u>		
	<u>Included in Cost of Goods Sold</u>	<u>Included in Operating Expenses</u>	<u>Total</u>	<u>Included in Cost of Goods Sold</u>	<u>Included in Operating Expenses</u>	<u>Total</u>
Personnel expenses						
Payroll	\$ 227,288	\$ 1,128,269	\$ 1,355,557	\$ 191,751	\$ 894,651	\$ 1,086,402
Insurance	21,034	59,582	80,616	17,287	46,648	63,935
Pension	13,385	41,911	55,296	10,712	35,540	46,252
Others	<u>22,712</u>	<u>42,684</u>	<u>65,396</u>	<u>18,231</u>	<u>35,033</u>	<u>53,264</u>
	<u>\$ 284,419</u>	<u>\$ 1,272,446</u>	<u>\$ 1,556,865</u>	<u>\$ 237,981</u>	<u>\$ 1,011,872</u>	<u>\$ 1,249,853</u>
Depreciation	<u>\$ 23,179</u>	<u>\$ 95,512</u>	<u>\$ 118,691</u>	<u>\$ 24,699</u>	<u>\$ 69,493</u>	<u>\$ 94,192</u>
Amortization	<u>\$ 7,404</u>	<u>\$ 40,996</u>	<u>\$ 48,400</u>	<u>\$ 61</u>	<u>\$ 39,360</u>	<u>\$ 39,421</u>

## 17. EARNINGS PER SHARE

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

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (Thousand)</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>		<u>Pretax</u>	<u>After-tax</u>
Nine months ended <u>September 30, 2011</u>					
Basic EPS	\$ 3,155,334	\$ 2,774,884	551,797	<u>\$ 5.72</u>	<u>\$ 5.03</u>
Impact of dilutive potential common stock					
Bonuses to employees	-	-	<u>372</u>		
Diluted EPS	<u>\$ 3,155,334</u>	<u>\$ 2,774,884</u>	<u>552,169</u>	<u>\$ 5.71</u>	<u>\$ 5.03</u>

(Continued)

	<u>Amount (Numerator)</u>		<u>Shares</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>	<u>(Denominator)</u> <u>(Thousand)</u>	<u>Pretax</u>	<u>After-tax</u>
Nine months ended <u>September 30, 2010</u>					
Basic EPS	\$ 2,544,980	\$ 2,270,147	551,797	<u>\$ 4.61</u>	<u>\$ 4.11</u>
Impact of dilutive potential common stock					
Bonuses to employees	<u>                  -</u>	<u>                  -</u>	<u>          3,837</u>		
Diluted EPS	<u>\$ 2,544,980</u>	<u>\$ 2,270,147</u>	<u>          555,634</u>	<u>\$ 4.58</u>	<u>\$ 4.09</u>

(Concluded)

The amount of earnings per share increases when the employee's stock option is taken into consideration, which means that the employee's stock option has an anti-dilutive effect. Therefore, the employee's stock option should not be considered when calculating the diluted earnings per share.

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuances of stock from capital surplus. This adjustment caused the basic before and after income tax EPS for the nine months ended September 30, 2010 to decrease from NT\$5.07 to NT\$4.61 and from NT\$4.53 to NT\$4.11, respectively, and the diluted before and after income tax EPS for the nine months ended September 30, 2010 to decrease from NT\$5.02 to NT\$4.58 and from NT\$4.48 to NT\$4.09, respectively.

## 18. RELATED-PARTY TRANSACTIONS

### a. Related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Advantech Investment Fund-A Co., Ltd. ("Advantech Fund-A")	Equity-method investee
Axiomtek Co., Ltd. ("Axiomtek")	Equity-method investee
Advansus Corp.	Equity-method investee
Advantech Europe Holding B.V. (AEUH)	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

(Continued)

<b>Related Party</b>	<b>Relationship with the Company</b>
SG Advantech Co., Ltd. (former name: Advantech Technologies Co., Ltd.) (SGA)	Equity-method investee
Advantech KR Co., Ltd. (AKR)	Equity-method investee
Advantech Technology Co., Ltd. (ATC)	Equity-method investee
Advantech (Yanshun) Holding Co., Ltd. (AYS)	Equity-method investee (AYS was fully liquidated in April 2011)
Advantech Australia Pty Ltd. (AAU)	Equity-method investee
Advantech (HK) Technology Co., Ltd. (AHK)	Equity-method investee
Advantech Automation Corp. (BVI) (AAC (BVI))	Equity-method investee
Advantech Co., Malaysia Sdn. Bhd (AMY)	Equity-method investee
Advantech Brazil S/A (ABR)	Equity-method investee
Advantech Europe B.V. (AEU)	Equity-method investee of AEUH
Advantech Poland Sp. Z o.o. (APL)	Equity-method investee of AEUH
DloG GmbH (DloG)	Equity-method investee of AEUH
Innocore Holding Limited (Innocore)	Equity-method investee of AEU
Innocore Gaming Ltd. (UK) (IGL)	Equity-method investee of Innocore
Advantech Automation Corp. (H.K.) Limited (AAC (HK))	Equity-method investee of AAC (BVI)
HK Advantech Technology Co., Ltd. (ATC[HK])	Equity-method investee of ATC
Advantech Technology (China) Company Ltd. (AKMC)	Equity-method investee of ATC (HK)
Advantech Corp. (ANA)	Equity-method investee of AAC (BVI)
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Equity-method investee of AAC (HK)
Yan Hua Xing Ye Electronic (SHHQ)	Equity-method investee of AAC (HK)
Advantech Corporation (Thailand) Co. (ATH)	Equity-method investee of ASG
Netstar Technology Co., Ltd. (“Netstar”)	Equity-method investee of Advantech Fund-A
BCM Embedded Computer Inc. (BCM)	Equity-method investee of Advantech Fund-A
Broadwin Technology, Inc. (“Broadwin”)	Equity-method investee of Advantech Fund-A
Cermate Technologies Inc. (Cermate)	Equity-method investee of Advantech Fund-A
Jan Hsiang Electronics Co., Ltd. (“Jan Hsiang”)	Equity-method investee of Netstar
Avalue Technology Inc. (“Avalue”)	The Company’s chairman ceased to be Avalue’s director on June 9, 2011.
Shanghai Advantech Intelligent Services Co., Ltd. (AiSC)	Equity-method investee of AAC (HK)
Xi’an Advantech Software Ltd. (AXA)	Equity-method investee of AAC (HK)
Advantech International Co., Ltd.	Advantech International Co., Ltd.’s owner is a second-degree relative of the Company’s chairman
Advantech Intelligent Service (AiST)	Equity-method investee
K&M Investment Co., Ltd. (K&M)	The spouse of the Company’s chairman is K&M’s director
AIDC Investment Corp. (AIDC)	The spouse of the Company’s chairman is AIDC’s director
ACA Digital Corporation (ACA)	Equity-method investee
Hangzhou Advantofine Automation Co., Ltd. (“Advantofine”)	Equity-method investee of ACN

(Concluded)

The Company's related parties, in addition to those listed above, are shown in Table 7.

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

	2011		2010	
	Amount	% to Total	Amount	% to Total
<u>For the nine months ended September 30</u>				
Sales				
ANA	\$ 3,830,009	27	\$ 3,251,699	27
AEU	1,850,011	13	1,387,745	12
ACN	1,686,281	12	1,485,575	13
AiSC	1,318,883	9	1,140,951	10
AKMC	332,087	2	337,961	3
AKR	290,238	2	276,904	2
AJP	275,861	2	281,474	2
AAU	124,683	1	109,481	1
ASG	90,392	1	104,191	1
ABR	65,122	1	59,746	1
ATH	48,096	1	19,010	-
ACA	33,494	-	-	-
AMY	27,715	-	26,800	-
AiST	26,378	-	-	-
Avalue	21,205	-	20,053	-
Axiomtek	20,890	-	14,932	-
Advansus Corp.	10,042	-	12,360	-
DLoG	9,083	-	836	-
APL	8,214	-	8,932	-
Innocore	6,151	-	-	-
Netstar	2,701	-	3,851	-
Broadwin	1,820	-	2,158	-
BCM	596	-	681	-
Other	192	-	-	-
	<u>\$ 10,080,144</u>	<u>71</u>	<u>\$ 8,545,340</u>	<u>72</u>
Purchase of materials and suppliers				
ATC	\$ 4,948,017	48	\$ 4,049,125	46
Advansus Corp.	957,475	9	1,395,566	16
AiST	413,480	4	-	-
ACA	147,786	1	-	-
ANA	95,218	1	104,440	1
Netstar	56,211	1	52,179	-
Jan Hsiang	16,030	1	17,826	-
Cermate	13,276	-	10,361	-
ACN	12,288	-	2,363	-
AKR	4,713	-	-	-
BCM	2,285	-	504	-
AEU	1,622	-	886	-
DLoG	912	-	-	-
Advantofine	315	-	-	-

(Continued)

	2011		2010	
	Amount	% to Total	Amount	% to Total
Broadwin	\$ 170	-	\$ 697	-
Axiomtek	88	-	314	-
APL	71	-	17	-
AAU	58	-	60	-
ATH	39	-	-	-
ASG	13	-	11	-
AJP	9	-	10	-
	<u>6,670,076</u>	<u>65</u>	<u>5,634,359</u>	<u>63</u>

(Concluded)

	2011		2010	
	Amount	% to Total	Amount	% to Total
Operating expenses				
Rental expense				
K&M	\$ 3,574	-	\$ 1,340	-
AIDC	2,618	-	-	-
	<u>6,192</u>	<u>-</u>	<u>1,340</u>	<u>-</u>
Administration expense				
AHK	4,955	-	-	-
ASG	3,526	-	-	-
AMY	459	-	-	-
	<u>8,940</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 15,132</u>	<u>-</u>	<u>\$ 1,340</u>	<u>-</u>
Nonoperating income and gains				
Royalty revenue for patent				
ATC	<u>\$ 247,754</u>	<u>100</u>	<u>\$ 202,270</u>	<u>100</u>
Rental revenues				
Advansus Corp.	\$ 5,265	20	\$ 5,265	90
BCM	585	2	585	9
Advantech Fund-A	27	-	27	1
	<u>\$ 5,877</u>	<u>22</u>	<u>\$ 5,877</u>	<u>100</u>
Interest income				
AKR	<u>\$ -</u>	<u>-</u>	<u>\$ 21</u>	<u>-</u>

	2011		2010	
	Amount	% to Total	Amount	% to Total
Other revenue				
ACN	\$ 21,217	13	\$ -	-
ANA	14,763	9	-	-
Advansus Corp.	13,485	8	8,259	10
AJP	11,973	7	-	-
AEU	9,610	6	-	-
AKR	3,607	2	-	-
DLoG	2,993	2	-	-
AAU	1,937	1	-	-
ASG	1,677	1	-	-
AIDC	1,125	1	1,125	1
AMY	1,057	1	-	-
ABR	887	1	-	-
Netstar	720	1	640	1
Broadwin	720	-	560	1
Cermate	540	-	280	-
K&M	375	-	375	-
ATH	343	-	-	-
	<u>\$ 87,029</u>	<u>53</u>	<u>\$ 11,239</u>	<u>13</u>
Nonoperating expenses and losses				
Interest expense				
Advantech Fund-A	\$ 1,367	14	\$ 436	33
AiST	-	-	48	4
	<u>\$ 1,367</u>	<u>14</u>	<u>\$ 484</u>	<u>37</u>

Other revenues were from providing management service and technical support.

	2011		2010	
	Amount	% to Total	Amount	% to Total
<u>At the end of nine months ended September 30</u>				
Accounts receivable - related parties				
Accounts				
AEU	\$ 872,748	36	\$ 678,293	32
ANA	498,773	20	585,056	27
AiSC	417,246	17	253,262	12
ACN	367,321	15	384,845	18
AKMC	64,727	3	64,275	3
AKR	47,845	2	72,707	3
AJP	44,366	2	43,515	2
AAU	44,234	2	22,775	1
ABR	22,240	1	13,701	1
ASG	18,571	1	19,784	1
ACA	14,251	1	-	-

(Continued)

	<b>2011</b>		<b>2010</b>	
	<b>Amount</b>	<b>% to Total</b>	<b>Amount</b>	<b>% to Total</b>
ATH	\$ 8,112	-	\$ 3,526	-
AMY	6,225	-	7,711	-
Axiomtek	4,331	-	4,153	-
NetStar	2,405	-	278	-
APL	1,981	-	4,373	-
DLoG	1,047	-	503	-
Broadwin	484	-	1,576	-
Advansus Corp.	435	-	796	-
Cermate	62	-	-	-
Avalue	-	-	2,245	-
BCM	-	-	8	-
	<u>\$ 2,437,404</u>	<u>100</u>	<u>\$ 2,163,382</u>	<u>100</u>

(Concluded)

	<b>2011</b>		<b>2010</b>	
	<b>Amount</b>	<b>% to Total</b>	<b>Amount</b>	<b>% to Total</b>
Other receivables - related parties				
ACN	\$ 4,187	24	\$ 21,723	64
AEU	2,286	13	727	2
Advansus Corp.	1,984	11	1,683	5
ANA	1,722	10	996	3
DLoG	1,436	8	-	-
AAU	1,289	7	117	-
AJP	1,037	6	41	-
AKR	939	5	7,535	23
ASG	822	5	82	-
ABR	385	2	550	2
AAC (HK)	337	2	-	-
AMY	314	2	133	-
AiSC	289	2	-	-
Broadwin	168	1	-	-
Netstar	168	1	-	-
AKMC	-	-	207	1
Cermate	-	-	126	-
Other	124	1	133	-
	<u>\$ 17,487</u>	<u>100</u>	<u>\$ 34,053</u>	<u>100</u>

	2011		2010	
	Amount	% to Total	Amount	% to Total
Accounts payable - related parties				
ATC	\$ 1,100,729	90	\$ 1,000,772	79
Advansus Corp.	86,629	7	207,589	17
ANA	15,492	1	14,784	1
Netstar	12,741	1	12,776	1
ACA	10,183	1	-	-
ACN	2,076	-	2,228	-
Cermate	1,076	-	1,472	-
Jan Hsiang	987	-	1,767	-
ASG	594	-	103	-
AEU	569	-	228	-
APL	298	-	123	-
DLoG	173	-	-	-
AKR	107	-	-	-
AMY	79	-	643	-
Broadwin	21	-	417	-
AYS	-	-	22,993	2
Other	55	-	396	-
	<u>\$ 1,231,809</u>	<u>100</u>	<u>\$ 1,266,291</u>	<u>100</u>
Other payables - related parties				
Advantech Fund-A	\$ 260,000	100	\$ 180,000	90
AiST	-	-	20,000	10
ABR	-	-	27	-
	<u>\$ 260,000</u>	<u>100</u>	<u>\$ 200,027</u>	<u>100</u>
Acquisition of assets				
ACA	\$ 16,403	-	\$ -	-
Netsatar	667	-	-	-
Advansus Corp.	21	-	-	-
BCM	10	-	-	-
	<u>\$ 17,101</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Disposal of assets				
Advansus Corp.	\$ 48	-	\$ -	-
AKMC	89	-	-	-
AJP	10	-	-	-
	<u>\$ 147</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

Financing to related parties was as follows (part of other receivable - related parties and other payable - related parties):

<b>Nine Months Ended September 30, 2011</b>				
	<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Interest Rate</b>	<b>Interest Expense</b>
<u>Other payable related parties</u>				
Advantech Fund-A	<u>\$ 300,000</u>	<u>\$ 260,000</u>	1.2%	<u>\$ 1,367</u>

<b>Nine Months Ended September 30, 2010</b>				
	<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Interest Rate</b>	<b>Interest Income</b>
<u>Other receivable - related parties</u>				
AKR	<u>\$ 14,000</u> (KRW500,000 thousand)	<u>\$ -</u>	3%	<u>\$ 21</u>

<b>Nine Months Ended September 30, 2010</b>				
	<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Interest Rate</b>	<b>Interest Expense</b>
<u>Other payable - related parties</u>				
Advantech Fund-A	<u>\$ 180,000</u>	<u>\$ 180,000</u>	1.1%	<u>\$ 436</u>
AiST	<u>\$ 20,000</u>	<u>\$ 20,000</u>	1.1%	<u>\$ 48</u>

Operating lease contracts with related parties were based on market prices and made under normal terms. Product sales were conducted under normal terms. The payment terms for related parties were 30 to 90 days. Terms for third parties were 30 to 60 days.

## 19. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of September 30, 2010, the Company had the following guarantees for related parties' loans:

	<b>Amount</b>
AiSC	<u>\$ 597,793 thousand</u>
AKMC	<u>\$ 323,088 thousand</u>
Advantech Fund-A	<u>\$ 300,000 thousand</u>
AiST	<u>\$ 200,000 thousand</u>
Advansus Corp.	<u>\$ 100,000 thousand</u>
DLoG	<u>\$ 61,845 thousand</u>
ACA	<u>\$ 50,000 thousand</u>
Cermate	<u>\$ 40,000 thousand</u>
AAU	<u>\$ 6,096 thousand</u>

## 20. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Nonderivative financial instruments</u>				
Assets				
Available-for-sale financial assets - noncurrent	\$ 2,346,567	\$ 2,346,567	\$ 2,414,255	\$ 2,414,255
Liabilities				
Convertible bonds payable	756,294	819,284	-	-
<u>Derivative financial instruments by location</u>				
Financial assets at fair value through profit or loss - current				
Domestic	9	9	4,453	4,453
Foreign (including a foreign corporation operating locally)	31,674	31,674	19,360	19,360
Financial liabilities at fair value through profit or loss - current				
Domestic	38,509	38,509	10,821	10,821
Foreign (including a foreign corporation operating locally)	79,765	79,765	34,225	34,225

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

- 1) For financial instruments such as cash, notes and accounts receivables, receivables from related parties, other receivables, other receivable from related parties, refundable deposits, short-term loans, accounts payables, payables to related parties, other payables to related parties and guarantee deposits received the carrying amounts of these financial instruments approximate their fair values.
- 2) Fair values of available-for-sale financial assets were based on their quoted market prices.
- 3) Fair values of derivatives were determined using quoted market prices or estimates based on valuation techniques incorporating estimates and assumptions that are consistent with those prevailing in the market.

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

	Based on the Quoted Market Price		Determined Using Valuation Techniques	
	September 30		September 30	
	2011	2010	2011	2010
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - noncurrent	\$ -	\$ -	\$ 31,683	\$ 23,813
Available-for-sale financial assets - noncurrent	2,346,567	2,414,255	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Convertible bonds payable	-	-	118,274	45,046
Convertible bonds payable	819,284	-	-	-

- d. As of September 30, 2011 and 2010, financial assets exposed to fair value interest rate risk amounted to \$0 thousand and \$9,998 thousand, respectively, financial liabilities amounted to \$341,440 thousand and \$250,000 thousand, respectively, and financial assets exposed to cash flow interest rate risk amounted to \$335,279 thousand and \$460,981 thousand, respectively.
- e. The Company recognized an unrealized loss of \$153,886 thousand and an unrealized loss of \$557,408 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2011 and 2010, respectively. A loss of \$10,236 thousand was deducted from the adjusted items in shareholders' equity and was recognized as a reduction of net income of the nine months ended September 30, 2010. The Company also recognized an unrealized loss of \$54,053 thousand and an unrealized gain of \$26,461 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity-method investees for the nine months ended September 30, 2011 and 2010, respectively.
- f. Financial risks
  - 1) Market risk. The derivative financial instruments categorized as financial assets at fair value through profit or loss are mainly used to hedge against adverse exchange rate fluctuations of foreign currency-denominated assets and liabilities. Thus, the market risk of derivatives will be offset by the gain or loss on the exchange rate fluctuations of hedged assets and liabilities. Available-for-sale financial assets held by the Company are mainly mutual funds and publicly traded stocks. Thus, price fluctuations in the open market would result in changes in fair values of these financial instruments.
  - 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if counter-parties breach financial instrument contracts. Contracts with positive fair values on the balance sheet date are evaluated for credit risk. Since the counter-parties to the foregoing derivative financial instruments are reputable financial institutions, management believes its exposure to default by counter-parties is low.
  - 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low. In addition, for long-term equity-method investments (mutual funds and publicly traded stocks), the Company keeps liquidity reserves, which are available on a short-term basis. Additionally, the contracted forward rate is decided on the contract starting dates. Thus, the cash flow risk on forward contracts is low.

## 21. ADDITIONAL DISCLOSURES

- a. Except for those mentioned in Note 18 and Tables 1 to 7, 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 September 30, 2011, accumulated inward remittance of earnings as of September 30, 2011 and maximum allowable limit on investment: Table 8 (attached)
  - 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Notes 18 and Tables 1, 2, 5 and 6.

## 22. SEGMENT INFORMATION

Segment information is provided to the Company's chief operating decision maker for allocating resources to the segments and assessing their performance. The information puts emphasis on every type of products sold or services provided. The Company has disclosed segment information in the consolidated financial reports in accordance with Statement of Financial Accounting Standards No. 41 - "Operating Segments."

## 23. OTHER

Information on the Company's foreign currency-denominated financial assets and liabilities with significant effect on the financial statements is as follows:

	September 30					
	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 78,723	30.480	\$ 2,399,477	\$ 68,254	31.26	\$ 2,133,620
EUR	21,195	41.230	873,870	16,390	42.58	697,886
JPY	114,306	0.398	45,494	124,661	0.375	46,748
Nonmonetary items						
USD	1,039	30.480	31,683	762	31.26	23,813
KRW	76,199	0.026	1,981	1,034,783	0.028	28,974
Investments accounted for by the equity method						
USD	162,833	30.480	4,963,150	139,519	31.260	4,361,364
EUR	23,555	41.230	971,165	18,493	42.580	787,426
JPY	482,901	0.398	192,194	408,388	0.375	153,145
KRW	5,385,579	0.026	140,025	2,730,751	0.028	76,461
SGD	4,187	23.510	98,443	3,297	23.760	78,348
AUD	2,523	29.695	74,920	3,042	30.280	92,119
BRL	1,649	16.724	27,584	791	18.424	14,567
MYD	4,137	9.596	39,697	3,887	10.179	39,563
<u>Financial liabilities</u>						
Monetary items						
USD	54,543	30.480	1,662,471	50,912	31.260	1,591,509
EUR	466	41.230	19,213	14	42.580	596
Nonmonetary items						
USD	3,880	30.480	118,274	1,441	31.260	45,046

## ADVANTECH CO., LTD. AND INVESTEES

FINANCING PROVIDED  
NINE MONTHS ENDED SEPTEMBER 30, 2011  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Financier	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Nature of Financing	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	AEUH	AEU	Other receivable - related parties	\$ 39,581 (EUR 960 thousand)	\$ 39,581 (EUR 960 thousand)	4.0%	Short-term financing	\$ -	Financing need	\$ -	-	-	\$ 1,482,338 (Note B)	\$ 2,964,676 (Note B)
2	ANA	AEU	Other receivable - related parties	30,480 (US\$ 1,000 thousand)	-	2.0%	Short-term financing	-	Financing need	-	-	-	1,482,338 (Note B)	2,964,676 (Note B)
		AKMC	Other receivable - related parties	176,784 (US\$ 5,800 thousand)	170,688 (US\$ 5,600 thousand)	2.0%	Short-term financing	-	Financing need	-	-	-	1,482,338 (Note B)	2,964,676 (Note B)
3	AiSC	ACN	Other receivable - related parties	189,767 (RMB 39,576 thousand)	26,622 (RMB 5,552 thousand)	2.0%	Short-term financing	-	Financing need	-	-	-	143,850 (Note C)	143,850 (Note C)
4	Netstar Technology Co., Ltd.	LANSONIC (B.V.I)	Other receivable - related parties	3,676	-	-	Short-term financing	-	Financing need	-	-	-	42,324 (Note D)	42,324 (Note D)
5	Broadwin Technology Inc.	Netstar Technology Co., Ltd.	Other receivable - related parties	20,000	7,000	2.0%	Short-term financing	-	Financing need	-	-	-	31,257 (Note D)	31,257 (Note D)
6	Advantech Fund-A	Netstar Technology Co., Ltd.	Other receivable - related parties	12,000	4,000	2.0%	Short-term financing	-	Financing need	-	-	-	343,380 (Note D)	343,380 (Note D)
		Advantech Co., Ltd. (the "Company")	Other receivable - related parties	300,000	260,000	1.2%	Short-term financing	-	Financing need	-	-	-	343,380 (Note D)	343,380 (Note D)
		ACA	Other receivable - related parties	20,000	-	1.2%	Short-term financing	-	Financing need	-	-	-	343,380 (Note D)	343,380 (Note D)

Note A: The exchange rate was EUR1=NT\$41.23; US\$1=NT\$30.48; RMB1= NT\$4.795.

Note B: The maximum amount of financing and the maximum amount of financing to individual counter-party that can be provided by the financier are 20% and 10% of the parent company's net asset value, respectively.

Note C: For more efficient use of capital among subsidiaries in Mainland China, the maximum amount of financing that can be provided by the financier is RMB30,000 thousand and will be handled over the Citibank account of ACN.

Note D: 40% of the net asset value of the financier.

## ADVANTECH CO., LTD. AND INVESTEES

## ENDORSEMENT/GUARANTEE PROVIDED

NINE MONTHS ENDED SEPTEMBER 30, 2011

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

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/Guarantee Amounts	Maximum Balance for the Year	Ending Balance	Value of Collaterals Property, Plant, and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statements (%)	Maximum Collateral/Guarantee Amounts Allowable
		Name	Nature of Relationship						
0	Advantech Co., Ltd. (the "Company")	AKMC	Indirect subsidiary	\$ 1,482,338 (Note A)	\$ 323,088 (US\$ 10,600 thousand)	\$ 323,088 (US\$ 10,600 thousand)	\$ -	2.18%	\$ 4,447,014 (Note B)
		Cermate Technologies Inc.	Indirect subsidiary	1,482,338 (Note A)	40,000	40,000	-	0.27%	4,447,014 (Note B)
		Advansus Corp.	Equity-method investee	1,482,338 (Note A)	100,000	100,000	-	0.67%	4,447,014 (Note B)
		Advantech Fund-A	Subsidiary	1,482,338 (Note A)	300,000	300,000	-	2.02%	4,447,014 (Note B)
		ACA	Subsidiary	1,482,338 (Note A)	50,000	50,000	-	0.34%	4,447,014 (Note B)
		AiST	Subsidiary	1,482,338 (Note A)	200,000	200,000	-	1.35%	4,447,014 (Note B)
		AAU	Subsidiary	1,482,338 (Note A)	6,096 (US\$ 200 thousand)	6,096 (US\$ 200 thousand)	-	0.04%	4,447,014 (Note B)
		AiSC	Indirect subsidiary	1,482,338 (Note A)	597,793 (RMB 124,670 thousand)	597,793 (RMB 124,670 thousand)	-	4.03%	4,447,014 (Note B)
		DLoG GmbH	Indirect subsidiary	1,482,338 (Note A)	61,845 (EUR 1,500 thousand)	61,845 (EUR 1,500 thousand)	-	0.42%	4,447,014 (Note B)

Note A: 10% of the Company's net asset value.

Note B: 30% of the Company's net asset value.

Note C: The exchange rate was EUR1=NT\$41.23; US\$1=NT\$30.48; RMB1= NT\$4.795.

## ADVANTECH CO., LTD. AND INVESTEES

MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS  
 NINE MONTHS ENDED SEPTEMBER 30, 2011  
 (In Thousands of New Taiwan Dollars/Foreign Currency)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2011				Note	
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Advantech Co., Ltd. (the "Company")	<u>Stock</u>								
	AAC (BVI)	Subsidiary	Long-term equity investments	29,623,834	\$ 2,380,063	100.00	\$ 2,384,164	Note A	
	ATC	"	"	38,750,000	2,557,403	100.00	2,564,378	Note A	
	Advansus Corp.	Equity-method investee	"	18,000,000	228,348	50.00	239,732	Note A	
	Advantech Fund-A	Subsidiary	"	90,000,000	854,750	100.00	858,449	Note A	
	Axiomtek	Equity-method investee	"	20,537,984	316,466	26.55	316,466	Note A	
	AEUH	Subsidiary	"	9,572,024	971,165	100.00	971,165	Note A	
	ASG	"	"	1,450,000	98,443	100.00	98,443	Note A	
	AAU	"	"	500,204	74,920	100.00	74,920	Note A	
	AJP	"	"	1,200	192,194	100.00	192,194	Note A	
	AMY	"	"	2,000,000	39,697	100.00	39,697	Note A	
	AHG	"	"	30	14,598	30.00	14,598	Note A	
	AKR	"	"	600,000	140,025	100.00	140,025	Note A	
	ABR	"	"	971,055	27,584	43.28	27,584	-	
	AiST	"	"	5,000,000	83,900	100.00	83,900	-	
	ACA	"	"	7,948,839	168,760	99.36	168,760	Note A	
	AHK	"	"	Other liability - others	999,999	(1,860)	100.00	(1,860)	Notes A and C
	ASUSTek Computer Inc.	-	-	Available for sale financial assets - noncurrent	7,314,461	1,689,641	0.97	1,689,641	Note B
	SGA	-	-	"	184,500	1,981	0.47	1,981	Note B
	Chunghwa Telecom Co., Ltd.	-	-	"	1,243,636	126,229	-	126,229	Note B
Pegatron Corp.	-	-	"	18,486,570	528,716	-	528,716	Note B	
Advantech Fund-A	<u>Stock</u>								
	Netstar Technology Co., Ltd.	Subsidiary	Long-term equity investments	21,632,265	197,160	86.53	197,160	Note A	
	BCM Embedded Computer Inc.	"	"	4,500,000	17,705	100.00	17,705	Note A	
	Broadwin Technology Inc.	"	"	6,777,571	153,361	100.00	153,361	Note A	
	Cermate Technologies Inc.	"	"	5,500,000	82,021	55.00	82,021	Note A	
	Chunghwa Telecom Co., Ltd.	-	-	Available for sale financial assets- current	164,952	16,743	-	16,743	Note B
	AverMedia Information Inc.	-	-	Available for sale financial assets- non-current	808,500	30,642	0.91	30,642	Note B
	Axiomtek	-	-	Available for sale financial assets- current	1,559,000	34,376	2.02	34,376	Note B
COBAN Research and Technologies, Inc.	-	-	Financial assets carried at cost - noncurrent	600,000	33,257	6.85	33,257	-	

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2011				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
ATC	<u>Stock</u> ATC (HK)	Subsidiary	Long-term equity investments	41,650,001	\$ 1,785,515	100.00	\$ 1,785,515	Note A
ATC (HK)	<u>Stock</u> AKMC	Subsidiary	Long-term equity investments	-	1,785,515	100.00	1,785,515	Note A
AAC (BVI)	<u>Stock</u> ANA	Subsidiary	Long-term equity investments	10,952,606	1,238,010	100.00	1,238,010	Note A
	AAC (HK)		"	15,230,001	1,145,586	100.00	1,145,586	Note A
ANA	<u>Stock</u> ABR	-	Financial assets carried at cost - noncurrent	375,192	5,862	16.72	5,862	-
AAC (HK)	<u>Stock</u> ACN	Subsidiary	Long-term equity investments	-	645,860	100.00	645,860	Note A
	SHHQ		"	-	-	100.00	-	Note A
	AISC	"	"	-	516,155	100.00	516,155	Note A
	AXA	"	"	-	(16,862)	100.00	(16,862)	Notes A and C
ACN	<u>Stock</u> Hangzhou Advantofine Automation Co., Ltd.	"	"	-	15,806	60.00	15,806	Note A
AEUH	<u>Stock</u> AEU	"	"	8,314,280	98,728	100.00	98,728	Note A
	APL	"	"	6,836	39,239	100.00	39,239	Note A
	DLoG	"	"	1	616,215	100.00	616,215	Note A
AEU	<u>Stock</u> Innocore	"	"	251,111	161,274	100.00	161,274	Note A
Innocore	<u>Stock</u> IGL	"	"	501,000	46,335	100.00	46,335	Note A
ASG	<u>Stock</u> ATH	"	"	51,000	17,941	51.00	17,941	Note A
Netstar Technology Co., Ltd.	<u>Stock</u> Jan Hsiang Electronics Co., Ltd.	"	Long-term equity investments	655,500	7,083	28.50	7,083	Note A
Broadwin Technology Inc.	<u>Stock</u> Broadwin Technology Inc.	"	Long-term equity investments	5,643,650	14,337	100.00	14,337	Note A
Cermate Technologies Inc.	<u>Stock</u> Land Mark	"	Long-term equity investments	972,284	43,191	100.00	43,191	Note A

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2011				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Land Mark	<u>Stock</u>							
	Cermate (Shanghai)	"	Long-term equity investments	-	\$ 23,938	100.00	\$ 23,938	Note A
	Cermate (Shenzhen)	"	"	-	19,126	90.00	19,126	Note A

Note A: The financial statements used as basis of net asset values were all unaudited.

Note B: Market value was based on the closing price on September 30, 2011.

Note C: The credit balance on investment carrying value is shown as part of other liabilities.

(Concluded)

## ADVANTECH CO., LTD. AND INVESTEEES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 NINE MONTHS ENDED SEPTEMBER 30, 2011  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction made by Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
Advantech Co., Ltd. (the "Company")	Real estate	2011.01	\$ 1,511,941	Paid in full by contract requirements	Tung Ho Steel Enterprise Corporation	None	-	-	-	\$ -	Real estate appraisal	For the Company's expansion need	None

## ADVANTECH CO., LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 NINE MONTHS ENDED SEPTEMBER 30, 2011  
 (In Thousands of New Taiwan Dollars/Foreign Currency)

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. (the "Company")	AEU	Indirect subsidiary	Sale	\$ (1,850,011)	13.02	Set for 45 days a month	Contract price	No significant difference from terms for related parties	\$ 872,748	35.81	
	ACN	Indirect subsidiary	Sale	(1,686,281)	11.87	Set for 45 days a month	Contract price	No significant difference from terms for related parties	367,321	15.07	
	AKMC	Indirect subsidiary	Sale	(332,087)	2.34	Set for 30 days after a month	Contract price	No significant difference from terms for related parties	64,727	2.66	
	AJP	Subsidiary	Sale	(275,861)	1.94	Set for 45 days a month	Contract price	No significant difference from terms for related parties	44,366	1.82	
	AiSC	Indirect subsidiary	Sale	(1,318,883)	9.28	Set for 45 days a month	Contract price	No significant difference from terms for related parties	417,246	17.12	
	ANA	Indirect subsidiary	Sale	(3,830,009)	26.95	Set for 45 days a month	Contract price	No significant difference from terms for related parties	498,773	20.46	
	AKR	Subsidiary	Sale	(290,238)	2.04	Set for 45 days a month	Contract price	No significant difference from terms for related parties	47,845	1.96	
	AAU	Subsidiary	Sale	(124,683)	0.88	Set for 30 days a month	Contract price	No significant difference from terms for related parties	44,234	1.81	
	ATC	Subsidiary	Purchase	4,948,017	49.76	Set for 60 days a month	Contract price	No significant difference from terms for related parties	(1,100,729)	90.43	
	Advansus Corp.	Subsidiary	Purchase	957,475	9.63	Set for 30 days a month	Contract price	No significant difference from terms for related parties	(86,629)	7.12	
	AiST	Subsidiary	Purchase	413,480	4.16	Set for 30 days a month	Contract price	No significant difference from terms for related parties	(7)	-	
	ACA	Subsidiary	Purchase	147,786	1.49	Set for 60 days a month	Contract price	No significant difference from terms for related parties	(10,183)	0.84	
	ATC	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Sale	(4,948,017)	99.29	Set for 60 days a month	Contract price	No significant difference from terms for related parties	1,100,729	95.23
Advansus Corp.	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Sale	(957,475)	81.18	Set for 30 days a month	Contract price	No significant difference from terms for related parties	86,629	55.42	
AiST	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Sale	(413,480)	35.06	Set for 30 days a month	Contract price	No significant difference from terms for related parties	7	0.01	
ACA	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Sale	(147,786)	12.53	Set for 60 days a month	Contract price	No significant difference from terms for related parties	10,183	6.32	
ANA	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	3,830,009	87.30	Set for 45 days a month	Contract price	No significant difference from terms for related parties	(498,773)	76.57	

(Continued)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
AEU	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	\$ 1,850,011	86.61	Set for 45 days a month	Contract price	No significant difference from terms for related parties	\$ (872,748)	100.00	
ACN	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	1,686,281	72.96	Set for 45 days a month	Contract price	No significant difference from terms for related parties	(367,321)	66.48	
AKMC	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	332,087	6.97	Set for 30 days after a month	Contract price	No significant difference from terms for related parties	(64,727)	5.77	
AJP	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	275,861	95.95	Set for 45 days a month	Contract price	No significant difference from terms for related parties	(44,366)	99.19	
AiSC	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	1,318,883	68.47	Set for 45 days a month	Contract price	No significant difference from terms for related parties	(417,246)	67.02	
AKR	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	290,238	53.61	Set for 45 days a month	Contract price	No significant difference from terms for related parties	(47,845)	52.55	
AAU	Advantech Co., Ltd. (the "Company")	Ultimate parent company	Purchase	124,683	23.03	Set for 30 days a month	Contract price	No significant difference from terms for related parties	(44,234)	71.04	
ACN	AiSC	Related enterprise	Sale	(217,648)	8.12	Set for 45 days a month	Mark-up pricing	No significant difference from terms for related parties	136,022	18.16	
AiSC	ACN	Related enterprise	Sale	(161,506)	7.22	Set for 45 days a month	Mark-up pricing	No significant difference from terms for related parties	43,451	6.26	
AKMC	ATC	Related enterprise	Sale	(4,659,882)	92.67	Set for 30 days after a month	Mark-up pricing	No significant difference from terms for related parties	336,830	79.90	
	Netstar Technology Co., Ltd.	Related enterprise	Sale	(204,959)	4.08	Set for 60 days after a month	Mark-up pricing	No significant difference from terms for related parties	54,902	62.45	
Advansus Corp.	AiST	Related enterprise	Sale	(130,951)	11.10	About 60 to 90 days	Mark-up pricing	No significant difference from terms for related parties	-	-	
	AKMC	Related enterprise	Sale	(408,947)	34.67	Set for 30 days a month	Mark-up pricing	No significant difference from terms for related parties	57,996	74.20	
AiST	Advansus Corp.	Related enterprise	Sale	(298,721)	28.80	Set for 30 days a month	Mark-up pricing	No significant difference from terms for related parties	2,572	4.70	
	AKMC	Related enterprise	Sale	(277,795)	26.78	Set for 30 days a month	Mark-up pricing	No significant difference from terms for related parties	-	-	
AiSC	ACN	Related enterprise	Purchase	217,648	11.30	Set for 45 days a month	Mark-up pricing	No significant difference from terms for related parties	(136,022)	21.85	
ACN	AiSC	Related enterprise	Purchase	161,506	6.99	Set for 45 days a month	Mark-up pricing	No significant difference from terms for related parties	(43,451)	7.86	

(Continued)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
ATC	AKMC	Related enterprise	Purchase	\$ 4,659,882	3.42	Set for 30 days after a month	Mark-up pricing	No significant difference from terms for related parties	\$ (336,830)	97.41	
Netstar Technology Co., Ltd.	AKMC	Related enterprise	Purchase	204,959	98.40	Set for 60 days after a month	Mark-up pricing	No significant difference from terms for related parties	(54,902)	79.34	
AiST	Advansus Corp.	Related enterprise	Purchase	130,951	13.07	About 60 to 90 days	Mark-up pricing	No significant difference from terms for related parties	-	-	
AKMC	Advansus Corp.	Related enterprise	Purchase	408,947	8.59	Set for 30 days a month	Mark-up pricing	No significant difference from terms for related parties	(57,996)	2.48	
Advansus Corp.	AiST	Related enterprise	Purchase	298,721	55.42	Set for 30 days a month	Mark-up pricing	No significant difference from terms for related parties	(2,572)	1.24	
AKMC	AiST	Related enterprise	Purchase	277,795	5.83	Set for 30 days a month	Mark-up pricing	No significant difference from terms for related parties	-	-	

(Concluded)

ADVANTECH CO., LTD. AND INVESTEEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 NINE MONTHS ENDED SEPTEMBER 30, 2011  
 (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. (the "Company")	AEU	Indirect subsidiary	\$ 872,748	2.82	\$ -	-	\$ -	\$ -
	ANA	Indirect subsidiary	498,773	11.74	-	-	2,410	-
	ACN	Indirect subsidiary	367,321	4.87	-	-	60,279	-
	AISC	Indirect subsidiary	417,246	4.09	-	-	180,836	-
ATC	Advantech Co., Ltd. (the "Company")	Parent company	1,100,729	0.21	-	-	475,568	-
AKMC	ATC	Parent company	336,920	17.43	-	-	60,280	-
ACN	AISC	Related enterprise	136,059	4.42	-	-	-	-

## ADVANTECH CO., LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
 NINE MONTHS ENDED SEPTEMBER 30, 2011  
 (In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2011			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note
				September 30, 2011	December 31, 2010	Shares	Percentage of Ownership	Carrying Value			
Advantech Co., Ltd. (the "Company")	AAC (BVI)	BVI	Investment holding company	\$ 993,108	\$ 1,078,934	29,623,834	100.00	\$ 2,380,063	\$ 319,015	\$ 316,945	Subsidiary
	ATC	BVI	Sale of industrial automation products	1,231,118	1,231,118	38,750,000	100.00	2,557,403	11,386	11,923	Subsidiary
	Advansus Corp.	Taipei, Taiwan	Production and sale of industrial automation products	180,000	180,000	18,000,000	50.00	228,348	55,820	23,283	Equity-method investee
	AEUH	Helmond, The Netherlands	Investment holding company	1,146,489	1,146,489	9,572,024	100.00	971,165	80,730	80,730	Subsidiary
	Advantech Fund-A	Taipei, Taiwan	Investment and management service	900,000	900,000	90,000,000	100.00	854,750	33,705	33,477	Subsidiary
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	249,059	261,681	20,537,984	26.55	316,466	115,245	26,284	Equity-method investee
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	98,443	14,615	14,615	Subsidiary
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	74,920	3,180	3,180	Subsidiary
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	192,194	19,042	19,042	Subsidiary
	AYS	Cayman Islands	Sale of industrial automation products	-	5,927	-	-	-	-	-	Subsidiary
	AMY	Malaysia	Sale of industrial automation products	35,140	35,140	2,000,000	100.00	39,697	4,281	4,281	Subsidiary
	AHG	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	14,598	-	152	Equity-method investee
	AKR	Seoul, Korea	Sale of industrial automation products	73,355	73,355	600,000	100.00	140,025	45,220	45,220	Subsidiary
	ABR	Sao Paulo, Brazil	Sale of industrial automation products	-	-	971,055	43.28	27,584	17,821	10,693	Subsidiary
	AiST	Taipei, Taiwan	Sale of industrial automation products	50,000	50,000	5,000,000	100.00	83,900	33,713	33,713	Subsidiary
	AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	(1,860)	3,930	3,930	Subsidiary (Note A)
ACA	Taipei, Taiwan	Production and sale of portable industrial computing products	91,650	-	7,948,839	99.36	168,760	27,428	27,103	Subsidiary	
Advantech Fund-A	Netstar Technology Co., Ltd.	Taipei, Taiwan	Production and sale of industrial automation products	264,305	245,068	21,632,265	86.53	197,160	(2,592)	(2,004)	Indirect subsidiary
	BCM Embedded Computer Inc.	Taipei, Taiwan	Telecommunications equipment and electronic parts manufacturing	45,500	45,500	4,500,000	100.00	17,705	1,308	1,308	Indirect subsidiary
	Broadwin Technology Inc. Cermate Technologies Inc.	Taipei, Taiwan Taipei, Taiwan	Assembly and production of computers Production and sale of electrical equipment, telecommunications equipment and electronic parts manufacturing	142,063 71,500	142,063 71,500	6,777,571 5,500,000	100.00 55.00	153,361 82,021	7,670 12,187	7,670 6,703	Indirect subsidiary Indirect subsidiary
ATC	ATC (HK)	Hong Kong	Investment holding company	1,212,730	1,212,730	41,650,001	100.00	1,785,515	46,791	46,791	Indirect subsidiary
ATC (HK)	AKMC	Jiangsu, China	Production and sale of industrial automation products	1,212,730	1,212,730	-	100.00	1,785,515	46,791	46,791	Indirect subsidiary
AAC (BVI)	ANA	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	1,238,010	126,425	126,425	Indirect subsidiary
	AAC (HK)	Hong Kong	Investment holding company	539,146	539,146	15,230,001	100.00	1,145,586	195,867	195,867	Indirect subsidiary
AAC (HK)	ACN	Beijing, China	Sale and fabrication of industrial automation products	185,356	185,356	-	100.00	645,860	93,236	93,236	Indirect subsidiary
	SHHQ	Shanghai, China	Sale and fabrication of industrial automation products	-	96,750	-	-	-	10	10	Indirect subsidiary
	AiSC	Shanghai, China	Sale and fabrication of industrial automation products	257,040	257,040	-	100.00	516,155	127,039	127,039	Indirect subsidiary
	AXA	Xi'an, China	Development and production of software products	32,960	32,960	-	100.00	(16,862)	(24,034)	(24,034)	Indirect subsidiary (Note A)
ACN	Hangzhou Advantofine Automation Co., Ltd.	Hangzhou, China	Processes and sale of peripherals	13,727	13,727	-	60.00	15,806	203	122	Equity-method investee
AEUH	AEU	Eindhoven, The Netherlands	Sale and fabrication of industrial automation products	256,473	256,473	8,314,280	100.00	98,728	23,542	13,372	Indirect subsidiary
	APL	Warsaw, Poland	Sale and fabrication of industrial automation products	14,176	10,285	6,836	100.00	39,239	4,499	4,499	Indirect subsidiary
	DLoG	Munich, Germany	Design, R&D and sale of industrial automation vehicles and related products	553,536	553,536	1	100.00	616,215	80,773	58,903	Indirect subsidiary
AEU	Innocore	England	Design, R&D and sale of gaming computing products	166,023	166,023	251,111	100.00	161,274	10,605	435	
Innocore	IGL	England	Design, R&D and sale of gaming computing products	166,023	166,023	501,000	100.00	46,335	10,605	10,605	

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2011			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note
				September 30, 2011	December 31, 2010	Shares	Percentage of Ownership	Carrying Value			
ASG	ATH	Thailand	Production of computers	\$ 7,537	\$ 7,537	51,000	51.00	\$ 17,941	\$ 7,411	\$ 3,780	Indirect subsidiary
Netstar Technology Co., Ltd.	Jan Hsiang Electronics Co., Ltd.	Taipei, Taiwan	Electronic parts and components manufacturing	3,719	3,719	655,500	28.50	7,083	5,285	1,506	Indirect subsidiary
	LANSONIC (B.V.I.)	BVI	General investment	-	101,188	-	-	-	3,287	3,117	Indirect subsidiary
Broadwin Technology Inc.	Broadwin Technology Inc.	San Ramon, USA	Sale of Webaccess software	69,492	69,492	5,643,650	100.00	14,337	(75)	(75)	Indirect subsidiary
Cermate Technologies Inc.	LandMark	BVI	General investment	28,200	28,200	972,284	100.00	43,191	8,858	8,858	Indirect subsidiary
LandMark	Cermate (Shanghai)	Shanghai, China	Sale of industrial electronic products	US\$ 572	US\$ 572	-	100.00	23,938	2,630	2,630	Indirect subsidiary
	Cermate (Shenzhen)	Shenzhen, China	Manufacture of LCD touch panel, USB data cable and industrial automation products	US\$ 308	US\$ 308	-	90.00	19,126	6,921	6,229	Indirect subsidiary

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

Note B: The financial statements used as basis of net asset values were not reviewed by CPA.

(Concluded)

## ADVANTECH CO., LTD. AND INVESTEEES

## INVESTMENTS IN MAINLAND CHINA

NINE MONTHS ENDED SEPTEMBER 30, 2011

(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 January 1, 2011	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2011	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of September 30, 2011	Accumulated Inward Remittance of Earnings as of September 30, 2011
					Outflow	Inflow					
Advantech Technology (China) Company Ltd. (AKMC)	Production and sale of components of industrial automation products	US\$41,650 thousand	Indirect	\$ 1,136,904 (US\$ 37,300 thousand)	\$ -	\$ -	\$ 1,136,904 (US\$ 37,300 thousand)	100%	\$ 46,791	\$ 1,785,515	\$ -
Yan Hua Xing Ye Electronic (SHHQ)	Sale of industrial automation products	US\$3,000 thousand	Indirect	91,440 (US\$ 3,000 thousand)	-	91,440 (US\$ 3,000 thousand)	-	-	10	-	-
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Sale of industrial automation products	US\$4,230 thousand	Indirect	162,519 (US\$ 5,332 thousand)	-	-	162,519 (US\$ 5,332 thousand)	100%	93,236	645,860	342,443 (US\$ 11,235 thousand)
Shanghai Advantech Intelligent Services Co., Ltd. (AiSC)	Production and sale of industrial automation products	US\$8,000 thousand	Indirect	234,840 (US\$ 8,000 thousand)	-	-	234,840 (US\$ 8,000 thousand)	100%	127,039	516,155	-
Xi'an Advantech Software Ltd. (AXA)	Development and production of software products	US\$1,000 thousand	Indirect	(Note C)	-	-	(Note C)	100%	(24,034)	(16,862)	-

Accumulated Investment in Mainland China as of September 30, 2011	Investment Amounts Authorized by Investment Commission, MOEA	Maximum Allowable Limit on Investment
\$1,549,359 (US\$50,832 thousand) (Note D)	\$2,682,240 (US\$88,000 thousand)	\$8,955,611 (Note F)

Note A: The financial statements used as basis of net asset values were not reviewed by CPA.

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 Note 18 to the financial statements and Tables 1, 2, 5 and 6.

Note C: Remittance by Advantech Automation Corp. (H.K.) Limited.

(Continued)

Note D: Included the outflow on investment in Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd. (AGZ) of US\$200 thousand. This company had liquidated already, after the capitals of the original investment is inflow back, the Company will submit this incident to MOEA for approving and terminating this case under the regulation.

Note E: The exchange rate was US\$1.00=NT\$30.48.

Note F: The maximum allowable limit on investment was based on 60% of the consolidated net asset value of Advantech Co., Ltd. (the "Company").

(Concluded)