

INVENTEC CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003
AND
INDEPENDENT AUDITORS' REPORT

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INVENTEC CORPORATION
FINANCIAL STATEMENTS

TABLE OF CONTENTS

<u>Contents</u>	<u>Page</u>
• Cover Page	1
• Table of Contents	2
• Independent Auditors' Report	3
• Balance Sheets	4
• Statements of Income	5
• Statements of Changes in Stockholders' Equity	6
• Statements of Cash Flows	7
• Notes to Financial Statements	
1. Organization and Business	8-10
2. Summary of Significant Policies	10-14
3. Reasons for and Effects of Accounting Changes	14
4. Summary of Major Accounts	15-26
5. Related Party Transactions	26-30
6. Pledged Assets	31
7. Significant Commitments and Contingencies	31
8. Significant Catastrophic Losses	31
9. Significant Subsequent Events	31
10. Others	31

Independent Auditors' Report

The Board of Directors
Inventec Corporation:

We have audited the accompanying balance sheets of Inventec Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investee companies accounted for under the equity method, which statements reflect long-term equity investment constituting 0.60 percent and 0.58 percent of total assets and total investment loss or income constituting 0.4 percent and 1.4 percent of income before income tax in 2004 and 2003, respectively. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for the investee companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits and reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Inventec Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of China.

For reference purposes, Inventec Corporation has prepared consolidated financial statements for the years ended December 31, 2004 and 2003, on which we have expressed an Modified unqualified opinion.

Taipei, Taiwan, ROC
March 21, 2005

The accompanying financial statements are intended only to present the financial position, results of operation 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.

INVENTEC CORPORATION
BALANCE SHEETS
December 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Except for Share Data)

	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 4,106,164	8	8,993,432	17
Notes receivable (Note 2)				
- Other customers	357	-	2	-
- Related parties	378	-	776	-
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b)				
- Other customers	14,609,345	27	10,372,435	20
- Related parties	6,724,673	13	5,917,967	12
Receivable on sale of forward exchange contracts	318,393	1	-	-
Forward exchange contracts payable	(317,500)	(1)	-	-
Premium on Forward Exchange Contracts	(893)	-	-	-
Other financial assets - current	12,527,771	23	10,480,396	20
Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c)	1,668,696	3	1,644,794	3
Prepayments and other current assets	103,069	-	74,371	-
Deferred tax assets - current (Notes 2 and 4.h)	731,959	1	600,104	1
	<u>40,472,412</u>	<u>75</u>	<u>38,084,277</u>	<u>73</u>
Long-term equity investments (Notes 2 and 4.d)				
Accounted for under the equity method	9,704,939	18	10,055,473	19
Accounted for under the cost method	1,980,353	4	1,561,000	3
Prepayments for Long-Term Investments	-	-	369,873	1
	<u>11,685,292</u>	<u>22</u>	<u>11,986,346</u>	<u>23</u>
Other financial assets - non-current (Notes 6)				
	39,754	-	56,602	-
Property, Plant, and Equipment (Notes 2 and 4.e)				
Land	788,144	1	788,144	2
Buildings	427,252	1	427,252	1
Machinery	476,536	1	543,367	1
Transportation equipment	26,332	-	24,458	-
Furniture and office facilities	993,589	2	906,786	2
Other equipment	171,236	-	197,758	-
	<u>2,883,089</u>	<u>5</u>	<u>2,887,765</u>	<u>6</u>
Less: Accumulated depreciation	(1,347,809)	(2)	(1,308,369)	(3)
Construction in progress	3,704	-	15,260	-
Prepayment on equipment	40,805	-	737	-
	<u>1,579,789</u>	<u>3</u>	<u>1,595,393</u>	<u>3</u>
Intangible Assets				
Deferred Pension Cost (Notes 2 and 4.g)	59,505	-	117,546	-
Other Assets:				
Deferred debits - intercompany loss (Note 2)	194,663	-	194,663	1
Deferred tax assets - non - current (Notes 2 and 4.h)	35,312	-	-	-
Other assets (Notes 2 and 4.f)	159,322	-	148,740	-
	<u>389,297</u>	<u>-</u>	<u>343,403</u>	<u>1</u>
TOTAL ASSETS	\$ 54,226,049	100	52,183,567	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Notes payable				
- Other customers	\$ 394,020	1	506,210	1
- Related parties	255	-	169	-
Accounts payable				
- Other customers	10,552,319	20	10,623,265	20
- Related parties	12,118,785	22	9,559,127	18
Income tax payable	233,084	-	-	-
Accrued expenses	633,605	1	761,611	1
Advance collection	28,330	-	118,133	-
Other current liabilities	472,735	1	502,897	1
Estimated warranty reserve (Note 2)	1,280,193	2	753,182	2
	<u>25,713,326</u>	<u>47</u>	<u>22,824,594</u>	<u>43</u>
Other Liabilities:				
Accrued pension liabilities (Notes 2 and 4.g)	309,715	1	325,053	1
Deferred tax liabilities - non-current (Notes 2 and 4.h)	-	-	401,580	1
Deferred credits - intercompany profits (Note 2)	133,059	-	121,320	-
Other liabilities	14,198	-	684	-
	<u>456,972</u>	<u>1</u>	<u>848,637</u>	<u>2</u>
Total Liabilities	<u>26,170,298</u>	<u>48</u>	<u>23,673,231</u>	<u>45</u>
Stockholders' Equity				
Capital Stock, par value \$10 per share; authorized 2,500,000,000 shares, 2,137,000,000 shares issued and outstanding as of December 31, 2004; 2,026,000,000 shares issued and outstanding as of December 31, 2003.	21,370,000	40	20,260,000	39
Capital Surplus (Note 2)				
Additional paid-in capital	447,723	1	447,723	1
Capital surplus of long-term investments	154,943	-	121,064	-
Other	177	-	177	-
Retained Earnings:				
Legal reserve (Note 2)	3,333,253	6	2,910,055	6
Undistributed earnings (Notes 2 and 4.h)	2,873,406	5	4,685,416	9
Cumulative translation adjustments (Note 2)	(123,751)	-	85,901	-
	<u>28,055,751</u>	<u>52</u>	<u>28,510,336</u>	<u>55</u>
Total Stockholders' Equity	<u>28,055,751</u>	<u>52</u>	<u>28,510,336</u>	<u>55</u>
Commitments and Contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 54,226,049	100	52,183,567	100

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

INVENTEC CORPORATION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Except for Share Data)

	2004		2003	
	Amount	%	Amount	%
Operating Revenue:				
Net sales	\$ 131,357,153	100	81,569,045	100
Technical service revenue	12,573	-	9,032	-
Net operating revenue	131,369,726	100	81,578,077	100
Operating Cost				
	(124,239,298)	(94)	(75,852,905)	(93)
	7,130,428	6	5,725,172	7
Unrealized intercompany profits	(33,279)	-	(3,075)	-
Realized intercompany profits	3,075	-	99,201	-
Gross margin	7,100,224	6	5,821,298	7
Operating Expenses:				
Selling expenses	(2,910,480)	(2)	(2,374,144)	(3)
Administrative expenses	(872,310)	(1)	(1,107,398)	(1)
Research and development expenses	(1,411,377)	(1)	(1,340,614)	(2)
	(5,194,167)	(4)	(4,822,156)	(6)
Income from Operations	1,906,057	2	999,142	1
Non-Operating Income:				
Interest income	106,166	-	86,109	-
Investment income accounted for under the equity method(Note 4.d)	19,075	-	1,816,175	2
Dividend income(Note 4.d)	480	-	600	-
Gain on disposal of properties	35,741	-	32,293	-
Gain on disposal of Investments	156,936	-	802,114	1
Gain on recovery of inventory market decline	121,168	-	34,998	-
Other income	517,486	-	523,837	1
	957,052	-	3,296,126	4
Non-Operating Expenses:				
Interest expense	(25,174)	-	(471)	-
Loss on disposal of properties	(577)	-	(53,577)	-
Foreign exchange loss	(545,380)	-	(25,709)	-
Other expenses	(7,647)	-	(55,323)	-
	(578,778)	-	(135,080)	-
Income before income tax	2,284,331	2	4,160,188	5
Income tax benefit (Note 4.h)	139,836	-	88,012	-
Net Income	\$ 2,424,167	2	4,248,200	5
	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (Notes 2 and 4.k)				
Basic	\$ 1.07	1.13	2.05	2.10
Earnings per share after retroactive adjustment				
Basic	\$ -	-	1.95	1.99

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

INVENTEC CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

	Capital Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustment	Total
			Legal Reserve	Undistributed Earnings		
Beginning balance, January 1, 2003	\$ 18,350,000	568,964	2,575,062	3,828,661	220,647	25,543,334
2002 earnings distribution and appropriation:						
Legal reserve	-	-	334,993	(334,993)	-	-
Compensation to directors and supervisors	-	-	-	(90,448)	-	(90,448)
Employee bonus	-	-	-	(136,046)	-	(136,046)
Employee bonus in stock dividends	75,000	-	-	(75,000)	-	-
Cash dividends distributed	-	-	-	(917,500)	-	(917,500)
Stock dividends	1,835,000	-	-	(1,835,000)	-	-
Net income for 2003	-	-	-	4,248,200	-	4,248,200
Adjustment arising from change in ownership percentage in an invenstee	-	-	-	(2,458)	-	(2,458)
Translation adjustment to long-term investments (net of income tax of \$44,915)	-	-	-	-	(134,746)	(134,746)
Ending balance, December 31, 2003	<u>20,260,000</u>	<u>568,964</u>	<u>2,910,055</u>	<u>4,685,416</u>	<u>85,901</u>	<u>28,510,336</u>
2003 earnings distribution and appropriation:						
Legal reserve	-	-	423,198	(423,198)	-	-
Compensation to directors and supervisors	-	-	-	(114,264)	-	(114,264)
Employee bonus	-	-	-	(169,615)	-	(169,615)
Employee bonus in stock dividends	97,000	-	-	(97,000)	-	-
Cash dividends distributed	-	-	-	(2,431,200)	-	(2,431,200)
Stock dividends	1,013,000	-	-	(1,013,000)	-	-
Net income for 2004	-	-	-	2,424,167	-	2,424,167
Adjustment arising from change in ownership percentage in an investee	-	33,879	-	12,100	-	45,979
Translation adjustment to long-term investments (net of income tax of \$69,884)	-	-	-	-	(209,652)	(209,652)
Ending balance, December 31, 2004	<u>\$ 21,370,000</u>	<u>602,843</u>	<u>3,333,253</u>	<u>2,873,406</u>	<u>(123,751)</u>	<u>28,055,751</u>

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

INVENTEC CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ 2,424,167	4,248,200
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	240,253	270,470
Amortization	273,211	290,063
(Gain) loss on disposal and scrapping of properties	(10,750)	21,925
Gain on disposal of deferred assets	(6,141)	(4,737)
Gain on disposal of long-term investments, net	(156,936)	(802,114)
Gain on recovery of inventory market decline	(121,168)	(34,998)
Foreign currency exchange gain, net	(8,558)	(6,077)
(Reversal) Provision for doubtful accounts	(3,421)	4,118
Gain on investments recognized under the equity method in excess of cash dividends received	956,076	(1,147,678)
Loss on long-term investment market decline perpetual under the cost method	101,123	-
Provision for warranty reserve	527,011	247,628
Change in assets and liabilities:		
Notes and accounts receivable	(5,040,152)	(2,005,391)
Other financial assets - current	(2,047,375)	(7,680,111)
Forward Exchange Contracts Receivable	(318,393)	-
Payables on Forward Exchange	317,500	-
Discount on Forward Exchange Contracts	893	-
Inventories	97,266	924,290
Prepayments and other current assets	(28,698)	6,373
Deferred tax assets and liabilities, net	(498,863)	(272,086)
Notes and accounts payable	2,376,608	6,087,656
Income tax payable	233,084	-
Accrued expenses	(128,006)	250,318
Advance collection	(89,803)	90,438
Deferred credits - intercompany profits	11,739	(92,003)
Other current liabilities	123,668	108,795
Accrued pension liabilities	42,703	47,772
Net cash (used in) provided by operating activities	<u>(732,962)</u>	<u>552,851</u>
Cash flows from investing activities:		
Increase in long-term investments	(1,136,260)	(1,761,784)
Purchase of property and equipment	(386,268)	(61,214)
Purchase of deferred assets	(311,901)	(321,302)
Preceeds from disposal of long-term investments	303,494	3,229,512
Proceeds from disposal of property and equipment	34,499	724,999
Proceeds from disposal of deferred assets	28,303	21,754
Other financial assets - non-current	16,848	13,777
(Increase) Decrease in other assets	(10,014)	7,157
Net cash (used in) provided by investing activities	<u>(1,461,299)</u>	<u>1,852,899</u>
Cash flows from financing activities:		
Compensation to directors and supervisors and employee bonuses	(283,879)	(226,494)
Cash dividends Paid	(2,431,200)	(917,500)
Increase(decrease) in other liabilities	13,514	(319)
Net cash used in financing activities	<u>(2,701,565)</u>	<u>(1,144,313)</u>
Effect of changes in foreign exchange rate	<u>8,558</u>	<u>6,077</u>
Net (decrease) increase in cash and cash equivalents	<u>(4,887,268)</u>	<u>1,267,514</u>
Cash and cash equivalents, beginning of the period	<u>8,993,432</u>	<u>7,725,918</u>
Cash and cash equivalents, end of the period	<u>\$ 4,106,164</u>	<u>8,993,432</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	<u>\$ 25,174</u>	<u>471</u>
Cash paid during the period for income taxes	<u>\$ 263,844</u>	<u>184,074</u>
Acquisition of properties with cash and other payables:		
Increase in property and equipment	\$ 232,438	224,242
Add: Other payables - beginning of the period	168,072	5,044
Less: Other payables - end of the period	(14,242)	(168,072)
Cash paid	<u>\$ 386,268</u>	<u>61,214</u>

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

1 Overview

The Company engages primarily in developing, manufacturing, processing and trading of computers, word processors and related products. Significant historical events are the following:

1975- The Company was founded with a registered capital of \$1,000 to produce calculators and telephone sets.

1989- The Company started to manufacture laptops and word processors.

- The Company invested in Inventec Besta Co., Ltd.

- The Company commenced to manufacture a series of electronic dictionaries as well as language CDs.

1990- The Company built overseas manufacturing plants to manufacture telephone and facsimile machines through investing in Inventec Electronics (M) SDN. BHD.

1991- The Company invested in Inventec Electronics (Shanghai) Co., Ltd. through its investment in Inventec Corporation (Hong Kong) Co., Ltd. to expand software business.

1993- Mass production of PDA's commenced.

1994- The Company invested in Inventec Electronics (Nanking) Co., Ltd., Inventec Electronics (Tianjin) Co., Ltd., Inventec Electronics (Beijing) Co., Ltd. and Inventec Electronics (Xi'an) Co., Ltd. to engage in software business.

1995- Mass production of multi-function, multimedia Pentium-computers commenced and a site at Wu-Ku Industrial Park for plant expansion was purchased.

1996- Operation of the factory in Wu-Ku commenced.

- A site at Lin-Ko Industrial Park was acquired by the Company for factory expansion and construction was launched.

- The Company's stock was listed in Taiwan Stock Exchange in November.

1997- Operation of the factories in Lin-Ko Industrial Zone commenced.

- Subsidiaries of the Company in Scotland, Singapore and the United States were registered and engaged in assembling and after-sales services.

1998- The Company established Inventec Holding (North America) Co., Ltd. for after-sale services of its U.S. subsidiaries.

- The Company purchased Ta-Shi plant in Tao-Yuan. Production of servers and desktops commenced.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 1999- The Company sold its personal learning system department and related trademark, patents, and copyrights to the investee company Inventec Besta Co., Ltd.
- The Company sold its investment in Inventec Electronic (Xi'an) Co., Ltd. to its investee company Inventec Besta Co., Ltd.
 - The Company purchased a second factory at Wu-Ku Industrial Park for business in information appliance (IA).
 - The Company established Inventec Multimedia and Telecom Corp. for multimedia products and communication related businesses.
 - The Company established Inventec Micro-Electronics Corp. to manufacture telecommunication equipment.
 - The Company established Inventec Online Corp. for software development.
- 2000- The PDA division was transferred to Inventec Appliances Corp. and asset valuation was used as the basis of the Company's investment.
- The Company established Inventec Communication and Technology Co. for investing activities.
 - The Company sold its investment in Inventec Electronics (M) SDN. BHD. to the investee company Inventec Communication and Technology Co. to integrate operation and business.
 - Investee companies Inventec Multimedia and Telecom Corp. and Inventec Communication and Technology Co. merged to reinforce administrative efficiency, integrate resources, and reduce costs. Inventec Multimedia and Telecom Corp. is the continuing company after the merger.
 - The Company invested in Inventec Corporation (Cayman) Co., Ltd. for further investment in Inventec Corporation (Shanghai) Co., Ltd., of which parts assembling is the major line of its business.
- 2001- The Company invested in Inventec Tomorrow Studio Corporation for editorial tasks of book and electronic publication and sales.
- 2002- Inventec Online Corp. and Inventec Appliances Corp. merged to integrate resources. Inventec Appliances Corp. is the surviving company after the merger.
- 2003- The Company sold its investment in Inventec Appliance (Shanghai) Co., Ltd. to Inventec Appliances Corp.
- The Company invested in Inventec Corporation (Cayman) Co., Ltd. which invested in Inventec (Pudong) Corp. Inventec (Pudong) Corp. engages in parts assembling.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2004- The Company invested in Inventec Enterprise System Corp. was engaged in parts assembling .

- The Company invested in Inventec (Czech) S.R.O. was engaged in parts assembling.
- The Company invested in Inventec Corporation (Cayman) Co., Ltd. which invested in Inventec (Pudong) Technology Corp. and Inventec (Shanghai) Service Co., Ltd. engages in parts assembling.
- The Company reduced shareholding in Inventec Tomorrow Studio Corp. and accounted for under the cost method.
- The Company sold its investment in Inventec Electronics (Nanking) Co., Ltd. to Inventec Appliances Corp.

As of December 31, 2004 and 2003, the average number of employees was 2,060 and 2,087, respectively.

2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

The Company's financial statements were prepared in accordance with "Rules Governing Auditing and Certification of Financial Statement by Certified Public Accounts" and generally accepted accounting principles of the Republic of China. Summary of significant accounting policies and their measurement basis are as follows:

a Cash Equivalents

Cash equivalents are Treasury bills, commercial paper, or banker's acceptances with maturities within three months. Commercial paper and banker's acceptance are stated at cost and valued by the specific identification method. At year-end, interest receivables are accrued on unsold investments.

b Notes and Accounts Receivable and Allowance for Doubtful Accounts

Allowance for doubtful accounts is based on the age and results of the Company's evaluation of the collectibility of outstanding receivable balances. Allowance for receivables outstanding beyond 1 year and of customers with financial difficulties is fully provided, net of likely collectible amount.

c Inventories and Allowance for Inventory Market Decline and Obsolescence

Inventories are stated at cost on a perpetual inventory basis by the weighted-average method and valued at the lower of cost or market at year-end. Allowance for inventory market decline is provided for when the market value of inventories is lower than cost, and valuation is based on the total amount of inventories. Allowance for inventory obsolescence is provided for obsolete or slow-moving (over 6 months) items, net of estimated useful or salvage values.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d Long-Term Equity Investments

Long-term equity investments where the Company cannot exercise significant influence are stated at cost. If an investee company is a listed company, an allowance for market decline is provided when market price is lower than cost, with unrealized market decline charged to stockholders' equity. For non-listed companies, should evidence suggest investment value impairment may be other than temporary and the possibility of recovery remote, loss is recognized immediately, and the restated book value is the new cost.

Long-term equity investments where the Company can exercise significant influence are accounted for under the equity method. Premium or discount on investments is amortized equally over 5 years. Exchange differences from translation of foreign- denominated financial statements at year-end are reflected as translation adjustments under stockholders' equity. If the fiscal year of the investee company is different from that of the Company, equity earnings of an investee company are recognized according to equivalent ownership at year-end closing. If the current audited financial statements are unavailable on a timely basis, gain or loss on investments are recognized in the following year based upon the current equivalent ownership of the investee company at year-end.

Unrealized intercompany transactions are eliminated and recorded as deferred debits. Regardless of downstream or upstream transactions, unrealized inter-company gains and losses are eliminated in proportion to shareholding ratio, except for in downstream transactions, where gain or loss must be fully eliminated when controlling interests exist. Unrealized gains and losses resulting from transactions between investee companies are eliminated in proportion to shareholding ratio if controlling interests exist. Otherwise the unrealized gains or losses are eliminated according to the product of shareholding ratio. Gains and losses resulted from transactions of depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

Cost and gains or losses on disposition of long-term equity investments are determined by the weighted-average method. Capital surplus from disposition of such investments is reduced by the percentage sold, with gains and losses included in current earnings.

Long-term equity investments where the Company has controlling interest are accounted for under the equity method and consolidated financial statements are required according to rules set forth in the Statement of Financial Accounting Standards ("SFAS") and by the Securities and Futures Bureau ("SFB") under the Ministry of Finance ("MOF").

e Property, Plant, Equipment and Depreciation

Property, plant, and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Depreciation is applied by the straight-line method based on estimated economic lives. Assets still in use after full depreciation may continue to be depreciated by their estimated economic lives. Economic lives of major property and equipment are the following:

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Buildings	10 to 50 years
Machinery	2 to 11 years
Transportation equipment	3 to 6 years
Furniture and office facilities	1 to 14 years
Power equipment	2 to 16 years
Renovation and leasehold improvements	2 to 20 years
Miscellaneous equipment	2 to 16 years

Gain and loss on disposal of properties are included in current earnings. Non-operating properties are listed as other assets. Properties with no operating value are reclassified as other assets and carried at the lower of book or net realizable value, and their costs and accumulated depreciation shall offset each other, with difference reported as current loss.

f Deferred Expenses

Telephone line charges and cost of power distributors are amortized equally over 5 years. Molds and tools are amortized equally over 12 months. Software costs are amortized at the ratio of its current total production over total current and estimated future production. If production ceases for over six months, then the software will be fully reflected as other losses.

g Pension Plan

The Company has a pension plan covering all regular employees, and pension payment is commensurate with years of service. The Company contributes annually to the pension fund and deposits in a government designated account. The pension fund is not reflected in the Company's financial statements. Effective 1995, the Company adopted SFAS No.18 and secured actuarial report on pension liabilities with December 31 as the measurement date. Provisions for pension expense commenced on January 1, 1996, and unrecognized net transitional obligations are amortized equally over 15 years.

h Foreign Currency Translation

Assets and liabilities of overseas subsidiaries are translated at the spot rate of the balance sheets date; stockholders' equity is translated by historical rate except for the beginning balance of retained earnings, where the spot rate at the beginning of the year is used. Income statement accounts are translated at the weighted-average rate of the year, with difference reflected as translation adjustments to stockholders' equity.

Foreign-denominated non-forward transactions are recorded at rates as transactions occur. Foreign exchange gain and loss on settlement of foreign-denominated assets and liabilities and those of year-end adjustment to foreign-denominated assets and liabilities by the spot rates then are included in current earnings.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

i Non-Trading Financial Derivatives

According to the rule set forth by SFAS, hedging foreign exchange forward contracts are recorded at spot rates of the contract date and adjusted by the exchange rate at period-end, with exchange gain and loss included in current earnings. Difference between the contract and the spot rates is recognized ratably over the term of forward contracts. Forward contract receivables netting related payables are reflected as an asset or a liability.

j Capital Surplus

According to the Company Law, capital surplus is used exclusively to offset cumulative losses and increase capital. If the Company revalues properties and uses capital surplus to offset cumulative losses, it must first be restored by future earnings before dividends or other distributions can be made.

k Legal Reserve

Legal reserve is used exclusively to offset cumulative losses or to increase capital. Capitalization of legal reserve is permitted only when it reaches 50% of the paid-in capital, and only 50% of it can be capitalized. It may not be used for any other purpose.

l Earnings Distribution and Dividend Policy

The Company's Articles of Incorporation prescribe that after-tax earnings shall first offset cumulative losses, and 10% of the rest be set aside as legal reserve. Special reserve may be appropriated for operations or to meet regulations 7% and 3% of the remainder will be distributed as employee bonuses and compensation for directors and supervisors, respectively. The remaining balance is distributed according to the proposal presented to the annual stockholders' meeting by the Board of Directors.

In consideration of the Company's future funding needs and long-term budget planning, and in order to meet shareholders' demand of cash flow, annual cash dividends paid cannot be fewer than 10% of total current dividends.

m Commitments and Contingencies

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise, only the nature of such loss is disclosed in notes to the financial statements.

n Revenue Recognition

Revenue is recognized when title to the product and risk and benefits of ownership are transferred to the customer; otherwise recognition is deferred until conditions are met.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

o Warranty Reserve

An allowance is provided for products with warranty based on estimated warranty service cost, and the related liability is classified as current or non-current, depending on its nature.

p Classification of Capital and Operating Expenditures

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

q 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, unused investment tax credits, and operating loss carryforwards 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 realize. Adjustments to prior years' earnings are reported under stockholders' equity rather than included in current earnings. Income tax expense or benefits resulting from unearned gain or loss or changes in capital surplus are reported under respective accounts 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 of the annual stockholder's meeting declaring distribution of earnings.

r Earnings per Share ("EPS")

EPS is based on the effect of all common shares issued and outstanding and is calculated by dividing net income by the weighted-average shares outstanding during the year. In the event of capital increase through capitalization of retained earnings or capital surplus, EPS is retroactively adjusted to reflect the capital increase for all years presented in the financial statements, regardless of the outstanding period in which the incremental shares are issued.

3 REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES: None.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4 SUMMARY OF MAJOR ACCOUNTS

a Cash and Cash Equivalents

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Cash on hand	\$ 606	504
Checking accounts	4,291	12,653
Demand deposits	10,464	17,540
Time deposits	1,456,960	1,713,110
Foreign currency time deposits	2,305,559	4,297,402
Foreign currency deposits	93,127	90,845
Cash equivalents (short-term bills and bonds)	<u>235,157</u>	<u>2,861,378</u>
Total	<u><u>\$ 4,106,164</u></u>	<u><u>8,993,432</u></u>

b Accounts Receivable

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Accounts receivable - other customers	\$ 14,612,712	10,378,545
Less: Allowance for doubtful accounts	<u>(3,367)</u>	<u>(6,110)</u>
Net	14,609,345	10,372,435
Accounts receivable - related parties	<u>6,724,673</u>	<u>5,917,967</u>
Total	<u><u>\$ 21,334,018</u></u>	<u><u>16,290,402</u></u>

c Inventories

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Raw materials	\$ 1,145,838	1,081,886
Work in process	286,141	373,408
Finished goods	439,177	627,162
Supplies-in-transit	<u>114,034</u>	<u>-</u>
	1,985,190	2,082,456
Less: Allowance for market decline and obsolescence	<u>(316,494)</u>	<u>(437,662)</u>
Net	<u><u>\$ 1,668,696</u></u>	<u><u>1,644,794</u></u>
Insurance coverage	<u><u>\$ 2,790,500</u></u>	<u><u>3,508,580</u></u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d Long-Term Equity Investments

<u>Name of Investee Company</u>	<u>December 31, 2004</u>			<u>December 31, 2003</u>		
	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>
Carried under the equity method						
Inventec Besta Co., Ltd.	38.69%	\$ 1,202,773	765,058	38.69%	\$ 1,185,758	765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	122,321	42,655	100.00%	359,030	8,705
Inventec Corporation (Scotland) Co., Ltd.	100.00%	318,893	39,518	100.00%	298,207	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	6,675	6,888	100.00%	6,688	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	454,256	159,003	100.00%	412,120	159,003
Inventec Multimedia and Telecom Corp.	48.57%	1,332,313	936,576	59.60%	1,367,135	967,400
Inventec Micro-Electronics Corp.	70.48%	367,825	401,625	70.48%	399,324	401,625
Inventec Appliances Corp.	49.13%	3,536,982	2,201,014	50.13%	2,970,536	1,869,745
Inventec Corporation (Cayman) Co., Ltd.	100.00%	2,063,123	3,188,058	100.00%	2,870,797	2,720,758
Inventec Tomorrow Studio Corp.	-	-	-	60.00%	185,878	298,800
Inventec Enterprise System Corp.	100.00%	245,041	200,000	-	-	-
Inventec (Czech) S.R.O.	100.00%	54,737	69,873	-	-	-
Subtotal		<u>9,704,939</u>			<u>10,055,473</u>	
Carried under the cost method						
<u>Common Stock</u>						
WK Technology Fund IV	1.52%	40,000		1.52%	40,000	
Eastern Broadband Corp.	0.15%	100,000		0.15%	100,000	
Storage Bank Inc.	10.08%	26,400		10.09%	26,400	
Inventec Tomorrow Studio Corp.	8.57%	38,711		-	-	
Global Strategic Investment Fund	6.45%	100,000		-	-	
Taiyi Print Enterprise Co., Ltd.	8.00%	48,000		-	-	
Subtotal		<u>353,111</u>			<u>166,400</u>	
<u>Preferred Stock</u>						
E28 Limited		1,394,600			1,394,600	
3UP Systems, Inc.		35,718			-	
Universal Network Machines, Inc.		52,525			-	
Maxxan Systems, Inc.		67,790			-	
Rasilient Systems, Inc.		43,384			-	
Accel Semiconductor Corporation		33,225			-	
Subtotal		<u>1,627,242</u>			<u>1,394,600</u>	
Total		<u>1,980,353</u>			<u>1,561,000</u>	
Prepayments for Long-Term Investments in Stock						
Inventec (Czech) S.R.O.		-			69,873	
Inventec Enterprise System Corp.		-			200,000	
Global Strategic Investment Fund		-			100,000	
Subtotal		<u>-</u>			<u>369,873</u>	
Total		<u>\$ 11,685,292</u>			<u>11,986,346</u>	

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

In 2004 and 2003, investment income (loss) from investments in investee companies accounted for under the equity method in which the Company has controlling interest were as follows:

<u>Name of investee company</u>	<u>2004</u>	<u>2003</u>
Based on audited financial statements :		
Inventec Besta Co., Ltd.	\$ 38,331	8,089
Inventec Corporation (Hong Kong) Co., Ltd.	39,790	(11,679)
Inventec Corporation (Scotland) Co., Ltd.	(9,007)	58,505
Inventec Corporatin (Singapore) Co., Ltd.	(189)	(216)
Inventec Holding (North America) Co., Ltd.	38,701	42,348
Inventec Multimedia and Telecom Corp.	170,803	126,654
Inventec Micro-Electronics Corp.	(22,979)	(15,568)
Inventec Appliances Corp.	953,194	1,299,250
Inventec Corporation (Cayman) Co., Ltd.	(1,104,830)	331,618
Inventec Tomorrow Studio Corp.	-	(22,826)
Inventec Enterprise System Corp.	45,041	-
Inventec (Czech) S.R.O	(21,090)	-
Based on financial statements prepared by investee:		
Inventec Tomorrow Studio Corp.	(7,567)	-
Total	\$ 120,198	1,816,175

Registered capital of the wholly-owned subsidiary Inventec Corporation (Hong Kong.) Co., Ltd. was HK\$2,500 (US\$322), representing 2,500,000 shares. On January 2, 2003, and on August 23, 2004 the Company sold all shares of Inventec Appliances (Shanghai) Co., Ltd. and Inventec Electronics (Nanking) Co., Ltd. originally held by Inventec Corporation (Hong Kong) Co., Ltd. to Inventec Appliance (Cayman) Holding Corp., an investee company of Inventec Appliances Corp. for US\$ 31,918, and US\$8,981 resulting in loss of US\$1,518 and in gain of US\$1,613, respectively. Recognition of the loss and gain is deferred until the shares of Inventec Appliances (Shanghai) Co., Ltd. and Inventec Electronics (Nanking) Co., Ltd. are sold to a non-related party. As of December 31, 2004 and 2003, the Company received returned capital of US\$304,535 and US\$24,865. In 2004, the company increased its investment by US\$1,000.

Effective March 1, 2001, wholly-owned subsidiary Inventec Corporation (Singapore) Co., Ltd. temporarily ceased operations. Its registered capital was SG\$350 (US\$250), representing 350,000 shares with par value of SG\$1. The Company is entitled to 349,625 shares, and 375 shares are registered under individuals. Shareholding ratio was 100%.

Inventec Appliance Corp increase capital with cash in July, 2004. Pursuant to the Company Law, 10% of new shares were withheld for employee subscription. Shareholding ratio declined from 50.13% to 49.31%. On September 21, 2004, the Company sold 500,000 shares for trading in Emerging Enterprise Market. Consequently, shareholding ratio further declined from 49.31% to 49.13%.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

On May 27, 2004, the Company's shareholders meeting resolved to sale 10,616,000 shares of Inventec Multimedia and Telecom Co., Ltd. in order to meet the ownership diversification requirement for Inventec Multimedia and Telecom Corp's application for listed stocks. Consequently, shareholding ratio declined from 59.60% to 54.07%. Inventec Multimedia and Telecom Co., Ltd. increase capital with cash in November, 2004, the Company didn't purchase stock, consequently, shareholding ratio further declined to 48.57%.

On April 2004, Inventec Tomorrow Studio Corp. an investee company accounted for under the equity method preceded the capital reduction. The Company received the investment return with an amount of \$144,906. Soon after, the investee issued more shares for cash, and since the Company had not subscribed the shares, its share holding ratio on the investee decreased from 60% to 8.57%. As the result of change in the percentage of ownership in the investment, the investment is accounted for under the cost method.

The fiscal year of Inventec Corporation (Singapore) Co., Ltd. ends on March 31 and those of Inventec Holding (North America) Co., Ltd. and Inventec Corporation (Scotland) Co., Ltd. end on September 30.

Information regarding preferred stock held by the Company as of December 31, 2004 :

<u>Name of investee Company</u>	<u>Shares (thousands)</u>	<u>Dollars per share</u>	<u>Converse to Command</u>	<u>Exercise Significant influence</u>
E 28 Limited	40,000	1.00	Yes	No
3UP System, Inc.	2,667	0.75	Yes	No
Universal Network Machines, Inc.	626	4.79	Yes	No
Maxxan Systems, Inc.	5,628	0.35	Yes	No
Resilient Systems, Inc.	2,000	1.00	Yes	No
Accel Semiconductor Corp.	2,000	0.50	Yes	No

The investment value impairment of 3UP System Inc., Universal Network Machine, Inc. and Resilient System Inc. listed above may be permanent and the possibility of recovery is remote. Therefore US\$101,123 of investment loss is recognized.

Cash dividends from investee companies were the following:

<u>Name of investee company</u>	<u>2004</u>	<u>2003</u>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 304,535	524,385
Inventec Appliances Corp.	659,690	117,802
Inventec Besta Co., Ltd.	8,180	12,270
Inventec Micro-Electronics Corp.	-	14,040
Inventec Multimedia and Telecom Corp.	103,869	-
WK Technology Fund IV	480	600
Total	<u>\$ 1,076,754</u>	<u>669,097</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company has controlling interests in Inventec Holding (North America) Co., Ltd., Inventec Corp. (Scotland) Co., Ltd., Inventec Corp. (Hong Kong) Co., Ltd., and Inventec Corporation (Cayman) Co., Ltd. and therefore the above investees were included in consolidated financial statements. Since total assets or total operating revenues of Inventec Corp. (Singapore) Co., Ltd., Inventec Micro-Electronics Corp., Inventec Enterprise System Corp and Inventec (Czech) S.R.O do not exceed 10% of the Company's respective accounts, and the combined total assets or operating revenues of these investee companies do not exceed 30% of the Company's respective accounts, the above investees were not included in the consolidated financial statements.

e Property, Plant, and Equipment

As of December 31, 2004 and 2003, fire and auto accident insurance coverage of the property, plant, and equipment amounted to \$2,578,144 and \$4,228,755, respectively.

In 2004 and 2003, interest capitalized was \$0.

f Other Assets

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Deferred expenses	\$ 81,379	64,851
Rental assets, net of accumulated depreciation	1,041	3,418
Idle assets, net of accumulated depreciation	49,998	63,581
Prepayment for molds and tools	26,904	16,890
Overdue accounts in collection	24,398	25,076
Less: Allowance for doubtful accounts	<u>(24,398)</u>	<u>(25,076)</u>
Total	<u>\$ 159,322</u>	<u>148,740</u>

On May 18, 1998, the Company provided idle land located at Nanjing East Road and demolished construction built thereupon. The construction of the new building and renovations was completed in late September 2002. The building is reflected under idle assets since the building is unused.

As of December 31, 2004 and 2003, insurance coverage of the above idle and rental assets amounted to \$54,000 and \$55,000, respectively.

g Pension Plan

The Company has a pension plan covering all employees, and payment is commensurate with years of service. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. Any fraction of a year shorter than 6 months is counted as half a year and any fraction of a year longer than 6 months is counted as 1 year of service. Effective February 1987, the Company contributed to the pension fund deposited with Central Trust of China. As of December 31, 2004 and 2003, pension fund was \$430,829 and \$404,894, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Actuarial assumptions used for pension cost calculation in 2004 and 2003 were the following:

	<u>2004</u>	<u>2003</u>
Discount rate	2.50%	4.00%
Growth rate of compensations in the future	1.50%	3.00%
Estimated long-term rate of return on investment	2.50%	4.00%

As of December 31, 2004 and 2003, reconciliation between funded status and accrued pension liabilities per books was the following:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Benefit obligations:		
Vested benefit obligation	\$ (48,401)	(36,567)
Non-vested benefit obligation	(692,144)	(693,380)
Accumulated benefit obligation	(740,545)	(729,947)
Effect of increase in future salary	(180,122)	(134,328)
Estimated benefit obligation	(920,667)	(864,275)
Fair value of pension fund assets	430,829	404,894
Funded status	(489,838)	(459,381)
Unrecognized net transitional benefit obligation	(49,083)	(64,914)
Unamortized prior years' service cost	53,381	61,006
Unrecognized gain on pension fund assets	235,330	255,782
Retroactive recognition of accrued pension liabilities	(59,505)	(117,546)
Accrued pension liabilities	<u>\$ (309,715)</u>	<u>(325,053)</u>

As of December 31, 2004 and 2003, vested benefit was \$50,049 and \$37,810, respectively.

In 2004 and 2003, components of net pension costs were the following:

	<u>2004</u>	<u>2003</u>
Service cost	\$ 64,176	63,228
Interest cost	21,607	29,362
Actual return on pension fund assets	\$ (4,874)	(5,492)
Gain on pension fund assets	(5,248)	(9,647)
Estimated return on pension fund assets	(10,122)	(15,139)
Amortization of unrecognized net transitional obligation	(15,831)	(15,831)
Amortization of gain on pension fund	9,962	18,744
Unamortized prior years service cost	7,626	-
Net pension costs	<u>\$ 77,418</u>	<u>\$ 80,364</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

h Income Tax

(i) Deferred income tax assets and liabilities:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
1) Total deferred income tax assets	\$ 962,864	651,295
2) Total deferred income tax liabilities	(195,593)	(452,771)

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Amount</u>	<u>Income Tax Effects</u>	<u>Amount</u>	<u>Income Tax Effects</u>
3) Temporary differences:				
- Recognition of unrealized foreign exchange loss: deductible	\$ 391,742	97,936	41,376	10,344
- Recognition of inventory obsolescence : deductible	316,494	79,124	437,662	109,416
- Recognition of warranty expenses: deductible	1,280,193	320,048	753,181	188,295
- Recognition of loss on overseas investments: taxable	(651,805)	(162,951)	(593,383)	(148,346)
- Recognition of gain (loss) on investments: deductible(taxable)	415,693	103,923	(945,467)	(236,367)
- Recognition of unrealized intercompany profits: taxable to long-term investments: deductible (taxable)	(130,566)	(32,642)	(157,698)	(39,424)
- Recognition of pension expense: deductible	165,001	41,250	(114,535)	(28,634)
- Recognition of unrealized market decline with long-term investments are stated at cost: deductible	241,802	60,451	204,764	51,191
- Unused balance of investment tax credits	101,123	25,281	-	-
	-	234,851	-	292,049

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
(ii) Deferred income tax assets - current	\$ 731,959	600,104
Deferred income tax liabilities - current	-	-
Net	<u>\$ 731,959</u>	<u>600,104</u>
(iii) Deferred income tax assets - non-current	\$ 230,905	51,191
Deferred income tax liabilities - non-current	(195,593)	(452,771)
Net	<u>\$ 35,312</u>	<u>(401,580)</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(iv) Income taxation calculation for 2004 and 2003 were the following:

	<u>2004</u>	<u>2003</u>
Income tax calculated per statutory tax rate	\$ 571,073	1,040,037
Permanent differences	(384,832)	(607,403)
Temporary differences	556,061	(49,793)
Tax-exempt income	(7,584)	(118,491)
Investment tax credits	(367,359)	(132,175)
Current income tax payable	367,359	132,175
Income tax separately levied	1,865	1,843
Prior years' income tax adjustments	64,945	20,226
Unused balance of investment tax credits	(17,944)	(292,049)
Income tax effect of temporary differences:		
Provision and reversal of inventory obsolescence, net	30,292	8,749
Provision and reversal of loss on overseas investments, net	14,605	107,888
Provision and reversal of warranty reserve, net	(131,753)	(61,906)
Recognition of loss on investments	(340,290)	(25,952)
Recognition of unrealized intercompany gains, net	(6,782)	20,494
Recognition of unrealized foreign currency exchange loss , net	(87,592)	12,401
Recognition of pension expense	(9,260)	(11,881)
Recognition of long-term Equity Investment unrealized market decline	(25,281)	-
Income tax benefit	<u>\$ (139,836)</u>	<u>(88,012)</u>

(v) The Company's tax returns through 2002 have been assessed by the Tax Authority. The Company has petitioned for administrative relief in 1997, 1998, 2000 and 2002.

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

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Stockholder's imputation tax credit account	<u>\$ 166,908</u>	<u>355,108</u>

2004 and 2003, after filing the corporate income tax returns, the actual imputation tax credit rate for earnings distributed to R.O.C. residents would approximately be 16.42% and 9.60%, respectively.

<u>Undistributed earnings:</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Accumulated prior to 1997 and before	\$ 437,139	477,632
Accumulated after 1998	2,436,267	4,207,784
Total	<u>\$ 2,873,406</u>	<u>4,685,416</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(vii) According to Article 6, Section 3 of the Stature of Upgrading Industries, unused investment tax credits which may be applied to offset income tax in the future are the following:

<u>Year of occurrence</u>	<u>Investment tax credits</u>	<u>Year of expiration</u>
2004	\$ 234,851	2008

i Capital Increase

On May 27, 2004, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$1,013,000, and employee bonuses of \$97,000, for a total of \$1,110,000. Total capital after the increase was \$21,370,000 with July 13, 2004 as the record date. The Company completed relevant registration change.

On May 30, 2003, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$1,835,000 and employee bonuses of \$75,000, for a total of \$1,910,000. Total capital after the increase was \$20,260,000 with July 21, 2003 as the record date. The Company completed relevant registration change.

j Earnings Distribution

The Articles of Incorporation of the Company mandate that after-tax earnings should first offset cumulative losses, then 10% of the remainder be set aside as legal reserve. Special reserve may be appropriated for operations or to meet regulations 7% and 3% of the remainder are appropriated as employee bonus and remuneration to directors and supervisors, respectively. The rest will be distributed per the proposal presented to annual stockholders' meeting for resolutions.

Information regarding the Company's 2003 and 2002 earnings distribution for remuneration of directors and supervisors and employee bonuses resolved on May 27, 2004 and May 30, 2003 is as follows:

	<u>2003</u>	<u>2002</u>
Common stock dividends per share (dollars)		
Cash	\$ 1.20	0.50
Stock at par	0.50	1.00
Total	\$ 1.70	1.50
Employee bonus - stock at par	\$ 97,000	75,000
Employee bonus - cash	169,615	136,046
Compensation to directors and supervisors	114,264	90,448
Total	\$ 380,879	301,494

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The above earnings distribution is the same as the Board of Directors meeting resolutions. If the above employee bonus and remuneration to directors and supervisors were distributed as cash and included in current expenses, then basic earnings per share (after tax) would decrease from \$2.10 and \$1.83 to \$1.91 and \$1.66, respectively, for 2003 and 2002. The total number of employee bonus issued was 0.48% and 0.41%, respectively, of the total number of shares outstanding as of December 31, 2003 and 2002.

The proposal for the appropriation of employee bonus and remuneration to directors and supervisors for 2004 has yet to be presented in the shareholders' meeting. Information regarding employee bonus and remuneration to directors and supervisors distributed shall be posted on the market observation post system after the related meetings are held.

k Earnings Per Share

EPS is calculated by dividing net income by the weighted-average shares outstanding during the period. As of December 31, 2004 and 2003, weighted-average number of common shares outstanding were 2,137,000,000 and 2,026,000,000, respectively. As of December 31, 2003, the number of outstanding shares retroactively adjusted due to stock dividends was 2,137,000,000.

l Financial Instruments

1) Financial Derivatives:

a) Amount of contracts and credit risk

<u>Financial Instrument</u>	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Contract</u>	<u>Credit</u>	<u>Contract</u>	<u>Credit</u>
Forward contracts				
-Non-trading	US\$ 10,000	\$ -	US\$ -	\$ -

The amount of credit risk is the sum of contracts with positive fair market value at balance sheet date after netting settlement of all contracts and represents the Company's possible loss in the event of default by counterparties.

b) Market Risk

Derivatives held by the Company are exposed to market risk resulting from potential fluctuations in foreign exchange rates. Possible devaluation is offset by exchange gain on hedged foreign-denominated assets and liabilities.

c) Amount of Liquidity Risk, Cash Flow Risk, and Future Demand for Cash

The Company uses its own funds to settle financial derivative contracts with banks.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2) Fair Value of Financial Instruments

December 31, 2004		
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 38,008,442	38,008,442
Long-term investments	11,685,292	10,861,935
Total	\$ 49,693,734	48,870,377
Financial Liabilities		
Book value equal to fair value	\$ 24,714,518	24,714,518
	24,714,518	24,714,518
December 31, 2003		
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 35,821,610	35,821,610
Long-term investments	11,986,346	11,746,182
Total	\$ 47,807,956	47,567,792
Financial Liabilities		
Book value equal to fair value	\$ 22,278,380	22,278,380
	22,278,380	22,278,380

Method and assumptions used by the Company to evaluate the fair value of financial instruments are the following:

- a) The fair value of short-term financial instruments is determined by their face value on the balance sheet. Since such instruments will mature within the short term, the face value is a reasonable basis in establishing the fair value. The method is applicable to cash and cash equivalents, notes and accounts receivable, other current assets, short-term borrowings, notes and accounts payable, and other current liabilities.
- b) The book value of long-term investments is accounted for under the cost or the equity method based on self-prepared financial statements of investee companies. Since there are no market quotes or reference reports for non-listed companies, fair value of these investments are determined by their net equity worth or cost.
- c) With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operations of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. The book value is used as the fair market value.

3) Financial Instruments with Off-Balance-Sheet Credit Risk:

As of December 31, 2004 and 2003, guarantees provided by the Company to related parties for their bank loans, please refer to Note 5.(b).(viii).

As of December 31, 2004 and 2003, promissory notes issued for bank loans, please refer to Note 7.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4) Information on Concentration of Credit Risk:

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is material in relation to the Company's total credit exposure. As of December 31, 2004 and 2003, the Company's contracts with credit risk concentration were the following:

Accounts Receivable, net - By Region	December 31, 2004	December 31, 2003
Domestic	\$ 6,687,385	1,095,219
Asia	6,452,387	6,745,795
Europe	4,207,364	4,774,147
America	3,940,086	3,626,460
Oceania	46,796	48,781
Total	\$ 21,334,018	16,290,402

5 Related Party Transactions

(a) Name of Related Party and their Relationship with the Company:

Name of Related Party	Relationship with the Company
Inventec Besta Co., Ltd.	An investee company accounted for under the equity method
Inventec Multimedia and Telecom Corp.	"
Inventec Appliances Corp.	"
Inventec Corporation (Scotland) Co., Ltd.	A subsidiary
Inventec Micro-Electronic Corp.	"
Inventec Corporation (Hong Kong) Co., Ltd.	"
Inventec Holding (North America) Co., Ltd.	"
Inventec Corporation (Cayman) Co., Ltd.	"
Inventec Enterprise System Corp.	"
Inventec Tomorrow Studio Corp.	"
	(Accounted for under the cost method since April, 2004)
Inventec Electronics (Beijing) Co., Ltd.	A subsidiary of Inventec Corporation (Hong Kong) Co., Ltd.
Inventec Electronics (Tianjin) Co., Ltd.	"
Inventec Appliances (Shanghai) Co., Ltd.	A third-level subsidiary of Inventec Appliances Corp.
Inventec Appliances (Nanking) Co., Ltd. (Formerly known as Invented Electronics (Nanking Co., Ltd.))	"
	(Sold to Inventec Appliance (Cayman) Holding Corp. on August, 2004)
Inventec Corp. (Shanghai) Co., Ltd.	A subsidiary of Inventec Corporation (Cayman) Co., Ltd.
Inventec (Pudong) Corp.	"
Inventec Electronics (M) SDN. BHD.	A subsidiary of Inventec Multimedia and Telecom Corp.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Significant Transactions with Related Parties:

(i) Sales

<u>Name of Related Party</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>
Inventec Electronics (M) SDN. BHD.	\$ 25,178	-	315,828	-
Inventec Corporation(Scotland) Co., Ltd	16,155,594	12%	13,731,829	17%
Invertec Holding (North America) Co., Ltd.	16,601,912	13%	12,894,114	16%
Inventec Corporation (Hong Kong) Co., Ltd.	76	-	847,078	1%
Inventec Enterprise System Corp.	29,820	-	-	-
Others	3,330	-	1,817	-
Total	\$ 32,815,910	25%	27,790,666	34%

Prices of sale of motherboards to Inventec Electronics (M) SDN. BHD. are based on cost with collection terms varying between one to three months.

The Company sold work-in-process to the assembling department of Inventec Corporation (Scotland) Co., Ltd. and upon completion of assembling, finished products were sold to non-related parties. Prices of work-in-process are negotiated. Since Inventec Corporation (Scotland) Co., Ltd. is an overseas after-sales service and assembling center, no basis of price reference exists. Collection period is within two months.

The Company sold work-in-process to Inventec Holding (North America) Co., Ltd. Prices of work-in-process are negotiated. Since Inventec Holding (North America) Co., Ltd. is an overseas after-sales service and assembling center, no basis of price reference exists. Collection period is within three months.

Prices of finished goods sold to Inventec Corporation (Hong Kong) Co., Ltd. are the same as those with other clients. Collection period is within two months.

Prices of finished goods sold to Inventec Enterprise System Corp. are the same as those with other clients. Collection period is within two months.

As of December 31, 2004 and 2003, unrealized gross profit of sales to related parties was \$33,279 and \$3,075, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(ii) Warranty Services and Product Maintenance

In 2004 and 2003, payment to related parties for service and maintenance expenses, after netting product warranty reserve, was the following:

<u>Name of Related Party</u>	<u>2004</u>	<u>2003</u>
Inventec Holding (North America) Co., Ltd.	\$ 323,008	279,532
Inventec Corporation (Scotland) Co., Ltd.	215,672	156,947
Total	<u>\$ 538,680</u>	<u>436,479</u>

(iii) Purchases

In 2004 and 2003, purchases of materials and goods were the following:

<u>Name of Related Party</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>% of Net Purchase</u>	<u>Amount</u>	<u>% of Net Purchase</u>
Inventec Electronics (M) SDN. BHD.	\$ 123,436	-	1,014,063	1%
Inventec Corporation (Hong Kong) Co., Ltd.	97,378,623	78%	47,091,624	63%
Inventec Holding (North America) Co., Ltd.	148,242	-	151,424	-
Inventec Corporation (Scotland) Co., Ltd.	314,944	1%	457,635	1%
Others	-	-	7,953	-
Total	<u>\$ 97,965,245</u>	<u>79%</u>	<u>48,722,699</u>	<u>65%</u>

The Company purchased motherboards from Inventec Electronics (M) SDN. BHD. at an agreed-upon price. The payment term is approximately one to three months.

The Company purchased finished goods and work in process from Inventec Corporation (Hong Kong) Co., Ltd. at an agreed-upon price. The payment term is approximately two to three months.

The Company purchased materials for product maintenance from Inventec Holding (North America) Co., Ltd. and Inventec Corporation (Scotland) Co., Ltd. at an agreed-upon price. The payment term is within two months.

(iv) Technical Service

The Company entered into an agreement with Inventec Besta Co., Ltd., which would pay royalty to the Company for use of patents and copyrights in the manufacturing of information and electronic-related products. Royalty is determined by sales volume. In 2004 and 2003, royalty collected from Inventec Besta Co., Ltd. was \$1,925 and \$2,410, respectively.

The Company entered into an agreement with Inventec Tomorrow Studio Corp. in which the Company collects royalty through production, distribution, and sale of Dr. Eye 2002. Royalty is based on sales volume. In 2004 and 2003, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounted to \$10,648 and \$5,864, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(v) Purchase of Software

In 2004 and 2003, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$150,771 and \$172,788, respectively. Prices were negotiated with payment terms of two to three months.

(vi) Others

- 1) In 1999, the Company sold properties, deferred assets, assets stated under expense, and trademarks to Inventec Besta Co., Ltd., resulting in a gain on property disposition of \$51,712 and other revenue of \$40,453. As of December 31, 2004 and 2003, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,358 and \$17,517, respectively, with unrealized other revenue of \$3,505 and \$4,270, respectively.
- 2) In 2000, the Company invested in Inventec Appliances Corp. with properties, deferred assets, and assets stated under expense resulting in a gain on asset disposition of \$103,713 and other revenue of \$31,693. The Company sold properties and deferred assets, resulting in a gain on property disposition of \$1,156 and other revenue of \$6,427. As of December 31, 2004 and 2003, unrealized gain on sale of properties was \$51,297 and \$59,323, respectively, and unrealized other revenue was \$5 and \$19, respectively.
- 3) In 2003, the Company sold properties, deferred assets, and assets stated under expense to Inventec Corporation (Hong Kong) Co., Ltd. resulting in a gain on property disposition of \$44,946 and other revenue of \$2,562. As of December 31, 2004 and 2003, unrealized gain on sale of properties was \$26,377 and \$35,366, respectively, and unrealized other revenue was \$1,238 and \$1,750, respectively.
- 4) In 2004 and 2003, general and administrative expenses collected from Inventec Appliances Corp., Inventec Micro-Electronic Corp., Inventec Multimedia Telecom Corp., Inventec Besta Corp., Ltd. and Inventec Tomorrow Studio Corp. were \$117,741 and \$59,894, respectively, reflected as other revenue.

(vii) Accounts Receivable (Payable)

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Total notes receivable	<u>\$ 378</u>	<u>51%</u>	<u>776</u>	<u>99%</u>
<u>Accounts Receivable:</u>				
Inventec Holding (North America) Co., Ltd.	\$ 3,395,236	16%	2,542,604	16%
Inventec Corporation (Scotland) Co., Ltd.	3,309,976	16%	3,278,312	20%
Inventec Electronics (M) SDN. BHD.	6,586	-	63,223	-
Inventec Corporation (Hong Kong) Co., Ltd.	41	-	33,414	-
Other	12,834	-	414	-
Total	<u>\$ 6,724,673</u>	<u>32%</u>	<u>5,917,967</u>	<u>36%</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
Total other receivables	\$ 5,789	-	31,563	-
Other Current Assets:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 12,280,085	98%	10,122,328	97%
Inventec Holding (North America) Co., Ltd.	4,111	-	-	-
Other	342	-	606	-
Total	\$ 12,284,538	98%	10,122,934	97%
Total notes payable	\$ 255	-	169	-
Accounts Payable:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 12,010,871	53%	9,447,844	47%
Inventec Electronics (M) SDN. BHD.	131	-	107,228	1%
Inventec Holding (North American) Co., Ltd.	75,705	-	4,055	-
Inventec Corporation (Scotland) Co., Ltd.	14,460	-	-	-
Inventec Enterprise System Corp.	17,618	-	-	-
Total	\$ 12,118,785	53%	9,559,127	48%
Other Current Liabilities:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 66,357	-	72,511	-
Others	25	-	-	-
Total	\$ 66,382	-	72,511	-

(viii) Guarantee and Endorsements

Name of Related Party Guaranteed	December 31, 2004		December 31, 2003		Name of Bank
Inventec Corporation (Hong Kong) Co., Ltd.	USD	5,450	USD	15,000	Citibank, N.A.
Inventec Corporation (Cayman) Co., Ltd.		30,000		30,000	"
Inventec Appliances (Nanking) Co., Ltd.		-		1,500	Blank of America
Inventec Electronics (Tianjin) Co., Ltd.		2,500		2,500	"
Inventec Electronics (Beijing) Co., Ltd.		1,000		1,000	"
Inventec Corp. (Shanghai) Co., Ltd.		5,000		25,000	"
Inventec Corporation (Scotland) Co., Ltd.	USD	3,000	USD	28,000	Citibank, N.A.
"	GBP	500	GBP	500	Government of Scotland
"	GBP	10,000		-	Bank Ltd.
Inventec Holding (North America) Co., Ltd.	USD	2,000	USD	2,000	Bank of America
Inventec (Pudong) Corp.	USD	25,000	USD	5,000	"
Inventec (Czech) S.R.O.	EUR	1,450		-	Citibank, N.A.
Total	USD	73,950	USD	110,000	
	GBP	10,500	GBP	500	
	EUR	1,450		-	

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6 Pledged Assets

As of December 31, 2004 and 2003, pledged assets were the following:

<u>Asset</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 39,754</u>	<u>56,602</u>	Customs duties, and property deposits.

7 Significant Commitments And Contingencies (Excluding Related Party Transactions)

- (a) As of December 31, 2004 and 2003, unused standby letters of credit were US\$875 and US\$4,480, respectively.
- (b) As of December 31, 2004 and 2003, promissory notes issued for bank loans totaled \$20,655,292 and \$6,058,292, respectively.

8 Significant Catastrophic Losses: None.

9 Significant Subsequent Events: None.

10 Other

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

Categorized as Nature	2004			2003		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Personnel expense						
Salary expense	\$ 497,182	1,105,918	1,603,100	565,752	1,157,721	1,723,473
Health and labor insurance expense	34,616	60,739	95,355	37,037	60,054	97,091
Pension expense	23,106	53,999	77,105	22,081	57,775	79,856
Other expense	547,261	73,560	620,821	441,086	82,549	523,635
Depreciation expense	86,124	146,261	232,385	97,563	129,607	227,170
Amortization expense	270,190	1,793	271,983	240,395	48,337	288,732

- (b) In October 13, 2000, Samsung Electronics Co., Ltd. ("Samsung") named the Company and 10 other parties as defendants for patents infringement in United States District Court for the District of Texas. The plaintiff claimed that the defendants violated six of its U.S. patents. Five of the six claims have been dropped by Samsung. Patent No. 5333273 is currently under trial. The Company has appointed a counsel for the litigation. In November 2002, the Magistrate Judge ruled that unless the Company and Samsung object within a stated period of time, the trial will be tried by a federal judge. After the judge's decision, the trial proceedings will continue. Litigation procedures will commence within a year after trial proceedings are underway.