

INVENTEC APPLIANCES CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003
AND
INDEPENDENT AUDITORS' REPORT

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Inventec Appliances Corporation

Financial Statements

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Independent Auditors' Report

To the Board of Directors
Inventec Appliances Corporation:

We have audited the accompanying balance sheets of Inventec Appliances Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of Inventec Appliances Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with "Rules Governing Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China.

Taipei, Taiwan, R.O.C.
February 17, 2005

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

INVENTEC APPLIANCES CORPORATION
BALANCE SHEETS
DECEMBER 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

ASSETS	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
Current Assets				
Cash (Note (4)(a))	\$ 3,393,183	13	4,531,096	32
Notes receivable				
-Other customers	843	-	397	-
-Related parties	-	-	9	-
Accounts receivable, net of allowance for doubtful accounts (Notes (2) and (4)(b))				
-Other customers	15,988,341	59	4,406,285	31
-Related parties	1,321,385	5	1,369,674	10
Other financial assets - current	65,921	-	21,733	-
Inventories, less allowance for inventory market decline and obsolescence (Notes (2) and (4)(c))	1,678,312	6	975,397	7
Other current assets	35,267	-	56,030	-
Deferred income tax assets - current (Notes (2) and (4)(g))	99,592	-	63,853	1
	<u>22,582,844</u>	<u>83</u>	<u>11,424,474</u>	<u>81</u>
Long-term equity investments (Notes (2) and (4)(d))				
Accounted for under the equity method	3,038,835	12	1,381,693	10
Accounted for under the cost method	91,850	-	20,000	-
	<u>3,130,685</u>	<u>12</u>	<u>1,401,693</u>	<u>10</u>
Other financial assets - non-current	<u>4,870</u>	<u>-</u>	<u>3,980</u>	<u>-</u>
Property, Plant, and Equipment (Notes (2) and (4)(e))				
Land	279,855	1	279,855	2
Buildings	284,957	1	284,957	2
Machinery	548,524	2	504,581	4
Mold and tools	30,206	-	31,216	-
Transportation equipment	662	-	662	-
Furniture and office facilities	46,495	-	46,319	-
Other equipment	180,439	1	148,450	1
Less: Accumulated depreciation	(428,301)	(1)	(332,021)	(2)
Prepayment for equipment	999	-	22,715	-
	<u>943,836</u>	<u>4</u>	<u>986,734</u>	<u>7</u>
Intangible Assets				
Deferred pension cost (Notes (2) and (4)(f))	61,052	-	15,269	-
Other Assets				
Deferred income tax assets - non-current (Notes (2) and (4)(g))	272,803	1	189,992	2
Other assets	58,250	-	37,807	-
	<u>331,053</u>	<u>1</u>	<u>227,799</u>	<u>2</u>
TOTAL ASSETS	\$ 27,054,340	100	14,059,949	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Notes payable	\$ 4,628	-	9,256	-
Accounts payable				
-Other customers	1,378,999	5	1,774,297	12
-Related parties	15,568,225	58	4,241,011	30
Income tax payable (Notes (2) and (4)(g))	108,366	-	374,495	3
Accrued expenses	480,621	2	355,231	3
Other payables				
Other customers	137,296	-	134,693	1
Related parties	-	-	29,430	-
Other current liabilities	170,611	1	206,464	1
	<u>17,848,746</u>	<u>66</u>	<u>7,124,877</u>	<u>50</u>
Long-Term Liabilities				
Long-term notes payable	-	-	4,628	-
Other Liabilities				
Estimated warranty reserve (Note (2))	1,399,833	5	576,364	4
Accrued pension liabilities (Notes (2) and (4)(f))	53,593	-	27,739	-
Deferred credits	163,812	1	120,103	1
Other liabilities	200,948	1	111,683	1
	<u>1,818,186</u>	<u>7</u>	<u>835,889</u>	<u>6</u>
Total Liabilities	<u>19,666,932</u>	<u>73</u>	<u>7,965,394</u>	<u>56</u>
Stockholders' Equity				
Capital stock, par value \$10 per share; authorized and issued 280,000,000 shares in 2004 ; authorized and issued 235,000,000 shares in 2003(Note (4)(h))	2,800,000	10	2,350,000	17
Capital surplus				
Premium on stock issuance (Note (4)(h))	2,104,500	8	1,519,500	11
Others	1,110	-	1,110	-
Retained earnings:				
Legal reserve (Note (2))	274,914	1	82,632	1
Undistributed earnings (Note (4)(g))	2,344,512	9	2,170,140	15
Cumulative translation adjustments	(137,628)	(1)	(28,827)	-
Total Stockholders' Equity	<u>7,387,408</u>	<u>27</u>	<u>6,094,555</u>	<u>44</u>
Commitments and Contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 27,054,340	100	14,059,949	100

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

INVENTEC APPLIANCES CORPORATION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004 AND 2003
(New Taiwan Dollars in Thousands, Except for Per Share Amount)

	<u>2004</u>		<u>2003</u>	
	Amount	%	Amount	%
Operating Revenues:				
Gross sales (Note (2))	\$ 76,043,290	100	30,776,675	101
Less: Sales returns	(14,562)	-	(128,283)	(1)
Sales discounts and allowances	(31,217)	-	(41,089)	-
Net Sales	<u>75,997,511</u>	<u>100</u>	<u>30,607,303</u>	<u>100</u>
Operating Costs:				
Cost of sales	<u>(71,189,111)</u>	<u>(94)</u>	<u>(26,368,369)</u>	<u>(86)</u>
	4,808,400	6	4,238,934	14
Unrealized inter-company profits	(158,132)	-	(120,103)	(1)
Realized inter-company profits	<u>120,103</u>	<u>-</u>	<u>48,177</u>	<u>-</u>
Gross Margin	<u>4,770,371</u>	<u>6</u>	<u>4,167,008</u>	<u>13</u>
Operating Expenses:				
Selling expenses	(2,137,475)	(3)	(1,193,205)	(4)
Administrative and general expenses	(324,086)	(1)	(219,463)	(1)
Research and development expenses	<u>(906,168)</u>	<u>(1)</u>	<u>(678,849)</u>	<u>(2)</u>
	<u>(3,367,729)</u>	<u>(5)</u>	<u>(2,091,517)</u>	<u>(7)</u>
Operating Income	<u>1,402,642</u>	<u>1</u>	<u>2,075,491</u>	<u>6</u>
Non-Operating Income:				
Interest income	24,777	-	17,529	-
Investment income	696,386	1	-	-
Gain on disposal of property, plant, and equipment	2,683	-	1,692	-
Gain on physical inventory	2,676	-	-	-
Reversal of allowance for slow-moving inventory	-	-	37,441	-
Other income	<u>411,742</u>	<u>1</u>	<u>176,510</u>	<u>1</u>
	<u>1,138,264</u>	<u>2</u>	<u>233,172</u>	<u>1</u>
Non-Operating Expenses:				
Interest expense	(6,532)	-	(3,883)	-
Investment loss	-	-	(469)	-
Loss on disposal of property, plant, and equipment	(1,740)	-	(493)	-
Loss on physical inventory	-	-	(601)	-
Foreign exchange loss	(32,647)	-	(40,013)	-
Loss on inventory devaluation and obsolescence	(52,081)	-	-	-
Other expenses	<u>(7,481)</u>	<u>-</u>	<u>(32,066)</u>	<u>-</u>
	<u>(100,481)</u>	<u>-</u>	<u>(77,525)</u>	<u>-</u>
Income before income tax	<u>2,440,425</u>	<u>3</u>	<u>2,231,138</u>	<u>7</u>
Income tax expense (Notes (2) and (4)(g))	<u>(349,717)</u>	<u>-</u>	<u>(308,321)</u>	<u>(1)</u>
Net income	<u>\$ 2,090,708</u>	<u>3</u>	<u>1,922,817</u>	<u>6</u>
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Earnings per share (Notes (2) and (4)(i))				
Basic earnings per share	<u>\$ 9.03</u>	<u>7.74</u>	<u>9.49</u>	<u>8.18</u>
Basic earnings per share - retroactively adjusted	<u>\$ -</u>	<u>-</u>	<u>8.56</u>	<u>7.38</u>

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

INVENTEC APPLIANCES CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED December 31, 2004 AND 2003
(New Taiwan Dollars in Thousands)

	Retained Earnings					Total
	Capital Stock	Capital Surplus	Legal Reserve	Undistributed Earnings	Cumulative Translation Adjustment	
Balance on January 1, 2003	\$ 2,350,000	1,520,610	23,472	594,727	2,775	4,491,584
2002 earnings distribution and appropriation:						
Legal reserve	-	-	59,160	(59,160)	-	-
Remuneration to directors and supervisors	-	-	-	(15,973)	-	(15,973)
Employee bonuses-cash	-	-	-	(37,271)	-	(37,271)
Cash dividends	-	-	-	(235,000)	-	(235,000)
Net income for 2003	-	-	-	1,922,817	-	1,922,817
Translation adjustment for long-term investments (net of income tax of \$10,534)	-	-	-	-	(31,602)	(31,602)
Balance on December 31, 2003	2,350,000	1,520,610	82,632	2,170,140	(28,827)	6,094,555
2003 earnings distribution and appropriation:						
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)
Cash capitalization	195,000	585,000	-	-	-	780,000
Net income for 2004	-	-	-	2,090,708	-	2,090,708
Translation adjustment for long-term investments (net of income tax of \$36,267)	-	-	-	-	(108,801)	(108,801)
Balance on 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>7,387,408</u>

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

INVENTEC APPLIANCES CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

	2004	2003
Cash flows from operating activities:		
Net income	\$ 2,090,708	1,922,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	132,132	125,407
Amortization	111,324	230,699
Gain on disposal of property, plant, and equipment	(6,555)	(1,199)
Gain on disposal of deferred assets	(637)	(784)
Provision (reversal) for inventory devaluation	52,081	(37,441)
Provision of bad debt	48,571	-
Investment (gain) loss recognized under the equity method	(696,386)	469
Royalty reserve	823,469	433,629
Estimated warranty reserve	82,816	111,683
Changes in assets and liabilities:		
Notes and accounts receivable	(11,582,775)	(3,346,068)
Other financial assets - current	(44,188)	(7,744)
Inventories	(754,996)	(434,604)
Other current assets	20,763	(41,854)
Deferred income tax assets and liabilities, net	(82,283)	(83,894)
Notes and accounts payable	10,922,660	3,644,393
Income tax payable	(266,129)	258,849
Accrued expenses	125,390	180,299
Other payables	(46,149)	80,753
Forward contracts payable	-	(1,801)
Other current liabilities	(35,853)	48,510
Accrued pension liabilities	(19,929)	(6,863)
Deferred credits	43,709	71,926
Net cash provided by operating activities	917,743	3,147,182
Cash flows from investing activities:		
Increase in long-term investments	(1,177,673)	(1,196,385)
Purchase of property, plant, and equipment	(181,842)	(195,477)
Purchase of deferred assets	(45,637)	(169,834)
Proceeds from disposal of property, plant, and equipment	31,853	6,258
Proceeds from disposal of deferred assets	1,408	8,028
Other financial assets - non-current	(890)	(3,024)
Increase of other liability	6,449	-
Net cash used in investing activities	(1,366,332)	(1,550,434)
Cash flows from financing activities:		
Remuneration to directors and supervisors and employee bonuses	(153,054)	(53,244)
Cash dividends	(1,316,000)	(235,000)
Cash capitalization	780,000	-
Net cash used in financing activities	(689,054)	(288,244)
Net (decrease) increase in cash	(1,137,643)	1,308,504
Cash, beginning of the period	4,531,096	3,222,592
Cash, end of the period	\$ 3,393,453	4,531,096
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest (excluding capitalized interest)	\$ 6,532	3,883
Cash paid during the period for income tax	\$ 698,129	133,366
Investing and financing activities with no effect on cash flows:		
Purchase of property, plant, and equipment with cash and other payables:		
Increase in property, plant, and equipment	\$ 201,434	220,158
Add: Other payables - beginning of the period	39,681	15,000
Less: Other payables - end of the period	(59,273)	(39,681)
Cash paid	\$ 181,842	195,477

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

INVENTEC APPLIANCES CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003
(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 December 31, 2004 and 2003, the number of employees was 1,519 and 1,172, 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 are as follows:

(a) 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.

(b) Inventories and Allowance for Inventory Market Decline and Obsolescence

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

(c) Long-Term Equity Investments

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

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

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").

(d) 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.

(e) Deferred Expenses

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

(f) Warranty Reserve

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

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

g) 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.

(h) 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.

(i) 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.

(j) Non-Trading Financial Derivatives

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

(k) Foreign Currency Translation

Foreign – currency – denominated assets and liabilities of over seas 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 weight – average rate of the year, with different reflected as translation adjustment to stockholders' equity.

(l) 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.

(m) Classification of Capital and Operating Expenditures

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

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

(n) 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.

(o) Earnings per Share (EPS)

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

(3) Reasons for and Effects of Accounting Changes: None.

(4) Summary of Major Accounts

(a) Cash

	December 31, 2004	December 31, 2003
Cash on hand	\$ 496	669
Checking accounts	988	-
Demand deposits	943,810	1,622,186
Time deposits	1,000,000	1,050,000
Negotiable certificate of deposits	1,400,000	1,300,000
Foreign currency deposits	47,889	558,241
Total	\$ 3,393,183	4,531,096

(b) Accounts Receivable

	December 31, 2004	December 31, 2003
Accounts receivable - other customers	\$ 16,036,912	4,406,285
Less: Allowance for Bad Debt	(48,571)	-
Net	15,988,341	4,406,285
Accounts receivable - related parties	1,321,385	1,369,674
Total	\$ 17,309,726	5,775,959

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

(c) Inventories

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Raw materials	\$ 832,048	788,530
Work in process	195,867	107,234
Finished goods	390,845	103,122
Inventories-in-transit	301,653	-
Subtotal	<u>1,720,413</u>	<u>998,886</u>
Less: Allowance for market decline and obsolescence	(42,101)	(23,489)
Net	<u>\$ 1,678,312</u>	<u>975,397</u>
Insurance coverage	<u>\$ 1,035,164</u>	<u>1,059,100</u>

(d) Long-Term Equity Investments

<u>Name of Investee Company</u>	<u>December 31, 2004</u>			<u>December 31, 2003</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>
Carried under the equity method						
Inventec Appliances (Cayman) Holding Corp.	100.00%	\$ 3,033,363	2,506,188	100.00%	1,376,701	1,400,365
Gainia Intellectual Asset Services, Inc.	48.30%	5,472	6,400	48.30%	4,992	6,400
Subtotal		<u>3,038,835</u>	<u>2,512,588</u>		<u>1,381,693</u>	<u>1,406,765</u>
Carried under the cost method						
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>
Total		<u>\$ 3,130,685</u>	<u>2,614,446</u>		<u>1,401,693</u>	<u>1,436,773</u>

In 2004 and 2003, income and loss from investments in investees accounted for under the equity method were the follows:

<u>Name of Investee Company</u>	<u>2004</u>	<u>2003</u>
Inventec Appliances (Cayman) Holding Corp.	\$ 695,906	10,947
Gainia Intellectual Asset Services, Inc.	480	(1,408)
Total	<u>\$ 696,386</u>	<u>9,539</u>

In 2004, the Company invested US\$32,982 in Inventec Appliances (Cayman) Holding Corp., a wholly-owned subsidiary.

In August 2003, the Company invested \$10,008 in Telewise Communications, Inc. for 6.98% ownership. The investee was accounted for under the cost method. Since the investee's board of directors resolved to dissolve the investee, investment loss was fully recognized.

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.

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

The Company has controlling interests in Inventec Appliances (Cayman) Holding Corp.; and therefore, the investee was included in the consolidated financial statements of the Company.

(e) Property, Plant, and Equipment

As of December 31, 2004 and 2003, fire insurance of the property, plant, and equipment amounted to \$1,071,800 and \$1,006,964, respectively.

(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 December 31, 2004 and 2003, pension fund was \$259,682 and \$203,738, respectively.

Actuarial assumptions used for pension cost calculation in 2004 and 2003 were the following:

	<u>2004</u>	<u>2003</u>
Discount rate	2.50%	4.00%
Growth rate of salary in the future	1.50%	3.00%
Estimated long-term rate of return on investment	2.50%	4.00%

As of December 31, 2004 and 2003, reconciliation between funded status and accrued pension liabilities per books was the following:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Benefit obligations:		
Vested benefit obligation	\$ (23,859)	(15,946)
Non-vested benefit obligation	(289,415)	(215,531)
Accumulated benefit obligation	(313,274)	(231,477)
Effect of increase in future salary	(82,629)	(46,566)
Estimated benefit obligation	(395,903)	(278,043)
Fair value of pension fund assets	259,682	203,738
Funded status	(136,221)	(74,305)
Unrecognized net transitional benefit obligation	68,629	74,868
Unrecognized gain on pension fund assets	75,051	(13,033)
Retroactive recognition of accrued pension liabilities	(61,052)	(15,269)
Accrued pension liabilities	<u>\$ (53,593)</u>	<u>(27,739)</u>

As of December 31, 2004 and 2003, vested benefit was \$24,628 and \$16,456, respectively.

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

In 2004 and 2003, components of net pension costs were the following:

	<u>2004</u>		<u>2003</u>
Service cost	\$ 25,212		25,275
Interest cost	6,951		11,010
Actual return on pension fund assets	\$ (2,706)	(2,523)	
Gain (Loss) on pension fund assets	<u>(2,388)</u>	<u>(3,803)</u>	
Estimated return on pension fund assets	(5,094)		(6,326)
Amortization of unrecognized net transitional obligation	6,239		6,239
Net pension costs	<u>\$ 33,308</u>		<u>36,198</u>

(g) Income Tax

(i) Deferred income tax assets and liabilities:

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
a. Total deferred tax assets	\$	553,503		257,538
b. Total deferred tax liabilities		(181,168)		(3,693)
		Income Tax		Income Tax
c. Temporary differences:	Amount	Effects	Amount	Effects
- Recognition of unrealized foreign exchange loss: deductible	\$ 188,184	47,046	107,221	26,805
- Recognition of inventory obsolescence: deductible	42,101	10,525	23,489	5,872
- Recognition of gain on investments: taxable	(710,678)	(177,670)	(14,772)	(3,693)
- Cumulative translation adjustments for long-term investments: deductible	183,504	45,876	38,436	9,609
- Recognition of pension expenses: (taxable) deductible	(13,751)	(3,438)	6,178	1,544
- Recognition of employee welfare: deductible	8,070	2,018	12,670	3,168
- Recognition of unrealized inter-company profits: deductible	163,812	40,953	120,103	30,026
- Unrealized warranty reserve: deductible	1,399,833	349,958	576,364	144,091
- Royalty reserve: deductible	194,499	48,625	111,683	27,921
- 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

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

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
(ii) Deferred tax assets – current	\$ 99,592	63,853
Deferred tax liabilities - current	-	-
Net	<u>\$ 99,592</u>	<u>63,853</u>
(iii) Deferred tax assets - non-current	\$ 453,911	193,685
Deferred liabilities - non-current	(181,108)	(3,693)
Net	<u>\$ 272,803</u>	<u>189,992</u>

(iv) Calculation of income tax expense:

	<u>2004</u>	<u>2003</u>
Income tax calculated per statutory tax rate	\$ 610,096	557,775
Permanent differences	(1,978)	(1,046)
Temporary differences	82,283	155,931
Tax-exempt income	(17,487)	(50,022)
Investment tax credits used	(284,720)	(316,777)
10% surtax on unappropriated earnings	52,428	46,093
Current income tax payable	440,622	391,954
Income tax separately levied	1,889	974
Investment tax credits	-	62,778
Prior years' income tax adjustments	(10,511)	8,546
Income tax effect of temporary differences:		
Provision for inventory obsolescence, net	(4,653)	25,105
Recognition of investment loss	173,977	2,737
Recognition of unrealized foreign currency exchange gain, net	(20,241)	(23,827)
Recognition of pension expenses	4,982	1,716
Recognition of employee welfare	1,150	1,150
Unrealized inter-company profit	(10,927)	(17,982)
Royalty reserve	(20,704)	(27,921)
Warranty reserve	(205,867)	(108,407)
Long-term investment	-	(2,502)
Others	-	(6,000)
Income tax expense	<u>\$ 349,717</u>	<u>308,321</u>

(v) The Company's tax returns through 2001 have been assessed by the Tax Authority.

(vi) The Company's wireless communication and digital accessory products conform to Article 2, Paragraph 1 of the regulations regarding awards for newly emerging and strategic industries under manufacturing and technical service industries and are eligible for 5-year tax exemption.

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

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

	December 31, 2004	December 31, 2003
Stockholder's imputation tax credit account	\$ 384,762	53,124
	2004	2003
Deductible ratio of earnings distributed to R.O.C. residents	21.03%	19.70%

(viii) Undistributed Earnings:

	2004	2003
Accumulated prior to 1997	\$ -	-
Accumulated after 1998	2,344,512	2,170,140
Total	\$ 2,344,512	2,170,140

(h) Capital Increase

On April 27, 2004, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$235,000, and employee bonuses of \$20,000, for a total of \$255,000. And the Company resolved to increase the Company's capital in cash by issuing additional 19,500,000 shares at \$40 per share. Total capital after the increase was \$2,800,000 with July 9, 2004 as the record date. The Company has completed relevant registration of the changes.

(i) Earnings Distribution

Articles of Incorporation of the Company mandate that after-tax earnings should first offset cumulative losses, if any, then 10% is set aside as legal reserve. 2% to 7% of the remaining balance is distributed as employee bonuses, 3% is distributed as remuneration to supervisors and directors, and any remaining balance is distributed according to stockholders' resolutions.

On April 27, 2004 and June 2, 2003, the shareholders resolved to the following dividends, employee bonuses, and remuneration to directors and supervisors for earnings distribution for 2003 and 2002:

	2003	2002
Dividends (dollar per share)		
Cash	\$ 5.6	1.0
Stock at par	1.0	-
Total	\$ 6.6	1.0
Employee bonus - stock (at par value)	\$ 20,000	-
Employee bonus - cash	101,138	37,271
Remuneration to directors and supervisors	51,916	15,973
Total	\$ 173,054	53,244

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

The above earnings distribution is the same as the resolutions of the board of directors. If the above employee bonus and remuneration to directors and supervisor were distributed as cash, and if the Company recognized expense in their respective years, then EPS would decrease from \$8.18 and \$3.2 to \$7.45 and \$ 2.91, respectively for 2003 and 2002. In 2003 and 2002, no employee stock bonuses were distributed.

The proposal for the appropriation of employee bonus and remuneration to directors and supervisors for 2004 has yet to be presented in the shareholders' meeting. Information regarding employee bonus and remuneration to directors and supervisors distributed shall be posted on the Market Observation Post System of Taiwan Stock Exchange after the related meetings are held.

(j) Earnings Per Share (EPS)

In 2004 and 2003, calculation of basic EPS is as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Net income available to common shareholders	<u>\$2,440,425</u>	<u>2,090,708</u>	<u>2,231,138</u>	<u>1,922,817</u>
Weighted-average number of shares outstanding (in thousands)	<u>270,250</u>	<u>270,250</u>	<u>235,000</u>	<u>235,000</u>
Basic earnings per share	<u>\$ 9.03</u>	<u>7.74</u>	<u>9.49</u>	<u>8.18</u>

(k) Financial Instruments

(i) Fair Value of Financial Instruments

	<u>December 31, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets		
Book value equal to fair value	\$ 20,774,543	20,774,543
Long-term investments	3,130,685	3,120,300
Total financial assets	<u>\$ 23,905,228</u>	<u>23,894,843</u>
Financial Liabilities		
Book value equal to fair value	<u>\$ 18,103,271</u>	<u>18,103,271</u>

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

	December 31, 2003	
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 10,333,174	10,333,174
Long-term investments	1,401,693	1,403,374
Total financial assets	\$ 11,734,867	11,736,548
Financial Liabilities		
Book value equal to fair value	\$ 7,063,575	7,063,575
Other Liability	4,628	4,471
Total financial liabilities	\$ 7,068,203	7,068,046

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 are determined by their net equity worth or cost.
3. With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operations of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market values of such financial instruments cannot be established. The book value is used as the fair market value.
4. Fair values of non-trading foreign-denominated financial derivatives are determined by the amount the Company will pay or receive, assuming contract termination on the balance sheet date. In general, it includes unrealized gains and losses on currently unsettled contracts. There are pricing reports issued by financial institutions for most of the non-trading financial derivatives held by the Company.
5. The fair values of long-term notes payable are determined by the present value of future cash flows. The discount rate is based on rates of equivalent loans available elsewhere; that is, loans with similar maturity date and terms.

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

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

(iii) Information on Concentrations of Credit Risk:

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is material in relation to the Company's total credit exposure. As of December 31, 2004 and 2003, the Company's contracts with credit risk concentration were the following:

<u>Accounts Receivable-By Region</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Domestic	\$ 400,327	520,185
Asia	1,420,766	232,275
Europe	2,864,205	732,610
Americas	12,326,917	3,452,872
Other	297,511	838,017
Total	<u>\$ 17,309,726</u>	<u>5,775,959</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 (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 (Jiangning) Co., Ltd.	"
Inventec Appliances (Nanjing) Co., Ltd.	A third level subsidiary of the Company (Formerly known as Inventec Electronics (Nanking) 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.

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

(b) Significant Transactions with Related Parties:

(i) Sales

In 2004 and 2003, sales to related parties were the following:

Name of related party	2004		2003	
	Amount	% of Net Sales	Amount	% of Net Sales
Inventec Appliances (BVI) Corp.	\$ 2,885,281	4%	1,863,180	6%
Inventec Appliances (USA) Distribution Corp.	3,226,424	4%	2,622,404	9%
Tapwave, Inc.	6,681	-%	49,675	-%
Others	713	-%	1,144	-%
Total	\$ 6,119,099	8%	4,536,403	15%

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 December 31, 2004 and 2003, unrealized gross margin of sales to related parties was \$158,132 and \$120,103, respectively.

(ii) Purchases

In 2004 and 2003, purchases from related parties were the following:

Name of related party	2004		2003	
	Amount	Purchases	Amount	Purchases
Inventec Appliances (BVI) Corp.	\$ 63,266,127	88%	15,122,018	58%
Inventec Micro-Electronics (BVI) Corporation	43,385	-%	2,656	-%
Others	5	-%	418	-%
Total	\$ 63,309,517	88%	15,125,092	58%

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

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.

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

(iii) Others

1. In 2004 and 2003, management expense and computer system expense paid to Inventec Corporation were \$20,238 and \$18,559, respectively.
2. In 2004 and 2003, rental expense paid to Inventec Corporation was \$2,476 (before tax) and rent was predetermined and paid monthly.
3. In 2004 and 2003, the Company sold properties and deferred assets to Inventec Appliances (BVI) Corp. at cost \$49,736 and \$13,827, respectively, resulting in a gain on property disposition of \$8,630 and \$2,457, respectively. As of December 31, 2004, unrealized gain on sale of properties was \$5,680.
4. In 2004, sundry expense paid to Inventec Besta Corp. was \$2,313.
5. In 2003, software research expense paid to Tapwave, Inc. was \$68,140.
6. In 2003, the Company transferred the royalty to Inventec Electronics (Nanking) Co., Ltd. amounted to \$37,131, reflected as other revenue.

(iv) Accounts Receivable (Payable)

	December 31, 2004		December 31, 2003	
	Balance	%	Balance	%
Total notes receivable	<u>\$ -</u>	<u>-%</u>	<u>9</u>	<u>-%</u>
<u>Accounts Receivable:</u>				
Inventec Appliances (BVI) Corp.	\$ 297,511	2%	838,017	15%
Inventec Appliances (USA) Distribution Corp.	1,023,798	6%	470,245	8%
Tapwave, Inc.	-	-	61,066	1%
Others	76	-	346	-
Total	<u>\$ 1,321,385</u>	<u>8%</u>	<u>1,369,674</u>	<u>24%</u>
<u>Other receivables:</u>				
Inventec Appliances (BVI) Corp.	<u>\$ 38</u>	<u>-%</u>	<u>2,153</u>	<u>10%</u>
<u>Accounts Payable:</u>				
Inventec Appliances (BVI) Corp.	\$ 15,568,087	92%	4,238,299	71%
Other	138	-	2,712	-
Total	<u>\$ 15,568,225</u>	<u>92%</u>	<u>4,241,011</u>	<u>71%</u>
<u>Other Payable:</u>				
Inventec Appliances (BVI) Corp.	\$ -	-	11,944	7%
Inventec Corporation	-	-	183	-
Tapwave, Inc.	-	-	17,088	11%
Other	-	-	215	-
Total	<u>\$ -</u>	<u>-%</u>	<u>29,430</u>	<u>18%</u>
<u>Accrued Expenses</u>				
Inventec Appliances (BVI) Corp.	\$ 10,167	2%	-	-
Other	320	-	-	-
Total	<u>\$ 10,487</u>	<u>2%</u>	<u>-</u>	<u>-%</u>

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

(v) Guarantees and Endorsements

As of December 31, 2004 and 2003, endorsements and guarantees provided for related parties for bank loans are as follows:

<u>Name of Related Party Guaranteed</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>Name of Bank</u>
Inventec Appliances (Cayman) Holding	US\$ 46,550	US\$ 10,000	Citibank, N.A.
Inventec Appliances (BVI) Corp.	1,500	5,000	"
"	5,000	5,000	Bank of America
Inventec Appliances (USA) Distribution Corp.	3,000	10,000	"
"	5,000	-	HSBC Bank
Inventec Appliances (Shanghai) Co., Ltd.	15,000	-	"
"	8,000	8,000	Bank of America
Inventec Appliances (Pudong) Co., Ltd.	15,000	-	"
"	15,000	-	HSBC Bank
"	10,000	-	SC Bank
Inventec Appliances (Nangjing) Co., Ltd.	1,500	-	Bank of America
"	9,000	-	HSBC Bank
Inventec Appliances (Jiangning) Co., Ltd.	10,000	-	SC Bank
Total	<u>US\$144,550</u>	<u>US\$ 38,000</u>	

(6) Pledged Assets

As of December 31, 2004 and 2003, assets provided as collateral were as follows:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 4,870</u>	<u>3,980</u>	deposits for security box, building, counter, and mobile phone

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

- (a) As of December 31, 2004 and 2003, unused letters of credit amounted to US\$73, JPY7,160, and US\$1,142 and JPY210,040, EUR16, respectively.
- (b) As of December 31, 2004 and 2003, promissory notes issued for bank credit limits, Industrial Development Bureau (IDB) subsidies, and IDB cooperation funds amounted to US\$15,000, \$2,042,383 and US\$10,000, \$3,022,083.
- (c) As of December 31, 2004 and 2003, promissory notes received for business demands and applications to the Ministry of Economic Affairs amounted to \$150,248 and \$125,448.

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

- (d) In 2004 and 2003, the Company entered in a lease agreement to lease computers and software. Information regarding rental expense and future lease payments is as follows:

<u>Year</u>	<u>Rent expense</u>	<u>Future rent due</u>		
		<u>2005</u>	<u>2006</u>	<u>2007</u>
2004	\$ 14,529	17,392	11,891	2,677
2003	\$ 9,482	8,635	4,268	-

- (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.
- (g) In 2003 the Company had JPY40, 000 payable outstanding resulting from technology transfer; the payment of the payable depends on the usage of the technology.

(8) Significant Catastrophic Losses: None.

(9) Significant Subsequent Events: None.

(10) Others

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

Categorized as Nature	2004			2003		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel cost						
Salary	468,797	666,156	1,134,953	468,610	505,262	973,872
Health and labor insurance	26,704	31,952	58,656	20,274	20,220	40,494
Pension	11,283	22,025	33,308	14,602	21,596	36,198
Other	80,895	26,404	107,299	80,140	11,954	92,094
Depreciation	63,374	68,758	132,132	68,908	56,499	125,407
Amortization	58,838	52,486	111,324	45,008	185,691	230,699

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

(11) BUSINESS SEGMENT INFORMATION:

(a) Industry:

The Company only operates in the electronics industry.

(b) Geographic Region:

The Company has only a domestic operating unit and has no overseas business unit.

(c) Exporting Information:

<u>Region</u>	<u>2004</u>	<u>2003</u>
Americas	\$ 46,431,143	20,119,193
Europe	13,393,725	2,401,835
Asia	8,455,869	1,563,484
Other	2,896,712	1,897,501
Total Exports	<u>\$ 71,177,449</u>	<u>25,982,013</u>

(d) Major Customers Information:

In 2004 and 2003, Customers with revenues that account for more than 10% of total revenues of the Company were the following:

<u>Name</u>	<u>2004</u>		<u>2003</u>	
	<u>Sales</u>	<u>%</u>	<u>Sales</u>	<u>%</u>
D	\$ 53,397,828	69%	12,441,672	40%
C	6,856,381	9%	6,492,387	21%