

**INVENTEC CORPORATION**

**FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31,**  
**2005 AND 2004**

**AND**

**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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**INVENTEC CORPORATION**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2005 AND 2004**

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## **Independent Accountants' Review Report**

Inventec Corporation:

We have reviewed the accompanying balance sheets of Inventec Corporation as of March 31, 2005 and 2004, and the related statements of income, and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

Except as described in the following paragraph, we reviewed these financial statements in accordance with Statements of Auditing Standard No. 36 "Review of Financial Statements." A review is limited primarily to inquiries of company personnel and applying analytical procedures to financial data and thus provides less assurance than an audit. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. We did not perform an audit and, accordingly, we do not express an audit opinion.

As described in Note 4.d, as of March 31, 2005 and 2004, long-term equity investments of Inventec Corporation were \$9,500,655 thousand and \$10,473,013 thousand, respectively. Investment income recognized under the equity method for the three months ended March 31, 2005 and 2004, were \$117,195 thousand and \$213,401 thousand, respectively, which were recognized based upon the financial statements prepared by the investee companies and not reviewed in compliance with the review procedures mentioned in the preceding paragraph.

Based on our review, except for the effects of any adjustments that might have emerged had the financial statements of investee companies been reviewed by independent accountants, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles of the Republic of China.

Taipei, Taiwan, R.O.C.  
April 25, 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 review such financial statements are those generally accepted and applied in the Republic of China.

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC CORPORATION**

**BALANCE SHEETS**

**March 31 2005 AND 2004**

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

	March 31, 2005		March 31, 2004	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 2,168,365	3	9,206,973	13
Notes receivable (Note 2)				
- Other customers	40	-	10	-
- Related parties	683	-	-	-
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b )				
- Other customers	17,549,685	25	12,331,220	18
- Related parties	6,484,736	9	6,047,828	9
Receivable on sale of forward exchange contracts	-	-	666,645	1
Discount on sale of forward exchange contracts	-	-	288	-
Forward exchange contracts payable	-	-	(662,400)	(1)
Other financial assets - current	28,104,969	40	24,426,287	36
Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c)	1,834,130	3	1,773,841	3
Prepayments and other current assets	177,238	-	106,486	-
Deferred tax assets - current (Notes 2 and 4.h )	754,389	1	753,654	1
	<u>57,074,235</u>	<u>81</u>	<u>54,650,832</u>	<u>80</u>
<b>Long-term equity investments (Notes 2 and 4.d )</b>				
Accounted for under the equity method	9,500,655	13	10,473,013	16
Accounted for under the cost method	1,980,353	3	1,661,000	2
Prepayments for Long-Term Investments	374,280	1	-	-
	<u>11,855,288</u>	<u>17</u>	<u>12,134,013</u>	<u>18</u>
<b>Other financial assets - non-current (Notes 6)</b>	<u>39,264</u>	<u>-</u>	<u>56,752</u>	<u>-</u>
<b>Property, Plant, and Equipment (Notes 2 and 4.e)</b>				
Land	788,144	1	788,144	1
Buildings	427,252	1	427,252	1
Machinery	475,303	1	544,057	1
Transportation equipment	26,332	-	24,458	-
Furniture and office facilities	1,039,738	1	931,855	1
Other equipment	177,532	-	213,987	-
Less: Accumulated depreciation	(1,391,902)	(2)	(1,363,955)	(2)
Construction in progress	8,435	-	170	-
Prepayment on equipment	51,306	-	9,269	-
	<u>1,602,140</u>	<u>2</u>	<u>1,575,237</u>	<u>2</u>
<b>Intangible Assets</b>				
Deferred Pension Cost (Notes 2)	59,505	-	117,546	-
<b>Other Assets:</b>				
Deferred tax-non-current	138,103	-	-	-
Deferred debits - intercompany loss (Note 2)	194,663	-	194,663	-
Other assets (Notes 2 and 4.f)	135,159	-	150,035	-
	<u>467,925</u>	<u>-</u>	<u>344,698</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 71,098,357</u>	<u>100</u>	<u>68,879,078</u>	<u>100</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-Term Borrowings	\$ 794,111	1	-	-
Notes payable				
- Other vendors	449,385	1	555,175	1
- Related parties	-	-	154	-
Accounts payable				
- Other vendors	13,418,749	19	13,380,195	20
- Related parties	24,881,507	35	23,423,582	34
Income tax payable	280,086	-	23,232	-
Accrued expenses	422,538	1	544,649	1
Payables on Forward Exchange	1,106,875	2	-	-
Forward Exchange Contracts Receivable	(1,102,310)	(2)	-	-
Discount on Forward Exchange Contracts	(170)	-	-	-
Advance Receipts	125	-	43,559	-
Other current liabilities	447,305	1	314,908	-
Estimated warranty reserve (Note 2)	1,536,867	2	869,956	1
	<u>42,235,068</u>	<u>60</u>	<u>39,155,410</u>	<u>57</u>
<b>Other Liabilities:</b>				
Accrued pension liabilities (Notes 2)	321,186	-	335,991	-
Deferred tax liabilities - non-current (Notes 2 and 4.h)	-	-	367,113	1
Deferred credits - intercompany profits (Note 2)	110,178	-	121,827	-
Other liabilities	43,368	-	636	-
	<u>474,732</u>	<u>-</u>	<u>825,567</u>	<u>1</u>
<b>Total Liabilities</b>	<u>42,709,800</u>	<u>60</u>	<u>39,980,977</u>	<u>58</u>
<b>Stockholders' Equity</b>				
Capital Stock, par value \$10 per share; authorized 2,500,000,000 shares, 2,137,000,000 shares issued and outstanding as of September 30, 2004; 2,026,000,000 shares issued and outstanding as of September 30, 2003.	21,370,000	30	20,260,000	29
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	175	-	177	-
Retained Earnings:				
Legal reserve (Note 2)	3,333,254	5	2,910,055	4
Undistributed earnings (Notes 2 and 4.j)	3,271,530	4	5,147,943	8
Cumulative translation adjustments (Note 2)	(189,068)	-	11,139	-
	<u>28,388,557</u>	<u>40</u>	<u>28,898,101</u>	<u>42</u>
<b>Total Stockholders' Equity</b>	<u>28,388,557</u>	<u>40</u>	<u>28,898,101</u>	<u>42</u>
<b>Commitments and Contingencies</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 71,098,357</u>	<u>100</u>	<u>68,879,078</u>	<u>100</u>

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

Reviewed only, not audited in accordance with generally accepted auditing standards

**INVENTEC CORPORATION**

**STATEMENTS OF INCOME**

**For The Three Months Ended March 31, 2005 AND 2004**

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

	<b>Three Months Ended March 31,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating Revenue:</b>				
Net sales	\$ 32,964,656	100	27,664,056	100
Technical service revenue	1,482	-	366	-
Net operating revenue	32,966,138	100	27,664,422	100
<b>Operating Cost</b>	(31,114,519)	(94)	(26,049,230)	(94)
	1,851,619	6	1,615,192	6
Realized intercompany profits	33,279	-	3,075	-
Unrealized intercompany profits	(9,716)	-	(9,783)	-
Gross margin	1,875,182	6	1,608,484	6
<b>Operating Expenses:</b>				
Selling expenses	(816,174)	(2)	(604,202)	(2)
Administrative expenses	(259,695)	(1)	(190,691)	(1)
Research and development expenses	(357,881)	(1)	(368,459)	(1)
	(1,433,750)	(4)	(1,163,352)	(4)
<b>Income from Operations</b>	441,432	2	445,132	2
<b>Non-Operating Income:</b>				
Interest income	19,765	-	23,191	-
Investment income accounted for under the equity method(Note 4.d)	-	-	213,401	1
Gain on disposal of properties	3,756	-	7,240	-
Gains on Inventory Value Recoveries	-	-	3,497	-
Other income	60,435	-	159,477	-
	83,956	-	406,806	1
<b>Non-Operating Expenses:</b>				
Interest expense	(1,720)	-	(620)	-
Loss on disposal of properties	-	-	(25)	-
Foreign exchange loss	(62,230)	-	(523,086)	(2)
Investment Income on Equity-Method Investees	(117,195)	-	-	-
Other expenses	(337)	-	(2,896)	-
	(181,482)	-	(526,627)	(2)
<b>Income before income tax</b>	343,906	2	325,311	1
<b>Income tax benefit (expense) (Note 4.h)</b>	54,218	-	137,216	1
<b>Net Income</b>	<b>\$ 398,124</b>	<b>2</b>	<b>462,527</b>	<b>2</b>
			<b>Before Tax</b>	<b>After Tax</b>
<b>Earnings per share (Notes 2 and 4.k)</b>				
Basic	<b>\$ 0.16</b>	<b>0.19</b>	<b>0.16</b>	<b>0.23</b>
<b>Earnings per share after retroactive adjustment</b>				
Basic	<b>\$ -</b>	<b>-</b>	<b>0.15</b>	<b>0.22</b>

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

Reviewed only, not audited in accordance with generally accepted auditing standards

**INVENTEC CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For The Three Months Ended March 31, 2005 AND 2004**  
**(New Taiwan Dollars in Thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 398,124	462,527
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	60,500	58,428
Amortization	53,838	51,653
Gain on disposal and scrapping of properties	(180)	(54)
Gain on disposal deferred assets	(4,720)	(1,283)
Provision for inventory market decline	-	(3,497)
Foreign currency exchange loss (gain), net	-	(25,242)
Allowance for Bad debt	2,523	522
Gain on investments recognized under the equity method in excess of cash dividends received	117,196	(213,401)
Provision for warranty reserve	256,674	116,774
Change in assets and liabilities:		
Notes and accounts receivable	(2,702,914)	(2,088,400)
Forward Exchange Contracts Receivable	(783,917)	(666,645)
Discount on Forward Exchange Contracts	(1,063)	(288)
Forward exchange contracts payable	789,375	662,400
Other financial assets - current	(15,577,198)	(13,945,891)
Inventories	(165,434)	(125,550)
Prepayments and other current assets	(59,022)	(37,261)
Deferred tax assets and liabilities, net	(103,451)	(163,096)
Notes and accounts payable	15,684,262	16,670,335
Income tax payable	47,002	23,232
Accrued expenses	(211,067)	(216,962)
Advance collection	(28,205)	(74,574)
Deferred credits - intercompany profits	(22,881)	506
Other current liabilities	(48,353)	(28,469)
Accrued pension liabilities	11,471	10,938
<b>Net cash provided by (used in) operating activities</b>	<b>(2,287,440)</b>	<b>466,702</b>
<b>Cash flows from investing activities:</b>		
Increase in long-term investments	(374,280)	(33,950)
Purchase of property and equipment	(75,394)	(195,852)
Purchase of deferred assets	(57,074)	(67,471)
Proceeds from disposal of property and equipment	5,305	54
Proceeds from disposal of deferred assets	1,406	9,067
Other financial assets - non-current	490	(150)
(Increase) Decrease in other assets	25,909	9,947
<b>Net cash (used in) provided by investing activities</b>	<b>(473,638)</b>	<b>(278,355)</b>
<b>Cash flows from financing activities:</b>		
Cash dividends Paid	794,111	-
Increase in other liabilities	(2)	-
<b>Net cash used in financing activities</b>	<b>823,279</b>	<b>(48)</b>
<b>Effect of changes in foreign exchange rate</b>	<b>-</b>	<b>25,242</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,937,799)</b>	<b>213,541</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>4,106,164</b>	<b>8,993,432</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 2,168,365</b>	<b>9,206,973</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	<b>\$ 1,720</b>	<b>620</b>
Cash paid during the period for income taxes	<b>\$ 2,231</b>	<b>2,648</b>
<b>Acquisition of properties with cash and other payables:</b>		
Increase in property and equipment	\$ 83,171	36,332
Add: Other payables - beginning of the period	8,384	168,072
Less: Other payables - end of the period	(16,161)	(8,552)
Cash paid	<b>\$ 75,394</b>	<b>195,852</b>

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

**Reviewed only, not audited in accordance with generally accepted auditing standards**

**INVENTEC CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Three months Ended September 30, 2005 and 2004  
(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 March 31, 2005 and 2004, the average number of employees was 2,195 and 2061.

## **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 polices and their measurement bases are as follows:

### **a Asset Impairment**

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". According to SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**b 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.

**c 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.

**d 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.

**e 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.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

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”).

**f 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:

Buildings	10 to 50 years
Machinery	2 to 11 years
Transportation equipment	3 to 6 years
Furniture and office facilities	2 to 18 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.

**g 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.

**h 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.

**i 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.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

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.

**j 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.

**k 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.

**l 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.

**m 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.

**n 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.

**o 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)**

**p 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.

**q 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.

**r 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.

**s 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:**

The Company adopted Statement of Financial Accounting Standards No. 35 "Accounting for Asset Impairment" in 2005. The Company determined that no asset had an indication of impairment.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**4 SUMMARY OF MAJOR ACCOUNTS**

**a Cash and Cash Equivalents**

	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Cash on hand	\$ 493	477
Checking accounts	3,859	9,147
Demand deposits	6,539	22,733
Time deposits	1,457,450	1,719,960
Foreign currency time deposits	59,015	5,446,938
Foreign currency deposits	101,012	924,768
Cash equivalents (short-term bills and bonds)	539,997	1,082,950
Total	<u>\$ 2,168,365</u>	<u>9,206,973</u>

**b Accounts Receivable – Other Customers**

	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Accounts receivable - other customers	\$ 17,555,575	12,337,847
Less: Allowance for doubtful accounts	(5,890)	(6,627)
Total	<u>\$ 17,549,685</u>	<u>12,331,220</u>

**c Inventories**

	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Raw materials	\$ 1,358,202	1,278,097
Work in process	298,894	336,460
Finished goods	493,528	588,385
Supplies-in-transit	-	5,064
	<u>2,150,624</u>	<u>2,208,006</u>
Less: Allowance for market decline and obsolescence	(316,494)	(434,165)
Net	<u>\$ 1,834,130</u>	<u>1,773,841</u>
Insurance coverage	<u>\$ 2,789,450</u>	<u>2,600,000</u>

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**d Long-Term Equity Investments**

<u>Name of Investee Company</u>	<u>March 31, 2005</u>			<u>March 31, 2004</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>
<b>Carried under the equity method</b>						
Inventec Besta Co., Ltd.	38.69%	\$ 1,222,100	765,058	38.69%	1,188,054	765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	120,125	42,655	100.00%	395,322	42,655
Inventec Corporation (Scotland) Co., Ltd.	100.00%	352,406	39,518	100.00%	351,555	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	6,648	6,888	100.00%	6,863	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	438,211	159,003	100.00%	434,474	159,003
Inventec Multimedia and Telecom Corp.	48.57%	1,256,316	936,576	59.60%	1,381,481	967,400
Inventec Micro-Electronics Corp.	70.48%	352,641	401,625	70.48%	395,963	401,625
Inventec Appliances Corp.	49.13%	3,763,024	2,818,350	50.13%	3,132,147	2,489,325
Inventec Corporation (Cayman) Co., Ltd.	100.00%	1,666,873	3,188,058	100.00%	2,742,077	2,720,758
Inventec Tomorrow Studio Corp.	-	-	-	60.00%	186,554	298,800
Inventec Enterprise System Corp.	100.00%	268,334	200,000	100.00%	188,650	200,000
Inventec (Czech) S.R.O.	100.00%	53,977	69,873	100.00%	69,873	69,873
Subtotal		<u>9,500,655</u>			<u>10,473,013</u>	
<b>Carried under the cost method</b>						
<u>Common Stock</u>						
WK Technology Fund IV	1.52%	40,000		1.52%	40,000	
Eastern Broadband	0.15%	100,000		0.15%	100,000	
Storage Bank Inc.	10.09%	26,400		10.09%	26,400	
Global Strategic Investment Fund	6.45%	100,000		6.45%	100,000	
Inventec Tomorrow Studio Corp.	8.57%	38,711		-	-	
Taiyi Precision Tech Corp.	8.00%	48,000		-	-	
Subtotal		<u>353,111</u>			<u>266,400</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 Crop.		33,225			-	
Subtotal		<u>1,627,242</u>			<u>1,394,600</u>	
Total		<u>1,980,353</u>			<u>1,661,000</u>	
<b>Prepayments for Long-Term Investments in Stock</b>						
Inventec Corporation (Cayman) Co., Ltd.		374,280			-	
Total		<u>\$ 11,855,288</u>			<u>12,134,013</u>	

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

For the three months ended March 31, 2005 and 2004, 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>Three Months Ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Based on financial statements prepared by investee companies:		
Inventec Besta Co., Ltd.	\$ 19,144	2,297
Inventec Corporation (Hong Kong) Co., Ltd.	(1,526)	13,632
Inventec Corporation (Scotland) Co., Ltd.	33,568	31,740
Inventec Corporation (Singapore) Co., Ltd.	(3)	-
Inventec Holding (North America) Co., Ltd.	15,970	19,394
Inventec Micro-Electronics Corp.	(15,185)	(3,361)
Inventec Corporation (Cayman) Co., Ltd.	(385,945)	(48,871)
Inventec Tomorrow Studio Corp.	-	676
Inventec Appliances Corp.	239,713	161,612
Inventec Multimedia and Telecom Corp.	(45,499)	47,632
Inventec Enterprise System Corp.	23,293	(11,350)
Inventec (Czech) S.R.O	(725)	-
Total	<u>\$ (117,195)</u>	<u>213,401</u>

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 August 23, 2004 the Company sold all shares of 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\$8,981 resulting in gain of US\$1,959. Recognition of the gain is deferred until the shares of Inventec Electronics (Nanking) Co., Ltd. are sold to a non-related party.

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%.

The wholly-owned subsidiary Inventec Corporation (Cayman) Co., Ltd. was founded in November 2000 which was approved by Investment Commission's Letter Ruling No. (89)(2)89037593. As of March 31, 2005, the registered capital for investments in Mainland China was US\$93,500, totaling 93,500,000 shares at par value of US\$1. For the three months ended March 31, 2005, the company investee in US dollars for \$12,000.

Inventec Appliances Corp. increased 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 proceeded the capital reduction. The Company received the investment return with an amount of \$144,906. Soon after, the investee issued more share of 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 March 31, 2005:

<b>Name of investee Company</b>	<b>Shares (thousands)</b>	<b>Dollars per share</b>	<b>Converse to Command</b>	<b>Exercise Signifiacnt influence</b>
E28 Limited	40,000	1.00	Yes	No
3 UP Systems, 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

**e Property, Plant, and Equipment**

As of March 31, 2005 and 2004, fire and auto accident insurance coverage of the property, plant, and equipment amounted to \$2,577,788 and \$3,426,180, respectively.

For the three months ended March 31, 2005 and 2004, interest capitalized was \$0.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**f Other Assets**

	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Deferred expenses	\$ 83,390	72,885
Rental assets, net of accumulated depreciation	776	3,398
Idle assets, net of accumulated depreciation	49,998	61,661
Prepayment for molds and tools	995	12,091
Overdue accounts in collection	24,398	25,080
Less: Allowance for doubtful accounts	<u>(24,398)</u>	<u>(25,080)</u>
Total	<u>\$ 135,159</u>	<u>150,035</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 March 31, 2005 and 2004, insurance coverage of the above idle and rental assets amounted to \$91,000 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 March 31, 2005 and 2004, pension fund was \$413,103 and \$407,397, respectively.

**h Income Tax**

(i) Deferred income tax assets and liabilities:

	<u>March 31, 2005</u>	<u>March 31, 2004</u>
1) Total deferred income tax assets	\$ 1,094,561	807,575
2) Total deferred income tax liabilities	(202,068)	(421,034)

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

	March 31, 2005		March 31, 2004	
	Amount	Income Tax Effects	Amount	Income Tax Effects
3) Temporary differences:				
- Recognition of unrealized foreign exchange loss: deductible	\$ 83,411	20,853	209,948	52,487
- Recognition of inventory obsolescence : deductible	316,494	79,124	434,165	108,541
- Recognition of warranty expenses: deductible	1,536,867	384,217	869,956	217,489
- Recognition of loss on overseas investments: taxable	(656,890)	(164,222)	(558,345)	(139,586)
- Recognition of gain on overseas investments: deductible (taxable)	754,355	188,589	(961,362)	(240,341)
- Recognition of unrealized intercompany profits: taxable	(151,384)	(37,846)	(149,576)	(37,394)
- Cumulative translation adjustment to long-term investments: deductible	252,091	63,023	(14,851)	(3,713)
- Recognition of pension expense: deductible	253,117	63,279	215,684	53,921
- Recognition of uneralized long-term investment loss under cost method: deductible	101,123	25,281	-	-
- Unused balance of investment tax credits	-	270,195	-	375,137
		<b>March 31, 2005</b>	<b>March 31, 2004</b>	
(ii) Deferred income tax assets - current	\$	754,389	753,654	
Deferred income tax liabilities - current		-	-	
Net	<b>\$</b>	<b>754,389</b>	<b>753,654</b>	
(iii) Deferred income tax assets - non-current	\$	340,172	53,921	
Deferred income tax liabilities - non-current		(202,068)	(421,034)	
Net	<b>\$</b>	<b>138,104</b>	<b>(367,113)</b>	

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(iv) Calculation of income tax expense:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Income tax calculated per statutory tax rate	\$ 85,967	81,318
Permanent differences	(56,445)	(50,765)
Temporary differences	68,105	80,008
Tax-exempt income	-	(59,932)
Investment tax credits	(48,813)	(25,315)
Current income tax payable	48,814	25,314
Income tax separately levied	417	566
Unused balance of investment tax credits	(35,344)	(83,088)
Income tax effect of temporary differences:		
Provision and reversal of inventory obsolescence, net	-	875
Provision and reversal of loss on overseas investments, net	1,271	(8,760)
Provision and reversal of warranty reserve, net	(64,169)	(29,194)
Recognition of loss on investments	(84,666)	3,974
Recognition of unrealized intercompany gains, net	5,204	(2,030)
Recognition of unrealized foreign currency exchange loss, net	77,083	(42,143)
Recognition of pension expense	(2,828)	(2,730)
Income tax expense (benefit)	<b>\$ (54,218)</b>	<b>(137,216)</b>

(v) The Company's tax returns through 2002 have been assessed by the Tax Authority. The Company has petitioned for administrative relief from 1997 to 2002.

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

	<b>March 31, 2005</b>	<b>March 31, 2004</b>
Stockholder's imputation tax credit account	<b>\$ 167,345</b>	<b>355,856</b>
Deductible ratio of earnings distributed to R.O.C. residents	<b>15.79%</b>	<b>8.07%</b>
<b>Undistributed earnings:</b>		
	<b>March 31, 2005</b>	<b>March 31, 2004</b>
Accumulated prior to 1997 and before	\$ 437,139	447,632
Accumulated after 1998	2,834,391	4,700,311
Total	<b>\$ 3,271,530</b>	<b>5,147,943</b>

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

<b>Year of occurrence</b>	<b>Investment tax credits</b>	<b>Year of expiration</b>
2004	\$ 234,851	2008
2005	35,344	2009
	<b>\$ 270,195</b>	

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**i Earnings Distribution**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Beginning balance, January 1	\$ 2,873,406	4,685,416
Add: Net income current period	398,124	462,527
Ending balance, March 31	<b>\$ 3,271,530</b>	<b>5,147,943</b>

The annual stockholders' meeting is scheduled for June 14, 2005 in which the shareholders will resolve on earning distribution proposal determined in the Board Meeting.

	<b>Amount</b>
Provision for legal reserve	\$ 243,627
Provision for special reserve	123,751
Employee bonus (in the form of cash and stock for \$98,922 and \$45,900, respectively).	144,822
Compensation to directors and supervisors	62,067
Stock dividends (\$0.3 per share)	641,100
Cash dividends (\$0.7 per share)	1,495,900
<b>Total</b>	<b>\$ 2,711,267</b>

**j Earnings Per Share**

EPS is calculated by dividing net income by the weighted-average shares outstanding during the period. As of March 31, 2005 and 2004, weighted-average number of common shares outstanding was 2,137,000,000 and 2,026,000,000, respectively. As of March 31, 2004, the number of outstanding shares retroactively adjusted due to stock dividends was 2,137,000,000.

**k Financial Instruments**

1) Financial Derivatives:

a) Amount of contracts and credit risk

<b>Financial Instrument</b>	<b>March 31, 2005</b>		<b>March 31, 2004</b>	
	<b>Contract</b>	<b>Credit</b>	<b>Contract</b>	<b>Credit</b>
Forward contracts				
- Non-trading	US\$ 35,000	\$ -	US\$ 20,000	\$ 4,245

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.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

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.

2) Fair Value of Financial Instruments

<b>March 31, 2005</b>		
<u>Financial Assets</u>	<u>Book Value</u>	<u>Fair Value</u>
Book value equal to fair value	\$ 54,347,742	54,347,742
Long-term investments	11,855,288	10,918,360
Total	<u>\$ 66,203,030</u>	<u>65,266,102</u>
<b>Financial Liabilities</b>		
Book value equal to fair value	<u>\$ 41,004,116</u>	<u>41,004,116</u>
<b>March 31, 2004</b>		
<u>Financial Assets</u>	<u>Book Value</u>	<u>Fair Value</u>
Book value equal to fair value	\$ 52,073,315	52,073,315
Long-term investments	12,134,014	11,858,664
Total	<u>\$ 64,207,329</u>	<u>63,931,979</u>
<b>Financial Liabilities</b>		
Book value equal to fair value	<u>\$ 38,460,340</u>	<u>38,460,340</u>

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 with short notice, 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.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

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 March 31, 2005 and 2004, guarantees provided by the Company to related parties for their bank loans, please refer to Note 5.(b).(viii).

As of March 31, 2005 and 2004, promissory notes issued for bank loans, please refer to Note 7.

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 March 31, 2005 and 2004, the Company's contracts with credit risk concentration were the following:

<b>Accounts Receivable,net - By Region</b>	<b>March 31, 2005</b>	<b>March 31, 2004</b>
Domestic	\$ 5,010,609	1,348,573
Asia	10,858,099	9,807,926
Europe	3,859,926	3,785,407
America	4,265,748	3,377,074
Oceania	40,039	60,068
<b>Total</b>	<b>\$ 24,034,421</b>	<b>18,379,048</b>

**5 Related Party Transactions**

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

<b>Name of Related Party</b>	<b>Relationship with the Company</b>
Inventec Besta Co., Ltd.	An investee company accounted for under the equity method
Inventec Appliances Corp.	//
Inventec Multimedia and Telecom 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 CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Inventec Electronics (Beijing) Co., Ltd.	A subsidiary of Inventec Corporation (Hong Kong) Co., Ltd.
Inventec Electronics (Tianjin) Co., Ltd.	"
Inventec Appliances (Nanjing) Co., Ltd.	"
	(Sold to Inventec Appliance (Cayman) Holding Corp. on August, 2004)
Inventec Appliances (Shanghai) Co., Ltd.	A third-level subsidiary of Inventec Appliances Corp.
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.

**(b) Significant Transactions with Related Parties:**

(i) Sales

<u>Name of Related Party</u>	<u>Three Months Ended March 31,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>
Inventec Electronics (M) SDN. BHD.	\$ -	-	18,753	-
Inventec Corporation(Scotland) Co., Ltd.	3,413,810	10%	3,490,449	13%
Inventec Holding (North America) Co., Ltd.	3,845,223	12%	3,287,582	12%
Inventec Enterprise System Corp.	73,035	-	-	-
Others	113	-	3,360	-
Total	<u>\$ 7,332,181</u>	<u>22%</u>	<u>6,800,144</u>	<u>25%</u>

Prices of sale of motherboards to Inventec Electronics (M) SDN. BHD. is 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.

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 March 31, 2005 and 2004, unrealized gross profit of sales to related parties was \$9,716 and \$9,783, respectively.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(ii) Warranty Services and Product Maintenance

For the three months ended, 2005 and 2004, payment to related parties for service and maintenance expenses, after netting product warranty reserve, was the following:

<u>Name of Related Party</u>	<u>Three Months Ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Inventec Holding (North America) Co., Ltd.	\$ 73,656	62,974
Inventec Corporation (Scotland) Co., Ltd.	54,074	51,861
Total	<u>\$ 127,730</u>	<u>114,835</u>

(iii) Purchases

For the three months ended, 2005 and 2004, purchases of materials and goods were the following:

<u>Name of Related Party</u>	<u>Three Months Ended March 31,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Net Purchases</u>	<u>Amount</u>	<u>% of Net Purchases</u>
Inventec Electronics (M) SDN. BHD.	\$ 3	-	88,231	-
Inventec Corporation (Hong Kong) Co.,Ltd.	26,164,379	82%	20,030,747	83%
Inventec Holding (North America) Co., Ltd.	61,872	-	19,219	-
Inventec Corporation (Scotland) Co., Ltd.	24,362	-	120,825	-
Total	<u>\$ 26,250,616</u>	<u>82%</u>	<u>20,259,022</u>	<u>83%</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 from Inventec Holding (North America) Co., Ltd. at an agreed-upon price. The payment term is within two months.

The Company purchased materials from 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. For the three months ended, 2005 and 2004, royalty collected from Inventec Besta Co., Ltd. was \$49 and \$245, respectively.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

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. For the three months ended 2004, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounted to \$122.

(v) Purchase of Software

For the three months ended, 2005 and 2004, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$16,333 and \$17,269, 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 March 31, 2005 and 2004, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,319 and \$17,477, respectively, with unrealized other revenue of \$3,314 and \$4,079, 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. And the Company sold properties, resulting in a gain on property disposition of 4,673, in 2005. As of March 31, 2005 and 2004, unrealized gain on sale of properties was \$54,588 and \$55,732, respectively, and unrealized other revenue was \$1 and \$15, 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 March 31, 2005 and 2004, unrealized gain on sale of properties was \$24,130 and \$33,119, respectively, and unrealized other revenue was \$1,110 and \$1,622, respectively.
- 4) For the three months ended, 2005 and 2004, 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 \$18,103 and \$13,036, respectively, reflected as other revenue.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(vii) Accounts Receivable (Payable)

	<b>March 31, 2005</b>		<b>March 31, 2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Total notes receivable	<b>\$ 683</b>	<b>94%</b>	<b>-</b>	<b>-</b>
<u>Accounts Receivable:</u>				
Inventec Holding (North America) Co., Ltd.	\$ 3,645,385	15%	3,021,916	17%
Inventec Corporation (Scotland) Co., Ltd.	2,827,927	12%	2,942,973	16%
Inventec Electronics (M) SDN. BHD.	34	-%	50,675	-%
Inventec Corporation (Hong Kong) Co., Ltd.	80	-%	31,002	1%
Other	11,310	-%	1,262	-%
Total	<b>\$ 6,484,736</b>	<b>27%</b>	<b>6,047,828</b>	<b>34%</b>
Total other receivables	<b>\$ 4,350</b>	<b>-%</b>	<b>9,923</b>	<b>-%</b>
<u>Other Current Assets:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 27,849,019	99%	24,069,915	99%
Other	4,570	-%	20,042	-%
Total	<b>\$ 27,853,589</b>	<b>99%</b>	<b>24,089,957</b>	<b>99%</b>
Total notes payable	<b>\$ -</b>	<b>-%</b>	<b>154</b>	<b>-%</b>
<u>Accounts Payable:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 24,817,302	65%	23,412,338	64%
Inventec Electronics (M) SDN. BHD.	151	-%	11,230	-%
Inventec Holding (North American) Co., Ltd.	38,162	-%	-	-%
Inventec Corporation (Scotland) Co., Ltd.	18,935	-%	-	-%
Other	6,957	-%	14	-%
Total accounts payable	<b>\$ 24,881,507</b>	<b>65%</b>	<b>23,423,582</b>	<b>64%</b>
<u>Other Current Liabilities:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 76,583	17%	\$ 30,242	9%
Inventec Corporation (North America) Co., Ltd.	64	-%	12,269	4%
Inventec Corporation (Scotland) Co., Ltd.	-	-%	19,004	6%
Total	<b>\$ 76,647</b>	<b>17%</b>	<b>\$ 61,515</b>	<b>19%</b>

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(viii) Guarantee and Endorsements

<u>Name of Related Party Guaranteed</u>	<u>March 31, 2005</u>		<u>March 31, 2004</u>		<u>Name of Bank</u>
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 Electronics (Nanking) Co., Ltd.		-		1,500	Bank 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		5,000	"
Inventec Corporation (Scotland) Co., Ltd.	USD	3,000	USD	28,000	Citibank, N.A.
"	GBP	500	GBP	500	Government of Scotland
"	GBP	10,000		-	Hua Nan commerical bank, R.O.C.
Inventec Holding (North America) Co., Ltd.	USD	2,000	USD	2,000	Bank of America
Inventec (Pudong) Corp.	USD	25,000	USD	25,000	"
Inventec (Czech) S.R.O	EUR	1,450	EUR	-	Citibank, N.A.
Total	<b>USD</b>	<b>73,950</b>	<b>USD</b>	<b>110,000</b>	
	<b>GBP</b>	<b>10,500</b>	<b>GBP</b>	<b>500</b>	
	<b>EUR</b>	<b>1,450</b>	<b>EUR</b>	<b>-</b>	

**6 Pledged Assets**

<u>Asset</u>	<u>March 31, 2005</u>	<u>March 31, 2004</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 39,264</u>	<u>56,752</u>	deposits, Customs duties, and property deposits.

**7 Significant Commitments And Contingencies (Excluding Related Party Transactions)**

- (a) As of March 31, 2005 and 2004, unused standby letters of credit were US\$415 and US\$127, respectively.
- (b) As of March 31, 2005 and 2004, promissory notes issued for bank loans totaled \$18,815,192 and \$6,758,292, respectively.
- (c) The company had signed a Royalty contract, which amount to US\$8,400 and hadn't paid US\$4,400 until March 31, 2005.

**8 Significant Catastrophic Losses: None.**

**9 Significant Subsequent Events:**

The company signed a credit contract amount to US\$5,000 with Samsung Electronics Co., Ltd.

**INVENTEC CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**10 Other**

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

Categorized as Nature	Three months ended March 31, 2005			Three months ended March 31, 2004		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Personnel expense						
Salary expense	\$ 120,542	319,752	440,294	116,579	263,128	379,707
Health and labor insurance expense	8,307	16,816	25,123	8,519	14,530	23,049
Pension expense	5,750	15,254	21,004	5,839	13,466	19,305
Other expense	1,826	18,458	20,284	6,501	17,261	23,762
Depreciation expense	16,263	43,856	60,119	23,009	33,640	56,649
Amortization expense	53,485	353	53,838	50,630	915	51,545

- (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. In March 2005, the Company and Samsung Electronics Co., Ltd. settled a common consensus, by which they become reconciled and authorized each other. And both parties are canceling the current legal procedures according to the lawsuit.