

**INVENTEC APPLIANCES CORPORATION**  
**FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MARCH 31, 2005 AND 2004**  
**AND**  
**INDEPENDENT AUDITORS' REVIEW REPORT**

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Inventec Appliances Corporation

Financial Statements

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## **Independent Auditors' Review Report**

To the Board of Directors  
Inventec Appliances Corporation:

We have reviewed the accompanying balance sheet of Inventec Appliances Corporation as of March 31, 2005, and the related statements of income, and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

Except as described in the following paragraph, we reviewed these financial statements in accordance with Statements of Auditing Standard No. 36 "Review of Financial Statements." A review is limited primarily to inquiries of company personnel and applying analytical procedures to financial data and thus provides less assurance than an audit. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. We did not perform an audit and, accordingly, we do not express an audit opinion.

As described in Note 4.d, as of March 31, 2005, long-term equity investments of Inventec Appliances Corporation was \$3,335,232 thousand. Investment income recognized under the equity method for the three months ended March 31, 2005, was \$333,499 thousand, which was recognized based upon the financial statements prepared by the investee companies and not reviewed in compliance with the review procedures mentioned in the preceding paragraph.

Based on our review, except for the effects of any adjustments that might have emerged had the financial statements of investee companies been reviewed by independent auditors, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles of the Republic of China.

We have not reviewed the accompanying balance sheets of Inventec Appliances Corporation as of March 31, 2004 and the related statements of income and cash flows for the three months then ended. The attached information was just for reference purpose.

Taipei, Taiwan, R.O.C.  
April 15, 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 review such financial statements are those generally accepted and applied in the Republic of China.

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC APPLIANCES CORPORATION**

**BALANCE SHEETS**

March 31, 2005 and 2004

(New Taiwan Dollars in Thousands, Except for Share Data)

	March 31, 2005		March 31, 2004 (Un-reviewed)	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash (Note 4)(a)	\$ 2,478,798	10	4,873,974	30
Notes receivable-Other customers	689	-	66	-
Accounts receivable, net of allowance for doubtful accounts (Notes 2) and 4)(b)				
-Other customers	13,699,232	54	4,198,086	26
-Related parties	2,443,289	10	1,590,627	10
Other financial assets - current	51,208	-	86,707	1
Inventories, less allowance for inventory market decline and obsolescence (Notes 2 and 4)(c)	1,982,990	8	1,284,903	8
Other current assets	64,570	-	402,429	3
Deferred income tax assets - current (Notes 2) and 4)(g)	138,626	1	86,774	1
	<u>20,859,402</u>	<u>83</u>	<u>12,523,566</u>	<u>79</u>
<b>Long-term equity investments (Notes 2) and 4)(d)</b>				
Accounted for under the equity method	3,335,232	13	1,529,612	10
Accounted for under the cost method	91,850	-	20,000	-
Prepayments for Long-Term Investments	-	-	686,658	4
	<u>3,427,082</u>	<u>13</u>	<u>2,236,270</u>	<u>14</u>
<b>Other financial assets - non-current</b>				
	<u>5,615</u>	<u>-</u>	<u>4,340</u>	<u>-</u>
<b>Property, Plant, and Equipment (Notes 2) and 4)(e)</b>				
Land	279,855	1	279,855	2
Buildings	284,958	1	284,958	2
Machinery	559,075	2	478,693	3
Mold and tools	30,206	-	31,216	-
Transportation equipment	662	-	662	-
Furniture and office facilities	46,815	-	47,291	-
Other equipment	180,859	1	149,266	1
	<u>1,382,430</u>	<u>5</u>	<u>1,271,941</u>	<u>8</u>
Less: Accumulated depreciation	(459,172)	(2)	(346,607)	(2)
Prepayment for equipment	2,254	-	5,324	-
	<u>925,512</u>	<u>3</u>	<u>930,658</u>	<u>6</u>
<b>Intangible Assets</b>				
Deferred pension cost (Notes 2) and 4)(f)	61,052	-	15,269	-
<b>Other Assets</b>				
Deferred income tax assets - non-current (Notes 2) and 4)(g)	245,189	1	205,188	1
Other assets	35,101	-	46,277	-
	<u>280,290</u>	<u>1</u>	<u>251,465</u>	<u>1</u>
<b>TOTAL ASSETS</b>	<b>\$ 25,558,953</b>	<b>100</b>	<b>15,961,568</b>	<b>100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Notes payable	\$ 2,314	-	11,570	-
Accounts payable				
-Other customers	1,125,457	4	1,600,762	10
-Related parties	13,563,254	53	5,807,357	36
Income tax payable (Note 2) and 4)(g)	167,852	1	434,646	3
Accrued expenses	404,804	2	333,809	2
Other payables	33,483	-	13,613	-
Payables on forward exchange	1,203,080	5	1,066,368	7
Forward exchange contracts receivable	(1,176,546)	(5)	(1,059,016)	(7)
Discount on forward exchange contracts	(779)	-	(392)	-
Other current liabilities	322,403	2	210,993	1
	<u>15,645,322</u>	<u>62</u>	<u>8,419,710</u>	<u>52</u>
<b>Other Liabilities</b>				
Estimated warranty reserve (Note 2)	1,571,525	6	767,023	5
Accrued pension liabilities (Notes 2) and 4)(f)	50,222	-	23,541	-
Deferred credits	176,388	1	142,743	1
Other liabilities	219,741	1	135,760	1
	<u>2,017,876</u>	<u>8</u>	<u>1,069,067</u>	<u>7</u>
Total Liabilities	<u>17,663,198</u>	<u>70</u>	<u>9,488,777</u>	<u>59</u>
<b>Stockholders' Equity</b>				
Capital stock, par value \$10 per share; authorized and issued 280,000,000 shares as of March 31, 2005 ; authorized and issued 235,000,000 shares as of March 31, 2004	2,800,000	11	2,350,000	15
Capital surplus				
Premium on stock issuance	2,104,500	8	1,519,500	9
Others	1,110	-	1,110	-
Retained earnings:				
Legal reserve (Note 2)	274,914	1	82,632	1
Undistributed earnings (Note 4)(h)	2,880,685	11	2,559,997	16
Cumulative translation adjustments	(165,454)	(1)	(40,448)	-
Total Stockholders' Equity	<u>7,895,755</u>	<u>30</u>	<u>6,472,791</u>	<u>41</u>
<b>Commitments and Contingencies</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 25,558,953</b>	<b>100</b>	<b>15,961,568</b>	<b>100</b>

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

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC APPLIANCES CORPORATION**

**STATEMENTS OF INCOME**

**For The Three Months Ended March 31, 2005 and 2004**

**(New Taiwan Dollars in Thousands, Except for Amount)**

	<b>The Months Ended March 31,</b>			
	<b>2005</b>		<b>2004 (Un-reviewed)</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating Revenues:</b>				
Gross sales (Note (2))	\$ 23,330,301	100	10,520,988	100
Less: Sales returns	(67,606)	-	(7,268)	-
Sales discounts and allowances	(991)	-	(9,679)	-
Net Sales	23,261,704	100	10,504,041	100
Cost of sales	(22,043,936)	(95)	(9,543,399)	(91)
	1,217,768	5	960,642	9
Unrealized inter-company profits	(171,676)	(1)	(138,505)	(1)
Realized inter-company profits	158,132	1	120,103	1
<b>Gross Margin</b>	<b>1,204,224</b>	<b>5</b>	<b>942,240</b>	<b>9</b>
<b>Operating Expenses:</b>				
Selling expenses	(607,315)	(3)	(437,464)	(4)
Administrative and general expenses	(73,863)	-	(51,010)	-
Research and development expenses	(283,075)	(1)	(220,360)	(2)
	(964,253)	(4)	(708,834)	(6)
<b>Operating Income</b>	<b>239,971</b>	<b>1</b>	<b>233,406</b>	<b>3</b>
<b>Non-Operating Income:</b>				
Interest income	6,409	-	5,815	-
Investment income	333,499	1	163,414	2
Gain on disposal of property, plant, and equipment	1,241	-	1,970	-
Other income	71,080	-	60,217	1
	412,229	1	231,416	3
<b>Non-Operating Expenses:</b>				
Interest expense	(2,351)	-	(617)	-
Loss on disposal of property, plant, and equipment	-	-	(955)	-
Foreign exchange loss	(48,509)	-	(40,725)	-
Loss on inventory devaluation and obsolescence	(3,178)	-	(719)	-
Other expenses	(3,842)	-	(1,392)	-
	(57,880)	-	(44,408)	-
<b>Income before income tax</b>	<b>594,320</b>	<b>2</b>	<b>420,414</b>	<b>6</b>
<b>Income tax expense (Notes (2) and (4)(g))</b>	<b>58,147</b>	<b>-</b>	<b>30,557</b>	<b>-</b>
<b>Net income</b>	<b>\$ 536,173</b>	<b>2</b>	<b>389,857</b>	<b>6</b>
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
<b>Earnings per share (Notes (2) and (4)(i))</b>				
Basic	\$ 2.12	1.91	1.79	1.66
<b>Earnings per share after retroactive adjustments</b>				
Basic	\$ -	-	1.61	1.50

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

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC APPLIANCES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For The Three Months Ended March 31, 2005 and 2004**  
**(New Taiwan Dollars in Thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004 (Un-reviewed)</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 536,173	389,857
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	34,327	33,512
Amortization	29,465	20,555
Gain on disposal of property, plant, and equipment	(272)	(5,252)
Gain on disposal of deferred assets	-	(637)
Provision for inventory devaluation	3,178	719
Investment gain recognized under the equity method	(333,499)	(163,414)
Estimated warranty reserve	171,692	190,659
Royalty reserve	19,738	24,077
Reversal for doubtful account	(3,074)	-
Changes in assets and liabilities:		
Notes and accounts receivable	1,170,433	(12,414)
Other financial assets - current	14,713	(64,974)
Inventories	(307,856)	(310,225)
Other current assets	(29,303)	(325,620)
Deferred income tax assets and liabilities, net	(2,144)	(34,243)
Notes and accounts payable	(2,260,827)	1,395,125
Income tax payable	59,486	60,151
Accrued expenses	(75,817)	(21,422)
Other payables	(48,237)	(120,586)
Payables on forward exchange	1,203,080	1,066,368
Forward exchange contracts receivable	(1,176,546)	(1,059,016)
Discount on forward exchange contracts	(779)	(392)
Other current liabilities	151,792	4,529
Accrued pension liabilities	(3,371)	(4,198)
Deferred credits	12,576	22,640
<b>Net cash (used in) provided by operating activities</b>	<b>(835,072)</b>	<b>1,085,799</b>
<b>Cash flows from investing activities:</b>		
Increase in long-term investments	-	(686,658)
Purchase of property, plant, and equipment	(72,253)	(50,004)
Purchase of deferred assets	(6,316)	(29,796)
Proceeds from disposal of property, plant, and equipment	946	27,117
Proceeds from disposal of deferred assets	-	1,408
Other financial assets - non-current	(745)	(360)
Decrease of other liability	(945)	-
<b>Net cash used in investing activities</b>	<b>(79,313)</b>	<b>(738,293)</b>
<b>Cash flows from financing activities:</b>		
Decrease of long-term note payable	-	(4,628)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(4,628)</b>
<b>Net (decrease) increase in cash</b>	<b>(914,385)</b>	<b>342,878</b>
<b>Cash, beginning of the period</b>	<b>3,393,183</b>	<b>4,531,096</b>
<b>Cash, end of the period</b>	<b>\$ 2,478,798</b>	<b>4,873,974</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest (excluding capitalized interest)	<b>\$ 2,351</b>	<b>617</b>
Cash paid during the period for income tax	<b>\$ 805</b>	<b>4,649</b>
<b>Purchase of property, plant, and equipment with cash and other payables:</b>		
Increase in property, plant, and equipment	\$ 16,677	20,080
Add: Other payables - beginning of the period	59,273	39,681
Less: Other payables - end of the period	(3,697)	(9,757)
Cash paid	<b>\$ 72,253</b>	<b>50,004</b>

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

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC APPLIANCES CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**Three Months Ended March 31, 2005 and 2004**

**(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

**(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 acquired Inventec Online Corp. of which Inventec Corporation is the primary shareholder. The Company engages primarily in the manufacturing and sales of wire and wireless communication and digital accessory products.

As of March 31, 2005 and 2004, the number of employees was 1,246 and 1,050, respectively.

**(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 generally accepted accounting principles of the Republic of China. Summary of significant accounting policies and their measurement basis is as follows:

**(a) Foreign Currency Translation**

Foreign - currency - denominated assets and liabilities of overseas subsidiaries are translated at spot rate on balance sheet date; the components of their stockholders’ equity are translated at historical rate except for the beginning balance of retained earnings, which is carried forward from previous years. Income statement accounts are translated at the weighted – average rate of the year, with different reflected as translation adjustment to stockholders’ equity.

**(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.

**Reviewed only, not audited in accordance with generally accepted auditing standards**

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

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. 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 when market prices are lower than cost. For non-listed investee companies, loss on investment is immediately recognized should impairment in investment 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.

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.

Long-term equity investments where the Company has controlling interest are accounted for under the equity method and consolidated financial statements are required according to rules set forth in the Statement of Financial Accounting Standards ("SFAS") and by the Securities and Futures Bureau ("SFB") under the Ministry of Finance ("MOF"). Consolidation is not required when preparing interim financial statements.

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

**(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	32 to 45 years
Machinery	1 to 8 years
Transportation equipment	5 years
Furniture and office facilities	1 to 10 years
Mold and tools	1 year
Power equipment	1 to 15 years
Other equipment	1 to 10 years
Renovation	1 to 10 years
Leased assets	3 to 5 years

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

**(g) Deferred Expenses**

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

**(h) 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.

**(i) 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.

**(j) 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 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.

**Reviewed only, not audited in accordance with generally accepted auditing standards**

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

**(k) 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.

**(l) 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 receivable netting related payables is reflected as an asset or a liability.

**(m) 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.

**(n) 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.

**(o) 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.

**(p) 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.

**Reviewed only, not audited in accordance with generally accepted auditing standards**

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

**(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>March 31, 2005</b>	<b>March 31, 2004 (Un-reviewed)</b>
Cash on hand	\$ 545	455
Demand deposits	503,507	1,446,052
Time deposits	600,000	1,100,000
Negotiable certificate of deposits	1,350,000	1,350,000
Foreign currency deposits	24,746	977,467
Total	<b>\$ 2,478,798</b>	<b>4,873,974</b>

**(b) Accounts Receivable**

	<b>March 31, 2005</b>	<b>March 31, 2004 (Un-reviewed)</b>
Accounts receivable - other customers	\$ 13,744,099	4,198,086
Less: Allowance for Bad Debt	(44,867)	-
Net	13,699,232	4,198,086
Accounts receivable - related parties	2,443,289	1,590,627
Total	<b>\$ 16,142,521</b>	<b>5,788,713</b>

**(c) Inventories**

	<b>March 31, 2005</b>	<b>March 31, 2004 (Un-reviewed)</b>
Raw materials	\$ 1,276,243	892,961
Work in process	193,898	167,511
Finished goods	206,229	240,562
Inventories-in-transit	351,899	8,077
Subtotal	2,028,269	1,309,111
Less: Allowance for market decline and obsolescence	(45,279)	(24,208)
Net	<b>\$ 1,982,990</b>	<b>1,284,903</b>
Insurance coverage	<b>\$ 2,963,016</b>	<b>1,059,100</b>

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC APPLIANCES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Three Months Ended March 31, 2005 and 2004  
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

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

<u>Name of Investee Company</u>	<u>March 31, 2005</u>			<u>March 31, 2004 (Un-reviewed)</u>		
	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>
<b><u>Carried under the equity method</u></b>						
Inventec Appliances (Cayman) Holding Corp.	100.00%	\$ 3,330,197	2,506,188	100.00%	1,525,389	1,400,365
Gainia Intellectual Asset Services, Inc.	48.30%	5,035	6,400	48.30%	4,223	6,400
Subtotal		<u>3,335,232</u>	<u>2,512,588</u>		<u>1,529,612</u>	<u>1,406,765</u>
<b><u>Carried under the cost method</u></b>						
Darly 3 Venture Corporation	4.98%	17,000	17,000	4.98%	20,000	20,000
Telewise Communicatons, Inc.	6.98%	-	10,008	6.98%	-	10,008
Hi Top Communications Corp.	7.41%	30,000	30,000	-%	-	-
Advanced Image Technology Corp.	19.50%	44,850	44,850	-%	-	-
Subtotal		<u>91,850</u>	<u>101,858</u>		<u>20,000</u>	<u>30,008</u>
<b><u>Prepayment for Long-Term Investments</u></b>						
Inventec Appliances (Cayman) Holding Corp.		-	-		656,658	656,658
Hi Top Communications Corp.		-	-		30,000	30,000
Subtotal		<u>-</u>	<u>-</u>		<u>686,658</u>	<u>686,658</u>
Total		<u>\$ 3,427,082</u>	<u>2,614,446</u>		<u>2,236,270</u>	<u>2,123,431</u>

For the three months ended March 31, 2005 and 2004, income and loss from investments in investee companies accounted for under the equity method were the follows:

<u>Name of Investee Company</u>	<u>Three months ended March 31,</u>	
	<u>2005</u>	<u>2004 (Un-reviewed)</u>
Base on financial statements prepared by investee companies:		
Inventec Appliances (Cayman) Holding Corp.	\$ 333,936	164,183
Gainia Intellectual Asset Services, Inc.	(437)	(769)
Total	<u>\$ 333,499</u>	<u>163,414</u>

The Company invested in Inventec Appliances (Cayman) Holding Corp., a wholly-owned subsidiary as a holding company to engage in various investments.

In 2004, the company invested \$30,000 and \$44,850 in Hi Top Communications Corp. and Advanced Image Technology Corp. for 7.41% and 19.50% ownership, respectively. The investees are accounted for under the cost method.

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

As of March 31, 2005 and 2004, fire insurance of the property, plant, and equipment amounted to \$1,144,600 and \$1,006,965, respectively.

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

**(f) 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 March 31, 2005 and 2004, pension fund was \$274,925 and \$216,263, respectively.

**(g) Income Tax**

(i) Deferred income tax assets and liabilities:

	<b>March 31, 2005</b>		<b>March 31, 2004</b>	
	<b>March 31, 2005</b>		<b>(Un-reviewed)</b>	
	<b>Amount</b>		<b>Amount</b>	
a. Total deferred tax assets	\$	649,321		336,701
b. Total deferred tax liabilities		(265,506)		(44,739)
<b>c. Temporary differences:</b>	<b>Amount</b>	<b>Income Tax Effects</b>	<b>Amount</b>	<b>Income Tax Effects</b>
- Recognition of unrealized foreign exchange loss: deductible	\$ 214,459	53,615	158,635	39,659
- Recognition of inventory obsolescence: deductible	45,279	11,320	24,208	6,052
- Recognition of gain on investments: taxable	(1,044,614)	(261,154)	(178,956)	(44,739)
- Cumulative translation adjustment for long-term investments: deductible	220,606	55,152	53,931	13,483
- Recognition of pension expenses: (taxable) deductible	(17,406)	(4,352)	1,980	495
- Recognition of employee welfare: deductible	7,002	1,750	11,520	2,880
- Recognition of unrealized inter-company profits: deductible	176,388	44,097	142,743	35,686
- Unrealized warranty reserve: deductible	1,571,525	392,881	767,023	191,756
- Royalty reserve: deductible	214,236	53,559	135,760	33,940
- Compensation reserve: deductible	24,000	6,000	24,000	6,000
- Long-term investments-unrealized devaluation loss under the cost method	10,008	2,502	10,008	2,502
- Unused balance of investment tax credits	-	28,445	-	4,248

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

	<b>March 31, 2005</b>	<b>March 31, 2004 (Un-reviewed)</b>
(ii) Deferred tax assets – current	\$ 138,626	86,774
Deferred tax liabilities - current	-	-
Net	<b>\$ 138,626</b>	<b>86,774</b>
(iii) Deferred tax assets - non-current	\$ 510,695	249,927
Deferred liabilities - non-current	(265,506)	(44,739)
Net	<b>\$ 245,189</b>	<b>205,188</b>

(iv) Calculation of income tax expense:

	<b>Three Months Ended March 31, 2004</b>	
	<b>2005</b>	<b>(Un-reviewed)</b>
Income tax calculated per statutory tax rate	\$ 148,570	105,094
Permanent differences	(340)	(228)
Temporary differences	(26,300)	29,995
Tax-exempt income	(2,392)	(6,307)
Investment tax credits used	(59,769)	(64,277)
Current income tax payable	(59,769)	64,277
Income tax separately levied	523	523
Investment tax credits	(28,445)	(4,248)
Income tax effect of temporary differences:		
Provision for inventory obsolescence, net	(795)	(180)
Recognition of investment loss	83,484	41,046
Recognition of unrealized foreign currency exchange gain, net	(6,569)	(12,854)
Recognition of pension expenses	913	1,049
Recognition of employee welfare	268	288
Unrealized inter - company profit	(3,144)	(5,660)
Royalty reserve	(4,934)	(6,019)
Warranty reserve	(42,923)	(47,665)
Income tax expense	<b>\$ 58,147</b>	<b>30,557</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.

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

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

	<u>March 31, 2005</u>	<u>March 31, 2004</u> (Un-reviewed)
Stockholder's imputation tax credit account	\$ 385,285	71,107
	<u>2004</u>	<u>2003</u>
To Expect deductible ratio of earnings distributed to R.O.C. residents	<u>19.20%</u>	<u>19.76%</u>

(viii) Undistributed Earnings:

	<u>Three Months Ended March 31,</u> <u>2004</u>	
	<u>2005</u>	<u>(Un-reviewed)</u>
Accumulated prior to 1997	\$ -	-
Accumulated after 1998	2,880,685	2,559,997
Total	<u>\$ 2,880,685</u>	<u>2,559,997</u>

(ix) According to Article 6, Section 3 of the Stature of Upgrading Industries unused investment tax credits which may be applied to offset income tax in the future are the following:

<u>Year of occurrence</u>	<u>Investment tax credits</u>	<u>Year of expiration</u>
2005	\$ 28,445	2009

(h) **Undistributed Earnings:**

Changes in un-appropriated earnings of the Company for the three months ended March 31, 2005 and 2004 were as follows:

	<u>Three Months Ended March 31,</u> <u>2004</u>	
	<u>2005</u>	<u>(Un-reviewed)</u>
Beginning Balance, January 1	\$ 2,344,512	2,170,140
Add: net income	536,173	389,857
Ending Balance, March 31	<u>\$ 2,880,685</u>	<u>2,559,997</u>

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

**(i) Earnings Per Share (EPS)**

For the three months ended March 31, 2005 and 2004, calculation of basic EPS is as follows:

	<b>Three months ended March 31,</b>			
	<b>2005</b>		<b>2004 (Un-reviewed)</b>	
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
Net income available to common shareholders	<u>\$ 594,320</u>	<u>536,173</u>	<u>420,414</u>	<u>389,857</u>
Weighted-average number of shares outstanding (in thousands)	<u>280,000</u>	<u>280,000</u>	<u>260,500</u>	<u>260,500</u>
Basic earnings per share	<u>\$ 2.12</u>	<u>1.91</u>	<u>1.61</u>	<u>1.50</u>

**(j) Financial Instruments**

**(i) Financial Derivatives:**

1. Contract amount and credit risk:

	<b>March 31, 2005</b>		<b>March 31, 2004 (Un-reviewed)</b>	
	<b>contract amount</b>	<b>credit risk</b>	<b>contract amount</b>	<b>credit risk</b>
Foreign Currency contracts -Non-trading	USD 38,000	\$ -	USD 32,000	-

The amount of credit risk is the sum of contracts with positive fair market value at the balance sheet date after netting the settlement of all contracts, and represents the Company's possible loss in the event of default by counter-parties.

2. Market risk:

Financial derivatives held by the Company are subject to market risk resulting from exchange rate fluctuations, whereas possible decreases in price are offset by exchange gain and loss on hedged foreign-currency-denominated assets and liabilities.

3. Liquidity risk, cash flow risk, and future cash demand:

Financial derivatives held by the Company are settled with banks using the cash from its operations.

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

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

	<b>March 31, 2005</b>	
<b>Financial Assets</b>	<b>Book Value</b>	<b>Fair Value</b>
Book value equal to fair value	\$ 18,678,831	18,678,831
Long-term investments	3,427,082	3,402,632
Total financial assets	<b>\$ 22,105,913</b>	<b>22,081,463</b>
<b>Financial Liabilities</b>		
Book value equal to fair value	<b>\$ 15,918,230</b>	<b>15,918,230</b>
	<b>March 31, 2004 (Un-reviewed)</b>	
<b>Financial Assets</b>	<b>Book Value</b>	<b>Fair Value</b>
Book value equal to fair value	\$ 10,753,800	10,753,800
Long-term investments	2,236,270	2,235,910
Total financial assets	<b>\$ 12,990,070</b>	<b>12,989,710</b>
<b>Financial Liabilities</b>		
Book value equal to fair value	<b>\$ 8,528,036</b>	<b>8,528,036</b>

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

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 and cash equivalents, 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 is 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-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.

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

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

(iv) **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 March 31, 2005 and 2004, the Company's contracts with credit risk concentration were the following:

<u>Accounts Receivable-By Region</u>	<u>March 31, 2005</u>	<u>March 31, 2004 (Un-reviewed)</u>
Domestic	\$ 442,753	456,588
Asia	2,058,874	511,815
Europe	2,274,514	733,508
Americas	10,663,952	2,842,374
Other	702,428	1,244,428
Total	<u>\$ 16,142,521</u>	<u>5,788,713</u>

**(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 Appliances (Cayman) Holding Corp.	A subsidiary
Inventec Appliances (BVI) Corp.	A third level subsidiary of the Company
Inventec Appliances (USA) Distribution Corp.	"
Inventec Appliances (Shanghai) Co., Ltd.	"
Inventec Appliances (Pudong) Co., Ltd.	"
Inventec Appliances (Nanjing) Co., Ltd.	"
Inventec Appliances (Jiangning) Co., Ltd.	"
Tapwave, Inc.	A company accounted for under the equity method by Inventec Appliances (Cayman) Holding Corp. (Note)
Inventec Micro-Electronics (BVI) Corporation	The Company's related party
Inventec Besta Co., Ltd.	"

Note : Since the Company was not involved in the Tapwave's capital raise in March 2004, the Company's holding percentage of Tapwave's total outstanding stock has decreased to 16% and the Company has no more significant influence on investee. Therefore, since March 2004, Tapwave, Inc. is no longer the Company's related party and the inter-company sales between Tapwave, Inc. and the Company will be disclosed till March 2004.

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

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

**(i) Sales**

For the three months ended March 31, 2005 and 2004, sales to related parties were the following:

Name of related party	Three months ended March 31,			
	2005		2004 (Un-reviewed)	
	Amount	% of Net Sales	Amount	% of Net Sales
Inventec Appliances (BVI) Corp.	\$ 472,377	2%	1,028,133	10%
Inventec Appliances (USA) Distribution Corp.	1,870,762	8%	318,959	3%
Tapwave, Inc.	-	-%	6,681	-%
Others	144	-%	338	-%
Total	<u>\$ 2,343,283</u>	<u>10%</u>	<u>1,354,111</u>	<u>13%</u>

Prices of sales of raw materials to Inventec Appliances (BVI) Corp. are negotiated. The collection period is three months.

Prices of graphic calculators and Personal Digital Assistant (PDA) sold to Inventec Appliances (USA) Distribution Corp. are negotiated. The collection period is approximately two to three months.

Prices of game consoles sold to Tapwave, Inc. are negotiated. The collection period is 45 days.

As of March 31, 2005 and 2004, unrealized gross margin of sales to related parties was \$171,676 and \$138,505, respectively.

**(ii) Purchases**

For the three months ended March 31, 2005 and 2004, purchases from related parties were the following:

Name of related party	Three months ended March 31,			
	2005		2004 (Un-reviewed)	
	Amount	% of Net Purchase	Amount	% of Net Purchase
Inventec Appliances (BVI) Corp.	\$ 20,897,054	96%	7,217,680	75%
Inventec Micro-Electronics (BVI) Corporation	-	-%	29,586	-%
Total	<u>\$ 20,897,054</u>	<u>96%</u>	<u>7,247,266</u>	<u>75%</u>

Prices of graphic calculators, PDAs, and MP3 players purchased from Inventec Appliances (BVI) Corp. are negotiated. The payment term is three months.

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

Prices of raw materials of cell phone purchased from Investec Micro-Electronics (BVI) Corporation are negotiated. The payment term is approximately within two to three months.

**(iii) Others**

1. For the three months ended March 31, 2005 and 2004, management expense and computer system expense paid to Inventec Corporation were \$5,186 and \$12,568, respectively.
2. For the three months ended March 31, 2005 and 2004, the Company sold properties and deferred assets to Inventec Appliances (BVI) Corp. at cost \$3,465 and \$40,510, respectively, resulting in a gain on property disposition of \$272 and \$6,544, respectively.
3. As of March 31, 2005 and 2004, unrealized gain on disposal of properties was \$4,712 and \$4,238, respectively.
4. For the three months ended March 31, 2005 and 2004, sundry expense paid to Inventec Besta Corp. was \$675 and \$212, respectively.
5. For the three months ended March 31, 2005, purchase of machinery from Inventec Corporation was \$5,257.

**(iv) Accounts Receivable (Payable)**

	<b>March 31, 2005</b>		<b>March 31, 2004(Un-reviewed)</b>	
	<b>Balance</b>	<b>%</b>	<b>Balance</b>	<b>%</b>
<u>Accounts Receivable:</u>				
Inventec Appliances (BVI) Corp.	\$ 702,428	4%	1,244,428	21%
Inventec Appliances (USA) Distribution Corp.	1,740,833	11%	314,290	5%
Tapwave , Inc.	-	-%	31,739	1%
Others	28	-%	170	-%
Total	<u>\$ 2,443,289</u>	<u>15%</u>	<u>1,590,627</u>	<u>27%</u>
<u>Other receivables:</u>				
Inventec Appliances (BVI) Corp.	\$ 1,199	1%	37,613	43%
Tapwave , Inc.	-	-%	1,082	-%
Total	<u>\$ 1,199</u>	<u>1%</u>	<u>38,695</u>	<u>43%</u>
<u>Accounts Payable:</u>				
Inventec Appliances (BVI) Corp.	\$ 13,563,254	92%	5,795,120	78%
Other	-	-%	12,237	-%
Total	<u>\$ 13,563,254</u>	<u>92%</u>	<u>5,807,357</u>	<u>78%</u>
<u>Other current assets</u>				
Inventec Appliances (BVI) Corp.	<u>\$ 44</u>	<u>1%</u>	<u>69</u>	<u>-%</u>

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NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(v) Guarantee and Endorsements**

As of March 31, 2005 and 2004, endorsements and guarantees provided for related parties for bank loans are as follows:

<b><u>Name of Related Party Guaranteed</u></b>	<b><u>Amount of Guarantee</u></b>		<b><u>Name of Bank</u></b>
	<b><u>March 31, 2005</u></b>	<b><u>March 31, 2004 (Un-reviewed)</u></b>	
Inventec Appliances (Cayman) Holding Corp.	US\$ 46,550	US\$ 30,000	Citibank, N.A.
	15,000	-	Bank of America
Inventec Appliances (BVI) Corp.	5,000	5,000	"
	1,500	5,000	Citibank, N.A.
	-	5,000	HSBC Bank
Inventec Appliances (USA) Distribution Corp.	5,000	5,000	"
	3,000	10,000	Bank of America
Inventec Appliances (Shanghai) Co., Ltd.	15,000	15,000	HSBC Bank
	8,000	8,000	Bank of America
Inventec Appliances (Pudong) Co., Ltd.	-	15,000	"
	15,000	-	HSBC Bank
	10,000	-	SM Bank
	10,000	-	SC Bank
Inventec Appliances (Jiangning) Co., Ltd.	10,000	-	"
	9,000	-	HSBC Bank
Inventec Appliances (Nangjing) Co., Ltd.	1,500	-	Bank of America
<b>Total</b>	<b><u>US\$ 154,550</u></b>	<b><u>US\$ 98,000</u></b>	

**(6) Pledged Assets**

As of March 31, 2005 and 2004, assets provided as collateral were as follows:

	<b><u>March 31, 2005</u></b>	<b><u>March 31, 2004 (Un-reviewed)</u></b>	<b><u>Purpose of pledge</u></b>
Refundable deposits	<b><u>\$ 5,615</u></b>	<b><u>4,340</u></b>	deposits for security box, building, counter, and mobile phone

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

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

- (a) As of March 31, 2005 and 2004, unused letters of credit amounted to US\$160, JPY11,300, and US\$1,411 and JPY12,960, respectively.
- (b) As of March 31, 2005 and 2004, promissory notes issued for bank credit limits, Industrial Development Bureau (IDB) subsidies, and IDB cooperation funds amounted to US\$15,000, \$2,022,336 and US\$25,000, \$2,242,083, respectively.
- (c) As of March 31, 2005 and 2004, promissory notes received for business demands and applications to the Ministry of Economic Affairs amounted to \$150,248 and \$135,448, respectively.
- (d) For the three months ended March 31, 2005 and 2004, the Company entered in a lease agreement to lease computers and software. Information regarding rental expense and future lease payments is as follows:

Year	Rent expense	Future rent due			
		2004	2005	2006	2007
For the three months ended March 31,	\$ 5,257	-	14,824	14,581	5,367
For the three months ended March 31,	\$ 3,958	9,834	10,726	5,836	-

- (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. The appeal is still being processed.
- (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.

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

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

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

**(10) Others**

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

Categorized as Nature	Three months ended March 31,					
	2005			2004 (Un-reviewed)		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel Cost						
Salary	129,537	183,180	312,717	106,594	117,397	223,991
Health and labor insurance	6,454	8,551	15,005	5,721	6,394	12,115
Pension	3,701	8,172	11,873	3,001	5,326	8,327
Other	13,325	7,303	20,628	26,912	4,183	31,095
Depreciation	15,718	18,609	34,327	16,386	17,126	33,512
Amortization	16,527	12,938	29,465	11,381	9,174	20,555