(English Translation of Financial Report Originally Issued In Chinese)

INVENTEC APPLIANCES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

AND

INDEPENDENT AUDITORS' REPORT

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INVENTEC APPLIANCES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditors' Report

The Board of Directors of
Inventec Appliances Corporation

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

We conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statement by Certified Public Accountants" 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 evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inventec Appliances Corporation and its subsidiaries as of December 31, 2006 and 2005, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the "Guideline Governing the Preparation of Financial Reports by Securities Issuers", Business Entity Accounting Act, Regulation on Business Entity Accounting Handing and generally accepted accounting principles in the Republic of China.

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

CONSOLIDATED 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.b)	$ 5,398,996	14	8,623,203	17
Notes receivable	304,244	1	-	-
Financial assets reported at fair value through profit or loss—current(Notes 2 and 4.c)	-	-	42,487	-
Accounts receivable, net of allowance for doubtful accounts (Notes 2 and 4.d)	14,035,099	37	20,484,880	42
Other financial assets—current	211,492	1	256,752	1
Inventories, net of allowance for inventory valuation and obsolescence losses (Notes 2 and 4.e)	8,847,559	23	12,488,846	25
Deferred income tax assets—current (Notes 2 and 4. k)	339,897	1	270,245	1
Other current assets	629,624	2	318,850	1
	29,766,911	79	42,485,263	87
Funds and investments				
Long-term equity investments accounted for under the equity method (Notes 2 and 4.f)	3,742	-	5,584	-
Financial assets carried at cost—non-current (Notes 2 and 4.c)	205,573	1	93,020	-
Other financial assets—non-current	51,962	-	82,381	-
	261,277	1	180,985	-
Property, Plant, and Equipment (Note 2)				
Land	279,855	1	279,855	1
Buildings	2,301,713	6	1,026,812	2
Machinery	4,045,225	11	2,878,507	6
Research and development equipment	670175	2	448,666	1
Furniture and office facilities	383,687	1	263,051	1
Other equipment	766,143	2	1,080,947	2
	8,446,798	23	5,977,838	13
Less: Accumulated depreciation	(2,568,624)	(7)	(1,816,641)	(4)
Prepayment for equipment	85,872	-	183,479	-
Construction in progress	864,233	2	1,005,549	2
	6,828,279	18	5,350,225	11
Intangible Assets (Note 2)				
Deferred pension cost (Note 4.g)	56,151	-	62,390	-
Land use right	549,807	1	510,274	1
Other intangible assets	301,661	1	474,954	1
Accumulated impairment— intangible assets(Note 4.a)	(262,691)	(1)	-	-
	644,928	1	1,047,618	2
Other Assets				
Others(Note 2)	164,498	1	193,553	-
TOTAL ASSETS	**$ 37,665,893**	**100**	**49,257,644**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION
CONSOLIDATED 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 (Notes 2 and 4.h)	$ 2,324,988	6	2,179,789	4
Accounts payable	18,910,527	50	30,210,917	61
Accrued expenses	1,609,465	4	1,909,467	4
Other financial liabilities—current	862,048	2	535,864	1
Other current liabilities	232,458	1	383,421	1
Long-term borrowings—current portion (Note 4.i)	299,320	1	288,642	1
Estimated warranty reserve(Note 2)	1,262,373	3	1,639,966	3
	25,501,179	67	37,148,066	75
Long-Term Liabilities				
Long-term borrowings (Note 4.i)	-	-	442,339	1
Other Liabilities				
Other financial liabilities—non-current	154,633	-	285,478	1
Accrued pension liabilities (Notes 2 and 4.g)	104,751	-	41,080	-
Deferred income tax liabilities—non-current (Notes 2 and 4.k)	601,586	2	136,197	-
	860,970	2	462,755	1
Total Liabilities	26,362,149	69	38,053,160	77
Stockholders' Equity (Notes 2 and 4.j)				
Capital stock	4,359,000	12	3,330,000	7
Capital surplus				
Additional paid-in capital	3,989,860	11	4,322,860	9
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	6	3,089,442	6
Other adjustments to stockholders' equity				
Cumulative translation adjustments	160,829	-	20,752	-
Net loss not recognized as pension cost	(91,561)	-	(9,215)	-
Stockholders' equity of parent company	11,303,744	31	11,238,934	23
Minority interest	-	-	(34,450)	-
Total Stockholders' Equity	11,303,744	31	11,204,484	23
Commitments and contingencies (Note 7)	-	-	-	-
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 37,665,893	100	49,257,644	100

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

(English Translation of Financial Report Originally Issued in Chinese)

INVENTEC APPLIANCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	For the Year Ended December 31,			
	2006		2005	
	Amount	%	Amount	%
Gross sales (Note 2)	$ 105,387,160	100	120,762,220	100
Less: Sales returns	(132,356)	-	(253,207)	-
Sales allowances	(52,332)	-	(179,212)	-
Net sales	105,202,472	100	120,329,801	100
Cost of sales	(97,545,367)	(93)	(110,010,094)	(91)
Gross profit	7,657,105	7	10,319,707	9
Operating expenses:				
Selling	(2,349,143)	(2)	(3,466,671)	(3)
Administration	(981,969)	(1)	(1,047,541)	(1)
Research and development	(1,840,498)	(2)	(1,964,296)	(2)
	(5,171,610)	(5)	(6,478,508)	(6)
Operating income	2,485,495	2	3,841,199	3
Non-operating income:				
Interest income	109,745	-	55,833	-
Foreign exchange gain, net (Note 2)	108,020	-	136,673	-
Revaluation gain on financial assets	25,761	-	-	-
Gain on inventory value recoveries	68,453	-	-	-
Others	635,928	1	472,066	-
	947,907	1	664,572	-
Non-operating expenses and losses:				
Interest expense	(216,653)	-	(135,867)	-
Losses on inventory valuation and obsolescence	-	-	(547,645)	-
Other investment losses	-	-	(44,850)	-
Impairment loss (Notes 2 and 4.a)	(258,130)	-	-	-
Revaluation loss on financial liabilities	(17,670)	-	-	-
Others	(258,463)	-	(204,846)	-
	(750,916)	-	(933,208)	-
Income before income tax	2,682,486	3	3,572,563	3
Income tax expense (Notes 2 and 4.k)	(628,383)	(1)	(582,398)	(1)
Net income	**$ 2,054,103**	**2**	**2,990,165**	**2**
Attributable to:				
Shareholders' of the parent company	$ 2,059,073	2	2,990,165	2
Net income of minority interest	(4,970)	-	-	-
	$ 2,054,103	**2**	**2,990,165**	**2**
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
Primary earnings per share belonging to the parent company (Notes 2 and 4.l)	$ 6.08	4.72	11.01	9.53
Primary earnings per share after retroactive adjustments			$ 8.41	7.28

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

(English Translation of Financial Report Originally Issued in Chinese)

INVENTEC APPLIANCES CORPORATION

CONSOLIDATED 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)

			Retained Earnings			Stockholders' Equity Adjustment			
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Minority Interest	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 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)
Capital increase in cash	230,000	2,218,360	-	-	-	-	-	-	2,448,360
Net income for the year ended December 31, 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
Minority interest	-	-	-	-	-	-	-	(34,450)	(34,450)
Balance as of December 31, 2005	3,330,000	4,323,970	483,985	-	3,089,442	20,752	(9,215)	(34,450)	11,204,484
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 surplus transferred to capital stock	333,000	(333,000)	-	-	-	-	-	-	-
Net income for the year ended December 31, 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 changes in percentage of ownership in long-term equity investment	-	17,699	-	-	-	-	-	-	17,699
Minority interest	-	-	-	-	-	-	-	34,450	34,450
Balance as of December 31, 2006	$ 4,359,000	4,008,669	783,001	9,215	2,074,591	160,829	(91,561)	0	11,303,744

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For The Year Ended December 31, 2006	2005
Cash flows from operating activities:		
Net income	$ 2,054,103	2,990,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,091,342	676,058
Amortization	311,849	266,957
Amortization of consolidation debits	-	30,944
Loss (gain) on disposal of property, plant and equipment	(13,849)	26,619
Impairment loss	258,130	-
Provision (reversal) for decline (recovery) in market value and obsolescence of inventories	(68,453)	547,645
Provision (reversal) for allowance for doubtful accounts	(235,807)	235,807
Investment loss (gain) recognized under the equity method	1,842	(112)
Provision (reversal) for estimated warranty reserve	(385,396)	225,238
Provision (reversal) for royalty reserve	(67,804)	82,779
Permanent loss on investment under the cost method	-	44,850
Revaluation gain on financial assets	(25,761)	-
Change in operating assets and liabilities:		
Accounts receivable	7,187,166	(4,018,356)
Other financial assets—current	(358,160)	(72,441)
Inventories	3,872,280	(7,121,070)
Other current assets	(150,438)	(111,217)
Deferred income tax assets and liabilities , net	349,045	185,824
Accounts payable	(11,942,132)	9,651,625
Income tax payable	63,574	(107,510)
Accrued expenses	195,893	798,127
Other financial liabilities—current	442,781	(59,474)
Other current liabilities	(445,599)	443,654
Accrued pension liabilities	25,242	(23,066)
Net cash provided by operating activities	2,159,848	4,693,046
Cash flows from investing activities:		
Increase (decrease) in long-term equity investments	(113,292)	(95,307)
Acquisition of property, plant and equipment	(2,785,918)	(3,078,827)
Increase in other assets	(221,298)	(550,183)
Proceeds from disposal of long-term equity investment	67,871	-
Proceeds from returned long-term investments	-	6,800
Proceeds from sale of property, plant and equipment	263,871	214,329
Increase in land use right	(43,918)	(268,329)
(Increase) decrease in other financial assets—non-current	35,738	(69,427)
Net cash used in investing activities	(2,796,946)	(3,840,944)
Cash flows from financing activities:		
Increase in short-term borrowings	102,744	(995,819)
Increase in long-term borrowings	-	730,981
Repayment of long-term borrowings	(442,234)	-
Capital increase in cash by minority interest	216,883	-
Capital increase in cash	-	2,448,360
Remuneration to directors and supervisors	(80,458)	(56,449)
Employee bonuses	(157,735)	(111,715)
Cash dividends	(1,831,500)	(1,568,000)
Increase (decrease) in other financial liabilities—non-current	(496,945)	1,935
Net cash provided by (used in) investing activities	(2,689,245)	449,293
Effect of changes in exchange rates	102,136	107,575
Net increase (decrease) in cash	(3,224,207)	1,408,970
Cash, beginning of the year	8,623,203	7,214,233
Cash, end of the year	$ 5,398,996	8,623,203
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year	$ 230,054	153,243
Cash paid for income tax during the year	$ 218,365	524,410
Current portion of long-term borrowings—transferred to current liabilities	$ 299,320	288,642
Purchase of property, plant, and equipment with cash and other payables:		
Acquisition of property, plant, and equipment	$ 2,789,348	3,082,058
Add: Other payables and rents payables—beginning of the year	108,427	105,196
Less: Other payables and rents payables—end of the year	(111,857)	(108,427)
Cash paid	$ **2,785,918**	**3,078,827**

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

(Amounts expressed in thousands of New Taiwan Dollars, 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 the manufacture and sales of MP3 player, wire and wireless communication and digital accessory products.

As of December 31, 2006, the Consolidated Entities had 16,714 employees.

(2) Summary of Significant Accounting Policies

The Consolidated Entities' financial statements were prepared in conformity with the Guideline Governing the Preparation of Financial Report by Securities Issuer, 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) Status of Consolidation

(i). Details of subsidiaries within the Consolidated Entities are shown below:

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2006.12.31	2005.12.31	
The Company	Inventec Appliances (Cayman) Holding Corp.	Investment company	100%	100%	Inventec Appliances (Cayman) Holding Corp. was established in 2000 and incorporated as a holding company to engage in various overseas investments. As of December 31, 2006, its total issued capital was US$25,244.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (BVI) Corp.	International trading	100%	100%	As of December 31, 2006, Inventec Appliances (BVI) Corp. has a total issued capital of US$50.
"	Inventec Appliances (USA) Distribution Corp.(IDC)	Marketing and popularizing	100%	100%	IDC was established in June 2000. As of December 31, 2006, its total issued capital was US$4.
"	Inventec Appliances (USA) Packing Corp. (IPC)	Products package designing and packing	100%	100%	IPC was established in June 2000. As of December 31, 2006, its total issued capital was US$1.
"	Inventec Appliances Corporation USA, Inc (IAC USA)	Marketing	100%	-	Inventec Appliances Corporation USA, Inc was established in April 2006. As of December 31, 2006, its total issued capital was US$1.

(Continued)

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

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2006.12.31	2005.12.31	
Inventec Appliances (Cayman) Holding Corp	Inventec Appliances (Shanghai) Co., Ltd.(IACS)	Electronics manufacturing	100%	100%	IACS was established in February 1991 and was originally invested by Inventec Corporation (Hong Kong) Ltd. under its former registered name of Inventec (Shanghai) Electronics Co., Ltd. Following the reorganization of the group in 2002, IACS was then reinvested by Inventec Appliances (Cayman) Holding Corp. As of December 31, 2006, its total issued capital was US$35,400.
"	Inventec Appliances (Pudong) Co., Ltd.(IACP)	Electronics manufacturing	100%	100%	IACP was established in April 2004. As of December 31, 2006, its total issued capital was US$37,000.
"	Inventec Appliances (Jiangning) Co., Ltd.(IACJ)	Communication products manufacturing	100%	100%	IACJ was established in February 2004. As of December 31, 2006, its total issued capital was US$12,000.
"	Inventec Appliances (Nanjing) Co., Ltd. (IACN)	Product parts manufacturing	100%	100%	IACN was established in October 1993 and was originally invested by Inventec Corporation (Hong Kong) Ltd. under its former registered name of Inventec (Nanjing) Electronics Co., Ltd. Following the reorganization of the group in 2004, IACN was then reinvested by Inventec Appliances (Cayman) Holding Corp. As of December 31, 2006, its total issued capital was US$5,000.
"	Inventec Appliances (Shanghai) International Marketing Co., Ltd.(IASM)	Marketing and Popularizing	100%	100%	IASM was established in May 2005. As of December 31, 2006, its total issued capital was US$14,000.

(Continued)

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

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2006.12.31	2005.12.31	
Inventec Appliances (Cayman) Holding Corp	Inventec Appliances (Nanjing) System Co., Ltd.(IANS)	Product parts manufacturing	100%	-	IANS was established in July 2006. As of December 31, 2006, its total issued capital was US$7,500.
Inventec Appliances (Shanghai) Co., Ltd.	Giant Alliance (Shanghai) Co., Ltd.(GA)	Marketing and Popularizing	50.36%	82.35%	GA was invested by IACS on December 30, 2005. As of December 31, 2006, its total issued capital was RMB$139,000.

The consolidated financial statements include the accounts of the Company and the above mentioned subsidiaries (the Consolidated Entities). All material inter-company transactions have been eliminated in the consolidation financial statements.

(b) Foreign Currency Translation

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 Consolidated Entities adopted the revised Statement of Financial Accounting Standards No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements."

(c) Basis for Classifying Assets and Liabilities as Current or Non-Current

Unrestricted cash, cash equivalent, assets held for trading or other assets that the Consolidated Entities 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.

(d) Assets Impairment

Effective January 1, 2005, the Consolidated Entities adopted Statement of Financial Accounting Standards No.35 (SFAS 35) "Accounting for Assets Impairment". According to SFAS 35, the Consolidated Entities assess 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 Consolidated Entities estimate the recoverable amount of the asset. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount. The Consolidated Entities reverse 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.

(e) Financial instruments

Effective January 1, 2006, the Consolidated Entities adopts the Statement of Financial Accounting Standard No.34 (SFAS 34) "Accounting for Financial Instruments". According to SFAS 34, the Consolidated Entities classify the investments in financial assets as financial assets / liabilities reported at fair value through profit or loss and 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 the initial recognition, financial instruments held are classified depending on the Consolidated Entities' 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 Consolidated Entities 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 though profit or loss.

2. Financial assets carried at cost:

   Financial assets carried at cost are equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured; therefore, the Consolidated Entities carried these assets at original 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.

Prior to December 31, 2005, investments held by the Consolidated Entities 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 a 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.

(f) Allowance for Doubtful Accounts

Allowance for doubtful accounts is based on the results of the Consolidated Entities' evaluation of the collectibility of outstanding receivable balances.

(g) 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 losses.

(h) Long-Term Equity Investments under the 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 change in the carrying value of long-term equity investments 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.

(i) 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 accounted for as 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	10 to 50	years
Machinery	3 to 10	years
Research and development equipment	3 to 5	year
Furniture and office facilities	3 to 10	years
Other equipment	2 to 15	years

(j) Intangible Assets and Other Assets

Land use right is recorded at acquisition cost, which is amortized over the usage period.

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

Royalty payments are amortized using the straight –line method over the term of patent license agreements. Software costs are amortized equally over one to two years. Telephone line installation charges and electric power projects are amortized equally over a period of three years.

Goodwill represents the excess of the cost of that acquisition over the Company's interest in the fair value of identifiable net assets acquired. Prior the January 1, 2006, goodwill was amortized using the straight-line method ove the estimate life. Effective January 1, 2006, pursuant to the newly revised accounting standard, goodwill is no longer amortized and instead is revaluation for value and expected future economic benefit on the balance sheet date. If there is any evidence indicating that the carrying amount of the goodwill might not be recoverable, related impairment losses are recognized as part of non-operating losses or extraordinary loss.

(k) Warranty Reserve

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

(l) 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.

(m) 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 annually 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 adopts 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. As the Company has not yet revised its pension plan to conform to the Act, any matters which are not covered by the pension plan are transacted in accordance with the Act.

For defined benefit pension plan, the Company adopts the 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 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.

Inventec Appliances (Cayman) Holding Corp. and Inventec Appliances (BVI) Corp. do not have pension plans for purposes of proving pension benefits to their employees, while the other foreign subsidiaries provide such pension benefits under a defined contribution pension plan in compliance with the local statutory requirements in their respective location.

(n) 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 Consolidated Entities also provides product development services and recognized commission income thereon when services are fully rendered.

(o) Classification of Capital and Operating Expenditures

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

(p) Income Tax

The Company adopts the SFAS No. 22, "Accounting for Income Taxes" in 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. A valuation allowance is 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 form 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 aoumts. 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.

Income tax of the Consolidated Entities is based on the tax laws of various jurisdictions. Income tax is declared on an individual company basis. Income tax expense of the Consolidated Entities is the sum of income tax expenses of the companies included in the consolidation.

(q) 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 shares 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 as of and for the year ended December 31, 2006.

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

(4) Summary of Major Accounts

(a) Assets Impairment

As of December 31, 2006, the Consolidated Entities revaluated for impairment of intangible assets in accordance with the changes of the circumstances which indicated the China Market sale on GSM cellular phone product was inferior anticipated, and recognized an impairment loss of $258,130 on the carrying value of intangible assets excess of the recoverable amount.

(b) Cash

	December 31, 2006	December 31, 2005
Cash on hand	$ 1,815	1,719
Cash at bank		
Checking accounts	511	-
Demand deposits	228,430	1,615,093
Foreign currency deposits	3,873,684	5,699,673
Time deposits	1,294,556	706,718
Negotiable certificate of deposits	-	600,000
Total	$ 5,398,996	8,623,203

(c) Financial Instruments

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

Financial instruments held for sale	December 31, 2006	December 31, 2005
Listed securities		
TomTom N.V.	$ -	42,487

	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	8,000
Gyro Signal Technology Co., Ltd	15,000	-
Think Outside, Inc.	-	-
ThingMagic, Inc.	32,591	32,820
Tapwave, Inc.	-	-
Leadtone Limited	32,594	-
Siano Mobile Silicon Inc.	16,297	-
Digital Chaotex Ltd.	16,297	-
AutoNavi Holdings Ltd.	32,594	-
Total	$ 205,573	93,020

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

For the year ended December 31, 2006, Inventec Appliances (Cayman) Holding Corp. invested US$1,000, US$500, US$500 and US$1,000, for equity ownership of 2.40%, 1.00%, 2.86% and 0.63% in Leadtone Limited, Siano Mobile Silicone Inc, Digital Chaotex and AutoNavi Holding Ltd., respectively.

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

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.

Since the decline in the value of investments in Tapwave, Inc. and Think Outside, Inc. was deemed to be permanently irrecoverable, Inventec Appliances (Cayman) Holding Corp. had fully written-off the book values of US$6,000 and US$1,500 in year 2004 and 2003, 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 accounted for as non-current financial assets carried at cost.

Upon the adoption of SFAS No. 34, certain accounts of the financial statements as of and for the year ended December 31, 2005 were reclassified to conform with the presentation adopted for the financial statements as of and for the year ended December 31, 2006. These accounts included the equity securities and beneficiary certificates of $135,507, which were valued at the lower of cost or market, of which $42,487 was reclassified to financial assets reported at fair value through profit or loss—current and $93,020 was reclassified to financial assets carried at cost—non-current as of December 31, 2005.

(d) Accounts Receivable

	December 31, 2006	December 31, 2005
Accounts receivable—related parties	$ 6,757	-
Accounts receivable—non-related parties	14,076,913	20,769,258
Less: allowance for doubtful accounts	(48,571)	(284,378)
Sub-total	14,028,342	20,484,880
Total	**$ 14,035,099**	**20,484,880**

(e) Inventories

	December 31, 2006	December 31, 2005
Raw materials	$ 4,715,399	7,104,211
Work in process	685,688	1,549,774
Finished goods	3,998,280	4,299,547
Inventories in transit	142,736	286,001
Subtotal	9,542,103	13,239,533
Less: Allowances for valuation and obsolescence losses	(694,544)	(750,687)
Net	**$ 8,847,559**	**12,488,846**

(f) Long-Term Investments

		December 31, 2006		December 31, 2005	
Investee	Cost of Investment	Shareholding Ratio	Book Value	Shareholding Ratio	Book Value
Gainia Intellectual Asset Services, Inc.	6,400	48.30%	**$ 3,742**	48.30%	**5,584**

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

Gain or loss on investment was accounted for under the equity method based on the audited financial statements prepared by independent accountants for the years ended December 31, 2006 and 2005 as follows:

	For The Year Ended December 31,	
Investee	2006	2005
Gainia Intellectual Asset Services, Inc.	$ (1,842)	112

(g) Pension Plan

The Company has a defined benefit 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 contributes to the pension fund deposited with the Central Trust of China. For the years ended December 31, 2006 and 2005, the movements in this 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 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 pension costs calculation were as follows:

	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 per book 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)

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

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

As of 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 obligation	6,239	6,239
Amortization of unrecognized pension loss	6,742	3,285
Net pension cost	$ 39,265	41,971

The Consolidated Entities 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 $152,499 and $144,183, respectively.

(h) Short-Term Borrowings

	December 31, 2006	December 31, 2005
Credit loan	$ 2,266,524	1,863,704
Letters of credit	-	316,085
Other borrowings	58,464	-
Total	$ 2,324,988	2,179,789
Range of interest rates	1.80%~5.02%	4.35%~5.29%
Date of last maturity	June 6, 2007	August 15, 2006

(i) Long-Term Borrowings

Bank	Non-Current Portion	Current Portion	Total	Collateral
December 31, 2006				
Bank of America (Note i)	$ -	299,320	299,320	None
December 31, 2005				
Bank of America (Note i)	$ 301,208	191,030	492,238	None
Sumitomo Mitsui Banking Corporate (Note ii)	141,131	97,612	238,743	"
Total	$ 442,339	288,642	730,981	

(i) For the year ended December 31, 2005, IACP entered into a long-term loan agreement of US$15,000 with the Bank of America. This loan bears different interest rates depending on the currency of each borrowing: Interest rates of loans denominated in Renminbi (RMB) are based on 90% of floating interest rates announced by the People's Bank of China for 36- months RMB loans; interest rates of loans denominated in American dollar are calculated by the floating rate of the London Inter Bank Offered Rate (LIBOR) plus 1% at the time of borrowing. The principal amount of the loan is repayable in 7 quarterly installments according to the agreed repayment ratio commencing from June 2006.

(ii) For the year ended December 31, 2005, IACP entered into a long-term loan agreement of RMB80,000 with Sumitomo Mitsui Banking Corporate. Interest rates of loans denominated in Renminbi (RMB) are based on 90% of floating interest rates announced by the People's Bank of China for 36-months RMB loans. The principal amount of the loan is repayable in 7 quarterly installments according to the agreed repayment ratio commencing from July 2006. In December 2006, all of outstanding loan was repaid to the bank in advance.

For the years ended December 31, 2006 and 2005, the interest rates charged on the above mentioned Consolidated Entities' long-term debts ranged from 4.97% to 6.51% and 4.18% to 5.22%, respectively.

(j) 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.

(iii) Legal reserve and Capital surplus

Under R.O.C. Company Law, legal reserve can only be used to offset deficit and to increase capital stock. However, legal reserve can be to capitalized only when the balance of legal reserve reaches 50% of the Company's paid-in capital and only up to one half of the balance can be capitalized.

According to R.O.C. 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 becomes 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 that component recovers.

(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, of which the remuneration to directors and supervisor cannot exceed 3% and 7% for employee bonus.

(Continued)

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

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 resolution. The information on such distribution will be announced through Market Observation Post System on the internet after the stockholders' meeting.

(k) Income Tax

(i) Deferred income tax assets and liabilities:

	December 31, 2006		December 31, 2005	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Deferred tax assets arising from deductible temporary differences:				
-Unrealized foreign exchange loss	$ 32,779	$ 8,195	231,861	57,965
-Allowance for inventory valuation and obsolescence losses	463,203	83,491	746,111	115,276
-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	11,604	29,011
-Unrealized warranty reserve	940,682	234,799	1,639,559	385,136
-Accrued royalty reserve	123,040	29,023	277,278	69,320
-Unrealized impairment loss on intangible assets	262,691	26,269	-	-
-Unrealized impairment loss on long-term investment under the cost method	54,858	13,715	54,858	13,715
-Book-tax difference on property depreciation	-	-	74,928	10,476
-Investment tax credit	-	340,373	-	108,207
-Loss carryforward benefit	443,628	110,907	-	-
Total deferred tax assets		$ 881,972		804,661
Deferred tax liabilities arising from taxable temporary differences:				
-Unrealized investment income accounted for under the equity method	$ 4,069,345	$ 1,024,992	2,183,991	550,059
-Cumulative translation adjustment	214,439	53,610	27,670	6,918
-Reserve for employee retirement benefit	42,962	10,741	36,817	9,204
Total deferred tax liabilities		$ 1,089,343		566,181

(Continued)

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

(ii)

	December 31, 2006	December 31, 2005
Deferred tax assets—current	$ 361,685	325,425
Deferred tax liabilities—current	-	-
Valuation allowance—deferred tax asstes—current	(21,788)	(55,180)
Net	$ 339,897	270,245
Deferred tax assets—non-current	$ 520,287	479,236
Deferred tax liabilities—non-current	(1,089,343)	(566,181)
Valuation allowance—deferred tax asstes—non-current	(32,530)	(49,252)
Net	$ (601,586)	(136,197)

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

	For The Year Ended December 31, 2006	2005
Current income tax expense	$ 11,063	404,325
Deferred income tax expense	349,045	185,824
Effect of changes in exchange rates	-	4
Under (over) accrual of prior year's income tax	268,275	(7,755)
Income tax expense	$ 628,383	582,398

(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 Year Ended December 31, 2006	2005
Income tax calculated by statutory rate	$ 655,440	1,660,047
Permanent differences	3,646	16,098
Tax-exempt income	(77,830)	(808,503)
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	74,716	(13,617)
Under (over) accrual of prior year's income tax	268,275	(7,755)
Provision (reversal) for allowance of deffered tax assets	(50,114)	104,432
Effect of changes in exchange rates	(1,704)	(1,424)
Income tax expense	$ 628,383	582,398

(v) IACS, IACN, IASM and GA act in conformity with the income tax law of foreign enterprises investment and other regulation in the People's Republic of China. In accordance with Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, the tax affair encourages the establishment of enterprises with foreign investment which adopt advanced technology and equipment, and IACS conforms to the preferential treatment in respect of reduction of or exemption from income tax on profit. As a result, IACS was levied income tax at the reduced rate of 10% upon approval by tax affair for the year ended December 31, 2006 and 2005.

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

(vi) In accordance with Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, IACP, IACJ and IANS conform to the preferential treatment for advanced technology industries in respect of reduction of or exemption form income tax on profit. From the year beginning to make profit, the enterprises shall be exempted from income tax in the first and second years and followed a 50% reduction in the third to fifth years. As the year ended December 31, 2006 was the second profitable year for both of IACP and IACJ and the first year of establishment of IANS, no income tax was imposed and no income tax expense was recognized.

(vii) IDC, IPA and IAC USA are taxed by the respective local governments.

(viii) Inventec Appliances (Cayman) Holding Corp. and Inventec Appliances (BVI) Corp., which were incorporated in Cayman Island and British Virgin Islands, respectively, are not taxed by the respective local governments.

(ix) The Company's income tax returns and stockholders' imputation tax credit account through the calendar year 2004 have been approved by the Tax Authority.

(x) 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 a five-year income tax exemption for the years from 2003 to 2007 and the year from 2008 to 2012.

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

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

(xii) 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

(xiii) 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%

(l) Earnings per Share (EPS)

For the years ended December 31, 2006 and 2005, the primary earning 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

(m) 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	$ 20,001,793	20,001,793	29,447,216	29,447,216
Financial assets reported at fair value through profit or loss—current	-	-	42,487	42,487
Financial assets carried at cost—non-current	205,573	-	93,020	-
Total financial assets	$ 20,207,366	20,001,793	29,582,723	29,489,703
Financial Liabilities				
Book value equal to fair value	$ 24,160,981	24,160,981	35,852,496	35,852,496

(ii) Method 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 a reasonable basis for establishing the fair value. This method is applied to cash, notes receivable, accounts receivable, other financial assets, short-term borrowings, accounts payable, accrued expenses, other financial liabilities and long-term borrowing—current portion.

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 determining the fair value under 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 Consolidated Entities, the time necessary to accomplish the exchange of assets cannot be estimated. Consequently, its fair market value cannot be established. Therefore, the book value is used as the fair market value.

(Continued)

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

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

(iv) Financial Risk Information

1. Liquidity risks:

The capital and working fund of the Consolidated Entities are sufficient to meet their entire contracted obligations; therefore, no such liquidity risks exist.

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

2. Concentration of credit risks:

Implicit credit risk of the Consolidated Entities arises from cash and accounts receivable. No credits risk is expected on cash as it is deposited in different financial institutions. As of December 31, 2006 and 2005, the Consolidated Entities' accounts receivable included the account of one specific customer, which represented 72% and 88%, respectively, of the consolidated accounts receivable. To minimize credit risk, the Consolidated Entities periodically evaluate the customer's financial position and the possibility of collecting this trade receivable. The Consolidated Entities believe that the possibility of this account becoming bad debt and incurring losses thereon is remote because the results of their evaluation of the collectibility of this account were satisfactory.

As of December 31, 2006 and 2005, the Consolidated Entities' contracts with credit risk concentration were as follows:

Accounts Receivable-By Region	December 31, 2006	December 31, 2005
Domestic	$ 48,592	210,862
Asia	277,907	2,351,139
Europe	1,441,825	3,844,781
America	12,315,346	14,362,476
Total	**$ 14,083,670**	**20,769,258**

3. Cash Flow Risks Arising From Interest Rate

The Consolidated Entities' 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

4. 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.

(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 Consolidated Entities

Name of Related Party	Relationship with the Consolidated Entities
Inventec Corporation	Shareholder
Inventec (Shanghai) Corp.	The Consolidated Entities' related party
Inventec Micro-Electronics Corp.	〃
Inventec (Pudong) Corp.	〃
Inventec Enterprise System Corp.	〃
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
Inventec (Shanghai) Corp.	$ -	-	1,290	-
Others	13,280	-	3,843	-
Total	$ 13,280	-	5,133	-

(ii) Property Transaction

For the years ended December 31, 2005 and 2006, machinery purchased from and sold to related parties were as follows:

	For The Year Ended December 31,			
	2006		2005	
	Purchased	Sold	Purchased	Sold
Inventec Corporation	$ -	-	5,257	-
Inventec Micro-Electronics Corp.	25	-	-	-
Total	$ 25	-	5,257	-

(iii) Others

	Rent, Utilities, Proccecing Fee and Out-sourcing Expenses		Business Consulting Fee and Computer System Expenses	
	For The Year Ended December 31,			
Related Parties	2006	2005	2006	2005
Inventec Corporation	$ -	-	26,838	36,563
Inventec Micro-Electronics Corp.	21	24,449	-	-
Inventec (Shanghai) Corp.	7,918	8,634	-	-
Inventec (Pudong) Corp.	27,435	11,128	-	-
Total	$ 35,374	44,211	26,838	36,563

(Continued)

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

(iv) Accounts Receivable (Payable)

	December 31, 2006		December 31, 2005	
	Balance	%	Balance	%
Accounts receivable:				
Total	$ 6,757	-	-	-
Accrued expenses				
Inventec (Pudong) Corp.	$ -	-	12,504	1
Inventec Corporation	-	-	14,626	1
Other	-	-	1,533	-
Total	$ -	-	28,663	2
Other liabilities-current				
Total	$ -	-	2,107	-

(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	$ 51,962	82,381	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	$ 1,841	727
JPY	-	407,523

(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

(Amounts expressed in thousand, 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 commitments for 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) As of December 31, 2006 and 2005, the totaled significant construction and machinery contract prices and the future irrecoverable payments were as follows:

	December 31, 2006	December 31, 2005
Total Contract Price:		
USD	$ 31,476	32,151
RMB	446,790	147,491
Future Irrecoeverable Payment:		
USD	611	7,173
RMB	74,050	45,496

(f) In October 2001, FeiMa Communication (Qing Dao) Co., Ltd. filed a lawsuit against the Company. The local peoples' court in China ruled that the Company breached an agreement and was 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.

(g) 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.

(h) 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

(8) Significant Catastrophic Losses: None.

(9) Significant Subsequent Events: None.

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

(10) Others

(a) Upon the adoption of SFAS No.34, certain accounts in the consolidated financial statements as of and for the year ended December 31, 2005 were reclassified to conform to the presentation adopted in the consolidated financial statements as of and for the year ended December 31, 2006.

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

Categorized as / Nature	For The Year Ended December 31,					
	2006			2005		
	Operating Cost	Operation Expenses	Total	Operating Cost	Operation Expenses	Total
Personnel Cost						
Salary	1,306,345	1,651,968	2,958,313	1,279,148	1,560,997	2,840,145
Health and labor insurance	72,472	120,446	192,918	87,235	100,696	187,931
Pension	49,285	154,753	204,038	44,304	141,850	186,154
Other	180,064	59,992	240,056	422,258	55,255	477,513
Depreciation	798,684	292,658	1,091,342	489,960	186,098	676,058
Amortization	227,785	84,064	311,849	166,745	100,212	266,957

(11) Business Segment Information

(a) Industry:

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

(b) Geographical Region:

The Consolidated Entities' geographical information in 2006 and 2005 were as follows:

	For The Year Ended December 31, 2006				
	Domestic	Asia	America	Adjustments	Consolidated
Revenue outside the Consolidated Entities	$ 81,491,958	11,510,094	13,040,307	-	106,042,359
Intercompany revenue	14,741,313	193,137,594	45,709	(207,924,616)	-
Total revenue	$ 96,233,271	204,647,688	13,086,016	(207,924,616)	106,042,359
Segment profit/(loss)	$ 424,176	2,585,511	21,837	19,567	3,051,091
General corporate income					108,020
General corporate expense					(258,130)
Investment profit/(loss)					(1,842)
Interest expenses					(216,653)
Consolidated income before income tax					2,682,486
Identifiable assests	$ 21,853,651	46,320,107	4,557,164	(35,224,462)	37,506,460
Long-term investments					209,315
Total assets					37,715,775

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

	For The Year Ended December 31, 2005				
	Domestic	Asia	America	Adjustments	Consolidated
Revenue outside the Consolidated Entities	$ 105,094,751	6,886,179	7,712,114	-	119,693,044
Intercompany revenue	7,951,243	105,475,784	56,593	(113,483,620)	-
Total revenue	$ 113,045,994	112,361,963	7,768,707	(113,483,620)	119,693,044
Segment profit/(loss)	$ 3,508,846	3,268,530	21,216	(3,134,900)	3,663,692
General corporate income					-
General corporate expense					-
Investment profit/(loss)					44,738
Interest expenses					(135,867)
Consolidated income before income tax					3,572,563
Identifiable assests	$ 29,785,773	44,063,518	1,464,948	(26,197,686)	49,116,553
Long-term investments					141,091
Total assets					49,257,644

Segment revenue mentioned above indicated sales revenue outside the Consolidated Entities, excluding the following items:

(i) Interest income caused by advanced payment for and debts lend to other segments.

(ii) Profit on investments accounted for under equity method.

(iii) Other income of the Consolidated Entities that is irrelevant to segments.

Segment profit/ (loss) calculated by offsetting segment costs and expenses, which indicated any costs and expenses related to segment revenue, excluding the following items:

(i) General expense of the Consolidated Entities that is irrelevant to segments.

(ii) Interest expenses.

(iii) Loss on investments accounted for under cost method.

(c) Exports:

	For the Year Ended December 31,	
Region	2006	2005
America	$ 61,627,755	$ 68,937,058
Europe	23,270,372	31,215,480
Asia	18,622,551	16,732,487
Total	$ 103,520,678	$ 116,885,025

(d) Major Clients:

For the years ended December 31, 2006 and 2005, clients with revenues over 10% of total revenues of the Consolidated Entities were as follows:

For the Year Ended December 31, 2006			For the Year Ended December 31, 2005		
Name	Amount	%	Name	Amount	%
D	$ 67,356,771	64%	D	81,450,779	68%
T	12,409,028	12%	T	13,754,123	11%

(Continued)