

INVENTEC APPLIANCES CORPORATION
CONSOLIDATION FINANCIAL STATEMENTS
DECEMBER 31, 2005 and 2004
AND
INDEPENDENT AUDITORS' REPORT

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Inventec Appliances Corporation
Consolidation Financial Statements

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Independent Auditors' Audit Report

The Board of Directors of
Inventec Appliances Corporation,

We have audited the accompanying consolidated balance sheets of Inventec Appliances Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, consolidated statements of changes in stockholders' equity and cash flows for the years ended 2005 and 2004. These consolidated financial statements are the responsibility of the management of Inventec Appliances Corporation. Our responsibility is to express an opinion to these consolidated financial statements based on our audit.

We conducted our audits in accordance with "Rules Governing Certified Public Accountant's Examination and Certification of Financial Statements" and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluation the overall consolidated 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 consolidated financial position of Inventec Appliances Corp. and subsidiaries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of China.

Taipei, Taiwan, R.O.C.
February 23, 2006

Note to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 review such financial statements are those generally accepted and applied in the Republic of China.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

ASSETS	December 31, 2005		December 31, 2004	
	Amount	%	Amount	%
Current assets				
Cash (Note 4.a)	\$ 8,623,203	17	7,214,233	21
Accounts receivable, net of allowance for doubtful accounts (Notes 2 and 4.b)	20,484,880	42	16,702,331	48
Other financial assets - current	256,752	1	184,221	-
Inventories, less allowance for inventory obsolescence (Notes 2 and 4.c)	12,488,846	25	5,915,420	17
Other current assets	318,850	1	207,631	1
Deferred income tax asset - current (Notes 2 and 4.i)	270,245	1	99,592	-
	<u>42,442,776</u>	<u>87</u>	<u>30,323,428</u>	<u>87</u>
Long-term equity investments (Notes 2 and 4. d)				
Long-term equity investments accounted for under the equity method	5,584	-	5,472	-
Long-term equity investments accounted for under the cost method	135,507	-	91,850	-
	<u>141,091</u>	<u>-</u>	<u>97,322</u>	<u>-</u>
Other financial assets - non-current				
	<u>82,381</u>	<u>-</u>	<u>12,954</u>	<u>-</u>
Property, plant, and equipment (Notes 2 and 4. e)				
Land	279,855	1	279,855	1
Buildings	1,026,812	2	867,183	3
Machinery	3,327,173	7	2,200,951	6
Mold and tools	72,987	-	32,786	-
Furniture and office facilities	263,051	1	237,995	1
Other equipment	1,007,960	2	478,962	1
	<u>5,977,838</u>	<u>13</u>	<u>4,097,732</u>	<u>12</u>
Less: accumulated depreciation	(1,816,641)	(4)	(1,234,474)	(4)
Construction in progress	1,005,549	2	248,573	1
Prepayment for equipment	183,479	-	23,561	-
	<u>5,350,225</u>	<u>11</u>	<u>3,135,392</u>	<u>9</u>
Intangible assets (Note 2)				
Deferred pension cost	62,390	-	61,052	-
Land use right	510,274	1	249,471	1
	<u>572,664</u>	<u>1</u>	<u>310,523</u>	<u>1</u>
Other assets				
Deferred income tax assets - non-current (Notes 2 and 4.i)	-	-	273,075	1
Others	668,507	1	389,422	2
	<u>668,507</u>	<u>1</u>	<u>662,497</u>	<u>3</u>
TOTAL ASSETS	\$ 49,257,644	100	34,542,116	100

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

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
December 31, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

	December 31, 2005		December 31, 2004	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Short-term borrowings (Note 4.f)	\$ 2,179,789	4	3,175,608	9
Accounts payable	30,210,917	61	20,559,292	59
Income Tax Payable(Notes 2 and 4.i)	856	-	108,366	-
Accrued expenses	1,909,467	4	1,111,337	3
Other payables	197,748	-	254,953	1
Other current liabilities	720,681	2	275,884	1
Long-term liabilities-current portion (Note 4.g)	288,642	1	-	-
	35,508,100	72	25,485,440	73
Long-term liabilities				
Long-term debt (Note 4.g)	442,339	1	-	-
Other liabilities				
Estimated warranty reserve (Note 2)	1,639,966	3	1,414,727	4
Accrued pension liabilities (Notes 2 and 4.h)	41,080	-	53,593	-
Deferred income tax liability	136,197	-	-	-
Others	285,478	1	200,948	1
	2,102,721	4	1,669,268	5
Total liabilities	38,053,160	77	27,154,708	78
Stockholders' equity				
Capital stock, par value \$10 per share; authorized 400,000,000 and issued 333,000,000 shares as of December 31, 2005 ; authorized and issued 280,000,000 shares as of December 31, 2004 (Note 4.j)	3,330,000	7	2,800,000	8
Capital surplus	-	-	-	-
Additional paid-in capital	4,322,860	9	2,104,500	6
Others	1,110	-	1,110	-
Retained earnings	-	-	-	-
Legal reserve (Note 2)	483,985	1	274,914	1
Undistributed earnings (Note 4.k)	3,089,442	6	2,344,512	7
Other adjustments to stockholders' equity	-	-	-	-
Cumulative translation adjustments	20,752	-	(137,628)	-
Net loss not recognized as pension cost	(9,215)	-	-	-
Stockholders' equity of parent company	11,238,934	23	7,387,408	22
Minority Interest	(34,450)	-	-	-
Total stockholders' equity	11,204,484	23	7,387,408	22
Commitments and contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 49,257,644	100	34,542,116	100

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

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Earnings Per Share)

	2005		2004	
	Amount	%	Amount	%
Operating revenues:				
Gross sales (Note 2)	\$ 120,591,785	100	79,060,195	100
Less: Sales returns	(253,207)	-	(11,924)	-
Sales discounts and allowances	(179,212)	-	(22,413)	-
Net sales	120,159,366	100	79,025,858	100
Cost of sales	(109,890,789)	(91)	(71,595,426)	(91)
Gross profit	10,268,577	9	7,430,432	9
Operating expenses:				
Selling	(3,466,671)	(3)	(2,474,209)	(3)
Administrative	(1,047,541)	(1)	(839,482)	(1)
Research and development	(2,083,601)	(2)	(1,719,434)	(2)
	(6,597,813)	(6)	(5,033,125)	(6)
Operating income	3,670,764	3	2,397,307	3
Non-operating income:				
Interest income	55,833	-	40,171	-
Investment income accounted for under the equity method	112	-	480	-
Gain on disposal of property, plant, and equipment	372	-	23,374	-
Foreign exchange gain	136,673	-	-	-
Others	642,017	1	479,072	1
	835,007	1	543,097	1
Non-operating expenses and loss:				
Interest expense	(135,867)	-	(67,630)	-
Other investment loss	(44,850)	-	(12,114)	-
Loss on disposal of property, plant, and equipment	(26,991)	-	(8,811)	-
Loss on Physical Inventory	(31,837)	-	(32,586)	-
Foreign exchange loss	-	-	(47,628)	-
Loss on Inventory Obsolescence	(547,645)	(1)	(173,072)	-
Others	(146,018)	-	(18,240)	-
	(933,208)	(1)	(360,081)	-
Consolidated income before income tax	3,572,563	3	2,580,323	4
Income tax expense (Notes 2 and 4.i)	(582,398)	-	(455,368)	-
Consolidated income after income tax	2,990,165	3	2,124,955	4
Less: Net income of pre-acquisition	-	-	(34,247)	(1)
Consolidated net income	\$ 2,990,165	3	2,090,708	3
Total consolidated income which consisted of				
Shareholders of holding company	\$ 2,990,165	2	2,090,708	3
Net income of minority interest	-	-	-	-
	\$ 2,990,165	2	\$ 2,090,708	3
	Before	After	Before	After
	Tax	Tax	Tax	Tax
Primary earnings per share belongs to parent company (Notes 2 and 4.1)	\$ 11.38	9.53	9.55	7.74
Primary earnings per share - retroactive adjustments			\$ 8.62	6.99

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

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

	Retained Earnings				Stockholders' Equity Adjustment		Minority Interest	Total
	Common Stock	Capital Surplus	Legal Reserve	Accumulated Profit	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost		
Balance as of January 1, 2004	\$ 2,350,000	1,520,610	82,632	2,170,140	(28,827)	-	-	6,094,555
2003 earnings distribution:								
Legal reserve	-	-	192,282	(192,282)		-	-	-
Remuneration to directors and supervisors	-	-	-	(51,916)		-	-	(51,916)
Employee bonuses-cash	-	-	-	(101,138)		-	-	(101,138)
Employee bonuses-stock	20,000	-	-	(20,000)		-	-	-
Stock dividends	235,000	-	-	(235,000)		-	-	-
Cash dividends	-	-	-	(1,316,000)		-	-	(1,316,000)
Capital increase in cash	195,000	585,000	-	-		-	-	780,000
Consolidated net income for the year ended December 31, 2004	-	-	-	2,090,708		-	-	2,090,708
Cumulative translation adjustments of long-term investment	-	-	-	-	(108,801)	-	-	(108,801)
Balance as of December 31, 2004	<u>2,800,000</u>	<u>2,105,610</u>	<u>274,914</u>	<u>2,344,512</u>	<u>(137,628)</u>	<u>-</u>	<u>-</u>	<u>7,387,408</u>
2004 earnings distribution:								
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)
Capital increase in cash	230,000	2,218,360	-	-		-	-	2,448,360
Consolidated Net Income for the year ended December 31, 2005	-	-	-	2,990,165		-	-	2,990,165
Net loss not recognized as pension cost	-	-	-	-		(9,215)	-	(9,215)
Cumulative translation adjustments of long-term investment	-	-	-	-	158,380	-	-	158,380
Minority interest	-	-	-	-	-	-	(34,450)	(34,450)
Balance as of December 31, 2005	<u>\$ 3,330,000</u>	<u>4,323,970</u>	<u>483,985</u>	<u>3,089,442</u>	<u>20,752</u>	<u>(9,215)</u>	<u>(34,450)</u>	<u>11,204,484</u>

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

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 2,990,165	2,090,708
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	943,015	620,438
Amortization of consolidation debits	30,944	5,139
Loss (Gain) on disposal of property, plant, and equipment	26,619	(20,046)
Provision for inventory market decline	547,645	173,072
Provision for doubtful accounts	235,807	48,571
Investment income recognized under the equity method	(112)	(480)
Loss on investment under the cost method	44,850	12,114
Estimated warranty reserve expences	225,238	838,794
Provision for royalty reserve	82,779	82,816
Change in operating assets and liabilities:		
Accounts receivable	(4,018,356)	(12,152,314)
Other financial assets - current	(72,441)	(105,906)
Inventories	(7,121,070)	(3,940,116)
Forward exchange contracts receivable	-	986,557
Forward exchange contracts payable	-	(985,652)
Premium of forward exchange contracts	-	(905)
Other current assets	(111,217)	(65,919)
Deferred income tax assets and liabilities , net	185,824	(81,905)
Accounts payable	9,651,625	15,676,719
Income tax payable	(107,510)	(265,966)
Accrued expenses	798,127	494,910
Other payables	(59,474)	(34,061)
Other current liabilities	443,654	55,224
Accrued pension liabilities	(23,066)	(19,929)
Net cash provided by operating activities	<u>4,693,046</u>	<u>3,411,863</u>
Cash flows from investing activities:		
Increase in long-term investments	(95,307)	(71,850)
Acquisition of subsidiaries	-	(231,814)
Purchase of property, plant, and equipment	(3,078,827)	(1,425,515)
Purchase of deferred assets	(221,731)	(187,006)
Proceeds from disposal of property, plant, and equipment	214,329	118,256
Refunds from long-term investments returned	6,800	-
Increase in land use right	(268,329)	(71,841)
Purchase of other assets	(328,452)	(88,344)
Other financial assets - non-current	(69,427)	(6,751)
Net cash used in investing activities	<u>(3,840,944)</u>	<u>(1,964,865)</u>
Cash flows from financing activities:		
(Decrease)/increase in short-term borrowing	(995,819)	1,495,921
Increase in long-term debt	730,981	-
Capital increase in cash	2,448,360	780,000
Remuneration to directors and supervisors	(56,449)	(51,916)
Employee bonuses	(111,715)	(101,138)
Cash dividends	(1,568,000)	(1,316,000)
Increase in other liabilities	1,935	5,099
Net cash provided by financing activities	<u>449,293</u>	<u>811,966</u>
Effect of changes in exchange rates	107,575	(139,717)
Net increase in cash	1,408,970	2,119,247
Cash, the beginning of the year	7,214,233	5,094,986
Cash, the end of the year	<u>\$ 8,623,203</u>	<u>7,214,233</u>

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

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands)

	2005	2004
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest (excluding capitalized interest)	\$ 153,243	60,122
Cash paid during the period for income tax	\$ 524,410	844,753
Purchase of property, plant, and equipment with cash and other payables:		
Increase in property, plant, and equipment	\$ 3,082,058	1,491,030
Add: Other payables and rents payables - beginning of the period	105,196	39,681
Less: Other payables and rents payables- end of the period	(108,427)	(105,196)
Cash paid	\$ 3,078,827	1,425,515
Fair value of assets and liabilities from acquiring subsidiaries was as follow:		
Cash	\$ -	72,721
Notes receivable	-	320,024
Inventory	-	66,306
Property, plant, and equipment	-	213,956
Land use right	-	51,419
Goodwill (increment in value of property, plant, and equipment)	-	55,281
Other assets	-	27,202
Short-term borrowing	-	(307,952)
Accounts payable	-	(152,783)
Accrued expences	-	(30,523)
Other liabilities	-	(11,116)
Total	-	304,535
Less: Cash balance of subsidiaries	-	(72,721)
Cash paid for acquisition of subsidiaries	\$ -	# 231,814

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

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(1) Organization and Business

Inventec Appliances Corporation (the “Company”) was organized on April 25, 2000 and incorporated on May 12, 2000. On November 22, 2002, the Company was merged with Inventec Online Corp., with the Company as the surviving entity in which Inventec Corporation is the primary shareholder. The Company engages primarily in manufacture and sales of wire and wireless communication and digital accessory products.

As of December 31, 2005, the Consolidated Entities had 20,703 employees.

(2) Summary of Significant Accounting Policies

The Consolidated Company’ financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. Summary of significant accounting policies and their measurement basis are as follows:

(a) Status of Consolidation

(i). Details of subsidiaries within the Consolidated entities are shown below:

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2005.12.31	2004.12.31	
The company	Inventec Appliances (Cayman) Holding Corp.	Investment company	100%	100%	Incorporated as a holding company to engage in various overseas investments.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (BVI) Corp.	International trading	100%	100%	Inventec Appliances (BVI) Corp. has a total issued capital of US\$50,000, as of December 31, 2005 and 2004.
“	Inventec Appliances (USA) Distribution Corp.(IDC)	Marketing and popularizing	100%	100%	IDC follows a non-calendar fiscal year, which is altered to an identical fiscal year with the Company's in current period. Current period is the first fiscal year after the alteration, thus consolidated financial statements comprise profit and loss of IDC form October 1, 2004 to December 31, 2005.
“	Inventec Appliances (USA) Packing Corp (IPC)	Products package designing and packing	100%	100%	IPC follows a non-calendar fiscal year, which is altered to an identical fiscal year with the Company's in current period. Current period is the first fiscal year after the alteration, thus consolidated financial statements comprise profit and loss of IDC form October 1, 2004 to December 31, 2005.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2005.12.31	2004.12.31	
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Shanghai) Co., Ltd.	Electronics manufacturing	100%	100%	Inventec Appliances (Shanghai) Co., Ltd. has a total issued capital of US\$31,918, as of December 31, 2005 and 2004.
“	Inventec Appliances (Pudong) Co., Ltd.	“	100%	100%	Inventec Appliances (Pudong) Co., Ltd. has a total issued capital of US\$12,000, as of December 31, 2005 and 2004.
“	Inventec Appliances (Jiangning) Co., Ltd.	Communication products manufacturing	100%	100%	Inventec Appliances (Jiangning) Co., Ltd. has a total issued capital of US\$12,000, as of December 31, 2005 and 2004.
“	Inventec Appliances (Nanjing) Co., Ltd.	Product parts manufacturing	100%	100%	Inventec Appliances (Nanjing) Co., Ltd. has a total issued capital of US\$8,941, as of December 31, 2005 and 2004.
“	Inventec Appliances (Shanghai) International Marketing Co., Ltd.	Marketing and Popularizing	100%	-	Inventec Appliances (Shanghai) International Marketing Co., Ltd., which invested by Inventec Appliances (Cayman) Holding Corp. in current period, has a total issued capital of US\$14,000, as of December 31, 2005.
Inventec Appliances (Shanghai) Co., Ltd.	Giant Alliance (Shanghai) Co., Ltd.	Marketing and Popularizing	82.35%	-	Giant Alliance (Shanghai) Co., Ltd., which invested by Inventec Appliances (Shanghai) International Marketing Co., Ltd. in current period, has a total issued capital of RMB70,000.

(ii). The consolidated financial statements include the Company and the above mentioned subsidiaries and all material intercompany transactions have been eliminated in the consolidation financial statements.

The Consolidated Entities have new investments during current period: Inventec Appliance (Shanghai) International Marketing Co., Ltd. and Giant Alliance (Shanghai) Co., Ltd.; both of the mentioned subsidiaries are included in the consolidated financial statements for the first time.

(b) Foreign Currency Translation

Non-forward foreign currencies denominated contracts are recorded at spot rates as transactions occur. Foreign exchange gains and losses on settlement of foreign currency denominated assets and liabilities and those year-end adjustments to foreign currency denominated assets and liabilities at spot rates on the balance sheet date are included in current earnings.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

Foreign currency-denominated long-term investments accounted for under the cost method are translated at the spot rates of the balance sheet date. When the translated amount is lower than the original cost, a translation difference is included in stockholders' equity as "cumulative translation adjustments".

(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

Inventories are carried 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. 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 which remain unsold or incapable of using for over 6 months.

(e) Long-Term Equity Investments

Long-term equity investments in which the Company has less than 20% equity ownership and has no significant influence over the investee companies are stated at cost, unless the investee companies' shares are traded in the OTC exchange or listed on a stock exchange, where the lower of cost or market method is adopted. For the equity investments in non-listed investee companies, if evidence suggests that investment value impairment may be other than temporary and that possibility of recovery is remote, loss is recognized immediately. Long-term equity investments in which the Company can exercise significant influence are accounted for under the equity method.

(f) Property, Plant, Equipment and Depreciation

Property, plant, and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Maintenance and repairs are recognized as current expenses; Gain and loss on disposal of properties, 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.

Economic lives of major property and equipment are as follows:

Building	3 to 55	years
Machinery	3 to 8	years
Molds and tools	1	years
Furniture and office facilities	3 to 10	years
Other equipment	3 to 15	years

(g) Assets Impairment

Effective January 1, 2005, the Consolidated Entities 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

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

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.

(h) Intangible Assets and Other Assets

The right on usage of land is recorded at acquisition cost, which is amortized over the usage period.

Telephone line charges and electric power projects are amortized equally over three to five years. Molds and tools and software costs are amortized equally over one to two years.

Consolidation debits, the difference between the acquisition cost and the book value of a subsidiary, are amortized equally over five years.

(i) Warranty Reserve

A warranty reserve is provided for products sold with warranty based on estimated warranty cost and in consideration of past experience. It is recognized as current or non-current liabilities depending on its nature and charged against current expense.

(j) Royalty Reserve

A royalty reserve is provided for royalty being paid on certain products with royalty based on historical royalty charge and according to its nature. This reserve is classified under non-current liabilities.

(k) Pension Plan

The Company has a pension plan covering all regular employees, under which 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. Under the pension plan, the Company bears all the payment regarding to pensions. Effective July 1, 2005, the Company adopted the "Labor Pension Act" (the "Act") that prescribes a defined contribution pension scheme 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 the 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. However, the Company has not yet revised its pension plan in coordination of the Act, thus any matters that is not covered by the pension plan are transacted in accordance to the act.

For defined benefit pension plan, the Company adopted SFAS No. 18 and secured an actuarial report on pension liabilities with December 31 as the measurement date. Provision for pension expense commenced on April 25, 2000, and 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 reflected as current pension expense.

Foreign subsidiaries do not have statutory requirements to provide pension benefits for their employees in their respective locations and neither the Company has pension plans for those subsidiaries, therefore SFAS No. 18 is not applicable.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(l) Legal Reserve and Capital Surplus

A legal reserve is used exclusively to offset cumulative losses or to increase capital. Capitalization of the legal reserve is permitted only until it reaches 50% of the total paid-in capital, and only 50% thereof can be capitalized.

Under the ROC Company Law, capital surplus can only be used to offset cumulative losses and increase capital. Capitalization of capital surplus shall conform to the ratio set forth by the ROC SFB.

(m) Non-Trading Financial Derivatives

According to the SFAS, non-trading foreign exchange forward contracts are recorded at spot rates on the contract date and adjusted at year-end based on year-end exchange rate, with exchange gains and losses included in current earnings. Premium or discount, which represents the difference between the contract and the spot rates, is recognized ratably over the term of forward contracts. The forward contract receivable is netted against related payables and the net amount is reflected either as an asset or a liability.

(n) Revenue Recognition

Revenue is recognized when title to the product and risk and reward of ownership are transferred to the customer. Otherwise recognition is deferred until criteria 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.

(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, loss carryforwards and unused investment tax credits 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 be realized. Income tax expenses or Benefit that resulting in 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. 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.

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

(q) 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.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(3) Reasons for and Effects of Accounting Changes:

The Consolidated Entities adopted Statement of Financial Accounting Standards No.35 "Accounting for Asset Impairment" in 2005. However, no impairment loss was provided because no impairment was noted of the assets.

The Consolidated Entities adopted Statement of Financial Accounting Standards No.7 "Consolidated Financial Statements" in 2005. Fiscal year of subsidiaries that are indirect investments accounted for under equity method, has altered from non-calendar years to calendar years. Consequently, \$2,625 of investment income is adjusted and recognized due to the alteration and the influence on earning per share is \$0.01.

(4) Summary of Major Accounts

(a) Cash

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Cash on hand	\$ 1,719	1,112
Cash at bank		
Demand deposits	1,615,093	943,810
Checking accounts	-	988
Time deposits	706,718	1,000,000
Negotiable certificate of deposits	600,000	1,400,000
Foreign currency deposits	5,699,673	3,868,323
Total	<u>\$ 8,623,203</u>	<u>7,214,233</u>

(b) Accounts Receivable

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Accounts receivable	\$ 20,769,258	16,750,902
Less: allowance for doubtful accounts	(284,378)	(48,571)
Total	<u>\$ 20,484,880</u>	<u>16,702,331</u>

(c) Inventories

	<u>December 31, 2005</u>	<u>Decmeber 31, 2004</u>
Raw materials	\$ 7,104,211	3,594,189
Work in process	1,549,774	830,968
Finished goods	4,299,547	1,185,649
Inventories in transit	286,001	494,277
Subtotal	13,239,533	6,105,083
Less: Allowances for obsolescence	(750,687)	(189,663)
Net	<u>\$ 12,488,846</u>	<u>5,915,420</u>
Insurance coverage for inventories	<u>\$ 8,134,611</u>	<u>5,936,262</u>

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(d) Long-Term Investments

Investee	Cost of Investment	December 31, 2005		December 31, 2004	
		Shareholding Ratio	Book Value	Shareholding Ratio	Book Value
Carried under the equity method					
Gainia Intellectual Asset Services, Inc.	6,400	48.30%	5,584	48.30%	5,472
Carried under the cost method					
Darly 3 Venture Corporation	2005-10,200 2004-17,000	4.98%	10,200	4.98%	17,000
Telewise Communications, Inc.	10,008	6.98%	-	6.98%	-
Hi Top Communications Corp.	30,000	7.41%	30,000	7.41%	30,000
Advanced Image Technology Corp.	44,850	19.50%	-	19.50%	44,850
Tai Yi Precision Corporation	12,000	1.67%	12,000	-	-
Akom Technology Corporation	8,000	16.67%	8,000	-	-
Think Outside Inc.	USD 1,500	2.06%	-	2.06%	-
Tapwave, Inc.	USD 6,000	16.00%	-	16.00%	-
		(voting power)		(voting power)	
ThingMagic Inc.	USD 1,000	1.68%	32,820	-	-
Tom Tom NV	USD 1,294	0.05%	42,487	-	-
Subtotal			135,507		91,850
Total			<u>\$ 141,091</u>		<u>\$ 97,322</u>

Gains on investment accounted for under the equity method based on the audited financial statements prepared by investee companies for the year ended December 31, 2005 and 2004 were as follow:

Investee	Year Ended December 31,	
	2005	2004
Gainia Intellectual Asset Services, Inc.	\$ 112	480

For the year ended December 31, 2005, the Company invested \$12,000 and \$8,000 in Tai Yi Precision Corporation and Akom Technology Corporation, respectively. The shareholding ratios were 1.67% and 16.67%, respectively. These investees are accounted for under the cost method.

For the year ended December 31, 2005, Inventec Appliances (Cayman) Holding Corp. invested \$32,820 and \$42,487 in ThingMagic Inc. and TomTom NV, respectively. The shareholding ratio were 1.68% and 0.05%, respectively. These investees are accounted for under the cost method.

Darly 3 Venture Corporation, one of the investees accounted for under the cost method, filed for fund reduction in 2005. The capital returned amounted to \$6,800 was reflected, as the result of the fund reduction, the Company's current stockholding ratio is 4.98%.

For the year ended December 31, 2005, Advanced Image Technology Corp., one of the investees accounted for under the cost method, has continued losses on its operation and the evidence suggests that impairment in the value of investment may be other than temporary and the possibility of recovery is considered remote, \$44,850 of loss of investment was recognized immediately.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

Inventec Appliances (Cayman) Holding Corp. owns 9,238 thousand shares of Preferred stock A and 4,619 thousand shares of Preferred stock A-1 of Tapwave, Inc., which has capital increment in cash during the year of 2004. However, Inventec Appliances (Cayman) Holding Corp. did not subscribe to new shares resulting from this capital increase of Tapwave, Inc., so that the voting power in the investee descended from 27.48% to 16.00% and the investee is then accounted for under the cost method; besides, Tapwave, Inc. has continued losses on its operation and the evidence suggests that impairment in the value of investment may be other than temporary. \$12,114 of permanent loss of decline in the value of the investments was recognized.

(e) Property, Plant, and Equipment

As of December 31, 2005 and 2004, insurance coverage for the property, plant, and equipment amounted to \$4,160,335 and \$4,230,595, respectively.

(f) Short-Term Borrowing

	December, 31 2005	December, 31 2004
Credit Loan	\$ 1,863,704	2,396,245
Letters of Credit	316,085	779,363
Total	\$ 2,179,789	3,175,608
Range of Interest Rates	4.35%~5.29%	2.64%~3.46%
Collateral	US\$ 25,000 of Promissory Note	US\$ 9,000 of Promissory Note

(g) Long-Term Debt

Bank	Non-Current Portion	Current Portion	Total	Collateral
December, 31 2005				
Bank of America (i)	\$ 301,208	191,030	492,238	None
Sumitomo Mitsui Banking Corporate (ii)	141,131	97,612	238,743	"
Total	\$ 442,339	288,642	730,981	

- (i) As of December 31, 2005, Inventec Appliances (Pudong) Co., Ltd. obtains a loan of US\$15,000 from the Bank of America for the purposes of financing purchase of machinery. This loan bears different interest rates depends on the currency of each borrowing: Interest rates of Renminbi (RMB) loans are 90% of current interest rates of 36 months RMB loans that announced by the People's Bank of China; interest rates of American dollar loans are calculated by adding 1% to the London Inter Bank Offered Rate (LIBOR) at the time of borrowing. The principle of the loan will be repaid in 7 quarterly installments according to the agreed repayment ratio commencing from June 2006.
- (ii) As of December 31, 2005, Inventec Appliances (Pudong) Co., Ltd. entered into a long-term loan agreement of RMB80,000 with Sumitomo Mitsui Banking Corporate. Interest rates of Renminbi (RMB) loans are 90% of current interest rates of 36 months RMB loans that announced by the People's Bank of China and the principle of the loan is repayable in 7 quarterly installments according to the agreed repayment ratio commencing from July 2006.

The range of interest rates in the year of 2005 of both of the long-term debts mentioned above is 4.18%~5.22%.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(h) Pension Plan

Pursuant to the Labor Standards Law, the Company contributes to the pension fund and deposits with Central Trust of China. As of December 31, 2005 and 2004, the changes in the pension fund account were shown below:

	Year Ended December 31,	
	2005	2004
Beginning Balance	\$ 259,682	203,738
Add: Current Contributed	65,037	53,237
Current Interest earned	4,186	2,707
Less: Current pension expenses	(3,315)	-
Ending Balance	\$ 325,590	259,682

For the year ended December 31, 2005 and 2004, actuarial assumptions used in pension costs calculation were as follows:

	Year Ended December 31,	
	2005	2004
Discount rate	3.00%	2.50%
Rate if increase in future compensation levels	2.00%	1.50%
Expected long-term rate of return on plan assets	3.00%	2.50%

As of December 31, 2005 and 2004, the funded status reconciled with accrued pension expense per book was as follows:

	December 31, 2005	December 31, 2004
Benefit obligation		
Vested benefit obligation	\$ (34,163)	(23,859)
Non-vested benefit obligation	(332,507)	(289,415)
Accumulated benefit obligation	(366,670)	(313,274)
Effect of future salary increase	(89,896)	(82,629)
Estimated benefit obligation	(456,566)	(395,903)
Fair value of pension plan assets	325,590	259,682
Funded status	(130,976)	(136,221)
Unrecognized net transition benefit obligation	62,390	68,629
Unredognized gain on pension fund assets	99,111	75,051
Retroactive recognition of accrued pension liabilities	(71,605)	(61,052)
Accrued pension expense	\$ (41,080)	(53,593)

As of December 31, 2005 and 2004, the vested benefit of the Company's pension plan were \$35,535 and \$24,628, respectively.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(Amounts expressed in thousand, except for per share information and unless otherwise noted)

As of December 31, 2005 and 2004, the components of net pension costs were as follows:

	Year Ended December 31,	
	2005	2004
Service cost	\$ 27,810	25,212
Interest cost	12,876	6,951
Expected return on pension plan assets	(8,239)	(5,094)
Unrecognized net transition benefit obligation	6,239	6,239
Un-amortised gain/(loss) on pension fund assets	3,285	-
Net pension cost	\$ 41,971	33,308

The Company adopted defined contribution pension plan to account for pension cost. As of December 31, 2005, the current pension expense was \$21,472 which is deposited with the Bureau of Labor Insurance.

(i) Income Tax

(i) Deferred income tax assets and liabilities:

	December 31,2005	December 31,2004
	Income Tax Effects	Income Tax Effects
Deferred tax assets arising from deductible temporary differences:		
-Recognition of unrealized foreign exchange loss	\$ 57,965	47,046
-Recognition of allowance for inventory obsolescence	115,276	10,525
-Bad debt losses	14,269	-
-Recognition of income from long-term investment accounted for under equity method	(550,059)	(177,670)
-Cumulative translation adjustment	(6,918)	45,876
-Investment tax credit	108,207	-
-Reserve for employee retirement benefit	(9,204)	(3,438)
-Reserve for employee welfare	1,286	2,018
-Unrealized inter-company profit	29,011	40,953
-Unrealized warranty reserve	385,136	349,958
-Royalty reserve	69,320	48,625
-Book-tax difference on property depreciation	10,476	-
-Unrealized devaluation loss on long-term investment under the cost method	13,715	2,502
-Other	-	6,272
-Allowances for valuation on Deferred income tax asset:	(104,432)	-
	\$ 134,048	372,667

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(ii)

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Deferred tax assets - current	\$ 325,425	99,592
Deferred tax liabilities - current	-	-
Allowance for valuation on deferred income tax assets-current	(55,180)	-
Net	<u>\$ 270,245</u>	<u>99,592</u>
Deferred tax assets - non-current	\$ 479,236	454,183
Deferred tax liabilities - non-current	(566,181)	(181,108)
Allowance for valuation on deferred income tax assets-non-current	(49,252)	-
Net	<u>\$ (136,197)</u>	<u>273,075</u>

(iii) The components of income tax expenses were summarized as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Current income tax expense(includes 10% surtax on undistributed earnings)	\$ 404,325	548,162
Deferred income tax expense (benefit)	185,824	(81,905)
Over accrual of prior year's income tax	(7,755)	(10,511)
Effect of changes in exchange rates	4	(378)
Income tax expense	<u>\$ 582,398</u>	<u>455,368</u>

(iv) The income tax expenses for the year ended December 31, 2005 and 2004 were calculated as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Income tax calculated by statutory rate	\$ 1,660,047	715,747
Permanent differences	16,098	(1,978)
Income tax separately levied	2,141	1,889
Tax-exempt income	(808,503)	(17,487)
10% surtax on undistributed earnings	24,903	52,428
Investment tax credits used	(285,717)	(284,720)
Unused investment tax credit	(108,207)	-
Under/(over) accrual of prior year's deferred income tax assets	(13,617)	-
Under/(over) accrual of prior year's income tax	(7,755)	(10,511)
Allowance for tax assets	104,432	-
Effect of changes in exchange rates	(1,424)	-
Income tax expense	<u>\$ 582,398</u>	<u>455,368</u>

(v) In accordance with the income tax law of foreign enterprises investment and other regulation in the People's Republic of China, in 2005, the percentage of export products of Inventec Appliances (Shanghai) Co., Ltd. was 99%, and it consequently conforms to the regulation regarding to preferential treatment for enterprises in advanced industries, which grants Inventec Appliances (Shanghai) Co., Ltd. a tax deduction. For the year ended December 31, 2005 and 2004, a tax rate of 10% is applied.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

- (vi) In accordance with the income tax law of foreign enterprises investment and other regulation in the People's Republic of China, Inventec Appliances (Pudong) Co., Ltd. and Inventec Appliances (Jiangning) Co., Ltd. conform to the regulation regarding to preferential treatment for enterprises in advanced industries, and both of the companies are granted a tax holiday for the first two years commencing from the first profitable year and a 50% tax deduction for each year of the following three years. Current fiscal year is the first profitable year for both of the companies, therefore no income tax was imposed and no income tax expense was recognized.
- (vii) Inventec Appliances (Cayman) Holding Corp. and Inventec Appliances (BVI) Corp. incorporated in Cayman Island and British Virgin Islands are not taxed by the respective local governments.
- (viii) The Company's tax returns and stockholders' imputation tax credit account through the calendar year 2002 have been assessed by the Tax Authority.
- (ix) The Company's wireless communication and digital accessory products conform to "the Regulations Regarding Awards for Newly Emerging and Strategic Industries Under Manufacturing and Technical Service Industries" and "the Statute for Upgrading Industries ". Approbated by the Tax Authority, the Company is eligible for five-year income tax exemption since year 2003.
- (x) The balance of unused investment tax credit which may be used to offset against future income tax liabilities were as follows:

Incurred Year	Investment Tax Credit	Year of Expiration
2005(Not ratified)	\$ 108,207	2009

- (xi) Stockholders' Imputation Tax Credit Account and Tax Rate:

As of December 31, 2005 and 2004, the balance of stockholders' imputation tax credit account was \$307,170 and \$384,762, respectively.

After filing the corporate income tax returns, tax credit for earnings distributed to R.O.C residents in year 2005 and 2004 were as follows:

	For The Year Ended December 31,	
	2005 (Estimated)	2004 (Actual)
Rates of tax credit for first earnings distributed (cash dividend)	9.94%	20.79%
Rates of tax credit for second earnings distributed (stock dividend)	9.94%	20.89%

As of December 31, 2005, the balance of undistributed retained earnings amounted to \$3,089,442, of which the entire portion was accumulated after January 1, 1998.

(j) Capital Increase

On May 10, 2005, pursuant to resolutions of the annual stockholders' meeting, the Company increased its capital by capitalizing its earnings of \$280,000 and employee bonuses of \$20,000, for a total of \$300,000 and the record date was July 20, 2005. The Company also resolved to further increase its capital in cash by issuing additional 23,000,000 of shares at \$108 per share. Its outstanding capital following these capital increases amounted to \$3,330,000 with November 8, 2005 as the record date. The Company had completed relevant registration process for these capital increases.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

On April 27, 2004, pursuant to resolutions of the annual stockholders' meeting, the Company increased its capital by \$255,000 by capitalizing its earnings of \$235,000, and employee bonuses of \$20,000. Also, the Company resolved to further increase its capital in cash by issuing additional 19,500,000 shares at \$40 per share. Its outstanding capital following these capital increases amounted to \$2,800,000 with July 9, 2004 as the record date. The Company had completed relevant registration process for these capital increases.

(k) Dividend Policy and Earnings Distributions

(i) Dividend Policy:

In consideration of the Company's long-term financial planning, funding needs and the stockholders' satisfaction regarding to cash in-flow, when after-tax earning occurs, annual cash dividends shall be distributed and shall be greater than 10% of the current year's total cash and stock dividends.

(ii) Earnings Distributions

The Company's Articles of Incorporation requires that after-tax earnings shall first offset cumulative losses, and 10% of the remainder be set aside as legal reserve. The remaining balance is distributed according to any proposals presented at the annual stockholders' meeting by the Board of Directors, of which remuneration of directors and supervisor cannot exceed 3% and 2% to 7% for employee bonus.

Pursuant to resolutions of the annual stockholders' meetings held on May 10, 2005 and April 27, 2004, the Company resolved to distribute retained earnings of 2003 and 2004. the summarized distribution were shown below:

	For The Year Ended December 31,	
	2005	2004
Dividends (dollar) distributed per common share		
-Cash dividends	\$ 5.6	5.6
-Stock dividends (face value)	1.0	1.0
Total	\$ 6.6	6.6
Employee bonuses-stock (face value)	\$ 20,000	20,000
Employee bonuses-cash	111,715	101,138
Remuneration to directors and supervisors	56,449	51,916
Total	\$ 188,164	173,054

The distributions stated above fulfilled the resolution of the Board of Directors meetings. Earnings per share after tax of 2004 and 2003 will decrease from \$7.74 and \$8.18 to \$7.04 and \$7.45, if the dividends mentioned above were all distributed in cash and were recognized as current expense.

The Board of Directors has yet to submit the proposal for the distribution of 2005 earnings to the stockholders' meeting for resolutions. The information on the distribution of 2005 earnings will be announced through Market Observation Post System on the internet after the stockholders' meeting.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(l) Earnings per Share (EPS)

For the year ended December 31, 2005 and 2004, the basic earning per share was computed as follows:

	Year Ended December 31,			
	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
The consolidated net income	<u>\$ 3,572,563</u>	<u>2,990,165</u>	<u>2,580,323</u>	<u>2,090,708</u>
Weighted-average shares outstanding (in thousands)	<u>313,833</u>	<u>313,833</u>	<u>270,250</u>	<u>270,250</u>
Retroactively adjusted weighted- average number of shares outstanding (in thousands)			<u>299,205</u>	<u>299,205</u>
Basic earnings per share	<u>\$ 11.38</u>	<u>9.53</u>	<u>9.55</u>	<u>7.74</u>
Basic earnings per share-retroactively adjusted			<u>\$ 8.62</u>	<u>6.99</u>

(m) Financial Instruments

(i) Financial Derivatives: None.

(ii) Fair Value of Financial Instrument:

	December 31,2005		December 31,2004	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Book value equal to fair value	\$ 29,447,216	29,447,216	24,113,739	24,113,739
Long-term equity investments	141,091	164,141	97,322	72,400
Total financial assets	<u>\$ 29,588,307</u>	<u>29,611,357</u>	<u>24,211,061</u>	<u>24,186,139</u>
Financial Liabilities				
Book value equal to fair value	<u>\$ 36,276,997</u>	<u>36,276,997</u>	<u>25,643,884</u>	<u>25,643,884</u>

Method and assumptions used to establish the fair values of financial instruments are as follows:

- The fair value of short-term financial instruments is determined by their face values stated on the balance sheet. Because such instruments will mature on short notice, the face value serves as reasonable basis for establishing the fair value. The method is applied to cash, accounts receivable, other current assets, short-term borrowings, accounts payable and other current liabilities.
- Because there were no market quotes or reference reports for non-listed companies, the fair value of these investments is determined by their net equity worth or cost, and the book value of these investments accounted for under the cost or the equity method were based on audited or self-prepared financial statements of investee companies. For investee companies that are listed companies, the fair value of these investments is determined by its market value.
- With respect to financial instruments such as refundable deposits that are indispensable guarantee for the on-going operation of the Company, it is unable to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. Therefore, the book value is used as the fair market value.
- The fair market value of long-term debt is determined by the present value of future cash flows. Since the values derived by using floating interest rates for discounting are close to the book values, the book values are their fair market values.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(iii) Financial Instrument with Off-Balance-Sheet Credit Risk: None.

(iv) Concentration of Credit Ricks:

Group concentrations of credit risk exist if the transacting party is an individual or a number of counter-parties which engage in similar activities or activities in the same region or share other similar economic characteristics that would cause their ability to meet contractual obligations with changes in economic or other conditions. Implicit credit risk of the Consolidated Entities arises from accounts receivable. As of December 31, 2005 and 2004, the amounts of due from company A were both 88% of the balance of the Consolidated Entities' accounts receivable. To minimize credit risk, the Consolidated Entities periodically evaluates company A's financial positions and the possibility of collecting trade receivables due from it. The Consolidated Entities believe that the possibility of arising bad debt losses is remote, since the condition of collecting these outstanding receivables is satisfied.

As of December 31, 2005 and 2004, the Consolidated Entities' contracts with credit risk concentration were the following:

<u>Accounts Receivable - By Region</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Domestic	\$ 210,862	448,898
Asia	2,351,139	1,764,465
Europe	3,844,781	2,865,378
America	14,362,476	11,672,161
Total	<u>\$ 20,769,258</u>	<u>16,750,902</u>

(5) 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	An Investor company accounted for under equity method
Inventec Corp.(Shanghai) Co., Ltd.	The Company's related party
Inventec (Pudong) Corp.	The Company's related party
Inventec Micro–Electronics Corporation	"
Tapwave, Inc.	A company accounted for under the equity method by Inventec Appliances (Cayman) Holding Corp. (Note)
Inventec Micro–Electronics (BVI) Corporation	An investee of Invented Corporation
Inventec Besta Co., Ltd.	"

Note : In March 2004, Tapwave, Inc. ("Tapwave") increased its capital in cash; however, the Company did not subscribe to new shares resulting from this capital increase of Tapwave. Consequently, Tapwave was no longer a subsidiary of the Company since then because the Company lost its controlling interest as it decreased its equity holding in Tapwave to 16%. For this reason, only the sales transactions with Tapwave prior to March 2004 were disclosed.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(b) Significant Transactions with Related Parties:

(i) Sales

For the year ended December 31, 2005 and 2004, sales to related parties were as follows:

	Year Ended December 31,			
	2005		2004	
	Amount	% of Net Sales	Amount	% of Net Sales
Tapwave, Inc.	\$ -	-	6,681	-
Inventec Corp.(Shanghai) Co., Ltd	1,290	-	-	-
Other	1,348	-	713	-
Total	\$ 2,638	-	7,394	-

Prices of finish goods that Inventec Corporation by Inventec Appliances (Shanghai) Co., Ltd. sold to Inventec Corporation were negotiated. The collection term was two to three months.

Prices of game consoles sold to Tapwave, Inc. were negotiated. The collection term was 45 days.

(ii) Purchases

For the year ended December 31, 2005 and 2004, purchases from related parties were as follows:

	2005		2004	
	Amount	% of Net Purchases	Amount	% of Net Purchases
	Total	\$ -	-	43,390

Prices of raw materials of cell phone purchased from related parties were negotiated. The payment term was approximately two to three months.

(iii) Property Transaction

1. In 2005, the Company has purchased machinery, at cost of \$5,257, from Inventec Corporation.
2. In 2004, Inventec Appliances (Pudong) Co., Ltd. has purchased furniture and office facilities and computer accessories, at cost of \$2,751, from Inventec (Pudong) Corporation.
3. In 2004, Inventec Appliances (Shanghai) Co., Ltd. has purchased fixed assets and other equipment, at cost of \$1,130, from Inventec Corp.(Shanghai) Co., Ltd.

(iv) Others

1. For the year ended December 31, 2005 and 2004, business consulting fee and computer system expense paid to Inventec Corporation amounted to \$36,563 and \$20,238, respectively.
2. For the year ended December 31, 2004, rental expenses and processing fees paid to Inventec Besta Corp. amounted \$2,313.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

3. For the year ended December 31, 2005 and 2004, other transactions between Inventec Appliances (Pudong) Co., Ltd. and related parties were as follows:

Related Parties	Procecing Fee		Rent and Utilities	
	For the year ended December 31,		For the year ended December 31,	
	2005	2004	2005	2004
Inventec (Pudong) Corp.	\$ 39,195	-	29,722	10,603

4. For the year ended December 31, 2005 and 2004, other transactions between Inventec Appliances (Shanghai) Co., Ltd. and related parties were as follows:

Related Parties	Procecing Fee		Rent and Utilities	
	For the year ended December 31,		For the year ended December 31,	
	2005	2004	2005	2004
Inventec Micro-Electronics Inventec Corp. (Shanghai) Co., Ltd	\$ 622	-	23,827	-
Inventec (Pudong) Corp.	8,634	53,788	-	-
Total	\$ 52,467	94,364	23,827	-

- (v) Accounts Receivable (Payable)

	December 31, 2005		December 31, 2004	
	Balance	%	Balance	%
Accounts payable:				
Inventec Corp.(Shanghai) Co., Ltd	\$ -	-	35,791	-
Inventec (Pudong) Corp.	-	-	30,072	-
Others	-	-	138	-
Total	\$ -	-	66,001	-
Accrued expenses				
Inventec (Pudong) Corp.	\$ 12,504	1	-	-
Inventec Corp. (Shanghai) Co., Ltd	640	-	5,680	1
Inventec Corporation	\$ 14,626	1	320	-
Other	893	-	-	-
Total	\$ 28,663	2	6,000	1
Other liabilities - current	\$ 2,107	1	-	-

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(6) Pledged Assets

Assets pledged as collateral as of December 31, 2005 and 2004, were summarized as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 82,381</u>	<u>12,954</u>	Deposits for buildings

(7) Significant Commitments and Contingencies

- (a) As of December 31, 2005 and 2004, unused letters of credit of the Consolidated Entities were US\$727, JPY407,523 and US\$73, JPY 7,160, respectively.
- (b) As of December 31, 2005 and 2004, the promissory notes issued for bank credit limits, Industrial Development Bureau (IDB) subsidies, and IDB Cooperation funds amounted to US\$ 25,500, EUR\$ 500, \$1,829,633 and US\$15,000, \$2,042,383, respectively.
- (c) As of December 31, 2005 and 2004, promissory notes received for business demands and applications to the Ministry of Economic Affairs amounted to \$79,800 and \$150,248, respectively.
- (d) For year ended December 31, 2005 and 2004, the Company entered into a lease agreement to lease computers and software. Information regarding to rental expense and future lease payments was as follows:

<u>Year</u>	<u>Rent expense</u>	<u>Future rent due</u>			
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
2005	\$ 22,532	-	19,886	9,261	1,444
2004	\$ 14,529	17,392	11,891	2,677	-

- (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 was 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.
- (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 to dismiss this lawsuit.
- (g) Two international well-known technology companies alleged that the Company infringes certain patents by producing and selling mobile phone products. However, these two companies are not yet filing any law suit against the Company. The Company is aggressively preparing relevant data and intently negotiating with these two companies. As of December 31, 2005, the Company has exercised appropriate accounting procedures corresponding to such claim for infringement and believes the event mentioned above will not have material effect on the Company's operations.
- (h) Inventec Appliances (Pudong) CO., Ltd. entered into agreements of major construction and facilities. As of December 31, 2005, the total prices were US\$32,151 and RMB147,491, respectively; and the related unpaid portion were US\$7,173 and RMB45,496, respectively.
- (i) As of December 31, 2005 and 2004, promissory notes issued and guarantee letter deposited at financial institution as guarantee for debt amounted to US\$283,600 and \$195,050.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(Amounts expressed in thousand, except for per share information and unless otherwise noted)

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

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

(10) **Others**

Personnel cost, depreciation, and amortization incurred categorized as operating cost or expenses were as follows:

Categorized as Nature	For the year ended December 31,					
	2005			2004		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel Cost						
Salary	1,627,852	1,777,761	3,405,613	875,668	1,137,142	2,012,810
Health and labor insurance	112,233	99,920	212,153	70,198	70,575	140,773
Pension	19,398	44,045	63,443	11,624	22,458	34,082
Other	491,135	62,354	553,489	456,931	65,131	522,062
Depreciation	489,960	186,098	676,058	309,103	133,967	443,070
Amortization	166,745	100,212	266,957	182,484	64,210	246,694

(11) **Business Segment Information**

(a) **Industry:**

The company does not engaged in business activities outside of the electronics industry.

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

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(b) Geographical Region:

The Consolidation Company's geographical information in 2005 and 2004 were the following:

	Year Ended December 31, 2005				Consolidated
	Domestic	Asia	America	Adjustments	
Revenue outside the Consolidation Entities	\$ 105,094,751	6,886,179	7,712,114	-	119,693,044
Intercompany revenue	7,951,243	105,475,784	56,593	(113,483,620)	-
Total revenue	<u>\$ 113,045,994</u>	<u>112,361,963</u>	<u>7,768,707</u>	<u>(113,483,620)</u>	<u>119,693,044</u>
Segment profit/(loss)	<u>\$ 3,508,846</u>	<u>3,268,530</u>	<u>21,216</u>	<u>(3,134,900)</u>	3,663,692
General corporate					-
Investment profit/(loss)					44,738
Interest expenses					(135,867)
Income before income					<u>3,572,563</u>
Identifiable assests	<u>\$ 29,785,773</u>	<u>44,063,518</u>	<u>1,464,948</u>	<u>(26,197,686)</u>	49,116,553
Long-term investments					141,091
Total assets					<u>49,257,644</u>

	Year Ended December 31, 2004				Consolidated
	Domestic	Asia	America	Adjustments	
Revenue outside the Consolidation Entities	\$ 70,322,696	5,811,887	3,433,892	-	79,568,475
Intercompany revenue	6,075,988	63,266,127	-	(69,342,115)	-
Total revenue	<u>\$ 76,398,684</u>	<u>69,078,014</u>	<u>3,433,892</u>	<u>(69,342,115)</u>	<u>79,568,475</u>
Segment profit/(loss)	<u>\$ 2,446,958</u>	<u>919,465</u>	<u>(9,784)</u>	<u>(697,052)</u>	2,659,587
General corporate					-
Investment profit/(loss)					(11,634)
Interest expenses					(67,630)
Income before income					<u>2,580,323</u>
Identifiable assests	<u>\$ 23,923,655</u>	<u>27,075,304</u>	<u>364,957</u>	<u>(16,919,122)</u>	34,444,794
Long-term investments					97,322
Total assets					<u>34,542,116</u>

Segment revenue mentioned above indicated sales revenue outside the Consolidated Entities, yet, the follows were excluded:

- (i) Interest income caused by advanced payment for and debts lend to other segments.
- (ii) Profit on investments accounted for under equity method.
- (iii) Other income of the Consolidated Entities that is irrelevant to segments.

Segment profit/ (loss) calculated by offsetting segment costs and expenses, which indicated any costs and expenses related to segment revenue. However, the follows were excluded:

- (iv) General expense of the Consolidated Entities that is irrelevant to segments.
- (v) Interest expenses.
- (vi) Loss on investments accounted for under cost method.

INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Amounts expressed in thousand, except for per share information and unless otherwise noted)

(c) Exports:

<u>Region</u>	<u>For the Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
America	\$ 68,266,037	\$ 45,845,854
Europe	31,750,701	13,396,956
Asia	16,702,237	12,053,790
Other	-	2,897,699
Total	\$ 116,718,975	\$ 74,194,299

(d) Major Clients:

In 2005 and 2004, clients with revenues over 10% of total revenues of the Consolidated Entities were the following:

<u>2005</u>			<u>2004</u>		
<u>Name</u>	<u>Amount</u>	<u>%</u>	<u>Name</u>	<u>Amount</u>	<u>%</u>
A	\$ 81,432,993	68%	A	53,943,548	68%
B	13,754,123	13%	B	1,762,053	2%