

Advantech Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the Years Ended
December 31, 2003 and 2002
Together with Independent Auditors' Report**

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

March 12, 2004

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

We have audited the accompanying consolidated balance sheets of Advantech Co., Ltd. and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As shown in the accompanying consolidated financial statements, the Company had these subsidiaries: Advantech Europe B.V., Advantech Europe GmbH, Advantech France S.A., Advantech (UK) Ltd., Advantech Benelux B.V., Axiomtek Co., Ltd., Axiom Technology, Inc. U.S.A., Advantech Automation (Penang) Sdn. Bhd., Advantech Control (M) Sdn. Bhd., Advantech Automation Corp., Advantech Brasil S/A, Advantech Australia Pty, Ltd., Advantech Co., Singapore Pte, Ltd. and Advantech Japan Co., Ltd. Their consolidated financial statements as of December 31, 2003 and 2002 were audited by other auditors. The Company also had equity-method investments in Advantech Europe Holding B.V. and Advantech Italia S.p.A., and their consolidated financial statements as of December 31, 2002 were audited by other auditors. These subsidiaries were either indirect (i.e., through wholly owned subsidiaries) or direct and are all accounted for by the equity method. The total assets of these subsidiaries and other equity-method investees were 35.04% (NT\$3,310,800 thousand) and 40.13% (NT\$3,552,218 thousand) of the Company's consolidated total assets as of December 31, 2003 and 2002, respectively. Also, the operating revenues of these subsidiaries were 58.37% (NT\$6,527,039 thousand) and 85.63% (NT\$8,354,654 thousand) of the Company's consolidated operating revenues for the years ended December 31, 2003 and 2002, respectively. The Company also had long-term equity investments in Advantech Technologies Co., Ltd., Advantech Hungary Ltd. and Innova Tech & Management Consultant Inc. Their consolidated financial statements as of December 31, 2003 and 2002 were audited by other auditors. The Company also had investments in Axiomtek Technology Deutschland GmbH and Broadwed Automation Co., Ltd., and their consolidated financial statements as of December 31, 2002 were audited by other auditors. These investments either indirect (i.e., through wholly owned subsidiaries) or direct and were all accounted for by the equity method. The carrying values of these investments were 1.86% (NT\$175,431 thousand) and 2.24% (NT\$198,340 thousand) of the Company's consolidated total assets as of December 31, 2003 and 2002, respectively. Also, the equity in the investees' net gain was 1.22% (NT\$15,900 thousand) and 0.43% (NT\$7,382 thousand) of the Company's consolidated income before income tax for the years ended December 31, 2003 and 2002, respectively. Since the consolidated financial statements of these subsidiaries or investees were audited by other auditors whose reports have been furnished to us, our opinion, insofar as it relates to the above subsidiaries and investees' amounts included herein, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Advantech Co., Ltd. and subsidiaries as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting for Public Company and accounting principles generally accepted in the Republic of China.

As shown in Note 2, Advantech Co., Ltd. prepared consolidated financial statements as of and for the year ended December 31, 2002 according to the Statement of Financial Accounting Standards No.7 of the Republic of China, "Consolidated Financial Statements," and the Guidelines for Securities Issuers' Financial Reporting for Public Companies. However, for full-disclosure purposes, the Company prepared consolidated financial statements as of and for the year ended December 31, 2003, which included direct and indirect subsidiaries, and restated the consolidated financial statements as of and for the year ended December 31, 2002 for consistency of presentation of the financial statements of consolidated entities.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

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

ASSETS	2003		2002 (Restatement— Note 2)		LIABILITIES AND SHAREHOLDERS' EQUITY	2003		2002 (Restatement— Note 2)	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 4)	\$1,056,671	11	\$1,080,236	12	Short-term bank loans (Notes 10, 19 and 20)	\$ 433,401	5	\$ 433,400	5
Short-term investments (Notes 2 and 5)	1,585,699	17	1,447,333	16	Notes payable	46,850	1	48,753	1
Notes receivable (Note 2)	151,276	2	125,347	2	Accounts payable	704,031	7	836,102	9
Accounts receivable—net of allowance for doubtful accounts of \$45,520 in 2003 and \$40,771 in 2002 (Note 2)	1,426,499	15	1,556,366	18	Payables to related parties (Note 19)	-	-	244	-
Receivables from related parties (Notes 2 and 19)	39,900	-	19,532	-	Income tax payable (Notes 2 and 15)	42,785	-	200,998	2
Inventories—net (Notes 2 and 6)	1,575,319	17	1,442,733	16	Accrued expenses	352,126	4	262,861	3
Deferred income tax assets—current (Notes 2 and 15)	101,104	1	72,966	1	Corporate bonds payable—current portion (Notes 2, 11 and 17)	1,035,620	11	-	-
Other current assets	488,872	5	177,450	2	Long-term loans payable—current portion (Notes 12, 19 and 20)	6,395	-	-	-
					Other current liabilities (Note 22)	279,719	3	228,599	3
Total current assets	6,425,340	68	5,921,963	67	Total current liabilities	2,900,927	31	2,010,957	23
LONG-TERM EQUITY INVESTMENTS (Notes 2, 7 and 19)					LONG-TERM LIABILITIES—Net of current portion				
Equity method	225,945	2	231,631	3	Corporate bonds payable—net of current portion (Notes 2, 11 and 17)	-	-	1,040,534	12
Cost method	104,576	1	113,391	1	Long-term loans payable (Notes 12, 19 and 20)	156,381	1	114,653	1
Total long-term equity investments	330,521	3	345,022	4	Total long-term liabilities	156,381	1	1,155,187	13
PROPERTIES (Notes 2, 8 and 20)					OTHER LIABILITIES				
Cost					Accrued pension liabilities (Notes 2 and 18)	122,243	1	105,118	1
Land	671,280	7	648,371	7	Deferred income tax liabilities—noncurrent (Notes 2 and 15)	66,782	1	-	-
Buildings and equipment	1,239,311	13	1,047,363	12	Deferred income (Note 2)	76,397	1	10,787	-
Machinery and equipment	337,205	4	331,414	4	Miscellaneous (Note 2)	10,156	-	12,462	-
Furniture and fixtures	234,591	3	159,092	2	Total other liabilities	275,578	3	128,367	1
Miscellaneous equipment	229,596	2	218,464	2	MINORITY INTEREST				
Total cost	2,711,983	29	2,404,704	27		298,693	3	444,603	5
Accumulated depreciation	542,035	6	426,377	4	Total liabilities	3,631,579	38	3,739,114	42
	2,169,948	23	1,978,327	23	SHAREHOLDERS' EQUITY				
Advances for equipment acquisition	2,242	-	29,411	-	Capital stock, \$10 par value				
Net properties	2,172,190	23	2,007,738	23	Authorized—500,000 thousand shares				
OTHER ASSETS					Issued—341,304 thousand shares in 2003 and 285,513 thousand shares in 2002	3,413,039	36	2,855,129	32
Consolidated debit (Note 2)	246,282	3	226,802	2	Entitlement certificates—16 thousand shares	-	-	162	-
Properties leased to others (Notes 2, 9 and 20)	112,907	1	166,717	2	Total capital	3,413,039	36	2,855,291	32
Deferred charges—net (Note 2)	96,493	1	59,474	1	Capital surplus				
Refundable deposits	27,038	1	26,284	-	Issue of stock in excess of par value	455,155	5	210,791	2
Certificates of deposit—restricted (Note 20)	2,400	-	800	-	Long-term equity investments	33,845	-	46,098	1
Deferred income taxes—net (Notes 2 and 15)	-	-	44,211	-	Total capital surplus	489,000	5	256,889	3
Miscellaneous	34,530	-	52,598	1	Retained earnings				
Total other assets	519,650	6	576,886	6	Legal reserve	520,089	6	396,678	5
					Unappropriated earnings	1,513,392	16	1,545,284	17
TOTAL ASSETS	\$9,447,701	100	\$8,851,609	100	Total retained earnings	2,033,481	22	1,941,962	22
					Cumulative translation adjustments	91,338	1	58,353	1
					Treasury stocks—3,862 thousand shares	(210,736)	(2)	-	-
					Total shareholders' equity	5,816,122	62	5,112,495	58
					TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$9,447,701	100	\$8,851,609	100

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

(With Deloitte & Touche auditors' report dated March 12, 2004)

English Translation of Financial Statements Originally Issued in Chinese

ADVANTECH CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)**

	2003		2002 (Restatement— Note 2)	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
OPERATING REVENUES (Notes 2 and 19)				
Sales	\$ 11,421,312	102	\$ 9,711,344	99
Sales returns and allowances	<u>331,851</u>	<u>3</u>	<u>225,423</u>	<u>2</u>
Net sales	11,089,461	99	9,485,921	97
Other operating revenues	<u>92,542</u>	<u>1</u>	<u>270,456</u>	<u>3</u>
Total operating revenues	11,182,003	100	9,756,377	100
OPERATING COSTS (Notes 16 and 19)	<u>6,083,526</u>	<u>54</u>	<u>5,581,613</u>	<u>57</u>
GROSS PROFIT	5,098,477	46	4,174,764	43
REALIZED (DEFERRED) PROFITS ON INTERCOMPANY SALES (Note 2)	<u>334</u>	<u>-</u>	<u>(552)</u>	<u>-</u>
ADJUSTED GROSS PROFIT	<u>5,098,811</u>	<u>46</u>	<u>4,174,212</u>	<u>43</u>
OPERATING EXPENSES (Note 16 and 19)				
Marketing	784,866	7	723,883	8
Administration	1,775,791	16	1,377,053	14
Research and development	<u>443,991</u>	<u>4</u>	<u>418,425</u>	<u>4</u>
Total operating expenses	<u>3,004,648</u>	<u>27</u>	<u>2,519,361</u>	<u>26</u>
OPERATING INCOME	<u>2,094,163</u>	<u>19</u>	<u>1,654,851</u>	<u>17</u>
NONOPERATING INCOME AND GAINS				
Gain on disposal of investments	101,088	1	49,295	1
Equity in net income of investees—net (Notes 2 and 7)	11,190	-	530	-
Interest	10,098	-	12,113	-
Foreign exchange gain—net (Note 22)	-	-	153,937	2
Other income (Notes 19 and 22)	<u>68,819</u>	<u>1</u>	<u>43,703</u>	<u>-</u>
Total nonoperating income	<u>191,195</u>	<u>2</u>	<u>259,578</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss—net (Notes 2 and 22)	690,759	6	-	-
Premium expenses (Notes 2 and 22)	123,510	1	-	-
Losses on disposal of scrap inventories	75,855	1	24,465	-
Interest	69,821	1	74,687	1

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ADVANTECH CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock				Capital Surplus (Notes 2 and 13)				Retained Earnings (Notes 2 and 13)			Cumulative Translation Adjustments (Note 2)	Treasury Stocks (Notes 2 and 14)	Total Shareholders' Equity	
	Issued (Notes 11 and 13)		Entitlement certificates (Notes 2, 11 and 13)		Issue of stock in excess of par value	Gain on disposal of properties	From long-term equity investments	Total	Legal reserve	Special reserve	Unappropriated earnings				Total
	Shares (thousands)	Amount	Shares (thousands)	Amount											
BALANCE, JANUARY 1, 2002	233,429	\$2,334,294	-	\$ -	\$205,351	\$271	\$46,098	\$251,720	\$280,162	\$13,305	\$1,346,641	\$1,640,108	\$ 8,376	\$ -	\$4,234,498
Reversal of special reserve	-	-	-	-	-	-	-	-	-	(13,305)	13,305	-	-	-	-
Appropriation of 2001 earnings															
Legal reserve	-	-	-	-	-	-	-	-	116,489	-	(116,489)	-	-	-	-
Bonus to employees	5,316	53,162	-	-	-	-	-	-	-	-	(104,839)	(104,839)	-	-	(51,677)
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	-	(10,484)	(10,484)	-	-	(10,484)
Stock dividends—20%	46,698	466,973	-	-	-	-	-	-	-	-	(466,973)	(466,973)	-	-	-
Cash dividends—\$1.5 per share	-	-	-	-	-	-	-	-	-	-	(350,230)	(350,230)	-	-	(350,230)
Transfer of prior years' net gain on disposal of properties to retained earnings	-	-	-	-	-	(271)	-	(271)	27	-	244	271	-	-	-
Net income in 2002	-	-	-	-	-	-	-	-	-	-	1,234,109	1,234,109	-	-	1,234,109
Conversion of bonds into entitlement certificates	-	-	86	862	5,440	-	-	5,440	-	-	-	-	-	-	6,302
Conversion of bonds to capital stock	70	700	(70)	(700)	-	-	-	-	-	-	-	-	-	-	-
Translation adjustment	-	-	-	-	-	-	-	-	-	-	-	-	46,615	-	46,615
Equity in the investees' translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	3,362	-	3,362
BALANCE, DECEMBER 31, 2002	285,513	2,855,129	16	162	210,791	-	46,098	256,889	396,678	-	1,545,284	1,941,962	58,353	-	5,112,495
Appropriation of 2002 earnings															
Legal reserve	-	-	-	-	-	-	-	-	123,411	-	(123,411)	-	-	-	-
Bonus to employees	5,521	55,214	-	-	-	-	-	-	-	-	(111,070)	(111,070)	-	-	(55,856)
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	-	(11,107)	(11,107)	-	-	(11,107)
Stock dividends—15%	42,936	429,363	-	-	-	-	-	-	-	-	(429,363)	(429,363)	-	-	-
Cash dividends—\$1.5 per share	-	-	-	-	-	-	-	-	-	-	(429,363)	(429,363)	-	-	(429,363)
Net income in 2003	-	-	-	-	-	-	-	-	-	-	1,072,422	1,072,422	-	-	1,072,422
Conversion of bonds into entitlement certificates	-	-	714	7,132	39,982	-	-	39,982	-	-	-	-	-	-	47,114
Conversion of entitlement certificates into capital stock	730	7,294	(730)	(7,294)	-	-	-	-	-	-	-	-	-	-	-
Issuance of shares to acquire long-term equity investments on April 28, 2003	6,604	66,039	-	-	204,382	-	-	204,382	-	-	-	-	-	-	270,421
Decrease in carrying value of equity investment due to change in equity in investee	-	-	-	-	-	-	(12,253)	(12,253)	-	-	-	-	-	-	(12,253)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(210,736)	(210,736)
Translation adjustment	-	-	-	-	-	-	-	-	-	-	-	-	44,471	-	44,471
Equity in the investees' translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(11,486)	-	(11,486)
BALANCE, DECEMBER 31, 2003	341,304	\$3,413,039	-	\$ -	\$455,155	\$ -	\$33,845	\$489,000	\$520,089	\$ -	\$1,513,392	\$2,033,481	\$91,338	(\$210,736)	\$5,816,122

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

(With Deloitte & Touche auditors' report dated March 12, 2004)

English Translation of Financial Statements Originally Issued in Chinese

ADVANTECH CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)**

	<u>2003</u>	<u>2002</u> (Restatement —Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,072,422	\$ 1,234,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest income	41,982	83,444
Net income before acquiring majority	<u>17,491</u>	<u>165</u>
	1,131,895	1,317,718
Depreciation and amortization	198,557	172,599
Loss on disposal of properties—net	296	765
Provision (reversal) of allowance for decline in value of short-term investments	(2,361)	5,592
Provision of allowance for losses on inventories	506	83,967
Losses on disposal of scrap inventories	75,855	24,465
Gain on sale of long-term equity investments	(18,817)	-
Equity in net gain of investees—net	(11,190)	(530)
Cash dividends from equity-method investees	34,681	8,999
Accrued pension liabilities	16,690	21,279
Interest-premium on convertible bonds	42,200	44,024
Deferred income taxes	82,855	(38,902)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Short-term investments	(136,005)	328,455
Notes receivable	(25,929)	(67,383)
Accounts receivable	129,867	(446,906)
Receivables from related parties	(20,368)	18,265
Inventories	(208,947)	(694,618)
Other current assets	(281,421)	(30,118)
Increase (decrease) in:		
Notes payable	(1,903)	23,162
Accounts payable	(132,071)	341,199
Payables to related parties	(244)	244
Income tax payable	(158,213)	64,941
Accrued expenses	89,700	119,071
Other current liabilities	45,718	98,687
Deferred income	<u>334</u>	<u>(552)</u>
Net cash provided by operating activities	<u>851,685</u>	<u>1,394,423</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of long-term equity investments	-	(56,201)
Proceeds from sale of long-term equity investments	30,559	-
Proceeds from sale of properties	3,835	1,864

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2003</u>	<u>2002</u> <u>(Restatement</u> <u>—Note 2)</u>
Acquisition of properties	(\$ 232,697)	(\$ 417,589)
Increase in deferred charges	(61,604)	(43,767)
Decrease (increase) in other assets	15,714	(3,692)
Increase in consolidated debit	(<u>40,253</u>)	(<u>199,236</u>)
Net cash used in investing activities	(<u>284,446</u>)	(<u>718,621</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans	1	(11,327)
Increase (decrease) in long-term loans payable	48,123	(6,910)
Increase (decrease) in other liabilities	(2,306)	4,929
Cash dividends paid	(429,363)	(350,230)
Bonus paid to employees, directors and supervisors	(61,561)	(60,148)
Purchase of treasury stock	(210,736)	-
Increase in minority equity	<u>65,038</u>	<u>308,256</u>
Net cash used in financing activities	(<u>590,804</u>)	(<u>115,430</u>)
NET INCREASE (DECREASE) IN CASH	(23,565)	560,372
CASH, BEGINNING OF YEAR	<u>1,080,236</u>	<u>519,864</u>
CASH, END OF YEAR	<u>\$ 1,056,671</u>	<u>\$ 1,080,236</u>
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 27,611</u>	<u>\$ 30,663</u>
Income tax paid	<u>\$ 224,988</u>	<u>\$ 368,402</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Reclassification of properties to properties leased to others	<u>\$ -</u>	<u>\$ 168,218</u>
Conversion of bonds into capital stock and capital surplus	<u>\$ 47,114</u>	<u>\$ 6,302</u>
Reclassification of properties leased to others to properties	<u>\$ 52,324</u>	<u>\$ -</u>
Conversion of entitlement certificates into capital stock	<u>\$ 7,294</u>	<u>\$ 700</u>
Current portion of corporate bonds payable	<u>\$ 1,035,620</u>	<u>\$ -</u>
Current portion of long-term loans payable	<u>\$ 6,395</u>	<u>\$ -</u>
Issuance of shares to acquire minority equity in subsidiaries	<u>\$ 270,421</u>	<u>\$ -</u>

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

(With Deloitte & Touche auditors' report dated March 12, 2004)

(Concluded)

ADVANTECH CO., LTD. AND SUBSIDIARIES

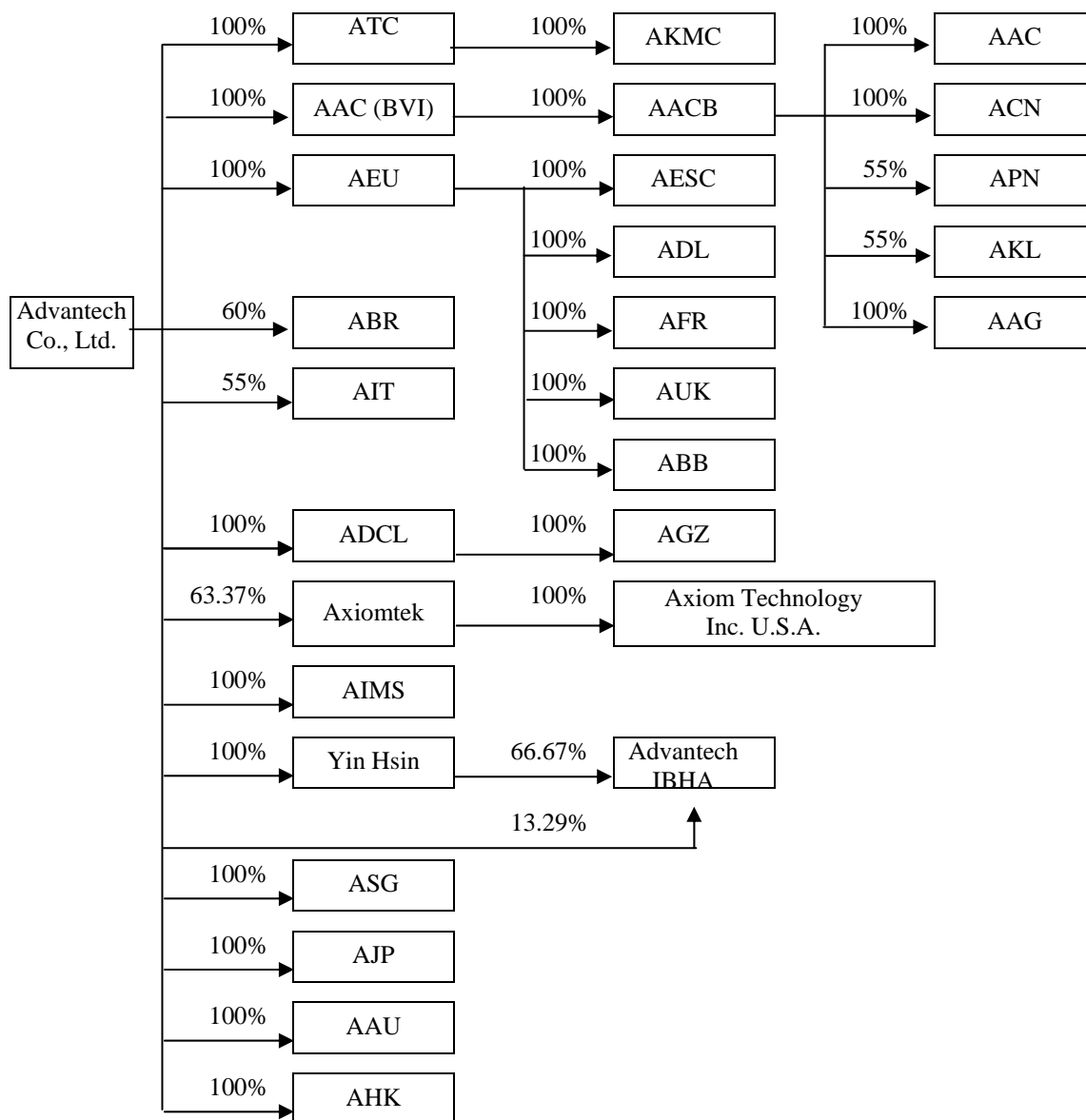
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)**

1. ORGANIZATION AND OPERATIONS

Advantech Co., Ltd. (the “Parent Company”) was established in September 1981. It manufactures and sells embedded personal computers (PCs), industrial automation products, industrial computers and panel PCs.

The intercompany relationships and percentages of ownership as of December 31, 2003 were as follows:

As of December 31, 2003 and 2002, the Parent Company and the consolidated subsidiaries (collectively, the “Group”) had 2,046 and 1,549 employees, respectively.



The business activities of the above investees are as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group's financial statements conform to the Guidelines for Securities Issuers' Financial Reporting for Public Companies and accounting principles generally accepted in the ROC.

The Group's estimates for allowance for doubtful accounts, provision for losses on inventories depreciation of properties, pension cost and warranty liabilities. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

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

Basis for Consolidation

The Parent Company prepared consolidated financial statements as of and for the year ended December 31, 2002 according to the Statement of Financial Accounting Standards No.7 of the Republic of China, "Consolidated Financial Statements," and the Guidelines for Securities Issuers' Financial Reporting for Public Companies. However, for full-disclosure purposes, the Company prepared consolidated financial statements as of and for the year ended December 31, 2003, which included direct and indirect subsidiaries, except Axiomtek Technology Deutschland GmbH, Axiom Technology (BVI) Co., Ltd., Axiomtek SAS and Axiom Technology Trading (BVI) Co., Ltd., which had no material influence on the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated from the consolidated financial statements.

The consolidated financial statements included those of the Parent Company, ATC, AEU, AAC (BVI), Axiomtek, ADCL, AIT, ABR, Yin Hsin, Advantech IBHA, AIMS, AHK, AAU, AJP, ASG, AKMC, AACB, AESC, ADL, AFR, AUK, ABB, AGZ, Axiom Technology Inc., U.S.A., AAC, ACN, AAG, APN and AKL.

Short-term Investments

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

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

Allowance for Doubtful Accounts

Allowances for doubtful accounts are provided on the basis of a review of the collectibility of individual notes and accounts receivable.

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 for raw materials and supplies, and net realizable value for finished goods and work in process.

Long-term Equity Investments

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

Investments accounted for by the equity method are carried at cost on the acquisition date and subsequently adjusted for the Group's proportionate share in the investees' earnings or losses and changes in capital surplus. Cash dividends received are recognized as a reduction of the carrying value of investments. The negative carrying value of investments due to equity in losses recognized that exceeded the original investment acquisition costs are recorded as part of other liabilities. The difference between investment acquisition cost and the Group's equity in an investee's net assets when an investment is acquired or when the equity method is first adopted, is amortized over five years. If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Group's equity in the investee's net assets is credited to capital surplus. Any decrease in the Group's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings. For less than majority-owned investees, the Group's equity in their net income or net loss is recognized in the following year on the basis of the current year's equity if the current year's financial statements are not available.

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

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

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

Costs of investments sold are determined using the weighted-average method.

Properties and Properties Leased to Others

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

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

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

Deferred Expenses

Deferred expenses are amortized in 3 to 10 years.

Consolidated Debits

Consolidated debits were unamortized balances from difference between investment acquisition costs and the Group's equity in an investee's net assets which could not analysis the reason of difference, and it were amortized in 3 to 20 years.

Revenue Recognition

Sales revenues are recognized when titles to products and material risks of ownerships are transferred to clients, primarily upon shipment, when the earnings process is mostly completed and profit is realized or is realizable. The 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.

Pension Costs

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

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

AESC, ADL, AUK, AFR, ABB, AIT, ASG, AKMC, AGZ, Axiom Technology Inc. U.S.A., AAC, ACN, APN and AKL contribute monthly to a pension fund, and these contributions are recognized as expenses.

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

Convertible Bonds

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

Treasury Stock

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

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

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

Income Tax

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

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

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

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

Foreign-currency Transactions

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

Derivative Transactions

A forward exchange contract used for nontrading purposes should be adjusted at the rate prevailing as of the balance sheet date. Any exchange gain or loss should be recognized in the current period. Any gain or loss from hedging an identifiable foreign-currency commitment should be deferred to the actual sales transaction date and recorded as an adjustment to the transaction price. But if the deferred exchange loss will result in a loss in the subsequent accounting period because of a lower selling price, the exchange loss should not be deferred. A forward exchange contract used for trading purposes should be adjusted on the balance sheet date at the forward rate available for the remaining maturity of the contract. Any exchange gain or loss should be recognized as current gain or loss.

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

The notional amounts of foreign-currency option contracts used for trading purposes and nontrading purposes are not recognized as assets or liabilities on the contract dates. However, amounts received on options written are recognized as liabilities, and amounts paid on options bought are recognized as assets. These amounts are amortized using the straight-line method over the terms of the contracts and charged to current income. Gains or losses on the exercise of the options are recognized as current gains or losses.

3. ELIMINATED MATERIAL INTERCOMPANY TRANSACTIONS

<u>Company</u>	<u>Eliminated Account</u>	<u>Amount</u>	<u>Parties</u>
Parent Company	Sales revenues	\$ 487	AAC
	Sales revenues	32,589	AUK
	Receivable from related parties	5,490	AUK
	Sales revenues	357,298	ACN
	Receivable from related parties	205,632	ACN
	Sales revenues	27,124	ATC
	Purchases	1,085,194	ATC
	Payable to related parties	551,341	ATC
	Sales revenues	718,781	ADCL
	Sales revenues	83,106	ATI
	Receivable from related parties	14,816	ATI
	Sales revenues	1,279,959	AASC
	Receivable from related parties	262,913	AASC

(Continued)

<u>Company</u>	<u>Eliminated Account</u>	<u>Amount</u>	<u>Parties</u>
	Payable to related parties	\$ 8,140	AFR
	Receivable from related parties	30,051	Axiomtek
	Sales revenues	190,058	Axiomtek
	Sales revenues	1,187,234	AESC
	Receivable from related parties	354,813	AESC
	Sales revenues	45,420	AKMC
	Purchases	59,980	AKMC
	Receivable from related parties	5,272	AKMC
	Sales revenues	19,526	APN
	Sales revenues	40,903	AKL
	Receivable from related parties	16,179	AKL
	Sales revenues	89,463	AAU
	Receivable from related parties	18,266	AAU
	Sales revenues	31,476	ABR
	Receivable from related parties	8,175	ABR
	Sales revenues	152,303	ASG
	Receivable from related parties	20,127	ASG
	Sales revenues	298,026	AJP
	Receivable from related parties	57,431	AJP
	Sales revenues	22,060	Advantech IBHA
	Purchases	47,397	Advantech IBHA
	Payable to related parties	35,720	Advantech IBHA
	Realized profits on intercompany sales	235,426	Subsidiaries
	Deferred income	152,371	Parent Company
	Deferred profits on intercompany sales	152,371	Parent Company
ACN	Purchases	331,797	Parent Company
	Inventories	25,501	Parent Company
	Payable to related parties	205,632	Parent Company
	Cost of goods sold	2,273	Parent Company
	Purchases	216,741	AKMC
	Payable to related parties	27,139	AKMC
	Sales revenues	38,144	AKMC
	Sales revenues	10,026	AESC
	Purchases	218,481	AESC
	Receivable from related parties	7,392	AESC
AUK	Purchases	31,629	Parent Company
	Inventories	960	Parent Company
	Cost of goods sold	6,226	Parent Company
	Payable to related parties	5,490	Parent Company
	Purchases	16,525	AESC
AFR	Cost of goods sold	900	Parent Company
	Receivable from related parties	8,140	Parent Company
ATC	Inventories	111	Parent Company
	Purchases	27,013	Parent Company
	Sales revenues	1,085,194	Parent Company
	Cost of goods sold	232	Parent Company
	Receivable from related parties	551,341	Parent Company
	Sales revenues	17,864	AKMC

(Continued)

<u>Company</u>	<u>Eliminated Account</u>	<u>Amount</u>	<u>Parties</u>
	Purchases	\$ 526,750	AKMC
	Payable to related parties	217,572	AKMC
	Receivable from related parties	6,083	AKMC
ADCL	Purchases	712,543	Parent Company
	Inventories	6,238	Parent Company
ABB	Cost of goods sold	1,221	Parent Company
	Purchases	107,983	AESC
	Receivable from related parties	17,505	AESC
AESC	Purchases	1,124,418	Parent Company
	Inventories	62,816	Parent Company
	Cost of goods sold	92,071	Parent Company
	Payable to related parties	354,813	Parent Company
	Sales revenues	218,481	ACN
	Payable to related parties	7,392	ACN
	Purchases	10,026	ACN
	Sales revenues	16,525	AUK
	Sales revenues	107,983	ABB
	Payable to related parties	17,505	ABB
	Sales revenues	143,772	AIT
	Commission	7,367	AIT
	Receivable from related parties	7,322	AIT
Axiomtek	Cost of goods sold	355	Parent Company
	Purchases	186,840	Parent Company
	Inventories	3,218	Parent Company
	Payable to related parties	30,051	Parent Company
AGZ	Cost of goods sold	6,281	Parent Company
	Purchases	87,288	AKMC
	Sales revenues	96,945	AKMC
AKMC	Purchases	42,583	Parent Company
	Inventories	2,837	Parent Company
	Sales revenues	59,980	Parent Company
	Cost of goods sold	4,120	Parent Company
	Payable to related parties	5,272	Parent Company
	Purchases	38,144	ACN
	Sales revenues	216,741	ACN
	Receivable from related parties	27,139	ACN
	Purchases	17,864	ATC
	Sales revenues	526,750	ATC
	Receivable from related parties	217,572	ATC
	Payable related parties	6,083	ATC
	Purchases	96,945	AGZ
	Sales revenues	87,288	AGZ

(Continued)

Company	Eliminated Account	Amount	Parties
ATI	Payable to related parties	\$ 14,816	Parent Company
	Inventories	678	Parent Company
	Purchases	82,428	Parent Company
	Cost of goods sold	2,557	Parent Company
	Payable to related parties	84,987	AASC
	Purchases	906,495	AASC
AKL	Purchases	37,972	Parent Company
	Inventories	2,931	Parent Company
	Payable to related parties	16,179	Parent Company
AASC	Cost of goods sold	86,038	Parent Company
	Inventories	44,503	Parent Company
	Purchases	1,235,456	Parent Company
	Payable to related parties	262,913	Parent Company
	Sales revenues	906,495	ATI
	Receivable from related parties	84,987	ATI
	Sales revenues	876,622	AAC
	Receivable from related parties	113,885	AAC
AAC	Payable to related parties	3,655	AAC
	Purchases	487	Parent Company
	Cost of goods sold	7,808	Parent Company
	Purchases	876,622	AASC
	Receivable from related parties	3,655	AASC
	Payable to related parties	113,885	AASC
APN	Inventories	956	Parent Company
	Purchases	18,570	Parent Company
	Cost of goods sold	7,807	Parent Company
ASG	Purchases	149,273	Parent Company
	Inventories	3,030	Parent Company
	Cost of goods sold	6,298	Parent Company
	Payable to related parties	20,127	Parent Company
AJP	Purchases	289,962	Parent Company
	Inventories	8,064	Parent Company
	Cost of goods sold	5,311	Parent Company
	Payable to related parties	57,431	Parent Company
AAU	Purchases	86,873	Parent Company
	Inventories	2,590	Parent Company
	Cost of goods sold	2,755	Parent Company
	Payable to related parties	18,266	Parent Company
ABR	Purchases	29,733	Parent Company
	Inventories	1,743	Parent Company
	Cost of goods sold	3,173	Parent Company
	Payable to related parties	8,175	Parent Company

(Continued)

<u>Company</u>	<u>Eliminated Account</u>	<u>Amount</u>	<u>Parties</u>
AIT	Purchases	\$ 143,772	AESC
	Commission revenue	7,367	AESC
	Payable to related parties	7,322	AESC
Advantech IBHA	Purchases	21,855	Parent Company
	Inventories	205	Parent Company
	Sales revenues	47,397	Parent Company
	Receivable from related parties	35,720	Parent Company

4. CASH

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Cash on hand	\$ 1,597	\$ 7,877
Checking and demand deposits	742,499	629,462
Time deposits: Interest—0.92%-1.97% in 2003 and 1.20%-2.75% in 2002	<u>312,575</u>	<u>442,897</u>
	<u>\$1,056,671</u>	<u>\$1,080,236</u>

5. SHORT-TERM INVESTMENTS

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Mutual funds	\$ 1,576,583	\$ 1,440,578
Listing company stocks	21,300	21,300
Convertible bonds	<u>10,000</u>	<u>10,000</u>
	1,607,883	1,471,878
Allowance for losses on inventories	(<u>22,184</u>)	(<u>24,545</u>)
	<u>\$1,585,699</u>	<u>\$1,447,333</u>

6. INVENTORIES—NET

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Finished goods	\$ 877,329	\$ 749,334
Work in process	285,343	279,522
Materials and supplies	521,293	473,393
Inventories in transit	<u>105,412</u>	<u>154,036</u>
	1,789,377	1,656,285
Allowance for losses	(<u>214,058</u>)	(<u>213,552</u>)
	<u>\$1,575,319</u>	<u>\$1,442,733</u>

7. LONG-TERM EQUITY INVESTMENTS

	December 31			
	2003		2002	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
<u>Equity method</u>				
Advantech Technologies Co., Ltd.	\$ 155,042	43.00	\$ 149,800	43.00
Broadwed Automation Co., Ltd.	21,749	33.33	19,997	33.33
Innova Tech & Management Consultant Inc.	14,980	26.32	15,000	26.32
Advantech Hungary Ltd.	9,587	30.00	9,194	30.00
Timson Tech Co.	8,978	30.00	9,358	30.00
Axiomtek Technology Deutschland GmbH	5,409	100.00	4,348	100.00
Axiom Technology (BVI) Co., Ltd.	4,640	100.00	7,939	100.00
Axiomtek SAS	4,242	100.00	4,827	100.00
Axiom Technology Trading (BVI) Co., Ltd.	1,318	100.00	2,687	100.00
Advan Automation Co., Ltd.	-	37.74	-	37.74
Yan Hong Technology Co., Ltd.	-	-	8,481	40.00
	<u>225,945</u>		<u>231,631</u>	
<u>Cost method</u>				
Superior Technology Co., Ltd.	33,442	10.00	33,442	10.00
Web Point Information Technology Co., Ltd.	28,000	1.00	28,000	1.00
Silicon Motion Inc. (formerly Feiya Technology Corp.)	20,000	0.60	20,000	0.60
Baoruh Electronic Co., Ltd.	18,285	8.06	18,285	8.06
Unibase Information Corp.	2,250	10.34	2,250	10.34
Alextek Company Limited, Ltd.	1,823	19.00	1,823	19.00
Visual Systems GmbH	776	20.00	793	20.00
Yin-Jia Technology Co., Ltd.	-	-	8,798	18.00
	<u>104,576</u>		<u>113,391</u>	
	<u>\$ 330,521</u>		<u>\$ 345,022</u>	

The Group's equity in Advantech IBHA Technologies Inc. (Advantech IBHA) exceeded 50% of Advantech IBHA's outstanding common stock. Thus, the investment in Advantech IBHA was accounted for by the equity method.

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

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

In 2002, the Parent Company's equity in Advantech Italia S.p.A. exceeded 50%. Thus, the recognition of equity in this investee's net income or net loss was changed from the subsequent year to current year. This change in accounting principle had no material effect on the financial statements for 2002.

As of December 31, 2003 and 2002, the Group's equities in the net assets of cost-method investees were about \$49,296 thousand and \$53,157 thousand, respectively, based on year-end unaudited financial statements.

The Parent Company prepared consolidated financial statements as of and for the year ended December 31, 2002 according to the Statement of Financial Accounting Standards No.7 of the Republic of China, "Consolidated Financial Statements," and the Guidelines for Securities Issuers' Financial Reporting for Public Companies. However, for full-disclosure purposes, the Parent Company prepared consolidated financial statements as of and for the year ended December 31, 2003, which included direct and indirect subsidiaries, except Axiomtek Technology Deutschland GmbH, Axiom Technology (BVI) Co., Ltd., Axiomtek SAS and Axiom Technology Trading (BVI) Co., Ltd. because they had no material influence on the consolidated financial statements.

8. PROPERTIES

	December 31	
	2003	2002
Costs	<u>\$ 2,711,983</u>	<u>\$ 2,404,704</u>
Buildings and equipment	106,160	55,787
Machinery and equipment	173,039	158,361
Furniture and fixtures	120,682	77,053
Miscellaneous equipment	<u>142,154</u>	<u>135,176</u>
	<u>542,035</u>	<u>426,377</u>
	2,169,948	1,978,327
Unfinished construction	-	27,108
Advances for equipment acquisition	<u>2,242</u>	<u>2,303</u>
	<u>\$ 2,172,190</u>	<u>\$ 2,007,738</u>

Depreciation expenses were \$153,199 thousand in 2003 and \$120,905 thousand in 2002.

9. PROPERTIES LEASED TO OTHERS

	December 31	
	2003	2002
Cost		
Land	\$ 67,368	\$ 89,611
Buildings and equipment	<u>55,981</u>	<u>87,863</u>
	123,349	177,474
Accumulated depreciation	<u>10,442</u>	<u>10,757</u>
	<u>\$ 112,907</u>	<u>\$ 166,717</u>

10. SHORT-TERM LOANS

	December 31	
	2003	2002
Credit loans—Interest: 1.18%-1.69% in 2003 and 2.35%-9.60% in 2002	\$ 229,924	\$ 304,286
Secured loans—Interest: 1.50%-4.40% in 2003 and 2.35%-5.39% in 2002	<u>203,477</u>	<u>129,114</u>
	<u>\$ 433,401</u>	<u>\$ 433,400</u>

11. BONDS

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
<u>December 31, 2003</u>			
Unsecured convertible bonds	\$ 932,600	\$ -	\$ 932,600
Interest premium on convertible bonds	<u>103,020</u>	<u>-</u>	<u>103,020</u>
	<u>\$ 1,035,620</u>	<u>\$ -</u>	<u>\$ 1,035,620</u>
<u>December 31, 2002</u>			
Unsecured convertible bonds	\$ -	\$ 976,600	\$ 976,600
Interest premium on convertible bonds	<u>-</u>	<u>63,934</u>	<u>63,934</u>
	<u>\$ -</u>	<u>\$ 1,040,534</u>	<u>\$ 1,040,534</u>

On July 19, 2001, the Parent Company issued domestic unsecured convertible bonds with aggregate face value of \$1,000,000 thousand (or \$100 thousand face value per unit), which were listed on the Taiwan Stock Exchange on July 31, 2001. These bonds will mature on July 18, 2006 and will be redeemed at 112.4864% of their face value on July 19, 2004 or 119.2519% of their face value on July 19, 2005. The bonds are convertible to capital stock at an agreed conversion price between October 19, 2001 and July 8, 2006 under certain conditions. As of December 31, 2003, bonds with aggregate face value of \$67,400 thousand had been converted to 1,029 thousand shares.

12. LONG-TERM LOANS

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
<u>December 31, 2003</u>			
Secured loans	<u>\$ 6,395</u>	<u>\$ 156,381</u>	<u>\$ 162,776</u>
<u>December 31, 2002</u>			
Secured loans	<u>\$ -</u>	<u>\$ 114,653</u>	<u>\$ 114,653</u>

Long-term loans had 5.25% to 10.00% interest in 2003 and 5.05% in 2002. Their maturity is in February 2015.

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

The Parent Company's Articles of Incorporation provide that legal reserve should be set aside at 10% of annual net income less any accumulated losses. In addition, a special reserve may be made according to relevant laws or the regulating authorities' requirements. The remainder of the income should be appropriated in the following order:

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

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

On May 2, 2003 and May 30, 2002, the shareholders approved the board of directors' proposals dated March 19, 2003 and March 26, 2002 on the appropriation of the 2002 and 2001 earnings. The appropriations were as follows:

	<u>2002</u>	<u>2001</u>
Bonus to employees—stock	\$ 55,214	\$ 53,162
Bonus to employees—cash	55,856	51,677
Remuneration to directors and supervisors	<u>11,107</u>	<u>10,484</u>
	<u>\$ 122,177</u>	<u>\$ 115,323</u>

The employees' stock bonus consisted of 5,521 and 5,316 thousand shares, which were 1.93% and 2.28%, respectively, of the outstanding common stock as of the end of 2002 and 2001, respectively. The primary earnings per share would have decreased from NT\$4.32 to NT\$3.89 in 2003 and from NT\$5.00 to \$4.50 in 2002 had the bonus to employees, directors and supervisors been expensed instead of being appropriated from retained earnings.

As of March 12, 2004, the Parent Company's board of directors had not decided the appropriation of the 2003 earnings. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

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

Under the Company Law, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. This reserve may be used only to offset a deficit. When the balance of the reserve reaches 50% of the Parent Company's 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 Parent Company for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the ICA balance on the dividend distribution date.

The Parent Company operates in an industry related to computers, and its business related to network servers is new but with significant potential for growth. Thus, in formulating its dividend policy, the Parent Company takes into account the overall business and industry conditions and trends, its objective of enhancing the shareholders' long-term interest, and the sustainability of the Parent Company's growth. It is the Parent Company's policy to distribute less than 90% of the distributable earnings as dividends. The policy also requires that stock dividends be less than 75% of total dividends to retain internally generated cash within the Parent Company to finance future capital expenditures and working capital requirements.

Under a board of directors' proposal dated March 26, 2003, the Parent Company's strategic alliance with Axiomtek Co., Ltd. was approved. Shares were swapped at this ratio: 1 Parent Company share for 2.6 shares of Axiomtek Co., Ltd. The Parent Company issued 6,604 thousand common shares (45.36% of the issued stock) in exchange for 17,170 common shares of Axiomtek Co., Ltd. The effective date of the swap was April 28, 2003, which was approved by the Securities and Futures Commission (SFC).

On April 1, 2003, the SFC approved the Parent 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 will be granted certain percentage option within two and four years of the grant date, and options may be exercised up to six years from the grant date. The stock options were issued on August 14, 2003, and the exercise price was set at NT\$51.00. Until the end of 2003, no options were exercised.

14. TREASURY STOCKS

Unit: In Thousand Shares

<u>Reason for Repurchase</u>	<u>Increase</u>	<u>December 31 2003</u>
<u>2003</u>		
Maintaining the Parent Company's credit and shareholders' equity	<u>3,862</u>	<u>3,862</u>

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

15. INCOME TAX

- a. The reconciliation of the income tax (statutory rate) on income before income tax and income tax currently payable is as follows:

	<u>2003</u>	<u>2002</u>
Tax on pretax income at 25% statutory rate	\$ 383,560	\$ 455,607
Add (deduct) tax effects of:		
Permanent differences	(115,471)	(17,250)
Temporary differences	(156,515)	74,566
Tax-exempt income	(21,447)	-
Investment tax credit	(19,301)	(106,420)
Loss carryforward	<u>3,272</u>	<u>1,731</u>
Income tax currently payable	<u>\$ 74,098</u>	<u>\$ 408,234</u>

- b. Income tax expense consisted of:

	<u>2003</u>	<u>2002</u>
Income tax payable	\$ 74,098	\$ 408,234
Income tax expense (benefit)—deferred	82,855	(38,902)
Adjustment of prior year's income tax	(7,175)	2,377
Income tax (10%) on undistributed earnings	<u>19,871</u>	<u>13,928</u>
Income tax expense (shown in the statements of income)	<u>\$ 169,649</u>	<u>\$ 385,637</u>

c. Net deferred income taxes as of December 31, 2003 and 2002 consisted of the following:

	December 31	
	2003	2002
Current		
Investment tax credit	\$ 59,579	\$ 16,700
Allowance for loss on inventories	29,805	33,944
Loss carryforwards	5,688	2,416
Inventory capitalization	3,477	2,455
Excess provisions for doubtful accounts	1,205	408
Excess of employee benefits	120	154
Unrealized foreign exchange loss (gain)	(60)	14,197
Others	<u>1,290</u>	<u>2,692</u>
Deferred income tax assets	<u>\$ 101,104</u>	<u>\$ 72,966</u>
Noncurrent		
Deferred income tax assets:		
Accumulated equity in the net loss of investees	\$ 58,115	\$ 98,031
Investment tax credits	48,204	-
Deferred income	44,491	64,022
Pension cost	28,266	24,035
Interest premium on convertible bonds	25,755	15,984
Excess of employee benefits	122	256
Others	<u>2,887</u>	<u>16,309</u>
	207,840	218,637
Valuation allowance	(<u>83,870</u>)	(<u>75,138</u>)
	<u>123,970</u>	<u>143,499</u>
Deferred income tax liabilities:		
Accumulated equity in the net gain of foreign investees	(137,223)	(50,565)
Allowance for tax-deductible equity in net loss of foreign investees	(52,712)	(47,193)
Others	<u>(817)</u>	<u>(1,530)</u>
	<u>(190,752)</u>	<u>(99,288)</u>
Net deferred income tax assets (liabilities)	<u>(\$ 66,782)</u>	<u>\$ 44,211</u>

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

The Group's ICA balances as of December 31, 2003 and 2002 were as follows:

	December 31	
	2003	2002
Parent Company	<u>\$ 133,211</u>	<u>\$ 239,613</u>
Axiomtek	<u>\$ 2,011</u>	<u>\$ 11,015</u>
Yin Hsin	<u>\$ 1,420</u>	<u>\$ 1,419</u>
Advantech IBHA	<u>\$ 205</u>	<u>\$ 98</u>

The ratio of the ICA to the earnings generated starting January 1, 1998 (creditable tax ratio) as of December 31, 2003 and the actual creditable tax ratio for earnings as of December 31, 2002, which were distributed in 2003, were as follows:

	2003	2002
Parent Company	9.30%	29.50%
Axiomtek	1.80%	14.20%

The creditable tax ratio should be based on the balance in the ICA on the date of dividend distribution. Thus, the expected creditable ratio for the 2003 earnings may differ from the actual ratio depending on the ICA balance on the dividend distribution date.

Information on the Group's deductible income tax is as follows:

<u>Legislation</u>	<u>Deductible Item</u>	<u>Tax Credits Obtained</u>	<u>Unused Tax Credits</u>
<u>2003</u>			
Statute for Upgrading Industries	R&D and training expenses	\$ 128,599	\$ 107,783
	Purchase of automated mechanical equipment	1,729	-
<u>2002</u>			
Statute for Upgrading Industries	R&D and training expenses	123,120	16,700

The balance of unappropriated retained earnings as of December 31, 2003 and 2002 included earnings of \$81,329 thousand generated up to December 31, 1997.

Income taxes payable as of December 31, 2002 were net of prepayments of \$181,295 thousand.

Income tax returns through 2001 (except 1999) had been examined and cleared by the tax authorities.

The Parent Company expects to get a five-year tax exemption on the income from an industry network server production, for which an investment plan was framed in 2003. The plan was approved by the Industrial Development Bureau of the Ministry of Economic Affairs in February 2004 and by the Ministry of Finance in December 2004.

16. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	<u>2003</u>			<u>2002</u>		
	<u>Included in Cost of Goods Sold</u>	<u>Included in Operating Expenses</u>	<u>Total</u>	<u>Included in Cost of Goods Sold</u>	<u>Included in Operating Expenses</u>	<u>Total</u>
Personnel expenses						
Payroll	\$ 170,785	\$1,457,549	\$1,628,334	\$ 147,131	\$1,175,759	\$1,322,890
Insurance	12,913	94,887	107,800	11,547	75,211	86,758
Pension	6,692	40,872	47,564	5,309	28,879	34,188
Others	13,733	63,350	77,083	10,111	49,173	59,284
Depreciation	54,330	97,385	151,715	40,708	78,696	119,404
Amortization	571	44,787	45,358	1,775	49,919	51,694
	<u>\$ 259,024</u>	<u>\$1,798,830</u>	<u>\$2,057,854</u>	<u>\$ 216,581</u>	<u>\$1,457,637</u>	<u>\$1,674,218</u>

Expenses for properties leased to others, which were \$1,484 thousand in 2003 and \$1,501 thousand in 2002 (included in nonoperating expenses—other expenses), were not included in the above depreciation expenses.

17. CONSOLIDATED EARNINGS PER SHARE

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

	<u>Amount (Numerator)</u>		<u>Shares</u>	<u>Earnings Per Share</u>	
	<u>Pretax</u>	<u>After-tax</u>	<u>(Denominator)</u> <u>(Thousand)</u>	<u>Pretax</u>	<u>After-tax</u>
<u>2003</u>					
Primary consolidated EPS	\$ 1,301,544	\$ 1,072,422	338,801	<u>\$ 3.84</u>	<u>\$ 3.17</u>
The impact of dilutive potential common stock					
Employees' stock options	-	-	71		
Convertible bonds	<u>42,200</u>	<u>31,650</u>	<u>18,467</u>		
Diluted consolidated EPS	<u>\$ 1,343,744</u>	<u>\$ 1,104,072</u>	<u>357,339</u>	<u>\$ 3.76</u>	<u>\$ 3.09</u>
<u>2002</u>					
Primary consolidated EPS	\$ 1,703,355	\$ 1,234,109	333,964	<u>\$ 5.10</u>	<u>\$ 3.70</u>
The impact of dilutive potential common stock					
Convertible bonds	<u>44,024</u>	<u>33,018</u>	<u>15,565</u>		
Diluted consolidated EPS	<u>\$ 1,747,379</u>	<u>\$ 1,267,127</u>	<u>349,529</u>	<u>\$ 5.00</u>	<u>\$ 3.63</u>

The EPS was retroactively adjusted for the stock dividends declared. Thus, pretax and after-tax primary EPS decreased from NT\$5.97 to NT\$5.10 in 2003 and from NT\$4.32 to \$3.70 in 2002, and pretax and after-tax diluted EPS decreased from NT\$5.80 to NT\$5.00 and from \$4.21 to \$3.63, respectively.

18. PENSION PLAN

The Parent Company and Axiomtek has a pension plan for all regular employees, which provides benefits based on length of service and average basic pay of the six months before retirement.

The Parent Company and Axiomtek makes monthly contributions, equal to 2% of salaries, to a pension fund, which is administered by a pension plan committee and deposited in the committee's name in the Central Trust of China.

AESC, ADL, ABB, AUK, AFR, AIT, ASG, AKMC, ACN, AGZ, Axiom Technology Inc. U.S.A., AAC, APN and AKL contributed certain percentages of employees' salaries to individual pension funds, which were deposited in treasury and administered by a local insurance or trust company. Employees who resign or retire are entitled to retirement pay.

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

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

a. Components of pension cost:

	<u>2003</u>		<u>2002</u>	
	<u>Parent Company</u>	<u>Axiomtek</u>	<u>Parent Company</u>	<u>Axiomtek</u>
Service cost	\$ 24,086	\$ 2,368	\$ 18,068	\$ 2,502
Interest cost	4,581	514	4,548	644
Projected return on plan assets	(1,694)	(451)	(1,477)	(429)
Amortization of unrecognized net transition obligation and net pension plan gains or losses	(<u>964</u>)	(<u>395</u>)	(<u>595</u>)	(<u>112</u>)
	<u>\$ 26,009</u>	<u>\$ 2,036</u>	<u>\$ 20,544</u>	<u>\$ 2,605</u>

b. Reconciliation between the funded status of the pension plan and accrued pension liabilities:

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Parent Company</u>	<u>Axiomtek</u>	<u>Parent Company</u>	<u>Axiomtek</u>
Benefit obligation				
Vested benefit obligation	\$ -	\$ -	\$ -	\$ -
Non-vested benefit obligation	<u>82,405</u>	<u>12,323</u>	<u>78,385</u>	<u>8,338</u>
Accumulated benefit obligation	82,405	12,323	78,385	8,338
Additional benefits based on future salaries	<u>26,270</u>	<u>6,438</u>	<u>36,126</u>	<u>4,501</u>
Projected benefit obligation	108,675	18,761	114,511	12,839
Fair value of plan assets	(<u>51,434</u>)	(<u>13,100</u>)	(<u>42,347</u>)	(<u>11,266</u>)
Funded status	57,241	5,661	72,164	1,573
Unrecognized net transition obligation	(21,866)	(2,968)	(23,688)	(3,298)
Unrecognized net gain	<u>77,689</u>	<u>6,486</u>	<u>47,665</u>	<u>10,702</u>
Accrued pension liabilities	<u>\$ 113,064</u>	<u>\$ 9,179</u>	<u>\$ 96,141</u>	<u>\$ 8,977</u>

c. Actuarial assumptions

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Parent Company</u>	<u>Axiomtek</u>	<u>Parent Company</u>	<u>Axiomtek</u>
Discount rate used in determining present values	3.5%	3.5%	4.0%	4.0%
Future salary increase rate	1.5%	2.0%	2.0%	2.0%
Expected rate of return on plan assets	3.5%	3.5%	4.0%	4.0%

	<u>2003</u>		<u>2002</u>	
	<u>Parent Company</u>	<u>Axiomtek</u>	<u>Parent Company</u>	<u>Axiomtek</u>
d. Contributions to the pension fund	<u>\$ 9,086</u>	<u>\$ 1,834</u>	<u>\$ 8,677</u>	<u>\$ 1,512</u>

19. RELATED-PARTY TRANSACTIONS

a. Related parties

	<u>Relationship with the Company</u>
Advantech Hungary Ltd. (AHG)	Equity-method investee
Advantech Technologies Co., Ltd. (AKR)	Equity-method investee
Innova Tech & Management Consultant Inc. (Innova)	Equity-method investee of Yin Hsin
Broadwed Automation Co., Ltd. (Broadwed Automation)	Equity-method investee of Yin Hsin
Yan Hong Technology Co., Ltd. (Yan Hong)	Investee of Advantech IBHA before October 2003 (merged with Advantech IBHA)
Axiom Technology (BVI) Co., Ltd.	Equity-method investee of Axiomtek
Axiomtek Technology Deutschland GmbH	Equity-method investee of Axiomtek
Axiom Technology Trading (BVI) Co., Ltd.	Equity-method investee of Axiomtek
Axiomtek SAS	Equity-method investee of Axiomtek
Alextek Company Ltd.	Axiomtek was the supervisor before March 4, 2002
Advan Automation Co., Ltd. (AAJP)	Equity-method investee of AACB
Lee Chin Fong	Supervisor of Axiomtek after June 30, 2003
K. C. Liu	The chairman of the Parent Company and Axiomtek (elected on March 5, 2002)
Yang Yu Te	The director and CEO of Axiomtek

b. The significant transactions with the above related parties, in addition to those disclosed in Note 21 and Tables 1 and 2, are summarized as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
<u>For the year</u>				
1) Sales				
AKR	\$ 282,599	3	\$ 215,488	2
Axiomtek Technology Deutschland GmbH	22,619	-	36,098	1
Axiomtek SAS	20,729	-	19,575	-
Others	<u>9,780</u>	<u>-</u>	<u>34,376</u>	<u>-</u>
	<u>\$ 335,727</u>	<u>3</u>	<u>\$ 305,537</u>	<u>3</u>
2) Purchase of materials and supplies				
AKR	\$ 4,862	-	\$ -	-
Others	<u>-</u>	<u>-</u>	<u>353</u>	<u>-</u>
	<u>\$ 4,862</u>	<u>-</u>	<u>\$ 353</u>	<u>-</u>
3) Rental expenses (part of operating expenses)				
Yang Tu Te	<u>\$ 293,653</u>	<u>11</u>	<u>\$ 286,633</u>	<u>13</u>

(Continued)

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
4) Sales guarantee expenses (part of operating expenses)				
Axiomtek SAS	\$ 15,668	1	\$ -	-
Axiomtek Technology Deutschland GmbH	<u>11,714</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>27,382</u>	<u>1</u>	<u>-</u>	<u>-</u>
5) Promotion expenses (part of operating expenses)				
Axiomtek SAS	2,059	-	-	-
Axiomtek Technology Deutschland GmbH	<u>563</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,622</u>	<u>-</u>	<u>-</u>	<u>-</u>
6) Commission (part of operating expenses)				
Axiomtek SAS	1,266	-	-	-
Axiomtek Technology Deutschland GmbH	<u>417</u>	<u>-</u>	<u>145</u>	<u>-</u>
	<u>1,683</u>	<u>-</u>	<u>145</u>	<u>-</u>
	<u>\$ 325,340</u>	<u>12</u>	<u>\$ 286,778</u>	<u>13</u>
7) Rental revenues (part of nonoperating income)				
Broadwed Automation	\$ 781	1	\$ -	-
Yan Hong	<u>200</u>	<u>-</u>	<u>120</u>	<u>-</u>
	<u>\$ 981</u>	<u>1</u>	<u>\$ 120</u>	<u>-</u>
<u>At end of year</u>				
8) Receivables				
AKR	\$ 38,605	97	\$ 15,305	78
Others	<u>1,295</u>	<u>3</u>	<u>4,227</u>	<u>22</u>
	<u>\$ 39,900</u>	<u>100</u>	<u>\$ 19,532</u>	<u>100</u>
9) Payables	<u>\$ -</u>	<u>-</u>	<u>\$ 244</u>	<u>-</u>
c. Financing provided				

	<u>Ending Balance</u>	<u>Maximum Balance for the Period</u>	<u>Interest Rate</u>	<u>Interest Revenue</u>
<u>2003</u>				
Accounts receivable—related parties				
Axiomtek Technology Deutschland GmbH	<u>\$ 3,933</u>	<u>\$ 3,933</u>	<u>-</u>	<u>\$ -</u>

K. C. Liu and Yang Yu Te were the joint issuer of a promissory note used to guarantee a bank loan obtained by Axiomtek in 2002.

Axiomtek bought 3,000 common shares of Axiom Technology Inc. U.S.A. from Yang Yu Te for \$36,638 thousand.

The rental amount and payment terms of the Group's lease contract with related parties were based on current prices and payment terms. Product sales transactions were conducted under normal terms, except Axiomtek's sales to Axiomtek SAS, which were based on normal sales prices plus 15% in 2002. The payment terms for related parties were 60 to 90 days; terms for third parties were 30 to 90 days.

20. ASSETS PLEDGED OR MORTGAGED

The following assets had been pledged or mortgaged as collaterals for bank loans and as part of court requirements for confiscating assets to settle uncollectible accounts:

	<u>2003</u>	<u>2002</u>
Properties—net	\$ 180,692	\$ 181,930
Properties lease to others—net	43,523	44,191
Certificates of deposits	<u>2,400</u>	<u>800</u>
	<u>\$ 226,615</u>	<u>\$ 226,921</u>

21. COMMITMENTS

As of December 31, 2003, the Parent Company had the following significant commitments:

- a. Royalty payments under an agreement with IBM Corporation (IBM) for the use of certain IBM-patented motherboards and personal data processing systems. The royalty payable is US\$600 thousand in 2004.
- b. Guarantees for affiliates' loans:

	<u>Amount</u>
AASC	\$ 238,140
ACN	136,080
AIT	94,732
AUK	56,853
AAC	34,020
ATI	34,020
AFR	16,406
Advantech IBHA	<u>13,608</u>
	<u>\$ 623,859</u>

22. FINANCIAL INSTRUMENTS

a. Outstanding contract amounts and credit risk

<u>Financial Instruments</u>	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Contract Amount (Thousands)</u>	<u>Credit Risk</u>	<u>Contract Amount (Thousands)</u>	<u>Credit Risk</u>
<u>For trading purposes</u>				
Forward contracts—buy	\$ -	\$ -	US\$ 29,921	\$ -
Foreign-currency options	-	-	EUR 36,395	-
	-	-	US\$ 44,003	-
<u>For nontrading purposes</u>				
Forward contracts—sell	US\$ 9,500	-	US\$ 20,000	-
	EUR 6,380	-	EUR 3,000	-
Forward contracts—buy	US\$ 1,000	-	US\$ 15,079	-
Foreign-currency options	-	-	EUR 29,605	-
	-	-	US\$ 41,597	-

The Parent Company is exposed to credit risk on counter-parties default on foreign-currency options and forward contracts on maturity. To manage this risk, the Parent Company transacts only with domestic financial institutions with good credit ratings. Thus, no material losses resulting from counter-party defaults are anticipated.

b. Market risk

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

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

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

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

The payments required for the forward contracts outstanding as of December 31, 2003 were JPY\$107,940 thousand, EUR6,380 thousand and US\$9,500 thousand, for which the Parent Company will receive payments of US\$8,394 thousand and NT\$323,028 thousand in April 2004. Also, the payments required for all the foreign-currency option and forward contracts outstanding as of December 31, 2002 were JPY\$5,466,875 thousand and EUR3,000 thousand, for which the Parent Company received payments of NT\$799,664 thousand and US\$25,000 thousand in June 2003. Management believes it has sufficient operating capital to meet those requirements. Thus, there is no fund-raising risk. There is also no material cash-flow risk because the exchange rates for foreign-currency option and forward contracts are fixed.

As of December 31, 2002, the expected cash flow demand for foreign-currency options and forward contracts used for trading purposes was as follows:

<u>Period</u>	<u>Amount</u>
Within one year	<u>\$1,292,722</u>

The Parent Company's derivative financial instruments, which carried cash flow risk as of December 31, 2002, were as follows:

<u>Item</u>	<u>Contract Amounts (Thousands)</u>
Forward contracts—buy	US\$ 29,921
Foreign-currency options	EUR 36,395
	US\$ 44,003

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

The Parent Company used derivative financial instruments for nontrading purposes. Foreign-currency option and forward contracts were entered into to hedge the effect of foreign-currency fluctuations on net assets and liabilities. The Parent Company periodically evaluated the effectiveness of the instruments.

e. Financial statement presentation

Net payables of \$21,767 thousand as of December 31, 2003 and \$42,550 thousand as of December 31, 2002 on all forward contracts were shown as part of other current liabilities. Foreign exchange losses were \$25,414 thousand and foreign exchange gains were \$92,689 thousand for the years ended December 31, 2003 and 2002, respectively.

On forward contracts for trading purposes, net payables (part of other current liabilities) were \$29,802 thousand as of December 31, 2002, and foreign exchange losses for the year ended December 31, 2002 were \$40,784 thousand.

For the years ended December 31, 2003 and 2002, the Company realized premium expenses and income (part of nonoperating income—others) of \$123,510 thousand and \$952 thousand, respectively, on all foreign-currency options—written. For the years ended December 31, 2003 and 2002, foreign-exchange losses were \$558,717 thousand and foreign-exchange gains were \$215,802 thousand, respectively.

On foreign-currency options—written, the Parent Company realized premium expenses and income (part of nonoperating income—others) of \$83,249 thousand and \$505 thousand for the years ended December 31, 2003 and 2002, respectively. Foreign-exchange losses were \$68,962 thousand and foreign-exchange gains were \$114,446 thousand for the years ended December 31, 2003 and 2002, respectively.

f. Fair values of financial instruments

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative financial instruments</u>				
Assets				
Cash	\$ 1,056,671	\$ 1,056,671	\$ 1,080,236	\$ 1,080,236
Short-term investments	1,585,699	1,585,699	1,447,333	1,447,333
Notes receivable	151,276	151,276	125,347	125,347
Accounts receivable	1,426,499	1,426,499	1,556,366	1,556,366
Accounts receivables from related parties	39,900	39,900	19,532	19,532
Long-term equity investments	330,521	275,241	345,022	284,788
Refundable deposits	27,038	27,038	26,284	26,284
Certificates of deposit	2,400	2,400	800	800
Liabilities				
Short-term bank loans	433,401	433,401	433,400	433,400
Notes payable	46,850	46,850	48,753	48,753
Accounts payable	704,031	704,031	836,102	836,102
Accounts payable to related parties	-	-	244	244
Corporate bonds payable (including current portion)	1,035,620	1,147,098	1,040,534	1,114,496
Long-term loans payable (including current portion)	162,776	162,776	114,653	114,653
<u>Derivative financial instruments</u>				
Forward contracts	21,767	21,767	42,550	42,550
Foreign-currency options—premium in advance	-	-	17,596	17,596

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

- 1) Cash, notes receivable and payable and accounts receivable and payable: The carrying values reported in the balance sheet approximate the fair values of these assets.
- 2) Short-term and long-term equity investments: Fair values are based on quoted market prices, or on carrying values if quoted market prices are not available.
- 3) Listed bonds: Fair values are based on quoted market prices.
- 4) Loan-term loans payable: The fair value is determined using the present value of the forecasted cash flows discounted using interest rates of similar long-term debts. Thus, the fair value approximates the carrying amounts.
- 5) Certificates of deposit: Fair values are based on carrying values.
- 6) Forward exchange contracts and premiums in advance on foreign-currency options: Fair values are based on carrying values.

23. ADDITIONAL DISCLOSURES

- a. Except for those mentioned in Note 22 and Tables 1 to 7, no additional disclosures are required by the Securities and Futures Commission for the Company and investees.
- b. Investments in mainland China
 - 1) Investee company name, main business and products, total amount of paid-in capital, investment type, investment flows, percentage ownership of direct or indirect investment, investment gains (losses), carrying value as of December 31, 2003, accumulated inward remittance of earnings as of December 31, 2003 and upper limit on investment: Table 8 (attached)
 - 2) Significant transaction with overseas subsidiary with direct or indirect investment in China: Notes 19 and 21 and Tables 2, 3, 5, 6, 7 and 8.

24. SEGMENT INFORMATION

- a. Industry: The Group is engaged only in a single industry: the manufacture and sale of embedded PCs, industrial automation products, industrial computers and panel PCs.
- b. Foreign operations: The Group had no revenue-generating foreign operating unit as of December 31, 2003.
- c. Export sales

<u>Geographic Area</u>	<u>2003</u>	<u>2002</u>
Asia	\$ 3,396,207	\$ 3,026,974
Europe	2,842,494	2,107,849
America	<u>3,436,828</u>	<u>2,900,567</u>
	<u>\$ 9,675,529</u>	<u>\$ 8,035,390</u>

- d. Major customers

No single customer accounted for at least 10% of the Group's sales.

ADVANTECH CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2003
(In Thousands of New Taiwan Dollars)

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		
0	Advantech Co., Ltd. (the "Company")	Advantech Europe GmbH (ADL)	Receivables from related parties	\$ 80,740	\$ -	2.5%	2	\$ -	Financing need	\$ -	-	\$ -	\$ 511,956 (Note C)	\$ 1,023,912 (Note B)
		Advantech France S.A. (AFR)	Receivables from related parties	39,780	-	2.5%	2	-	Financing need	-	-	-		
		Advantech Benelux B.V. (ABB)	Receivables from related parties	39,780	-	2.5%	2	-	Financing need	-	-	-		
1	Axiomtek Co., Ltd.	Axiomtek Technology Deutschland GmbH	Other receivables	3,933	3,933	-	1	22,619	-	-	-	-	134,423 (Note E)	268,847 (Note D)
2	AEU	AFR	Receivables from related parties	40,570	12,789	2.5%	2	-	Financing need	-	-	-	41,104 (Note G)	82,208 (Note F)
		ABB	Receivables from related parties	31,973	31,973	2.5%	2	-	Financing need	-	-	-		
		ADL	Receivables from related parties	42,630	42,630	2.5%	2	-	Financing need	-	-	-		

Notes: A. Nature of Financing:

1. The borrower is the Company's related party.
2. There is a need for short-term financing.

B. 30% of the Company's authorized capital stock

C. 15% of the Company's authorized capital stock.

D. 40% of the net asset value of Axiomtek Co., Ltd.

E. 20% of the net asset value of Axiomtek Co., Ltd.

F. 30% of the net asset value of AEU.

G. 15% of the net asset value of AEU.

H. For the eliminated entries, please refer to Note 3 to the financial statements.

ADVANTECH CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/Guarantee Amounts	Maximum Balance for the Year	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statements	Maximum Collateral/Guarantee Amounts Allowable (Note)
		Name	Nature of Relationship						
0	Advantech Co., Ltd. (the Company)	AASC	Subsidiary	\$ 511,956	\$ 239,750	\$ 238,140	\$ -	4%	\$ 1,023,912 (Note A)
		Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Subsidiary of a wholly owned subsidiary	511,956	137,000	136,080	-	2%	
		Advantech Italia S.p.A.	Subsidiary	511,956	94,732	94,732	-	2%	
		Advantech (UK) Ltd.	Subsidiary of a wholly owned subsidiary	511,956	56,853	56,853	-	1%	
		AAC	Subsidiary of a wholly owned subsidiary	511,956	34,460	34,020	-	1%	
		ATI	Subsidiary	511,956	34,460	34,020	-	1%	
		Advantech France S.A.	Subsidiary of a wholly owned subsidiary	511,956	16,406	16,406	-	-	
		Advantech IBHA Technologies Inc.	Subsidiary	511,956	13,888	13,608	-	-	
		Advantech Europe B.V.	Subsidiary	511,956	109,806	-	-	-	
		Advantech Development Co., Ltd.	Subsidiary	511,956	69,790	-	-	-	
		Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd.	Subsidiary of a wholly owned subsidiary	511,956	69,590	-	-	-	
		Advantech Japan Co., Ltd.	Subsidiary	511,956	23,920	-	-	-	
		Advantech Europe GmbH	Subsidiary of a wholly owned subsidiary	511,956	21,150	-	-	-	
1	Axiomtek Co., Ltd.	Axiom Technology Inc. U.S.A.	Subsidiary	134,423	85,050	85,050	-	13%	336,059 (Note B)
		Axiomtek Technology Deutschland GmbH	Subsidiary	134,423	6,940	-	-	-	

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

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

TABLE 3

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS

DECEMBER 31, 2003

(Amounts in Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Advantech Co., Ltd.	<u>Common stock</u>							
	Advantech Europe GmbH (ATC)	Investee	Long-term equity investments	12,550,000	\$ 759,623	100.00	\$ 759,623	
	Automation Corp. (BVI) (AAC [BVI])	Investee	Long-term equity investments	21,601,785	576,827	100.00	576,827	
	Axiomtek Co., Ltd.	Investee	Long-term equity investments	26,592,258	472,221	63.37	472,221	
	Advantech Europe Holding B.V. (AEU)	Investee	Long-term equity investments	8,018,152	288,918	100.00	288,918	
	Yin Sin Co., Ltd.	Investee	Long-term equity investments	29,999,994	287,577	100.00	287,577	
	Advantech Technologies Co., Ltd. (AKR)	Investee	Long-term equity investments	4,429,210	155,042	43.00	155,042	
	Advantech Co. Singapore Pte, Ltd. (ASG)	Investee	Long-term equity investments	1,450,000	79,207	100.00	79,207	
	Advantech Australia Pty Ltd., (AAU)	Investee	Long-term equity investments	500,204	61,151	100.00	61,151	
	Advantech Japan Co., Ltd. (AJP)	Investee	Long-term equity investments	1,200	59,897	100.00	59,897	
	Advantech Italia S.p.A. (AIT)	Investee	Long-term equity investments	24,750	27,082	55.00	27,082	
	Advantech IBHA Inc.	Investee	Long-term equity investments	1,994,000	16,920	13.29	16,920	
	Advantech Hungary Ltd. (AHG)	Investee	Long-term equity investments	30	9,587	30.00	9,587	
	Advantech Investment & Management Service (AIMS)	Investee	Long-term equity investments	500,000	4,894	100.00	4,894	
	Advantech Brasil S/A (ABR)	Investee	Long-term equity investments	971,055	3,374	60.00	3,374	
	Advantech Development Co., Ltd. (ADCL)	Investee	Long-term equity investments	500,000	2,511	100.00	2,511	
	Advantech (H.K.) Technology Co., Ltd. (AHK)	Investee	Long-term equity investments	999,999	275	100.00	275	
	Silicon Motion Inc.	-	Long-term equity investments	500,000	20,000	0.63	9,564	Note A
	<u>Funds</u>							
	High Yield Securities Investment Trust Fund	-	Short-term investments	14,503,844.93	200,964	-	200,974	Note B
	President Jamesbond Fund	-	Short-term investments	13,541,257.60	200,633	-	200,642	Note B
	Increment Securities Investment Trust Fund	-	Short-term investments	13,737,879.86	200,514	-	200,524	Note B
	Capital Cash Reserves Fund	-	Short-term investments	17,317,299.90	193,810	-	193,947	Note B
	PCAPrudential Well Pool Fund	-	Short-term investments	15,236,756.70	183,512	-	183,519	Note B
	UBS Taiwan Bond Fund	-	Short-term investments	8,414,116.15	120,293	-	120,293	Note B
	Capital High Yield Fund	-	Short-term investments	6,546,461.40	84,075	-	84,166	Note B
	PCAUnique Fund	-	Short-term investments	5,514,551.20	80,200	-	81,051	Note B
	TIIM High Yield Fund	-	Short-term investments	5,174,470.44	61,002	-	61,002	Note B
	Barits Bond Fund	-	Short-term investments	4,033,927.30	47,113	-	47,113	Note B
	BIAM Money Market Fund	-	Short-term investments	89,302.47	34,107	-	33,999	Note B
	ABN AMRO Income Fund	-	Short-term investments	137,046.38	2,058	-	2,068	Note B
	<u>Convertible bonds</u>							
	Sysage Technology Convertible Bonds	-	Short-term investments	100	10,000	-	9,900	Note D

(Continued)

Company Holding the Securities	Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Axiomtek Co., Ltd.	<u>Common stock</u>							
	Axiom Technology Inc. U.S.A.	Investee	Long-term equity investments	23,418	\$ 216,573	100.00	\$ 157,856	
	Axiomtek Technology Deutschland GmbH	Investee	Long-term equity investments	-	5,409	100.00	5,409	
	Axiom Technology (BVI) Co., Ltd.	Investee	Long-term equity investments	210,000	4,640	100.00	4,640	
	Axiomtek SAS	Investee	Long-term equity investments	-	4,242	100.00	4,242	
	Axiom Technology Trading (BVI) Co., Ltd.	Investee	Long-term equity investments	100,000	1,318	100.00	1,318	
	Alextek Company Limited, Ltd.	-	Long-term equity investments	190	1,823	19.00	1,617	Note A
	<u>Funds</u>							
	JF First Bond Fund	-	Short-term investments	1,871,199.90	25,293	-	25,305	Note B
	Jihsun Bond Fund	-	Short-term investments	1,417,782.45	18,513	-	18,559	Note B
	United Bond Fund	-	Short-term investments	1,458,255.70	18,237	-	18,282	Note B
	Barits Bond Fund	-	Short-term investments	1,456,675.40	17,000	-	17,013	Note B
	United Money Fund	-	Short-term investments	18,660.07	6,843	-	6,864	Note B
	Nam Short Term Fixed Income Fund	-	Short-term investments	15,552.60	6,804	-	6,823	Note B
Yin Hsin Co., Ltd.	<u>Common stock</u>							
	Advantech IBHA Inc.	Investee	Long-term equity investments	10,000,000	84,369	66.67	84,369	
	Broadwed Automation Co., Ltd.	Investee	Long-term equity investments	2,000,000	21,749	33.33	21,749	
	Innova Tech & Management Consultant Inc.	Investee	Long-term equity investments	1,250,000	14,980	26.32	14,980	
	Timson Tech Co. (TTC)	Investee	Long-term equity investments	270,000	8,979	30.00	8,979	
	Superior Technology Co., Ltd.	-	Long-term equity investments	874,960	33,442	10.00	23,286	Note A
	Web Point Co., Ltd.	-	Long-term equity investments	400,000	28,000	1.00	2,739	Note A
	Baoruh Electronic Co., Ltd.	-	Long-term equity investments	1,064,342	18,285	8.06	11,198	Note A
	Unibase Information Corp.	-	Long-term equity investments	75,000	2,250	10.34	116	Note A
	Chunghwa Telecom Co., Ltd.	-	Short-term investments	200,000	21,300	-	9,790	Note C
	<u>Funds</u>							
	RSIT The Digital Fund	-	Short-term investments	2,028,398.00	20,000	-	13,773	Note B
	Fuh-hwa Bond Fund	-	Short-term investments	1,133,373.80	14,418	-	14,418	Note B
	Capital Cash Reserves Fund	-	Short-term investments	1,204,586.30	13,491	-	13,491	Note B
TIIM High Yield Fund	-	Short-term investments	1,138,774.54	13,425	-	13,425	Note B	
Prudential Financial New Century Fund	-	Short-term investments	1,206,273.00	10,020	-	5,573	Note B	
PCA Prudential Well Pool Fund	-	Short-term investments	353,578.20	4,258	-	4,258	Note B	
ATC	<u>Common stock</u>							
Advantech Technology (China) Company Ltd. (AKMC)	Investee	Long-term equity investments	-	416,564	100.00	416,564		
ADCL	<u>Common stock</u>							
Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd. (AGZ)	Investee	Other liabilities	-	(8,153)	100.00	(8,153)		
TTC	<u>Common stock</u>							
Kunshan Timson Tech Co., Ltd.	Investee	Long-term equity investments	-	29,975	100.00	29,975		
AAC (BVI)	<u>Common stock</u>							
Advantech Automation Corp., Ltd. (AACB)	Investee	Long-term equity investments	21,594,307	574,829	100.00	574,829		

(Continued)

Company Holding the Securities	Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
AACB	<u>Common stock</u>							
	Advantech Automation Corp.	Investee	Long-term equity investments	10,952,606	\$ 457,395	100.00	\$ 457,395	
	Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Investee	Long-term equity investments	-	94,444	100.00	94,444	
	Advantech Automation (Penang) Sdn. Bhd.	Investee	Long-term equity investments	570,570	7,348	55.00	7,348	
	Advantech Control (M) Sdn. Bhd.	Investee	Long-term equity investments	418,000	7,308	55.00	7,308	
	Advantech Automation GmbH	Investee	Long-term equity investments	2,000	3,604	100.00	3,604	
	Advan Automation Co., Ltd.	Investee	Other liabilities	400	(2,437)	37.74	(2,437)	
Visual Systems GmbH	-	Long-term equity investments	-	776	20.00	776		
AEU	<u>Common stock</u>							
	Advantech Europe B.V.	Investee	Long-term equity investments	8,314,280	76,875	100.00	76,875	
	Advantech France S.A.	Investee	Long-term equity investments	2,000,000	37,942	100.00	37,942	
	Advantech Benelux B.V.	Investee	Long-term equity investments	45,378	30,915	100.00	30,915	
	Advantech Europe GmbH	Investee	Long-term equity investments	742,000	8,661	100.00	8,661	
	Advantech (UK) Ltd.	Investee	Long-term equity investments	600,000	10,907	100.00	10,907	

Note A: Market values were based on unaudited financial statements.

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

Note C: Market value was based on the average closing price in December 2003.

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

Note E: The long-term investment income and loss, long-term investment and net worth of investee(see table 4) were all eliminated.

ADVANTECH CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Amounts in Thousands of New Taiwan Dollars)

Company Holding the Securities	Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance			
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal	Shares	Amount	
Advantech Co., Ltd.	<u>Common stock</u> Axiomtek Co., Ltd.	Long-term equity investments	Axiomtek Investment Co.	-	11,248,675.00	\$ 237,778	19,443,583.00	\$ 345,415 (Note 1)	4,100,000.00	\$ -	\$ 110,972 (Note 4)	\$ -	26,592,258.00	\$ 472,221	
	Advantech Automation Corp. (BVI) AAC	Long-term equity investments	Issuance of capital stock for cash	-	9,868,598.00	267,496	11,733,187.00	406,706	-	-	97,375 (Note 2)	-	21,601,785.00	576,827	
	Advantech Europe Holding B.V.	Long-term equity investments	Original investment	-	-	-	8,018,152.00	345,037 (Note 3)	-	-	56,119 (Note 5)	-	8,018,152.00	288,918	
	ATI	Long-term equity investments	Liquidation	-	5,000,000.00	81,396	-	49,641 (Note 6)	5,000,000.00	-	131,037 (Note 7)	-	-	-	
	<u>Funds</u> High Yield Securities Investment Trust Fund	Short-term investments	-	-	13,206,633.39	179,260	78,459,319.45	1,076,612	77,162,107.91	1,059,112	1,054,908	4,204	14,503,844.93	200,964	
	President Jamesbond Fund	Short-term investments	-	-	-	-	76,288,231.30	1,122,458	62,746,973.70	923,933	921,825	2,108	13,541,257.60	200,633	
	Increment Securities Investment Trust Fund	Short-term investments	-	-	14,048,082.61	200,838	55,640,438.23	806,106	55,950,640.98	810,606	806,430	4,176	13,737,879.86	200,514	
	Capital Cash Reserves Fund	Short-term investments	-	-	16,221,717.00	176,699	94,452,080.84	1,046,259	93,356,497.94	1,034,429	1,029,148	5,281	17,317,299.90	193,810	
	PCAPrudential Well Pool Fund	Short-term investments	-	-	6,828,137.10	80,687	117,337,085.00	1,400,286	108,928,465.40	1,300,976	1,297,461	3,515	15,236,756.70	183,512	
	UBS Taiwan Bond Fund	Short-term investments	-	-	12,334,865.50	173,286	117,725,984.75	1,673,018	121,646,734.10	1,729,098	1,726,011	3,087	8,414,116.15	120,293	
	Capital High Yield Fund	Short-term investments	-	-	5,127,712.80	63,339	18,220,776.30	230,880	16,802,027.70	212,880	210,144	2,736	6,546,461.40	84,075	
	TIIM High Yield Fund	Short-term investments	-	-	4,058,740.77	46,740	19,840,027.94	232,021	18,724,298.27	219,021	217,759	1,262	5,174,470.44	61,002	
	Barits Bond Fund	Short-term investments	-	-	9,931,406.00	113,933	137,164,681.40	1,589,454	143,062,160.10	1,659,084	1,656,274	2,810	4,033,927.30	47,113	
	BIAM Money Market Fund	Short-term investments	-	-	-	-	842,072.74	321,535	752,770.27	287,550	287,428	122	89,302.47	34,107	
	ABN Amro Bond Fund	Short-term investments	-	-	14,029,952.99	199,642	51,289,861.09	736,225	65,319,814.08	938,366	935,867	2,499	-	-	
	Axiomtek Co., Ltd.	<u>Funds</u> United Money Fund	Short-term investments	-	-	86,726.56	31,471	208,232.54	76,554	276,299.03	102,218	101,182	1,036	18,660.07	6,843
		United Bond Fund	Short-term investments	-	-	680,000.00	8,356	7,634,868.27	94,600	6,856,612.57	84,825	84,719	106	1,458,255.70	18,237
Barits Bond Fund		Short-term investments	-	-	-	-	13,645,339.70	158,100	12,188,664.30	141,223	141,100	123	1,456,675.40	17,000	

Note 1: Includes investment income of \$74,994 thousand.

Note 2: Includes investment loss of \$87,170 thousand and cumulative translation adjustments of \$10,205 thousand.

Note 3: Includes cumulative translation adjustments of \$26,209 thousand.

Note 4: Includes cash dividend from investee of \$28,419 thousand, adjustment of \$12,253 thousand due to changes in ownership percentage in investees and cumulative translation adjustments of \$1,159 thousand.

Note 5: Investment loss in 2003.

Note 6: Investment income in 2003.

Note 7: Includes cumulative translation adjustments of \$2,536 thousand.

Note 8: The investment income and loss, long-term investment and net worth of investee were all eliminated.

ADVANTECH CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2003
(Amounts 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.	AASC	Subsidiary	Sale	(\$ 1,279,959)	(19)	60-90 days	\$ -	-	\$ 262,913	18	
	Advantech Europe B.V.	Subsidiary	Sale	(1,187,234)	(17)	Depending on its operating condition	-	-	354,813	24	
	Advantech Development Co., Ltd.	Subsidiary	Sale	(718,781)	(11)	60-90 days	-	-	-	-	
	Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Subsidiary of a wholly owned subsidiary	Sale	(357,298)	(5)	Depending on its operating condition	-	-	205,632	14	
	Advantech Japan Co., Ltd.	Subsidiary	Sale	(298,026)	(4)	60-90 days	-	-	57,431	4	
	Advantech Technologies Co., Ltd.	Subsidiary	Sale	(282,599)	(4)	60-90 days	-	-	38,605	3	
	Axiomtek Co., Ltd.	Subsidiary	Sale	(190,058)	(3)	60-90 days	-	-	30,051	2	
	Advantech Co. Singapore Pte. Ltd.	Subsidiary	Sale	(152,303)	(2)	60-90 days	-	-	20,127	1	
	Advantech Technology Co., Ltd.	Subsidiary	Purchase	1,085,194	27	Depending on its operating condition	-	-	(551,341)	(54)	
Axiomtek Co., Ltd.	Axiom Technology Inc. U.S.A. Advantech Co., Ltd.	Equity-method investee Parent company	Sale	(274,280)	(24)	30-91 days	-	-	54,627	28	
			Purchase	190,058	30	30-91 days	-	-	(30,051)	(40)	

Note: For the eliminated entries, please refer to Note 3.

ADVANTECH CO., LTD. AND SUBSIDIARIES

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

DECEMBER 31, 2003

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (%)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Advantech Co., Ltd.	Advantech Europe B.V.	Subsidiary of a wholly owned subsidiary	\$ 354,813	3.23	\$ -	-	\$ 224,757	\$ -
	AASC	Subsidiary	262,913	4.87	-	-	216,917	-
	Advantech Europe B.V.	Subsidiary of a wholly owned subsidiary	205,632	3.48	-	-	50,903	-

Note: For the eliminated entries, please refer to Note 3.

ADVANTECH CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2003			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2003	Dec. 31, 2002	Shares	Percentage of Ownership	Carrying Value			
Advantech Co., Ltd.	Advantech Technology Co., Ltd. (ATC)	BVI	Sale of industrial automation products	\$ 427,781	\$ 385,078	12,550,000	100.00	\$ 759,623	\$ 287,182	\$ 287,182	Subsidiary
	Advantech Automation Corp. (BVI) (AAC (BVI))	BVI	Investment holding company	724,987	322,508	21,601,785	100.00	576,827	(88,302)	(87,170)	Subsidiary (Note 5)
	Axiomtek Co., Ltd.	Taipei, Taiwan	Production and sale of industrial automation products	438,964	236,222	26,592,258	63.37	472,221	157,106	74,994	Subsidiary
	Advantech Europe Holding B.V. (AEU)	Helmond, the Netherlands	Investment holding company	308,079	-	8,018,152	100.00	288,918	(60,290)	(56,119)	Subsidiary
	Yin Hsin Co., Ltd.	Taipei, Taiwan	General investment	300,000	300,000	29,999,994	100.00	287,577	(8,595)	(8,595)	Subsidiary
	Advantech Technologies Co., Ltd.	Seoul, Korea	Sale of industrial automation products	51,646	51,646	4,429,210	43.00	155,042	45,651	15,309	Equity-method investee
	Advantech Co. Singapore Pte., Ltd.	Techplace, Singapore	Sale of industrial automation products	27,134	27,134	1,450,000	100.00	79,207	9,834	10,003	Subsidiary
	Advantech Australia Pty Ltd.	Sydney, Australia	Sale of industrial automation products	40,600	40,600	500,204	100.00	61,151	8,495	9,208	Subsidiary
	Advantech Japan Co., Ltd.	Tokyo, Japan	Sale of industrial automation products	15,472	15,472	1,200	100.00	59,897	16,188	15,792	Subsidiary
	Advantech Italia S.p.A.	Milano, Italy	Sale of industrial automation products	21,360	21,360	24,750	55.00	27,082	2,943	(2,697)	Subsidiary
	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	19,940	19,940	1,994,000	13.29	16,920	(23,065)	(3,065)	Subsidiary
	Advantech Hungary Ltd.	Budapest, Hungary	Sale of industrial automation products	5,215	5,215	30	30.00	9,587	2,038	611	Equity-method investee (Note 1)
	Advantech Investment & Management Service	Taipei, Taiwan	Investment and management service	5,000	-	500,000	100.00	4,894	18	(106)	Subsidiary
	Advantech Brasil S/A	Sam Paulo, Brazil	Sale of industrial automation products	15,374	15,374	971,055	60.00	3,374	(7,246)	(3,982)	Subsidiary
	Advantech Development Co., Ltd.(ADCL)	BVI	Sale of industrial automation products	16,395	16,395	500,000	100.00	2,511	13,235	13,257	Subsidiary
	Advantech (H.K.) Technology Co., Ltd. AHK	Mongkok, Hong Kong	Sale of industrial automation products	4,393	4,393	999,999	100.00	275	56	56	Subsidiary
	ATI	Delaware, USA	Sale of industrial automation products	-	163,410	-	-	-	49,641	49,641	Subsidiary (Note 5)
	AASC	Sunnyvale, USA	Sale of industrial automation products	-	104,573	-	-	-	(4,558)	(12,891)	Subsidiary (Note 5)
	Advantech Benelux B.V. (ABB)	Roosendaal, The Netherlands	Sale of industrial automation products	-	19,940	-	-	-	1,682	(4,092)	Subsidiary (Note 3)
	Advantech (UK) Ltd. (AUK)	Milton Keynes, England	Sale of industrial automation products	-	30,922	-	-	-	5,278	(3,157)	Subsidiary (Note 3)
	Advantech Europe GmbH (ADL)	Duesseldorf, Germany	Sale of industrial automation products	-	59,905	-	-	-	(43,764)	(24,999)	Subsidiary (Note 3)
	Advantech France S.A. (AFR)	Paris, France	Sale of industrial automation products	-	23,507	-	-	-	(32,129)	(17,728)	Subsidiary (Note 3)
	Advantech Europe B.V.	Helmond, The Netherlands	Sale of industrial automation products	-	268,925	-	-	-	(118,685)	(103,121)	Subsidiary (Note 4)
Axiomtek Co., Ltd.	Axiom Technology Inc. U.S.A.	U.S.A.	Sale of industrial automation products	121,050	121,050	23,418	100.00	216,573	25,261	22,135	Subsidiary of a wholly owned subsidiary
	Axiomtek Technology Deutschland GmbH	Germany	Sale of industrial automation products	14,770	14,770	-	100.00	5,409	260	260	Subsidiary of a wholly owned subsidiary
	Axiom Technology (BVI) Co., Ltd.	BVI	Holding company	6,626	6,626	210,000	100.00	4,640	(3,167)	(3,167)	Subsidiary of a wholly owned subsidiary
	Axiomtek SAS	France	Sale of industrial automation products	9,832	9,832	-	100.00	4,242	(1,311)	(1,311)	Subsidiary of a wholly owned subsidiary
	Axiom Technology Trading (BVI) Co., Ltd.	BVI	Holding company	3,075	3,075	100,000	100.00	1,318	(1,328)	(1,328)	Subsidiary of a wholly owned subsidiary
Yin Hsin Co., Ltd.	Advantech IBHA Inc.	Taipei, Taiwan	Assembly and production of computers	100,000	100,000	10,000,000	66.67	84,369	(23,065)	(15,179)	Subsidiary of a wholly owned subsidiary
	Broadwed Automation Co., Ltd.	Taipei, Taiwan	Production and sale of communications equipment and automation system	20,000	20,000	2,000,000	33.33	21,749	5,254	1,751	Equity-method investee of a subsidiary
	Innova Tech & Management Consultant Inc.	Taipei	Sale and consultant of information system integration	15,000	15,000	1,250,000	26.32	14,980	873	(20)	Equity-method investee of a subsidiary (Note 1)
	Timson Tech Co. (TTC)	Brunei	Investment holding company	8,323	8,323	270,000	30.00	8,979	(577)	(173)	Equity-method investee of a subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2003			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2003	Dec. 31, 2002	Shares	Percentage of Ownership	Carrying Value			
Advantech IBHA Inc.	Yan Hong Co., Ltd.	Taipei	Assembly and production of computers	\$ -	\$ 8,000	-	-	\$ -	(\$ 980)	(\$ 980)	Subsidiary of a wholly owned subsidiary
ATC	Advantech Technology (China) Company Ltd.	Kunshan	Production and sale of components of industrial automation products	409,393	370,725	-	100.00	416,564	23,140	23,140	Subsidiary of a wholly owned subsidiary
ADCL	Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd.	Guangzhou	Sale of industrial automation products	6,151	6,151	-	100.00	(8,153)	13,230	13,230	Subsidiary of a wholly owned subsidiary (Note 2)
TTC	Kunshan Timson Tech Co., Ltd.	Kunshan	Processes and sale of peripherals	30,222	30,222	-	100.00	29,975	(543)	(543)	Subsidiary of a wholly owned subsidiary
AAC (BVI)	Advantech Automation Corp., Ltd.	Bermuda	Investment holding company	724,731	322,360	21,594,307	100.00	574,829	(88,184)	(88,184)	Subsidiary of a wholly owned subsidiary
AACB	Advantech Automation Corp.	Sunnyvale, USA	Assembly and sale of industrial automation products	504,179	188,337	10,952,606	100.00	457,395	10,657	(597)	Subsidiary of a wholly owned subsidiary (Note 5)
	Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Beijing	Sale of industrial automation products	185,356	-	-	100.00	94,444	(87,993)	(87,461)	Subsidiary of a wholly owned subsidiary
	A Advantech Automation (Penang) Sdn. Bhd.	Penang, Malaysia	Sale of industrial automation products	4,656	4,656	570,570	55.00	7,348	1,596	878	Subsidiary of a wholly owned subsidiary
	Advantech Control (M) Sdn. Bhd.	Kuala Lumpur, Malaysia	Sale of industrial automation products	3,411	3,411	418,000	55.00	7,308	(1,802)	(441)	Subsidiary of a wholly owned subsidiary
	Advantech Automation GmbH	Leinf- Echterdingen, Germany	Sale of industrial automation products	2,457	2,457	2,000	100.00	3,604	-	-	Subsidiary of a wholly owned subsidiary
	Advan Automation Co., Ltd.	Tokyo, Japan	Sale of industrial automation products	5,990	5,990	400	37.74	(2,437)	629	237	Equity-method investee of a wholly owned subsidiary (Note 2)
	Advantech Benelux B.V. ABB	Roosendaal, The Netherlands	Sale of industrial automation products	-	14,403	-	-	-	1,682	(1,529)	Subsidiary (Note 3)
AEU	Advantech Europe B.V.	Helmond, The Netherlands	Sale of industrial automation products	90,450	-	8,314,280	100.00	76,875	(118,685)	(14,843)	Subsidiary of a wholly owned subsidiary (Note 4)
	AFR	Paris, France	Sale of industrial automation products	1,788	-	2,000,000	100.00	37,942	(32,129)	(18,130)	Subsidiary of a wholly owned subsidiary (Note 3)
	ABB	Roosendaal, The Netherlands	Sale of industrial automation products	29,160	-	45,378	100.00	30,915	1,682	(965)	Subsidiary of a wholly-owned subsidiary (Note 3)
	AUK	Milton Keynes, England	Sale of industrial automation products	13,373	-	600,000	100.00	10,907	5,278	(2,418)	Subsidiary of a wholly-owned subsidiary (Note 3)
	ADL	Duesseldorf, Germany	Sale of industrial automation products	28,816	-	742,000	100.00	8,661	(43,764)	(20,933)	Subsidiary of a wholly-owned subsidiary (Note 3)

Note 1: Equity in investees' net income or net loss is recognized in the subsequent year using the equity method.

Note 2: The carrying value is shown as part of other liabilities.

Note 3: Stock sale to AEU in August 2003 (see Note 16 to the financial statements).

Note 4: Stock sale to AEU in November 2003 (see Note 16 to the financial statements).

Note 5: Advantech America Corp. and Advantech Technologies Inc. were liquidated on December 31, 2003, and the remaining assets were sold to Advantech Automation Corp., an indirect investee of Advantech Automation Corp. (BVI). The needed fund was from Advantech Co., Ltd.

Note 6: The investment income and loss, long-term investment and net worth of investee were all eliminated.

ADVANTECH CO., LTD. AND SUBSIDIARIES

**INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2003**
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

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, 2003	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2003	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Value as of Dec. 31, 2003	Accumulated Inward Remittance of Earnings as of Dec. 31, 2003	Accumulated Investment in Mainland China as of Dec. 31, 2003	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Yan Hua (Guang Zhou Bao Shui Qu) Co., Ltd.	Sale of industrial automation products	US\$200 thousand	Indirect	\$ 6,151	\$ -	\$ -	\$ 6,151	100%	\$ 13,230	(\$ 8,153)	\$ -	\$ 609,223	US\$19,000 thousand	\$ 2,244,837
Advantech Technology (China) Company Ltd.	Production and sale of components of industrial automation products	US\$12,000 thousand	Indirect	366,881	42,512	-	409,393	100%	23,140	416,564	-	-		
Kunshan Timson Tech Co., Ltd.	Processes and sale of peripherals	US\$900 thousand	Indirect	8,323	-	-	8,323	30%	(163)	8,993	-	-		
Beijing Yan Hua Xing Ye Electronic Science & Technology Co., Ltd.	Sale of industrial automation products	US\$4,230 thousand	Indirect	-	185,356	-	185,356	100%	(87,461)	94,444	-	-		

Note 1: The calculation of investment gain (loss) was based on the audited financial statements of the parent company, Advantech Co., Ltd., incorporated in Taiwan.

Note 2: 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 16 and 18 to the financial statements and Tables 2, 3, 5, 6, and 7.

Note 3: The long-term investment income and loss, long-term investment and net worth of investee were all eliminated.