(English Translation of Financial Report Originally Issued In Chinese)

INVENTEC APPLIANCES CORPORATION
AND ITS SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

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Inventec Appliances Corporation and its subsidiaries

Consolidated Financial Statements

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Independent Auditors' Report

The Board of Directors
Inventec Appliances Corporation：

We have audited the accompanying consolidated balance sheets of Inventec Appliances Corporation and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with "Regulations 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made the management, as well as evaluating the overall consolidated financial statements 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, 2007 and 2006, and the results of their consolidated operations and 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", the related financial accounting standards of the "Regulation on Business Entity Accounting Handing" and accounting principles generally accepted in the Republic of China.

KPMG

CPA：Leoufong Yang
Melody Chen

Taipei, Taiwan, R.O.C.
March 20, 2008

Note to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)

INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2006

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2007 Amount	%	December 31, 2006 Amount	%
Current Assets				
Cash (Note 4.a)	$ 7,099,084	19	5,398,996	14
Notes receivable, net (Notes 2 and 4.c)	673,161	2	336,543	1
Accounts receivable, net (Notes 2 and 4.c)	14,033,019	37	14,035,099	37
Other financial assets—current	165,600	-	179,193	1
Inventories, net (Notes 2 and 4.d)	6,833,714	18	8,847,559	23
Non-current assets held for sale (Notes 2 and 4.e)	177,217	-	-	-
Deferred income tax assets—current (Notes 2 and 4.l)	279,259	1	339,897	1
Other current assets	726,320	2	629,624	2
	29,987,374	79	29,766,911	79
Funds and Investments (Notes 2, 4.b, 4.f and 6)				
Long-term investments under the equity method	4,215	-	3,742	-
Prepayments for long-term investments	64,814	-	-	-
Financial assets carried at cost—non-current	197,991	-	205,573	1
Other financial assets—non-current	22,757	-	51,962	-
	289,777	-	261,277	1
Property, Plant, and Equipment (Notes 2 and 4.g)				
Land	143,300	-	279,855	1
Buildings	3,323,152	9	2,301,713	6
Machinery	4,152,486	11	4,045,225	11
Research and experiment facilities	1,051,386	3	670,175	2
Furniture and office facilities	441,230	1	383,687	1
Miscellaneous equipment	954,581	3	766,143	2
	10,066,135	27	8,446,798	23
Less: Accumulated depreciation	(3,627,282)	(10)	(2,568,624)	(7)
Construction in progress	251,152	1	864,233	2
Prepayment for equipment	11,293	-	85,872	-
	6,701,298	18	6,828,279	18
Intangible Assets (Notes 2 ,4.h and 4.i)				
Deferred pension cost	49,912	-	56,151	-
Land use right	572,742	2	549,807	1
Other intangible assets	318,649	1	301,661	1
Accumulated impairment—other intangible assets	(279,803)	(1)	(262,691)	(1)
	661,500	2	644,928	1
Other Assets(Notes 2 and 4.g)	232,768	1	164,498	1
TOTAL ASSETS	**$ 37,872,717**	**100**	**37,665,893**	**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 AND ITS SUBSIDIARIES
Consolidated Balance Sheets (Continued)
December 31, 2007 and 2006
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2007		December 31, 2006	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
Current Liabilities				
Short-term borrowings (Notes 4.j)	$ 120,096	-	2,324,988	6
Accounts payable	19,615,097	52	18,910,527	50
Income tax payable	550,195	1	63,574	-
Accrued expenses	1,880,179	5	1,609,465	4
Other financial liabilities—current	602,772	2	862,048	2
Warranty reserve	745,066	2	1,262,373	3
Long-term borrowings—current portion (Note 4.k)	-	-	299,320	1
Other current liabilities	201,617	1	168,884	1
	23,715,022	63	25,501,179	67
Other Liabilities				
Other financial liabilities—non-current	356,959	1	154,633	-
Accrued pension liabilities (Notes 2 and 4.i)	120,625	-	104,751	-
Deferred income tax liabilities—non-current (Notes 2 and 4.l)	372,092	1	601,586	2
	849,676	2	860,970	2
Total Liabilities	24,564,698	65	26,362,149	69
Stockholders' Equity (Notes 2 and 4.m)				
Common stock	4,617,000	12	4,359,000	12
Capital surplus				
Additional paid-in capital	3,989,860	11	3,989,860	11
Long-term equity investments	17,699	-	17,699	-
Others	1,110	-	1,110	-
Retained earnings				
Legal reserve	988,909	2	783,001	2
Special reserve	-	-	9,215	-
Undistributed earnings	3,262,377	9	2,074,591	6
Other adjustments to stockholders' equity				
Cumulative translation adjustments	544,746	1	160,829	-
Net loss not recognized as pension cost	(113,682)	-	(91,561)	-
Total Stockholders' Equity	13,308,019	35	11,303,744	31
Commitments and Contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 37,872,717**	**100**	**37,665,893**	**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 AND ITS SUBSIDIARIES
Consolidated Statements of Operations
For The Years Ended December 31, 2007 and 2006
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	For the Year Ended December 31,			
	2007		2006	
	Amount	%	Amount	%
Gross sales (Note 2)	$ 92,812,733	100	105,387,160	100
Less: Sales returns	(63,070)	-	(132,356)	-
Sales allowances	(99,882)	-	(52,332)	-
Net sales	92,649,781	100	105,202,472	100
Cost of sales	(83,108,212)	(90)	(97,545,367)	(93)
Gross profit	9,541,569	10	7,657,105	7
Operating expenses:				
Selling	(2,428,352)	(3)	(2,349,143)	(2)
Administration	(1,068,978)	(1)	(981,969)	(1)
Research and development	(2,387,461)	(2)	(1,840,498)	(2)
	(5,884,791)	(6)	(5,171,610)	(5)
Net Operating income	3,656,778	4	2,485,495	2
Non-operating income:				
Interest income	100,951	-	109,745	-
Foreign exchange gain, net (Note 2)	122,723	-	108,020	-
Revaluation gain on financial assets	-	-	25,761	-
Others	436,343	1	635,928	1
	660,017	1	879,454	1
Non-operating expenses and losses:				
Interest expense	(60,572)	-	(216,653)	-
Losses on inventory valuation and obsolescence	(331,536)	-	(40,033)	-
Impairment loss (Notes 2, 4.b and 4.h)	(121,064)	-	(258,130)	-
Revaluation loss on financial liabilities	-	-	(17,670)	-
Others	(58,982)	-	(149,977)	-
	(572,154)	-	(682,463)	-
Income before income tax	3,744,641	5	2,682,486	3
Income tax expense (Notes 2 and 4.l)	(495,709)	(1)	(628,383)	(1)
Net income	**$ 3,248,932**	**4**	**2,054,103**	**2**
Attributable to:				
Shareholders of the parent company	$ 3,248,932	4	**2,059,073**	**2**
Minority interest	-	-	(4,970)	-
	$ 3,248,932	**4**	**2,054,103**	**2**
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
Primary earnings per share belongs to parent company (Notes 2 and 4.n)				
Primary earnings per share	**$ 7.75**	**7.04**	**6.08**	**4.72**
Primary earnings per share-retroactive adjusted			**5.74**	**4.46**

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For The Years Ended December 31, 2007 and 2006
(All Amounts Expressed in Thousands of New Taiwan Dollars)

			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, 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 surplus transferred to capital	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)	-	11,303,744
2006 earnings distribution:									
Legal reserve	-	-	205,908	-	(205,908)	-	-	-	-
Special reserve transferred to undistributed earning	-	-	-	(9,215)	9,215	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(55,871)	-	-	-	(55,871)
Employee bonuses—cash	-	-	-	-	(90,317)	-	-	-	(90,317)
Employee bonuses—stock	40,050	-	-	-	(40,050)	-	-	-	-
Stock dividends	217,950	-	-	-	(217,950)	-	-	-	-
Cash dividends	-	-	-	-	(1,460,265)	-	-	-	(1,460,265)
Net income for the year ended December 31, 2007	-	-	-	-	3,248,932	-	-	-	3,248,932
Cumulative translation adjustments of long-term equity investment	-	-	-	-	-	383,917	-	-	383,917
Net loss not recognized as pension cost	-	-	-	-	-	-	(22,121)	-	(22,121)
Balance as of December 31, 2007	$ 4,617,000	4,008,669	988,909	-	3,262,377	544,746	(113,682)	-	13,308,019

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

(English Translation of Financial Report Originally Issued in Chinese)
INVENTEC APPLIANCES CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Cash Flows
For The Years Ended December 31, 2007 and 2006
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	For The Year Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Net income	$ 3,248,932	2,054,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,229,657	1,091,342
Amortization	219,991	311,849
Gain on disposal of property, plant, and equipment	(15,616)	(13,849)
Impairment loss	121,064	258,130
Provision for decline in market value and obsolescence of inventories	331,536	40,033
Reversal for doubtful accounts	(719)	(235,807)
Provision for sales returns and allowances	84,200	-
Investment (gain) loss recognized under the equity method	(473)	1,842
Reversal for warranty reserve	(534,651)	(385,396)
Provision (reversal) for royalty reserve	168,425	(67,804)
Revaluation gain on financial assets	-	(25,761)
Change in operating assets and liabilities:		
Notes receivable	(356,265)	(331,259)
Accounts receivable	923,060	7,187,166
Other financial assets—current	59,642	(26,901)
Inventories	2,040,331	3,763,794
Other current assets	(125,934)	(150,438)
Deferred income tax assets and liabilities , net	(294,800)	349,045
Accounts payable	(601,833)	(11,942,132)
Income tax payable	485,214	63,574
Accrued expenses	208,752	195,893
Other financial liabilities—current	(346,429)	442,781
Other current liabilities	29,033	(445,599)
Accrued pension liabilities	(8)	25,242
Net cash provided by operating activities	6,873,109	2,159,848
Cash flows from investing activities:		
Increase in long-term equity investments	(64,816)	(113,292)
Increase in financial assets carried at cost - non-current	(77,158)	-
Accounted for financial assets carried at cost - non-current proceeds from return of capital by investees	3,570	-
Acquisition of property, plant, and equipment	(1,135,723)	(2,785,918)
Increase in other assets	(187,638)	(221,298)
Proceeds from sale of property, plant, and equipment	170,927	263,871
Increase in land use right	-	(43,918)
Decrease in other financial assets—non-current	32,340	35,738
Proceeds from sale of long-term equity investment	-	67,871
Net cash used in investing activities	(1,258,498)	(2,796,946)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(2,253,611)	102,744
Repayment of long-term borrowings	(310,742)	(442,234)
Remuneration to directors and supervisors	(55,871)	(80,458)
Employee bonuses	(90,317)	(157,735)
Cash dividends	(1,460,265)	(1,831,500)
Capital increase in cash by minority interest	-	216,883
Decrease in other financial liabilities—non-current	(2,209)	(496,945)
Net cash used in financing activities	(4,173,015)	(2,689,245)
Effect of changes in exchange rates	258,492	102,136
Net increase (decrease) in cash	1,700,088	(3,224,207)
Cash, beginning of the period	5,398,996	8,623,203
Cash, end of the period	$ 7,099,084	5,398,996
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	$ 62,274	230,054
Cash paid for income tax during the period	$ 316,114	218,365
Current portion of long-term borrowings—transferred to current liabilities	$ -	299,320
Purchase of property, plant, and equipment with cash and other payables:		
Acquisition of property, plant, and equipment	$ 1,129,510	2,789,348
Add: Other payables and rents payables—beginning of the period	111,857	108,427
Less: Other payables and rents payables—end of the period	(105,644)	(111,857)
Cash paid	$ **1,135,723**	**2,785,918**

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 wire and wireless communication and digital accessory products.

As of December 31, 2007, the Consolidated Entities had 18,566 employees.

(2) Summary of Significant Accounting Policies

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The Consolidated Entities' financial statements were prepared in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" and accounting principles generally accepted in the Republic of China. The significant accounting policies and their measurement basis were as follows:

(a) Status of Consolidation

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

Investor	Subsidiaries	Primary Business	ShareholdingRatio		Note
			2007.12.31	2006.12.31	
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, 2007, its total issued capital was US$126,585 thousand.
"	InStars Multimedia Corporation	Publishing magazines and books and digital multimedia	100%	-	InStars Multimedia Corporation was established in August 2007. As of December 31, 2007, its total issued capital was 15,000.
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (BVI) Corp.	International trading	100%	100%	Inventec Appliances (BVI) Corp. was established in 2000. As of December 31, 2007, its total issued capital was US$50 thousand.

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

Investor	Subsidiaries	Primary Business	ShareholdingRatio		Note
			2007.12.31	2006.12.31	
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (USA) Distribution Corp.(IDC)	Marketing and popularizing	100%	100%	IDC was established in June 2000. As of December 31, 2007, its total issued capital was US$4 thousand.
"	Inventec Appliances (USA) Packing Corp. (IPC)	Products package designing and packing	100%	100%	IPC was established in June 2000. As of December 31, 2007, its total issued capital was US$1 thousand.
"	Inventec Appliances Corporation USA, Inc. (IAC USA)	Marketing	100%	100%	IAC USA was established in April 2006. As of December 31, 2007, its total issued capital was US$1 thousand.
"	Inventec Appliances (Shanghai) Co., Ltd.(IACS)	Communication electronic products 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, 2007, its total issued capital was US$35,400 thousand.
"	Inventec Appliances (Pudong) Corporation (IACP)	Communication electronic products manufacturing	100%	100%	IACP was established in April 2004. As of December 31, 2007, its total issued capital was US$37,000 thousand.
"	Inventec Appliances (Jiangning) Corporation (IACJ)	Communication electronic products manufacturing	100%	100%	IACJ was established in February 2004. As of December 31, 2007, its total issued capital was US$28,000 thousand.
"	Inventec Appliances (Nanjing) Corporation (IACN)	Communication electronic products 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, 2007, its total issued capital was US$5,000 thousand.

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

Investor	Subsidiaries	Primary Business	ShareholdingRatio 2007.12.31	2006.12.31	Note
Inventec Appliances (Cayman) Holding Corp.	Inventec Appliances (Shanghai) International Marketing Corp. (IASM)	Marketing and Popularizing	100%	100%	IASM was established in May 2005. As of December 31, 2007, its total issued capital was US$14,000 thousand.
"	Inventec Appliances (Nanjing) System Corporation (IANS)	Communication electronic products manufacturing	100%	100%	IANS was established in July 2006. As of December 31, 2007, its total issued capital was US$7,500 thousand.
"	Inventec Appliances (Xi'an) Corporation (IACX)	Telecommunication research and service	100%	-	IACX was established in December 2007. As of December 31, 2007, its total issued capital was US$4,000 thousand.
IACS	Giant Alliance (Shanghai) Co., Ltd.(GA)	Marketing and popularizing	50.36%	50.36%	GA was invested by IACS on December 30, 2005. As of December 31, 2007, its total issued capital was RMB$139,000 thousand.
IACJ	Inventec Appliance (India) Company Private Limited	Marketing and popularizing	98.00%	-	Inventec Appliance (India) Company Private Limited was established in July 2007. As of December 31, 2007, its total issued capital was US$ 31 thousand.
IANS	"	"	2.00%	-	"

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 consolidated financial statements.

(b) Use of Estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(c) Foreign Currency Translation and Financial Report Translation

The Company records its transactions in the New Taiwan dollars. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date, and the resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into reporting currency using the foreign exchange rates at the balance sheet date.

If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

All foreign currency-denominated consolidated subsidiaries record their transactions in their functional currency. The translation difference which results in further exchange loss is included in stockholders' equity as "cumulative translation adjustments."

(d) 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.

(e) Assets Impairment

The Consolidated Entities assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Consolidated Entities estimates 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 reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss previously recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(f) Financial Instruments

The Consolidated Entities classifies the investments in financial assets as financial assets / liabilities reported at fair value through profit or loss or financial assets carried at cost.

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

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

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

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

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

(g) 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.

(h) Inventories

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

(i) Non-Current Assets Held for Sale

Non-current assets that are available for immediate sale under the general terms and customary for sales of such assets, and are likely to be sold within one year are classified as non-current assets held for sale. A held for sale non-current asset is measured at the lower of their book value or fair value less costs to sell, and is recorded separately on the balance sheet. No further amortization or depreciation will be recorded once an asset is classified as held-for-sale.

If the carrying amount of a non-current asset held for sale is greater than its fair value less costs to sell. An impairment loss is recognized in the income statement. If such fair value less costs to sell increases in subsequent periods, the Company can recognize a gain, but not in excess of the cumulative impairment loss that has been recognized in compliance with Statement of Financial Accounting Standards (SFAS) No. 35, "Accounting for Asset Impairment".

(j) Long-Term Investments under the Equity Method

When the Consolidated Entities has significant influence over the operating, financial and dividend policies of investees, those investments are accounted for under the equity method.

(k) Property, Plant, Equipment and Depreciation

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

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

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

Building	10 to 50 years
Machinery	3 to 10 years
Research and experiment facilities	3 to 8 years
Furniture and office facilities	3 to 10 years
Miscellaneous equipment	1 to 15 years

Rental assets and idle fixed assets, which are not used for operating purposes, are classified as other assets.

(l) Intangible Assets and Other Assets

Effective from January 1, 2007, the Consolidated Entities adopted Statement of Financial Accounting Standards No. 37 (SFAS No. 37) "Intangible Assets". In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 50 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 to the January 1, 2006, goodwill was amortized using the straight-line method over 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.

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Such changes shall be accounted for as changes in accounting estimates.

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

(m) Warranty Reserve

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

(n) 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 or and non-current liabilities according to its nature.

(o) Pension Plan

The Company has a defined benefit and non-contributory pension plan covering all regular employees, under which pension payment is commensurate with years of service. The Company contributes monthly to the pension fund and deposits in a government designated account. The pension fund is not reflected in the Company's financial statements. Effective July 1, 2005, the Company adopted the "Labor Pension Act" (the "Act") that prescribes a defined contribution pension plan for those employees who were covered by the Labor Standards Law prior to the enforcement of the Act but chose to be subject to the pension mechanism under the Act or those employees who are employed after the enforcement of the Act. In accordance with this Act, the Company contributes monthly to the Labor Pension Fund for the employee individual pension fund accounts at the minimum rate of 6% of the employee's monthly wages. As the Company has not yet revised its pension plan to conform to the Act, any matters not covered by the pension plan are transacted in accordance with the Act. The Company expects to implement the revision starting from 2008.

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

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

Inventec Appliances (Cayman) Holding Corp. and Inventec Applances (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.

(p) Revenue Recongnition

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

The Consolidated Entities has sales with high probability of discounts occurring due to pre-sale discount agreements or market practices are firstly recognized in their full amount. A provision for sales allowance is then estimated based on past experience and any known factors that would affect the allowance, which is recognized either as a deduction of sales revenue or allowance for sales discount.

(q) 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.

(r) Income Tax

The Company adopts the SFAS No. 22, “Accounting for Income Taxes” in the accounting for inter-period and intra-period income tax allocation. Tax effects of deductible temporary differences, loss carry forwards and unused investment tax credits are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of related assets and liabilities or the length of the time to its reversal. A valuation allowance is then provided for deferred tax assets by assessing whether it is more likely than not such assets will be realized. Deferred tax assets and liabilities that resulted from the recognitions of unrealized profit and changes in capital surplus, which reflected on stockholders’ equity instead of current profit and loss, are respectively disclosed in net amount. Adjustments to prior years’ income taxes are reflected as current income taxes.

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

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.

(s) 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, 2007, the Consolidated Entities adopts the Republic of China Statement of Financial Accounting Standards (SFAS) No.37 "Intangible Assets". In accordance to the newly released standard, the Consolidated Entities had re-evaluated the economic useful lives of all intangible assets and the method of amortization upon the effective day. The result of re-evaluation indicating modifications on such method are not required.

Effective January 1, 2006, the Consolidated Entities adopts the Republic of China Statement of Financial Accounting Standards (SFAS) No. 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 year ended December 31, 2006, nor result in any cumulative effects changes of accounting principle and adjustments in stockholders' equity.

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

(4) Summary of Major Accounts

(a) Cash

	December 31, 2007	December 31, 2006
Cash on hand	$ 1,351	1,815
Cash at bank		
Checking accounts	1,516	511
Demand deposits	1,133,909	228,430
Foreign currency deposits	2,972,381	3,873,684
Time deposits	1,200,000	-
Foreign currency time deposits	1,789,927	1,294,556
Total	**$ 7,099,084**	**5,398,996**

(b) Financial Instruments

(i) As of December 31, 2007 and 2006, financial instruments held by the Consolidated Entities were as follows:

	December 31, 2007	December 31, 2006
Financial assets carried at cost—non-current		
Investment in common stock and preferred stock		
Darly 3 Venture Corporation	$ 6,630	10,200
Telewise Communications, Inc.	-	-
Hi Top Communications Corp.	5,195	30,000
Advanced Image Technology Corp.	-	-
Tai Yi Precision Corporation	12,000	12,000
Akom Technology Corporation	-	8,000
Gyro Signal Technology Co., Ltd.	-	15,000
IMPINJ, Inc.	33,105	-
Tapwave, Inc.	-	-
Think Outside, Inc.	-	-
ThingMagic, Inc.	-	32,591
Leadtone Limited	76,078	32,594
Siano Mobile Silicon Inc.	16,246	16,297
Digital Chaotex Holdings Ltd.	16,246	16,297
AutoNavi Holdings Ltd.	32,491	32,594
Total	**$ 197,991**	**205,573**

(ii) The consolidated Entities recognized impairment losses at financial assets of $68,048 for the year ended December 31, 2007.

(iii) An investee, Hi Top Communications Corp. decided based on definite evidences of impairment to reduce its capital in cash through resolution of its shareholders' meeting, and the Company received cash refund of $12,592, which was recorded as other financial assets —current, from this investment refund for the year ended December 31, 2007.

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

(iv) For the year ended December 31, 2007, the investee, Darly 3 Venture Corporation decreased its capital in cash, and the Company received cash of $3,570 from investments refund, which resulted in a decrease in the carrying value of its investments based on the percentage of the capital decrease of Darly 3 Venture Corporation, and no disposal gain or loss thereon.

(v) As the decline in the value of investment in Telewise Communications, Inc. by $10,008, were deemed to be permanently unrecoverable, the Company had fully written-off the book value of these investments and recorded as loss on impairment of investment in 2003. The liquidation procedure of Telewise Communications, Inc. has been completed as of December 31, 2007.

(vi) 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.

(vii) All of the above mentioned investments in common stock and preferred stock, which do not have quoted market prices in an active market and whose fair value cannot be reliably measured, were reflected as non-current financial assets carried at cost.

(c) Notes Receivable and Accounts Receivable

	December 31, 2007	December 31, 2006
Notes receivable—non-related parties	$ 759,886	336,543
Less: Allowance for sales returns and allowance	(86,725)	-
Net	**$ 673,161**	**336,543**
Accounts receivable—related parties	$ -	6,757
Accounts receivable—non-related parties	14,080,871	14,076,913
Less: Allowance for doubtful accounts	(47,852)	(48,571)
Net	14,033,019	14,028,342
Total	**$ 14,033,019**	**14,035,099**

(d) Inventories

	December 31, 2007	December 31, 2006
Raw materials	$ 4,680,639	4,715,399
Work in process	984,384	685,688
Finished goods	1,613,680	3,998,280
Inventories in transit	225,749	142,736
Subtotal	7,504,452	9,542,103
Less:Allowances for market declin and obsolescence	(670,738)	(694,544)
Net	**$ 6,833,714**	**8,847,559**

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

(e) Non-Current Assets Held for Sale

In December 2007, the Company entered into a contract agreeing to sell its idle asset, a factory located in Wu-Ku, to a non-related party. The registered ownership has not been transferred to the acquirer, and expected to be completed within one year. Therefore, the related property was reclassified as non-current assets held-for-sale as of December 31, 2007 as follows:

	December 31, 2007
Cost: Land	$ 125,700
Building	63,950
Subtotal	189,650
Less: accumulated depreciation	(12,433)
Net	$ 177,217

(f) Long-Term Investments

Investee company	Cost of Investment (thousand)	December 31, 2007 Shareholding Ratio	December 31, 2007 Book Value	December 31, 2006 Shareholding Ratio	December 31, 2006 Book Value
Gainia Intellectual Asset Services, Inc.	6,400	48.30%	$ 4,215	48.30%	3,742
Prepayments for long-term investments					
VoiceBox Technologies, Inc.	US$2,000	-	64,814	-	-
Total			$ 69,029		3,742

Investment income or loss was accounted for under the equity method based on the audited financial statements prepared by investee companies were as follows:

Investee company	For The Year Ended December 31, 2007	2006
Gainia Intellectual Asset Services, Inc.	$ 473	(1,842)

As of December 31, 2007 the Company invested US$2,000 thousand (NT$64,814) to acquire equity interest in VoiceBox Technologies, Inc. Partial agreements described in the investing contract were not completed as of the balance sheet date; hence, the amount was recorded as prepayment for long-term investment.

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

(g) Property, Plant, Equipment and Other Assets

For the years ended December 31, 2007 and 2006, no interest expenses generated by purchasing property, plant and equipment were capitalized.

In June 2007, the Company sold its land and building located on Taipei Xinyi district to non-related parties for $31,000 and $5,857, respectively, resulting in a non-operating gain and loss on property disposition of $20,145 and $14,466, respectively. The ownership of the land and building has been transferred.

A subsidiary determined that its land and building located in Nanjing, China not currently used in operations should be reclassified from "fixed assets" to "other assets – idle assets". As of December 31, 2007, details for idle assets were as follows:

	December 31, 2007
Cost: Land	$ -
Building	88,451
Subtotal	88,451
Less: accumulated depreciation	(17,490)
Net	$ 70,961

(h) Intangible Assets

(i) For the years ended December 31, 2007 and 2006 the Consolidated Entities' intangible assets' original cost, accumulated amortization and accumulated impairment were as follows:

Original Cost	Land Use Right	Other Intangible Assets	Total
Balance as of January 1, 2006	$ 550,013	297,121	847,134
Purchases of this period	43,233	-	43,233
Effect of changes in exchange rates	14,714	4,540	19,254
Balance as of December 31, 2006	$ 607,960	301,661	909,621
Balance as of January 1, 2007	$ 607,960	301,661	909,621
Effect of changes in exchange rates	39,604	16,988	56,592
Balance as of December 31, 2007	$ 647,564	318,649	966,213
Amortization and Impairement Loss			
Balance as of January 1, 2006	$ 39,739	-	39,739
Amortization amount of this period	17,050	-	17,050
Impairment loss of this period	-	258,130	258,130
Effect of changes in exchange rates	1,364	4,561	5,925
Balance as of December 31, 2006	$ 58,153	262,691	320,844
Balance as of January 1, 2007	$ 58,153	262,691	320,844
Amortization amount of this period	12,505	-	12,505
Effect of changes in exchange rates	4,164	17,112	21,276
Balance as of December 31, 2007	$ 74,822	279,803	354,625

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

(ii) Book value

Book value	Land Use Right	Other Intangible Assets	Total
Balance as of January 1, 2006	$ 510,274	297,121	807,395
Balance as of December 31, 2006	$ 549,807	38,970	588,777
Balance as of January 1, 2007	$ 549,807	38,970	588,777
Balance as of December 31, 2007	$ 572,742	38,846	611,588

(iii) The amortization expenses of intangible assets were as follows:

	For The Year Ended December 31,	
	2007	2006
Cost of sales	$ 4,574	7,814
Operating Expenses	7,931	9,236
	$ 12,505	17,050

(iv) Assets impairment

As of December 31, 2006, the Consolidated Entities reduced its expected future cash flows of intangible assets in accordance with its revaluation of expected market shares in China. The recoverable amount of such intangible asset, the value in use of such asset, was lower than its carrying amount which resulted in an impairment loss of $ 258,130. A discount rate of 9.60% was applied to estimate the original and the present value in use of such intangible asset.

In 2007, the Consolidated Entities recognized an impairment loss of $53,016 for previously overpaid tax resulting from value-added business tax, which is deemed remotely to offset against future business tax payable.

(i) Pension Plan

The Company has a defined benefit pension plan covering all employees. Under this plan, payment is commensurate with years of service. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. Any fraction of a year shorter than 6 months is counted as half a year and any fraction of a year longer than 6 months is counted as 1 year of service.

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

As of December 31, 2007 and 2006, the funded status was reconciled with accrued pension expense per book as follows:

	December 31, 2007	December 31, 2006
Benefit obligation		
Vested benefit obligation	$ (51,854)	(33,561)
Non-vested benefit obligation	(248,557)	(264,290)
Accumulated benefit obligation	(300,411)	(297,851)
Effect of future salary increase	(56,068)	(65,457)
Estimated benefit obligation	(356,479)	(363,308)
Fair value of pension plan assets	179,787	205,375
Funded status	(176,692)	(157,933)
Unrecognized net transition benefit obligation	49,912	56,151
Unrecognized gain on pension fund assets	169,749	157,017
Retroactive recognition of accrued pension liabilities	(163,594)	(147,712)
Accrued pension expense	**$ (120,625)**	**(92,477)**

As of December 31, 2007 and 2006, the employee vested benefits under the Company's pension plan amounted to $54,004 and $34,933, respectively.

The Components of net pension costs were as follows:

	For The Year Ended December 31,	
	2007	2006
Service cost	$ 11,773	19,818
Interest cost	11,807	17,047
Expected return on pension plan assets	(6,675)	(10,581)
Amortization of unrecognized net transition benefit obligation	6,239	6,239
Amortization of unrecognized pension loss	7,543	6,742
Pension loss	31,068	-
Net pension cost	**$ 61,755**	**39,265**

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

Actuarial assumptions used in the above calculations were summarized as follows:

	For The Year Ended December 31,	
	2007	2006
Discount rate	3.25%	3.25%
Assumed rete of increase in future compensation	2.00%	2.00%
Expected long-term rate of return on plan assets	3.25%	3.25%

The Consolidated Entities also adopted defined contribution pension plan to account for pension cost. For the years ended December 31, 2007 and 2006, the current pension expenses under the forementioned plan amounted to $152,113 and $152,499, respectively.

(j) Short-Term Borrowings

	December 31, 2007	December 31, 2006
Credit loan	$ 57,824	2,266,524
Other borrowings	62,272	58,464
Total	**$ 120,096**	**2,324,988**
Range of interest rates	**5.27%~8.21%**	**1.80%~5.02%**
Date of last maturity	**March 20, 2008**	**June 6, 2007**

(k) Long-Term Borrowings

Bank	Non-Current Portion	Current Portion	Total	Collateral
December 31, 2006				
Bank of America	$ -	299,320	299,320	None

For the year ended December 31, 2005, IACP entered into a long-term loan agreement of US$15,000 thousand with the Bank of America. This loan borne 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. As of December 2007, there was no outstanding loan.

During the loan repayment periods, IACP must comply with certain financial covenants on quarter basis, such as interest coverage ratio. For the years ended December 31, 2007 and 2006, the interest rates charged on the above mentioned Consolidated Entities' long-term debts ranged from 6.08% to 6.36% and 4.97% to 6.51%, respectively.

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

(l) Income Tax

(i) Deferred income tax assets and liabilities:

	December 31, 2007		December 31, 2006	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Deferred income tax assets arising from deductible temporary differences:				
-Unrealized foreign exchange loss	$ 2,416	$ 604	32,779	8,195
-Allowance for inventory valuation and obsolescence losses	639,302	103,422	463,203	83,491
-Unrealized employee welfare	576	144	2,360	590
-Unrealized inter-company profit	36,095	9,024	138,441	34,610
-Unrealized warranty reserve	663,392	148,411	940,682	234,799
-Accrued royalty reserve	271,040	46,535	123,040	29,023
-Unrealized impairment loss on financial assets carried at cost	80,063	20,016	54,858	13,715
-Unrealized impairment loss on intangible assets	-	-	262,691	26,269
-Investment tax credit	-	514,319	-	340,373
-Loss carryforward benefit	-	-	443,628	110,907
Total deferred tax assets		**$ 842,475**		**881,972**
Deferred tax liabilities arising from taxable temporary differences:				
-Unrealized investment income accounted for under the equity method	$2,228,702	$ 607,300	4,069,345	1,024,992
-Cumulative translation adjustment	726,328	181,582	214,439	53,610
-Reserve for employee retirement benefits	33,576	8,394	42,962	10,741
Total deferred tax liabilities		**$ 797,276**		**1,089,343**

(ii)

	December 31, 2007	December 31, 2006
Deferred tax assets—current	$ 279,259	361,685
Deferred tax liabilities—current	-	-
Valuation allowance—deferred tax asstes—current	-	(21,788)
Net	**$ 279,259**	**339,897**
Deferred tax assets—non-current	$ 563,216	520,287
Deferred tax liabilities—non-current	(797,276)	(1,089,343)
Valuation allowance—deferred tax asstes—non-current	(138,032)	(32,530)
Net	**$ (372,092)**	**(601,586)**

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

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

	For The Year Ended December 31,	
	2007	2006
Current income tax expense	$ 683,174	11,063
Deferred income tax expense	(294,800)	349,045
Under accrual of prior year's income tax	107,335	268,275
Income tax expense	$ 495,709	628,383

(iv) The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The Company and InStars Multimedia Corporation have 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, 2007 and 2006, as follows:

	For The Year Ended December 31,	
	2007	2006
Income tax calculated by statutory rate	$ 1,135,542	$ 655,440
Permanent differences	12,682	3,646
Tax-exempt income	(1,038,050)	(77,830)
Income tax separately levied	-	1,798
Exceeding difference resulting from the AMT and ACT	361,727	-
Unused investment tax credit	(199,018)	(245,844)
Adjustments to prior year's deferred tax assets and liabilities	34,604	74,716
Under accrual of prior year's income tax	107,335	268,275
Provision (reversal) for allowance of deffered tax assets	80,887	(50,114)
Effect of changes in exchange rates	-	(1,704)
Income tax expense	$ 495,709	628,383

(v) IACS, IACN, IASM, GA and IACX 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 years ended December 31, 2007 and 2006.

(Amounts expressed in thousands of New Taiwan Dollars, 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, 2007 was the third profitable year for both of IACP and IACJ and the first profitable year for IANS, the taxable incomes resulting from IACP and IACJ were imposed under halving levies with statutory income tax rate of 7.5% and 12%, respectively, and no income tax expense was recognized in IANS.

(vii) The aforementioned consolidated companies, which operate in china, was informed of the newly amended Income Tax Regulation in PRC, which stated that starting January 1, 2008, the new corporate income tax regimes would be going to approach the statutory income tax rate of 25% within future five years. The previously preferential tax treatments for foreign investment enterprises are no longer available.

(viii) IDC, IPC, IAC USA and Inventec Appliance (India) Company Private Limited are taxed by the respective local governments.

(ix) 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.

(x) The Company's income tax returns and stockholders' imputation tax credit account through the year 2005 have been approved by the Tax Authority.

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

Year Incurred	Investment Tax Credit	Year of Expiration
2005	$ 95,854	2009
2006 (as estimated)	219,447	2010
2007 (as estimated)	199,018	2011
	$ 514,319	

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

(xii) Stockholders' Imputation Tax Credit Account and Creditable Rate:

	December 31, 2007	December 31, 2006
(1) Undistributed retained earnings : Accumulated after January 1, 1998	$ 3,262,377	2,074,591
(2) Stockholders's imputation tax credit account	$ 1,730	82,441
	2007 (Estimated)	**2006 (Actual)**
(3) Creditable ratio for earnings distributed to R.O.C. resident stockholders	15.42%	6.89%

(m)Stockholders' Equity

(i) Common Stock:

On June 13, 2007, the stockholders resolved during their annual stockholders' meeting to increase the Company's capital by $258,000 by capitalizing $217,950 of its undistributed earnings and $40,050 of employee bonuses. 25,800 thousand additional shares were issued at $10 per share on record date of July 24, 2007. The Company had completed the relevant registration process for these capital increases.

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 and $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 these capital increases.

As of December 31, 2007 and 2006, the Company's authorized capital stock were 500,000 thousand shares, of which 461,700 thousand and 435,900 thousand shares, respectively, were issued at $ 10 par value per share.

(ii) Dividend Policy:

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

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

(iii) Legal reserve and Capital surplus

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

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

(iv) Special Reserve

If a component of stockholders' equity is negative, an equal amount of special reserve is provided from current and prior years' retained earnings. Such special reserve may be reverted to retained earnings if such component recovers.

(v) Distributions of Earnings

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

Pursuant to the resolutions of the stockholders during their annual meetings on June 13, 2007 and June 15, 2006, the Company distributed its retained earnings of 2006 and 2005 as follows:

	For The Year Ended December 31,	
	2006	**2005**
Dividend (dollor) distributed per common share		
Cash dividends	$ 3.35	5.50
Stock dividends (face value)	0.50	2.00
Total	**$ 3.85**	**7.50**
Employee bonuses—stock (face value)	$ 40,050	30,000
Employee bonuses—cash	90,317	157,735
Remuneration to directors and supervisors	55,871	80,458
Total	**$ 186,238**	**268,193**

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 2006 and 2005 would have decreased from $4.72 to $4.30 and $9.53 to $8.67, respectively. Stock dividend distributed to employees represented 0.92% and 0.90% of the Company's total outstanding common shares as of December 31, 2006 and 2005, respectively.

The Board of Directors has yet to submit the proposal for the distribution of 2007 earnings to the stockholders' meeting for resolutions. The information on such distribution will be announced through Market Observation Post System on the internet after the stockholders' meeting.

(n) Earnings per share (EPS)

Basic EPS is calculated by dividing net income by the number of weighted-average shares outstanding during the period. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of shares is retroactively adjusted for additional shares issued. For the years ended December 31, 2007 and 2006, the primary earnings per share belongs to parent company were computed as follows:

	For The Year Ended December 31,			
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
Net income attributable to parent company	$ 3,579,643	3,248,932	2,649,700	2,059,073
Weighted-average shares outstanding (in thousands)	461,700	461,700	435,900	435,900
Allotment of stock dividend (in thousands)			25,800	25,800
Retroactively adjusted weighted-average number of shares outstanding (in thousands)			461,700	461,700
Primary earnings per share belongs to parent company	$ 7.75	7.04	6.08	4.72
Primary earnings per share belongs to parent company —retroactively adjusted			5.74	4.46

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

(o) Financial Instruments

(i) Fair Value of Financial Instruments

	December 31, 2007		December 31, 2006	
Financial Assets	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Book value equal to fair value	$ 21,993,621	21,993,621	20,001,793	20,001,793
Financial assets carried at cost—non-current	197,991	-	205,573	-
Total financial assets	$ 22,191,612		20,207,366	
Financial Liabilities				
Book value equal to fair value	$ 22,503,623	22,503,623	24,160,981	24,160,981

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

(1) The fair value of short-term financial instruments is determined by their face values on balance sheet date. Because these financial instruments will mature on short notice, the face value serves as 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 borrowings—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 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, it is impossible to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of these financial instruments cannot be established. Therefore, the book value is used as the fair market value.

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

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

(iv) Financial Risk Information

(1) Liquidity risks:

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

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

(2) Concentration of credit risks:

The Consolidated Entities' credit risk is inherent in its cash and accounts receivable. No credits risk is expected on cash as it is deposited in different financial institutions. As of December 31, 2007 and 2006, the balance of the Consolidated Entities' accounts receivable included the account of one customer representing 68% and 82%, respectively, of the total accounts receivable balance. To minimize credit risk, the Consolidated Entities periodically evaluates its customer's financial positions and the status of the ability in collect of these total receivables. The Consolidated Entities believes that the possibility of incurring bad debt losses thereon is remote, because the results of such evaluation is satisfactory.

As of December 31, 2007 and 2006, the Consolidated Entities' contracts with credit risk concentration were as follows:

Accounts Receivable-By Region	December 31, 2007		December 31, 2006
Domestic	$	181,915	48,592
Asia		1,708,544	277,907
Europe		4,716,496	1,441,825
America		7,473,916	12,315,346
Total	**$**	**14,080,871**	**14,083,670**

(3) Cash flow risks arising from interest rate fluctuation:

The Consolidated Entities' interest rate risk arises from short-term loans bearing floating interest rate. Future cash flow will be affected by the change in market interest rate.

(v) Risk management and Hedging policy:

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

(Amounts expressed in thousands of New Taiwan Dollars, 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	Main shareholder
Inventec Multimedia and Telecom Corp.	A subsidiary of Inventec Corporation
Inventec Micro-Electronics Corp.	"
Inventec (Shanghai) Co., Ltd.	"
Inventec (Pudong) Corp.	"
Kai Tsuang Advisory Services Co., Ltd.	An affiliate
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, 2007 and 2006, sales to related parties were as follows:

	For The Year Ended December 31,			
	2007		2006	
	Amount	% of Net Sales	Amount	% of Net Sales
Total	$ 222	-	13,280	-

Prices and terms of collection for mobile phones sold to Mr. Jackson Chang, Inventec Appliances Employee Welfare Committee and Inventec Corporation were similar to other customers.

(ii) Property Transactions

For the years ended December 31, 2007 and 2006, machinery purchased from and sold to related parties were as follows:

	For The Year Ended December 31,			
	2007		2006	
	Purchased	Sold	Purchased	Sold
Inventec Micro-Electronics Corp.	$ -	-	25	-

(iii) Others

	Rent, Utilities, Proccecing Fee and Out-sourcing Expenses		Business Consulting Fee, Computer System Expenses and Development, Design, and Technical support Expenses	
	For The Year Ended December 31,		For The Year Ended December 31,	
Related Parties	2007	2006	2007	2006
Inventec Corporation	$ -	-	1,103	26,838
Inventec Multimedia and Telecom Corp.	-	-	11,594	-
Inventec Micro-Electronics Corp.	-	21	-	-
Inventec (Shanghai) Co., Ltd.	-	7,918	-	-
Inventec (Pudong) Corp.	-	27,435	-	-
Kai Tsuang Advisory Services Co., Ltd.	-	-	400	-
Total	$ -	35,374	13,097	26,838

(iv) Accounts Receivable (Payable)

	December 31, 2007		December 31, 2006	
Accounts receivable:	Amount	%	Amount	%
Total	$ -	-	6,757	-
Accured expenses:				
Total	$ 100	-	-	-

(6) Pledged Assets

Assets pledged as collateral as of December 31, 2007 and 2006 were as follows:

	December 31, 2007	December 31, 2006	Purpose of pledge
Refundable deposits	$ 22,757	51,962	Deposits for buildings

(7) Significant Commitments and Contingencies

(a) As of December 31, 2007 and 2006, unused letters of credit were as follows:

(in thousands)

	December 31, 2007	December 31, 2006
USD	$ 188	1,841

(b) As of December 31, 2007 and 2006, the promissory notes issued for bank credit limits were as follows:

(in thousands)

	December 31, 2007	December 31, 2006
USD	$ 28,500	25,500
EUR	500	500
NTD	2,052,333	1,552,333

(c) As of December 31, 2007 and 2006, the promissory notes received from suppliers were as follows:

	December 31, 2007	December 31, 2006
NTD	$ 43,871	25,371

(d) For the years ended December 31, 2007 and 2006, the Consolidated Entities entered into lease agreements to lease computers , software and buildings. The rental expense and future lease payments were as follows:

Period		Future rent due			
For The Year Ended December 31,	Rent	2007	2008	2009	2010
2007	$ 52,996	-	41,746	27,389	11,751
2006	$ 51,178	47,791	29,136	12,787	-

(e) As of December 31, 2007 and 2006, the totaled significant construction and machinery contract prices and the future irrecoverable payments were as follows:

(in thousands)

	December 31, 2007	December 31, 2006
Total Contract Prices:		
USD	$ 31,486	31,476
RMB	572,059	446,790
Future Irrecoeverable Payments:		
USD	165	611
RMB	29,391	74,050

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

(f) 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.

(10) Others

(a) Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2006 were reclassified to conform to the presentation in the consolidated financial statements as of and for the year ended December 31, 2007.

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

	For The Year Ended December 31,					
	2007			2006		
Categorized as Nature	Operating Cost	Operation Expenses	Total	Operating Cost	Operation Expenses	Total
Personnel expenses						
Salary	1,097,447	2,075,013	3,172,460	1,306,345	1,651,968	2,958,313
Health and labor	120,304	137,978	258,282	72,472	120,446	192,918
Pension	36,340	177,528	213,868	49,285	154,753	204,038
Other	142,592	78,823	221,415	180,064	59,992	240,056
Depreciation (Note)	809,725	406,831	1,216,556	798,684	292,658	1,091,342
Amortization	157,637	62,354	219,991	227,785	84,064	311,849

Note: The amount for the year ended December 31, 2007 did not include depreciation of idle asset (recorded as Non-current assets held for sale as of December 31, 2007) by $13,101.

(c) Certain high-ranking managers of the Company received letters from the Banciao District Prosecutors Office dated on August 15, 2007, under which, these managers were accused of insider trading by the prosecutors of Banciao District Prosecutors Office. This case is awaiting trial and the managers concerned have engaged an attorney to defend them which has not affected the Company's current and on–going operations.

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

(11) Business Segment Information

(a) Industry:

The major business of the Consolidated Entities belongs to the electronic industry. The revenues, segment profits, and identifiable assets associated with this business account for more than 90% of the Consolidated Entities total revenues, segment profits, and identifiable assets, which represented a single industry. The remaining businesses in other industries are considered insignificant and hence, disclosure is not necessary.

(b) Geographical Region:

The Consolidated Entities' geographical information for the years ended December 31, 2007 and 2006 were as follows:

	For The Year Ended December 31, 2007				
	Domestic	Asia	America	Adjustments	Consolidated
Revenue from external customers	$ 70,906,715	11,101,251	11,178,636	-	93,186,602
Intercompany revenue	8,862,120	158,178,661	64,264	(167,105,045)	-
Total revenue	$ 79,768,835	169,279,912	11,242,900	(167,105,045)	93,186,602
Segment profit/(loss)	$ 1,137,260	2,711,765	12,664	(58,608)	3,803,081
General corporate income					122,723
General corporate expense					(121,064)
Investment profit/(loss)					473
Interest expenses					(60,572)
Consolidated income before income tax					3,744,641
Identifiable assests	$ 19,340,753	41,450,998	1,509,489	(24,695,543)	37,605,697
Long-term investments					267,020
Total assets					37,872,717

	For The Year Ended December 31, 2006				
	Domestic	Asia	America	Adjustments	Consolidated
Revenue from external customers	$ 81,499,375	11,434,224	13,040,307	-	105,973,906
Intercompany revenue	14,741,313	193,137,594	45,709	(207,924,616)	-
Total revenue	$ 96,240,688	204,571,818	13,086,016	(207,924,616)	105,973,906
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	$ 21,803,769	46,320,107	4,557,164	(35,224,462)	37,456,578
Long-term investments					209,315
Total assets					37,665,893

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

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 arising from other investments.

(c) Export Sales:

	For the Year Ended December 31,	
Region	2007	2006
America	$ 50,817,036	61,627,755
Europe	23,358,791	23,270,372
Asia	17,545,147	18,622,551
Total	**$ 91,720,974**	**103,520,678**

(d) Major Clients:

For the years ended December 31, 2007 and 2006, individual clients accounted for as least 10% of total operating revenues of Consolidated Entities were as follows:

For the year ended December 31, 2007			For the year ended December 31, 2006		
Customer	Amount	%	Customer	Amount	%
D	$ 44,209,881	48%	D	67,356,771	64%
T	16,480,850	18%	T	12,409,028	12%