

**INVENTEC APPLIANCES CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**AND**

**INDEPENDENT AUDITORS' REPORT**

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AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

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## **Independent Auditors' Report**

To the Board of Directors of  
Inventec Appliances Corporation:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inventec Appliances Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles 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 AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2004 AND 2003  
(New Taiwan Dollars in Thousands, Except for share data)

	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash (Note (4)(a))	\$ 7,214,233	21	5,094,986	33
Notes receivable	63,884	-	406	-
Accounts receivable - net of allowance for doubtful accounts (Notes (2) and (4)(b))				
- Other customers	16,702,255	48	4,882,022	32
- Related parties	76	-	390,586	3
Forward exchange contract receivable (Note (2))	-	-	1,012,026	7
Forward exchange contract payable (Note (2))	-	-	(1,011,098)	(7)
Premium on Forward Exchange Contracts (Note (2))	-	-	(605)	-
Other financial assets - current	120,337	-	19,677	-
Inventories, net of allowance for market value decline and obsolescence (Notes (2) and (4)(c))	5,915,420	17	2,246,677	14
Other current assets	207,631	1	149,730	1
Deferred tax assets - current (Notes (2) and (4)(g))	99,592	-	63,853	-
Consolidated debits	211,987	1	76,922	-
	<u>30,535,415</u>	<u>88</u>	<u>12,925,182</u>	<u>83</u>
<b>Long-term equity investments (Notes (2) and (4)(d))</b>				
Accounted for under the equity method	5,472	-	17,418	-
Accounted for under the cost method	91,850	-	20,000	-
	<u>97,322</u>	<u>-</u>	<u>37,418</u>	<u>-</u>
<b>Other financial assets - non-current</b>				
<b>Property, Plant, and Equipment (Notes (2) and (4)(e))</b>				
Land	279,855	1	279,855	2
Buildings	867,183	3	750,809	5
Machinery	2,200,951	6	993,946	6
Transportation equipment	32,786	-	13,327	-
Furniture and office facilities	237,995	1	70,724	-
Other equipment	478,962	1	555,634	4
	<u>4,097,732</u>	<u>12</u>	<u>2,664,295</u>	<u>17</u>
Less: Accumulated depreciation	(1,234,474)	(4)	(878,160)	(6)
Construction in progress	248,573	1	92,958	1
Prepayment on equipment	23,561	-	236,297	2
	<u>3,135,392</u>	<u>9</u>	<u>2,115,390</u>	<u>14</u>
<b>Intangible Assets</b>				
Deferred Pension Cost (Notes (2) and (4)(f))	61,052	-	15,269	-
Land use right	249,471	1	59,467	-
	<u>310,523</u>	<u>1</u>	<u>74,736</u>	<u>-</u>
<b>Other Assets:</b>				
Deferred tax assets - non - current (Notes (2) and (4)(g))	273,075	1	190,666	2
Other assets	177,435	1	99,277	1
	<u>450,510</u>	<u>2</u>	<u>289,943</u>	<u>3</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 34,542,116</u></b>	<b><u>100</u></b>	<b><u>15,447,870</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-Term borrowings (Notes (4)(f))	\$ 3,175,608	9	1,511,142	10
Notes payable	4,628	-	9,256	-
Accounts payable				
- Other customers	20,493,291	59	5,735,646	37
- Related parties	66,001	-	6,180	-
Income tax payable(Notes (2) and (4)(g))	108,366	-	374,495	2
Accrued expenses	1,111,337	3	625,780	4
Other payables				
- Other customers	254,953	1	134,693	1
- Related parties	-	-	17,486	-
Other current liabilities	271,256	1	216,418	1
	<u>25,485,440</u>	<u>73</u>	<u>8,631,096</u>	<u>55</u>
<b>Long-Term Liabilities</b>				
Long-term notes payable	-	-	4,628	-
<b>Other Liabilities:</b>				
Estimated warranty reserve (Note (2))	1,414,728	4	576,364	4
Lease Obligations Payable- non - current	6,449	-	-	-
Accrued pension liabilities	53,592	-	27,739	-
Other liabilities	194,499	1	113,488	1
	<u>1,669,268</u>	<u>5</u>	<u>717,591</u>	<u>5</u>
Total Liabilities	<u>27,154,708</u>	<u>78</u>	<u>9,353,315</u>	<u>60</u>
<b>Stockholders' Equity</b>				
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	8	2,350,000	15
Capital Surplus				
Premium on stock issuance (Note (4)(h))	2,104,500	6	1,519,500	10
Other	1,110	-	1,110	-
Retained Earnings:				
Legal reserve (Note (2))	274,914	1	82,632	1
Undistributed earnings (Note (4)(g))	2,344,512	7	2,170,140	14
Cumulative translation adjustments	(137,628)	-	(28,827)	-
Total Stockholders' Equity	<u>7,387,408</u>	<u>22</u>	<u>6,094,555</u>	<u>40</u>
<b>Commitments and Contingencies</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 34,542,116</u></b>	<b><u>100</u></b>	<b><u>15,447,870</u></b>	<b><u>100</u></b>

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

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
(New Taiwan Dollars in Thousands, Except for per share amount)

	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating Revenue:</b>				
Gross sales (Note (2))	\$ 79,060,195	100	30,789,785	100
Less: Sales returns	(11,924)	-	(99,413)	-
Sales discounts and allowances	(22,413)	-	(35,638)	-
Net sales	79,025,858	100	30,654,734	100
<b>Operating Cost</b>	<b>(71,595,426)</b>	<b>(91)</b>	<b>(25,745,188)</b>	<b>(84)</b>
<b>Gross margin</b>	<b>7,430,432</b>	<b>9</b>	<b>4,909,546</b>	<b>16</b>
<b>Operating Expenses:</b>				
Selling expenses	(2,474,209)	(3)	(1,193,205)	(4)
Administrative expenses	(839,482)	(1)	(680,548)	(2)
Research and development expenses	(1,719,434)	(2)	(678,849)	(2)
	<u>(5,033,125)</u>	<u>(6)</u>	<u>(2,552,602)</u>	<u>(8)</u>
<b>Income from Operations</b>	<b>2,397,307</b>	<b>3</b>	<b>2,356,944</b>	<b>8</b>
<b>Non-Operating Income:</b>				
Interest income	40,171	-	19,391	-
Gain on disposal of property, plant, and equipment	23,374	-	1,692	-
Rental income	5,121	-	-	-
Reversal of allowance for slow- moving inventory	-	-	44,711	-
Other income	473,951	1	186,817	-
	<u>542,617</u>	<u>1</u>	<u>252,611</u>	<u>-</u>
<b>Non-Operating Expenses:</b>				
Interest expense	(67,630)	-	(15,515)	-
Investment loss	(11,634)	-	(247,075)	(1)
Loss on disposal of property, plant, and equipment	(8,811)	-	(493)	-
Loss on physical inventory	(32,586)	-	(376)	-
Foreign exchange loss	(47,628)	-	(43,349)	-
Loss on inventory devaluation and obsolescence	(173,071)	-	-	-
Other expenses	(18,241)	-	(40,430)	-
	<u>(359,601)</u>	<u>-</u>	<u>(347,238)</u>	<u>(1)</u>
<b>Income before income tax</b>	<b>2,580,323</b>	<b>4</b>	<b>2,262,317</b>	<b>7</b>
<b>Income tax expense (Notes (2) and (4)(g))</b>	<b>(455,368)</b>	<b>(1)</b>	<b>(339,500)</b>	<b>(1)</b>
<b>Net income before pre-acquisition profits</b>	<b>2,124,955</b>	<b>3</b>	<b>1,922,817</b>	<b>6</b>
<b>Less: Pre- acquisition profits</b>	<b>(34,247)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net income</b>	<b>\$ 2,090,708</b>	<b>3</b>	<b>1,922,817</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	<u>\$ 9.55</u>	<u>7.74</u>	<u>9.63</u>	<u>8.18</u>
<b>Earnings per share after retroactive adjustments</b>				
Basic	<u>\$ -</u>	<u>-</u>	<u>8.69</u>	<u>7.38</u>

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

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

	Capital Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustment	Total
			Legal Reserve	Undistributed Earnings		
<b>Balance on January 1, 2003</b>	\$ 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 adjustments for long-term investments (net of income tax of \$10,534)	-	-	-	-	(31,602)	(31,602)
<b>Balance on December 31, 2003</b>	<u>2,350,000</u>	<u>1,520,610</u>	<u>82,632</u>	<u>2,170,140</u>	<u>(28,827)</u>	<u>6,094,555</u>
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 adjustments for long-term investments (net of income tax of \$36,267)	-	-	-	-	(108,801)	(108,801)
<b>Balance on December 31, 2004</b>	<u><u>\$ 2,800,000</u></u>	<u><u>2,105,610</u></u>	<u><u>274,914</u></u>	<u><u>2,344,512</u></u>	<u><u>(137,628)</u></u>	<u><u>7,387,408</u></u>

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

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

	<u>2004</u>	<u>2003</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,090,708	1,922,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	401,295	265,089
Amortization	219,143	314,744
Amortization of consolidation credit	5,139	-
Gain on disposal of property, plant, and equipment	(20,046)	(939)
Gain on disposal of deferred assets	(637)	(784)
Provision (reversal) for inventory devaluation	173,072	(44,711)
Provision of doubtful accounts	48,571	-
Estimated warranty reserve	838,794	433,629
Royalty reserve	82,816	111,683
Loss on investments under the equity method	11,633	247,075
Changes in assets and liabilities:		
Notes and accounts receivable	(12,152,314)	(3,192,194)
Other financial assets - current	(105,906)	(4,218)
Inventories	(3,940,116)	(1,370,868)
Forward exchange contract receivable	986,557	(1,012,026)
Forward exchange contract payable	(985,652)	1,009,297
Forward Exchange Contracts	(905)	605
Other current assets	(65,919)	(38,253)
Deferred income tax assets and liabilities , net	(81,905)	(83,502)
Notes and accounts payable	15,676,719	3,478,645
Income tax payable	(265,966)	267,358
Accrued expenses	494,910	184,186
Other payables	(34,061)	66,634
Other current liabilities	55,225	53,401
Accrued pension liabilities	(19,929)	(6,863)
Consolidated debits	(88,344)	17,305
<b>Net cash provided by operating activities</b>	<u>3,322,882</u>	<u>2,618,110</u>
<b>Cash flows from investing activities:</b>		
Increase in long-term investments	(71,850)	(85,638)
Acquisition of subsidiaries	(231,814)	(903,044)
Purchase of property, plant, and equipment	(1,425,515)	(614,444)
Purchase of deferred assets	(187,777)	(237,911)
Proceeds from disposal of property, plant, and equipment	118,256	6,275
Proceeds from disposal of deferred assets	1,408	8,028
Land use right	(71,841)	-
Increase of other assets	-	(12)
Other financial assets - noncurrent	(6,751)	(3,024)
Increase of other liability	6,449	-
<b>Net cash used in investing activities</b>	<u>(1,869,435)</u>	<u>(1,829,770)</u>

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

	<b>2004</b>	<b>2003</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	1,495,921	1,333,784
Cash capitalization	780,000	-
Remuneration to directors and supervisors and employee bonuses	(153,054)	(53,244)
Cash dividends	(1,316,000)	(235,000)
Decrease in other liability	(1,350)	(1,423)
<b>Net cash provided in financing activities</b>	<b>805,517</b>	<b>1,044,117</b>
<b>Effect of changes in foreign exchange rate</b>	<b>(139,717)</b>	<b>(11,987)</b>
<b>Net increase in cash</b>	<b>2,119,247</b>	<b>1,820,470</b>
<b>Cash, beginning of the period</b>	<b>5,094,986</b>	<b>3,274,516</b>
<b>Cash, end of the period</b>	<b>\$ 7,214,233</b>	<b>5,094,986</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest (excluding capitalized interest)	<b>\$ 60,122</b>	<b>14,652</b>
Cash paid during the period for income tax	<b>\$ 844,753</b>	<b>155,644</b>
<b>Purchase of property, plant, and equipment with cash and other payables:</b>		
Increase in property, plant, and equipment	\$ 1,491,030	639,125
Add: Other payables - beginning of the period	39,681	15,000
Less: Other payables - end of the period	(105,196)	(39,681)
<b>Cash paid</b>	<b>\$ 1,425,515</b>	<b>614,444</b>
<b>Fair Value of assets and liabilities from acquiring subsidiaries was as follow:</b>		
Cash	\$ 72,721	207,703
Notes and accounts receivable	320,024	1,101,020
Inventories	66,306	247,089
Property, Plant, and Equipment	213,956	832,588
Land use right	51,419	73,251
Goodwill (Fix assets increase in value)	55,281	8,309
Other assets	27,202	126,347
Short-term borrowings	(307,952)	(200,222)
Accounts payable	(152,783)	(1,233,537)
Accrued expenses	(30,523)	(50,172)
Other liabilities	(11,116)	(1,629)
<b>Total</b>	<b>304,535</b>	<b>1,110,747</b>
Less: Cash balance of subsidiaries	(72,721)	(207,703)
<b>Cash paid for acquiring subsidiaries</b>	<b>\$ 231,814</b>	<b>903,044</b>

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



**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2004 and 2003**  
**(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

**(1) Organization and Business**

The entity of the consolidated financial statements:

- (i) Inventec Appliances Corporation (the “Company”) was organized on April 25, 2000 and incorporated on May 12, 2000. On November 22, 2002, the Company acquired Inventec Online Corp. of which Inventec Corporation is the primary shareholder. The Company engages primarily in the manufacturing and sales of wire and wireless communication and digital accessory products.
- (ii) Inventes Appliances (Cayman) Holding Corp, a wholly-owned subsidiary of the Company, was incorporated in 2000 as a holding company to engage in various investments. As of December 31, 2004, total issued capital was US\$73,400,000. Through Inventec Appliances (Cayman) Holding Corp., the Company indirectly invested in Inventec Appliances (BVI) Corp., Inventec Appliances (USA) Distribution Corp.(IDC), Inventec Appliances (USA) Packing Corp.(IPC), Inventec Appliances (Shanghai) Co., Ltd., Inventec Appliances (Pudong) Co., Ltd., Inventec Appliances (Nanjing) Co., Ltd. and Inventec Appliances (Jiangning) Co., Ltd. The Company’s ownership in the above investments is 100%
- (iii) The consolidated financial statements include the Company and the above mentioned subsidiaries and all material intercompany transactions have been eliminated in the consolidated financial statements.
- (iv) The Company follows the calendar fiscal year. However, IDC and IPC have a non-calendar fiscal year (October 1 - September 30). Since the difference in fiscal years is within three months, any difference, which could not be eliminated, of intercompany transactions between the Company and IDC/IPC is recorded as “Consolidated debit (credit).”

As of December 31, 2004 and 2003, the number of employees was 11,562 and 2,861, 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.

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

**(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 investments be deemed other than temporary.

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

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.

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

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

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

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

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

**(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.

**(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.

There are no local regulations on pension benefits regarding foreign subsidiaries, and the Company does not have pension plans for those employees.

**(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.

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

**(k) 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 difference reflected as translation adjustments 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.

**(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.

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

**(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.**

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

**(4) Summary of Major Accounts**

**(a) Cash**

	<u><b>December 31, 2004</b></u>	<u><b>December 31, 2003</b></u>
Cash on hand	\$ 1,112	890
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	3,868,323	1,121,910
Total	<u><b>\$ 7,214,233</b></u>	<u><b>5,094,986</b></u>

**(b) Accounts Receivable**

	<u><b>December 31, 2004</b></u>	<u><b>December 31, 2003</b></u>
Accounts receivable - other customers	\$ 16,750,826	4,882,022
Less: Allowance for doubtful accounts	(48,571)	-
Net	16,702,255	4,882,022
Accounts receivable - related parties	76	390,586
Total	<u><b>\$ 16,702,331</b></u>	<u><b>5,272,608</b></u>

**(c) Inventories**

	<u><b>December 31, 2004</b></u>	<u><b>December 31, 2003</b></u>
Raw materials	\$ 3,594,189	1,715,616
Work in process	830,968	385,881
Finished goods	1,185,649	158,863
Inventories-in-transit	494,277	22,131
Subtotal	6,105,083	2,282,491
Less: Allowance for market decline and obsolescence	(189,663)	(35,814)
Net	<u><b>\$ 5,915,420</b></u>	<u><b>2,246,677</b></u>
Insurance coverage	<u><b>\$ 5,936,262</b></u>	<u><b>3,499,336</b></u>

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

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

<u>Name of Investee Company</u> <u>Carried under the equity method</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>
Tapwave, Inc.	-%	\$ -	-	27.48% of Voting right	12,426	USD 6,000
Gainia Intellectual Asset Services, Inc.	48.30%	<u>5,472</u>	6,400	48.30%	<u>4,992</u>	6,400
Subtotal		<u>5,472</u>			<u>17,418</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
Think Outside, Inc.	2.06%	-	USD 1,500	2.06%	-	USD 1,500
Tapwave Inc.	16% of Voting right	-	USD 6,000	-%	-	-
Hi Top Communications Corp.	7.41%	30,000	30,000	-%	-	-
Advanced Image Technology Corp.	19.50%	<u>44,850</u>	44,850	-%	-	-
Subtotal		<u>91,850</u>			<u>20,000</u>	
Total		<u><u>\$ 97,322</u></u>			<u><u>37,418</u></u>	

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

<u>Name of Investee Company</u>	<u>2004</u>	<u>2003</u>
Tapwave, Inc.	\$ -	(184,469)
Gainia Intellectual Asset Services, Inc.	<u>480</u>	<u>(1,408)</u>
Total	<u><u>\$ 480</u></u>	<u><u>(185,877)</u></u>

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

Inventec Appliances (Cayman) Holding Corp. invested in Series A preferred stock and Series A-1 preferred stock of Tapwave, Inc. amounted to 9,238,000 and 4,619,000 shares, respectively. In 2004, Inventec Appliances (Cayman) Holding Corp. was not participated in Tapwave's capital increase with cash. Consequently, the company's voting right of Tapwave declined from 27.48% to 16.00% and the investee was accounted for under the cost method since then. As the accumulated losses of the Tapwave would not be recovered or the possibility was remote, permanent loss on the investee of \$12,114 was recognized in 2004.

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 December 31, 2004 and 2003, fire insurance of the property, plant, and equipment amounted to \$4,230,595 and \$2,712,936, respectively.

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

**(f) Short-Term Borrowings**

<u>Types of Debt</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>Note</u>
Credit loan	\$ 2,396,245	1,511,142	
Guarantee loan	779,363	-	The promissory note amounted to USD9,000
Total	<u>\$ 3,175,608</u>	<u>1,511,142</u>	
Interest Rates	<u>2.64%~3.46%</u>	<u>1.62%~2.19%</u>	

**(g) 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/loss 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 AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED 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>

**(h) Income Tax**

(i) Deferred income tax assets and liabilities:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
a. Total deferred tax assets	\$ 553,775	258,212
b. Total deferred tax liabilities	(181,108)	(3,693)
<b>c. Temporary differences:</b>	<u><b>December 31, 2004</b></u>	<u><b>December 31, 2003</b></u>
- Recognition of unrealized foreign exchange loss: deductible	47,046	26,805
- Recognition of inventory obsolescence: deductible	10,525	5,872
- Recognition of gain on investments: taxable	(177,670)	(3,693)
- Cumulative translation adjustment for long-term investments: deductible	45,876	9,609
- Recognition of pension expense: (taxable) deductible	(3,438)	1,544
- Recognition of employee welfare: deductible	2,018	3,168
- Recognition of unrealized inter-company profits: deductible	40,953	30,026
- Unrealized warranty reserve: deductible	349,958	144,091
- Royalty reserve: deductible	48,625	27,921
- Compensation reserve: deductible	6,000	6,000
- Long-term investments-unrealized devaluation loss under the cost method	2,502	2,502
- Organization Cost: deductible	272	674
	<u><b>December 31, 2004</b></u>	<u><b>December 31, 2003</b></u>
(ii) Deferred tax assets – current	\$ 99,592	63,853
Deferred tax liabilities - current	-	-
Net	<u>\$ 99,592</u>	<u>63,853</u>



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

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
(iii) Deferred tax assets - non-current	\$ 454,183	194,359
Deferred liabilities - non-current	(181,108)	(3,693)
Net	<u>\$ 273,075</u>	<u>190,666</u>

(iv) Calculation of income tax expense:

	<u>2004</u>	<u>2003</u>
Income tax calculated per statutory tax rate	\$ 715,747	588,954
Permanent differences	(1,978)	(1,046)
Temporary differences	82,650	156,319
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	546,640	423,521
Income tax separately levied	1,889	974
Investment tax credits	-	62,778
Prior years' income tax adjustments	(10,511)	8,546
Income tax effects 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 expense	4,982	1,716
Recognition of employee welfare	1,150	1,150
Unrealized inter-company profits	(10,927)	(17,982)
Royalty reserve	(20,704)	(27,921)
Provision for warranty reserve, net	(205,867)	(108,407)
Recognition of long-term investment	-	(2,502)
Organization cost	(367)	(388)
Other	-	(6,000)
Income tax expense	<u>\$ 455,368</u>	<u>339,500</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.

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

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

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

(viii) Undistributed Earnings:

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

**(i) 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.

**(j) 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:

	<b>2003</b>	<b>2002</b>
Dividends (dollar per share)		
Cash	\$ 5.6	1.0
Stock at par	1.0	-
<b>Total</b>	<b>\$ 6.6</b>	<b>1.0</b>
Employee bonus - stock	\$ 2,000	-
Employee bonus - cash	101,138	37,271
Remuneration to directors and supervisors	51,916	15,973
<b>Total</b>	<b>\$ 155,054</b>	<b>53,244</b>

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.

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

**(k) 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>\$2,580,323</u>	<u>2,090,708</u>	<u>2,262,317</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>\$ 9.55</u>	<u>7.74</u>	<u>9.63</u>	<u>8.18</u>

**(l) Financial Instruments**

**(i) Financial Derivatives:**

1. Contract amount and credit risk (Inventec Appliances (Shanghai) Co., Ltd.) (In thousands)

<u>Financial Derivatives</u>	<u>December 31, 2003</u>	
	<u>Contract amount</u>	<u>Credit risk</u>
Foreign Currency contracts		
Non-trading foreign exchange forward contracts	USD     30,000	\$           928

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 Inventec Appliances (Shanghai) Co., Ltd. loss in the event of default by counter-parties.

2. Market risk

Financial derivative held by Inventec Appliances (Shanghai) Co., Ltd. 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 cash flow risk

Financial derivatives held by Inventec Appliances (Shanghai) Co., Ltd. are settled with banks using the cash from its operations.

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

<u>Financial Assets</u>	<u>December 31, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>
Book value equal to fair value	\$ 24,113,739	24,113,739
Long-term investments	97,322	72,400
Total financial assets	<u>\$ 24,211,061</u>	<u>24,186,139</u>
<u>Financial Liabilities</u>		
Book value equal to fair value	<u>\$ 25,643,884</u>	<u>25,643,884</u>

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

	<b>December 31, 2003</b>	
<b>Financial Assets</b>	<b>Book Value</b>	<b>Fair Value</b>
Book value equal to fair value	\$ 10,393,806	10,393,806
Long-term investments	37,418	37,341
Total financial assets	<b>\$ 10,431,224</b>	<b>10,431,147</b>
<b>Financial Liabilities</b>		
Book value equal to fair value	\$ 8,563,030	8,563,030
Other Liability	4,628	4,471
Total financial liabilities	<b>\$ 8,567,658</b>	<b>8,567,501</b>

Method and assumptions used by the Company and subsidiaries 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-currency-denominated financial derivatives are determined by the amount the Company will pay or receive, assuming contract termination on the balance sheet date. In general, it includes unrealized gains and losses on currently unsettled contracts. There are pricing reports issued by financial institutions for most of the non-trading financial derivatives held by the Company.
5. The fair values of long-term 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 AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED 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	1,764,465	989,622
Europe	2,865,378	262,366
Americas	11,672,161	3,500,435
Total	<u>\$ 16,702,331</u>	<u>5,272,608</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 (Nanjing) Co., Ltd.	A third level subsidiary of the Company (Formerly known as Inventec Electronics (Nanking) Co., Ltd.) (Note 1)
Tapwave, Inc.	A company accounted for under the equity method by Inventec Appliances (Cayman) Holding Corp. (Note 2)
Inventec Micro-Electronics (BVI) Corporation	The Company's related party
Inventec Micro-Electronics Corp.	"
Inventec Besta Co., Ltd.	"
Inventec Corp. (Shanghai) Co., Ltd.	"
Inventec (Pudong) Corp.	"

Note1 : The subsidiary of Inventec Appliances (Cayman) Holding Corp. bought all capital of Inventec Electronics (Nanking) Co., Ltd. from the investee company Inventec Corporation (H.K.) Co., Ltd. of Inventec Corporation, and then rename Inventec Appliances (Nanjing) Co., Ltd.

Note2 : 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 AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED 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 (Nanjing) Co., Ltd	\$ -	-%	818,245	3%
Tapwave, Inc.	6,681	-%	49,675	-%
Others	713	-%	1,144	-%
<b>Total</b>	<b>\$ 7,394</b>	<b>-%</b>	<b>869,064</b>	<b>3%</b>

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

**(ii) Purchases**

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

Name of related party	2004		2003	
	Amount	% of Net Purchase	Amount	% of Net Purchase
Inventec Micro-Electronics Corp.	\$ 5	-%	418	-%
Inventec Micro-Electronics (BVI) Corporation	43,385	-%	2,656	-%
<b>Total</b>	<b>\$ 43,390</b>	<b>-%</b>	<b>3,074</b>	<b>-%</b>

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

**(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 2003, rental expense paid to Inventec Corporation was \$2,476 (before tax) and rent was predetermined and paid monthly.
3. In 2004, sundry expense paid to Inventec Besta Corp. was \$2,313.
4. In 2003, software research expense paid to Tapwave, Inc. was \$68,140.
5. In 2003, the Company transferred the royalty to Inventec Appliances (Nanjing) Co., Ltd. amounted to \$37,131, reflected as other revenue.

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

6. In 2004, Inventec Appliances (Pudong) Co., Ltd paid rent and utilities of \$10,603 to Inventec (Pudong) Corp.
  7. In 2004, Inventec Appliances (Pudong) Co., Ltd. purchased \$2,751 of furniture and office facilities and software from Inventec (Pudong) Corp.
  8. In 2003, Inventec Appliances (Shanghai) Co., Ltd. collected processing fees of \$24,285 from Inventec Appliances (Nanjing) Co., Ltd.
  9. In 2003, Inventec Appliances (Shanghai) Co., Ltd. collected rent of \$4,115 from Inventec Corp. (Shanghai) Co., Ltd.
  10. In 2004 and 2003, Inventec Appliances (Shanghai) Co., Ltd. purchased \$1,130 and \$1,167 of properties and other equipment from Inventec Corp. (Shanghai) Co., Ltd, respectively.
  11. In 2004 and 2003, Inventec Appliances (Shanghai) Co., Ltd. paid \$53,788 and \$18,467 of processing expense to Inventec Corp. (Shanghai) Co., Ltd, respectively.
- In 2004, Inventec Appliances (Shanghai) Co., Ltd. paid processing expense of \$40,576 to Inventec (Pudong) Corp.

**(iv) Receivable (Payable)**

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Balance</u>	<u>%</u>	<u>Balance</u>	<u>%</u>
Total notes receivable	\$ -	-%	<b>9</b>	<b>2 -</b>
<u>Accounts Receivable:</u>				
Inventec Appliances (Nanjing) Co., Ltd.	\$ -	-%	329,174	6%
Tapwave , Inc.	-	-%	61,066	1%
Others	76	-%	346	-%
Total	<u>\$ 76</u>	<u>-%</u>	<u><b>390,586</b></u>	<u><b>7%</b></u>
<u>Other Receivables:</u>				
Inventec Appliances (Nanjing) Co., Ltd.	<u>\$ -</u>	<u>-%</u>	<u><b>120</b></u>	<u><b>1%</b></u>

The receivable is about proceeds from disposition of property, plant, and equipment.

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

	December 31, 2004		December 31, 2003	
	Balance	%	Balance	%
<u>Accounts Payable:</u>				
Inventec Appliances (Nanjing) Co., Ltd.	\$ -	-%	3,171	-%
Inventec Corp. (Shanghai) Co.,	35,791	-%	-	-%
Inventec (Pudong) Corp.	30,072	-%	-	-%
Inventec Micro-Electronics Corp.	138	-%	3,009	-%
Total	<u>\$ 66,001</u>	<u>-%</u>	<u>6,180</u>	<u>-%</u>
<u>Other Payable:</u>				
Inventec Corporation	\$ -	-%	183	-%
Tapwave, Inc.	-	-%	17,088	11%
Others	-	-%	215	-%
Total	<u>\$ -</u>	<u>-%</u>	<u>17,486</u>	<u>11%</u>
<u>Accrued Expenses</u>				
Inventec (Pudong) Corp.	\$ 5,680	-%	-	-%
Others	320	-%	-	-%
Total	<u>\$ 6,000</u>	<u>-%</u>	<u>-</u>	<u>-%</u>

**(6) Pledged Assets**

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

	December 31, 2004	December 31, 2003	Purpose of pledge
Refundable deposits	<u>\$ 12,954</u>	<u>5,201</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\$6,156, JPY272,540, EUR16, respectively.
- (b) As of December 31, 2004 and 2003, promissory notes issued for bank credit limits, Industrial Development Bureau subsidies (IDB), and IDB cooperation funds amounted to US\$15,000, \$2,042,383 and US\$10,000, \$3,022,083, respectively.
- (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, respectively.
- (d) 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.



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

- (e) 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	-

- (f) 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.
- (g) 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.**

**(10) Others**

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

<b>Categorized as Nature</b>	<b>2004</b>			<b>2003</b>		
	<b>Operating Cost</b>	<b>Operating Expenses</b>	<b>Total</b>	<b>Operating Cost</b>	<b>Operating Expenses</b>	<b>Total</b>
Personnel cost						
Salary	804,131	1,137,142	1,941,273	613,714	721,904	1,335,618
Health and labor insurance	70,198	70,575	140,773	20,274	60,284	80,558
Pension	11,624	22,458	34,082	14,602	21,596	36,198
Other	528,468	65,131	593,599	175,162	40,071	215,233
Depreciation	309,103	133,967	443,070	170,832	94,257	265,084
Amortization	182,484	64,210	246,694	98,409	216,335	314,744

## (b) PRO FORMA CONSOLIDATED BALANCE SHEETS

Pro forma consolidated balance sheets in compliances with R.O.C GAAP No.7 :

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**PRO FORMA CONSOLIDATED BALANCE SHEETS**  
**December 31, 2004 AND 2003**  
**(New Taiwan Dollars in Thousands, Except for Share Data)**

	<b>December 31, 2004</b>		<b>December 31, 2003</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash	\$ 7,214,233	21	5,535,778	33
Notes receivable	63,884	-	209,498	1
Accounts receivable	16,702,331	48	4,956,350	29
Receivable on sale of forward exchange contracts	-	-	1,012,026	6
Less: Forward exchange contracts payable	-	-	(1,011,098)	(6)
Premium on Forward Exchange Contracts	-	-	(605)	-
Other financial assets - current	120,337	-	19,677	-
Inventories, net of allowance for market value decline and obsolescence	5,915,420	17	3,066,768	18
Other current assets	207,631	1	155,626	1
Deferred tax assets - current	99,592	-	63,853	-
Consolidated debits	211,987	1	76,922	-
	<u>30,535,415</u>	<u>88</u>	<u>14,084,795</u>	<u>82</u>
<b>Long-term equity investments</b>				
Accounted for under the equity method	5,472	-	17,418	-
Accounted for under the cost method	91,850	-	20,000	-
	<u>97,322</u>	<u>-</u>	<u>37,418</u>	<u>-</u>
<b>Other financial assets - non-current</b>				
	<u>12,954</u>	<u>-</u>	<u>6,467</u>	<u>-</u>
<b>Property, Plant, and Equipment</b>				
Cost	4,369,866	13	3,507,674	21
Less: Accumulated depreciation	(1,234,474)	(4)	(1,050,836)	(6)
	<u>3,135,392</u>	<u>9</u>	<u>2,456,838</u>	<u>15</u>
<b>Intangible Assets</b>				
Deferred Pension Cost (Notes (2) and (4)(f))	61,052	-	15,269	-
Land use right	249,471	1	111,732	1
	<u>310,523</u>	<u>1</u>	<u>127,001</u>	<u>1</u>
<b>Other Assets:</b>				
Deferred tax assets - non - current	273,075	1	190,666	1
Other assets	177,435	1	161,548	1
	<u>450,510</u>	<u>2</u>	<u>352,214</u>	<u>2</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 34,542,116</u></b>	<b><u>100</u></b>	<b><u>17,064,733</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term borrowings	\$ 3,175,608	9	1,736,742	10
Notes payable	4,628	-	9,256	-
Accounts payable	20,559,292	60	6,410,345	38
Income tax payable	108,366	-	388,634	2
Accrued expenses	1,111,337	3	716,636	4
Other payables	254,953	1	152,690	1
Other current liabilities	271,256	1	619,605	4
	<u>25,485,440</u>	<u>74</u>	<u>10,033,908</u>	<u>59</u>
<b>Long-Term Liabilities</b>				
Long-term notes payable	-	-	4,628	-
<b>Other Liabilities:</b>				
Estimated warranty reserve	1,414,728	4	576,364	3
Lease Obligations Payable- non - current	6,449	-	27,739	-
Accrued pension liabilities	53,592	-	-	-
Other liabilities	194,499	1	113,488	1
	<u>1,669,268</u>	<u>5</u>	<u>717,591</u>	<u>4</u>
Minority Interest	-	-	214,051	1
Total Liabilities	<u>27,154,708</u>	<u>79</u>	<u>10,970,178</u>	<u>64</u>
<b>Stockholders' Equity</b>				
Capital Stock	2,800,000	8	2,350,000	14
Capital Surplus	2,105,610	6	1,520,610	9
Legal reserve	274,914	1	82,632	-
Undistributed earnings	2,344,512	7	2,170,140	13
Cumulative translation adjustments	(137,628)	-	(28,827)	-
Total Stockholders' Equity	<u>7,387,408</u>	<u>22</u>	<u>6,094,555</u>	<u>36</u>
<b>Commitments and Contingencies</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 34,542,116</u></b>	<b><u>101</u></b>	<b><u>17,064,733</u></b>	<b><u>100</u></b>

**INVENTEC APPLIANCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2004 and 2003**  
**(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

**(11) Business Segment Information**

**(a) Industry:**

The Company only operates in the electronics industry.

**(b) Geographical region:**

The Consolidated Company's geographical information in 2004 and 2003 are the following:

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

	<b>Year Ended December 31, 2003</b>				
	<b>Domestic</b>	<b>Asia</b>	<b>Americas</b>	<b>Adjustments</b>	<b>Consolidated</b>
Revenue outside the consolidated entities	\$ 26,354,890	105,417	4,447,038	-	30,907,345
Intercompany revenue	4,485,584	-	15,122,018	(19,607,602)	-
Total revenue	<u>\$30,840,474</u>	<u>105,417</u>	<u>19,569,056</u>	<u>(19,607,602)</u>	<u>30,907,345</u>
Segment income	<u>\$ 2,235,490</u>	<u>282,288</u>	<u>8,887</u>	<u>(1,758)</u>	2,524,907
Investment income, net					(247,075)
General corporate income					-
Interest expenses					(15,515)
Income before income tax					<u>2,262,317</u>
Identifiable assets	<u>\$12,658,256</u>	<u>7,100,657</u>	<u>1,263,594</u>	<u>(5,612,055)</u>	15,410,452
Long-term investments					37,418
Total assets					<u>15,447,870</u>

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

(c) **Exporting information:**

<u>Region</u>	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Americas	\$ 45,845,854	20,164,989
Europe	13,396,956	2,401,835
Asia	12,053,790	3,428,299
Other	2,897,699	-
Total	<u>\$ 74,194,299</u>	<u>25,995,123</u>

(d) **Major Customer information:**

Customers with revenues over 10% of total revenues of the Company and Subsidiaries were the following:

<u>Name</u>	<u>Year Ended December 31,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Net Sales</u>	<u>%</u>	<u>Net Sales</u>	<u>%</u>
D	\$ 53,943,548	68%	12,441,672	40%
C	7,469,954	9%	6,492,387	21%
E	4,700,509	6%	4,877,968	16%