

**INVENTEC APPLIANCES CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SIX MONTHS ENDED JUNE 30, 2005**

**AND**

**INDEPENDENT AUDITORS' REPORT**

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CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005**

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## **Independent Auditors' Report**

To the Board of Directors of  
Inventec Appliances Corporation and Subsidiaries:

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

We conducted our audits in accordance with "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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inventec Appliances Corporation and subsidiaries as of June 30, 2005, and the results of their operations and their cash flows for the six months then ended in conformity with generally accepted accounting principles in the Republic of China.

Inventec Appliances Corporation prepared and presented semi-annual consolidated financial statements for the first time as of June 30, 2005. In accordance with the regulation issued by the Financial Supervisory Commission, a company which prepares semi-annual consolidated financial statements as of June 30, 2005, may present single-period semi-annual consolidated financial statements. Thus, the comparative financial statements and disclosures required under the Guidelines Governing the Preparation of Financial Reports by Securities Issuers do not apply to these consolidated financial statements.

Taipei, Taiwan, R.O.C  
August 8, 2005

The accompanying financial statements are intended only to present the financial position, results of operation and cash flows in accordance with the 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.

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2005**  
(New Taiwan Dollars in Thousands, Except for share data)

	<b>June 30, 2005</b>	
	<b>Amount</b>	<b>%</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash (Note (4)(a))	\$ 8,200,103	25
Notes receivable	586	-
Accounts receivable - net of allowance for doubtful accounts (Notes (2) and (4)(b))		
- Other customers	11,522,143	35
- Related parties	1,133	-
Other financial assets - current	156,529	1
Inventories, net of allowance for obsolescence (Notes (2) and (4)(c))	7,986,844	24
Other current assets	339,091	1
Deferred tax assets - current (Notes (2) and (4)(i))	123,831	-
Consolidated debits	46,706	-
	<u>28,376,966</u>	<u>86</u>
<b>Long-term equity investments (Notes (2) and (4)(d))</b>		
Accounted for under the equity method	6,048	-
Accounted for under the cost method	137,954	-
	<u>144,002</u>	<u>-</u>
<b>Other financial assets - non-current</b>		
	<u>13,516</u>	<u>-</u>
<b>Property, Plant, and Equipment (Notes (2) and (4)(e))</b>		
Land	279,855	1
Buildings	953,252	3
Machinery	2,659,314	8
Transportation equipment	35,149	-
Furniture and office facilities	259,410	1
Other equipment	498,423	2
	<u>4,685,403</u>	<u>15</u>
Less: Accumulated depreciation	(1,410,782)	(4)
Construction-in-progress	55,910	-
Prepayment on equipment	423,009	1
	<u>3,753,540</u>	<u>12</u>
<b>Intangible Assets</b>		
Deferred Pension Cost (Note (2))	61,052	-
Land usage right (Note (2))	248,736	1
	<u>309,788</u>	<u>1</u>
<b>Other Assets:</b>		
Deferred tax assets - non - current (Notes (2) and (4)(i))	187,049	1
Other assets	139,244	-
	<u>326,293</u>	<u>1</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 32,924,105</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Short-Term borrowings (Notes (4)(f))	\$ 3,166,596	10
Notes payable	500	-
Accounts payable	1,668,637	50
Income tax payable(Notes (2) and (4)(i))	205,130	1
Accrued expenses	1,210,569	4
Other payables	1,865,657	6
Other current liabilities	635,409	2
Long-term debt-Current Portion (Note (4)(g))	32,759	-
	<u>23,802,996</u>	<u>73</u>
<b>Long-Term Liabilities</b>		
Long-term debt (Note (4)(g))	136,102	-
<b>Other Liabilities:</b>		
Estimated warranty reserve (Note (2))	1,711,439	5
Accrued pension liabilities (Note (2))	45,991	-
Other liabilities	237,600	1
	<u>1,995,030</u>	<u>6</u>
Total Liabilities	<u>25,934,128</u>	<u>79</u>
<b>Stockholders' Equity</b>		
Capital Stock, par value \$10 per share; authorized and issued 280,000,000	2,800,000	9
Stock Dividend to Distributed (Note (4)(j))	300,000	1
Capital Surplus		
Premium on stock issuance	2,104,500	6
Other	1,110	-
Retained Earnings:		
Legal reserve (Note (2))	483,985	1
Unappropriated earnings (Note (4)(i))	1,463,131	4
Cumulative translation adjustments	(162,749)	-
Total Stockholders' Equity	<u>6,989,977</u>	<u>21</u>
<b>Commitments and Contingencies</b>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 32,924,105</u></b>	<b><u>100</u></b>

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

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**SIX MONTHS ENDED JUNE 30, 2005**  
(New Taiwan Dollars in Thousands, Except for per share amount)

	2005	
	Amount	%
<b>Operating Income:</b>		
Gross sales (Note (2))	\$ 52,089,058	100
Less: Sales returns	(68,474)	-
Sales discounts and allowances	(5,007)	-
Net sales	52,015,577	100
<b>Operating Cost</b>	(47,476,422)	(91)
<b>Gross Margin</b>	4,539,155	9
<b>Operating Expenses:</b>		
Selling expenses	(1,470,485)	(3)
Administrative expenses	(359,482)	(1)
Research and development expenses	(843,031)	(2)
	(2,672,998)	(6)
<b>Net Operating Income</b>	1,866,157	3
<b>Non-Operating Income:</b>		
Interest income	24,108	-
Investment Income	576	-
Gain on disposal of property, plant, and equipment	14,787	-
Gain on physical inventory	394	-
Rental income	4,952	-
Other income	165,434	-
	210,251	-
<b>Non-Operating Expenses:</b>		
Interest expense	(56,909)	-
Loss on disposal of property, plant, and equipment	(49,685)	-
Foreign exchange loss	(23,959)	-
Loss on inventory obsolescence	(135,258)	-
Other expenses	(97,438)	-
	(363,249)	-
<b>Income before income tax</b>	1,713,159	3
<b>Income tax expense (Notes (2) and (4)(i))</b>	(349,305)	-
<b>Net income</b>	<b>\$ 1,363,854</b>	<b>3</b>
<b>Belong to:</b>		
Net income before minority interest income	\$ 1,363,854	3
Minority interest in net income of subsidiaries	-	-
<b>Net income</b>	<b>\$ 1,363,854</b>	<b>3</b>
	<b>Before Tax</b>	<b>After Tax</b>
<b>Primary earnings per share (Notes (2) and (4)(k))</b>	<b>\$ 6.12</b>	<b>4.87</b>
<b>Primary earnings per share after retroactive adjustments</b>	<b>\$ 5.53</b>	<b>4.40</b>

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

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2005**  
(New Taiwan Dollars in Thousands)

	<u>Retained Earnings</u>					<b>Cumulative Translation Adjustment</b>	<b>Total</b>
	<b>Capital Stock</b>	<b>Stock Dividend to be Distributed</b>	<b>Capital Surplus</b>	<b>Legal Reserve</b>	<b>Unappropriated Earnings</b>		
<b>Beginning balance, January 1, 2005</b>	\$ 2,800,000	-	2,105,610	274,914	2,344,512	(137,628)	7,387,408
Appropriation of 2004 earnings							
Legal reserve	-	-	-	209,071	(209,071)	-	-
Remuneration to directors and supervisors	-	-	-	-	(56,449)	-	(56,449)
Employee bonuses-cash	-	-	-	-	(111,715)	-	(111,715)
Employee bonuses-stock	-	20,000	-	-	(20,000)	-	-
Stock dividends	-	280,000	-	-	(280,000)	-	-
Cash dividends	-	-	-	-	(1,568,000)	-	(1,568,000)
Net income for the six months ended June 30, 2005	-	-	-	-	1,363,854	-	1,363,854
Translation adjustment for long-term investments (net of income tax of \$8,374)	-	-	-	-	-	(25,121)	(25,121)
<b>Ending balance, June 30, 2005</b>	<b>\$ 2,800,000</b>	<b>300,000</b>	<b>2,105,610</b>	<b>483,985</b>	<b>1,463,131</b>	<b>(162,749)</b>	<b>6,989,977</b>

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

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2005**  
**(New Taiwan Dollars in Thousands)**

	<b>2005</b>
<b>Cash flows from operating activities:</b>	
Net income	\$ 1,363,854
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	290,314
Amortization	114,958
Amortization of consolidation credit	5,937
Loss on disposal of property, plant, and equipment	35,369
Investments income under the equity method	(576)
Provision for inventory devaluation	135,258
Provision of doubtful accounts	31,565
Estimated warranty reserve	297,351
Royalty reserve	34,698
Changes in assets and liabilities:	
Notes and accounts receivable	5,058,748
Other financial assets - current	(38,697)
Inventories	(2,257,467)
Other current assets	(129,495)
Deferred income tax assets and liabilities, net	70,157
Notes and accounts payable	(3,681,189)
Income tax payable	96,911
Accrued expenses	106,239
Other payables	(67,098)
Other current liabilities	367,085
Accrued pension liabilities	(7,602)
Deferred credits	272
Consolidated debits	158,829
<b>Net cash provided by operating activities</b>	<b>1,985,421</b>
<b>Cash flows from investing activities:</b>	
Increase in long-term investments	(45,858)
Purchase of property, plant, and equipment	(946,871)
Purchase of deferred assets	(78,957)
Proceeds from disposal of property, plant, and equipment	30,900
Land usage right	(4,112)
Other financial assets-noncurrent	(644)
Other liabilities	1,954
<b>Net cash used in investing activities</b>	<b>(1,043,588)</b>
<b>Cash flows from financing activities:</b>	
Increase in short-term borrowings	23,734
Increase in long-term debt	168,861
Employee bonuses	(111,715)
<b>Net cash provided in financing activities</b>	<b>80,880</b>
<b>Effect of changes in foreign exchange rate</b>	<b>(36,843)</b>
<b>Net increase in cash</b>	<b>985,870</b>
<b>Cash, beginning of the period</b>	<b>7,214,233</b>
<b>Cash, end of the period</b>	<b>\$ 8,200,103</b>
<b>Supplemental disclosures of cash flow information:</b>	
Cash paid during the period for interest (excluding capitalized interest)	<b>\$ 54,505</b>
Cash paid during the period for income tax	<b>\$ 182,237</b>
Unpaid cash dividends and remuneration to directors and supervisors	<b>\$ 1,624,449</b>
Long-Term debt-current portion	<b>\$ 32,759</b>
<b>Purchase of property, plant, and equipment with cash and other payables:</b>	
Increase in property, plant, and equipment	\$ 918,194
Add: Other payables - beginning of the period	105,196
Less: Other payables - end of the period	(76,519)
Cash paid	<b>\$ 946,871</b>

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

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS JUNE 30, 2005**  
**(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

**(1) Organization and Business**

The entity of the consolidated financial statements:

- (i) Inventec Appliances Corporation (the “Company”) was organized on April 25, 2000 and incorporated on May 12, 2000. On November 22, 2002, the Company acquired Inventec Online Corp. of which Inventec Corporation is the primary shareholder. The Company engages primarily in the manufacture and sale of wire and wireless communication and digital accessory products.
- (ii) Inventec Appliances (Cayman) Holding Corp, a wholly-owned subsidiary of the Company, was incorporated in 2000 as a holding company to engage in various investments. As of June 30, 2005, total issued capital was US\$76,694 thousand. Through Inventec Appliances (Cayman) Holding Corp., the Company indirectly invested in Inventec Appliances (BVI) Corp., Inventec Appliances (USA) Distribution Corp.(IDC), Inventec Appliances (USA) Packing Corp.(IPC), Inventec Appliances (Shanghai) Co., Ltd., Inventec Appliances (Pudong) Co., Ltd., Inventec Appliances (Nanjing) Co., Ltd., Inventec Appliances (Jiangning) Co., Ltd., and Inventec Appliances (Shanghai) International Marketing Corp. The Company’s ownership in the above investments is 100%
- (iii) The consolidated financial statements include the Company and the above mentioned subsidiaries and all material intercompany transactions have been eliminated in the consolidated financial statements.

As of June 30, 2005, the number of employees was 12,083 (excluding employed by contracts).

**(2) Summary of Significant Accounting Policies**

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

The Company’s financial statements were prepared in accordance with “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and generally accepted accounting principles of the Republic of China. Summary of significant accounting policies and their measurement basis are as follows:

**(a) Foreign Currency Translation**

Foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing on that date. The resulting exchange gains or losses from settlement or translations of monetary assets and liabilities are reflected in the accompanying statements of income.

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(b) Assets Impairment**

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No.35 (SFAS 35) "Accounting for Asset Impairment". According to SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit other than goodwill) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reserves an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss 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.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

**(c) Allowance for Doubtful Accounts**

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

**(d) Inventories and Allowance for Inventory Market Decline and Obsolescence**

Inventories are stated at the lower of cost or fair value on a perpetual inventory basis. Cost is determined using the weighted-average method. Fair value is determined by replacement cost or by net realizable value. A provision for inventory devaluation is recorded when the market values of inventories are less than their cost basis. Allowance for inventory obsolescence is provided for inventory items remain unsold over 6 months, net of estimated useful or salvage values.

**(e) Long-Term Equity Investments**

Long-term equity investments where ownership by the Company is lower than 20% or where no significant influence exists are carried at cost. For listed investee companies, an allowance for market decline is provided for when market prices are lower than cost. For non-listed investee companies, loss on investment is immediately recognized should impairment in investments be deemed other than temporary.

Long-term equity investments where the Company can exercise significant influence are accounted for under the equity method. Exchange differences from translation of foreign-denominated financial statements at year-end are reflected as translation adjustments under stockholders' equity. If the fiscal year of the investee company is different from that of the Company, equity earnings of an investee company are recognized according to equivalent ownership at year-end closing.

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Unrealized profits/losses on the inter-company transactions are eliminated and deferred. Gains and losses resulted from transactions of depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

**(f) Property, Plant, Equipment and Depreciation**

Property, plant, and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Depreciation is applied with the straight-line method using cost less estimated salvage value and the estimated service lives of depreciable assets.

Economic lives of major property and equipment are the following:

Building	10~50 years
Machinery	1~12 years
Transportation equipment	1~ 5 years
Furniture and office facilities	1~10 years
Mold and tools	1 year
Power equipment	1~15 years
Other equipment	1~17 years
Renovation	1~10 years
Leased assets	3~ 5 years

Gains and losses on disposal of properties are reflected under non-operating income or expense.

The property, plant and equipment of the subsidiaries in the U.S.A. are stated at cost. Depreciation is applied by the straight-line method with economic lives. Assets still in use after full depreciation may continue to be depreciated over estimated remaining useful lives.

The property plant and equipment of the subsidiaries in mainland China are stated at cost. Depreciation is applied by the straight-line method with useful lives stipulated by the Government. Assets still in use after full depreciation may continue to be depreciated over estimated remaining useful lives.

**(g) Intangible Assets**

Land usage rights are stated at cost and amortized using the straight-line method over the contract period of 50 years.

**(h) Deferred Expenses**

Telephone line charges are amortized equally over 5 years. Molds and tools and software costs are amortized equally over 12 months.

**(i) Warranty Reserve**

An allowance is provided for products with warranty based on historical warranty service cost, and on its nature. The related liability is classified as current or non-current liabilities.

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(j) Royalty**

The expense is paid for products with royalty based on historical royalty charge and on its nature; the related liability is classified as non – current liabilities.

**(k) Pension Plan**

The Company has a pension plan covering all regular employees, and pension payment is commensurate with years of service. The Company contributes annually to the pension fund and deposits in a government designated account. The pension fund is not reflected in the Company's financial statements. The Company adopted SFAS No.18 and secured actuarial report on pension liabilities with June 30 as the measurement date. Provision for pension expense commenced on April 25, 2000, and unrecognized net transitional obligations are amortized equally over 15 years.

Certain of the Company's foreign subsidiaries have defined contribution retirement plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to these plans are expensed as incurred.

**(l) Commitments and Contingencies**

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise, only the nature of such loss is disclosed in notes to the financial statements.

**(m) Non-Trading Financial Derivatives**

According to the SFAS, hedging foreign exchange forward contracts are recorded at spot rates of the contract date and adjusted by the year-end exchange rate, with exchange gains and losses included in current earnings. Premium or discount, difference between the contract and the spot rates, is recognized ratably over the term of forward contracts. Forward contract receivables netting related payables are reflected as an asset or a liability.

**(n) Revenue Recognition**

Revenue is recognized when title to the product and risk and benefits of ownership are transferred to the customer; otherwise recognition is deferred until conditions are met.

**(o) Classification of Capital and Operating Expenditures**

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

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(p) Income Tax**

The Company adopted the SFAS No. 22, "Accounting for Income Taxes" to make inter- and intra-period income tax allocation. Tax effects of deductible temporary differences, unused investment tax credits, and operating loss carryforwards are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities. A valuation allowance is provided for deferred tax assets by assessing whether it is more likely than not such assets will realize. Adjustments to prior years' earnings are reported under stockholders' equity rather than included in current earnings. Income tax expense or benefits resulting from unearned gain or loss or changes in capital surplus are reported under respective accounts in net. 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 of the annual stockholder's meeting declaring distribution of earnings.

Income tax of the Consolidated Company is based on tax laws of various countries. Income tax return is filed on an individual company basis. Consolidated income tax expense is the sum of income tax expenses of the consolidated companies.

**(q) Earnings per Share (EPS)**

EPS is calculated using the weighted-average shares outstanding during the year. In the event of capital increase through capitalization of retained earnings or capital surplus, EPS is retroactively adjusted by the capitalization ratio, regardless of the outstanding period in which the incremental shares are issued.

**(3) Reasons for and Effects of Accounting Changes:**

The Company adopted Statement of Financial Accounting Standards No.35 "Accounting for Asset Impairment" in 2005. The Company determined that no asset had an indication of impairment.

**(4) Summary of Major Accounts**

**(a) Cash**

	<b>June 30, 2005</b>
Cash on hand	\$ 1,818
Checking accounts	-
Demand deposits	1,070,200
Time deposits	1,961,414
Negotiable certificate of deposits	1,500,000
Foreign currency deposits	3,666,671
<b>Total</b>	<b>\$ 8,200,103</b>

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(b) Accounts Receivable**

	<u>June 30, 2005</u>
Accounts receivable - other customers	\$ 11,602,098
Less: Allowance for doubtful accounts	(79,955)
Net	<u>11,522,143</u>
Accounts receivable - related parties	1,133
Total	<u><u>\$ 11,523,276</u></u>

**(c) Inventories**

	<u>June 30, 2005</u>
Raw materials	\$ 5,280,216
Work-in-process	1,403,087
Finished goods	1,099,776
Inventories-in-transit	520,171
Subtotal	<u>8,303,250</u>
Less: Allowance for obsolescence	(316,406)
Net	<u><u>\$ 7,986,844</u></u>
Insurance coverage	<u><u>\$ 7,876,291</u></u>

**(d) Long-Term Equity Investments**

	<u>June 30, 2005</u>		
<u>Name of Investee Company</u>	<u>Equity</u>	<u>Book</u>	<u>Original</u>
<u>Carried under the equity method</u>	<u>Holding</u>	<u>Value</u>	<u>Investment</u>
Gainia Intellectual Asset Services, Inc.	48.30%	\$ 6,048	<u>6,400</u>
<b>Carried under the cost method and lower of cost or market value method</b>			
<u>Unlisted Securities</u>			
Darly 3 Venture Corporation	4.98%	10,200	
Telewise Communicatons, Inc.	6.98%	-	
Hi Top Communications, Corp.	7.41%	30,000	
Advanced Image Technology Corp.	19.50%	44,850	
Taiyi Precision Enterprise Co., Ltd.	1.67%	12,000	
Think Outside, Inc.	2.06%	-	
Tapwave Inc.	16.00%	-	
<u>Listed Securities</u>			
Tom Tom N.V.	0.06%	40,904	<u>Market Value</u> <u>\$ 47,590</u>
Subtotal		<u>137,954</u>	
Total		<u><u>\$ 144,002</u></u>	

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the six months ended June 30, 2005, income and loss from investments in investee companies accounted for under the equity method were the follows:

<u>Name of Investee Company</u>	<u>2005</u>
Gainia Intellectual Asset Services, Inc.	\$ <u>576</u>

For the six months ended June 30, 2005, the Company invested \$12,000 in Taiyi Precision Enterprise Co., Ltd. for 1.67% ownership. The investee company is accounted for under the cost method.

In June 2005, Darly 3 Venture Corporation an investee company accounted for under cost method proceeded the capital reduction. The Company received the investment return with the amounts of \$6,800.

Inventec Appliances (Cayman) Holding Corp. invested in Tom Tom N.V. amounted to US\$1,294 thousand for 0.06% ownership. The investee company is accounted for under the cost method .

The total assets and operating income of Gainia Intellectual Asset Services, Inc. an investee of the Company, were immaterial, and therefore the investee was not included in the consolidated financial statements.

**(e) Property, Plant, and Equipment**

As of June 30, 2005, fire insurance coverage for the property, plant, and equipment amounted to \$4,829,055.

**(f) Short-Term Borrowings**

<u>Types of Debt</u>	<u>June 30, 2005</u>	<u>Collateral or Guarantee</u>
Credit loan	\$ 213,875	None
Guarantee loan	2,952,721	None
Total	\$ <u>3,166,596</u>	
Interest Rates	<u>3.625%~4.43%</u>	

**(g) Long-term Debt**

<u>Bank</u>	<u>Non-current Portion</u>	<u>Current Portion</u>	<u>Total</u>	<u>Collateral or Guarantee</u>
<b>June 30, 2005</b>				
Bank of America (1)	\$ <u>136,102</u>	<u>32,759</u>	<u>168,861</u>	None

In the first half year 2005, Inventec Appliances (Pudong) Co., Ltd., the third level subsidiary of the Company, obtained a loan from Bank of America for purchase of machinery, of which the credit line was US\$15,000 thousand, and the interest rate was determined by the currency of the loan. The interest rate for RMB loan was 90% of the official 36-month RMB loan

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
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interest rate provided by The People's Bank of China. The interest rate for US dollar loan was the LIBOR rate plus 1%. Effective June 2006, the loan is repayable in 7 equal quarterly installments.

In the first half year 2005 Inventec Appliances (Pudong) Co., Ltd., the third level subsidiary of the Company obtained a long-term loan, of which the credit line was RMB 80,000 thousand) from Sumitomo Mitsui Banking Corporation.

Annual interest rate on above long-term debts for the six months ended June 30, 2005, ranged between 4.184%~5.22%.

**(h) Pension Plan**

The Company has a pension plan covering all employees, and payment is commensurate with years of service. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. Any fraction of a year shorter than 6 months is counted as half a year and any fraction of a year longer than 6 months is counted as 1 year of service. Effective July 2000, the Company contributed to the pension fund deposited with Central Trust of China. As of June 30, 2005, pension fund was \$289,597.

**(i) Income Tax**

(i) Deferred income tax assets and liabilities:

	<b>June 30, 2005</b>
a. Total deferred tax assets	\$ 639,851
b. Total deferred tax liabilities	(328,971)
c. Temporary differences:	
- Recognition of unrealized foreign exchange loss: deductible	\$ 46,100
- Recognition of inventory obsolescence: deductible	19,688
- Recognition of gain on investments: taxable	(323,633)
- Cumulative translation adjustment for long-term investments: deductible	54,250
- Recognition of pension expense: (taxable) deductible	(5,338)
- Recognition of employee welfare: deductible	1,826
- Recognition of unrealized inter-company profits: deductible	57,155
- Unrealized warranty reserve: deductible	400,763
- Royalty reserve: deductible	57,299
- Long-term investments-unrealized devaluation loss under the cost method	2,502
- Organization Cost: deductible	268

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>June 30, 2005</b>
(ii) Deferred tax assets – current	\$ 123,831
Deferred tax liabilities - current	-
Net	<b>\$ 123,831</b>
(iii) Deferred tax assets - non-current	\$ 516,020
Deferred liabilities - non-current	(328,971)
Net	<b>\$ 187,049</b>
(iv) Calculation of income tax expense:	
	<b>2005</b>
Income tax calculated per statutory tax rate	\$ 479,438
Permanent differences	1,605
Temporary differences	(70,157)
Tax-exempt income	(8,823)
Investment tax credits used	(146,725)
10% surtax on unappropriated earnings	24,903
Current income tax payable	280,241
Income tax separately levied	1,191
Prior years' income tax adjustments	(2,284)
Income tax effects of temporary differences:	
Provision for inventory obsolescence, net	(9,163)
Recognition of investment	145,963
Recognition of unrealized foreign currency exchange gain, net	946
Recognition of pension expense	1,900
Recognition of employee welfare	192
Unrealized inter-company profits	(16,202)
Royalty reserve	(8,674)
Provision for warranty reserve, net	(50,805)
Other	6,000
Income tax expense	<b>\$ 349,305</b>
(v) The Company's tax returns through 2002 have been assessed by the Tax Authority.	
(vi) The Company's wireless communication and digital accessory products conform to Article 2, Paragraph 1 of the regulations regarding awards for newly emerging and strategic industries under manufacturing and technical service industries and are eligible for 5-year tax exemption.	

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(vii) Stockholders' Imputation Tax Credit Account and Tax Rate:

	<b>June 30, 2005</b>
Stockholder's imputation tax credit account	\$ <b>79,015</b>
	<b>2004</b>
Deductible ratio of earnings distributed to R.O.C. residents	<b>20.79%</b>

(viii) Unappropriated Earnings:

	<b>2005</b>
Accumulated prior to 1997	\$ -
Accumulated after 1998	1,463,131
Total	\$ <b>1,463,131</b>

**(j) Capital Increase**

On May 10, 2005, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$280,000, and employee bonuses of \$20,000, for a total of \$300,000. Total capital after the increase was \$3,100,000 with July 20, 2005 as the record date. The Company has completed relevant registration of the changes.

**(k) Earnings Per Share (EPS)**

The basic earnings per share for the six months ended June 30, 2005:

	<b>2005</b>	
	<b>Before Tax</b>	<b>After Tax</b>
Net income available to common shareholders	\$ <b>1,713,159</b>	<b>1,363,854</b>
Weighted-average number of shares outstanding (in thousands)	<b>280,000</b>	<b>280,000</b>
Retroactively-adjusted weighted-average number of shares outstanding (in thousands)	<b>310,000</b>	<b>310,000</b>
Basic earnings per share	\$ <b>6.12</b>	<b>4.87</b>
Basic earnings per share - retroactively adjusted	\$ <b>5.53</b>	<b>4.40</b>

**(l) Financial Instruments**

**(i) Fair Value of Financial Instruments**

	<b>June 30, 2005</b>	
<b>Financial Assets</b>	<b>Book Value</b>	<b>Fair Value</b>
Book value equal to fair value	\$ 19,894,010	19,894,010
Long-term investments	144,002	125,047
Total financial assets	\$ <b>20,038,012</b>	<b>20,019,057</b>
<b>Financial Liabilities</b>		
Book value equal to fair value	\$ <b>23,736,644</b>	<b>23,736,644</b>

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Method and assumptions used by the Company and subsidiaries to evaluate the fair value of financial instruments are as follows:

1. The fair values of short-term financial instruments are determined by their face value on the balance sheet. Since such instruments will mature within the short term, the face value is a reasonable basis in establishing the fair value. The method is applicable to cash, notes and accounts receivable, other current assets, short-term borrowings, notes and accounts payable, and other current liabilities.
2. The book values of long-term investments accounted for under the cost or the equity method are based on audited or self-prepared financial statements of investee companies. Since there are no market quotes or reference reports for non-listed companies, fair value of these investments are determined by their net equity worth or cost.
3. With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operations of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market values of such financial instruments cannot be established. The book value is used as the fair market value.
4. Fair values of non-trading foreign-currency-denominated financial derivatives are determined by the amount the Company will pay or receive, assuming contract termination on the balance sheet date. In general, it includes unrealized gains and losses on currently unsettled contracts. There are pricing reports issued by financial institutions for most of the non-trading financial derivatives held by the Company.
5. The fair values of long-term debt is determined by the present value of future cash flows. Since the values derived by using floating interest rate in discounting are close to the book values, the book values are their fair market values.

**(ii) Financial Instruments with Off-Balance-Sheet Credit Risk: None.**

**(iii) Information on Concentrations of Credit Risk:**

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is material in relation to the Company's total credit exposure. As of June 30, 2005, the Company's contracts with credit risk concentration were as follows:

<u>Accounts Receivable-By Region</u>	<u>June 30, 2005</u>
Domestic	\$ 369,175
Asia	1,353,167
Europe	2,942,653
Americas	6,858,281
Total	<u>\$ 11,523,276</u>

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(5) Related Party Transactions**

**(a) Name of Related Party and their Relationship with the Company:**

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Inventec Corporation	A company which accounted for the Company by equity method
Inventec Corp. (Shanghai) Co., Ltd. Inventec (Pudong) Corp.	A third level subsidiary of Inventec Corp. "
Inventec (Pudong) Technology Corp.	"

**(b) Significant Transactions with Related Parties:**

**(i) Sales**

For the six months ended June 30, 2005, sales to related parties were as follows:

<u>Name of related party</u>	<u>2005</u>	
	<u>Amount</u>	<u>% of Net Sales</u>
Inventec Corporation	\$ 118	
Others	152	
Total	<u>\$ 270</u>	<u>-%</u>

Prices of finished goods sold to Inventec Corporation are negotiated. The collection period is within three months.

**(ii) Others**

- For the six months ended June 30, 2005, management expense and computer system expense paid to Inventec Corporation was \$10,747.
- For the six months ended June 30, 2005, the Company purchased \$5,257 of machinery from Inventec Corporation.
- For the six months ended June 30, 2005, Inventec Appliances (Shanghai) Co., Ltd. paid rent and processing expense to Inventec Corp. (Shanghai) Co., Ltd. amounted to \$10,429 and \$8,384, respectively.
- For the six months ended June 30, 2005, Inventec Appliances (Shanghai) Co., Ltd. paid processing expense of \$32,770 to Inventec (Pudong) Corp.
- For the six months ended June 30, 2005, Inventec Appliances (Pudong) Co., Ltd. paid rent and utilities of \$13,000 to Inventec (Pudong) Corp.
- For the six months ended June 30, 2005, Inventec Appliances (Pudong) Co., Ltd. paid rent and utilities of \$10,430 to Inventec (Pudong) Technology Corp.
- For the six months ended June 30, 2005, Inventec Appliances (Pudong) Co., Ltd. paid processing expense of \$20,067 to Inventec (Pudong) Corp.

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(iii) Receivable (Payable)**

	<b>June 30, 2005</b>	
	<b>Balance</b>	<b>%</b>
<b>Accounts Receivable</b>	<b>\$ 1,133</b>	<b>-</b>
<b>Other Current Liabilities</b>	<b>\$ 138</b>	<b>-</b>
<b>Accrued Expense</b>		
Inventec (Pudong) Corp.	\$ 32,718	3
Inventec (Pudong) Technology Corp.	10,376	1
Inventec Corp. (Shanghai) Co., Ltd.	3,122	-
Others	1,534	-
	<b>\$ 47,750</b>	<b>4</b>

**(6) Pledged Assets**

As of June 30, 2005, assets provided as collateral were as follows:

	<b>June 30, 2005</b>	<b>Purpose of pledge</b>
Refundable deposits	<b>\$ 13,516</b>	deposits for security box, building, counter, and mobile phone

**(7) Significant Commitments and Contingencies, Excluding Related Party Transactions (Foreign Currency in thousands)**

- (a) As of June 30, 2005, unused letters of credit amounted to US\$965 and JPY\$32,219.
- (b) As of June 30, 2005, promissory notes issued for bank credit limits, Industrial Development Bureau subsidies (IDB), and IDB cooperation funds amounted to US\$15,000 and \$1,850,268.
- (c) As of June 30, 2005, promissory notes received for business demands and applications to the Ministry of Economic Affairs amounted to \$59,800.
- (d) For the six months ended June 30, 2005, the Company entered into a lease agreement to lease computers and software. Information regarding rental expense and future lease payments is as follows:

<b>Year</b>	<b>Rent expense</b>	<b>Future rent due</b>			
		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
2005	\$ 10,905	10,686	16,593	7,380	503

- (e) In October 2001, FeiMa Communication (Qing Dao) Co.,Ltd. filed a lawsuit against the Company. The local peoples' court in China ruled that the Company breached an agreement and is required to pay RMB5,000 and litigation expense of RMB33. In April 2003, the Company filed for an appeal. On May 20, 2005, the Company settled with FeiMa Communication (Qing Dao) Co., Ltd. out of court, and paid RMB3,990.

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (f) On January 7, 2004, Mitake Information Corporation filed a lawsuit for patent infringement against the Company seeking for a compensation of \$1,000. The Company has provided the Intellectual Property Office with sufficient evidences, and the local district Court has ruled the stipulated dismissal of the claim.
- (g) As of June 30, 2005, Inventec Appliances (Pudong) Co., Ltd., the third level subsidiary of the Company entered into the significant contracts of construction and machinery, which amounted to US\$26,329 and RMB124,054, respectively. Unpaid amounts of abovementioned contracts were US\$18,516 and RMB75,224, respectively.

**(8) Significant Catastrophic Losses: None.**

**(9) Significant Subsequent Events: None.**

**(10) Others**

- (a) Personnel cost, depreciation, and amortization incurred categorized as operating cost or expense are as follows:

Categorized as Nature	2005		
	Operating Cost	Operating Expenses	Total
Personnel cost			
Salary	661,715	689,778	1,351,493
Health and labor insurance	58,584	69,375	127,959
Pension	7,026	16,719	23,745
Other	331,035	29,146	360,181
Depreciation	207,502	82,812	290,314
Amortization	86,639	28,319	114,958