Advantech Co., Ltd.

Financial Statements for the
Six Months Ended June 30, 2006 and 2005 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

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

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

As disclosed in Note 8 to the financial statements, Advantech Co., Ltd. had investments accounted for by the equity method. As of June 30, 2006 and 2005, these investments had a carrying value of NT$3,476,317 thousand and NT$2,781,246 thousand, respectively. As of June 30, 2006 and 2005, the credit balance of equity-method investees with carrying value were NT$1,009 thousand and NT$2,728 thousand, respectively. For the six months ended June 30, 2006 and 2005, the net investment gains of NT$518,382 thousand and NT$352,891 thousand, respectively, as well as additional disclosures in Note 21 required by the Securities and Futures Bureau for the Company and its investees, were based on the investees' unaudited financial statements for the same reporting periods as those of the Company.

In our opinion, except for any adjustments that might have been determined to be necessary had the above equity-method investment amounts been based on the investees' audited financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of Advantech Co., Ltd. as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six-months then ended in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, on January 1, 2006, Advantech Co., Ltd. adopted the new Statements of Financial Accounting Standards ("Statements") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

We have reviewed the consolidated financial statements of Advantech Co., Ltd. and subsidiaries for the six months ended June 30, 2006 (not presented herein) and have issued an qualified accountants' review report on the consolidated financial statements.

August 4, 2006

Notice to Readers

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

For the convenience of readers, the auditor' 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 auditor' report and financial statements shall prevail.

ADVANTECH CO., LTD.

BALANCE SHEETS
JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 1,343,521	9	$ 1,745,630	16
Available-for-sale financial assets - current (Notes 2, 3, 6 and 20)	1,743,131	11	2,024,057	18
Notes receivable (Note 2)	40,440	-	34,317	-
Accounts receivable, net of allowance for doubtful accounts of $9,603 thousand in 2006 and $16,921 thousand in 2005 (Note 2)	534,136	4	400,911	4
Receivable from related parties (Notes 2 and 17)	2,234,335	14	1,276,727	11
Tax refund receivable	143,628	1	121,917	1
Inventories, net (Notes 2 and 7)	1,222,660	8	973,555	9
Deferred income tax assets - current (Notes 2 and 14)	44,310	-	50,671	-
Prepayment and other current assets	46,919	-	100,372	1
Total current assets	7,353,080	47	6,728,157	60
FUNDS AND INVESTMENTS				
Equity method investment (Notes 2 and 8)	3,476,317	22	2,781,246	25
Available-for-sale financial assets - noncurrent (Notes 2, 3, 6 and 20)	3,205,245	20	19,798	-
Total funds and investments	6,681,562	42	2,801,044	25
PROPERTIES (Notes 2 and 9)				
Cost				
Land	640,472	4	624,779	6
Buildings and equipment	844,911	5	837,848	7
Machinery and equipment	291,556	2	268,022	2
Furniture and fixtures	83,279	1	83,942	1
Miscellaneous equipment	139,136	1	88,789	1
Total cost	1,999,354	13	1,903,380	17
Accumulated depreciation	405,009	3	344,206	3
	1,594,345	10	1,559,174	14
Advances for equipment acquisition	2,606	-	32,656	-
Net properties	1,596,951	10	1,591,830	14
OTHER ASSETS				
Properties leased to others, net (Notes 2, 9 and 10)	-	-	21,415	-
Refundable deposits	7,928	-	6,701	-
Deferred expenses, net (Note 2)	125,593	1	92,779	1
Certificates of deposit - pledged (Note 18)	1,600	-	4,900	-
Total other assets	135,121	1	125,795	1
TOTAL	$ 15,766,714	100	$ 11,246,826	100

	2006		2005	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3, 5 and 20)	$ 403	-	$ 5,282	-
Notes payable	194	-	343	-
Accounts payable	556,089	4	638,805	6
Payables to related parties (Note 17)	546,900	4	691,913	6
Income tax payable (Notes 2 and 14)	145,252	1	69,554	-
Accrued expenses	200,376	1	227,900	2
Dividend payable and employee bonus payable (Note 13)	2,079,253	13	1,529,087	13
Bonds payable - current portion (Notes 2 and 11)	2,700	-	88,485	1
Other current liabilities	56,853	-	71,670	1
Total current liabilities	3,588,020	23	3,323,039	29
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 12)	110,964	1	112,334	1
Guarantee deposits received	954	-	1,902	-
Deferred income tax liabilities - noncurrent (Notes 2 and 14)	106,095	1	180,845	2
Deferred income (Notes 2 and 17)	238,941	1	229,257	2
Miscellaneous (Notes 2 and 8)	1,009	-	2,728	-
Total other liabilities	457,963	3	527,066	5
Total liabilities	4,045,983	26	3,850,105	34
SHAREHOLDERS' EQUITY				
Capital stock, $10 par value				
Authorized - 500,000 thousand shares	-	-	-	-
Issued and Outstanding - 449,138 thousand shares in 2006 and 377,941 thousand shares in 2005	4,491,383	28	3,779,407	34
To be issued	139,792	1	237,383	2
Total capital stock	4,631,175	29	4,016,790	36
Capital surplus				
Paid-in capital in excess of par value	4,349,570	28	1,238,733	11
From long-term equity investments	71,270	-	6,701	-
Total capital surplus	4,420,840	28	1,245,434	11
Retained earnings				
Legal reserve	1,086,326	7	843,346	8
Special reserve	-	-	19,661	-
Unappropriated earnings	1,794,233	11	1,342,197	12
Total retained earnings	2,880,559	18	2,205,204	20
Others				
Cumulative translation adjustments	54,970	1	(70,707)	(1)
Unrealized losses on financial instruments	(266,813)	(2)	-	-
Total others	(211,843)	(1)	(70,707)	(1)
Total shareholders' equity	11,720,731	74	7,396,721	66
TOTAL	$ 15,766,714	100	$ 11,246,826	100

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

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

ADVANTECH CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 17)				
Sales	$ 5,005,176	100	$ 3,796,391	100
Sales returns and allowances	26,484	1	11,811	1
Net sales	4,978,692	99	3,784,580	99
Other operating revenues	41,251	1	20,831	1
Total operating revenue	5,019,943	100	3,805,411	100
OPERATING COSTS (Notes 2, 15 and 17)	3,526,553	70	2,615,497	69
GROSS PROFIT	1,493,390	30	1,189,914	31
REALIZED (UNREALIZED) PROFITS ON INTERCOMPANY SALES (Note 2)	24,194	-	(16,097)	-
ADJUSTED GROSS PROFIT	1,517,584	30	1,173,817	31
OPERATING EXPENSES (Note 15)				
Marketing	133,119	3	131,326	3
Administrative	151,068	3	136,448	4
Research and development	279,385	5	222,612	6
Total operating expenses	563,572	11	490,386	13
OPERATING INCOME	954,012	19	683,431	18
NONOPERATING INCOME AND GAINS				
Interest	11,033	-	5,963	-
Equity in net income of investees, net (Notes 2 and 8)	518,382	11	352,891	9
Gain on disposal of investments	84,915	2	151,868	4
Foreign exchange gain, net (Note 2)	55,276	1	-	-
Royalty revenue (Note 17)	66,496	1	53,932	2
Other income (Notes 3 and 17)	14,228	-	12,768	-
Total nonoperating income and gains	750,330	15	577,422	15

(Continued)

ADVANTECH CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
NONOPERATING EXPENSES AND LOSSES				
Interest	$ -	-	$ 94	-
Foreign exchange loss, net (Note 2)	-	-	33,238	1
Provision for losses on inventories (Notes 2 and 7)	82,301	2	6,233	-
Financial asset revaluation loss, net (Notes 2, 3 and 5)	2,653	-	20,552	1
Other expenses (Note15)	3,372	-	4,280	-
Total nonoperating expenses and losses	88,326	2	64,397	2
INCOME BEFORE INCOME TAX	1,616,016	32	1,196,456	31
INCOME TAX (Notes 2 and 14)	158,662	3	113,000	3
NET INCOME	$ 1,457,354	29	$ 1,083,456	28

	2006		2005	
	Income Before Income Tax	**Net Income**	**Income Before Income Tax**	**Net Income**
EARNINGS PER SHARE (Note 16)				
Basic	$ 3.60	$ 3.25	$ 3.00	$ 2.71
Diluted	$ 3.59	$ 3.24	$ 2.95	$ 2.67

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

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

ADVANTECH CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	Capital Stock - Issued and Outstanding (Notes 11 and 13)			Capital Surplus (Notes 2 and 13)			Retained Earnings (Notes 2 and 13)				Cumulative Translation Adjustments (Note 2)	Unrealized Losses on Financial Instruments (Notes 2, 3 and 20)	Total Shareholders' Equity
	Shares (Thousands)	Amount	To be Issued (Notes 13)	Paid-in Capital in Excess of Par Value	From Long-term Equity Investments	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			
BALANCE, JANUARY 1, 2006	448,900	$ 4,489,003	$ -	$ 4,342,204	$ 50,365	$ 4,392,569	$ 843,346	$ 19,661	$ 2,688,544	$ 3,551,551	$ 39,481	$ -	$ 12,472,604
Adjustment of adopting newly announced and revised statement of financial accounting standard	-	-	-	-	-	-	-	-	-	-	-	620,449	620,449
Appropriation of the 2005 earnings													
Legal reserve	-	-	-	-	-	-	242,980	-	(242,980)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(19,661)	19,661	-	-	-	-
Bonus to employees	-	-	50,000	-	-	-	-	-	(220,648)	(220,648)	-	-	(170,648)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(22,065)	(22,065)	-	-	(22,065)
Stock dividends - 2%	-	-	89,792	-	-	-	-	-	(89,792)	(89,792)	-	-	-
Cash dividends - $4 per share	-	-	-	-	-	-	-	-	(1,795,841)	(1,795,841)	-	-	(1,795,841)
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	-	1,457,354	1,457,354	-	-	1,457,354
Conversion of bonds into capital stock and capital surplus	148	1,480	-	4,720	-	4,720	-	-	-	-	-	-	6,200
Employee stock options	90	900	-	2,646	-	2,646	-	-	-	-	-	-	3,546
Increase in capital surplus and cumulative translation adjustments due to disposal of long-term investment	-	-	-	-	-	-	-	-	-	-	5,993	-	5,993
Increase in carrying value of equity-method investment due to not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	20,905	20,905	-	-	-	-	-	-	20,905
Changes in unrealized losses on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(887,693)	(887,693)
Equity in the changes in unrealized losses on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	-	-	431	431
Translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	-	-	9,496	-	9,496
BALANCE, JUNE 30, 2006	449,138	$ 4,491,383	$ 139,792	$ 4,349,570	$ 71,270	$ 4,420,840	$ 1,086,326	$ -	$ 1,794,233	$ 2,880,559	$ 54,970	$ (266,813)	$ 11,720,731
BALANCE, JANUARY 1, 2005	374,296	$ 3,742,962	$ -	$ 1,072,211	$ 14,990	$ 1,087,201	$ 627,331	$ -	$ 2,280,132	$ 2,907,463	$ (19,661)	$ -	$ 7,717,965
Appropriation of the 2004 earnings													
Legal reserve	-	-	-	-	-	-	216,015	-	(216,015)	-	-	-	-
Special reserves	-	-	-	-	-	-	-	19,661	(19,661)	-	-	-	-
Bonus to employees	-	-	50,000	-	-	-	-	-	(192,448)	(192,448)	-	-	(142,448)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(19,245)	(19,245)	-	-	(19,245)
Stock dividends - 5%	-	-	187,383	-	-	-	-	-	(187,383)	(187,383)	-	-	-
Cash dividends - $3.7 per share	-	-	-	-	-	-	-	-	(1,386,639)	(1,386,639)	-	-	(1,386,639)
Net income in the six months ended June 30, 2005	-	-	-	-	-	-	-	-	1,083,456	1,083,456	-	-	1,083,456

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ADVANTECH CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	Capital Stock - Issued and Outstanding (Notes 11 and 13)			Capital Surplus (Notes 2 and 13)			Retained Earnings (Notes 2 and 13)						
	Shares (Thousands)	Amount	To be Issued (Notes 13)	Paid-in Capital in Excess of Par Value	From Long-term Equity Investments	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments (Note 2)	Unrealized Losses on Financial Instruments (Notes 2, 3 and 20)	Total Shareholders' Equity
Conversion of bonds into capital stock and capital surplus	3,645	$ 36,445	$ -	$ 166,522	$ -	$ 166,522	$ -	$ -	$ -	$ -	$ -	$ -	$ 202,967
Decrease in capital surplus and cumulative translation adjustments due to disposal of long-term investment	-	-	-	-	(5,415)	(5,415)	-	-	-	-	(8,902)	-	(14,317)
Adjustment for capital surplus from long-term stock investments accounted for by the equity method	-	-	-	-	(1,640)	(1,640)	-	-	-	-	-	-	(1,640)
Decrease in carrying value of equity-method investment due to not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	(1,234)	(1,234)	-	-	-	-	-	-	(1,234)
Equity in the investees' translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	(1,264)	-	(1,264)
Translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	-	-	(40,880)	-	(40,880)
BALANCE, JUNE 30, 2005	377,941	$ 3,779,407	$ 237,383	$ 1,238,733	$ 6,701	$ 1,245,434	$ 843,346	$ 19,661	$ 1,342,197	$ 2,205,204	$ (70,707)	$ -	$ 7,396,721

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

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

(Concluded)

ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,457,354	$ 1,083,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,738	54,389
Provision (reversal of allowance) for bad debts	(42)	321
Provision for losses on inventories	82,301	6,233
Gain on disposal of long-term equity investments, net	(74,439)	(136,705)
Loss (gain) on disposal of properties, net	(82)	198
Equity in net gain of investees, net	(518,382)	(352,891)
Cash dividends from equity-method investees	390,142	389,790
Accrued pension liabilities	16	(2,235)
Deferred income taxes	20,339	37,356
Deferred income	(24,194)	16,097
Net changes in operating assets and liabilities		
Financial instruments held for trading	(86)	13,657
Notes receivable	57,867	14,160
Accounts receivable	(132,259)	(77,201)
Receivables from related parties	(462,995)	(254,776)
Inventories	(84,137)	(338,283)
Tax refund receivable	(11,381)	654
Prepayment and other current assets	(26,576)	12,517
Notes payable	182	(476)
Accounts payable	(143,925)	291,844
Payables to related parties	25,695	(40,420)
Income tax payable	88,381	(66,805)
Accrued expenses	(65,747)	80,142
Other current liabilities	30,013	(7,482)
Net cash provided by operating activities	663,783	723,540
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in available-for-sale financial assets - current	(375,611)	(13,333)
Proceeds from sales of available-for-sale financial assets - noncurrent	64,153	-
Acquisition of equity-method investments	(547,507)	(30,100)
Proceeds from sale of equity-method investments	12,782	316,726
Acquisition of properties	(27,785)	(72,400)
Proceeds from disposal of properties	100	-
Increase in deferred expense	(11,723)	(7,593)
Decrease in certificates of deposit - pledged	2,500	-
Increase in other assets	(443)	(383)
Net cash provided by (used in) investing activities	(883,534)	192,917

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ADVANTECH CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in bank loans - short-term	$ -	$ (5,134)
Decrease in guarantee deposits received	(273)	(805)
Employee stock option	3,546	-
Bonus paid to employees	(57,826)	(45,844)
Remuneration to directors and supervisors	(1,500)	-
Net cash used in financing activities	(56,053)	(51,783)
NET INCREASE (DECREASE) IN CASH	(275,804)	864,674
CASH, BEGINNING OF PERIOD	1,619,325	880,956
CASH, END OF PERIOD	$ 1,343,521	$ 1,745,630
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	$ -	$ 94
Income tax paid	$ 49,942	$ 142,449
NONCASH INVESTING AND FINANCING ACTIVITIES		
Cash dividends receivable from equity-method investment	$ 336,374	$ 46,032
Receivable from sale of long-term equity investments	$ -	$ 65,303
Reclassification of properties leased to others into properties	$ 21,344	$ 8,945
Conversion of bonds into capital stock and capital surplus	$ 6,200	$ 202,967
Dividends payable, remuneration to directors and supervisors and bonus to employees payable	$ 1,988,554	$ 1,548,332
Credit balance of investments recorded as part of other liabilities	$ 1,009	$ 2,728

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

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

1. ORGANIZATION AND OPERATIONS

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

As of June 30, 2006 and 2005, the Company had 1,010 and 902 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash, financial assets held for trading and other assets consumed or used up within one year. Current liabilities include financial liabilities resulted from trading and repaid or settled within one year. All other assets and liabilities are classified as noncurrent.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities for trading. These derivatives are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value, with the changes in fair value recognized in current earnings. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trading date accounting.

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

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

Available-for-Sale Financial Assets

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

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

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

Revenue Recognition, Accounts Receivable, and Allowance for Doubtful Accounts

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

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

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

Inventories

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

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

Long-term Equity Investments

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

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

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

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

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

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

Properties and Properties Leased to Others

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

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

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

Deferred Expenses

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

Assets Impairment

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

Capital Expenditures

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

Pension Costs

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

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

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

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

Convertible Bonds

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

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

Income Tax

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

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

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

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

Foreign-currency Transactions

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

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

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

Reclassifications

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

3. ACCOUNTING CHANGES

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

a. Effect of accounting changes

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

The effect of the accounting changes is summarized as follows:

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

Note: Included in nonoperating income and gains - other.

b. Reclassifications

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

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

1) Short-term investments

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

2) Long-term equity investments

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

3) Forward contracts

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

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

Certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified to be consistent with the classifications prescribed under the new and the revised Statements. The reclassifications of the entire or a part of the account balances of certain accounts are summarized as follows:

	Before Reclassification	**After Reclassification**
Balance sheet		
Short-term investments	$ 2,024,057	$ -
Long-term investments accounted for using cost method	19,798	-
Other current liabilities (forward contracts)	5,282	-
Available-for-sale financial assets - current	-	2,024,057
Available-for-sale financial assets - noncurrent	-	19,798
Financial liabilities at fair value through profit or loss	-	5,282
Statement of income		
Foreign exchange loss, net	20,552	-
Valuation loss on financial instruments	-	20,552

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 1 - “Conceptual Framework for Financial Accounting and Preparation of Financial Statements,” SFAS No. 5 - “Long-term Investments in Equity Securities” and SFAS No. 25 - “Business Combinations - Accounting Treatment Under Purchase Method”, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least annually instead of being amortized. This accounting change had no cumulative effect on the financial statements but resulted in increases of NT$25,859 thousand in net income and of NT$0.06 basic earnings per share after tax for the six months ended June 30, 2006.

4. CASH

	June 30	
	2006	**2005**
Cash on hand	$ 1,156	$ 139
Checking and demand deposits	130,362	115,993
Time deposits: Interest - 1.45%-5.14% in 2006 and 1.05%-3.20% in 2005	1,212,003	1,629,498
	$ 1,343,521	$ 1,745,630

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

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

5. FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	June 30	
	2006	2005
Financial liabilities resulted from trading		
Forward contracts	$ 403	$ 5,282

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

	Currency	Maturity	Amount (Thousand)
June 30, 2006			
Sell	USD/NTD	July 2006	US$D4,000/NTD129,026
June30. 2005			
Sell	USD/NTD	October 2005	USD21,000/NTD652,774
	EUR/USD	October 2005	EUR6,000/USD8,635

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

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2006		2005	
	Current	Noncurrent	Current	Noncurrent
Mutual funds	$ 1,743,131	$ -	$ 2,024,057	$ -
Publicly traded stocks				
ASUSTEK Computer Inc.	-	3,158,420	-	-
Firich Enterprise Co., Ltd.	-	46,825	-	19,798
	$ 1,743,131	$ 3,205,245	$ 2,024,057	$ 19,798

7. INVENTORIES, NET

	June 30 2006	June 30 2005
Finished goods	$ 339,604	$ 277,241
Work in process	409,858	363,178
Materials and supplies	613,758	455,767
Inventories in transit	13,643	-
	1,376,863	1,096,186
Allowance for losses	(154,203)	(122,631)
	$ 1,222,660	$ 973,555

8. LONG-TERM EQUITY INVESTMENTS

	June 30			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Listed				
Axiomtek Co., Ltd.	$ 380,247	35.93	$ 309,550	41.54
Unlisted				
Advantech Automation Corp. (BVI)	1,065,998	100.00	749,922	100.00
Advantech Technology Co., Ltd.	496,663	100.00	860,572	100.00
Advansus Corp.	498,480	50.00	-	-
Advantech Europe Holding B.V.	295,584	98.37	222,160	97.16
Yin Hsin Investment Co., Ltd.	260,701	100.00	273,329	100.00
Advantech Technologies Co., Ltd.	164,923	23.89	102,880	27.47
Advantech Co. Singapore Pte, Ltd.	100,066	100.00	81,176	100.00
Advantech Japan Co., Ltd.	85,614	100.00	69,891	100.00
Advantech Australia Pty Ltd.	76,013	100.00	71,204	100.00
Viewsys Technology Co., Ltd.	22,000	100.00	-	-
Advantech Hungary Ltd.	12,836	30.00	12,992	30.00
Advantech IBHA Technologies Inc.	11,793	13.29	14,451	13.29
Advantech Investment & Management Service	5,399	100.00	5,335	100.00
Advantech Development Co., Ltd.	-	-	7,673	100.00
Advantech (H.K.) Technology Co., Ltd.	-	100.00	111	100.00
Advantech Brazil S/A	-	-	-	60.00
	$ 3,476,317		$ 2,781,246	

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

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

At the meeting on September 30, 2005, the board of directors approved a proposal for Advantech and ASUSTek to enter into a strategic alliance through a share swap. Shares will be exchanged at 1.13 shares of Advantech for every share of ASUSTek. Thus, Advantech will issue 44,893 thousand shares in exchange for 39,729 thousand shares of ASUSTek. In addition, under the proposal, the Company and ASUSTek each invested $500,000 thousand (i.e., 50-50 ownership) to establish a joint venture, Advansus Corp., in January 2006. The investment in Advansus Corp. was accounted for by the equity method and included in the consolidated financial statements for the six month ended June 30, 2006 in a proportionate consolidated method.

The Company intended to support the operations of Advantech (H.K.) Technology Co., Ltd. in 2006 and Advantech Brazil S/A in 2005. Under the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities" of the Republic of China, if the equity in losses recognized exceeds the original investment acquisition costs plus any advances given to the investee, the Company recognizes its investee's total losses unless other investors commit to assume, and can assume, a portion of the losses. As of June 30, 2006 and 2005, there were credit balances on this investment of $1,009 thousand and $2,728 thousand, respectively, included in other liability - miscellaneous as follows:

	June 30			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Advantech (HK) Technology Co., Ltd.	$ 1,009	100	$ -	-
Advantech Brazil S/A	-	-	2,728	60
	$ 1,009		$ 2,728	

The market value of the listed stock of the equity investment's market values, which was calculated on the basis of the closing price of June 30, 2006 and 2005 were $950,374 thousand and $586,057 thousand.

As required by the revised R.O.C. Statement of Financial Accounting Standards No. 7 "Consolidated Financial Statements", starting from 2005, consolidated financial statements should include direct and indirect subsidiaries in which the Parent Company has controlling interest or has voting right over 50%. The consolidated entities include the Parent Company and its all subsidiaries in 2006.

9. PROPERTIES

Accumulated depreciation was as follows:

	June 30	
	2006	2005
Buildings and equipment	$ 94,102	$ 76,230
Machinery and equipment	185,371	153,656
Furniture and fixtures	49,986	52,852
Miscellaneous equipment	75,550	61,468
	$ 405,009	$ 344,206

Depreciation expenses for properties and properties leased to others were $40,773 thousand and $47,240 thousand in the six months ended June 30, 2006 and 2005, respectively.

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

	June 30, 2005
Cost	
Land	$ 15,693
Buildings and equipment	7,063
	22,756
Accumulated depreciation	1,341
	$ 21,415

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

11. BONDS DUE WITHIN ONE YEAR

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

On July 19, 2001, the Company issued domestic unsecured convertible bonds with aggregate face value of $1,000,000 thousand (or $100 thousand face value per unit), which were listed on the Taiwan Stock Exchange on July 31, 2001. These bonds will mature on July 18, 2006 and will be redeemed at 12.4864% of their face value on July 19, 2004 or 19.2519% of their face value on July 19, 2005. The bonds are convertible to capital stock at an agreed conversion price between October 19, 2001 and July 8, 2006 under certain conditions. As of June 30, 2006, bonds with aggregate face value of $996,900 thousand had been converted to 20,848 thousand shares and $400 thousand in bonds had been redeemed at the holders' request. As of June 30, 2006, the conversion price of the convertible bonds was NT$41.9.

12. PENSION PLAN

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

Under the Act, the Company has a defined contribution pension plan. Since July 1, 2005, the Company has made monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance at 6% of employees' salaries and wages. The pension cost under the defined contribution loan was $18,289 thousand for the six months ended June 30, 2006.

The Company has ad 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 accumulated up to 45 based points, and the benefits based on employee's average monthly salary for the six-month period prior to retirement.

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

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

Fund changes -

	June 30	
	2006	**2005**
Balance, beginning of period	$ 70,952	$ 62,094
Contribution	504	5,514
Interest	1,488	670
Payment	-	-
Balance, end of period	$ 72,944	$ 68,278

Changes in the accrued pension liability -

	June 30	
	2006	**2005**
Balance, beginning of period	$ 110,948	$ 114,569
Pension cost	520	3,279
Contributions	(504)	(5,514)
Balance, end of period	$ 110,964	$ 112,334

13. SHAREHOLDERS' EQUITY

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

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

a. 3% to 12% as bonus to employees. For stock bonuses, employees may include subsidiaries' employees who meet certain criteria as determined by the Company's board of directors;

b. 1% as remuneration to directors and supervisors.

c. Dividends, as proposed by the board of directors.

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

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

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

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

	Appropriation of Earnings		**Dividends Per Share (Dollars)**	
	2005	**2004**	**2005**	**2004**
Legal reserve	$ 242,980	$ 216,015	$ -	$ -
Special reserve	-	19,661	-	-
Cash dividends	1,795,841	1,386,639	4.0	3.7
Stock dividends	89,792	187,383	0.2	0.5
Remuneration to directors and supervisors	22,065	19,245	-	-
Bonus to employees - stock	50,000	50,000	-	-
Bonus to employees - cash	170,648	142,448	-	-

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

Because of bond conversion, the Company's capital stock and capital surplus due to issue of stock in excess of par value increased 1,480 thousand and 4,720 thousand for the six months ended June 30, 2006, respectively. Also, they increased 36,445 thousand and 166,522 thousand for the six months ended June 30, 2005, respectively.

On April 1, 2003, the Securities and Futures Bureau approved the Company's stock option plan. There were 3,000 thousand units authorized to be issued, which may be converted to 3,000 thousand common shares. Employees may exercise a certain percentage of the option within two and four years of the grant date, and will expire six years from the grant date. The stock options were issued on August 14, 2003, and the exercise price was set at NT$39.40 as of June 30, 2006. As of June 30, 2006, there were 860 thousand units of stock options exercised, which were converted to 860 thousand common shares; thus, the unexercised stock options consisted of 1,800 thousand units.

14. INCOME TAX

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

	June 30	
	2006	2005
Tax on pretax income at 25% statutory rate	$ 403,994	$ 299,104
Deduct tax effects of:		
Permanent differences		
Tax-exempt income	(136,380)	(45,542)
Other	(23,706)	(94,853)
Temporary differences	(40,822)	(16,531)
Income tax (10%) on undistributed earnings	5,848	-
Investment tax credit	(70,611)	(69,911)
Income tax currently payable	$ 138,323	$ 72,267

b. Income tax expense consisted of the following:

	June 30	
	2006	2005
Income tax currently payable	$ 138,323	$ 72,267
Income tax expense - deferred	20,339	37,356
Adjustment of prior year's income tax	-	3,377
	$ 158,662	$ 113,000

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

	June 30	
	2006	2005
Balance, beginning of period	$ 56,871	$ 136,359
Income tax currently payable	138,323	72,267
Payment	(49,942)	(142,449)
Adjustment of prior year's income tax	-	3,377
Balance, end of period	$ 145,252	$ 69,554

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

	June 30	
	2006	2005
Current		
Deferred income tax assets		
Allowance for loss on inventories	$ 38,551	$ 30,658
Excess provisions for doubtful receivables	6,958	-
Unrealized product warranty reserve	6,791	-
Investment tax credit	-	11,466
Unrealized foreign exchange loss	-	5,868
Others	6,523	2,679
	58,823	50,671

(Continued)

	June 30	
	2006	2005
Deferred income tax liabilities		
Unrealized foreign exchange gain	$ 14,513	$ -
Deferred income tax assets, net	$ 44,310	$ 50,671
Noncurrent		
Deferred income tax assets:		
Accumulated equity in the net loss of investees	$ 104,246	$ 122,226
Deferred income	43,686	41,888
Pension cost	27,737	28,791
Interest-premium on convertible bonds	-	31,572
	175,669	224,477
Valuation allowance	(104,246)	(153,798)
	71,423	70,679
Deferred income tax liabilities:		
Accumulated equity in the net gains of foreign investees	(177,518)	(236,056)
Allowance for tax-deductible equity in net loss of foreign investees	-	(15,468)
	(177,518)	(251,524)
Deferred income tax liabilities, net	$ (106,095)	$ (180,845)

(Concluded)

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

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

	June 30	
	2006	2005
Balance of the imputation credit account (ICA)	$ 182,867	$ 159,043
The balances of unappropriated retained earnings generated before 1997	$ 81,329	$ 81,329

The expected and actual creditable tax ratios for earnings as of December 31, 2005 and 2004, respectively, which were distributed in 2006 and 2005, respectively, were 7.01% and 7.23%, respectively. The creditable tax ratio should be based on the ICA balance on the date of dividend distribution. Thus, the expected creditable ratio for 2005 earnings may differ from the actual ratio depending on the ICA balance on the dividend distribution date.

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

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

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

15. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	Six Months Ended June 30					
	2006			2005		
	Included in Cost of Goods Sold	Included in Operating Expenses	Total	Included in Cost of Goods Sold	Included in Operating Expenses	Total
Personnel expenses						
Payroll	$ 72,254	$ 246,522	$ 318,776	$ 69,845	$ 231,172	$ 301,017
Insurance	6,293	19,486	25,779	5,542	17,237	22,779
Pension	4,148	14,661	18,809	1,033	2,246	3,279
Others	3,673	7,564	11,237	3,526	9,351	12,877
Depreciation	17,229	23,544	40,773	24,650	22,515	47,165
Amortization	1,018	13,947	14,965	1,403	5,746	7,149
	$ 104,615	$ 325,724	$ 430,339	$ 105,999	$ 288,267	$ 394,266

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

16. EARNINGS PER SHARE

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

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

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

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

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share	
	Pretax	After-tax	(Thousands)	Pretax	After-tax
Six months ended June 30, 2006					
Basic EPS	$ 1,616,016	$ 1,457,354	462,922	$ 3.49	$ 3.15
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,067		
Convertible bonds	-	-	142		
Diluted EPS	$ 1,616,016	$ 1,457,354	464,131	$ 3.48	$ 3.14
Six months ended June 30, 2005					
Basic EPS	$ 1,196,456	$ 1,083,456	411,748	$ 2.91	$ 2.63
Impact of dilutive potential common stock					
Employees' stock options	-	-	1,364		
Convertible bonds	-	-	4,532		
Diluted EPS	$ 1,196,456	$ 1,083,456	417,644	$ 2.86	$ 2.59

17. RELATED-PARTY TRANSACTIONS

a. Related parties

	Relationship with the Company
Yin Hsin Investment Co., Ltd. (Yin Hsin)	Equity-method investee
Advantech IBHA Technologies Inc. (Advantech IBHA)	Equity-method investee
Axiomtek Co., Ltd. (Axiomtek)	Equity-method investee
Advantech Investment & Management Service (AIMS)	Equity-method investee
Advansus Corp.	Equity-method investee
Advantech Europe Holding B.V. (AEU)	Equity-method investee
Advantech Co. Singapore Pte, Ltd. (ASG)	Equity-method investee
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Japan Co., Ltd. (AJP)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Advantech Technology Co., Ltd. (ATC)	Equity-method investee
Advantech Brazil S/A (ABR)	Equity-method investee (sold to Advantech Internation Co., Ltd. in March 2006)
Advantech Australia Pty Ltd. (AAU)	Equity-method investee
Advantech Automation Corp. (BVI) (AAC (BVI))	Equity-method investee
Advantech France S.A. (AFR)	Equity-method investee of AEU (merged with AEBC in March 2006)
Advantech Italia S.p.A. (AIT)	Equity-method investee of AEU
Advantech Europe Business Center GmbH (AEBC, former name: ADL)	Equity-method investee of AEU

(Continued)

	Relationship with the Company
Advantech (UK) Ltd. (AUK)	Equity-method investee of AEU
Advantech Benelux B.V. (ABB)	Equity-method investee of AEU
Advantech Europe B.V. (AESC)	Equity-method investee of AEU
Advantech Technology (China) Company Ltd. (AKMC)	Equity-method investee of ATC
Advantech Electronic Technology (Dongguan) Co., Ltd. (ADMC)	Equity-method investee of ATC
Advantech Corp. (AC)	Equity-method investee of AAC (BVI)
Advan Automation Co., Ltd. (AAJP)	Equity-method investee of AAC (BVI) (before June 2005)
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd. (ACN)	Equity-method investee of AAC (BVI)
Advantech Control (M) Sdn. Bhd. (AKL)	Equity-method investee of ASG (equity-method investee of AACB before May 2005)
Advantech Automation (Penang) Sdn. Bhd. (APN)	Equity-method investee of ASG (equity-method investee of AACB before March 2005)
Advantech Corporation (Thailand) Co. (ATH)	Equity-method investee of ASG
Advantech Co., Malaysia Sdn. Bhd. (AMY)	Equity-method investee of ASG
Advantech Internation Co., Ltd.	The person in charge of Advantech International Co., Ltd. is a brother-in-law of the Company's chairman
Firich Enterprise Co., Ltd. (Firich)	The Company's chairman is the Firich Enterprise Co., Ltd.'s director
Viewsys Technology Co., Ltd. (Viewsys)	Equity-method investee
Advantech Investment Fund-C Co., Ltd. (Advantech IFC)	The person in charge of Advantech IFC is a brother-in-law of the Company's chairman
Mr. Andrea Zolli	Manager of AIT
Immoibiliare Verdi Srl	Manager of AIT

(Concluded)

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

	2006		2005	
	Amount	% of Total	Amount	% of Total
Six months ended June 30				
1) Sales				
AC	$ 1,253,261	25	$ 906,370	24
AESC	870,088	17	783,086	21
ACN	657,386	13	607,706	16
AJP	193,314	4	127,257	3
AKR	173,220	4	109,383	3
ASG	89,698	2	64,395	2
AAU	65,134	1	51,598	1
AKMC	50,525	1	35,833	1
APN	24,320	-	11,732	-

(Continued)

	2006 Amount	2006 % of Total	2005 Amount	2005 % of Total
Axiomtek	$ 17,280	-	$ 48,619	1
ABR	11,797	-	17,787	1
AKL	8,737	-	9,284	-
ATH	7,805	-	-	-
Viewsys	6,307	-	-	-
AHG	2,938	-	-	-
AUK	39	-	6,784	-
ATC	-	-	11,793	-
Others	2,492	-	3,436	-
	$ 3,435,061	68	$ 2,795,063	73

2) Purchase of materials and supplies

	2006 Amount	2006 % of Total	2005 Amount	2005 % of Total
ATC	$ 1,306,769	39	$ 1,061,646	39
Advansus Corp.	25,048	1	-	-
Viewsys	1,953	-	-	-
Others	8,241	-	7,453	-
	$ 1,350,654	40	$ 1,069,099	39

3) Royalty revenue for patent (part of nonoperating income)

	2006 Amount	2006 % of Total	2005 Amount	2005 % of Total
ATC	$ 66,496	12	$ 53,932	9

4) Rental revenues (part of nonoperating income)

	2006 Amount	2006 % of Total	2005 Amount	2005 % of Total
Advansus Corp.	205	-	-	-
AIMS	30	-	30	-
Yin Hsin	18	-	18	-
	253	-	48	-

5) Administrative revenues (part of nonoperating income)

	2006 Amount	2006 % of Total	2005 Amount	2005 % of Total
Viewsys	360	-	-	-
	$ 67,109	12	$ 53,980	9

(Continued)

	2006 Amount	2006 % of Total	2005 Amount	2005 % of Total
At the end of six months				
6) Receivables				
Accounts				
AESC	$ 646,681	29	$ 484,874	38
AC	494,469	22	342,861	27
ACN	441,732	20	219,390	17
AKMC	97,215	4	13,072	1
AJP	87,372	4	41,878	4
AKR	51,674	3	33,704	3
ASG	26,696	1	26,006	2
AAU	16,257	1	13,866	1
APN	15,691	1	-	-
Axiomtek	6,464	-	12,699	1
AKL	5,859	-	2,474	-
Viewsys	2,033	-	-	-
Firich	53	-	2,170	-
AUK	41	-	1,436	-
ABR	-	-	12,936	1
ATC	-	-	3,719	-
Others	2,470	-	4,500	-
	1,894,707	85	1,215,585	95
Dividends				
ATC	284,999	12	-	-
Axiomtek	51,375	3	46,032	4
	336,374	15	46,032	4
Royalty				
ATC	-	-	12,499	1
Other receivables				
AFR	877	-	273	-
AESC	561	-	548	-
Advansus Corp.	237	-	-	-
AC	71	-	414	-
Axiomtek	-	-	528	-
Others	1,508	-	848	-
	3,254	-	2,611	-
	$ 2,234,335	100	$ 1,276,727	100
6) Payables				
Accounts				
ATC	$ 490,279	90	$ 667,395	96
Advansus Corp.	26,169	5	-	-
Advantech IBHA	14,589	3	14,493	2
AC	4,018	1	3,948	1

(Continued)

	2006		2005	
	Amount	% of Total	Amount	% of Total
Viewsys	$ 2,041	-	$ -	-
AESC	1,030	-	-	-
Others	1,616	-	479	-
	539,742	99	686,315	99
Others - payments on behalf of others				
ACN	7,000	1	-	-
AC	-	-	5,303	1
Others	158	-	295	-
	7,158	1	5,598	1
	$ 546,900	100	$ 691,913	100

(Concluded)

c. Long-term equity investments

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

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

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

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

The Company bought in AEU shares from Mr. Andrea Zolli and Immoibiliare Verdi Srl in May 2006 and 2005, respectively. The related transaction is summarized as follows:

	Common Stock Issuer	Shares	Cost
May 2005	AEU	61,292	$ 10,302
May 2006	AEU	162,364	$ 25,507

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

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

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

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

18. ASSETS PLEDGED OR MORTGAGED

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

19. COMMITMENTS

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

	Amount
AKMC	US$ 10,000 thousand
ACN	4,000 thousand
	US$ 14,000 thousand

20. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	June 30			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivative financial instruments				
Assets				
Cash	$ 1,343,521	$ 1,343,521	$ 1,745,630	$ 1,745,630
Available-for-sale financial assets - current	1,743,131	1,743,131	2,024,057	2,025,775
Notes receivable	40,440	40,440	34,317	34,317
Accounts receivables	534,136	534,136	400,911	400,911
Receivables from related parties	2,234,335	2,234,335	1,276,727	1,276,727
Available-for-sale financial assets - noncurrent	3,205,245	3,205,245	19,798	25,192
Guarantee deposit paid	7,928	7,928	6,701	6,701
Certificates of deposit - pledged	1,600	1,600	4,900	4,900

(Continued)

	June 30			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Notes payable	$ 194	$ 194	$ 343	$ 343
Accounts payable	556,089	556,089	638,805	638,805
Payables to related parties	546,900	546,900	691,913	691,913
Bonds payable - current portion	2,700	5,980	88,485	124,040
Guarantee deposits received	954	954	1,902	1,902
Derivative financial instruments location				
Financial liabilities at fair value through profit or loss - current				
Domestic	-	-	5,282	5,282
Foreign (foreign corporation operating in domestic district included)	403	403	-	-

(Concluded)

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

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

1) For financial instruments such as cash, notes and accounts receivables, receivables from related parties, certificates of deposit - pledged, notes and accounts payables and payables to related parties, the carrying amounts of these financial instruments approximate their fair values.

2) Fair values of available-for-sale financial assets were based on their quoted market price .

3) Fair value of refundable (guarantee) deposits was based on their carrying amounts.

4) Fair value of the current portion of bonds payable was based on their quoted market prices.

5) Fair values of derivatives were determined using the quoted market prices, using valuation techniques incorporating estimates and assumptions that are consistent with those prevailing in the market.

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

	June 30			
	Based on the Quoted Market Price		Determined Using Valuation Techniques	
	2006	2005	2006	2005
Asset				
Available-for-sale financial assets - current	$ 1,743,131	$ 2,025,775	$ -	$ -
Available-for-sale financial assets - noncurrent	3,205,245	25,192	-	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	-	-	403	5,282
Bonds payable - current portion	5,980	124,040	-	-

d. As of June 30, 2006 and 2005, financial assets exposed to fair value risk from interest rate fluctuation amounted to $1,213,603 thousand and $1,634,398 thousand, respectively.

e. The Company recognized an unrealized gain of $ 887,693 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006. The Company also recognized an unrealized gain of $431 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity-method investees for the six months ended June 30, 2006.

f. Financial risks

1) Market risk. The derivative financial instruments categorized as financial assets at fair value through profit or loss are mainly used to hedge exchange rate fluctuations of foreign currency-denominated assets and liabilities. Thus, the market risk of derivatives will be offset by the gain or loss on the exchange rate fluctuations of hedged assets and liabilities.

2) Credit risk.

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

	June 30			
	2006		2005	
	Carrying Amount	Best Credit Risk Amount	Carrying Amount	Best Credit Risk Amount
Financial liabilities at fair value through profit or loss - current				
Forward contracts	$ 403	$ -	$ 5,282	$ -

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties breach the contracts. Contracts with positive fair values on the balance sheet date are evaluated for credit risk. Since the counter-parties to the foregoing derivative financial instruments are reputable financial institutions, management believes its exposure to default by counter-parties is low.

3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low.

21. ADDITIONAL DISCLOSURES

a. Except for those mentioned in Note and Table 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 June 30, 2006, accumulated inward remittance of earnings as of June 30, 2006 and upper limit on investment: Table 8 (attached)

2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Notes 17 and 19 and Tables 2, 5, 6 and 8.

TABLE 1

ADVANTECH CO., LTD. AND INVESTEES

FINANCING PROVIDED
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Financier	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Nature of Financing (Note A)	Transaction Amount	Financing Reasons	Allowance for Bad Debt	Collateral		Maximum Amount of Financing to Individual Counter-party	Maximum Amount of Financing that Can Be Provided by the Financier
											Item	Value		
1	AEU	AEBC	Receivables from related parties	$ 12,351 (EUR 300 thousand)	$ 10,293 (EUR 250 thousand)	2.5%	1	$ -	Financing need	$ -	-	$ -	$ 40,691 (Note B)	$ 81,383 (Note C)
		AEDC	Receivables from related parties	4,117 (EUR 100 thousand)	4,117 (EUR 100 thousand)	2.5%	1	-	Financing need	-	-	-	-	-
2	AESC	AEU	Receivables from related parties	10,704 (EUR 260 thousand)	10,704 (EUR 260 thousand)	2.5%	1	-	Financing need	-	-	-	11,483 (Note D)	22,966 (Note E)

Notes: A. Nature of Financing:

There is a need for short-term financing.

B. 15% of net asset value of AEU.

C. 30% of net asset value of AEU.

D. 15% of AESC's issued capital stock.

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

TABLE 2

ADVANTECH CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Maximum Balance for the Year	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statements (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note)
		Name	Nature of Relationship						
0	Advantech Co., Ltd. (the "Company")	ACN	Indirect subsidiary	$ 673,707 (Note A)	$ 129,480 (US$ 4,000 thousand)	$ 129,480 (US$ 4,000 thousand)	$ -	1.11	$ 1,347,415 (Note C)
		AKMC	Indirect subsidiary	"	323,700 (US$10,000 thousand)	323,700 (US$10,000 thousand)	-	2.77	"
		AC	Indirect subsidiary	"	226,590 (US$ 7,000 thousand)	-	-	-	"
		AAC (BVI)	Subsidiary	"	64,740 (US$ 2,000 thousand)	-	-	-	"
1	AEU	AEDC	Subsidiary	41,969 (Note B)	11,322 (EUR 275 thousand)	-	-	4.07	83,939 (Note D)

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

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

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

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

TABLE 3

ADVANTECH CO., LTD. AND INVESTEES

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

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

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Fubon Chi-Hsiang I Fund	-	”	3,572,061.97	$ 46,455	-	$ 46,455	Note B
	Dresdner Bond Dam Fund	-	”	6,175,882.50	71,065	-	71,065	Note B
Yin Hsin Co., Ltd.	Stock							
	Advantech IBHA Inc.	Investee	Long-term equity investments	10,000,000	59,045	66.67	59,045	Note A
	Timson Tech Co. (TTC)	”	”	270,000	7,729	30.00	7,729	Note A
	Superior Technology Co., Ltd.	-	Financial assets carried at cost - noncurrent	913,470	33,441	12.93	-	-
	COBAN Research and Technologies, Inc.	-		60,000	33,257	7.00	-	-
	Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	200,000	11,700	-	11,700	Note C
	Fund							
	ABN AMRO Bond Fund	-	”	869,082.72	13,004	-	13,004	Note B
	Fuh-Hwa Bond Fund	-	”	10,050,251.26	101,491	-	101,491	Note B
Advantech IBHA Inc.	Fund							
	ABN AMRO Bond Fund	-	”	4,715,360.85	70,557	-	70,557	Note B
	ABN AMRO Select Bond Fund	-	”	274,328.32	3,088	-	3,088	Note B
Viewsys Technology Co., Ltd.	Fund							
	JIH SUN Bond Fund	-	”	85,609.61	1,159	-	1,159	Note B
Advansus Corp.	Fund							
	NITC Bond Fund	-	”	369,579.91	30,196	-	30,196	Note B
	CITC Cash Reserves	-	”	2,576,500.60	15,004	-	15,004	Note B
AIMS	Fund							
	JIH SUN Bond Fund	-	”	111,192.65	1,507	-	1,507	Note B
TTC	Shares							
	Kunshan Timson Tech Co., Ltd.	Investee	Long-term equity investments	-	25,945	100.00	25,945	Note A
ATC	Shares							
	AKMC	”	”	-	528,625	100.00	528,625	Note A
	ADMC	”	”	-	46,499	100.00	46,499	Note A
AAC (BVI)	Stock							
	AC	”	”	10,952,606	738,257	100.00	738,257	Note A
	Visual Systems GmbH	-	Financial assets carried at cost noncurrent	-	740	20.00	-	-
	ACN	Investee	Long-term equity investments	-	305,676	100.00	305,676	Note A

(Continued)

Company Holding the Securities	Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
AEU	Stock							
	AESC	Investee	Long-term equity investments	8,314,280	$ 76,554	100.00	$ 76,554	Note A
	AUK	”	”	600,000	21,191	100.00	21,191	Note A
	ABB	”	”	295,378	53,635	100.00	53,635	Note A
	AEBC	”	”	1,142,000	18,728	100.00	18,728	Note A
	AIT	”	”	45,000	4,560	100.00	4,560	Note A
	APL	”	”	2,000	9,552	80.00	9,552	Note A
	Shares							
	AEDC	”	”	-	35,289	100.00	35,289	Note A
ASG	Stock							
	ATH	”	”	30,000	3,319	30.00	3,319	Note A
	APN	”	”	570,570	7,160	55.00	7,160	Note A
	AKL	”	”	418,000	4,458	55.00	4,458	Note A
	AMY	”	”	1,020,000	10,640	51.00	10,640	Note A

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

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

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

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

(Concluded)

ADVANTECH CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Other (Note A)	Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal		Shares	Amount
Advantech Co., Ltd. (the "Company")	Fund														
	ABN AMRO Bond Fund	Available-for-sale financial assets - current	-	-	12,151,168.46	$ 180,567	40,289,405.96	$ 601,652	39,122,812.53	$ 583,660	$ 582,945	$ 715	$ 4	13,317,761.89	$ 199,278
	Capital Income Fund	Available-for-sale financial assets - current			-	-	55,683,753.20	820,094	38,597,754.50	569,234	567,606	1,628	12	17,085,998.70	252,500
	CITC Cash Reserves Fund	Available-for-sale financial assets - current	-	-	-	-	52,709,485.10	611,871	35,541,316.50	413,171	411,910	1,261	-	17,168,168.60	199,961
	Fuh-Hwa Bond Fund	Available-for-sale financial assets - current	-	-	-	-	24,976,479.30	330,069	14,777,833.80	195,369	195,056	313	7	10,198,645.50	135,020
	Fuh-Hwa Albatross Fund	Available-for-sale financial assets - current	-	-	4,497,974.70	50,081	17,248,316.50	193,065	15,402,603.10	172,365	172,027	338	5	6,343,688.10	71,124
	ABN AMRO Income Fund	Available-for-sale financial assets - current	-	-	19,198,556.89	298,000	19,042,750.34	298,000	19,198,556.89	300,438	298,000	2,438	1,186	19,042,750.34	299,186
	ABN AMRO Select Bond Fund	Available-for-sale financial assets - current	-	-	8,289,805.60	92,668	33,136,180.68	371,450	33,500,348.91	375,538	374,910	628	-	7,925,637.37	89,208
	NITC Bond Fund	Available-for-sale financial assets - current	-	-	2,226,456.07	361,290	7,260,959.24	1,183,552	7,651,180.63	1,246,251	1,244,810	1,441	22	1,836,234.68	300,054
	AIG Taiwan Bond Fund	Available-for-sale financial assets - current	-	-	6,339,161.68	79,725	13,233,812.51	167,274	13,313,466.11	168,291	167,725	566	6	6,259,508.08	79,280
	Dresdner Bond Dam Fund	Available-for-sale financial assets - current	-	-	6,149,013.35	70,272	22,151,501.53	254,575	22,124,632.38	254,098	253,787	311	5	6,175,882.50	71,065
	Common stock														
	Advansus Corp.	Long-term equity investments	-	-	-	-	50,000,000.00	500,000 (Note B)	-	-	-	-	(1,520) (Note C)	50,000,000.00	498,480

Note A: Unrealized gains on financial instruments.

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

Note C: Equity in net loss of investee.

ADVANTECH CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Advantech Co., Ltd.	ATC	Subsidiary	Purchase	$ 1,306,769	39	Depending on its operating conditions	$ -	-	$ (490,279)	(90)	
	AC	Indirect subsidiary	Sale	(1,253,261)	(25)	60-90 days	-	-	494,469	22	
	AESC	Indirect subsidiary	Sale	(870,088)	(17)	Depending on its operating conditions	-	-	646,681	29	
	ACN	Indirect subsidiary	Sale	(657,386)	(13)	Depending on its operating conditions	-	-	441,732	20	
	AJP	Subsidiary	Sale	(193,314)	(4)	60-90 days	-	-	87,372	4	
	AKR	Investee	Sale	(173,220)	(4)	60-90 days	-	-	51,674	3	
ATC	Advantech Co., Ltd.	Parent company	Sale	(1,306,769)	(98)	Depending on its operating conditions	-	-	490,279	93	
AC	Advantech Co., Ltd.	Ultimate parent company	Purchase	1,253,261	78	60-90 days	-	-	(494,469)	(100)	
AESC	Advantech Co., Ltd.	Ultimate parent company	Purchase	870,088	71	Depending on its operating conditions	-	-	(646,681)	(90)	
ACN	Advantech Co., Ltd.	Ultimate parent company	Purchase	657,386	59	Depending on its operating conditions	-	-	(441,732)	(78)	
AJP	Advantech Co., Ltd.	Parent company	Purchase	193,314	96	60-90 days	-	-	(87,372)	(80)	
AKR	Advantech Co., Ltd.	Parent company	Purchase	173,220	96	60-90 days	-	-	(51,674)	(18)	
ACN	AKMC	Inter-affiliate company	Purchase	238,954	21	60-90 days	-	-	(57,908)	(10)	
ATC	AKMC	Subsidiary	Purchase	744,738	79	60-90 days	-	-	(277,059)	(46)	
AKMC	ACN	Inter-affiliate company	Sale	(238,954)	(24)	30-60 days	-	-	57,908	16	
	ATC	Parent company	Sale	(744,738)	(74)	60-90 days	-	-	277,059	79	

TABLE 6

ADVANTECH CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (Times)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Advantech Co., Ltd.	AESC	Indirect subsidiary	$ 646,681	2.88	$ -	-	$ 139,774	$ -
	AC	Indirect subsidiary	494,469	3.68	-	-	238,207	-
	ACN	Indirect subsidiary	441,732	5.68	-	-	133,992	-
ATC	Advantech Co., Ltd.	Parent company	490,279	5.68	-	-	309,844	-

TABLE 7

ADVANTECH CO., LTD. AND INVESTEES

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

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note B)	Note
				June 30, 2006	Dec. 31, 2005	Shares	Percentage of Ownership	Carrying Value			
Advantech Co., Ltd.	AAC (BVI)	BVI	Investment holding company	$ 725,144	$ 725,144	21,606,500	100.00	$ 1,065,998	$ 121,387	$ 121,387	Subsidiary
	ATC	BVI	Sale of industrial automation products	427,781	427,781	13,450,000	100.00	496,663	260,913	260,913	Subsidiary
	Advansus Corp.	Taipei, Taiwan	Production and sale of industrial automation products	500,000	-	50,000,000	50.00	498,480	(3,040)	(1,520)	Equity-method investee
	Axiomtek	Taipei, Taiwan	Production and sale of industrial automation products	304,794	308,586	22,101,732	35.93	380,247	181,192	65,875	Equity-method investee
	AEU	Helmond, the Netherlands	Investment holding company	377,298	351,791	9,415,695	98.37	295,584	34,511	33,513	Subsidiary
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	260,701	4,276	4,267	Subsidiary
	AKR	Seoul, Korea	Sale of industrial automation products	32,989	32,989	3,112,131	23.89	164,923	45,540	11,379	Equity-method investee
	ASG	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	100,066	9,189	9,189	Subsidiary
	AJP	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	85,614	10,483	10,483	Subsidiary
	AAU	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	76,013	2,357	2,357	Subsidiary
	Viewsys	Taipei, Taiwan	Sale of industrial automation products	22,000	-	1,100,000	100.00	22,000	-	-	Subsidiary
	AHG	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	12,836	-	-	Equity-method investee
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	11,793	1,099	146	Subsidiary
	AIMS	Taipei, Taiwan	Investment and management service	5,000	5,000	500,000	100.00	5,399	39	39	Subsidiary
	AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	(1,009)	(130)	(130)	Subsidiary (Note A)
Yin Hsin Co., Ltd.	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	100,000	100,000	10,000,000	66.67	59,045	1,099	733	Indirect subsidiary
	TTC	Brunei	Investment holding company	8,323	8,323	270,000	30.00	7,729	-	-	Equity-method investee of a subsidiary
ATC	AKMC	Kunshan, China	Production and sale of components of industrial automation products	409,393	409,393	-	100.00	528,625	6,194	6,194	Indirect subsidiary
	ADMC	Guangzhou, China	Production and sale of industrial automation products	44,511	38,165	-	100.00	46,499	(560)	(560)	Indirect subsidiary
Timson Tech Co. (TTC)	Kunshan Timson Tech Co., Ltd.	Kunshan, China	Processes and sale of peripherals	30,222	30,222	-	100.00	25,945	-	-	Equity-method of a subsidiary
AAC (BVI)	AC	Sunnyvale, USA	Sale and fabrication of industrial automation products	504,179	504,179	10,952,606	100.00	738,257	73,718	73,718	Indirect subsidiary
	ACN	Beijing, China	Sale of industrial automation products	185,356	185,356	-	100.00	305,676	47,112	47,112	Indirect subsidiary
AEU	AESC	Helmond, The Netherlands	Sale of industrial automation products	90,450	90,450	8,314,280	100.00	76,554	13,146	13,146	Indirect subsidiary
	AUK	Milton Keynes, England	Sale of industrial automation products	13,373	13,373	600,000	100.00	21,191	(10,053)	(10,053)	Indirect subsidiary
	ABB	Roosendaal, The Netherlands	Sale of industrial automation products	39,565	39,565	295,378	100.00	53,635	10,937	10,937	Indirect subsidiary
	AEBC	Duesseldorf, Germany	Sale of industrial automation products	46,028	46,028	1,142,000	100.00	18,728	35,662	35,662	Indirect subsidiary
	AIT	Milano, Italy	Sale of industrial automation products	22,275	22,275	45,000	100.00	4,560	(7,454)	(7,454)	Indirect subsidiary
	AEDC	Amberg, Germany	Sale of industrial automation products	46,446	46,446	-	100.00	35,289	(3,124)	(3,124)	Indirect subsidiary
	APL	Warsaw, Poland	Sale of industrial automation products	10,285	10,285	2,000	80.00	9,552	(660)	(528)	Indirect subsidiary
AEBC	AFR	Paris, France	Sale of industrial automation products	-	26,506	-	-	-	-	-	Indirect subsidiary (Notes C)
ASG	ATH	Thailand	Production of computers	2,495	1,199	30,000	30.00	3,319	1,404	421	Indirect subsidiary
	APN	Penang, Malaysia	Sale of industrial automation products	8,181	8,181	570,570	55.00	7,160	2,471	1,359	Indirect subsidiary
	AKL	Kuala Lumpur, Malaysia	Sale of industrial automation products	7,264	7,264	418,000	55.00	4,458	118	65	Indirect subsidiary
	AMY	Kuala Lumpur, Malaysia	Sale of industrial automation products	9,105	-	1,020,000	51.00	10,640	3,112	1,587	Indirect subsidiary

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

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

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

ADVANTECH CO., LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2006	Accumulated Inward Remittance of Earnings as of June 30, 2006	Accumulated Investment in Mainland China as of June 30, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US$12,000 thousand	Indirect	$ 388,440 (US$ 12,000 thousand)	$ -	$ -	$ 388,440 (US$ 12,000 thousand)	100%	$ 6,194	$ 528,625	$ -	$ 576,251 (US$ 17,802 thousand)	$ 809,250 (US$ 25,000 thousand)	$ 3,844,146
Kunshan Timson Tech Co., Ltd.	Processes and sale of peripherals	US$900 thousand	Indirect	8,740 (US$ 270 thousand)	-	-	8,740 (US$ 270 thousand)	30%	-	7,784	-	(Note D)		
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US$4,230 thousand	Indirect	172,597 (US$ 5,332 thousand)	-	-	172,597 (US$ 5,332 thousand)	100%	47,112	305,676	-			
Advantech Electronic Technology (Dongguan) Co., Ltd.	Production and sale of industrial automation products	US$1,400 thousand	Indirect	(Note C)	-	-	(Note C)	100%	(560)	46,499	-			

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

Note B: The significant events, prices, payment terms and unrealized gains or losses generated on trading between Advantech Co., Ltd. and its investees in Mainland China are described in Notes 17 and 19 to the financial statements and Tables 2.5 and6.

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

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

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