(English Translation of Financial Report
Originally Issued In Chinese)

INVENTEC APPLIANCES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

AND

INDEPENDENT AUDITORS' REPORT

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Inventec Appliances Corporation

Consolidated Financial Statements

Table of Contents

Contents	Page
• Cover Page	1
• Table of Contents	2
• Independent Auditors' Report	3
• Consolidated Balance Sheets	4-5
• Consolidated Statements of Operations	6
• Consolidated Statements of Changes in Stockholder's Equity	7
• Consolidated Statements of Cash Flows	8
• Notes to Consolidated Financial Statements	
1. Organization and Business	9
2. Summary of Significant Accounting Policies	9-15
3. Reasons for and Effects of Accounting Changes	15
4. Summary of Major Accounts	15-25
5. Related Party Transactions	25-26
6. Pledged Assets	26
7. Significant Commitments and Contingencies	26-27
8. Significant Catastrophic Losses	27
9. Significant Subsequent Events	27
10. Others	27-28
11.Business Segment Information	28

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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 June 30, 2006 and 2005, and the related consolidated statements of operations, consolidated statements of changes in stockholders' equity and cash flows for the six months 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 audit.

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 evaluation 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 financial position of Inventec Appliances Corporation as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the Republic of China.

KPMG Certified Public Accountants

CPA: Samuel Lin
Charlotte Lin

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

Note to Readers

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

(English Translation of Financial Report Originally Issued in Chinese)

INVENTEC APPLIANCES CORPORATION

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 and 2005

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

	June 30, 2006		June 30, 2005	
ASSETS	Amount	%	Amount	%
Current assets				
Cash (Note 4.b)	$ 9,113,532	27	8,200,103	25
Accounts receivable, net of allowance for doubtful accounts (Notes 2 and 4. d)	8,019,918	24	11,523,276	35
Other financial assets—current	261,681	1	157,115	1
Inventories, net of allowance for inventory valuation and obsolescence losses (Notes 2 and 4. e)	7,856,765	23	7,986,844	24
Other current assets	481,128	1	339,091	1
Deferred income tax assets—current (Notes 2 and 4. 1)	395,195	1	123,831	-
Financial assets reported at fair value through profit or loss—current (Notes 2 and 4.c)	-	-	40,904	-
	26,128,219	77	28,371,164	86
Funds and Long-term equity investments				
Long-term equity investments accounted for under the equity method (Notes 2 and 4. f)	6,893	-	6,048	-
Financial assets carried at cost—non-current (Notes 2 and 4. c)	140,115	-	97,050	-
Other financial assets—non-current	15,192	-	13,516	-
	162,200	-	116,614	-
Property, plant, and equipment (Notes 2 and 4. g)				
Land	279,855	1	279,855	1
Buildings	2,225,830	7	953,252	3
Machinery	4,677,190	14	2,659,314	8
Furniture and office facilities	132,730	-	259,410	1
Other equipment	962,133	3	533,572	2
	8,277,738	25	4,685,403	15
Less: accumulated depreciation	(2,147,197)	(6)	(1,410,782)	(4)
Prepayment for equipment	89,867	-	55,910	-
Unfinished construction	344,513	1	423,009	1
	6,564,921	20	3,753,540	12
Intangible assets (Note 2)				
Deferred pension cost (Note 4. j)	62,390	-	61,052	-
Land use right	504,289	1	248,736	1
Other intangible assets	294,188	1	46,706	-
Accumulated impairment— intangible assets	(163,378)	-	-	-
	697,489	2	356,494	1
Other assets				
Deferred income tax assets—non-current (Notes 2 and 4.1)	-	-	187,049	1
Others	225,822	1	139,244	-
	225,822	1	326,293	1
TOTAL ASSETS	$ 33,778,651	100	32,924,105	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)
JUNE 30, 2006 and 2005
(New Taiwan Dollars in Thousands, Except for Share Data)

	June 30, 2006		June 30, 2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
Current liabilities				
Short-term borrowings (Note 4.h)	$ 3,793,775	11	3,166,596	10
Accounts payable	12,106,034	36	16,686,376	50
Accrued expenses	1,324,819	4	1,210,569	4
Other payables	308,059	1	1,865,657	6
Other financial liabilities—current	2,770,705	8	584,190	1
Other current liabilities	220,299	1	256,849	2
Long-term borrowings—current portion (Note 4.i)	422,631	1	32,759	-
Estimated warranty reserve	1,423,142	4	1,711,439	5
	22,369,464	66	25,514,435	78
Long-term liabilities				
Long-term borrowings (Note 4.i)	294,947	1	136,102	-
Other liabilities				
Accrued pension liabilities (Notes 2 and 4.j)	25,434	-	45,991	-
Other financial liabilities—non-current	305,401	1	8,404	-
Other Liabilities	15,465	-	229,196	1
Deferred income tax liabilities—non-current (Notes 2 and 4.l)	339,883	1	-	-
	686,183	2	283,591	1
Total liabilities	23,350,594	69	25,934,128	79
Stockholders' equity (Notes 2 and 4.m)				
Capital stock, par value $10 per share; authorized 400,000,000 and issued 333,000,000 shares as of June 30, 2006 ; authorized and issued 280,000,000 shares as of June 30, 2005	3,330,000	10	2,800,000	9
Stock dividend to be distributed	1,029,000	3	300,000	1
Capital surplus				
Additional paid-in capital	3,989,860	12	2,104,500	6
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	1,259,097	4	1,463,131	4
Other adjustments to stockholders' equity				
Cumulative translation adjustments	24,341	-	(162,749)	-
Net loss not recognized as pension cost	(9,215)	-	-	-
Stockholders' equity of parent copmany	10,434,108	31	6,989,977	21
Minority interest	(6,051)	-	-	-
Total stockholders' equity	10,428,057	31	6,989,977	21
Commitments and contingencies (Note 7)	-	-	-	-
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 33,778,651	100	32,924,105	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 THE SIX MONTHS ENDED JUNE 30, 2006 and 2005

(New Taiwan Dollars in Thousands, Except for Earnings Per Share)

	Six Months Ended June 30,			
	2006		2005	
	Amount	%	Amount	%
Operating revenues:				
Gross sales (Note 2)	$ 48,430,034	100	52,089,058	100
Less: Sales returns	(50,808)	-	(68,474)	-
Sales allowances	(16,536)	-	(5,007)	-
Net sales	48,362,690	100	52,015,577	100
Cost of sales	(44,507,714)	(92)	(47,476,422)	(91)
Gross profit	3,854,976	8	4,539,155	9
Operating expenses:				
Selling	(1,227,297)	(3)	(1,470,485)	(3)
Administration	(443,580)	(1)	(359,482)	(1)
Research and development	(983,907)	(2)	(843,031)	(2)
	(2,654,784)	(6)	(2,672,998)	(6)
Operating income	1,200,192	2	1,866,157	3
Non-operating income:				
Interest income	67,202	-	24,108	-
Revaluation gain on financial assets, net	25,538	-	576	-
Gain on disposal of property, plant, and equipment	4,249	-	-	-
Gain on inventory value recoveries	92,390	-	-	-
Others (Note 4.k)	576,184	1	170,780	-
	765,563	1	195,464	-
Non-operating expenses and losses:				
Interest expense	(121,264)	-	(56,909)	-
Loss on disposal of property, plant, and equipment	-	-	(34,898)	-
Losses on inventory valuation and obsolescence	-	-	(135,258)	-
Impairment loss (Note 4.a)	(161,631)	-	-	-
Revaluation loss on financial liabilities, net	(15,530)	-	-	-
Others	(161,104)	-	(121,397)	-
	(459,529)	-	(348,462)	-
Income before income tax	1,506,226	3	1,713,159	3
Income tax expense (Notes 2 and 4.l)	(273,497)	(1)	(349,305)	-
Net income	**$ 1,232,729**	**2**	**1,363,854**	**3**
Attributable to:				
Shareholders' of the parent company	$ 1,243,579	2	1,363,854	3
Net income of minority interest	(10,850)	-	-	-
	$ 1,232,729	**2**	**1,363,854**	**3**
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
Primary earnings per share belongs to parent company (Notes 2 and 4.n)	**$ 3.41**	**2.85**	**5.27**	**4.40**
Primary earnings per share after retroactive adjustments			**$ 4.02**	**3.36**

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 SIX MONTHS ENDED JUNE 30, 2006 and 2005

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

				Retained Earnings			Stockholders' Equity Adjustment			
	Common Stock	Stock Dividend to be distributed	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	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)
Net Income for the six months ended June 30, 2005	-	-	-	-	-	1,363,854	-	-	-	1,363,854
Cumulative translation adjustments of long-term investment	-	-	-	-	-	-	(25,121)	-	-	(25,121)
Balance as of June 30, 2005	$ 2,800,000	300,000	2,105,610	483,985	-	1,463,131	(162,749)	-	-	6,989,977
Balance as of January 1, 2006	3,330,000	-	4,323,970	483,985	-	3,089,442	20,752	(9,215)	(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 increase from capital surplus	-	333,000	(333,000)	-	-	-	-	-	-	-
Net Income for the six months ended June 30, 2006	-	-	-	-	-	1,243,579	-	-	(10,850)	1,232,729
Capital surpuls resulted from capital increase of investee company, which are not subscribed in accordance with shareholding ratio	-	-	17,699	-	-	-	-	-	-	17,699
Cumulative translation adjustments of long-term investment	-	-	-	-	-	-	3,589	-	-	3,589
Minority interest	-	-	-	-	-	-	-	-	39,249	39,249
Balance as of June 30, 2006	$ 3,330,000	1,029,000	4,008,669	783,001	9,215	1,259,097	24,341	(9,215)	(6,051)	10,428,057

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 SIX MONTHS ENDED JUNE 30, 2006 and 2005
(New Taiwan Dollars in Thousands)

	Six Months Ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 1,232,729	1,363,854
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	654,018	405,272
Amortization of consolidation debits	-	5,937
Loss (gain) on disposal of property, plant and equipment	(4,249)	35,369
Impairment loss	161,631	-
Provision for losses (gains) on inventory valuation and obsolescence	(92,390)	135,258
Investment loss (gain) recognized under the eqiuty method	315	(576)
Provision (reversal) for estimated warranty reserve	(217,919)	297,351
Provision for royalty reserve	32,774	34,698
Provision for allowance for doubtful accounts	(235,807)	31,565
Revaluation gain on financial assets, net	(25,538)	-
Change in operating assets and liabilities:		
Accounts receivable	12,977,734	5,054,625
Other receivables	(215,404)	-
Other financial assets—current	282,286	(35,074)
Inventories	4,641,269	(2,257,467)
Other current assets	(139,577)	(129,495)
Deferred income tax assets and liabilities , net	77,540	70,157
Accounts payable	(17,841,454)	(3,681,189)
Accrued expenses	(727,769)	106,239
Other financial liabilities—current	374,415	296,184
Other payables	39,937	(67,098)
Other current liabilities	(185,626)	168,312
Accrued pension liabilities	(15,646)	(7,602)
Differences arose from consolidation	-	158,829
Net cash provided by operating activities	773,269	1,985,149
Cash flows from investing activities:		
Increase in long-term equity investments	(48,863)	(45,858)
Purchase of property, plant and equipment	(1,602,497)	(946,871)
Proceeds from sale of property, plant and equipment	29,123	30,900
Proceeds from disposal of long-term equity investment	67,285	-
Other assets	(113,973)	(78,957)
Increase in land use right	-	(4,112)
Other financial assets—non-current	(414,606)	(644)
Net cash used in investing activities	(2,083,531)	(1,045,542)
Cash flows from financing activities:		
Increase in short-term borrowings	1,600,665	23,734
Increase (decrese) in long-term borrowings	(11,940)	168,861
Capital increase in cash by minority interest	216,883	-
Increase in other liabilities	855	2,226
Employee bonuses	(339)	(111,715)
Other financial liabilities—non-current	(147)	-
Net cash provided by investing activities	1,805,977	83,106
Effect of changes in exchange rates	(5,386)	(36,843)
Net increase in cash	490,329	985,870
Cash, the beginning of the period	8,623,203	7,214,233
Cash, the end of the period	$ 9,113,532	8,200,103
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	$ 109,802	54,505
Cash paid for income tax during the period	$ 12,979	212,237
Long-term borrowings—current portion	$ 422,631	32,759
Employee bonuses payable	$ 157,396	-
Cash dividends and remuneration to directors and supervisors payable	$ 1,911,958	1,624,449
Purchase of property, plant, and equipment with cash and other payables:		
Increase in property, plant, and equipment	$ 1,839,537	918,194
Add: Other payables and rents payables—beginning of the period	108,427	105,196
Less: Other payables and rents payables—end of the period	(345,467)	(76,519)
Cash paid	$ 1,602,497	946,871

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

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

(1) Organization and Business

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

As of June 30, 2006, the Consolidated Entities had 13,064 employees.

(2) Summary of Significant Accounting Policies

The Consolidated Entities' financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. Summary of significant accounting policies and their measurement basis are as follows:

(a) Status of Consolidation

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

Investor	Subsidiaries	Primary Business	Shareholding Ratio 2006.6.30	Shareholding Ratio 2005.6.30	Note
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.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (BVI) Corp.	International trading	100%	100%	As of June 30, 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 June 30, 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 June 30, 2006, its total issued capital was US$1.
"	Inventec Appliances (Shanghai) Co., Ltd.(IACS)	Electronics manufacturing	100%	100%	IACS was established in December 1991 and originally invested by Inventec Corporation (Hong Kong) Ltd. with the former registered name of Inventec (Shanghai) Electronics Co., Ltd. After the reorganization of the group in 2002, IACS was then reinvested by Inventec Appliances (Cayman) Holding Corp. As of June 30, 2006, its total issued capital was US$31,918.

(Continued)

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

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2006.6.30	2005.6.30	
Inventec Appliances (Cayman) Holding Corp	Inventec Appliances (Pudong) Co., Ltd.	Electronics manufacturing	100%	100%	Inventec Appliances (Pudong) Co., Ltd. was established in April 2004. As of June 30, 2006, its total issued capital was US$12,000.
"	Inventec Appliances (Jiangning) Co., Ltd.	Communication products manufacturing	100%	100%	Inventec Appliances (Jiangning) Co., Ltd. was established in February 2004. As of June 30, 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 originally invested by Inventec Corporation (Hong Kong) Ltd. with the former registered name of Inventec (Nanjing) Electronics Co., Ltd. After the reorganization of the group in 2004, IACN was then reinvested by Inventec Appliances (Cayman) Holding Corp. As of June 30, 2006, its total issued capital was US$8,981.
"	Inventec Appliances (Shanghai) International Marketing Co., Ltd.	Marketing and Popularizing	100%	-%	Inventec Appliances (Shanghai) International Marketing Co., Ltd. was established in May 2005. As of June 30, 2006, its total issued capital was US$14,000.
Inventec Appliances (Shanghai) Co., Ltd.	Giant Alliance (Shanghai) Co., Ltd.	"	50.36%	-%	Giant Alliance (Shanghai) Co., Ltd. was invested by Inventec Appliances (Shanghai) Co., Ltd. on December 30, 2005. The total amount of investment was RMB70,000.

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.

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

(ii) Details of subsidiaries that are excluded in the Consolidated Entities are shown below:

Investor	Subsidiaries	Primary Business	Shareholding Ratio		Note
			2006.6.30	2005.6.30	
The Company	Gainia Intellectual Asset Services, Inc.	Managing intellectual property rights	48.30%	48.30%	Gainia Intellectual Asset Services, Inc. was established in April 2003. Despite of the fact that the Company has controlling interest over such investee company's operation, it is not included in the consolidated financial statements, since the total issued capital, total assets and total operating income of such investee company constitute merely 0.40%, 0.06% and 0.02% of the corresponding accounts of the Company.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances Corporation USA, Inc.	Sales services	100%	-%	Inventec Appliances Corporation USA, Inc. was established in April 2006. Despite of the fact that the investor company has controlling interest over such investee company's operation, it is not included in the consolidated financial statements, since the total issued capital and total assets of such investee company constitute merely 0.001% and 0.007% of the corresponding accounts of the investor company and its operating income was considered insignificant.

(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." Under SFAS No. 14, non-monetary assets (liabilities) denominated in foreign currencies are stated at historical costs. With respect to non-monetary assets (liabilities) denominated in foreign currencies carried at fair value are translated at the spot rate on the balance sheet date. The exchanges differences arise from translations are recorded in consistence to the recognition of changes in fair value, either included in the current earnings or adjustments to stockholders' equity.

(c) 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. The amount of impairment loss recognized for an asset whose carrying value is higher than the recoverable amount. The Consolidated Entities reserve an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Consolidated Entities carry out impairment test annually on goodwill that belongs to cash-generating unit and recognize impairment losses, if any. The amount of impairment losses recognized is calculated by deducting the recoverable amount from the carrying value.

(d) Financial instruments

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

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

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

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

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

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

(e) 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.

(Continued)

(f) Inventories

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

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

Long-term equity investments are carried at acquisition cost, in which the Company can exercise significant influences are accounted for under the equity method.

Since January 1, 2006, any differences between the acquisition cost and the book value of a subsidiary are dealt in compliance with accounting standards of long-term investment under equity method. If such difference is originated from fixed assets that can be depreciated, depleted or amortized, then it is amortized over estimated remaining economic lives. If such difference is originated from discrepancies between book value and fair value of an asset, unamortized differences are offset when condition making such over or under-valuation are no longer present; in the case of over valuation, the difference between acquisition costs and the fair value of identifiable net assets acquired is recorded as goodwill; in the case of under valuation, such difference is allotted to reduce non-current assets, if non-current assets are not sufficient for such allotment, the difference in amount are reflected to extraordinary gain.

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

(h) Property, Plant, Equipment and Depreciation

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

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

Economic lives of major property and equipment are as follows:

Building	6 to 45	years
Machinery	3 to 8	years
Molds and tools	1	year
Furniture and office facilities	3 to 10	years
Other equipment	2 to 17	years

(Continued)

(i) Intangible Assets and Other Assets

The right on usage of land is recorded at acquisition cost, which is amortized over the usage period.

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

The amount that acquisition costs exceeds the fair value of identifiable net assets acquired is no longer amortized since January 1, 2006. Under the new adopted accounting standard, value and expected future economic benefit of intangible assets such as goodwill are revaluated on the balance sheet date, if there is any evidence indicating that the value and expected future economic benefit are impaired, related impairment losses are recognized as part of non-operating losses or extraordinary loss.

(j) Warranty Reserve

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

(k) Royalty Reserve

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

(l) Pension Plan

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

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

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

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

(m) Revenue Recognition

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

(n) 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.

(o) Income Tax

The Company adopted the SFAS No. 22, "Accounting for Income Taxes" to make inter- and intra-period income tax allocation. Tax effects of deductible temporary differences, loss carryforwards and unused investment tax credits are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities. A valuation allowance is provided for deferred tax assets by assessing whether it is more likely than not such assets will be realized. Income tax expenses or benefit 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. 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.

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

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

(4) Summary of Major Accounts

(a) Assets Impairment

As of June 30, 2006, the Consolidated Entities reduce expected future cash flows of intangible assets in accordance with its evaluation of expected sales of China market. The recoverable amount of such intangible asset, the value in use of such asset, is lower than its book value which results in an impairment loss of $ 161,631. A discount rate of 9.60% is applied to estimate the original and the present value in use of such intangible asset.

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

(b) Cash

	June 30, 2006	June 30, 2005
Cash on hand	$ 1,254	1,818
Cash at bank		
Checking accounts	7	-
Demand deposits	467,978	1,070,200
Foreign currency deposits	5,007,560	3,666,671
Time deposits	2,436,733	1,961,414
Negotiable certificate of deposits	1,200,000	1,500,000
Total	$ 9,113,532	8,200,103

(c) Financial Instruments

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

Financial instruments held for sale:

	June 30, 2006	June 30, 2005
Listed securitues		
TomTom N.V.	$ -	40,904

Financial assets carried at cost—non-current:

	June 30, 2006	June 30, 2005
Investment in common stock		
Darly 3 Venture Corporation	$ 10,200	10,200
Telewise Communications, Inc.	-	-
Hi Top Communications Corp.	30,000	30,000
Advanced Image Technology Corp.	-	44,850
Tai Yi Precision Corporation	12,000	12,000
Akom Technology Corporation	8,000	-
Gyro Signal Technology Co., Ltd	15,000	-
Think Outside, Inc.	-	-
ThingMagic, Inc.	32,456	-
Leadtone Limited	16,230	-
Siano Mobile Silicon Inc.	16,229	-
Tapwave, Inc.	-	-
Total	$ 140,115	97,050

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

Since the decline of value of investment in Tapwave, Inc. and Think Outside, Inc. was judged to be permanently impaired, Inventec Appliances (Cayman) Holding Corp. wrote off the book value in year 2004 and 2003, respectively, and recorded as loss on impairment of investment.

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

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

(Continued)

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

(d) Accounts Receivable

	June 30, 2006	June 30, 2005
Accounts receivable—related parties	$ -	1,133
Accounts receivable—non-related parties	8,068,489	11,602,098
Less: allowance for doubtful accounts	(48,571)	(79,955)
Subtotal	8,019,918	11,522,143
Total	**$ 8,019,918**	**11,523,276**

(e) Inventories

	June 30, 2006	June 30, 2005
Raw materials	$ 5,117,105	5,280,216
Work in process	680,596	1,403,087
Finished goods	2,706,015	1,099,776
Inventories in transit	9,214	520,171
Subtotal	8,512,930	8,303,250
Less: Allowances for valuation and obsolescence losses	(656,165)	(316,406)
Net	**$ 7,856,765**	**7,986,844**
Insurance coverage for inventories	**$ 8,442,632**	**7,876,291**

(f) Long-Term Investments

		June 30, 2006		June 30, 2005	
Investee	**Cost of Investment**	**Shareholding** Ratio	**Book Value**	**Shareholding** Ratio	**Book Value**
Gainia Intellectual Asset Services, Inc.	6,400	48.30%	$ 5,232	48.30%	6,048
Inventec Appliances Corporation USA, Inc	USD 50	100.00%	1,661	-	-
Total			$ 6,893		6,048

Gains and losses on investment accounted for under the equity method based on the audited financial statements prepared by independent accountants for the six months ended June 30, 2006 and 2005 were as follows:

	Six Months Ended June 30,	
Investee	**2006**	**2005**
Gainia Intellectual Asset Services, Inc.	$ (352)	576
Inventec Appliances Corporation USA, Inc.	37	-
	$ (315)	**576**

(g) Property, Plant and Equipment

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

(Continued)

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

As of June 30, 2006 and 2005, insurance coverage for the property, plant, and equipment amounted to $5,912,764 and $4,829,055, respectively.

(h) Short-Term Borrowing

	June 30, 2006	June 30, 2006
Credit Loan	$ 3,753,177	2,952,721
Other borrowings	40,598	-
Letters of Credit	-	213,875
Total	$ 3,793,775	**3,166,596**
Range of Interest Rates	**5.52%~6.18%**	**3.63%~4.43%**
Collateral	**None**	**None**

(i) Long-Term Debt

Bank	Non-Current Portion	Current Portion	Total	Collateral
June 30, 2006				
Bank of America (i)	$ 132,557	260,241	392,798	None
Sumitomo Mitsui Banking Corporate (ii)	162,390	162,390	324,780	"
Total	**$ 294,947**	**422,631**	**717,578**	
June 30, 2005				
Bank of America (i)	**$ 136,102**	**32,759**	**168,861**	None

(i) For the year ended December 31, 2005, Inventec Appliances (Pudong) Co., Ltd. entered into a long-term loan agreement of US$15,000 with the Bank of America. This loan bears different interest rates depends on the currency of each borrowing. Interest rates of loans denominated in Renminbi (RMB) are 90% of current interest rates of 36 months RMB loans that announced by the People's Bank of China; interest rates of loans denominated in American dollar are calculated by adding 1% to the London Inter Bank Offered Rate (LIBOR) at the time of borrowing. The principle of the loan will be repaid in 7 quarterly installments according to the agreed repayment ratio commencing from June 2006.

(ii) For the year ended December 31, 2005, Inventec Appliances (Pudong) Co., Ltd. entered into a long-term loan agreement of RMB80,000 with Sumitomo Mitsui Banking Corporate. Interest rates of loans denominated in Renminbi (RMB) are 90% of current interest rates of 36 months RMB loans that announced by the People's Bank of China and the principle of the loan will be repaid in 7 quarterly installments according to the agreed repayment ratio commencing from July 2006.

For the six months ended June 30, 2006 and 2005, the ranges of interest rates of long-term debts stated above were 5.43%~6.51% and 4.18%~5.22%.

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

(j) Pension Plan

The Company has a pension plan covering all employees, and payment is commensurate with years of service. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. Any fraction of a year shorter than 6 months is counted as half a year and any fraction of a year longer than 6 months is counted as 1 year of service. Effective July 2000, the Company contributed to the pension fund deposited with Central Trust of China. As of June 30, 2006 and 2005, the changes in the pension fund account were shown below:

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

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

	Six Months Ended June 30,	
	2006	2005
Pension fund balance	$ 282,658	289,597
Pension expense:		
For defined benefit plan	16,729	23,745
For defined contribution plan	74,647	48,511
Accrued pension liability	25,434	45,991

(k) Non-Operating Income—Others

	Six Months Ended June 30,	
	2006	2005
Gain on bad debt recoveries	$ 235,807	-
Compensation income	44,813	16,211
Commission income	49,213	34,402
Gain from product development and improvement	97,660	67,350
Gain on physical inventory	6,441	394
Others	142,250	52,423
	$ 576,184	170,780

(Continued)

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

(l) Income Tax

(i) Deferred income tax assets and liabilities:

	June 30,2006		June 30,2005	
	Amount	Income Tax Effects	Amount	Income Tax Effects
Deferred tax assets arising from deductible (taxable) temporary differences:				
-Recognition of unrealized foreign exchange loss	$ 138,581	34,645	184,401	46,100
-Recognition of allowance for inventory valuation and obsolescence losses	656,165	104,476	78,752	19,688
-Recognition of unrealized investment income accounted for under the equity method	(2,438,050)	(613,566)	(1,294,533)	(323,633)
-Cumulative translation adjustment	(32,455)	(8,114)	216,999	54,250
-Investment tax credit	208,679	208,679	-	-
-Reserve for employee retirement benefit	(52,463)	(13,116)	(21,353)	(5,338)
-Recognition of unrealized employee welfare	3,752	938	7,306	1,826
-Unrealized inter-company profit	143,463	35,866	228,619	57,155
-Unrealized warranty reserve	1,423,142	297,701	1,603,053	400,763
-Accrued royalty reserve	300,887	75,222	229,196	57,299
-Unrealized impairment loss on long-term investment under the cost method	54,858	13,715	10,008	2,502
-Recognition of organization costs	-	-	788	268
-Book-tax difference on property depreciation	104,572	10,457	-	-
-Recognition of unrealized impairment loss	161,631	16,163	-	-
		$ 163,066		310,880

(ii)

	June 30,2006	June 30,2005
Deferred tax assets—current	$ 476,329	123,831
Deferred tax liabilities—current	-	-
Valuation allowance—deferred tax asstes—current	(81,134)	-
Net	$ 395,195	123,831
Deferred tax assets—non-current	$ 324,235	516,020
Deferred tax liabilities—non-current	(637,498)	(328,971)
Valuation allowance—deferred tax asstes—non-current	(26,620)	-
Net	$ (339,883)	187,049

(Continued)

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

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Current income tax expense	$ 83,186	256,529
Deferred income tax expense	77,540	70,157
10% surtax on undistributed earnings	-	24,903
Under (over) accrual of prior year's income tax	112,771	(2,284)
Income tax expense	$ 273,497	349,305

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Income tax calculated by statutory rate	$ 374,451	479,438
Permanent differences	(79,123)	1,605
Tax-exempt income	(299)	(8,823)
Income tax separately levied	1,114	1,191
10% surtax on undistributed earnings	-	24,903
Investment tax credits used	(36,292)	(146,725)
Unused investment tax credit	(114,150)	-
Adjustments to prior year's deferred tax assets and liabilities	11,703	-
Under (over) accrual of prior year's income tax	112,771	(2,284)
Valuation Allowance	3,322	-
Income tax expense	$ 273,497	349,305

(v) In accordance with the income tax law of foreign enterprises investment and other regulation in the People's Republic of China, Inventec Appliances (Shanghai) Co., Ltd. conforms to the regulation regarding to preferential treatment for enterprises in advanced industries, which grants Inventec Appliances (Shanghai) Co., Ltd. a tax deduction. For the six months ended June 30, 2006 and 2005, a tax rate of 10% is applied.

(vi) In accordance with the income tax law of foreign enterprises investment and other regulation in the People's Republic of China, Inventec Appliances (Pudong) Co., Ltd. and Inventec Appliances (Jiangning) Co., Ltd. conform to the regulation regarding to preferential treatment for enterprises in advanced industries, and both of the companies are granted a tax holiday for the first two years commencing from the first profitable year and a 50% tax deduction for each year of the following three years. For the six months ended June 30, 2006, current period is the second profitable year for both of the companies, therefore no income tax was imposed and no income tax expense was recognized.

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

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

(Continued)

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

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

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

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

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

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

(m) Stockholders' equity

(i) Common Stock:

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

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

(ii) Dividend Policy:

In consideration of the Company's long-term financial planning, demand for capital and the stockholders' satisfaction regarding to cash in-flow, when after-tax earning occurs, annual cash

(iii) Legal reserve and Capital surplus

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

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

(iv) Special Reserve

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

(v) Distributions of Earnings

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

(n) Earnings per Share (EPS)

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

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

(Continued)

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

(o) **Financial Instruments**

(i) Fair Value of Financial Instruments

	June 30, 2006		June 30, 2005	
Financial Assets	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Book value equal to fair value	$ 17,410,323	17,410,323	19,894,010	19,894,010
Financial assets carried at cost—non-current	140,115	-	97,050	-
Financial assets reported at fair value through profit or loss	-	-	40,904	47,590
Total financial assets	$ 17,550,438	17,410,323	20,031,964	19,941,600
Financial Liabilities				
Book value equal to fair value	$ 21,326,371	21,326,371	23,690,653	23,690,653

(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 reasonable basis for establishing the fair value. The method is applied to cash, accounts receivable, other current assets, short-term borrowings, accounts payable, accrued expenses, other payables, other current 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 valuation techniques. The estimation and assumption are consistent with prevailing market conditions.

3. The fair market value of long-term debt is determined by the present value of future cash flows. Since the values derived by using floating interest rates for discounting are close to the book values, the book values are their fair market values.

4. With respect to financial instruments such as refundable deposits that are indispensable guarantee for the on-going operation of the Company, it is unable to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. Therefore, the book value is used as the fair market value.

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

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

(v) Financial Risk Information

1. Liquidity Risks:

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

(Continued)

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

2. Concentration of Credit Ricks:

Implicit credit risk of the Consolidated Entities arises from cash and accounts receivable. Cash is deposited in different financial institution and it might not cause any credit risks. As of June 30, 2006 and 2005, the amounts due from one specific customer were 72% and 61% of the balance of the Consolidated Entities' accounts receivable. To minimize credit risk, the company periodically evaluates its customers' financial positions and the possibility of collecting trade receivables due from them. The Consolidated Entities believe that the possibility of arising bad debt losses is remote, since the condition of collecting these outstanding receivables is satisfied.

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

Accounts Receivable-By Region	June 30, 2006	June 30, 2005
Domestic	$ 164,021	369,175
Asia	912,779	1,433,122
Europe	1,059,515	2,942,653
America	5,898,720	6,191,008
Other	33,454	667,273
Total	$ 8,068,489	11,603,231

3. Risks of Cash Flow Arises From Interest Rate

The Consolidated Entities' interest rate risk arises from short-term and long-term loans. Loans obtained with floating interest rate will be affected by the changes of market rate, as well as the future cash flows.

(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	An Investor company accounted for under equity method
Inventec Corp. (Shanghai) Co., Ltd.	The Company's related party
Inventec (Pudong) Technology Corp.	〃
Inventec (Pudong) Corp.	〃
Inventec Besta Co., Ltd.	An investee of Invented Corporation

(b) Significant Transactions with Related Parties:

(i) Sales

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

	Six Months Ended June 30,			
	2006		2005	
	Amount	% of Net Sales	Amount	% of Net Sales
Total	$ 98	-	270	-

(Continued)

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

(ii) Property Transaction

For the six months ended June 30, 2005, the Consolidated Entities have purchased machinery, at cost of $5,257, from Inventec Corporation

(iii) Others

Related Parties	Rent, Utilities, Proccecing Fee and Out-sourcing Expenses Six Months Ended June 30, 2006	2005	Business Consulting Fee and Computer System Expenses Six Months Ended June 30, 2006	2005
Inventec Cotporation	$ -	-	18,503	10,747
Inventec Corp. (Shanghai) co., Ltd.	7,750	18,813	-	-
Inventec (Pudong) Technology Corp.	24,061	10,430	-	-
Inventec (Pudong) Corp.	6,140	65,837	-	-
Total	$ 37,951	95,080	18,503	10,747

(iv) Accounts Receivable (Payable)

	June 30, 2006 Balance	%	June 30, 2005 Balance	%
Accounts receivable:				
Total	$ -	-	1,133	-
Accrued expenses				
Inventec (Pudong) Corp.	$ -	-	32,718	3
Inventec Corporation	3084	-	10,376	1
Inventec Corp. (Shanghai) Co., Ltd	0	-	3,122	-
Other	0	-	1,534	-
Total	$ 3,084	-	47,750	4
Other liabilities-current	$ -	-	138	-

(6) Pledged Assets

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

	June 30, 2006	June 30, 2005	Purpose of pledge
Refundable deposits	$ 15,192	13,516	Deposits for buildings

(7) Significant Commitments and Contingencies

(a) As of June 30, 2006 and 2005, unused letters of credit of the Consolidated Entities were US$26,770, and US$965, JPY 32,219, respectively.

(b) As of June 30, 2006 and 2005, the promissory notes issued for bank credit limits, Industrial Development Bureau (IDB) subsidies, and IDB Cooperation funds amounted to US$ 25,500, EUR$ 500, $1,829,633 and US$15,000, $1,850,268, respectively.

(Continued)

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

(c) As of June 30, 2006 and 2005, promissory notes received for business demands and applications to the Ministry of Economic Affairs amounted to $90,154 and $59,800, respectively.

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

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

(e) In October 2001, FeiMa Communication (Qing Dao) Co., Ltd. filed a lawsuit against the Company. The local 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.

(f) On January 7, 2004, Mitake Information Corporation filed a lawsuit for patent infringement against the Company seeking for a compensation of $1,000. The Company has provided the Intellectual Property Office with sufficient evidences, and the local district Court has ruled to dismiss this lawsuit.

(g) Two international well-known technology companies alleged that the Company infringes certain patents by producing and selling mobile phone products. However, these two companies are not yet filing any law suit against the Company. The Company is aggressively preparing relevant data and intently negotiating with these two companies. As of June 30, 2006, the Company has exercised appropriate accounting procedures corresponding to such claim for infringement and believes the event mentioned above will not have material effect on the Company's operations.

(h) Consolidated Entities entered into agreements of major construction and facilities. As of June 30, 2005, the total prices were US$26,329 and RMB124,054, respectively; and the related unpaid portion were US$18,516 and RMB75,224, respectively.

(8) Significant Catastrophic Losses: None.

(9) Significant Subsequent Events: None.

(10) Others

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

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

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

Categorized as / Nature	Six Months Ended June 30,					
	2006			2005		
	Operating Cost	Operation Expenses	Total	Operating Cost	Operation Expenses	Total
Personnel Cost						
Salary	670,465	723,178	1,393,643	637,963	665,019	1,302,982
Health and labor	46,214	60,841	107,055	58,584	69,375	127,959
Pension	26,234	65,142	91,376	30,778	41,478	72,256
Other	80,790	25,914	106,704	331,035	29,146	360,181
Depreciation	375,920	124,462	500,382	207,502	82,812	290,314
Amortization	101,525	52,111	153,636	86,639	28,319	114,958

(11) Business Segment Information

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