

**(English Translation of Financial Report
Originally Issued In Chinese)**

INVENTEC APPLIANCES CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

AND

INDEPENDENT AUDITORS' REPORT

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Inventec Appliances Corporation

Financial Statements

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(English Translation of Financial Report Originally Issued In Chinese)

Independent Auditors' Report

The Board of Directors of Inventec Appliances Corporation,

We have audited the accompanying balance sheets of Inventec Appliances Corporation as of June 30, 2006 and 2005, and the related statements of operations, statements of changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the management of Inventec Appliances Corporation. Our responsibility is to express an opinion to these financial statements based on our audit.

We conducted our audits in accordance with "Rules Governing Certified Public Accountant's Examination and Certification of Financial Statements" and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 evaluation the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inventec Appliances Corp. as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the Republic of China.

Inventec Appliances Corp. has prepared consolidated financial statements of the six months ended June 30, 2006 and 2005, on which we have expressed an unqualified opinion.

KPMG Certified Public Accountants

CPA: Samuel Lin
Charlotte Lin

Taipei, Taiwan, R.O.C.
August 15, 2006

Note to Readers

This document is an English translation of a report originally issued in Chinese. In the Event of a conflict between the English translation and the original Chinese version, the Chinese language auditors' report shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)

INVENTEC APPLIANCES CORPORATION

BALANCE SHEETS

JUNE 30, 2006 and 2005

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

	June 30, 2006		June 30, 2005	
	Amount	%	Amount	%
ASSETS				
Current assets				
Cash (Note 4.a)	\$ 4,106,783	18	4,237,723	17
Accounts receivable, net of allowance for doubtful accounts (Notes 2 and 4. c)				
—Related parties (Note 5)	2,159,810	10	2,954,384	12
—Non-related parties	6,806,693	30	9,439,453	38
Other receivables				
—Related parties (Note 5)	529,038	2	210,178	1
—Non-related parties	95,502	-	79,591	-
Other financial assets—current	59,051	-	17,786	-
Inventories, net of allowance for inventory valuation and obsolescence losses (Notes 2 and 4. d)	2,145,278	9	2,811,380	11
Other current assets	63,948	-	62,029	-
Deferred income tax assets—current (Notes 2 and 4. h)	395,195	2	123,831	1
	<u>16,361,298</u>	<u>71</u>	<u>19,936,355</u>	<u>80</u>
Funds and Long-term equity investments				
Long-term equity investments accounted for under the equity method (Notes 2 and 4. e)	5,559,420	25	3,692,909	15
Financial assets carried at cost—non-current (Notes 2 and 4. b)	75,200	-	97,050	-
Prepayments for long-term investments (Notes 2 and 4. e)	33,932	-	-	-
Other financial assets—non-current	5,193	-	5,687	-
	<u>5,673,745</u>	<u>25</u>	<u>3,795,646</u>	<u>15</u>
Property, plant, and equipment (Notes 2 and 4. f)				
Land	279,855	1	279,855	1
Buildings	284,957	2	284,957	1
Machinery	681,055	3	583,142	3
Mold and tools	30,206	-	30,206	-
Furniture and office facilities	43,880	-	45,591	-
Other equipment	188,506	1	187,661	1
	<u>1,508,459</u>	<u>7</u>	<u>1,411,412</u>	<u>6</u>
Less: accumulated depreciation	(598,827)	(3)	(489,733)	(2)
Prepayment for equipment	51,357	-	6,958	-
	<u>960,989</u>	<u>4</u>	<u>928,637</u>	<u>4</u>
Intangible assets				
Deferred pension cost (Notes 2 and 4. g)	62,390	-	61,052	-
Other assets				
Deferred income tax assets—non-current (Notes 2 and 4.h)	-	-	186,781	1
Others	40,843	-	29,052	-
	<u>40,843</u>	<u>-</u>	<u>215,833</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 23,099,265</u>	<u>100</u>	<u>24,937,523</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION
BALANCE SHEETS (CONTINUED)
JUNE 30, 2006 and 2005
(New Taiwan Dollars in Thousands, Except for Share Data)

	June 30, 2006		June 30, 2005	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable				
—Related parties (Note 5)	\$ 7,440,879	32	11,078,702	44
—Non-related parties	220,987	1	2,033,789	8
Accrued expenses	388,916	2	498,763	2
Other financial liabilities—current	2,766,271	12	2,221,021	10
Other current liabilities	711	-	8	-
Estimated warranty reserve	1,035,918	5	1,603,053	6
	<u>11,853,682</u>	<u>52</u>	<u>17,435,336</u>	<u>70</u>
Other liabilities				
Accrued pension liabilities (Notes 2 and 4.g)	25,434	-	45,991	-
Other financial liabilities—non-current (Note 2)	302,695	1	237,600	1
Deferred Credits	143,463	1	228,619	1
Deferred income tax liabilities—non-current (Notes 2 and 4.h)	339,883	2	-	-
	<u>811,475</u>	<u>4</u>	<u>512,210</u>	<u>2</u>
Total liabilities	<u>12,665,157</u>	<u>56</u>	<u>17,947,546</u>	<u>72</u>
Stockholders' equity (Notes 2 and 4.i)				
Capital stock, par value \$10 per share; authorized 400,000,000 and issued 333,000,000 shares as of June 30, 2006 ; authorized and issued 280,000,000 shares as of June 30, 2005	3,330,000	14	2,800,000	11
Stock dividend to be distributed	1,029,000	4	300,000	1
Capital surplus				
Additional paid-in capital	3,989,860	17	2,104,500	9
Long-term equity investments	17,699	-	-	-
Others	1,110	-	1,110	-
Retained earnings				
Legal reserve	783,001	3	483,985	2
Special reserve	9,215	-	-	-
Undistributed earnings	1,259,097	6	1,463,131	6
Other adjustments to stockholders' equity				
Cumulative translation adjustments	24,341	-	(162,749)	(1)
Net loss not recognized as pension cost	(9,215)	-	-	-
Total stockholders' equity	<u>10,434,108</u>	<u>44</u>	<u>6,989,977</u>	<u>28</u>
Commitments and contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 23,099,265</u>	<u>100</u>	<u>24,937,523</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION
STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 and 2005
(New Taiwan Dollars in Thousands, Except for Earnings Per Share)

	Six Months Ended June 30,			
	2006		2005	
	Amount	%	Amount	%
Operating revenues:				
Gross sales (Note 2)	\$ 42,873,809	100	47,978,900	100
Less: Sales returns	(20,756)	-	(68,479)	-
Sales allowances	(9,836)	-	(5,268)	-
Net sales	42,843,217	100	47,905,153	100
Cost of sales	(40,946,245)	(96)	(45,000,669)	(94)
Gross profit	1,896,972	4	2,904,484	6
Less: Unrealized inter-company profits	(143,463)	-	(223,334)	-
Add: Realized inter-company profits	111,582	-	158,132	-
	<u>1,865,091</u>	<u>4</u>	<u>2,839,282</u>	<u>6</u>
Operating expenses:				
Selling	(666,810)	(2)	(1,199,857)	(3)
Administration	(181,323)	-	(163,734)	-
Research and development	(482,049)	(1)	(504,754)	(1)
	<u>(1,330,182)</u>	<u>(3)</u>	<u>(1,868,345)</u>	<u>(4)</u>
Operating income	<u>534,909</u>	<u>1</u>	<u>970,937</u>	<u>2</u>
Non-operating income:				
Interest income	26,913	-	14,604	-
Investment income accounted for under the equity method (Note 4.e)	564,981	2	584,431	1
Others	466,070	1	157,166	-
	<u>1,057,964</u>	<u>3</u>	<u>756,201</u>	<u>1</u>
Non-operating expenses and losses:				
Interest expense	(6,897)	-	(4,461)	-
Foreign exchange loss, net	(40,289)	-	(34,043)	-
Losses on inventory valuation and obsolescence	(18,677)	-	(36,651)	-
Revaluation loss on financial liabilities, net	(15,530)	-	-	-
Others	(25,617)	-	(18,741)	-
	<u>(107,010)</u>	<u>-</u>	<u>(93,896)</u>	<u>-</u>
Income before income tax	1,485,863	4	1,633,242	3
Income tax expense (Notes 2 and 4.h)	(242,284)	(1)	(269,388)	-
Net income	<u>\$ 1,243,579</u>	<u>3</u>	<u>1,363,854</u>	<u>3</u>
	Before	After	Before	After
	Tax	Tax	Tax	Tax
Primary earnings per share (Notes 2 and 4.j)	<u>\$ 3.41</u>	<u>2.85</u>	<u>5.27</u>	<u>4.40</u>
Primary earnings per share after retroactive adjustments			<u>\$ 4.02</u>	<u>3.36</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2006 and 2005
(New Taiwan Dollars in Thousands, Except for Share Data)

	Retained Earnings						Stockholders' Equity Adjustment		Total
	Common Stock	Stock Dividend to be distributed	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	
Balance as of January 1, 2005	\$ 2,800,000	-	2,105,610	274,914	-	2,344,512	(137,628)	-	7,387,408
2004 earnings distribution:									
Legal reserve	-	-	-	209,071	-	(209,071)	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(56,449)	-	-	(56,449)
Employee bonuses—cash	-	-	-	-	-	(111,715)	-	-	(111,715)
Employee bonuses—stock	-	20,000	-	-	-	(20,000)	-	-	-
Stock dividends	-	280,000	-	-	-	(280,000)	-	-	-
Cash dividends	-	-	-	-	-	(1,568,000)	-	-	(1,568,000)
Net Income for the six months ended June 30, 2005	-	-	-	-	-	1,363,854	-	-	1,363,854
Cumulative translation adjustments of long-term investment	-	-	-	-	-	-	(25,121)	-	(25,121)
Balance as of June 30, 2005	\$ 2,800,000	300,000	2,105,610	483,985	-	1,463,131	(162,749)	-	6,989,977
Balance as of January 1, 2006	3,330,000	-	4,323,970	483,985	-	3,089,442	20,752	(9,215)	11,238,934
2005 earnings distribution:									
Legal reserve	-	-	-	299,016	-	(299,016)	-	-	-
Special reserve	-	-	-	-	9,215	(9,215)	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(80,458)	-	-	(80,458)
Employee bonuses—cash	-	-	-	-	-	(157,735)	-	-	(157,735)
Employee bonuses—stock	-	30,000	-	-	-	(30,000)	-	-	-
Stock dividends	-	666,000	-	-	-	(666,000)	-	-	-
Cash dividends	-	-	-	-	-	(1,831,500)	-	-	(1,831,500)
Capital increase from capital surplus	-	333,000	(333,000)	-	-	-	-	-	-
Net Income for the six months ended June 30, 2006	-	-	-	-	-	1,243,579	-	-	1,243,579
Capital surplus resulted from capital increase of investee company, which are not subscribed in accordance with shareholding ratio	-	-	17,699	-	-	-	-	-	17,699
Cumulative translation adjustments of long-term investment	-	-	-	-	-	-	3,589	-	3,589
Balance as of June 30, 2006	\$ 3,330,000	1,029,000	4,008,669	783,001	9,215	1,259,097	24,341	(9,215)	10,434,108

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 and 2005
(New Taiwan Dollars in Thousands)

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 1,243,579	1,363,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	77,676	69,715
Amortization	50,243	51,782
Loss (gain) on disposal of property, plant and equipment	(5,329)	376
Provision for loss on inventory valuation and obsolescence	18,677	36,651
Reversal of allowance for doubtful accounts	(235,807)	(3,705)
Investment income recognized under the equity method and cash dividends received	(253,659)	(584,431)
Provision (reversal) for estimated warranty reserve	(360,346)	203,220
Provision for royalty reserve	23,609	34,698
Change in operating assets and liabilities:		
Accounts receivable	12,921,039	4,915,889
Other receivables	(198,133)	(271,394)
Other financial assets—current	251,611	(30,684)
Inventories	926,970	(1,169,719)
Other current assets	(46,829)	(26,762)
Deferred income tax assets and liabilities, net	77,540	70,157
Accounts payable	(13,085,557)	(3,834,733)
Accrued expenses	(414,903)	18,142
Other financial liabilities—current	299,973	228,368
Other current liabilities	711	64,992
Accrued pension liabilities	(15,646)	(7,602)
Deferred credits	27,418	64,807
Net cash provided by operating activities	1,302,837	1,193,621
Cash flows from investing activities:		
Increase in long-term equity investments	(48,932)	(108,338)
Purchase of property, plant and equipment	(142,566)	(108,826)
Purchase of other assets	(9,304)	(22,385)
Proceeds from disposal of property, plant and equipment	5,509	1,046
Other financial assets—non-current	499	(817)
Net cash used in investing activities	(194,794)	(239,320)
Cash flows from financing activities:		
Decrease in other liabilities	-	1,954
Employee bonuses	(339)	(111,715)
Net cash used in investing activities	(339)	(109,761)
Net increase in cash	1,107,704	844,540
Cash, the beginning of the period	2,999,079	3,393,183
Cash, the end of the period	\$ 4,106,783	4,237,723
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	\$ 6,897	4,461
Cash paid for income tax during the period	\$ 9,304	102,467
Employee bonuses payable	\$ 157,396	-
Cash dividends and remuneration to directors and supervisors payable	\$ 1,911,958	1,624,449
Purchase of property, plant, and equipment with cash and other payables:		
Increase in property, plant, and equipment	\$ 169,108	56,137
Add: Other payables and rents payable—beginning of the period	13,270	59,273
Less: Other payables and rents payable—end of the period	(39,812)	(6,584)
Cash paid	\$ 142,566	108,826

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

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

(1) Organization and Business

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

As of June 30, 2006, the Company had 1,017 employees.

(2) Summary of Significant Accounting Policies

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) Foreign Currency Translation and Financial Report Translation

The Company's functional currency is the New Taiwan dollar. Non financial derivatives are recorded at spot rates of the transaction date and adjusted by the spot rates on the balance sheet date, with exchange gain and loss included in current earnings. Effective January 1, 2006, the Company adopted the revised Statement of Financial Accounting Standards No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements." Under SFAS No. 14, non-monetary assets (liabilities) denominated in foreign currencies are stated at historical costs. With respect to non-monetary assets (liabilities) denominated in foreign currencies carried at fair value are translated at the spot rate on the balance sheet date. The exchanges differences arise from translations are recorded in consistence to the recognition of changes in fair value, either included in the current earnings or adjustments to stockholders' equity.

Under SFAS No. 14, the balance sheet accounts of any of the Company's offshore subsidiaries, which are denominated in currencies other than the New Taiwan dollar, are translated at exchange rates prevailing at the end of the period. Stockholders' equity is translated at historical rates except for the beginning balance of retained earnings. Revenue and expense accounts are translated using the weighted-average exchange rates during the period. Gains and losses resulting from such translations are recorded as a cumulative translation adjustment, a separate component of stockholders' equity.

(b) Assets Impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No.35 (SFAS 35) "Accounting for Assets Impairment". According to SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The amount of impairment loss recognized for an asset whose carrying value is higher than the recoverable amount. The Company reserves an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(c) Financial instruments

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No.34 (SFAS 34) "Accounting for Financial Instruments". According to SFAS 34, the Company classified the investments in financial assets as financial assets / liabilities at fair value through profit or loss and financial assets carried at cost.

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

Any transactions of financial instruments are recorded at trading date. The financial instruments other than held for trading are initially recognized at fair value plus transaction costs, when the financial instruments held for trading are carried at fair value.

After initial recognition, the financial instruments held are classified depending on the Company's intention as shown below:

1. Financial assets or liabilities reported at fair value through profit or loss:

Financial assets held for trading are those that the Company principally holds for the purpose of short-term profit taking. The financial derivatives, except for those that meet the criteria of hedge accounting, are reported as financial assets (liabilities) at fair value through profit or loss.

2. Financial assets carried at cost:

Financial assets carried at cost are the equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured; therefore, the Company carried these assets at the original investments costs. If there is objective evidence indicating that a financial asset is impaired, a loss is recognized. The subsequent recovery in fair value is not recognized.

Investments held by the Company prior to December 31, 2005 are recorded as long-term investments according to the intention and propose of holding. The investments are carried at cost and accounted for under the cost method. If there is evidence indicating that a decline in the value of long-term investment in non-listed company is other than temporary and the possibilities of recovery are considered remote, the carrying amount of the investment is reduced to its net realizable value and the related loss is recognized in the accompanying statement of income.

(d) 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.

(e) Inventories

Inventories are carried at the lower of cost or fair value on a perpetual inventory basis. Cost is determined using the weighted-average method. Fair value is determined by replacement cost. A provision for inventory devaluation is recorded when the market values of inventories are less than their cost basis. Allowance for inventory obsolescence is provided for inventory items which remain unsold or incapable of using for over six months.

(f) Long-Term Equity Investments under the Equity Method

Long-term equity investments are carried at acquisition cost, in which the Company can exercise significant influences are accounted for under the equity method. The Company prepares both semi-annual and year-end consolidated financial statements, which include the accounts of those investees accounted for under the equity method and in which the Company has controlling interest over their operation.

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

Any changes in book value of long-term equity investments, which resulted from changes in percentage of ownership in such investments due to disproportionately subscription to additional shares issued by the investee company, are reflected to capital surplus accordingly. When the balance of capital surplus resulted from long-term equity investments is not sufficient, the differences in amount are reflected to retained earnings.

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

(g) Property, Plant Equipment and Depreciation

Property, plant, and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Maintenance and repairs are recognized as current expenses; Gain and loss on disposal of properties, plant, and equipment is reflected under non-operating income or expense.

Depreciation is calculated using the straight-line method over the economic useful lives less salvage value.

Economic lives of major property and equipment are as follows:

Building	32 to 45	years
Machinery	3 to 8	years
Mold and tools	1	year
Furniture and office facilities	3 to 10	years
Other equipment	3 to 15	years

(h) Deferred Expenses

Molds and tools and software costs are amortized equally over 12 months.

(i) Warranty Reserve

A warranty reserve is provided for products sold with warranty and charged against current expense based on estimated warranty cost.

(j) Royalty Reserve

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

(k) Pension Plan

The Company has a pension plan covering all regular employees, under which pension payment is commensurate with years of service. The Company contributes annually to the pension fund and deposits in a government designated account. The pension fund is not reflected in the Company's financial statements. Under the pension plan, the Company bears all the payment regarding to pensions. Effective July 1, 2005, the Company adopted the "Labor Pension Act" (the "Act") that prescribes a defined contribution pension plan for those employees who were covered by the Labor Standards Law prior to the enforcement of the Act but chose to be subject to the pension mechanism under the Act or those employees who are employed after the enforcement of the Act. In accordance with the Act, the Company contributes monthly to the Labor Pension Fund for the employee individual pension fund accounts at the minimum rate of 6% of the employee's monthly wages. However, the Company has not yet revised its pension plan in coordination of the Act, thus any matters that is not covered by the pension plan are transacted in accordance to the act.

For defined benefit pension plan, the Company adopted SFAS No. 18 and secured an actuarial report on pension liabilities with December 31 as the measurement date. Provision for pension expense commenced on April 25, 2000, and unrecognized net transitional obligations are amortized equally over 15 years.

For defined contribution pension plan, the Company contributes to the Labor Pension Fund at the rate of 6% of the employee's monthly wages; contributions are reflected as current pension expense.

(l) Revenue Recognition

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

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

(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 adopts the SFAS No. 22, "Accounting for Income Taxes" to make inter- and intra-period income tax allocation. Tax effects of deductible temporary differences, loss carryforwards and unused investment tax credits are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities. A valuation allowance is provided for deferred tax assets by assessing whether it is more likely than not such assets will be realized. Income tax expenses or benefits that resulted from the recognitions of unrealized profit and changes in capital surplus, which reflected on stockholders' equity instead of current profit and loss, are respectively disclosed in net. Adjustments to prior years' income taxes are reflected as current income taxes.

The 10% surtax on undistributed earnings is reported as current expense on the date when the stockholders resolved not to distribute the earnings during their annual meeting.

(o) Earnings per Share (EPS)

Basic EPS is computed based on the weighted-average number of common shares issued and outstanding. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of share is retroactively adjusted for additional shares issued.

(3) Reasons for and Effects of Accounting Changes:

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No.34 (SFAS 34) "Accounting for Financial Instruments". In accordance with SFAS 34, the beginning balances of financial assets and liabilities should be re-measured and reclassified by the fair value and costs after amortization upon initial adoption of the newly released SFASs. The changes caused by the re-measurement and the reclassification have no effects on the earnings for the six months ended June 30, 2006, nor result in any cumulative effects changes of accounting principle and adjustments in stockholders' equity.

(4) Summary of Major Accounts

(a) Cash

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash on hand	\$ 501	527
Cash at bank		
Checking accounts	7	-
Demand deposits	467,978	1,070,200
Foreign currency deposits	1,138,297	766,996
Time deposits	1,300,000	900,000
Negotiable certificate of deposits	1,200,000	1,500,000
Total	<u>\$ 4,106,783</u>	<u>4,237,723</u>

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

(b) Financial Instruments: Financial assets carried at cost—non-current

As of June 30, 2006 and 2005, financial instruments held by the Company were as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Investment in common stock		
Darly 3 Venture Corporation	10,200	10,200
Telewise Communications, Inc.	-	-
Hi Top Communications Corp.	30,000	30,000
Advanced Image Technology Corp.	-	44,850
Tai Yi Precision Corporation	12,000	12,000
Akom Technology Corporation	8,000	-
Gyro Signal Technology Co., Ltd	15,000	-
Total	<u>\$ 75,200</u>	<u>97,050</u>

For the six months ended June 30, 2006, the Company invested \$15,000 in Gyro Signal Technology Co., Ltd, with the shareholding ratio of 3.87% and accounted for under the cost method.

Since the decline of value of investment in Telewise Communications, Inc. and Advanced Image Technology Corp. was judged to be permanently impaired, the Company wrote down the book value in year 2003 and 2005, respectively, and recorded as loss on impairment of investment.

For the six months ended June 30, 2006, the Company received cash dividends of \$2,780 from Darly 3 Venture Corporation.

All of the investments in common stocks listed above, which do not have a quoted market price in an active market and whose fair value cannot be reliably measured, were reflected as non-current financial assets carried at cost.

(c) Accounts Receivable

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Accounts receivable—related parties	\$ 2,159,810	2,954,384
Accounts receivable—non-related parties	6,855,264	9,484,320
Less: allowance for doubtful accounts	(48,571)	(44,867)
Net	6,806,693	9,439,453
Total	<u>\$ 8,966,503</u>	<u>12,393,837</u>

(d) Inventories

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Raw materials	\$ 1,459,005	2,194,799
Work in process	127,370	336,213
Finished goods	815,739	176,296
Inventories in transit	2,230	182,824
Subtotal	2,404,344	2,890,132
Less: allowances for valuation and obsolescence losses	(259,066)	(78,752)
Net	<u>\$ 2,145,278</u>	<u>2,811,380</u>
Insurance coverage for inventories	<u>\$ 2,794,516</u>	<u>3,084,143</u>

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INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

(e) Long-Term Investments under equity method

Investee company	Cost of Investment	June 30, 2006		June 30, 2005	
		Shareholding Ratio	Book Value	Shareholding Ratio	Book Value
Inventec Appliances (Cayman) Holding Corp.	2006-USD 89,694	100.00%	\$ 5,554,188	100.00%	3,686,861
Gainia Intellectual Asset Services, Inc.	2005-USD 76,694 6,400	48.30%	5,232	48.30%	6,048
Total			<u>5,559,420</u>		<u>3,692,909</u>
Prepayments for long-term investments					
Inventec Appliances (Cayman) Holding Corp.	USD 1,050	100.00%	33,932	-	-
Total			<u>\$ 5,593,352</u>		<u>3,692,909</u>

Gains (losses) on investment accounted for under the equity method based on the audited financial statements of investee companies for the six months ended June 30, 2006 and 2005 were as follows:

Investee	Six Months Ended June 30,	
	2006	2005
Inventec Appliances (Cayman) Holding Corp.	\$ 565,333	583,855
Gainia Intellectual Asset Services, Inc.	(352)	576
Total	<u>\$ 564,981</u>	<u>584,431</u>

The Company invested in Inventec Appliances (Cayman) Holding Corp., a wholly-owned holding company, which engages in various investments. For the six months ended June 30, 2006, the amount of investment in Inventec Appliances (Cayman) Holding Corp. increased by \$33,932, which is recorded as prepayment for long-term investments since the registration has yet been completed. For the six months then ended, cash dividends/allotment from the investee company was US\$9,595 (equivalents to NT\$ 311,322)

As of June 30, 2006 and 2005, any unrealized inter-company profits were eliminated by the stockholding ratio.

For investees that the Company has controlling interest over their operation, in accordance with SFAS and ruling of Securities and Futures Bureau, will be included in the Company's current consolidated financial statements, which has been prepared by the Company. Except for Gainia Intellectual Asset Services, Inc, since the capital, total assets and operating income of the investee are not considered material.

(f) Property, Plant and Equipment

For the six months ended June 30, 2006 and 2005, no interest expenses generated by purchasing property, plant and equipment were capitalized.

As of June 30, 2006 and 2005, insurance coverage for the property, plant, and equipment amounted to \$1,145,156 and \$1,167,325, respectively.

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

(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 June 30, 2006 and 2005, the changes in the pension fund account were shown below:

	Six Months Ended June 30,	
	2006	2005
Beginning Balance	\$ 325,590	259,682
Add: Current Contributed	32,375	31,346
Current Interest earned	2,211	-
Less: Current pension expenses	(77,518)	(1,431)
Ending Balance	<u>\$ 282,658</u>	<u>289,597</u>

The pension funds and related accounts for the six months ended June 30, 2006 and 2005 were as follows:

	Six Months Ended June 30,	
	2006	2005
Pension fund balance	\$ 282,658	289,597
Pension expense:		
For defined benefit plan	16,729	23,745
For defined contribution plan	18,126	-
Accrued pension liability	25,434	45,991

(h) Income Tax

(i) Deferred income tax assets and liabilities:

	June 30, 2006		June 30, 2005	
	Amount	Income Tax Effects	Amount	Income Tax Effects
Deferred tax assets arising from deductible (taxable) temporary differences:				
-Recognition of unrealized foreign exchange loss	\$ 138,581	34,645	184,401	46,100
-Recognition of allowance for inventory valuation and obsolescence losses	259,066	64,766	78,752	19,688
-Recognition of unrealized investment income accounted for under the equity method	(2,465,072)	(616,268)	(1,294,533)	(323,633)
-Cumulative translation adjustment	(32,455)	(8,114)	216,999	54,250
-Investment tax credit	208,679	208,679	-	-
-Reserve for employee retirement benefit	(52,463)	(13,116)	(21,353)	(5,338)
-Recognition of unrealized employee welfare	3,752	938	7,306	1,826
-Unrealized inter-company profit	143,463	35,866	228,619	57,155
-Unrealized warranty reserve	1,035,918	258,979	1,603,053	400,763
-Accrued royalty reserve	300,887	75,222	229,196	57,299
-Unrealized impairment loss on long-term investment under the cost method	54,858	13,715	10,008	2,502
	<u>\$ 55,312</u>		<u>310,612</u>	

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INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

(ii)

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Deferred tax assets—current	\$ 395,195	123,831
Deferred tax liabilities—current	-	-
Net	<u>\$ 395,195</u>	<u>123,831</u>
Deferred tax assets—non-current	\$ 297,615	515,752
Deferred tax liabilities—non-current	(637,498)	(328,971)
Net	<u>\$ (339,883)</u>	<u>186,781</u>

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

	<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Current income tax expense	\$ 76,869	182,083
Deferred income tax expense	77,540	70,157
10% surtax on undistributed earnings	-	24,903
Under (over) accrual of prior year's income tax	87,875	(7,755)
Income tax expense	<u>\$ 242,284</u>	<u>269,388</u>

(iv) The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. The income tax calculated on financial pretax income at a statutory income tax rate of 25% was reconciled with the actual income tax as reported in the accompanying financial statements for the six months ended June 30, 2006 and 2005, as follows:

	<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Income tax calculated by statutory rate	\$ 371,456	408,301
Permanent differences	(79,123)	(1,704)
Tax-exempt income	(299)	(8,823)
Income tax separately levied	1,114	1,191
10% surtax on undistributed earnings	-	24,903
Investment tax credits used	(36,292)	(146,725)
Unused investment tax credit	(114,150)	-
Adjustments to prior year's deferred tax assets and liabilities	11,703	-
Under (over) accrual of prior year's income tax	87,875	(7,755)
Income tax expense	<u>\$ 242,284</u>	<u>269,388</u>

(v) The Company's tax returns and stockholders' imputation tax credit account through the calendar year 2003 have been approved by the Tax Authority.

(vi) The Company's wireless communication and digital accessory products conform to "the Regulations Regarding Awards for Newly Emerging and Strategic Industries Under Manufacturing and Technical Service Industries" and "the Statute for Upgrading Industries". Approbated by the Tax Authority, the Company is eligible for five-year income tax exemption since year 2003.

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

- (vii) The balance of unused investment tax credit which may be used to offset against future income tax liabilities were as follows:

<u>Incurred Year</u>	<u>Investment Tax Credit</u>	<u>Year of Expiration</u>
2005 (as filed)	\$ 58,237	2009
The six months ended June 30, 2006 (as estimated)	150,442	2010
	<u>\$ 208,679</u>	

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
(1) Undistributed retained earnings : Accumulated after January 1, 1998	<u>\$ 1,259,097</u>	<u>1,463,131</u>
(2) Stockholders's imputation tax credit account	<u>\$ 313,055</u>	<u>79,015</u>
(3) Tax credit for earnings distributed to R.O.C. resident stockholders:	<u>2005 (Estimated)</u>	<u>2004 (Actual)</u>
Creditable ratio for first earnings distributed (cash dividend)	10.13%	20.79%
Creditable ratio for second earnings distributed (stock dividend)	10.13%	20.89%

(i) Stockholders' equity

(i) Common Stock:

On June 15, 2006, pursuant to resolutions of the annual stockholders' meeting the Company resolved to increase its capital by capitalizing its undistributed earnings of \$666,000, employee bonuses of \$30,000 and capital surplus of \$333,000, for a total of \$1,029,000. Additional shares of 102,900,000 were issued at \$10 per share. The record date was July 24, 2006, and recorded as stock dividend to be distributed.

On May 10, 2005, pursuant to resolutions of the annual stockholders' meeting, the Company resolved to increase its capital by capitalizing its undistributed earnings of \$280,000 and employee bonuses of \$20,000, for a total of \$300,000. Additional shares of 30,000,000 were issued at \$10 per share and the record date was July 20, 2005. The Company also resolved to further increase its capital in cash by issuing additional 23,000,000 shares at \$108 per share. Its outstanding capital following these capital increases amounted to \$3,330,000 with November 8, 2005 as the record date. The Company had completed relevant registration process for these capital increases.

(ii) Dividend Policy:

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

(iii) Legal reserve and Capital surplus

Under the Company Law, legal reserve can only be used to offset deficit and to increase capital stock. However, transferring legal reserve to capital is allowed only when it reaches 50% of the Company's paid-in capital and up to one half thereof may be transferred.

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

According to the Company Law, the capital surplus, except for the portion resulted from long-term investments accounted for under equity method, is used exclusively to offset deficit and to increase capital stock. The proportion of capital surplus used to increase capital stock will be in accordance with rules set forth by the Securities and Futures Bureau ("ROC SFB") under the Ministry of Finance ("MOF").

(iv) Special Reserve

If an item under stockholders' equity is negative, an equal amount of special reserve is provided from current and prior years' retained earnings. Such special reserve may be reverted to retained earnings should the item recover.

(v) Distributions of Earnings

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

(j) Earnings per Share (EPS)

For the six months ended June 30, 2006 and 2005, the primary earning per share is computed as follows:

	Six Months Ended June 30,			
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Net income	\$ 1,485,863	1,243,579	1,633,242	1,363,854
Weighted-average shares outstanding (in thousands)	435,900	435,900	310,000	310,000
Retroactively adjusted weighted- average number of shares outstanding (in thousands)			405,793	405,793
Primary earnings per share	\$ 3.41	2.85	5.27	4.40
Primary earnings per share —retroactively adjusted			\$ 4.02	3.36

(k) Financial Instruments

(i) Fair Value of Financial Instruments

Financial Assets	June 30, 2006		June 30, 2005	
	Book Value	Fair Value	Book Value	Fair Value
Book value equal to fair value	\$ 13,762,070	13,762,070	16,944,802	16,944,802
Financial assets carried at cost —non-current	75,200	-	97,050	-
Total financial assets	\$ 13,837,270	13,762,070	17,041,852	16,944,802
Financial Liabilities				
Book value equal to fair value	\$ 11,119,748	11,119,748	16,069,875	16,069,875

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

(ii) Methods and assumptions used to establish the fair values of financial instruments are as follows:

1. The fair value of short-term financial instruments is determined by their face values stated on the balance sheet. Because such instruments will mature on short notice, the face value serves as reasonable basis for establishing the fair value. The method is applied to cash, accounts receivable, other receivables, other financial assets, accounts payable, accrued expenses and other current liabilities.
2. The fair value of financial instruments traded in active markets is based on quoted market prices. If the financial instruments are not in an active market then the fair value is determined by using valuation techniques. The estimation and assumption are consistent with prevailing market conditions.
3. With respect to financial instruments such as refundable deposits that are indispensable guarantee for the on-going operation of the Company, it is impossible to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. The book value is used as the fair market value.

(iii) For the six months ended June 30, 2006, revaluation loss on financial liabilities resulted from transactions of trading-purpose forward contract were amounted to \$15,530.

(iv) Financial Instrument with Off-Balance-Sheet Credit Risk:

Guarantee and Endorsements provided by the Company for related parties' bank loans are stated in note 5.

(v) Financial Risk Information

1. Liquidity Risks:

The capital and working fund of the Company are sufficient to perform its entire contracted obligation; therefore, such liquidity risks do not exist.

2. Concentration of Credit Risks:

Implicit credit risk of the Company arises from cash and accounts receivable. Cash is deposited in different financial institution and it might not cause any credit risks. As of June 30, 2006 and 2005, the amounts due from one specific customer were 64% and 57% of the balance of the Company's accounts receivable. To minimize credit risk, the company periodically evaluates its customers' financial positions and the possibility of collection of receivables. The Company believes that the possibility of arising bad debt losses is remote, since the condition of collecting these outstanding receivables is satisfied.

As of June 30, 2006 and 2005, the Company's contracts with credit risk concentration were the following:

<u>Accounts Receivable-By Region</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Domestic	\$ 164,021	369,175
Asia	629,788	562,022
Europe	1,069,270	2,942,653
America	7,118,541	7,897,581
Other	33,454	667,273
Total	<u>\$ 9,015,074</u>	<u>12,438,704</u>

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

(5) Related Party Transactions

(a) Names of Related Parties and their Relationship with the Company

Name of Related Party	Relationship with the Company
Inventec Corporation	An investor company accounted for under the equity method
Inventec Appliances (Cayman) Holding Corp.	A subsidiary
Inventec Appliances (BVI) Corp.	A third level subsidiary of the Company
Inventec Appliances (USA) Distribution Corp.	"
Inventec Appliances (Shanghai) Co., Ltd.	"
Inventec Appliances (Pudong) Co., Ltd.	"
Inventec Appliances (Nanjing) Co., Ltd.	"
Inventec Appliances (Jiangning) Co., Ltd.	"
Inventec Appliances (Shanghai) International Marketing Co., Ltd.	"
Inventec Besta Co., Ltd.	An investee of Inventec Corporation

(b) Significant Transactions with Related Parties:

(i) Sales

For the six months ended June 30, 2006 and 2005, sales to related parties were as follows:

	Six Months Ended June 30,			
	2006		2005	
	Amount	% of Net Sales	Amount	% of Net Sales
Inventec Appliances (BVI) Corp.	\$ 66,967	-%	735,636	1%
Inventec Appliances (USA) Distribution Corp.	5,669,719	13%	4,139,966	9%
Others	98	-%	270	-%
Total	\$ 5,736,784	13%	4,875,872	10%

Prices of raw materials and work-in-process sold to Inventec Appliances (BVI) Corp. were negotiated. The collection term was approximately two to three months. Prices of graphic calculators and Personal Digital Assistant (PDA) sold to Inventec Appliances (USA) Distribution Corp. were negotiated. The collection term was approximately 70 to 90 days.

For the six months ended June 30, 2006 and 2005, the Company sold materials and work in process for further processing to Inventec Appliances (Shanghai) Co., Ltd. and Inventec Appliances (Pudong) Co., Ltd. via Inventec Appliances (BVI) Corp. All of the finished goods are repurchased back by the Company. To prevent double recording of sales, the inventory items sold to Inventec Appliances (BVI) Corp. is disclosed in net, yet receivables and payables are disclosed in aggregate.

As of June 30, 2006 and 2005, unrealized gross margin of sales to related parties, which is recognized as other liabilities—Deferred credit, were \$143,463 and \$223,334, respectively.

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Notes to Financial Statements (continued)

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

(ii) Purchases

For the six months ended June 30, 2006 and 2005, purchases from related parties were as follows:

	Six Months Ended June 30,			
	2006		2005	
	Amount	% of Net Purchases	Amount	% of Net Purchases
Inventec Appliances (BVI) Corp.	\$39,791,560	98%	42,407,056	92%

Prices of graphic calculators, PDAs, and MP3 players purchased from Inventec Appliances (BVI) Corp. were negotiated. The payment term was two months.

(iii) Property Transaction

- For the six months ended June 30, 2005, the Company sold properties and deferred assets to Inventec Appliances (BVI) Corp. with the selling price of \$946, resulted in gains on disposal of properties of \$272.
- For the six months ended June 30, 2005, the Company has purchased machinery, at cost of \$5,257, from Inventec Corporation.
- As of September 30, 2005, the Company (as the lessor) entered into a lease agreement with Inventec Appliances (Pudong) Co., Ltd. (as the lessee), to rent a batch of SMT equipment for a monthly rental of US\$298. The effective date was stated as October 1, 2005. As of June 30, 2006, the Company subsequently sold the batch of SMT equipment to Inventec Appliances (Pudong) Co., Ltd. at US\$13,646 (equivalent to NT\$442,929), and recorded as other receivables and the gains on disposal of properties are considered zero.

(iv) Others

For the six months ended June 30, 2006 and 2005, business consulting fee and computer system expense paid to Inventec Corporation amounted to \$18,503 and \$10,747, respectively.

(v) Accounts Receivable (Payable)

	June 30, 2006		June 30, 2005	
	Balance	%	Balance	%
Accounts receivable:				
Inventec Appliances (USA) Distribution Corp.	\$ 2,127,298	24	2,285,978	19
Inventec Appliances (BVI) Corp.	32,512	-	667,273	5
Others	-	-	1,133	-
Total	\$ 2,159,810	24	2,954,384	24
Other receivables:				
Inventec Appliances (BVI) Corp.	\$ -	-	210,178	74
Inventec Appliances (Pudong) Co., Ltd.	529,038	85	-	-
Total	\$ 529,038	85	210,178	74
Other financial assets—current:				
Total	\$ 559	1	-	-
Accounts payable:				
Inventec Appliances (BVI) Corp.	\$ 7,440,879	97	11,078,702	84

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

	June 30, 2006		June 30, 2005	
	Balance	%	Balance	%
Accrued expenses:				
Total	\$ 27,933	7	5,537	1
current				
Total	\$ 84	-	14,030	1

(vi) Guarantees and Endorsements

As of June 30, 2006 and 2005, endorsements and guarantees provided by the Company for related parties' bank loans were as follows:

	Amount of Guarantee	
	June 30, 2006	June 30, 2005
Inventec Appliances (Cayman) Holding Corp.	US\$ 61,550	US\$ 61,550
Inventec Appliances (BVI) Corp.	6,500	6,500
Inventec Appliances (USA) Distribution Corp.	8,000	8,000
Inventec Appliances (Shanghai) Co., Ltd.	23,000	23,000
Inventec Appliances (Pudong) Co., Ltd.	65,000	35,000
Inventec Appliances (Jiangning) Co., Ltd.	44,000	19,000
Inventec Appliances (Nangjing) Co., Ltd.	1,500	1,500
Inventec Appliances (Shanghai) International Marketing Co., Ltd.	36,000	-
Total	US\$ 245,550	US\$ 154,550

(6) Pledged Assets

Assets pledged as collateral as of June 30, 2006 and 2005 were summarized as follows:

	June 30, 2006	June 30, 2005	Purpose of pledge
Refundable deposits	\$ 5,193	5,687	Deposits for buildings

(7) Significant Commitments and Contingencies

- (a) As of June 30, 2006 and 2005, unused letters of credit were US\$1,770 and US\$273, JPY10,260, respectively.
- (b) As of June 30, 2006 and 2005, the promissory notes issued for bank credit limits, Industrial Development Bureau (IDB) subsidies, and IDB Cooperation funds amounted to US\$ 25,500, EUR\$ 500, NT\$1,829,633 and US\$15,000, NT\$1,850,268, respectively.
- (c) As of June 30, 2006 and 2005, promissory notes received for business demands and applications to the Ministry of Economic Affairs amounted to \$90,154 and \$59,800, respectively.

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Notes to Financial Statements (continued)

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- (d) For the six months ended June 30, 2006 and 2005, the Company entered into lease agreements to lease computers and software. Information regarding rental expense and future lease payments are as follows:

Period	Rent expense	Future rent due			
		2006	2007	2008	2009
Six Months Ended June 30, 2006	\$ 12,275	10,309	13,886	5,834	516
Six Months Ended June 30, 2005	\$ 10,905	16,593	7,380	503	-

- (e) In October 2001, FeiMa Communication (Qing Dao) Co., Ltd. filed a lawsuit against the Company. The local district court in China ruled that the Company breached an agreement and is required to pay RMB5,000 and litigation expense of RMB33. In April 2003, the Company filed for an appeal. On May 20, 2005, the Company settled with FeiMa Communication (Qing Dao) Co., Ltd. out of court and paid RMB3,990.
- (f) Two international well-known technology companies alleged that the Company infringes certain patents by producing and selling mobile phone products. However, these two companies are not yet filing any law suit against the Company. The Company is aggressively preparing relevant data and intently negotiating with these two companies. As of June 30, 2006, the Company has booked appropriate accounting entries regarding to such claim for infringement and believes the event mentioned above will not have material effect on the Company's operations.
- (g) Any guarantee and endorsement and significant commitments and contingencies that the Company provides to related-parties are stated in note 5.

(8) Significant Catastrophic Losses: None.

(9) Significant Subsequent Events: None.

(10) Others

- (a) Upon the adoption of SFAS NO.34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to conform to the financial statements as of and for the six months ended June 30, 2006.

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

Categorized as Nature	Six Months Ended June 30,					
	2006			2005		
	Operating Cost	Operation Expenses	Total	Operating Cost	Operation Expenses	Total
Personnel Cost						
Salary	146,985	415,075	562,060	276,089	398,904	674,993
Health and labor	10,838	24,008	34,846	13,945	18,889	32,834
Pension	7,970	26,885	34,855	7,026	16,719	23,745
Other	2,497	9,991	12,488	55,212	15,464	70,676
Depreciation	31,203	46,473	77,676	31,663	38,052	69,715
Amortization	22,338	27,905	50,243	31,758	20,024	51,782

(English Translation of Financial Report Originally Issued In Chinese)

INVENTEC APPLIANCES CORPORATION

Notes to Financial Statements (continued)

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

(11) Segment Information

The income proportion of each department has not changed significantly. In accordance with Statement of Financial Accounting Standards No. 23 Section 25, the disclosure of each department's financial information is not required.