(English Translation of Financial Report Originally Issued In Chinese)

INVENTEC APPLIANCES CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

Address: No. 37, Wu-Gong 5th Road, Wu Ku, Taipei County Taiwan, R.O.C.
Telephone: 886-2-2299-9329

Inventec Appliances Corporation

Financial Statements

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(English Translation of Financial Report Originally Issued In Chinese)

Independent Auditors' Report

To the Board of Directors of
Inventec Appliances Corporation:

We have audited the accompanying balance sheets of Inventec Appliances Corporation as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion to these financial statements based on our audits.

We conducted our audits in accordance with "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audits 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 statements 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 Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers , Business Entity Accounting Act, Regulation on Business Entity Accounting Handling and generally accepted accounting principles in the Republic of China.

Inventec Appliances Corporation has prepared its consolidated financial statements of the years ended December 31, 2006 and 2005, on which we have expressed an unqualified opinion.

KPMG Certified Public Accountants

CPA: Charlotte Lin
Melody Chen

Taipei, Taiwan, R.O.C.
March 16, 2007

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

DECEMBER 31, 2006 AND 2005

(All Amounts Expressed in Thousands of New Taiwan Dollars Except for Share Data)

	December 31, 2006		December 31, 2005	
ASSETS	Amount	%	Amount	%
Current Assets				
Cash (Note 4.a)	$ 1,328,803	4	2,999,079	9
Accounts receivable, net of allowance for doubtful accounts (Notes 2 and 4. c)				
—Related parties (Note 5)	4,633,727	15	2,199,769	6
—Other customers	12,412,252	41	19,233,296	55
Other financial assets—current				
—Related parties (Note 5)	97,689	-	345,538	1
—Non-related parties	203,163	1	121,435	-
Inventories, net of allowance for market decline and obsolescence (Notes 2 and 4. d)	1,484,968	5	3,090,925	9
Deferred income tax assets—current (Notes 2 and 4. i)	339,897	1	270,245	1
Other current assets	401,444	2	95,614	-
	20,901,943	69	28,355,901	81
Funds and Investments				
Long-term equity investments under the equity method (Notes 2 and 4. e)	8,564,922	28	5,283,277	15
Financial assets carried at cost—non-current (Notes 2 and 4. b)	75,200	-	60,200	-
Other financial assets—non-current				
—Related parties (Note 5)	-	-	410,271	1
—Non-related parties	3,411	-	5,692	-
	8,643,533	28	5,759,440	16
Property, Plant and Equipment (Note 2)				
Land	279,855	1	279,855	1
Buildings	284,957	1	284,957	1
Machinery	81,125	-	344,228	1
Research and experiment facilities	417,822	2	272,316	1
Furnitures and office facilities	43,804	-	44,858	-
Miscellaneous equipment	215,827	1	217,833	1
	1,323,390	5	1,444,047	5
Less: Accumulated depreciation	(500,302)	(2)	(560,770)	(2)
Prepayment for equipment	8,279	-	15,929	-
	831,367	3	899,206	3
Intangible Assets				
Deferred pension cost (Note 2)	56,151	-	62,390	-
Other Assets	10,897	-	52,313	-
TOTAL ASSETS	$ 30,443,891	100	35,129,250	100

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)
DECEMBER 31, 2006 AND 2005
(All Amounts Expressed in Thousands of New Taiwan Dollars Except for Share Data)

	December 31, 2006		December 31, 2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
Current Liabilities				
Short-term borrowings (Ntotes 2 and 4.g)	$ 1,000,000	3	-	-
Accounts payable				
—Related parties (Note 5)	14,812,273	49	19,732,240	56
—Vendors	40,675	-	1,015,183	3
Accrued expenses	514,919	2	803,819	2
Other financial liabilities—current	793,239	3	366,976	1
Other current liabilities	63,431	-	-	-
Warranty reserve (Note 2)	938,202	3	1,396,264	4
	18,162,739	60	23,314,482	66
Other Liabilities				
Other financial liabilities—non-current	132,630	-	282,512	1
Accrued pension liabilities (Notes 2 and 4.f)	104,751	-	41,080	-
Deferred income tax liabilities—non-current (Notes 2 and 4.i)	601,586	2	136,197	1
Deferred credits	138,441	1	116,045	-
	977,408	3	575,834	2
Total liabilities	19,140,147	63	23,890,316	68
Stockholders' Equity (Notes 2 and 4.h)				
Common stock	4,359,000	14	3,330,000	9
Capital surplus				
Additional paid-in capital	3,989,860	13	4,322,860	12
Long-term equity investments	17,699	-	-	-
Others	1,110	-	1,110	-
Retained earnings				
Legal reserve	783,001	2	483,985	1
Special reserve	9,215	-	-	-
Undistributed earnings	2,074,591	7	3,089,442	10
Other adjustments to stockholders' equity				
Cumulative translation adjustments	160,829	1	20,752	-
Net loss not recognized as pension cost	(91,561)	-	(9,215)	-
Total stockholders' equity	11,303,744	37	11,238,934	32
Commitments and Contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 30,443,891**	**100**	**35,129,250**	**100**

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 YEARS ENDED DECEMBER 31, 2006 AND 2005

(All Amounts Expressed in Thousands of New Taiwan Dollars Except for Earnings Per Share)

	For The Year Ended December 31,			
	2006		2005	
	Amount	%	Amount	%
Gross sales (Note 2)	$ 95,731,039	100	113,983,714	100
Less: Sales returns	(45,277)	-	(229,574)	-
Sales allowances	(30,791)	-	(177,711)	-
Net sales	95,654,971	100	113,576,429	100
Cost of sales	(93,031,627)	(97)	(107,640,684)	(95)
Gross profit	2,623,344	3	5,935,745	5
Less: Unrealized inter company profits, end of the year	(138,441)	-	(111,582)	-
Add: Unrealized inter company profits, beginning of the year	111,582	-	158,132	-
	2,596,485	3	5,982,295	5
Operating expenses:				
Selling	(1,397,053)	(2)	(2,370,769)	(2)
Administration	(384,310)	-	(607,146)	-
Research and development	(846,348)	(1)	(1,208,595)	(1)
	(2,627,711)	(3)	(4,186,510)	(3)
Net operating income (Loss)	(31,226)	-	1,795,785	2
Non-operating income:				
Interest income	31,922	-	30,055	-
Investment income accounted for under the equity method (Note 4.e)	2,218,797	2	1,500,496	1
Foreign exchange gain, net (Note 2)	24,893	-	95,900	-
Other	553,795	1	364,425	-
	2,829,407	3	1,990,876	1
Non-operating expenses and losses:				
Interest expense	(18,166)	-	(8,176)	-
Other investment losses	-	-	(44,850)	-
Loss on inventory market decline and obsolescence	(7,417)	-	(198,288)	-
Revaluation loss on financial liabilities	(17,670)	-	-	-
Other	(105,228)	-	(79,527)	-
	(148,481)	-	(330,841)	-
Income before income tax	2,649,700	3	3,455,820	3
Income tax expense (Notes 2 and 4.i)	(590,627)	(1)	(465,655)	-
Net income	**$ 2,059,073**	**2**	**2,990,165**	**3**
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
Primary earnings per share (Notes 2 and 4.j)	**$ 6.08**	**4.72**	**11.01**	**9.53**
Primary earnings per share-retroactively adjusted			**$ 8.41**	**7.28**

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 YEARS ENDED DECEMBER 31, 2006 AND 2005
(All Amounts Expressed in Thousands of New Taiwan Dollars Except for Share Data)

	Common Stock	Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Undistributed Earnings	Adjustments to Stockholders' Equity: Cumulative Translation Adjustments	Adjustments to Stockholders' Equity: Net Loss Not Recognized as Pension Cost	Total
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 bonus—cash	-	-	-	-	(111,715)	-	-	(111,715)
Employee bonus—stock	20,000	-	-	-	(20,000)	-	-	-
Stock dividends	280,000	-	-	-	(280,000)	-	-	-
Cash dividends	-	-	-	-	(1,568,000)	-	-	(1,568,000)
Capital increase in cash	230,000	2,218,360	-	-	-	-	-	2,448,360
Net income for 2005	-	-	-	-	2,990,165	-	-	2,990,165
Net loss not recognized as pension cost	-	-	-	-	-	-	(9,215)	(9,215)
Cumulative translation adjustments of long-term equity investment	-	-	-	-	-	158,380	-	158,380
Balance as of December 31, 2005	$ 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 bonus—cash	-	-	-	-	(157,735)	-	-	(157,735)
Employee bonus—stock	30,000	-	-	-	(30,000)	-	-	-
Stock dividends	666,000	-	-	-	(666,000)	-	-	-
Cash dividends	-	-	-	-	(1,831,500)	-	-	(1,831,500)
Capital surplus transferred to capital	333,000	(333,000)	-	-	-	-	-	-
Net income for 2006	-	-	-	-	2,059,073	-	-	2,059,073
Net loss not recognized as pension cost	-	-	-	-	-	-	(82,346)	(82,346)
Cumulative translation adjustments of long-term equity investment	-	-	-	-	-	140,077	-	140,077
Effects of change in percentage of ownership in long-term equity investment	-	17,699	-	-	-	-	-	17,699
Balance as of December 31, 2006	$ 4,359,000	4,008,669	783,001	9,215	2,074,591	160,829	(91,561)	11,303,744

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 YEARS ENDED DECEMBER 31, 2006 AND 2005
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	For The Year Ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 2,059,073	2,990,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	160,111	143,867
Amortization	87,807	91,625
Loss / (gain) on disposal of property, plant and equipment	(8,890)	329
Provision for inventory market decline and obsolescence	7,417	198,288
Provision / (reversal) for doubtful accounts	(235,807)	235,807
Investment income recognized under the equity method over cash dividends received	(1,907,475)	(1,500,496)
Reversal for warranty reserve	(458,062)	(3,569)
Provision / (reversal) for royalty reserve	(69,244)	82,779
Permanent loss on investment recognized under the cost method	-	44,850
Change in operating assets and liabilities:		
Accounts receivable	4,404,421	(4,577,617)
Other financial assets—current	384,593	(181,738)
Inventories	1,598,540	(1,610,901)
Other current assets	(305,830)	(60,346)
Deferred income tax assets and liabilities, net	349,045	185,553
Accounts payable	(5,894,475)	3,800,199
Accrued expenses	(385,472)	323,198
Other financial liabilities—current	418,395	(59,474)
Other current liabilities	63,431	50,337
Accrued pension liabilities	(12,437)	(23,066)
Deferred credits	22,396	(47,767)
Net cash provided by operating activities	277,537	82,023
Cash flows from investing activities:		
Increase in long-term equity investments	(1,169,702)	(532,773)
Increase in financial assets carried at cost—non-current	(15,000)	(20,000)
Acquisition of property, plant and equipment	(212,252)	(200,673)
Purchase of other assets	(12,207)	(31,870)
Proceeds from returned long-term investments	-	6,800
Proceeds from disposal of property, plant and equipment	118,489	1,286
Other financial assets—non-current	412,552	(411,093)
Net cash used in investing activities	(878,120)	(1,188,323)
Cash flows from financing activities:		
Increase in short-term borrowings	1,000,000	-
Capital increase in cash	-	2,448,360
Remuneration to directors and supervisors	(80,458)	(56,449)
Employee bonus	(157,735)	(111,715)
Cash dividends	(1,831,500)	(1,568,000)
Net cash provided by (used in) financing activities	(1,069,693)	712,196
Net decrease in cash	(1,670,276)	(394,104)
Cash, at beginning of the year	2,999,079	3,393,183
Cash, at end of the year	**$ 1,328,803**	**2,999,079**
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year	**$ 18,166**	**8,176**
Cash paid for income tax during the year	**$ 178,151**	**388,468**
Purchase of property, plant and equipment with cash and other payables:		
Acquisition in property, plant, and equipment	$ 236,055	154,670
Add: Other payables and rents payable—beginning of the year	13,270	59,273
Less: Other payables and rents payable—end of the year	(37,073)	(13,270)
Cash paid	**$ 212,252**	**200,673**

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

(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 the manufacture and sales of MP3 player, wire and wireless communication and digital accessory products.

As of December 31, 2006, the Company had 892 employees.

(2) Summary of Significant Accounting Policies

The Company's financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Entity Accounting Act, Regulation on Handling Business Entity Accounting and generally accepted accounting principles in the Republic of China. The 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, 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) Basis for Classifying Assets and Liabilities as Current or Non-Current

Unrestricted cash, cash equivalent, assets held for trading or other assets that the Company will convert to cash or use within in a relatively short period of time – one year or one operating cycle, whichever is longer, are classified as current assets, otherwise are classified as non-current assets. Debts due within one year or one operating cycle, whichever is longer, are classified as current liabilities, otherwise are classified as non-current liabilities.

(c) Assets Impairment

Effective January 1, 2005, the Company adopts the 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. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount. The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss previously 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.

(Continued)

(d) Financial instruments

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

Financial instrument transactions are recorded at trading date. The financial instruments other than held for trading are initially recognized at fair value plus transaction costs, while those held for trading are carried at fair value.

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

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. Financial derivatives, except for those that meet the criteria of hedge accounting, are classified as financial assets (liabilities) reported at fair value though profit or loss.

2. Financial assets carried at cost—non-current:

   Financial assets carried at cost are 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 their original costs. If there is objective evidence indicating that a financial asset is impaired, a loss is recognized thereon. The subsequent recovery in fair value is not recognized.

Prior to December 31, 2005, investments held by the Company are recorded as long-term investments according to the intention and purpose of holding. Investments, which are carried at cost are 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 possibility of recovery is 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.

(e) 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.

(f) Inventories

Inventories are carried at the lower of cost using the perpetual inventory basis or market value. Cost is determined using the weighted-average method. Market value is determined by replacement value. A provision for inventory devaluation is recorded when the market value of inventories is less than cost. Year-end inventories are evaluated for obsolescence based on inventory aging which is generally over six months. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for loss.

(g) Long-Term Equity Investments under Equity Method

Long-term equity investments are carried at acquisition cost. When the Company has significant influence over the operating, financial and dividend policies of investees, those investments 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.

(Continued)

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

The change in the book value of long-term equity investment, as a result of the change in percentage of equity ownership due to disproportionate subscription to additional shares issued by the investee company, is charged against capital surplus. When the balance of capital surplus arising from long-term equity investments is insufficient, the difference is charged against retained earnings.

(h) Property, Plant Equipment and Depreciation

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

The economic useful lives of major property and equipment are as follows:

Building	32 to 45	years
Machinery	3 to 8	years
Research and experiment facilities	4	year
Furnitures and office facilities	3 to 10	years
Miscellaneous equipment	1 to 15	years

(i) Deferred Expenses

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

(j) Warranty Reserve

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

(k) Royalty Reserve

A royalty reserve is provided for certain products sold based on the royalty charge prescribed in the royalty agreement and based on historical experience for those products sold whose payment of royalty is still being negotiated with the patent owners. It is classified-either under current and non-current liabilities according to its nature.

(l) Pension Plan

The Company has a defined benefit and non-contributory pension plan covering all regular employees, under which pension payment is commensurate with years of service. The Company contributes monthly to the pension fund and deposits in a government designated account. The pension fund is not reflected in the Company's financial statements. 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 this 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. As the Company has not yet revised its pension plan to conform to the Act, any matters not covered by the pension plan are transacted in accordance with the Act.

(Continued)

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

(m) Revenue Recognition

Revenue is recognized when title to the product and risk and reward of ownership are transferred to the customer. Otherwise revenue recognition is deferred until these criteria are met. The Company also provides product development services and recognizes commission income thereon when services are fully rendered.

(n) Classification of Capital and Operating Expenditures

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

(o) Income Tax

The Company adopts the SFAS No. 22, "Accounting for Income Taxes" in the accounting for 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. Deferred tax assets or liabilities are classified as current and non-current in accordance with the nature of related assets and liabilities or the length of the time to its reversal. A valuation allowance is then provided for deferred tax assets by assessing whether it is more likely than not such assets will be realized. Deferred tax assets and liabilities 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 amount. 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.

(p) 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 adopts the Republic of China Statement of Financial Accounting Standards (SFAS) No.34 "Accounting for Financial Instruments" and SFAS No.36 "Disclosure and Presentation of Financial Instruments", amended SFAS No.1 "Conceptual Framework of Financial Accounting and Preparation of Financial Statements," SFAS No.5 "Long-term Investments in Equity Securities," and SFAS No.14 "Foreign Currency Translation". The adoption of these new accounting principles did not affect the earnings and stockholders' equity for the year ended December 31, 2006.

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except
for per share information and unless otherwise noted)

(4) Summary of Major Accounts

(a) Cash

	December 31, 2006	December 31, 2005
Cash on hand	$ 397	696
Cash at bank		
Checking accounts	511	-
Demand deposits	228,430	1,615,093
Foreign currency deposits	1,099,465	483,290
Time deposits	-	300,000
Negotiable certificate of deposits	-	600,000
Total	$ 1,328,803	2,999,079

(b) Financial Instruments:

As of December 31, 2006 and 2005, financial instruments held by the Company were as follows:

	December 31, 2006	December 31, 2005
Financial assets carried at cost—non-current		
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.	-	-
Tai Yi Precision Corporation	12,000	12,000
Akom Technology Corporation	8,000	-
Gyro Signal Technology Co., Ltd	15,000	-
Total	$ 75,200	52,200

For the year ended December 31, 2006, the Company invested $15,000 for equity ownership of 3.65% in Gyro Signal Technology Co., Ltd. This investment is accounted for under the cost method.

Since the decline in the value of investments in Telewise Communications, Inc. and Advanced Image Technology Corp. was deemed to be permanently irrecoverable, the Company had fully written-off the book value of these investments in year 2003 and 2005, respectively, and recorded as loss on impairment of investment.

For the year ended December 31, 2006, the Company received cash dividends of $2,780 and $200 from Darly 3 Venture Corporation and Tai Yi Precision Corporation, respectively.

All of the above mentioned investments in common stock, 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.

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified to conform to the presentation adopted for the financial statements as of and for the year ended December 31, 2006. As of December 31 2005, equity securities and beneficiary certificates of $60,200, valued at the lower of cost or market, were reclassified as financial assets carried at cost—non-current.

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

(c) **Accounts Receivable**

	December 31, 2006	December 31, 2005
Accounts receivable—related parties	$ 4,633,727	2,217,104
Less: allowance for doubtful accounts	-	(17,335)
Net	4,633,727	2,199,769
Accounts receivable—other customers	12,460,823	19,281,867
Less: allowance for doubtful accounts	(48,571)	(48,571)
Net	12,412,252	19,233,296
Total	$ **17,045,979**	$ **21,433,065**

(d) **Inventories**

	December 31, 2006	December 31, 2005
Raw materials	$ 1,272,255	1,535,549
Work in process	136,139	319,871
Finished goods	181,648	1,200,527
Inventories in transit	142,732	275,367
Sub-total	1,732,774	3,331,314
Less: allowances for market decline and obsolescence	(247,806)	(240,389)
Net	$ **1,484,968**	**3,090,925**

(e) **Long-Term Investments under equity method**

		December 31, 2006		December 31, 2005	
Investee company	**Cost of Investment**	**Shareholding** Ratio	**Book Value**	**Shareholding** Ratio	**Book Value**
Inventec Appliances (Cayman) Holding Corp.	2006-USD 125,244 2005-USD 89,694	100.00%	$ 8,561,180	100.00%	5,277,693
Gainia Intellectual Asset Services, Inc.	6,400	48.30%	3,742	48.30%	5,584
Total			**$ 8,564,922**		**5,283,277**

Investment income or loss was accounted for under the equity method based on the audited financial statements of investee companies for the years ended December 31, 2006 and 2005 as follows:

	For The Year Ended December 31,	
Investee	**2006**	**2005**
Inventec Appliances (Cayman) Holding Corp.	$ 2,220,639	1,500,384
Gainia Intellectual Asset Services, Inc.	(1,842)	112
Total	$ **2,218,797**	**1,500,496**

The Company invested in Inventec Appliances (Cayman) Holding Corp., a wholly-owned holding company, which engages in various investments. For the year ended December 31, 2006, the investment in Inventec Appliances (Cayman) Holding Corp. increased by US$35,550. For the year then ended, cash dividends received from the investee company was US$9,595 (NT$ 311,322).

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

As of December 31, 2006 and 2005, the unrealized inter-company profits were eliminated based on the stockholding ratio.

In accordance with the SFAS and ruling of Securities and Futures Bureau, investees in which the Company has controlling interest over their operation, are included in the preparation of the Company's consolidated financial statements.

(f) Pension Plan

The Company has a defined benefit pension plan covering all employees. Under this plan, 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 contributes to the pension fund deposited with Central Trust of China. For the years ended December 31, 2006 and 2005, the movements n the pension fund account were as follows:

	For The Year Ended December 31,	
	2006	**2005**
Beginning balance	$ 325,590	259,682
Add: Current contributions	58,975	65,037
Current interest earnings	7,345	4,186
Less: Pension benefit payments	(186,535)	(3,315)
Ending balance	**$ 205,375**	**325,590**

For the years ended December 31, 2006 and 2005, actuarial assumptions used in the calculation of pension costs were as follows:

	For The Year Ended December 31,	
	2006	**2005**
Discount rate	3.25%	3.00%
Increase in future salary level	2.00%	2.00%
Expected long-term rate of return on plan assets	3.25%	3.00%

As of December 31, 2006 and 2005, the funded status was reconciled with accrued pension expense as follows:

	December 31, 2006	**December 31, 2005**
Benefit obligation		
Vested benefit obligation	$ (33,561)	(34,163)
Non-vested benefit obligation	(264,290)	(332,507)
Accumulated benefit obligation	(297,851)	(366,670)
Effect of future salary increase	(65,457)	(89,896)
Estimated benefit obligation	(363,308)	(456,566)
Fair value of pension plan assets	205,375	325,590
Funded status	(157,933)	(130,976)
Unrecognized net transition benefit obligation	56,151	62,390
Unrecognized gain on pension fund assets	157,017	99,111
Retroactive recognition of accrued pension liabilities	(147,712)	(71,605)
Accrued pension expense	**$ (92,477)**	**(41,080)**

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except
for per share information and unless otherwise noted)

As of December 31, 2006 and 2005, the employee vested benefits under the Company's pension plan amounted to $34,933and $35,535, respectively.

For the years ended December 31, 2006 and 2005, the components of net pension costs were as follows:

	For The Year Ended December 31,	
	2006	2005
Service cost	$ 19,818	27,810
Interest cost	17,047	12,876
Expected return on pension plan assets	(10,581)	(8,239)
Amortization of unrecognized net transition benefit obligatio	6,239	6,239
Amortization of unrecognized pension loss	6,742	3,285
Net pension cost	$ 39,265	41,971

The Company also adopted defined contribution pension plan to account for pension cost. For the years ended December 31, 2006 and 2005, the current pension expenses under this plan amounted to $33,930 and $21,472, respectively, which is deposited with the Bureau of Labor Insurance.

(g) Short-Term Borrowings

Type of Loan	Range of Interest Rates	Date to Maturity	Amount	Collateral
December 31, 2006				
Credit Loan	1.80%~2.03%	March 12, 2007	$ 1,000,000	None

(h) Stockholders' equity

(i) Common Stock:

On June 15, 2006, the stockholders resolved during their annual stockholders' meeting to increase the Company's capital by $1,029,000 by capitalizing $666,000 of its undistributed earnings, $30,000 of employee bonuses and $333,000 of capital surplus. 102,900 thousand additional shares were issued at $10 per share on record date of July 24, 2006. The Company had completed the relevant registration process for this capital increase.

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

As of December 31 2006 and 2005, the Company's authorized capital stock were 5,000 thousand and 4,000 thousand shares, of which 4,359 thousand and 3,330 thousand shares, respectively, were issued at $ 10 par value per share.

(ii) Dividend Policy:

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

(Amounts expressed in thousands of New Taiwan Dollars, except
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(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, legal reserve can be capitalized only when the balance of legal reserve reaches 50% of the Company's paid-in capital and up to one half of the legal reserve balance can be capitalized.

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

(iv) Special Reserve

If a component of 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 if such component recovers.

(v) Distributions of Earnings

The Company's Articles of Incorporation requires that after-tax earnings shall first be offset against 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, of which the remuneration to the directors and supervisors cannot exceed 3% and 7% for employee bonus.

Pursuant to the resolutions of the stockholders during their annual meetings on June 15, 2006 and May 10, 2005, the Company distributed its retained earnings of 2005 and 2004 as follows:

	For The Year Ended December 31,	
	2005	2004
Dividends (dollar) distributed per common share		
-Cash dividends	$ 5.5	5.6
-Stock dividends (face value)	2.0	1.0
Total	$ 7.5	6.6
Employee bonus-stock (face value)	$ 30,000	20,000
Employee bonus-cash	157,735	111,715
Remuneration to directors and supervisors	80,458	56,449
Total	$ 268,193	188,164

The above earnings distributions also conformed to a resolution approved by the Board of Directors. If the dividends mentioned above were all distributed in cash and were recognized as current expense, earnings per share after tax in 2005 and 2004 will decrease from $9.53 and $7.74 to $8.67 and $7.04, respectively. The common shares issued for bonus to employees represented 0.90% and 0.71% of the Company's total outstanding common shares as of December 31, 2005 and 2004, respectively.

The Board of Directors has yet to submit the proposal for the distribution of 2006 earnings to the stockholders' meeting for resolutions. The information on such distribution will be announced through Market Observation Post System on the internet after the stockholders' meeting.

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

(i) Income Tax

(i) Deferred income tax assets and liabilities:

	December 31, 2006		December 31, 2005	
	Amount	Income Tax Effects	Amount	Income Tax Effects
Deferred tax assets arising from deductible temporary differences:				
-Unrealized foreign exchange loss	$ 327,779	$ 8,195	231,861	57,965
-Allowance for inventory valuation and obsolescence losses	247,806	61,951	240,389	60,097
-Bad debt losses	-	-	57,075	14,269
-Unrealized employee welfare	2,360	590	5,144	1,286
-Unrealized inter-company profit	138,441	34,610	116,045	29,011
-Unrealized warranty reserve	938,202	234,551	1,396,264	349,066
-Accrued royalty reserve	111,462	27,865	277,278	69,320
-Unrealized impairment loss on long-term investment under the cost method	54,858	13,715	54,858	13,715
-Investment tax credit	-	340,373	-	108,207
-Loss carryforward benefit	443,628	110,907	-	-
Total deferred tax assets		$ 832,757		702,936
Deferred tax liabilities arising from taxable temporary differences:				
-Unrealized investment income accounted for under the equity method	$ 4,120,379	$ 1,030,095	2,211,062	552,766
-Cumulative translation adjustment	214,439	53,610	27,670	6,918
-Reserve for employee retirement benefits	42,962	10,741	36,817	9,204
Total deferred tax liabilities		$ 1,094,446		$ 568,888

(ii)

	December 31, 2006	December 31, 2005
Deferred tax assets—current	$ 339,897	270,245
Deferred tax liabilities—current	-	-
Net	$ 339,897	270,245
Deferred tax assets—non-current	$ 492,860	432,691
Deferred tax liabilities—non-current	(1,094,446)	(568,888)
Net	$ (601,586)	(136,197)

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

	For The Year Ended December 31,	
	2006	2005
Current income tax expense	$ 1,798	262,954
Deferred income tax expense	349,045	185,553
10% surtax on undistributed earnings	-	24,903
Under (over) accrual of prior year's income tax	239,784	(7,755)
Income tax expense	$ 590,627	465,655

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except
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(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 years ended December 31, 2006 and 2005, as follows:

	For The Years Ended December 31,	
	2006	2005
Income tax calculated by statutory rate	$ 662,425	863,945
Permanent differences	(1,086)	(2,720)
Tax-exempt income	(77,830)	(20,505)
Income tax separately levied	1,798	2,141
10% surtax on undistributed earnings	-	24,903
Investment tax credits used	-	(285,717)
Unused investment tax credit	(245,844)	(108,207)
Adjustments to prior year's deferred tax assets and liabilities	11,380	(430)
Under (over) accrual of prior year's income tax	239,784	(7,755)
Income tax expense	$ 590,627	465,655

(v) The Company's income tax returns and stockholders' imputation tax credit account through the year 2004 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 ". Following the approval of the Tax Authority, the Company is eligible for five-year income tax exemption for the years from 2003 to 2007 and the years from 2008 to 2012.

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

Year Incurred	Investment Tax Credit	Year of Expiration
2005 (as estimated)	$ 94,529	2009
2006 (as estimated)	245,844	2010
	$ 340,373	

(viii) As of December 31, 2006, the balance of operating loss carryforward which may be used to offset income tax in the future were as follows:

Year Incurred	Operating Loss Carryforwards	Year of Expiration
2006 (as estimated)	$ 443,628	2011

(Continued)

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

	December 31, 2006	December 31, 2005
(1) Undistributed retained earnings : Accumulated after January 1, 1998	$ 2,074,591	3,089,442
(2) Stockholders's imputation tax credit account	$ 82,411	278,659
(3) Tax credit for earnings distributed to R.O.C. resident stockholders:	2006 (Estimated)	2005 (Actual)
Creditable ratio	7.03%	9.06%

(j) Earnings per Share (EPS)

For the years ended December 31, 2006 and 2005, the primary earnings per share were computed as follows:

	For The Year Ended December 31,			
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Net income	$ 2,649,700	2,059,073	3,455,820	2,990,165
Weighted-average shares outstanding (in thousands)	435,900	435,900	313,833	313,833
Retroactively adjusted weighted-average number of shares outstanding (in thousands)			410,810	410,810
Primary earnings per share	$ 6.08	4.72	11.01	9.53
Primary earnings per share —retroactively adjusted			$ 8.41	7.28

(k) Financial Instruments

(i) Fair Value of Financial Instruments

	December 31, 2006		December 31, 2005	
Financial Assets	Book Value	Fair Value	Book Value	Fair Value
Book value equal to fair value	$ 18,679,045	18,679,045	25,315,080	25,315,080
Financial assets carried at cost —non-current	75,200	-	60,200	-
Total financial assets	$ 18,754,245	18,679,045	25,375,280	25,315,080
Financial Liabilities				
Book value equal to fair value	$ 17,293,736	17,293,736	22,200,730	22,200,730

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 on balance sheet date. Because these financial instruments will mature on short notice, the face value serves as reasonable basis for establishing the fair value. This method is applied to cash, accounts receivable, other financial assets, short-term borrowings, accounts payable, accrued expenses and other financial liabilities.

(Amounts expressed in thousands of New Taiwan Dollars, except
for per share information and unless otherwise noted)

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 certain valuation techniques. The estimates and assumptions used in these valuation techniques 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, the time necessary to accomplish the exchange of assets is impossible to estimate. Consequently, the fair market value of such financial instruments cannot be established. Therefore, the book value is used as the fair market value.

(ii) 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 to the financial statements.

(iii) Financial Risk Information

1. Liquidity Risks:

The capital and working fund of the Company are sufficient to meet its entire contracted obligation; therefore, no such liquidity risks exist.

The forward contracts entered into by the Company are expected to result in US dollar inflow and outflow within one year. However, cash flow risk is considered insignificant because these forward contracts will be settled out of the foreign currency sales proceeds, and the rates of forward exchanges are fixed.

2. Concentration of Credit Risks:

The Company's credit risk is inherent in its cash and accounts receivable. No credit risk is expected on cash as it is deposited in different financial institutions. As of December 31, 2006 and 2005, the balance of the Company's accounts receivable included the accounts of two customers and one customer representing 86% and 83%, respectively, of the total accounts receivable balance. To minimize credit risk, the Company periodically evaluates its customers' financial positions and the status of the collectibility of these receivables. The Company believes that the possibility of incurring bad debt losses thereon is remote, because the result of such evaluation is satisfactory.

3. As of December 31, 2006 and 2005, the Company's contracts with credit risk concentration were as follows:

Accounts Receivable-By Region	December 31, 2006	December 31, 2005
Domestic	$ 48,592	210,862
Asia	222,552	1,346,428
Europe	1,441,825	3,844,781
America	15,222,203	15,271,216
Other	159,378	825,684
Total	$ 17,094,550	21,498,971

4. Cash Flow Interest Rate Risk:

The Company's interest rate risk arises from short-term and long-term loans. Future cash flow will be affected by the change in market rate on loans bearing floating interest rate.

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

5. Risk management and Hedging policy:

Financial derivatives are used to hedge operating risk, as one of the Company's hedging policies. The risk management of the Company conforms to its internal control system and is evaluated regularly.

(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 (IEC)	Shareholder
Inventec Appliances (Cayman) Holding Corp. (IAC (Cayman))	A subsidiary accounted for under the equity method
Inventec Appliances (BVI) Corp. (IAC (BVI))	A second level subsidiary of the Company
Inventec Appliances (USA) Distribution Corp. (IDC)	〃
Inventec Appliances (Shanghai) Co., Ltd. (IACS)	〃
Inventec Appliances (Pudong) Co., Ltd. (IACP)	〃
Inventec Appliances (Nanjing) Co., Ltd. (IACN)	〃
Inventec Appliances (Jiangning) Co., Ltd. (IACJ)	〃
Inventec Appliances (Shanghai) International Marketing Co., Ltd. (IASM)	〃
Mr. Jackson Chang	The Company's Chairman
Inventec Appliances Employee Welfare Committee	The Chairman of the Committee is the Company's manager director

(b) Significant Transactions with Related Parties:

(i) Sales

For the years ended December 31, 2006 and 2005, sales to related parties were as follows:

	For The Year Ended December 31,			
	2006		2005	
	Amount	% of Net Sales	Amount	% of Net Sales
IDC	$ 14,688,432	15	6,573,117	6
IAC (BVI)	48,417	-	1,378,126	1
Others	14,110	-	3,843	-
Total	$ 14,750,959	15	7,955,086	7

Prices of raw materials and work-in-process sold to IAC (BVI) were negotiated. The collection term was approximately two to three months. Prices of mp3 player, graphic calculators and Personal Digital Assistant (PDA) sold to IDC were negotiated. The collection term was approximately 70 to 90 days. Prices and collection term for mobile phones sold to Mr. Jackson Chang and Inventec Appliances Employee Welfare Committee were the same with other customers.

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

For the years ended December 31, 2006 and 2005, the Company sold raw materials and work in process for further processing to IACS and IACP through IAC (BVI). Following the completion of the processing works, all of the finished goods are repurchased from IAC (BVI) by the Company. To prevent the double recording of sales, the sales of inventory items to and repurchased from IAC (BVI) is accounted for at net amount, but the related receivables and payables are accounted for at gross amounts.

As of December 31, 2006 and 2005, unrealized gross profits from sales to related parties of $138,441 and $111,582, respectively, were accounted for under other liabilities—Deferred credit.

(ii) Purchases

For the years ended December 31, 2006 and 2005, purchases from related parties were as follows:

	For The Year Ended December 31,			
	2006		2005	
	Amount	% of Net Purchases	Amount	% of Net Purchases
IAC (BVI)	$ 91,211,120	99	103,559,640	91

Prices of graphic calculators, PDAs, and MP3 players purchased from IAC (BVI) were negotiated. The payment term was approximately 30 to 45 days.

(iii) Property Transactions

1. For the years ended December 31, 2006 and 2005, the Company sold properties and deferred assets to IAC (BVI) for $106,460 and $1,186, respectively, which resulted in gain on disposal of properties of $18,889 and $318, respectively.

2. For the year ended December 31, 2005, the Company purchased machinery, at cost of $5,257, from IEC.

3. As of December 31, 2005, the Company sold a batch of SMT equipment to IACP at US$13,646 (NT$442,929), with no gains or losses realized thereon.

(iv) Others

1. For the years ended December 31, 2006 and 2005, business consulting fee and computer system expense paid to IEC amounted to $26,838 and $36,563, respectively.

2. For the year ended December 31, 2006, warranty and repair expenses paid to IACP via IAC (BVI) amounted to $242,329.

(v) Financing to related parties

As of December 31, 2006 and 2005, financing provided to related parties were as follows:

	December 31, 2006			
	Maximum Balance	Ending Balance	Interest Rate	Current Interest
IAC (BVI)	$ 437,142	-	-	-
IACP	536,851	-	-	-
Total	$ 973,993	-		

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except for per share information and unless otherwise noted)

	December 31, 2005			
	Maximum Balance	Ending Balance	Interest Rate	Current Interest
IAC (BVI)	$ 437,142	437,142	-	-
IACP	536,851	536,851	5%	6,478
Total	$ 973,993	973,993		

As of December 31, 2005, portion of accounts receivable from IAC (BVI) which have been outstanding for a period longer than six months since the normal credit term expired, was classified as other receivable (disclosed as financing to related-parties) and sufficient allowance for doubtful account was provided thereon. All of the outstanding receivables have been collected during the year ended December 31, 2006.

On June 28, 2005, pursuant to resolutions approved at the Board of Directors' meeting, the Company rented machineries to IACP through capital leasing. The rental receivable was reclassified under current and non-current other receivable. For the year ended December 31, 2006, the Company subsequently sold certain machineries to IACP and collected all of the proceeds from the disposal of those machineries. Related disclosure on this transaction was shown note (5)(b)(iii).

(vi) Accounts Receivable (Payable)

	December 31, 2006		December 31, 2005	
	Balance	%	Balance	%
Accounts receivable:				
IDC	$ 4,467,592	26	1,391,394	6
IAC (BVI)	159,378	1	825,684	4
Others	6,757	-	26	-
Total	$ 4,633,727	27	2,217,104	10
Other financial assets—current:				
IAC (BVI)	$ 97,689	33	218,958	47
IACP	-	-	126,580	27
Total	$ 97,689	33	345,538	74
Other financial assets—non-current:				
IACP	$ -	-	410,271	99
Accounts payable:				
IAC (BVI)	$ 14,812,273	99	19,732,240	95
Accrued expenses:				
IAC (BVI)	$ 22,553	4	32,256	4
Other	-	-	3,178	-
Total	22,553	4	35,434	4
current				
IAC (BVI)	$ 2,881	-	-	-

(Amounts expressed in thousands of New Taiwan Dollars, except
for per share information and unless otherwise noted)

(vii) Guarantees and Endorsements

As of December 31, 2006 and 2005, guarantees and endorsements provided by the Company for related parties' bank loans were as follows:

	Amount of Guarantee			
	December 31, 2006		December 31, 2005	
IAC (Cayman)	US$	31,550	US$	61,550
IAC (BVI)		-		6,500
IDC		3,000		8,000
IACS		33,000		23,000
IACP		75,000		55,000
IACJ		19,000		44,000
IACN		1,500		1,500
IASM		21,000		16,000
Total	US$	184,050	US$	215,550

(6) Pledged Assets

Assets pledged as collateral as of December 31, 2006 and 2005 were as follows:

	December 31, 2006	December 31, 2005	Purpose of pledge
Refundable deposits	$ 3,411	5,692	Deposits for buildings

(7) Significant Commitments and Contingencies

(a) As of December 31, 2006 and 2005, unused letters of credit were as follows:

	December 31, 2006	December 31, 2005
USD	$ 550	439

(b) As of December 31, 2006 and 2005, the promissory notes issued for bank credit limits and Industrial Development Bureau Cooperation funds were as follows:

	December 31, 2006	December 31, 2005
USD	$ 25,500	25,500
EUR	500	500
NTD	1,552,333	1,829,633

(c) As of December 31, 2006 and 2005, promissory notes received from suppliers were as follows:

	December 31, 2006	December 31, 2005
NTD	$ 25,371	79,800

(Continued)

(Amounts expressed in thousands of New Taiwan Dollars, except
for per share information and unless otherwise noted)

(d) For the years ended December 31, 2006 and 2005, the Company entered into lease agreements to lease computers and software. The rental expense and future lease payments were as follows:

Period		Future rent due			
Year Ended December 31,	Rent expense	2006	2007	2008	2009
2006	$ 37,130	-	36,517	24,070	10,655
2005	$ 22,532	19,886	9,261	1,444	-

(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 formally filed an appeal. On May 20, 2005, the Company settled with FeiMa Communication (Qing Dao) Co., Ltd. out of court and paid RMB3,990.

(f) For the year ended December 31, 2006, the Company has entered into patent licensing agreements with some international well-known technology companies. Those patent license agreements authorize the Company the use of these patented technologies involved in the development and manufacture of its products. The Company has accrued the royalties due on those agreements.

(g) For the year ended December 31, 2006, the Company and some international well-known technology companies were still in the process of negotiating for agreements to authorize the Company to use patented technologies involved in the development and manufacture of its products. The Company has accrued the royalties regarding to the possible payments which do not have material effects on the Company's operations.

(h) The guarantee, endorsement and significant commitments 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 year ended December 31, 2005 were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2006.

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

	For The Year Ended December 31,					
	2006			2005		
Categorized as / Nature	Operating Cost	Operation Expenses	Total	Operating Cost	Operation Expenses	Total
Personnel Cost						
Salary	217,380	764,874	982,254	504,811	943,743	1,448,554
Health and labor	15,726	46,729	62,455	31,375	42,236	73,611
Pension(note)	16,029	69,440	85,469	19,398	44,045	63,443
Other	17,864	22,221	40,085	35,524	32,556	68,080
Depreciation	53,623	106,488	160,111	63,801	80,066	143,867
Amortization	35,875	51,932	87,807	55,151	36,474	91,625

(Amounts expressed in thousands of New Taiwan Dollars, except
for per share information and unless otherwise noted)

(11) Business Segment Information

(a) Industry:

The Company is not engaged in business activities outside of the electronics industry.

(b) Geographical region:

The Company conducts its businesses only domestically and has no overseas business units.

(c) Exports:

Region	For the Year Ended December 31, 2006	2005
America	$ 63,286,641	$ 67,798,060
Europe	23,270,372	31,215,480
Asia	7,367,674	9,740,076
Other	48,490	1,378,126
Total	$ 93,973,177	$ 110,131,742

(d) Major Clients:

In 2006 and 2005, clients with revenues of over 10% of total revenues of the Company were as follows:

2006			2005		
Name	Amount	%	Name	Amount	%
D	$ 58,947,957	62%	D	79,520,810	70%
T	12,409,028	13%	T	13,754,092	12%

(Continued)