

INVENTEC CORPORATION

FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30,
2004 AND 2003

AND

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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INVENTEC CORPORATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003

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Independent Accountants' Review Report

Inventec Corporation:

We have reviewed the accompanying balance sheets of Inventec Corporation as of September 30, 2004 and 2003, and the related statements of income, and cash flows for the nine 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 September 30, 2004 and 2003, long-term equity investments of Inventec Corporation were \$10,088,357 thousand and \$8,463,384 thousand, respectively. Investment income recognized under the equity method for the nine months ended September 30, 2004 and 2003, were \$284,320 thousand and \$1,197,510 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.
October 22, 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

September 30, 2004 AND 2003

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

	September 30, 2004		September 30, 2003	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 7,801,875	13	8,651,748	19
Notes receivable (Note 2)				
- Other customers	7,133	-	816	-
- Related parties	3,952	-	20	-
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b)				
- Other customers	15,906,491	26	7,476,038	17
- Related parties	6,814,514	11	5,210,459	11
Receivable on sale of forward exchange contracts	340,955	1	-	-
Discount on sale of forward exchange contracts	91	-	-	-
Forward exchange contracts payable	(340,000)	(1)	-	-
Other financial assets - current	14,646,728	24	9,154,898	20
Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c)	1,785,970	3	1,689,438	4
Prepayments and other current assets	95,486	-	111,573	-
Deferred tax assets - current (Notes 2 and 4.h)	644,108	1	521,544	1
	<u>47,707,303</u>	<u>78</u>	<u>32,816,534</u>	<u>72</u>
Long-term equity investments (Notes 2 and 4.d)				
Accounted for under the equity method	10,095,120	16	8,470,072	19
Accounted for under the cost method	1,864,526	3	1,561,000	3
Prepayments for Long-Term Investments	67,790	-	69,873	-
	<u>12,027,436</u>	<u>19</u>	<u>10,100,945</u>	<u>22</u>
Other financial assets - non-current (Notes 6)				
	<u>56,749</u>	<u>-</u>	<u>56,752</u>	<u>-</u>
Property, Plant, and Equipment (Notes 2 and 4.e)				
Land	788,144	1	788,870	2
Buildings	427,252	1	427,252	1
Machinery	466,304	1	544,212	1
Transportation equipment	26,332	-	24,458	-
Furniture and office facilities	979,079	2	899,511	2
Other equipment	211,046	-	198,293	1
Less: Accumulated depreciation	(1,357,735)	(2)	(1,347,358)	(3)
Construction in progress	330	-	6,657	-
Prepayment on equipment	40,763	-	16,145	-
	<u>1,581,515</u>	<u>3</u>	<u>1,558,040</u>	<u>4</u>
Intangible Assets				
Deferred Pension Cost (Notes 2)	117,546	-	-	-
Other Assets:				
Deferred debits - intercompany loss (Note 2)	194,663	-	194,663	-
Other assets (Notes 2 and 4.f)	212,463	-	825,733	2
	<u>407,126</u>	<u>-</u>	<u>1,020,396</u>	<u>2</u>
TOTAL ASSETS	\$ 61,897,675	100	45,552,667	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Notes payable	\$ 417,420	1	340,197	1
Accounts payable				
- Other vendors	14,458,627	23	8,683,362	19
- Related parties	15,955,079	26	6,699,027	15
Income tax payable	136,026	-	-	-
Accrued expenses	636,568	1	730,307	2
Advance collection	27,820	-	41,319	-
Other current liabilities	584,942	1	167,919	-
Estimated warranty reserve (Note 2)	1,199,320	2	839,316	2
	<u>33,415,802</u>	<u>54</u>	<u>17,501,447</u>	<u>39</u>
Other Liabilities:				
Accrued pension liabilities (Notes 2)	357,580	1	194,770	1
Deferred tax liabilities - non-current (Notes 2 and 4.h)	218,854	-	370,892	1
Deferred credits - intercompany profits (Note 2)	117,349	-	132,833	-
Other liabilities	1,696	-	20,287	-
	<u>695,479</u>	<u>1</u>	<u>718,782</u>	<u>2</u>
Total Liabilities	<u>34,111,281</u>	<u>55</u>	<u>18,220,229</u>	<u>41</u>
Stockholders' Equity				
Capital Stock, par value \$10 per share; authorized 2,500,000,000 shares, 2,137,000,000 shares issued and outstanding as of September 30, 2004; 2,026,000,000 shares issued and outstanding as of September 30, 2003.	21,370,000	35	20,260,000	44
Capital Surplus (Note 2)				
Additional paid-in capital	447,723	1	447,723	1
Capital surplus of long-term investments	120,655	-	121,064	-
Other	177	-	177	-
Retained Earnings:				
Legal reserve (Note 2)	3,333,254	5	2,910,055	6
Undistributed earnings (Notes 2 and 4.j)	2,400,956	4	3,496,088	8
Cumulative translation adjustments (Note 2)	113,629	-	97,331	-
	<u>27,786,394</u>	<u>45</u>	<u>27,332,438</u>	<u>59</u>
Total Stockholders' Equity	<u>27,786,394</u>	<u>45</u>	<u>27,332,438</u>	<u>59</u>
Commitments and Contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 61,897,675	100	45,552,667	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

For The Nine Months Ended September 30, 2004 AND 2003

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

	Nine Months Ended September 30,			
	2004		2003	
	Amount	%	Amount	%
Operating Revenue:				
Net sales	\$ 97,292,422	100	57,476,515	100
Technical service revenue	8,863	-	5,869	-
Net operating revenue	97,301,285	100	57,482,384	100
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4)	(92,442,154)	(95)	(53,285,686)	(93)
	4,859,131	5	4,196,698	7
Realized intercompany profits	3,075	-	99,201	-
Unrealized intercompany profits	(13,787)	-	(8,160)	-
Gross margin	4,848,419	5	4,287,739	7
Operating Expenses:				
Selling expenses	(2,021,422)	(2)	(1,787,786)	(3)
Administrative expenses	(639,409)	(1)	(907,547)	(2)
Research and development expenses	(992,523)	(1)	(1,020,635)	(2)
	(3,653,354)	(4)	(3,715,968)	(7)
Income from Operations	1,195,065	1	571,771	-
Non-Operating Income:				
Interest income	93,004	-	68,795	-
Investment income accounted for under the equity method(Note 4.d)	284,130	-	1,197,294	2
Dividend income(Note 4.d)	480	-	600	-
Gain on disposal of properties	31,691	-	19,742	-
Gain on disposal of Investments	127,651	-	908,596	1
Other income	441,177	-	370,059	1
	978,133	-	2,565,086	4
Non-Operating Expenses:				
Interest expense	(24,462)	-	(399)	-
Loss on disposal of properties	(577)	-	-	-
Foreign exchange loss	(154,110)	-	(171,216)	1
Losses on inventory devaluation and obsolescence	(1,874)	-	(14,460)	-
Other expenses	(9,620)	-	(34,202)	-
	(190,643)	-	(220,277)	1
Income before income tax	1,982,555	1	2,916,580	5
Income tax benefit (expense) (Note 4.h)	(24,135)	-	142,198	-
Net Income	\$ 1,958,420	1	3,058,778	5
	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (Notes 2 and 4.k)				
Basic	\$ 0.93	0.92	1.44	1.51
Earnings per share after retroactive adjustment				
Basic	\$ -	-	1.36	1.43

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 Nine Months Ended 30, 2004 AND 2003
(New Taiwan Dollars in Thousands)**

	Nine Months Ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 1,958,420	3,058,778
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	229,495	209,709
Amortization	171,838	222,998
Gain on disposal and scrapping of properties	(60,415)	(28,579)
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b)	(5,712)	(2,561)
Gain on disposal of long-term investments, net	(127,651)	(908,596)
Provision for inventory market decline	1,874	14,460
Foreign currency exchange loss (gain), net	(8,558)	(78,038)
(Reversal) Provision for doubtful accounts	(4,837)	4,921
Gain on investments recognized under the equity method in excess of cash dividends received	792,144	(528,797)
Provision for warranty reserve	446,138	333,762
Change in assets and liabilities:		
Notes and accounts receivable	(6,436,073)	1,597,653
Payable on sale of forward exchange contracts	(340,955)	-
Discount on Forward Exchange Contracts	(91)	-
Forward exchange contracts payable	340,000	-
Other financial assets - current	(4,166,332)	(6,354,614)
Inventories	(143,050)	830,188
Prepayments and other current assets	(29,848)	(39,561)
Deferred tax assets and liabilities, net	(235,972)	(228,022)
Notes and accounts payable	10,142,355	1,121,471
Income tax payable	136,026	-
Accrued expenses	(125,043)	219,014
Advance collection	(90,313)	13,624
Deferred credits - intercompany profits	(3,971)	(80,490)
Other current liabilities	235,875	(66,519)
Accrued pension liabilities	32,527	35,035
Net cash provided by (used in) operating activities	2,707,871	(654,164)
Cash flows from investing activities:		
Increase in long-term investments	(928,233)	(373,448)
Purchase of property and equipment	(327,675)	(135,001)
Purchase of deferred assets	(225,913)	(257,971)
Preceeds from deposal of long-term investments	264,610	3,229,512
Proceeds from disposal of property and equipment	34,337	110,166
Proceeds from disposal of deferred assets	18,934	13,035
Other financial assets - non-current	(147)	13,627
(Increase) Decrease in other assets	(29,832)	26,746
Net cash (used in) provided by investing activities	(1,193,919)	2,626,666
Cash flows from financing activities:		
Compensation to directors and supervisors and employee bonuses	(283,879)	(226,494)
Cash dividends Paid	(2,431,200)	(917,500)
Increase in other liabilities	1,012	19,284
Net cash used in financing activities	(2,714,067)	(1,124,710)
Effect of changes in foreign exchange rate	8,558	78,038
Net (decrease) increase in cash and cash equivalents	(1,191,557)	925,830
Cash and cash equivalents, beginning of the period	8,993,432	7,725,918
Cash and cash equivalents, end of the period	\$ 7,801,875	8,651,748
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 24,462	399
Cash paid during the period for income taxes	\$ 124,081	85,825
Acquisition of properties with cash and other payables:		
Increase in property and equipment	\$ 173,845	138,365
Add: Other payables - beginning of the period	168,072	5,044
Less: Other payables - end of the period	(14,242)	(8,408)
Cash paid	\$ 327,675	135,001

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
Nine Months Ended September 30, 2004 and 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

1 Overview

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

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

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

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

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

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

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

1993- Mass production of PDA's commenced.

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

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

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

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

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

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

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

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

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 1999- The Company sold its personal learning system department and related trademark, patents, and copyrights to the investee company Inventec Besta Co., Ltd.
- The Company sold its investment in Inventec Electronic (Xi'an) Co., Ltd. to its investee company Inventec Besta Co., Ltd.
 - The Company purchased a second factory at Wu-Ku Industrial Park for business in information appliance (IA).
 - The Company established Inventec Multimedia and Telecom Corp. for multimedia products and communication related businesses.
 - The Company established Inventec Micro-Electronics Corp. to manufacture telecommunication equipment.
 - The Company established Inventec Online Corp. for software development.
- 2000- The PDA division was transferred to Inventec Appliances Corp. and asset valuation was used as the basis of the Company's investment.
- The Company established Inventec Communication and Technology Co. for investing activities.
 - The Company sold its investment in Inventec Electronics (M) SDN. BHD. to the investee company Inventec Communication and Technology Co. to integrate operation and business.
 - Investee companies Inventec Multimedia and Telecom Corp. and Inventec Communication and Technology Co. merged to reinforce administrative efficiency, integrate resources, and reduce costs. Inventec Multimedia and Telecom Corp. is the continuing company after the merger.
 - The Company invested in Inventec Corporation (Cayman) Co., Ltd. for further investment in Inventec Corporation (Shanghai) Co., Ltd., of which parts assembling is the major line of its business.
- 2001- The Company invested in Inventec Tomorrow Studio Corporation for editorial tasks of book and electronic publication and sales.
- 2002- Inventec Online Corp. and Inventec Appliances Corp. merged to integrate resources. Inventec Appliances Corp. is the surviving company after the merger.
- 2003- The Company sold its investment in Inventec Appliance (Shanghai) Co., Ltd. to Inventec Appliances Corp.
- The Company invested in Inventec Corporation (Cayman) Co., Ltd. which invested in Inventec (Pudong) Corp. Inventec (Pudong) Corp. engages in parts assembling.
- 2004- The Company invested in Inventec Enterprise System Corp. was engaged in parts assembling

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 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 September 30, 2004, the average number of employees was 2,044.

2 Summary of Significant Accounting Policies

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

a Cash Equivalents

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

b Notes and Accounts Receivable and Allowance for Doubtful Accounts

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

c Inventories and Allowance for Inventory Market Decline and Obsolescence

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

d Long-Term Equity Investments

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

Long-term equity investments where the Company has controlling interest are accounted for under the equity method and consolidated financial statements are required according to rules set forth in the Statement of Financial Accounting Standards ("SFAS") and by the Securities and Futures Commission ("SFC") under the Ministry of Finance ("MOF"). Consolidation is not required when preparing interim financial statements.

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 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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

f Deferred Expenses

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

g Pension Plan

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

h Foreign Currency Translation

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

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

i Non-Trading Financial Derivatives

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

j Capital Surplus

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

k Legal Reserve

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

l Earnings Distribution and Dividend Policy

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

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

m Commitments and Contingencies

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

n Revenue Recognition

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

o Warranty Reserve

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

p Classification of Capital and Operating Expenditures

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

q Income Tax

The Company adopted the SFAS No. 22, "Accounting for Income Taxes" to make inter- and intra-period income tax allocation. Tax effects of deductible temporary differences, unused investment tax credits, and operating loss carryforwards are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities. A valuation allowance is provided for deferred tax assets by assessing whether it is more likely than not such assets will realize. Adjustments to prior years' earnings are reported under stockholders' equity rather than included in current earnings. Income tax expense or benefits resulting from unearned gain or loss or changes in capital surplus are reported under respective accounts in net. Adjustments to prior years' income taxes are reflected as current income taxes.

The 10% surtax on undistributed earnings is reported as current expense on the date of the annual stockholder's meeting declaring distribution of earnings.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

r Earnings per Share (“EPS”)

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

3 REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES: None.

4 SUMMARY OF MAJOR ACCOUNTS

a Cash and Cash Equivalents

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Cash on hand	\$ 472	793
Checking accounts	1,774	10,150
Demand deposits	10,926	13,111
Time deposits	1,719,960	449,260
Foreign currency time deposits	4,008,894	5,597,569
Foreign currency deposits	1,049,319	164,084
Cash equivalents (short-term bills and bonds)	1,010,530	2,416,781
Total	<u>\$ 7,801,875</u>	<u>8,651,748</u>

b Accounts Receivable

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Accounts receivable - other customers	\$ 15,907,964	7,483,189
Less: Allowance for doubtful accounts	(1,473)	(7,151)
Net	15,906,491	7,476,038
Accounts receivable - related parties	6,814,514	5,210,459
Total	<u>\$ 22,721,005</u>	<u>12,686,497</u>

c Inventories

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Raw materials	\$ 1,309,602	1,073,989
Work in process	341,966	323,441
Finished goods	573,734	779,128
Supplies-in-transit	204	-
	<u>2,225,506</u>	<u>2,176,558</u>
Less: Allowance for market decline and obsolescence	(439,536)	(487,120)
Net	<u>\$ 1,785,970</u>	<u>1,689,438</u>
Insurance coverage	<u>\$ 2,600,000</u>	<u>3,507,200</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d Long-Term Equity Investments

<u>Name of Investee Company</u>	<u>September 30, 2004</u>			<u>September 30, 2003</u>		
	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>
<u>Carried under the equity method</u>						
Inventec Besta Co., Ltd.	38.69%	\$ 1,200,784	765,058	38.69%	1,194,061	765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	123,297	42,655	100.00%	352,624	8,705
Inventec Corporation (Scotland) Co., Ltd.	100.00%	366,230	39,518	100.00%	274,430	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	6,763	6,888	100.00%	6,688	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	451,647	159,003	100.00%	412,914	159,003
Inventec Multimedia and Telecom Corp.	54.07%	1,249,061	877,694	59.60%	1,263,453	967,400
Inventec Micro-Electronics Corp.	70.48%	389,652	401,625	70.48%	413,323	401,625
Inventec Appliances Corp.	49.31%	3,370,826	2,828,594	50.13%	2,591,184	2,489,325
Inventec Corporation (Cayman) Co., Ltd.	100.00%	2,757,196	3,188,058	100.00%	1,768,711	1,632,423
Inventec Tomorrow Studio Corp.	-	-	-	60.00%	192,684	298,800
Inventec Enterprise System Corp.	100.00%	108,145	200,000	-	-	-
Inventec (Czech) S.R.O.	100.00%	71,519	69,873	-	-	-
Subtotal		<u>10,095,120</u>			<u>8,470,072</u>	
<u>Carried under the cost method</u>						
<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	
Inventec Tomorrow Studio Corp.	8.57%	38,696		-	-	
Global Strategic Investment Fund	6.45%	100,000		-	-	
Subtotal		<u>305,096</u>			<u>166,400</u>	
<u>Preferred Stock</u>						
E28 Limited		1,394,600			1,394,600	
3UP SYSTEM INC.		65,980			-	
Universal Network Machines, Inc.		98,850			-	
Subtotal		<u>1,559,430</u>			<u>1,394,600</u>	
Total		<u>1,864,526</u>			<u>1,561,000</u>	
<u>Prepayments for Long-Term Investments in Stock</u>						
Inventec (Czech) S.R.O.		-			69,873	
Maxxan System Inc.		67,790			-	
Subtotal		<u>67,790</u>			<u>69,873</u>	
Total		<u>\$ 12,027,436</u>			<u>10,100,945</u>	

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

<u>Name of investee company</u>	<u>Nine Months Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
Based on financial statements prepared by investee companies:		
Inventec Besta Co., Ltd.	\$ 25,602	13,571
Inventec Corporation (Hong Kong) Co., Ltd.	38,973	(24,823)
Inventec Corporation (Scotland) Co., Ltd.	37,514	32,071
Inventec Holding (North America) Co., Ltd.	39,664	32,363
Inventec Multimedia and Telecom Corp.	125,945	36,679
Inventec Micro-Electronics Corp.	(9,672)	(5,019)
Inventec Appliances Corp.	721,119	789,888
Inventec Corporation (Cayman) Co., Ltd.	(590,853)	338,800
Inventec Tomorrow Studio Corp.	(7,673)	(16,020)
Inventec Enterprise System Corp.	(91,855)	-
Inventec (Czech) S.R.O	(4,444)	-
Based on audited financial statements:		
Inventec Corporation (Singapore) Co., Ltd.	(190)	(216)
Total	\$ 284,130	1,197,294

Registered capital of the wholly-owned subsidiary Inventec Corporation (Hong Kong.) Co., Ltd. was HK\$2,500 (US\$322), representing 2,500,000 shares. On January 2, 2003, and on August 23, 2004 the Company sold all shares of Inventec Appliances (Shanghai) Co., Ltd. and Inventec Electronics (Nanking) Co., Ltd. originally held by Inventec Corporation (Hong Kong) Co., Ltd. to Inventec Appliance (Cayman) Holding Corp., an investee company of Inventec Appliances Corp. for US\$ 31,918, and US\$8,981 resulting in loss of US\$1,518 and in gain of US\$1,959, respectively. Recognition of the loss and gain is deferred until the shares of Inventec Appliances (Shanghai) Co., Ltd. and Inventec Electronics (Nanking) Co., Ltd. are sold to a non-related party. As of September 30, 2004 and 2003, the Company received returned capital of US\$8,981 and US\$24,865. For the nine months ended September 30, 2004, the company increased its investment by US\$1,000.

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

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 September 30, 2004, the registered capital for investments in Mainland China was US\$93,500, totaling 93,500,000 shares at par value of US\$1.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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%. Inventec Appliance Corp increase capital with cash in July, 2004. Pursuant to the company law, 10% of new shares were withheld for employee subscription. Consequently, shareholding ratio declined from 50.13% to 49.31%.

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 CZK 1(in dollars). Shareholding ratio was 100%. In 2003, the Company established Inventec Enterprise System Corp. 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 6.45% ownership. The investee is accounted for under the cost method.

In April 2004, the Company purchased 2,667,000 shares and 626,000 shares of convertible preferred stock of 3UP SYSTEM INC. and Universal Network Machines, Inc. for US\$2,000 and US\$3,000, respectively. The preferred shares pay a dividend of US\$0.06 and 8% per annum, respectively. The dividend is neither cumulative nor participating and nor cumulative, participating, respectively.

In September 2004, the company purchase US\$2,000 of convertible preferred stock of Maxxan Systems Inc. for prepayment for Long-Term Investment in Stock.

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 shares for cash, and since the Company had not subscribed the shares, its share holding ratio on the investee decreased from 60% to 8.57%. As the result of change in the percentage of ownership in the investment, the investment is accounted for under the cost method.

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 to 54.07%.

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Cash dividends from investee companies were the following:

<u>Name of investee company</u>	<u>Nine Months Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 304,535	524,385
Inventec Appliances Corp.	659,690	117,802
Inventec Besta Co., Ltd.	8,180	12,270
Inventec Micro-Electronics Corp.	-	14,040
Inventec Multimedia and Telecom Corp.	103,869	-
WK Technology Fund IV	480	600
Total	<u>\$ 1,076,754</u>	<u>669,097</u>

e Property, Plant, and Equipment

As of September 30, 2004 and 2003, fire and auto accident insurance coverage of the property, plant, and equipment amounted to \$3,427,144 and \$4,288,889, respectively.

For the nine months ended, 2004 and 2003, interest capitalized was \$0.

f Other Assets

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Deferred expenses	\$ 105,703	75,128
Rental assets, net of accumulated depreciation	3,360	3,437
Idle assets, net of accumulated depreciation	47,945	741,134
Prepayment for molds and tools	55,455	6,034
Overdue accounts in collection	24,875	24,838
Less: Allowance for doubtful accounts	(24,875)	(24,838)
Total	<u>\$ 212,463</u>	<u>825,733</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.

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 buildings 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.

As of September 30, 2004 and 2003, insurance coverage of the above idle and rental assets amounted to \$55,000 and \$240,000, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 September 30, 2004 and 2003, pension fund was \$416,778 and \$392,321, respectively.

h Income Tax

(i) Deferred income tax assets and liabilities:

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
1) Total deferred income tax assets	\$ 703,374	569,803
2) Total deferred income tax liabilities	(278,120)	(419,151)

	<u>September 30, 2004</u>		<u>September 30, 2003</u>	
	<u>Amount</u>	<u>Income Tax Effects</u>	<u>Amount</u>	<u>Income Tax Effects</u>
3) Temporary differences:				
- Recognition of unrealized foreign exchange loss: deductible	\$ 89,005	22,251	106,468	26,617
- Recognition of inventory obsolescence : deductible	439,536	109,884	487,120	121,780
- Recognition of warranty expenses: deductible	1,199,320	299,830	839,316	209,829
- Recognition of loss on overseas investments: taxable	(651,805)	(162,951)	(375,716)	(93,929)
- Recognition of gain on investments: taxable	(161,596)	(40,399)	(1,022,405)	(255,601)
- Recognition of unrealized intercompany profits: taxable	(147,576)	(36,894)	(148,708)	(37,177)
- Cumulative translation adjustment to long-term investments: taxable	(151,506)	(37,876)	(129,775)	(32,444)
- Recognition of pension expense: deductible	237,066	59,266	193,034	48,259
- Unused balance of investment tax credits	-	212,143	-	163,318

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
(ii) Deferred income tax assets - current	\$ 644,108	521,544
Deferred income tax liabilities - current	-	-
Net	<u>\$ 644,108</u>	<u>521,544</u>
(iii) Deferred income tax assets - non-current	\$ 59,266	48,259
Deferred income tax liabilities - non-current	(278,120)	(419,151)
Net	<u>\$ (218,854)</u>	<u>(370,892)</u>

(iv) Calculation of income tax expense:

	<u>Nine Months Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
Income tax calculated per statutory tax rate	\$ 495,629	729,135
Permanent differences	(270,915)	(498,683)
Temporary differences	315,878	64,706
Tax-exempt income	(7,169)	(59,131)
Investment tax credits	(266,712)	(118,013)
Current income tax payable	266,711	118,014
Income tax separately levied	4,325	1,235
Prior years' income tax adjustments	(10,929)	(33,423)
Unused balance of investment tax credits	79,906	(163,318)
Income tax effect of temporary differences:		
Provision and reversal of inventory obsolescence, net	(468)	(3,615)
Provision and reversal of loss on overseas investments, net	14,605	53,471
Provision and reversal of warranty reserve, net	(111,535)	(83,440)
Recognition of loss on investments	(195,968)	(36,548)
Recognition of unrealized intercompany gains, net	(2,530)	18,247
Recognition of unrealized foreign currency exchange loss , net	(11,907)	(3,872)
Recognition of pension expense	(8,075)	(8,949)
Income tax expense (benefit)	<u>\$ 24,135</u>	<u>(142,198)</u>

(v) The Company's tax returns through 2002 have been assessed by the Tax Authority. Additional tax assessed for 1997, 1998, 2000 and 2001 was \$31,743, \$51,737, \$21,770 and \$8,511, respectively. The Company has petitioned for administrative relief.

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

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Stockholder's imputation tax credit account	<u>\$ 34,471</u>	<u>28,826</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2003 and 2002, after filing the corporate income tax returns, the actual imputation tax credit rate for earnings distributed to R.O.C. residents would approximately be 9.60% and 11.33%, respectively.

Undistributed earnings:	September 30, 2004	September 30, 2003
Accumulated prior to 1997 and before	\$ 437,138	447,632
Accumulated after 1998	1,963,818	3,048,456
Total	\$ 2,400,956	3,496,088

(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:

<u>Year of occurrence</u>	<u>Investment tax credits</u>	<u>Year of expiration</u>
2004	\$ 212,143	2008

i Capital Increase

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

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

j Earnings Distribution

	Nine Months Ended September 30,	
	2004	2003
Beginning balance, January 1	\$ 4,685,416	3,828,661
Previous year's distribution:		
Provision for legal reserve	(423,199)	(344,993)
Remuneration to directors and supervisors and employee bonuses	(283,879)	(226,494)
Cash dividends paid	(2,431,200)	(917,500)
Capitalization of retained earnings and employee bonus	(1,110,000)	(1,910,000)
Adjustments to long-term equity investments by shareholding ratio	5,398	(2,364)
Add: Net income, current period	1,958,420	3,058,778
Ending balance, September 30	\$ 2,400,956	3,486,088

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

k Earnings Per Share

EPS is calculated by dividing net income by the weighted-average shares outstanding during the period. As of September 30, 2004 and 2003, weighted-average number of common shares outstanding were 2,137,000,000 and 2,026,000,000, respectively. As of September 30, 2003, the number of outstanding shares retroactively adjusted due to stock dividends was 2,137,000,000.

l Financial Instruments

1) Financial Derivatives:

a) Amount of contracts and credit risk

<u>Financial Instrument</u>	<u>September 30, 2004</u>		<u>September 30, 2003</u>	
	<u>Contract</u>	<u>Credit</u>	<u>Contract</u>	<u>Credit</u>
Forward contracts				
Non-trading options	<u>US\$ 10,000</u>	<u>\$ -</u>	<u>US\$ -</u>	<u>\$ -</u>

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

b) Market Risk

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

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

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

2) Fair Value of Financial Instruments

	<u>September 30, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets		
Book value equal to fair value	\$ 45,238,488	45,238,488
Long-term investments	12,027,436	12,188,195
Total	<u>\$ 57,265,924</u>	<u>57,426,683</u>
Financial Liabilities		
Book value equal to fair value	<u>\$ 32,546,242</u>	<u>32,546,242</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	September 30, 2003	
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 30,550,731	30,550,731
Long-term investments	10,100,945	10,064,993
Total	\$ 40,651,676	40,615,724
Financial Liabilities		
Book value equal to fair value	\$ 16,815,630	16,815,630

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.
 - 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 September 30, 2004 and 2003, guarantees provided by the Company to related parties for their bank loans, please refer to Note 5.(b).(viii).

As of September 30, 2004 and 2003, promissory notes issued for bank loans, please refer to Note 7.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4) Information on Concentration of Credit Risk:

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is material in relation to the Company's total credit exposure. As of September 30, 2004 and 2003, the Company's contracts with credit risk concentration were the following:

Accounts Receivable, net - By		
Region	September 30, 2004	September 30, 2003
Domestic	\$ 6,971,430	1,356,192
Asia	7,523,786	3,016,572
Europe	3,594,325	3,085,313
America	4,581,040	5,176,200
Oceania	50,424	52,220
Total	\$ 22,721,005	12,686,497

5 Related Party Transactions

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

Name of Related Party	Relationship with the Company
Inventec Besta Co., Ltd.	An investee company accounted for under the equity method
Inventec Appliances Corp.	"
Inventec Corporation (Scotland) Co., Ltd.	A subsidiary
Inventec Multimedia and Technology Corp.	"
Inventec Micro-Electronic Corp.	"
Inventec Corporation (Hong Kong) Co., Ltd.	"
Inventec Holding (North America) Co., Ltd.	"
Inventec Corporation (Cayman) Co., Ltd.	"
Inventec Enterprise System Corp.	"
Inventec Tomorrow Studio Corp.	"
	(Accounted for under the cost method since April, 2004)
Inventec Electronics (Beijing) Co., Ltd.	A subsidiary of Inventec Corporation (Hong Kong) Co., Ltd.
Inventec Electronics (Tianjin) Co., Ltd.	"
Inventec Electronics (Nanking) 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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Significant Transactions with Related Parties:

(i) Sales

Name of Related Party	Nine Months Ended September 30,			
	2004		2003	
	Amount	% of Net Sales	Amount	% of Net Sales
Inventec Electronics (M) SDN. BHD.	\$ 18,350	-	277,404	-
Inventec Corporation(Scotland) Co., Ltd	11,804,294	12%	9,365,607	16%
Invertec Holding (North America) Co., Ltd.	12,169,632	13%	8,946,730	16%
Inventec Corporation (Hong Kong) Co., Ltd.	76	-	845,781	2%
Others	11,475	-	791	-
Total	\$ 24,003,827	25%	19,436,313	34%

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

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

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

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

As of September 30, 2004 and 2003, unrealized gross profit of sales to related parties was \$13,787 and \$8,160, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(ii) Warranty Services and Product Maintenance

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

<u>Name of Related Party</u>	<u>Nine Months Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
Inventec Holding (North America) Co., Ltd.	\$ 213,178	214,597
Inventec Corporation (Scotland) Co., Ltd.	158,571	113,089
Total	<u>\$ 371,749</u>	<u>327,686</u>

(iii) Purchases

For the nine months ended, 2004 and 2003, purchases of materials and goods were the following:

<u>Name of Related Party</u>	<u>Nine Months Ended September 30,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>% of Net Purchase</u>	<u>Amount</u>	<u>% of Net Purchase</u>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 72,757,451	79%	31,108,844	59%
Inventec Electronics (M) SDN. BHD.	138,440	-	702,641	1%
Inventec Holding (North America) Co., Ltd.	64,799	-	99,849	-
Inventec Corporation (Scotland) Co., Ltd.	297,818	-	229,807	-
Others	-	-	7,464	-
Total	<u>\$ 73,258,508</u>	<u>79%</u>	<u>32,148,605</u>	<u>60%</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 nine months ended, 2004 and 2003, royalty collected from Inventec Besta Co., Ltd. was \$1,601 and \$1,237, 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 nine months ended, 2004 and 2003, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounted to \$7,261 and \$3,874, respectively.

(v) Purchase of Software

For the nine months ended, 2004 and 2003, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$101,267 and \$139,042, 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 September 30, 2004 and 2003, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,398 and \$17,558, respectively, with unrealized other revenue of \$3,696 and \$4,461, respectively.
- 2) In 2000, the Company invested in Inventec Appliances Corp. with properties, deferred assets, and assets stated under expense resulting in a gain on asset disposition of \$103,713 and other revenue of \$31,693. The Company sold properties and deferred assets, resulting in a gain on property disposition of \$1,156 and other revenue of \$6,427. As of September 30, 2004 and 2003, unrealized gain on sale of properties was \$52,469 and \$61,838, respectively, and unrealized other revenue was \$8 and \$22, 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 September 30, 2004 and 2003, unrealized gain on sale of properties was \$28,625 and \$38,788, respectively, and unrealized other revenue was \$1,366 and \$2,007, respectively.
- 4) For the nine months, 2004 and 2003, general and administrative expenses collected from Inventec Appliances Corp., Inventec Micro-Electronic Corp., Inventec Multimedia Telecom Corp., Inventec Besta Corp., Ltd. and Inventec Tomorrow Studio Corp. were \$92,575 and \$49,113, respectively, reflected as other revenue.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(vii) Accounts Receivable (Payable)

	September 30, 2004		September 30, 2003	
	Amount	%	Amount	%
Total notes receivable	\$ 3,952	36%	20	2%
Accounts Receivable:				
Inventec Holding (North America) Co., Ltd.	\$ 4,026,666	18%	2,630,381	21%
Inventec Corporation (Scotland) Co., Ltd.	2,782,320	12%	2,461,473	19%
Inventec Electronics (M) SDN. BHD.	2,378	-	51,394	-
Inventec Corporation (Hong Kong) Co., Ltd.	44	-	66,897	1%
Other	3,106	-	314	-
Total	\$ 6,814,514	30%	5,210,459	41%
Total other receivables	\$ 105,867	35%	8,895	55%
Other Current Assets:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 14,323,571	99%	8,860,619	97%
Other	3,314	-	-	-
Total	\$ 14,326,885	99%	8,860,619	97%
Total notes payable	\$ 220	-	19	-
Accounts Payable:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 15,856,362	52%	6,567,869	43%
Inventec Electronics (M) SDN. BHD.	932	-	131,158	1%
Inventec Holding (North American) Co., Ltd.	23,881	-	-	-
Inventec Corporation (Scotland) Co., Ltd.	70,001	-	-	-
Other	3,903	-	-	-
Total	\$ 15,955,079	52%	6,699,027	44%
Total accounts payable	\$ 115	-	-	-
Other Current Liabilities:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 52,324	9%	92,859	55%

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(viii) Guarantee and Endorsements

<u>Name of Related Party Guaranteed</u>	<u>September 30, 2004</u>		<u>September 30, 2003</u>		<u>Name of Bank</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.		-		8,000	Bank of America
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 Corp. (Shanghai) Co., Ltd.		5,000		25,000	"
Inventec Corporation (Scotland) Co., Ltd.	USD	28,000	USD	28,000	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.	USD	25,000	USD	5,000	"
Total	USD	110,000	USD	118,000	
	GBP	500	GBP	500	

6 Pledged Assets

<u>Asset</u>	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>Purpose of pledge</u>
Refundable deposits	<u>\$ 56,749</u>	<u>56,752</u>	Customs duties, and property deposits.

7 Significant Commitments And Contingencies (Excluding Related Party Transactions)

- (a) As of September 30, 2004 and 2003, unused standby letters of credit were US\$161 and US\$712, respectively.
- (b) As of September 30, 2004 and 2003, promissory notes issued for bank loans totaled \$9,103,292 and \$6,058,292, respectively.

8 Significant Catastrophic Losses: None.

9 Significant Subsequent Events: None.

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	Nine months ended September 30, 2004			Nine months ended September 30, 2003		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Personnel expense						
Salary expense	\$ 367,457	804,090	1,171,547	436,921	908,269	1,345,190
Health and labor insurance expense	26,037	44,659	70,696	29,083	44,864	73,947
Pension expense	17,611	40,215	57,826	15,389	43,414	58,803
Other expense	12,946	57,044	69,990	36,803	68,164	104,967
Depreciation expense	67,158	105,561	172,719	74,790	97,767	172,557
Amortization expense	169,121	2,476	171,597	174,212	46,038	220,250

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