

**INVENTEC CORPORATION
FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31,
2004 AND 2003
AND
INDEPENDENT ACCOUNTANTS' REVIEW
REPORT**

**Address: No. 66, Ho-Kang Street, Taipei
Telephone: (02) 2881-0721**

INVENTEC CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 2004 AND 2003

TABLE OF CONTENTS

<u>Contents</u>	<u>Page</u>
• Cover Page	1
• Table of Contents	2
• Independent Accountants' Review Report	3
• Balance Sheets	4
• Statements of Income	5
• Statements of Cash Flows	6
• Notes to Financial Statements	7-28

Independent Accountants' Review Report

The Board of Directors
Inventec Corporation:

We have reviewed the accompanying balance sheets of Inventec Corporation as of March 31, 2004 and 2003, 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. We did not perform an audit and, accordingly, we do not express an audit opinion.

As indicated in Note 6, as of March 31, 2004 and 2003, long-term equity investments of Inventec Corporation were \$10,473,013 and \$9,847,655, respectively. Investment income related thereto were \$213,401 and \$33,600, respectively, which were recognized under the equity method based upon financial statements prepared by the investee companies and were 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, ROC
April 23, 2004

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, 2004 and 2003

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

ASSETS	March 31, 2004		March 31, 2003	
	Amount	%	Amount	%
Current Assets				
Cash and cash equivalents (Notes 2 and 3)	\$ 9,206,973	13	7,787,033	16
Notes receivable (Note 2)				
Other customers	10	-	454	-
Related parties	-	-	155	-
Accounts receivable, less allowance for doubtful accounts (Notes 2 and 4)				
Other customers	12,331,220	18	7,240,529	15
Related parties	6,047,828	9	7,340,799	15
Foreign exchange forward contracts receivable (Note 13)	666,645	1	-	-
Discount on foreign exchange forward contracts (Note 13)	288	-	-	-
Less: Foreign exchange forward contracts payable (Note 13)	(662,400)	(1)	-	-
Other financial assets - current	24,426,287	36	8,487,159	18
Inventories, less allowance for inventory market decline and obsolescence (Notes 2 and 5)	1,773,841	3	2,440,733	5
Prepayments and other current assets	102,900	-	133,011	-
Deferred income tax assets (Notes 2 and 10)	753,654	1	319,519	1
	<u>54,647,246</u>	<u>80</u>	<u>33,749,392</u>	<u>70</u>
Long-term equity investments (Notes 2 and 6)				
Accounted for under the equity method	10,473,013	16	9,847,655	22
Accounted for under the cost method	1,661,000	2	1,574,802	3
	<u>12,134,013</u>	<u>18</u>	<u>11,422,457</u>	<u>25</u>
Other financial assets - non-current (Note 5)	<u>56,752</u>	<u>-</u>	<u>70,401</u>	<u>-</u>
Property, Plant, and Equipment (Notes 2 and 7)				
Land	788,144	1	1,035,730	2
Buildings	427,252	1	691,162	1
Machinery	544,057	1	772,227	2
Transportation equipment	24,458	-	24,458	-
Furniture and office facilities	931,855	1	839,890	2
Other equipment	213,987	-	198,524	-
Less: Accumulated depreciation	(1,363,955)	(2)	(1,579,392)	(3)
Construction in progress	170	-	51	-
Prepayment for equipment	9,269	-	2,926	-
	<u>1,575,237</u>	<u>2</u>	<u>1,985,576</u>	<u>4</u>
Other Assets				
Deferred debit - intercompany loss (Note 2)	194,663	-	194,663	-
Other assets (Notes 2 and 8)	153,621	-	518,963	1
	<u>348,284</u>	<u>-</u>	<u>713,626</u>	<u>1</u>
TOTAL ASSETS	\$ 68,761,532	100	47,941,452	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Notes payable				
Other vendors	\$ 555,175	1	691,070	1
Related parties	154	-	132	-
Accounts payable				
Other vendors	13,380,195	20	8,814,369	19
Related parties	23,423,582	34	10,526,543	22
Income tax payable	23,232	-	77,708	-
Accrued expenses	544,649	1	437,905	1
Advanced collection	43,559	-	85,962	-
Other current liabilities	314,908	-	110,041	-
Estimated warranty reserve (Note 2)	869,956	1	643,044	1
	<u>39,155,410</u>	<u>57</u>	<u>21,386,774</u>	<u>44</u>
Other Liabilities				
Accrued pension liabilities (Note 2 and 9)	218,445	-	75,944	-
Deferred income tax liabilities (Notes 2 and 10)	367,113	1	281,891	1
Deferred credit - intercompany profit (Note 2)	121,827	-	260,971	1
Other liabilities	636	-	21,215	-
	<u>708,021</u>	<u>1</u>	<u>640,021</u>	<u>2</u>
Total Liabilities	<u>39,863,431</u>	<u>58</u>	<u>22,026,795</u>	<u>46</u>
Stockholders' Equity				
Capital stock, par value \$10 per share; authorized 2,500,000,000 shares, issued and outstanding 2,026,000,000 shares as of March 31, 2004; authorized 2,000,000,000 shares, issued and outstanding 1,835,000,000 shares as of March 31, 2003 (Notes 2 and 12)	20,260,000	29	18,350,000	38
Capital surplus (Note 2)				
Premium on stock issuance	447,723	1	447,723	1
Long-term equity investments	121,064	-	121,064	-
Others	177	-	177	-
Retained earnings:				
Legal reserve (Note 2)	2,910,055	4	2,575,062	6
Undistributed earnings (Notes 2 and 11)	5,147,943	8	4,257,535	9
Cumulative translation adjustments (Note 2)	11,139	-	163,096	-
Total Stockholders' Equity	<u>28,898,101</u>	<u>42</u>	<u>25,914,657</u>	<u>54</u>
Commitments and Contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 68,761,532	100	47,941,452	100

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
Three Months Ended March 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Except for Share Data)

	Three Months Ended March 31,			
	2004		2003	
	Amount	%	Amount	%
Operating Revenues:				
Gross sales	\$ 27,664,056	100	19,002,229	100
Technical services revenue	366	-	197	-
Net operating revenues	27,664,422	100	19,002,426	100
Operating Costs:				
Cost of sales	(26,049,230)	(94)	(17,714,752)	(93)
	1,615,192	6	1,287,674	7
Realized intercompany profit	3,075	-	99,201	1
Unrealized intercompany profit	(9,783)	-	(29,882)	-
Gross Margin	1,608,484	6	1,356,993	8
Operating Expenses:				
Selling expense	(604,202)	(2)	(608,035)	(3)
Administrative and general expense	(190,691)	(1)	(242,018)	(1)
Research and development expense	(368,459)	(1)	(303,073)	(2)
	(1,163,352)	(4)	(1,153,126)	(6)
Operating Income	445,132	2	203,867	2
Non-Operating Income:				
Interest income	23,191	-	26,576	-
Investment income accounted for under the equity method	213,401	1	33,600	-
Gain on disposal of property	7,240	-	6,955	-
Foreign exchange gain	-	-	10,601	-
Gain on recovery of inventory market decline	3,497	-	-	-
Other income	159,477	-	96,970	1
	406,806	1	174,702	1
Non-Operating Expenses:				
Interest expense	(620)	-	(225)	-
Loss on disposal of property	(25)	-	-	-
Foreign exchange loss	(523,086)	(2)	-	-
Other expenses	(2,896)	-	(5,659)	-
	(526,627)	(2)	(5,884)	-
Income before income tax	325,311	1	372,685	3
Income tax benefit	137,216	1	56,189	-
Net income	\$ 462,527	2	428,874	3
	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (Notes 2 and 12)				
Basic	\$ 0.16	0.23	0.20	0.23
Earnings per share - retroactively adjusted				
Basic	\$ -	-	0.18	0.21

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
Three Months Ended March 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

	Three Months Ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 462,527	428,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	58,428	72,605
Amortization	51,653	23,154
Gain on disposition and scrapping of property, plant, and equipment, net	(54)	(5,721)
Gain on disposition of deferred assets	(1,283)	(1,234)
Reversal for inventory devaluation	(3,497)	-
Foreign currency exchange gain, net	(25,242)	(3,676)
Allowance for doubtful accounts	522	10,404
Investment income recognized under the equity method over cash dividends received	(213,401)	490,785
Estimated warranty reserve	116,774	137,490
Changes in assets and liabilities:		
Notes and accounts receivable	(2,088,400)	(302,434)
Foreign exchange forward exchange contracts receivable	(666,645)	-
Discount on foreign exchange forward contracts	(288)	-
Less: Payables on foreign exchange forward contracts	662,400	-
Other financial assets - current	(13,945,891)	26,758
Inventories	(125,550)	93,353
Prepayments and other current assets	(37,261)	(5,774,632)
Deferred income tax assets and liabilities	(163,096)	(136,922)
Notes and accounts payable	16,670,335	5,430,999
Income tax payable	23,232	77,708
Accrued expenses	(216,962)	(73,388)
Advanced collection	(74,574)	58,267
Deferred credits - intercompany profit	506	47,648
Other current liabilities	(28,469)	(119,349)
Accrued pension liabilities	10,938	(83,791)
Net cash provided by operating activities	466,702	396,898
Cash flows from investing activities:		
Increase in long-term investments	(33,950)	(303,575)
Purchase of property and equipment	(195,852)	(13,660)
Purchase of deferred assets	(67,471)	(62,104)
Proceeds from disposition of property and equipment	54	18,462
Proceeds from disposition of deferred assets	9,067	2,752
Other financial assets - non-current	(150)	(22)
Decrease (increase) in other assets	9,947	(1,524)
Net cash used in investing activities	(278,355)	(359,671)
Cash flows from financing activities:		
Decrease (increase) in other liabilities	(48)	20,212
Net cash provided by (used in) financing activities	(48)	20,212
Foreign exchange effects	25,242	3,676
Net increase in cash and cash equivalents	213,541	61,115
Cash and cash equivalents, beginning of the period	8,993,432	7,725,918
Cash and cash equivalents, end of the period	\$ 9,206,973	7,787,033
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 620	227
Cash paid during the period for income tax	\$ 2,648	3,025
Purchase of property and equipment with cash and other payables:		
Increase in property and equipment	\$ 36,332	11,976
Add: Other payables, beginning of the period	168,072	5,044
Less: Other payables, end of the period	(8,552)	(3,360)
Cash paid	\$ 195,852	13,660

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 March 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 as follows:

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 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 PDAs commenced.

1994- The Company invested in Inventec Electronics (Nanking) Co., Ltd., Inventec Electronics (Beijing) Co., Ltd., Inventec Electronics (Beijing) Co., Ltd. and Inventec Electronics (Xi'an) Co., Ltd. for software production.

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 its 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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- The Company purchased Ta-Shi plant in Taoyuan. Production of servers and desktops commenced.
- 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 bought 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 assets valuation was used as the basis of the Company's investment.
 - The Company established Inventec Communication and Technology Corp. for investment business.
 - The Company sold its investments in Inventec Electronics (M) SDN. BHD. to the investee company Inventec Communication and Technology Corp. to integrate operation and business.
 - Investee companies Inventec Communication and Technology Corp. and Inventec Multimedia and Telecom Corp. 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 books and electronic publications and sales.
- 2002-Inventec Online Corp. and Inventec Appliances Corp. merged to integrate resources. Inventec Appliances Corp. is the continuing company after the merger.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2003-The Company sold its investment in Inventec Appliances (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.

2004-The Company established Inventec Enterprise System Corporation. which engages in parts assembling.

- The Company established Inventec (Czech) S.R.O. which engages in parts assembling.

As of March 31, 2004, the average number of employees was 2,061.

(2) Summary of Significant Accounting Policies

The Company's financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. Summary of significant accounting policies is as follows:

(a) Cash Equivalents

Cash equivalents are Treasury bills, commercial paper, and banker's acceptances with maturities within three months. Commercial paper and banker's acceptances are stated at cost and valued by the specific identification method. On the balance sheet date, 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 clients 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 on the balance sheet date. 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, investment loss is recognized currently with the restated book value as 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 period-end are reflected as translation adjustment under stockholders' equity. If the fiscal year of an investee company is different from that of the Company, equity earnings of an investee company are recognized according to equivalent ownership at period-end. If the current financial statements are unavailable, gain and loss on investments are recognized in the following year by the current equivalent ownership of the investee company on the balance sheet date.

Unrealized intercompany transactions are eliminated and recorded as deferred debits. Regardless of downstream or upstream transactions, unrealized intercompany gains and losses are eliminated in proportion to the 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 and 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)

(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:

Buildings	10 to 46 years
Machinery	2 to 13 years
Transportation equipment	4 to 6 years
Furniture and office facilities	3 to 18 years
Electric equipment	2 to 16 years
Renovation	2 to 15 years
Miscellaneous equipment	2 to 16 years

Gains and losses on disposal of properties are reflected under non-operating income or expense.

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 Statement of Financial Accounting Standards ("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 transition obligations are amortized equally over 15 years.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(h) Foreign Currency Translation

Assets and liabilities of overseas subsidiaries are translated at the spot rate of the balance sheet 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 during 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 balance-sheet-date adjustment to foreign-denominated assets and liabilities by the spot rates then are included in current earnings.

(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 any other distribution 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% be appropriated as legal reserve. Special reserve may be set aside for operations or to meet regulations. 7% and 3% of the remainder are distributed as employee bonus and compensation for directors and supervisors, respectively. The rest is distributed per the proposal presented to 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 the total current dividends.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(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.

(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 and benefit from unearned gain and loss and 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 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, regardless of the outstanding period in which the incremental shares are issued.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(3) Cash and Cash Equivalents

	<u>March 31, 2004</u>	<u>March 31, 2003</u>
Cash on hand	\$ 477	627
Checking accounts	9,147	11,611
Demand deposits	22,733	13,630
Time deposits	1,719,960	441,200
Foreign currency time deposits	5,446,938	6,884,264
Foreign currency deposits	924,768	41,697
Cash equivalents (short-term bills and bonds)	1,082,950	394,004
Total	<u>\$ 9,206,973</u>	<u>7,787,033</u>

(4) Accounts Receivable

	<u>March 31, 2004</u>	<u>March 31, 2003</u>
Accounts receivable - other customers	\$ 12,337,847	7,253,054
Less: Allowance for doubtful accounts	(6,627)	(12,525)
Net	12,331,220	7,240,529
Accounts receivable - related parties	6,047,828	7,340,799
Total	<u>\$ 18,379,048</u>	<u>14,581,328</u>

(5) Inventories

	<u>March 31, 2004</u>	<u>March 31, 2003</u>
Raw materials	\$ 1,278,097	1,620,120
Work in process	336,460	409,699
Finished goods	588,385	853,034
Supplies-in-transit	5,064	30,540
Subtotal	2,208,006	2,913,393
Less: Allowance for inventory market decline and obsolescence	(434,165)	(472,660)
Net	<u>\$ 1,773,841</u>	<u>2,440,733</u>
Insurance coverage	<u>\$ 2,600,000</u>	<u>3,513,380</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(6) Long-Term Equity Investments

<u>Name of Investee Company</u> <u>Accounted for under the equity method</u>	<u>March 31, 2004</u>			<u>March 31, 2003</u>		
	<u>Ownership</u>	<u>Book Value</u>	<u>Original Investment</u>	<u>Ownership</u>	<u>Book Value</u>	<u>Original Investment</u>
Inventec Besta Co., Ltd.	38.69%	\$ 1,188,054	765,058	38.69%	1,198,114	765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	395,322	42,655	100.00%	282,978	8,705
Inventec Corporation (Scotland) Co., Ltd.	100.00%	351,555	39,518	100.00%	249,138	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	6,863	6,888	100.00%	6,829	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	434,474	159,003	100.00%	393,325	159,003
Inventec Multimedia and Telecom Corp.	59.60%	1,381,481	967,400	59.71%	1,264,088	967,400
Inventec Micro-Electronics Corp.	70.48%	395,963	401,625	70.48%	437,115	401,625
Inventec Appliances Corp.	50.13%	3,132,147	2,489,325	95.03%	4,338,043	3,544,475
Inventec Corporation (Cayman) Co., Ltd.	100.00%	2,742,077	2,720,758	100.00%	1,474,102	1,632,423
Inventec Tomorrow Studio Corp.	60.00%	186,554	298,800	60.00%	203,923	298,800
Inventec Enterprise System Corporation	100.00%	188,650	200,000	-%	-	-
Inventec (Czech) S.R.O.	100.00%	69,873	69,873	-%	-	-
Subtotal		<u>10,473,013</u>			<u>9,847,655</u>	
<u>Accounted for under the cost method</u>						
<u>Common Stock</u>						
WK Technology Fund IV	1.52%	40,000		1.52%	40,000	<u>Market Price</u>
SINACOM	-%	-		0.78%	13,802	<u>\$ 89,387</u>
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	6.67%	100,000		-%	-	
		<u>266,400</u>			<u>180,202</u>	
<u>Preferred stock</u>						
E28 Limited		<u>1,394,600</u>			<u>1,394,600</u>	
Subtotal		<u>1,661,000</u>			<u>1,574,802</u>	
Total		<u>\$ 12,134,013</u>			<u>11,422,457</u>	

For the three months ended March 31, 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:

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>Name Of Investee Company</u>	<u>Three Months Ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Based on financial statements prepared by investee companies:		
Inventec Besta Co., Ltd.	\$ 2,297	4,866
Inventec Corporation (Hong Kong) Co., Ltd.	13,632	(95,951)
Inventec Corporation (Scotland) Co., Ltd.	31,740	9,658
Inventec Holding (North America) Co., Ltd.	19,394	10,918
Inventec Multimedia and Telecom Corp.	47,632	(1,501)
Inventec Micro-Electronics Corp.	(3,361)	4,734
Inventec Appliances Corp.	161,612	123,565
Inventec Corporation (Cayman) Co., Ltd.	(48,871)	(17,908)
Inventec Tomorrow Studio Corp.	676	(4,781)
Inventec Enterprise System Corporation	(11,350)	-
Total	<u>\$ 213,401</u>	<u>33,600</u>

Registered capital of the 100%-owned subsidiary Inventec Corporation (Hong Kong) Co., Ltd. was HK\$2,500 (US\$322), representing 2,500,000 shares. On January 2, 2003, the Company sold all shares of Inventec Appliances (Shanghai) 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, resulting in a loss of \$1,518. Recognition of the gain is deferred until the shares of Inventec Appliances (Shanghai) Co., Ltd. are sold to a non-related party. As of March 31, 2003, the Company received returned capital of US\$24,865. For the three months ended March 31, 2004, the Company increased its investment by US\$1,000.

Effective March 1, 2001, the 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 with a registered capital of US\$79,000, totaling 79,500,000 shares at par value of US\$1, which was approved by Investment Commission's Letter Ruling No. (89)(2)89037593.

On May 30, 2003, the Company's shareholders meeting resolved to sale 105,515,000 shares of Inventec Appliance Corp. in order to meet the ownership diversification requirement for Inventec Appliances Corp's application for listed stocks. Consequently, shareholding ratio declined to 50.13%.

In September 2003, the Company established Inventec (Czech) S.R.O, with a registered capital of CZK56,000 (US\$2,000), totaling 56,000,000 shares at par value of CZK1. Shareholding ratio was 100%.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

As of December 31, 2003, the Company established Inventec Enterprise System Corporation with a registered capital of \$200,000. Shareholding ratio was 100%.

As of December 31, 2003, the Company invested \$100,000 in Global Strategic Investment Fund for 6.67% ownership. The investee 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.

Cash dividends received from investee companies were as follows:

<u>Name of investee company</u>	<u>Three Months Ended March 31,</u>	
	<u>2003</u>	
Inventec Corporation (Hong Kong) Co., Ltd.	<u>\$</u>	<u>524,385</u>

(7) Property, Plant and Equipment

As of March 31, 2004 and 2003, fire and auto accident insurance coverage of the above property, plant, and equipment amounted to \$3,426,180 and \$4,452,661, respectively.

Interest capitalized for the three months ended March 31, 2004 and 2003, was \$0.

(8) Other Assets

	<u>March 31, 2004</u>	<u>March 31, 2003</u>
Deferred charges	\$ 72,885	87,464
Temporary payments	3,586	9,521
Assets held for lease, less accumulated depreciation	3,398	36,171
Idle assets, less accumulated depreciation	61,661	361,024
Prepayments for molds and tools	12,091	24,783
Accounts overdue	25,080	24,947
Less: Allowance for doubtful accounts	(25,080)	(24,947)
Total	<u>\$ 153,621</u>	<u>518,963</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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

In November 2002, due to a change in operation policy, operating activities at the plant and factories located in Lin-Kou Industrial Park were decreased. Related land and building were transferred from property, plant, and equipment to idle assets. As of December 31, 2003, land, buildings, and facilities related to the factory were sold to non-related parties for \$610,000, resulting in a disposal loss of \$42,500.

As of March 31, 2004 and 2003, insurance coverage of the above idle and rental assets amounted to \$55,000 and \$76,816, respectively.

(9) 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, 2004 and 2003, balance of the pension fund account was \$407,397 and \$386,262, respectively.

(10) Income Tax

(a) Deferred income tax assets and liabilities

	March 31, 2004	March 31, 2003
(i) Total deferred income tax assets	\$ 807,575	355,791
(ii) Total deferred income tax liabilities	(421,034)	(318,163)

	March 31, 2004		March 31, 2003	
	Amount	Income Tax Effect	Amount	Income Tax Effect
c. Temporary differences:				
- Recognition of unrealized exchange gain: deductible	\$ 209,948	52,487	52,691	13,173
- Recognition of inventory market decline and obsolescence: deductible	434,165	108,541	472,661	118,165
- Recognition of warranty expenses: deductible	869,956	217,489	726,608	181,652
- Recognition of loss on overseas investments: taxable	(558,345)	(139,586)	(361,741)	(90,435)
- Recognition of gain on investments: taxable	(961,362)	(240,341)	(550,926)	(137,732)
- Recognition of unrealized intercompany profits: taxable	(149,576)	(37,394)	(142,523)	(35,630)
- Cumulative translation adjustment to long-term investments: taxable	(14,851)	(3,713)	(217,463)	(54,366)
- Recognition of pension expense: deductible	215,684	53,921	145,090	36,272
- Unused balance of investment tax credits	-	375,137	-	6,529

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	March 31, 2004	March 31, 2003
(b) Deferred income tax assets - current	\$ 753,654	319,519
Deferred income tax liabilities - current	-	-
Net	\$ 753,654	319,519
(c) Deferred income tax assets- non-current	\$ 53,921	36,272
Deferred income tax liabilities- non-current	(421,034)	(318,163)
Net	\$ (367,113)	(281,891)

	Three Months Ended March 31,	
	2004	2003
(d) Calculation of income tax expense:		
Income tax calculated per statutory tax rate	\$ 81,318	93,161
Permanent differences	(50,765)	(32,154)
Temporary differences	80,008	130,393
Tax-exempt income	(59,932)	(30,963)
Investment tax credits	(25,315)	(80,218)
Income tax payable	25,314	80,219
Income tax separately levied	566	514
Unused balance of investment tax credits	(83,088)	(6,529)
Income tax effect due to temporary differences:		
Provision for inventory obsolescence and market decline	875	-
Provision and reversal for loss on foreign investments, net	(8,760)	49,977
Provision and reversal for warranty reserve, net	(29,194)	(55,263)
Recognition of gain on investments	3,974	(154,417)
Reversal and provision of unrealized intercompany profit, net	(2,030)	16,700
Recognition of unrealized exchange gain	(42,143)	9,572
Recognition of pension expense	(2,730)	3,038
Income tax benefit	\$ (137,216)	(56,189)

(e) The Company's tax returns through year 1998 have been assessed by the Tax Authority. Additional taxes assessed for 1997 and 1998 were \$31,743 and \$51,737, respectively, and the Company has petitioned for administrative relief.

(f) Stockholder's Imputation Tax Credit Account ("ICA") and Tax Rate:

	March 31, 2004	March 31, 2003
Stockholder's imputation tax credit account	\$ 355,856	491,119
Deductible ratio of earnings distributed to ROC residents	8.07%	14.93%

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Information on unappropriated earnings:

Undistributed earnings:	March 31, 2004	March 31, 2003
Accumulated prior to 1997	\$ 447,632	447,632
Accumulated after 1998	4,700,311	3,809,903
Total	\$ 5,147,943	4,257,535

(g) 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:

Year of occurrence	Investment tax credits	Year of expiration
2003	\$ 292,049	1997
2004	83,088	1998
	\$ 375,137	

(11) Earnings Distribution

Changes in unappropriated earnings of the Company for the three months ended March 31, 2004 and 2003 were as follows:

	Three months ended March 31, 2004	Three months ended March 31, 2003
Beginning balance, January 1	\$ 4,685,416	3,828,661
Add: Net income	462,527	428,874
Ending balance, March 31	\$ 5,147,943	4,257,535

The shareholders' meeting will be held on April 27, 2004. During the meeting, the shareholders will discuss the distribution of earnings of 2003 proposed by the Board of Directors.

	Amount
Provision for legal reserve	\$ 423,198
Employee bonuses (of which the amount capitalized as stock dividends was \$97,000 and cash dividends distributed was \$169,615)	266,615
Compensation to directors and supervisors	114,264
Stock dividends (\$0.5 per share)	1,013,000
Cash dividends (\$1.2 per share)	2,431,200
Total	\$ 4,248,277

(12) Earnings per Share ("EPS")

EPS is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. As of March 31, 2004 and 2003, weighted-average number of common shares outstanding was 2,026,000,000 and 1,835,000,000, respectively. As of March 31, 2003, the number of outstanding shares retroactively adjusted due to stock dividends was 2,026,000,000.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(13) Information on Financial Instruments

(a) Financial Derivatives:

(i) Amount of Contracts and Credit Risk

<u>Financial Instrument</u>	<u>March 31, 2004</u>		<u>March 31, 2003</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>	<u>Contract Amount</u>	<u>Credit Risk</u>
Foreign exchange forward contracts Non-trading	<u>USD 20,000</u>	<u>4,245</u>	<u>USD -</u>	<u>-</u>

The amount of credit risk is the sum of contracts with positive fair value on the balance sheets date, provided that the net settlement of all contracts remains positive. That is, the amount indicates the loss incurred in the event of default of counter-parties to transactions.

(ii) Market Risk

The Company is exposed to market risk from fluctuations in exchange rates. However, the loss likely to occur due to market risks will be offset by exchange gain or loss on hedged claims and obligations denominated in foreign currency.

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

Financial derivatives held by the Company will be settled with banks using US dollars collected from sales.

(b) Fair Value of Financial Instruments

	<u>March 31, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets		
Book value equal to fair value	\$ 52,073,315	52,073,315
Long-term investments	12,134,014	11,858,664
Total financial assets	<u>\$ 64,207,329</u>	<u>63,931,979</u>
Financial Liabilities		
Book value equal to fair value	<u>\$ 38,460,340</u>	<u>38,460,340</u>
March 31, 2003		
Financial Assets		
Book value equal to fair value	\$ 30,926,530	30,926,530
Long-term investments	11,422,457	11,510,485
Total financial assets	<u>\$ 42,348,987</u>	<u>42,437,015</u>
Financial Liabilities		
Book value equal to fair value	<u>\$ 20,725,503</u>	<u>20,725,503</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

- (i) 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.
- (ii) 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 the net equity worth.
- (iii) 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.

(c) Financial Instruments with Off-Balance-Sheet Credit Risk:

As of March 31, 2004 and 2003, guarantees provided by the Company for bank loans to related parties amounted to US\$110,000, GBP500 and US\$114,500, GBP500, respectively.

As of March 31, 2004 and 2003, promissory notes issued for bank loans amounted to \$6,758,292 and \$5,913,292, respectively.

(d) Information on Concentration of Credit Risk:

Group concentration of credit risk exist if the transacting party is an individual or a number of counterparties which engage in similar activities or activities in the same region or share other similar economic characteristics that would similarly affect their ability to meet contractual obligations with changes in economic or other conditions. As of March 31, 2004 and 2003, the Company's contracts with credit risk concentration were the following:

<u>Accounts receivable, net - by</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
Domestic	\$ 1,348,573	967,157
Asia	9,807,926	2,876,671
Europe	3,785,407	5,216,785
America	3,377,074	5,487,748
Oceania	60,068	32,967
Total	<u>\$ 18,379,048</u>	<u>14,581,328</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(14) Related Party Transactions

(a) Name of Related Party and 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 Corporation (Scotland) Co., Ltd.	A subsidiary of the Company
Inventec Corporation (Singapore) Co., Ltd.	"
Inventec Multimedia and Telecom Corp.	"
Inventec Micro-Electronics Corp.	"
Inventec Appliances Corp.	"
Inventec Corporation (Cayman) Co., Ltd.	"
Inventec Corporation (Hong Kong) Co., Ltd.	"
Inventec Holding (North America) Co., Ltd.	"
Inventec Electronics (Beijing) Co., Ltd.	A subsidiary of Inventec Corporation (Hong Kong) Co., Ltd.
Inventec Electronics (Nanking) Co., Ltd.	"
Inventec Electronics (Tianjin) Co., Ltd.	"
Inventec Appliances (Shanghai) Co., Ltd.	A third-level subsidiary of Inventec Appliances Corp.
Inventec Corporation (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

Related Party	Three Months Ended March 31,			
	2004		2003	
	Amount	% of Net Sales	Amount	% of Net Sales
Inventec Electronics (M) SDN. BHD	\$ 18,753	-	143,149	1%
Inventec Corporation (Scotland) Co., Ltd.	3,490,449	13%	2,839,819	15%
Inventec Holding (North America) Co., Ltd.	3,287,582	12%	2,090,665	11%
Inventec Corporation (Hong Kong) Co., Ltd.	43	-	1,528,201	8%
other	3,317	-	99	-
Total	\$ 6,800,144	25%	6,601,933	35%

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Prices of sales of motherboards to Inventec Electronics (M) SDN. BHD. are based on cost with collection terms of 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 others. 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.

Inventec Holding (North America) Co., Ltd. is an overseas warranty service and packaging center and prices of sales thereto are negotiated. Accordingly, no basis of price reference exists. Collection period is within three months.

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

As of March 31, 2004 and 2003, unrealized gross profit from sales to related parties was \$9,783 and \$29,882, respectively.

(ii) Warranty Services and Product Maintenance

For the three months ended March 31, 2004 and 2003, payment to related parties for service and maintenance, after netting product warranty reserve, was the following:

<u>Related Party</u>	Three Months Ended March 31,	
	2004	2003
	Amount	Amount
Inventec Holding (North America) Co., Ltd.	\$ 62,974	85,374
Inventec Corporation (Scotland) Co., Ltd.	51,861	39,021
Total	\$ 114,835	124,395

(iii) Purchases

<u>Related Party</u>	Three Months Ended March 31,			
	2004		2003	
	Amount	% of Net Purchases	Amount	% of Net Purchases
Inventec Electronics (M) SDN. BHD.	\$ 88,231	-	44,118	-
Inventec Holding (North America) Co., Ltd.	19,219	-	-	-
Inventec Corporation (Scotland) Co., Ltd.	120,825	-	-	-
Inventec Corporation (Hong Kong) Co., Ltd.	20,030,747	83%	9,655,992	55%
Others	-	-	304	-
Total	\$ 20,259,022	83%	9,700,414	55%

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 supplies used for warranty service from Inventec Holding (North America) Co., Ltd. at an agreed-upon price. The payment term is within two months.

The Company purchased supplies used for warranty service from Inventec Corporation (Scotland) Co., Ltd. at an agreed-upon price. The payment term is within two months.

As of March 31, 2003, unrealized gross profit (reflected as an deduction to long-term investments) from related-party purchases amounted to \$191.

(iv) Technical Service Revenue

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 March 31, 2004 and 2003, royalty collected from Inventec Besta Co., Ltd. was \$245 and \$197, respectively.

The Company entered into an agreement with Inventec Tomorrow Studio Corp. in which the Company collects royalty though production, distribution, and sale of Dr. Eye 2002. Royalty is based on sales volume.

For the three months ended March 31, 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 March 31, 2004 and 2003, cost of software purchased from Inventec Corp. (Hong Kong) Co., Ltd., reflected as deferred expenses, was \$17,269 and \$25,541, 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 expenses, 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, 2004 and 2003, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,477 and \$17,643, respectively, with unrealized other revenue of \$4,079 and \$4,843, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 2) In 2000, the Company invested in Inventec Appliances Corp. with properties, deferred assets, and assets stated under expense, resulting in a gain on property disposition of \$103,713 and other revenue of \$31,693. Sale of properties, deferred assets, and asset stated under expense resulted in gain on property disposition of \$1,156 and other revenue of \$6,427. As of March 31, 2004 and 2003, unrealized gain on property sales was \$55,732 and \$66,103, respectively, and unrealized other revenue was \$15 and \$29, respectively.
- 3) For the three months ended March 31, 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, 2004 and 2003, unrealized gain on sale of properties \$33,119 and \$23,031, respectively, and unrealized other revenue was \$1,622 and \$2,720, respectively.
- 4) For the three months ended March 31, 2003, the Company subsidized Inventec Besta Co., Ltd. for \$1,639, reflected as other expense.
- 5) For the three months ended March 31, 2004 and 2003, general and administrative expenses collected from Inventec Appliances Corp., Inventec Micro-Electronic Corp., Inventec Multimedia and Telecom Corp., Inventec Tomorrow Studio Corp, and Inventec Besta Co., Ltd. were \$13,036 and \$9,099, respectively, reflected as other revenue.
- 6) As of March 31, 2003, promissory notes issued to Inventec Appliances Corp. for the Company's participation in the Ministry of Economic Affairs "Mobile Terminal Application Platform" plan amounted to \$50,292.

(vii) Accounts Receivable (Payable)

	March 31, 2004		March 31, 2003	
	Amount	%	Amount	%
Notes Receivable	\$ -	-	155	25%
Accounts Receivable:				
Inventec Holding (North America) Co., Ltd.	\$ 3,021,916	17%	1,818,602	12%
Inventec Corporation (Scotland) Co., Ltd.	2,942,973	16%	3,138,737	22%
Inventec Electronics (M) SDN. BHD	50,675	-	102,891	-
Inventec Corporation (Hong Kong) Co., Ltd.	31,002	-	2,280,565	16%
Others	1,262	-	4	-
Total	<u>\$ 6,047,828</u>	<u>33%</u>	<u>7,340,799</u>	<u>50%</u>
Other Receivables	<u>\$ 9,923</u>	<u>-</u>	<u>14,985</u>	<u>8%</u>
Other Current Assets				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 24,069,915	99%	8,283,346	99%
Others	20,042	-	20,550	-
Total	<u>\$ 24,089,957</u>	<u>99%</u>	<u>8,303,896</u>	<u>99%</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	<u>March 31, 2004</u>		<u>March 31, 2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes Payable	<u>\$ 154</u>	<u>-</u>	<u>132</u>	<u>-</u>
Accounts Payable:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 23,412,338	64%	10,461,870	54%
Inventec Electronics (M) SDN. BHD.	11,230	-	64,548	-
Others	14	-	125	-
Total Accounts Payable	<u>\$ 23,423,582</u>	<u>64%</u>	<u>10,526,543</u>	<u>54%</u>
Other Current Liabilities:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 30,242	9%	50,877	46%
Inventec Holding (North America) Co., Ltd.	12,269	4%	-	-
Inventec Corporation (Scotland) Co., Ltd.	19,004	6%	-	-
Total	<u>\$ 61,515</u>	<u>19%</u>	<u>50,877</u>	<u>46%</u>

(viii) Endorsement Guarantees

As of March 31, 2004 and 2003, endorsement guarantees provided to related parties for bank loans were as follows:

<u>Related Party Guaranteed</u>	<u>Amount Guaranteed</u>				<u>Remarks</u>
	<u>March 31, 2004</u>	<u>March 31, 2003</u>			
Inventec Corporation (Hong Kong) Co., Ltd.	USD 15,000	USD 15,000			Citibank, N.A.
Inventec Corporation (Cayman) Co., Ltd.	30,000	30,000			"
Inventec Appliances (Shanghai) Co., Ltd.	-	14,500			Bank of America
Inventec Corporation (Shanghai) Co., Ltd.	5,000	25,000			"
Inventec Electronics (Nanking) Co., Ltd.	1,500	1,500			"
Inventec Electronics (Tianjin) Co., Ltd.	2,500	2,500			"
Inventec Electronics (Beijing) Co., Ltd.	1,000	1,000			"
Inventec Corporation (Scotland) Co., Ltd.	28,000	23,000			Citibank, N.A.
"	GBP 500	GBP 500			Government of Scotland
Inventec Holding (North America) Co., Ltd.	USD 2,000	USD 2,000			Bank of America
Inventec (Pudong) Corp.	25,000	-			"
Total	<u>USD 110,000</u>	<u>USD 114,500</u>			
	<u>GBP 500</u>	<u>GBP 500</u>			

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(15) Pledged Assets

As of March 31, 2004 and 2003, following assets were pledged as collateral:

<u>Asset</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 56,752</u>	<u>70,401</u>	Guarantees for foreign labor, customs duties, and property deposits.

(16) Significant Commitments and Contingencies (excluding related-party transactions):

- (a) As of March 31, 2004 and 2003, unused letters of credit amounted to US\$127, and US\$2,978, respectively.
- (b) As of March 31, 2004 and 2003, promissory notes issued for bank loans totaled \$6,758,292 and \$5,913,292, respectively.

(17) Others

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

Categorized as: Nature	Three Months ended March 31, 2004			Three Months ended March 31, 2003		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Personnel expenses						
Salary expense	\$ 116,579	263,128	379,707	158,894	293,088	451,982
Health and labor insurance expense	8,519	14,530	23,049	10,790	14,182	24,972
Pension expense	5,839	13,466	19,305	5,521	14,299	19,820
Other expense	6,501	17,261	23,762	3,455	30,858	34,313
Depreciation expense	23,009	33,640	56,649	28,601	34,255	62,856
Amortization expense	50,630	915	51,545	5,454	16,852	22,306

- (b) On 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.