

TSE Code : 3367

**(English Translation of Financial Report Originally Issued In
Chinese)**

**INVENTEC APPLIANCES CORPORATION
AND ITS SUBSIDIARIES**

Consolidated Financial Statements

March 31, 2008

(Without Independent Auditors' Report Thereon)

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(English Translation of Financial Report Originally Issued In Chinese)

Inventec Appliances Corporation and its subsidiaries

Consolidated Financial Statements

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2008

(All Amounts Expressed in Thousands of New Taiwan Dollars, Otherwise Stated)

ASSETS	2008.03.31		LIABILITIES AND STOCKHOLDERS' EQUITY	2008.03.31	
	Amount	%		Amount	%
Current Assets			Current Liabilities :		
1100 Cash (Note 3.a)	7,161,341	24	2100 Short-term borrowings (Notes 3.i)	1,630,079	6
1310 Financial assets at fair value through profit or loss (Notes 1 and 3.b)	17,473	-	2140 Accounts payable	10,191,850	34
1120 Notes receivable, net (Notes 1 and 3.c)	237,108	1	2160 Income tax payable	557,072	2
1140 Accounts receivable, net (Notes 1 and 3.c)	8,314,772	28	2170 Accrued expenses	1,577,872	5
1190 Other financial assets—current	248,620	1	2240 Other financial liabilities—current	375,765	1
1210 Inventories, net (Notes 1 and 3.d)	5,328,876	18	2283 Warranty reserve	666,011	2
1275 Non-current assets held for sale (Notes 1 and 3.e)	177,217	1	2298 Other current liabilities	176,758	1
1286 Deferred income tax assets—current (Notes 1)	282,096	1		<u>15,175,407</u>	<u>51</u>
1298 Other current assets	590,361	2	Other Liabilities :		
	<u>22,357,864</u>	<u>76</u>	2490 Other financial liabilities—non-current	401,717	1
Funds and Investments:			2810 Accrued pension liabilities (Notes 1)	120,936	-
1421 Long-term investments under the equity method	4,104	-	2861 Deferred income tax liabilities—non-current (Notes 1)	422,591	2
1425 Prepayments for long-term investments (Notes 1 and 3.f)	125,612	-		<u>945,244</u>	<u>3</u>
1480 Financial assets carried at cost—non-current (Notes 1 and 3.b)	173,973	-	Total Liabilities		
1440 Other financial assets—non-current	16,965	-		<u>16,120,651</u>	<u>54</u>
	<u>320,654</u>	<u>-</u>	Stockholders' Equity: (Notes 1 and 3.j)		
Property, Plant, and Equipment (Notes 1 and 3.g) :			3110 Common stock	4,617,000	16
1501 Land	143,300	-	Capital surplus		
1521 Buildings	3,254,785	11	3211 Additional paid-in capital	3,989,860	13
1531 Machinery	3,682,978	12	3260 Long-term equity investments	17,699	-
1545 Research and experiment facilities	1,097,418	4	3280 Others	1,110	-
1561 Furniture and office facilities	230,274	1	Retained earnings		
1681 Miscellaneous equipment	995,992	3	3310 Legal reserve	988,909	3
	<u>9,404,747</u>	<u>31</u>	3351 Undistributed earnings	3,782,650	13
15X9 Less: Accumulated depreciation	(3,410,233)	(11)	Other adjustments to stockholders' equity		
1671 Construction in progress	1,260	-	3420 Cumulative translation adjustments	398,008	1
1672 Prepayment for equipment	302,644	1	3430 Net loss not recognized as pension cost	(113,682)	-
	<u>6,298,418</u>	<u>21</u>	Total Stockholders' Equity	<u>13,681,554</u>	<u>46</u>
Intangible Assets :			TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>29,802,205</u>	<u>100</u>
1770 Deferred pension cost	49,912	-			
1782 Land use right (Notes 1 and 3.h)	555,793	2			
1788 Other intangible assets(Notes 1 and 3.h)	36,428	-			
	<u>642,133</u>	<u>2</u>			
Other Assets :					
1888 Other Assets—Others (Notes 1 and 3.g)	183,136	1			
TOTAL ASSETS	<u>29,802,205</u>	<u>100</u>			

(Please Refer To Notes to Consolidated Financial Statements)

Chairman

General Manager

Accounting Officer

(Without Independent Auditors' Report Thereon)

**(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Operations**

For The Quarter Ended March 31, 2008

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		For the Quarter Ended March 31, 2008	
		Amount	%
4111	Gross sales (Note 1)	\$ 19,489,885	100
4170	Less: Sales returns	(20,557)	-
4190	Sales allowances	(77,181)	-
	Net sales	<u>19,392,147</u>	<u>100</u>
5111	Cost of sales	<u>(17,006,502)</u>	<u>(88)</u>
	Gross profit	<u>2,385,645</u>	<u>12</u>
	Operating expenses:		
6100	Selling	(594,017)	(3)
6200	Administration	(313,190)	(2)
6300	Research and development	(652,090)	(3)
		<u>(1,559,297)</u>	<u>(8)</u>
	Net Operating income	<u>826,348</u>	<u>4</u>
71-	Non-operating income:		
7110	Interest income	29,543	-
7260	Gains on inventory valuation and obsolescence	102,209	1
7310	Revaluation gain on financial assets	88,013	-
7480	Others	65,623	-
		<u>285,388</u>	<u>1</u>
75-	Non-operating expenses and losses:		
7510	Interest expense	(7,263)	-
7560	Foreign exchange loss	(358,457)	(1)
7630	Impairment loss (Notes 1, 3.b)	(15,756)	-
7880	Others	(43,557)	-
		<u>(425,033)</u>	<u>(1)</u>
	Income before income tax	686,703	4
8110	Income tax expense (Notes 1)	<u>(166,430)</u>	<u>(1)</u>
	Net income	<u>\$ 520,273</u>	<u>3</u>
	Attributable to:		
	Shareholders of the parent company	\$ 520,273	3
9602	Minority interest	-	-
		<u>\$ 520,273</u>	<u>3</u>
		Before Tax	After Tax
9750	Primary earnings per share belongs to parent company (Notes 1 and 3.k)		
	Primary earnings per share	<u>\$ 1.36</u>	<u>1.13</u>

(Please Refer To Notes to Consolidated Financial Statements)

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Cash Flows**

For The Quarter Ended March 31, 2008

(All Amounts Expressed in Thousands of New Taiwan Dollars, Otherwise Stated)

	For The Quarter Ended March 31, 2008
Cash flows from operating activities:	
Net income	\$ 520,273
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	327,177
Amortization	98,207
Gain on disposal of property, plant, and equipment	(5,538)
Impairment loss	15,756
Provision for decline in market value and obsolescence of inventories	(102,209)
Reversal for doubtful accounts	1,559
Provision for sales returns and allowances	38,316
Investment (gain) loss recognized under the equity method	110
Reversal for warranty reserve	(73,981)
Provision (reversal) for royalty reserve	18,555
Revaluation gain on financial assets	(17,473)
Change in operating assets and liabilities:	
Notes receivable	406,388
Accounts receivable	5,450,928
Other financial assets—current	(152,009)
Inventories	1,701,975
Other current assets	(12,997)
Deferred income tax assets and liabilities, net	48,356
Accounts payable	(9,332,325)
Income tax payable	16,714
Accrued expenses	(255,665)
Other financial liabilities—current	(61,306)
Other current liabilities	58,676
Accrued pension liabilities	311
Net cash provided by operating activities	<u>(1,310,202)</u>

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Consolidated Statements of Cash Flows**

For The Quarter Ended March 31, 2008

(All Amounts Expressed in Thousands of New Taiwan Dollars, Otherwise Stated)

	For The Quarter Ended March 31, 2008
Cash flows from investing activities:	
Increase in long-term equity investments	(60,798)
Increase in property, plant, and equipment purchase	(50,055)
Increase in other assets	(33,472)
Proceeds from sale of property, plant, and equipment	89,080
Decrease in other financial assets—non-current	<u>4,103</u>
Net cash used in investing activities	<u>(51,142)</u>
Cash flows from financing activities:	
Increase (decrease) in short-term borrowings	1,512,693
Repayment of long-term borrowings	(5,255)
Decrease in other financial liabilities—non-current	<u>37,211</u>
Net cash used in financing activities	<u>1,544,649</u>
Effect of changes in exchange rates	(121,048)
Net increase (decrease) in cash	62,257
Cash, beginning of the period	<u>7,099,084</u>
Cash, end of the period	<u>\$ 7,161,341</u>
Supplemental disclosures of cash flow information:	
Cash paid for interest during the period	<u>\$ 7,263</u>
Cash paid for income tax during the period	<u>\$ 101,015</u>
Purchase of property, plant, and equipment with cash and other payables: :	
Acquisition of property, plant, and equipment	\$ 45,792
Add: Other payables and rents payables—beginning of the period	26,779
Less: Other payables and rents payables—end of the period	<u>(22,516)</u>
Cash paid	<u>\$ 50,055</u>

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements**

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

1. Summary of Significant Accounting Policies

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The Consolidated Entities' financial statements were prepared in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" and accounting principles generally accepted in the Republic of China. The significant accounting policies and their measurement basis were as follows:

(a) Status of Consolidation

(i). Details of subsidiaries within the Consolidated Entities were shown below:

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

Investor	Subsidiaries	Primary Business	Shareholding Ratio as of March 31, 2008	Note
The Company	Inventec Appliances (Cayman) Holding Corp.	Investment company	100%	Inventec Appliances (Cayman) Holding Corp. was established in 2000 and incorporated as a holding company to engage in various overseas investments. As of March 31, 2008, its total issued capital was US\$130,585 thousand.
The Company	InStars Multimedia Corporation	Publishing magazines and books and digital multimedia	100%	InStars Multimedia Corporation was established in August 2007. As of March 31, 2008, its total issued capital was 15,000
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (BVI) Corp.	International trading	100%	Inventec Appliances (BVI) Corp. was established in 2000. As of March 31, 2008, its total issued capital was US\$50 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (USA) Distribution Corp. (IDC)	Marketing and popularizing	100%	IDC was established in June 2000. As of March 31, 2008, its total issued capital was US\$4 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (USA) Packing Corp. (IPC)	Products package designing and packing	100%	IPC was established in June 2000. As of March 31, 2008, its total issued capital was US\$1

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

Investor	Subsidiaries	Primary Business	Shareholding Ratio as of March 31, 2008	Note
Corp.				thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances Corporation USA, Inc. (IAC USA)	Marketing	100%	IAC USA was established in April 2006. As of March 31, 2008, its total issued capital was US\$1 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Shanghai) Co., Ltd. (IACS)	Communication on electronic products manufacturing	100%	IACS was established in February 1991 and was originally invested by Inventec Corporation (Hong Kong) Ltd. under its former registered name of Inventec (Shanghai) Electronics Co., Ltd. Following the reorganization of the group in 2002, IACS was then reinvested by Inventec Appliances (Cayman) Holding Corp. As of March 31, 2008, its total issued capital was US\$35,400 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Pudong) Corporation (IACP)	Communication on electronic products manufacturing	100%	IACP was established in April 2004. As of March 31, 2008, its total issued capital was US\$37,000 thousand.
Inventec Appliances (Cayman)	Inventec Appliances (Jiangning)	Communication on electronic products	100%	IACJ was established in February 2004. As of March 31, 2008, its total

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

Investor	Subsidiaries	Primary Business	Shareholding Ratio as of March 31, 2008	Note
Holding Corp.	Corporation (IACJ)	manufacturing		issued capital was US\$28,000 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Nanjing) Corporation (IACN)	Communicati on electronic products manufacturing	100%	IACN was established in October 1993 and was originally invested by Inventec Corporation (Hong Kong) Ltd. under its former registered name of Inventec (Nanjing) Electronics Co., Ltd. Following the reorganization of the group in 2004, IACN was then reinvested by Inventec Appliances (Cayman) Holding Corp. As of March 31, 2008, its total issued capital was US\$5,000 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Shanghai) International Marketing Corp. (IASM)	Marketing and Popularizing	100%	IASM was established in May 2005. As of March 31, 2008, its total issued capital was US\$14,000 thousand.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Nanjing) System Corporation (IANS)	Communicati on electronic products manufacturing	100%	IANS was established in July 2006. As of March 31, 2008, its total issued capital was US\$7,500 thousand.
Inventec	Inventec	Telecommuni		IACX was established in

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

Investor	Subsidiaries	Primary Business	Shareholding Ratio as of March 31, 2008	Note
Appliances Holding Corp. IACS	Appliances (Xi'an) Corporation (IACX)	research and service	50.36%	December 2007. As of March 31, 2008, its total issued capital was US\$4,000 thousand.
	Giant Alliance (Shanghai) Co., Ltd.(GA)	Marketing and popularizing		GA was invested by IACS on December 30, 2005. As of March 31, 2008, its total issued capital was RMB\$139,000 thousand.
IACJ	Inventec Appliance (India) Company Private Limited	Marketing and popularizing	98.00%	Inventec Appliance (India) Company Private Limited was established in July 2007. As of March 31, 2008, its total issued capital was US\$ 31 thousand.
IANS	Inventec Appliance (India) Company Private Limited	Marketing and popularizing	2.00%	Inventec Appliance (India) Company Private Limited was established in July 2007. As of March 31, 2008, its total issued capital was US\$ 31 thousand.

The consolidated financial statements include the accounts of the Company and the above mentioned subsidiaries (the "Consolidated Entities"). All material inter-company transactions have been eliminated in the consolidated financial statements.

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Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

(b) Use of Estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(c) Foreign Currency Translation and Financial Report Translation

The Company records its transactions in the New Taiwan dollars. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date, and the resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into reporting currency using the foreign exchange rates at the balance sheet date.

If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

All foreign currency-denominated consolidated subsidiaries record their transactions in their functional currency. The translation difference which results in further exchange loss is included in stockholders' equity as "cumulative translation adjustments."

(d) Basis for Classifying Assets and Liabilities as Current or Non-Current

Unrestricted cash, cash equivalent, assets held for trading or other assets that the Consolidated Entities will convert to cash or use within in a relatively short period of time – one year or one operating cycle, whichever is longer, are classified as current assets, otherwise are classified as non-current assets. Debts due within one year or one operating cycle, whichever is longer, are classified as current liabilities, otherwise are classified as non-current liabilities.

(e) Assets Impairment

The Consolidated Entities assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than

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INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

goodwill may have been impaired. If any such indication exists, the Consolidated Entities estimates the recoverable amount of the asset. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount. The Consolidated Entities reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss previously recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(f) Financial Instruments

The Consolidated Entities classifies the investments in financial assets as financial assets / liabilities reported at fair value through profit or loss or financial assets carried at cost.

Financial instrument transactions are recorded at trading date. The financial instruments other than held for trading are initially recognized at fair value plus transaction costs, while those held for trading are carried at fair value.

After initial recognition, financial instruments are classified depending on the Consolidated Entities' intention as follows:

(i) Financial assets or liabilities reported at fair value through profit or loss:

Financial assets held for trading are those that the Consolidated Entities principally holds for the purpose of short-term profit taking. Financial derivatives, except for those that meet the criteria of hedge accounting, are classified as financial instruments reported at fair value through profit or loss.

(ii) Financial assets carried at cost — non-current:

Financial assets carried at cost are investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured; therefore, the Consolidated Entities carried these assets at their original costs. If there is objective evidence indicating that a financial asset is impaired, a loss is recognized thereon. The subsequent recovery in fair value is not recognized.

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(g) Allowance for doubtful accounts

Allowance for doubtful accounts is based on the results of the Consolidated Entities' evaluation of the collectibility of outstanding receivable balances.

(h) Inventories

Inventories are carried at the lower of cost or market value using the perpetual inventory basis. Cost is determined using the weighted-average method. Market value is determined by replacement value. A provision for inventory devaluation is recorded when the market value of inventories is less than cost. Year-end inventories are evaluated for obsolescence based on inventory aging which is generally over six months. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for loss.

(i) Non-Current Assets Held for Sale

Non-current assets that are available for immediate sale under the general terms and customary for sales of such assets, and are likely to be sold within one year are classified as non-current assets held for sale. A held for sale non-current asset is measured at the lower of their book value or fair value less costs to sell, and is recorded separately on the balance sheet. No further amortization or depreciation will be recorded once an asset is classified as held-for-sale.

If the carrying amount of a non-current asset held for sale is greater than its fair value less costs to sell, an impairment loss is recognized in the income statement. If such fair value less costs to sell increases in subsequent periods, the Company can recognize a gain, but not in excess of the cumulative impairment loss that has been recognized in compliance with Statement of Financial Accounting Standards (SFAS) No. 35, "Accounting for Asset Impairment".

(j) Long-Term Investments under the Equity Method

When the Consolidated Entities has significant influence over the operating, financial and dividend policies of investees, those investments are accounted for under the equity method.

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(k) Property, Plant, Equipment and Depreciation

Property, plant and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Maintenance and minor repairs are recognized as current expenses; Gain and loss on disposal of property, plant and equipment is reflected under non-operating income or expense.

Depreciation is calculated using the straight-line method over the economic useful lives less salvage value.

The economic useful lives of major property and equipment were as follows:

Building	10 to 50	years
Machinery	3 to 10	years
Research and experiment facilities	3 to 8	years
Furniture and office facilities	3 to 10	years
Miscellaneous equipment	1 to 15	years

Rental assets and idle fixed assets, which are not used for operating purposes, are classified as other assets.

(l) Intangible Assets and Other Assets

Effective from January 1, 2007, the Consolidated Entities adopted Statement of Financial Accounting Standards No. 37 (SFAS No. 37) "Intangible Assets". In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 50 years.

(m) Warranty Reserve

A warranty reserve is estimated and provided for products sold with warranty based on historical experience and is charged against current expense.

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Notes to Consolidated Financial Statements (Continued)

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(n) Royalty Reserve

A royalty reserve is provided for certain products sold based on the royalty charge prescribed in the royalty agreement and based on historical experience for those products sold whose payment of royalty is still being negotiated with the patent owners. It is classified either under current or and non-current liabilities according to its nature.

(o) Pension Plan

The Company has a defined benefit and non-contributory pension plan covering all regular employees, under which pension payment is commensurate with years of service. The Company contributes monthly to the pension fund and deposits in a government designated account. The pension fund is not reflected in the Company's financial statements. Effective July 1, 2005, the Company adopted the "Labor Pension Act" (the "Act") that prescribes a defined contribution pension plan for those employees who were covered by the Labor Standards Law prior to the enforcement of the Act but chose to be subject to the pension mechanism under the Act or those employees who are employed after the enforcement of the Act. In accordance with this Act, the Company contributes monthly to the Labor Pension Fund for the employee individual pension fund accounts at the minimum rate of 6% of the employee's monthly wages. As the Company has not yet revised its pension plan to conform to the Act, any matters not covered by the pension plan are transacted in accordance with the Act. The Company expects to implement the revision starting from 2008.

For defined benefit pension plan, the Company adopts SFAS No. 18 and secures an actuarial report on pension liabilities with December 31 as the measurement date. Provision for pension expense commenced on April 25, 2000, and the unrecognized net transitional obligations are amortized equally over 15 years.

For defined contribution pension plan, the Company contributes to the Labor Pension Fund at the rate of 6% of the employee's monthly wages; contributions are accounted for as current pension expense.

Inventec Appliances (Cayman) Holding Corp. and Inventec Appliances (BVI) Corp. do not have pension plans for purposes of providing pension benefits to their employees, while the other foreign subsidiaries provide such pension benefits under a defined contribution pension plan in compliance with the local statutory requirements in their respective location.

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Notes to Consolidated Financial Statements (Continued)

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(p) Revenue Recognition

Revenue is recognized when title to the product and risk and reward of ownership are transferred to the customer. Otherwise, revenue recognition is deferred until these criteria are met. The Company also provides product development services and recognized commission income thereon when services are fully rendered.

The Consolidated Entities has sales with high probability of discounts occurring due to pre-sale discount agreements or market practices are firstly recognized in their full amount. A provision for sales allowance is then estimated based on past experience and any known factors that would affect the allowance, which is recognized either as a deduction of sales revenue or allowance for sales discount.

(q) Classification of Capital and Operating Expenditures

Expenditures that benefit the Consolidated Entities in future years are capitalized, while immaterial expenditures or those with no future benefits are treated as current expense or loss.

(r) Income Tax

The Company adopts the SFAS No. 22, "Accounting for Income Taxes" in the accounting for inter-period and intra-period income tax allocation. Tax effects of deductible temporary differences, loss carry forwards and unused investment tax credits are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of related assets and liabilities or the length of the time to its reversal. A valuation allowance is then provided for deferred tax assets by assessing whether it is more likely than not such assets will be realized. Deferred tax assets and liabilities that resulted from the recognitions of unrealized profit and changes in capital surplus, which reflected on stockholders' equity instead of current profit and loss, are respectively disclosed in net amount. Adjustments to prior years' income taxes are reflected as current income taxes.

The 10% surtax on undistributed earnings is reported as current expense on the date when the stockholders resolved not to distribute the earnings during their annual meeting.

Income tax of the Consolidated Entities is based on the tax laws of various jurisdictions. Income tax is declared on an individual company basis. Income tax expense of the Consolidated Entities is the sum of income tax expenses of the companies included in the consolidation.

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(s) Earnings per Share (EPS)

Basic EPS is computed based on the weighted-average number of common shares issued and outstanding. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of share is retroactively adjusted for additional shares issued.

(t) Employee Bonus and Directors and Supervisors Compensations

Effective January 1, 2008, the Consolidated Entities adopts the Republic of China Statement of Financial Accounting Standards (SFAS) No.39 "Share-based Payment" and includes Employee Bonus and Directors/Supervisors Compensations estimate numbers in either Cost of Sales or Operating Expanses. If the estimates are different from the finanal number based upon shareholders meeting resoluteion, the various will be treated as estimate changes and listed as profit or loss in that period.

2. Reasons for and Effects of Accounting Changes

Effective January 1, 2008, the Consolidated Entities adopts the Republic of China Statement of Financial Accounting Standards (SFAS) No.39 "Share-based Payment". In accordance with SFAS 39, employee bonus and directors/supervisors compensations should be reclassified, remeasured, and disclosed upon initial adoption of the newly released SFASs. The changes caused by the re-measurement and the reclassification is that net income recuded by 34,994 and earning per share reduced by new Taiwan dollar 0.08.

3. Summary of Major Accounts

(a) Cash

	<u>97.03.31</u>
Cash on hand	\$ 1,741
Cash at bank	
Checking accounts	9,456
Demand deposits	1,539,657
Foreign currency deposits	1,413,627
Term deposits	4,106,860
Cash equivalence	<u>90,000</u>
Total	<u>\$ 7,161,341</u>

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(b) Financial Instruments

As of March 31, 2008, financial instruments held by the Consolidated Entities were as follows:

(i) Financial assets at fair value through profit or loss

	2008.03.31	
<u>Account</u>	<u>Book Value</u>	<u>Nominal Principle</u>
Financial liability held for trade—current		
Forward Contract—USD	\$ 17,473	USD155,000 thousands

Abovementioned derivative financial liability was stated in net value, under the account “Financial assets at fair value through profit or loss – Current”. As of March 31, 2008, unrealized gain loss on financial instrument mentioned above was 17,473 thousands.

(ii) Financial assets carried at cost—non-current :

	2008.03.31	
Financial assets carried at cost—non-current		
<u>Investment in common stock</u>		
Darly 3 Venture Corporation	\$ 6,630	
Hi Top Communications Corp.	5,195	
Tai Yi Precision Corporation	12,000	
<u>Investment in preferred stock</u>		
IMPINJ, Inc.	33,105	
Leadtone Limited	71,341	
Siano Mobile Silicon Inc.	15,234	
AutoNavi Holdings Limited	30,468	
Total	\$ 173,973	

(iii) The consolidated Entities recognized impairment losses at financial assets of \$15,756 for the quarter ended March 31, 2008.

(iv) All of the above mentioned investments in common stock and preferred stock, which do not have quoted market prices in an active market and whose fair value cannot be reliably measured, were reflected as non-current financial assets carried at cost.

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(c) Notes Receivable and Accounts Receivable

	<u>2008.03.31</u>
Notes receivable—non-related parties	\$ 273,641
Less: Allowance for sales returns and allowances	<u>(36,533)</u>
Net	<u>\$ 237,108</u>
Accounts receivable—related parties	\$ 3,020
Accounts receivable—non-related parties	8,361,163
Less: Allowance for doubtful accounts	<u>(49,411)</u>
Net	<u>8,314,772</u>
Total	<u>\$ 8,314,772</u>

(d) Inventories

	<u>2008.03.31</u>
Raw materials	\$ 3,899,196
Work in process	861,031
Finished goods	893,449
Inventories in transit	<u>319,852</u>
Subtotal	5,973,528
Less: Allowances for market decline and obsolescence	<u>(644,652)</u>
Net	<u>\$ 5,328,876</u>

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(e) Non-Current Assets Held for Sale

In December 2007, the Company entered into a contract agreeing to sell its idle asset, a factory located in Wugu, to a non-related party. The registered ownership has not been transferred to the acquirer, and expected to be completed within one year. Therefore, the related property was reclassified as non-current assets held-for-sale as of March 31, 2008 as follows:

	2008.03.31
Cost: Land	\$ 125,700
Building	63,950
Subtotal	189,650
Less: accumulated depreciation	(12,433)
Net	\$ 177,217

(f) Long-Term Investments

		2008.03.31	
<u>Investee company</u>	<u>Cost of Investment (thousand)</u>	<u>Shareholding Ratio</u>	<u>Book Value</u>
<u>Under equity method</u>			
Gainia Intellectual Asset Services, Inc.	6,400	48.30%	\$ <u>4,104</u>
<u>Prepayments for long-term investments</u>			
First Telecommunication Corp.	29,970	-	29,970
VoiceBox Technologies, Inc. USD	2,000	-	<u>95,642</u>
Total			\$ <u>125,612</u>

Investment income or loss was accounted for under the equity method based on the audited financial statements prepared by investee companies were as follows:

<u>Investee company</u>	2008.03.31
Gainia Intellectual Asset Services, Inc.	\$ (110)

As of March 31, 2008 the Company invested in VoiceBox Technologies, Inc. and First Telecommunication Corp. Partial agreements described in the investing contract were not completed as of the balance sheet date; hence, the amount was recorded as prepayment for long-term investment.

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(g) Property, Plant, Equipment and Other Assets

For the quarter ended March 31, 2008, no interest expenses generated by purchasing property, plant and equipment were capitalized.

A subsidiary determined that its land and building located in Nanjing, China not currently used in operations should be reclassified from “fixed assets” to “other assets – idle assets”. As of March 31, 2008, details for idle assets were as follows:

	2008.03.31
Cost: Land	\$ -
Building	86,319
Subtotal	86,319
Less: accumulated depreciation	(17,512)
Net	\$ 68,807

(h) Intangible Assets

(i) For the quarter ended March 31, 2008 the Consolidated Entities’ intangible assets’ original cost, accumulated amortization and accumulated impairment were as follows:

	<u>Land Use Right</u>	<u>Other Intangible Assets</u>	<u>Total</u>
Original Cost			
Balance as of December 31, 2007	\$ 647,564	318,649	966,213
Effect of changes in exchange rates	(15,611)	(7,682)	(23,293)
Balance as of March 31, 2008	\$ 631,953	310,967	942,920
Amortization and Impairment Loss			
Balance as of December 31, 2007	\$ 74,822	279,803	354,625
Amortization amount of this period	3,177	-	3,177
Effect of changes in exchange rates	(1,839)	(5,264)	(7,103)
Balance as of March 31, 2008	\$ 76,160	274,539	350,699

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(ii) Book value

	<u>Land Use Right</u>	<u>Other Intangible Assets</u>	<u>Total</u>
Balance as of March 31, 2008	\$ <u>555,793</u>	<u>36,428</u>	<u>594,639</u>

(iii) The amortization expenses of intangible assets were as follows:

	<u>2008.03.31</u>
Cost of sales	\$ 1,235
Operating expenses	<u>1,942</u>
	<u>\$ 3,177</u>

(i) Short-Term Borrowing

Loans

	<u>2008.03.31</u>
Credit loan	\$ 1,569,308
Other borrowings	<u>60,771</u>
Total	<u>\$ 1,630,079</u>
Range of Interest rate	<u>3.28%~6.57%</u>
Due date	No later than 2008.06.27

(j) Stockholders' Equity

(i) Common Stock:

As of March 31, 2008, the Company's authorized capital stock were 500,000 thousand shares, of which 461,700 thousand were issued at \$ 10 par value per share.

(ii) Dividend Policy:

In consideration of the Company's long-term financial planning, demand for capital and intention to satisfy the stockholders' cash flow, when after-tax earnings occurs, the distribution for annual cash dividends shall be greater than 10% of the current year's total cash and stock dividends distribution.

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(iii) Legal reserve and Capital surplus:

Under the Company Law, legal reserve can only be used to offset deficit and to increase capital stock. However, legal reserve can be capitalized only when the balance of legal reserve reaches 50% of the Company's paid-in capital and up to one half of the legal reserve balance can be capitalized.

According to the Company Law, the capital surplus, except for the portion arising from long-term investments accounted for under the equity method, is used exclusively to offset deficit and to increase capital stock. The proportion of capital surplus to be used to increase capital stock shall conform to the rules set forth by the Securities and Futures Bureau ("ROC SFB") under the Ministry of Finance ("MOF").

(iv) Special Reserve:

If a component of stockholders' equity is negative, an equal amount of special reserve is provided from current and prior years' retained earnings. Such special reserve may be reverted to retained earnings if such component recovers.

(v) Distributions of Earnings:

The Company's Articles of Incorporation requires that after-tax earnings shall first be offset against deficit, and 10% of the remainder be set aside as legal reserve. The remaining balance is appropriated according to any proposals presented at the annual stockholders' meeting, of which the remuneration to the directors and supervisors cannot exceed 3% and 7% for employee bonus.

The Company estimates employee bonus and remuneration to the directors and supervisors at 31,658 thousands and 15,000 thousands, respectively, based on net income for the quarter ended March 31, 2008 and Company's Articles of Incorporation's regulation. If the estimates are different from the final number based upon shareholders meeting resolution, the various will be treated as estimate changes and listed as profit or loss for year 2009 and be adjusted according to impacts of dividends as well.

The Company's undistributed retained earnings as follows:

	<u>For the Quarter ended</u>
	<u>March 31, 2008</u>
Balance as of January 1, 2008	\$ 3,262,377
Add : Net income of the period	<u>520,273</u>
Balance as of March 31, 2008	<u>\$ 3,782,650</u>

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The Board of Directors has yet to submit the proposal for the distribution of 2007 earnings to the stockholders' meeting for resolutions. The information on such distribution will be announced through Market Observation Post System on the internet after the stockholders' meeting.

(k) Stockholders' Equity

Basic EPS is calculated by dividing net income by the number of weighted-average shares outstanding during the period. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of shares is retroactively adjusted for additional shares issued. For the quarter ended March 31, 2008, the primary earnings per share belong to parent company were computed as follows:

	<u>For the Quarter ended March 31, 2008</u>	
	<u>Before Tax</u>	<u>After Tax</u>
Net income	<u>\$ 626,661</u>	<u>\$ 520,273</u>
Weighted-average shares outstanding (in thousands)	<u>461,700</u>	<u>461,700</u>
Employee bonus (in thousands) (note)	<u>523</u>	<u>523</u>
Retroactively adjusted weighted-average number of shares outstanding (in thousands)	<u>462,223</u>	<u>462,223</u>
Primary earnings per share	<u>\$ 1.36</u>	<u>\$1.13</u>
Primary earnings per share—retroactively adjusted	<u>\$ 1.36</u>	<u>\$1.13</u>

Note: The number is to assume all the employee bonus would be issued in the form of stock.

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(I) Financial Instruments

(i) Fair Value of Financial Instruments

	2008.03.31	
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 15,978,806	15,978,806
Financial assets at fair value through profit or loss	17,473	17,473
Financial assets carried at cost—non-current	173,973	-
Total financial assets	<u>\$ 16,170,252</u>	
<u>Financial Liabilities</u>		
Book value equal to fair value	<u>\$ 14,177,283</u>	<u>14,177,283</u>

(ii) Methods and assumptions used to establish the fair values of financial instruments were as follows :

(1) The fair value of short-term financial instruments is determined by their face values on balance sheet date. Because these financial instruments will mature on short notice, the face value serves as a reasonable basis for establishing the fair value. This method is applied to cash, notes receivable, accounts receivable, other financial assets, short-term borrowings, accounts payable, accrued expenses, other financial liabilities and long-term borrowings—current portion.

(2) The fair value of financial instruments traded in active markets is based on quoted market prices. If the financial instruments are not in an active market, then the fair value is determined by using certain valuation techniques. The estimates and assumptions used in these valuation techniques are consistent with prevailing market conditions.

(3) With respect to financial instruments such as refundable deposits that are indispensable guarantee for the on-going operation of the Consolidated Entities, it is impossible to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of these financial instruments cannot be established. Therefore, the book value is used as the fair market value.

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- (iii) Financial Asset's fair value by open market quotation and by valuation techniques detail as below:

	2008.3.31	
	<u>Amount Based upon</u>	<u>Estimate Amount by</u>
	<u>Open Market Quotation</u>	<u>Valuation Techniques</u>
Financial Asset		
Forward Contract—USD	\$ -	17,473

- (iv) The Company recognizes gains of 17,473 thousands for financial asset fair value from Valuation Techniques.
- (v) Financial Risk Information

(1) Liquidity risks:

The capital and working fund of the Consolidated Entities are sufficient to meet its entire contracted obligations; therefore, no such liquidity risks exist.

The forward contracts entered into by the Consolidated Entities are expected to result in US dollar inflow and outflow within one year. However, cash flow risk is considered insignificant because these forward contracts will be settled out of the foreign currency sales proceeds and the rates of forward exchanges are fixed.

(2) Concentration of credit risks:

The Consolidated Entities' credit risk is inherent in its cash and accounts receivable. No credit risk is expected on cash as it is deposited in different financial institutions. As of March 31, 2008, the balance of the Consolidated Entities' accounts receivable included the account of one customer representing 81% of the total accounts receivable balance. To minimize credit risk, the Consolidated Entities periodically evaluates its customer's financial positions and the status of the ability to collect of these total receivables. The Consolidated Entities believes that the possibility of incurring bad debt losses thereon is remote, because the results of such evaluation is satisfactory.

Consolidated Entities' contracts with credit risk concentration were as follows:

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<u>Accounts Receivable-By Region</u>	<u>2008.03.31</u>
Domestic	\$ 209,235
Asia	239,075
Europe	1,892,028
America	<u>6,023,845</u>
Total	<u><u>\$ 8,364,183</u></u>

(3) Cash flow risks arising from interest rate fluctuation:

The Consolidated Entities' interest rate risk arises from short-term loans bearing floating interest rate. Future cash flow will be affected by the change in market interest rate.

(vi) Risk management and Hedging policy:

Financial derivatives are used to hedge operating risk, as one of the Consolidated Entities' hedging policies. The risk management of the Consolidated Entities conforms to its internal control system and is evaluated regularly.

4. Related Party Transactions

(a) Names of Related Parties and their Relationship with the Consolidated Entities

<u>Name of Related Party</u>	<u>Relationship with the Consolidated Entities</u>
Inventec Corporation	Main shareholder
Kai Tsuang Advisory Services Co., Ltd.	An affiliate

(b) Significant Transactions with Related Parties:

(i) Accounts Receivable

	<u>2008.03.31</u>	
<u>Account Receivable :</u>	<u>Amount</u>	<u>%</u>
Total	<u><u>\$ 3,020</u></u>	<u><u>-</u></u>

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(ii) Others:

The Company paid consulting fee of 1,260 thousand to Kai Tsuang Advisory Services Co., Ltd. in the quarter ended March 31, 2008.

5. Pledged Assets

Assets pledged as collateral as of March 31, 2008 were as follows:

	<u>2008.03.31</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 16,965</u>	Deposits for buildings

6. Significant Commitments and Contingencies

(a) As of March 31, 2008, unused letters of credit were as follows: (in thousands)

	<u>2008.3.31</u>
USD	\$-
EUR	22

(b) As of March 31, 2008, the promissory notes issued for bank credit limits were as follows: (in thousands)

	<u>2008.3.31</u>
USD	\$ 28,500
EUR	500
NTD	2,051,253

(c) As of March 31, 2008, the promissory notes received from suppliers were as follows: (in thousands)

	<u>2008.3.31</u>
NTD	\$ 154,303

(d) For the quarter ended March 31, 2008, the Consolidated Entities entered into lease agreements to lease computers, software and buildings. The rental expense and future lease payments were as follows:

<u>Period</u>	<u>Rent expense</u>	<u>Future rent due</u>			
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
For The Quarter Ended March 31	\$ 14,146	-	27,600	16,328	2,690

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(e) As of March 31, 2008, the totaled significant construction and machinery contract prices and the future irrecoverable payments were as follows: (in thousands)

	<u>2008.03.31</u>
Total Contract Prices:	
USD	\$ 31,486
RMB	584,382
Future Irrecoeverable Payments:	
USD	165
RMB	27,468

7. Significant Catastrophic Losses: None

8. Significant Subsequent Events: None.