

INVENTEC CORPORATION
FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
AND
INDEPENDENT AUDITORS' REPORT

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INVENTEC CORPORATION
FINANCIAL STATEMENTS

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Independent Auditors' Report

The Board of Directors
Inventec Corporation:

We have audited the accompanying balance sheets of Inventec Corporation as of June 30, 2005 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as described in the following paragraph, we conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 4.d., as of June 30, 2005 and 2004, long-term equity investment of Inventec Corporation were \$5,886,203 thousand and \$10,206,725 thousand, respectively. Equity earnings related thereto for six months ended June 30, 2005 and 2004, were equity loss \$438,975 thousand and equity earning \$354,474 thousand, respectively, which were recognized based upon the financial statements prepared by the investee companies and not audited in compliance with the audit procedures mentioned in the preceding paragraph.

In our opinion, except for the effect of any adjustments that might have emerged had the financial statements of investee companies been audited by independent accountants, the financial statements referred to above present fairly, in all material respects, the financial position of Inventec Corporation as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the six months then ended in conformity with "Rules Governing Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China.

As described in Note 3, the accounting period of the investee companies accounted for under the equity method had been changed from a fiscal year of October 1 to September 30, to a calendar year since 2005.

Inventec Corporation has prepared consolidated financial statements for the six months ended June 30, 2005 on which we have provided a qualified reviewed report for the Company's reference.

Taipei, Taiwan, ROC
August 20, 2005

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

INVENTEC CORPORATION
BALANCE SHEETS
JUNE 30, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

| | June 30, 2005 | | June 30, 2004 | |
|---|----------------------|------------|-------------------|------------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents (Notes 2 and 4.a) | \$ 1,940,884 | 3 | 10,387,718 | 16 |
| Notes receivable (Note 2) | | | | |
| - Other customers | 183 | - | 18 | - |
| - Related parties | 95 | - | 8,747 | - |
| Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b) | | | | |
| - Other customers | 16,573,853 | 23 | 13,779,188 | 22 |
| - Related parties | 6,032,744 | 8 | 5,925,841 | 9 |
| Other financial assets - current | 32,817,227 | 45 | 17,376,065 | 27 |
| Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c) | 1,698,600 | 2 | 1,839,596 | 3 |
| Prepayments and other current assets | 190,056 | - | 98,129 | - |
| Deferred tax assets - current (Notes 2 and 4.h) | 801,308 | 1 | 683,449 | 1 |
| | <u>60,054,950</u> | <u>82</u> | <u>50,098,751</u> | <u>78</u> |
| Long-term equity investments (Notes 2 and 4.d) | | | | |
| Accounted for under the equity method | 9,250,240 | 13 | 10,206,725 | 16 |
| Accounted for under the cost method | 1,953,058 | 3 | 1,865,114 | 3 |
| | <u>11,203,298</u> | <u>16</u> | <u>12,071,839</u> | <u>19</u> |
| Other financial assets - non-current (Notes 6) | | | | |
| | <u>55,751</u> | <u>-</u> | <u>56,752</u> | <u>-</u> |
| Property, Plant, and Equipment (Notes 2 and 4.e) | | | | |
| Land | 788,144 | 1 | 788,144 | 1 |
| Buildings | 427,252 | 1 | 427,252 | 1 |
| Machinery | 522,879 | 1 | 527,561 | 1 |
| Transportation equipment | 26,332 | - | 26,332 | - |
| Furniture and office facilities | 1,119,226 | 1 | 952,338 | 2 |
| Other equipment | 186,198 | - | 213,822 | - |
| | <u>3,070,031</u> | <u>4</u> | <u>2,935,449</u> | <u>5</u> |
| Less: Accumulated depreciation | (1,434,136) | (2) | (1,376,396) | (2) |
| Construction-in-progress | 1,297 | - | - | - |
| Prepayment on equipment | 5,813 | - | 885 | - |
| | <u>1,643,005</u> | <u>2</u> | <u>1,559,938</u> | <u>3</u> |
| Intangible Assets | | | | |
| Deferred Pension Cost (Notes 2) | 59,505 | - | 117,546 | - |
| Other Assets: | | | | |
| Deferred debits - intercompany loss (Note 2) | 194,663 | - | 194,663 | - |
| Deferred tax assets - non - current (Notes 2 and 4.h) | 161,239 | - | - | - |
| Other assets (Notes 2 and 4.f) | 103,076 | - | 161,768 | - |
| | <u>458,978</u> | <u>-</u> | <u>356,431</u> | <u>-</u> |
| TOTAL ASSETS | \$ 73,475,487 | 100 | 64,261,257 | 100 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Short-term Borrowings | \$ 716,306 | 1 | 581,735 | 1 |
| Notes payable | | | | |
| - Other customers | 331,308 | - | 449,801 | 1 |
| - Related parties | - | - | 125 | - |
| Accounts payable | | | | |
| - Other customers | 14,979,513 | 20 | 14,279,235 | 22 |
| - Related parties | 25,279,605 | 34 | 16,293,928 | 25 |
| Income tax payable | 154,483 | - | 87,850 | - |
| Accrued expenses | 448,177 | 1 | 567,137 | 1 |
| Payables on forward exchange purchased - net of forward exchange contracts receivable | 21,901 | - | - | - |
| Payable on forward exchange - net of forward exchange contracts receivable | 28,325 | - | - | - |
| Discount on forward exchange contracts | (734) | - | - | - |
| Advance receipts | 53 | - | 26,961 | - |
| Other current liabilities | 2,005,908 | 3 | 3,080,662 | 5 |
| Estimated warranty reserve (Note 2) | 1,785,109 | 2 | 990,994 | 1 |
| | <u>45,749,954</u> | <u>61</u> | <u>36,358,428</u> | <u>56</u> |
| Other Liabilities: | | | | |
| Accrued pension liabilities (Note 2) | 332,197 | 1 | 346,956 | 1 |
| Deferred tax liabilities - non-current (Notes 2 and 4.g) | - | - | 384,341 | 1 |
| Deferred credits - intercompany profits (Note 2) | 122,560 | - | 121,452 | - |
| Other liabilities | 64,163 | - | 450 | - |
| | <u>518,920</u> | <u>1</u> | <u>853,199</u> | <u>2</u> |
| Total Liabilities | <u>46,268,874</u> | <u>62</u> | <u>37,211,627</u> | <u>58</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 June 30, 2005; 2,026,000,000 shares issued and outstanding as of June 30, 2004. | 21,370,000 | 29 | 20,260,000 | 31 |
| Stock dividend to be distributed (Note 4.h) | 687,000 | 2 | 1,110,000 | 2 |
| Capital Surplus (Note 2) | | | | |
| Additional paid-in capital | 447,723 | 1 | 447,723 | 1 |
| Capital surplus of long-term equity investment: | 154,943 | - | 121,064 | - |
| Other | 175 | - | 177 | - |
| Retained Earnings: | | | | |
| Legal reserve (Note 2) | 3,576,881 | 5 | 3,333,254 | 5 |
| Special reserve | 123,751 | - | - | - |
| Unappropriated retained earnings (Notes 2 and 4.g) | 1,037,549 | 1 | 1,698,763 | 3 |
| Cumulative translation adjustments (Note 2) | (191,409) | - | 78,649 | - |
| | <u>27,206,613</u> | <u>38</u> | <u>27,049,630</u> | <u>42</u> |
| Total Stockholders' Equity | <u>27,206,613</u> | <u>38</u> | <u>27,049,630</u> | <u>42</u> |
| Commitments and Contingencies | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 73,475,487 | 100 | 64,261,257 | 100 |

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

INVENTEC CORPORATION
STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

| | 2005 | | 2004 | |
|---|-------------------|------------------|-------------------|------------------|
| | Amount | % | Amount | % |
| Operating Income: | | | | |
| Net sales | \$ 70,013,825 | 100 | 58,616,071 | 100 |
| Technical service income | 3,107 | - | 1,757 | - |
| Net operating income | 70,016,932 | 100 | 58,617,828 | 100 |
| Operating Cost | (66,494,867) | (95) | (55,461,109) | (95) |
| | 3,522,065 | 5 | 3,156,719 | 5 |
| Unrealized intercompany profits | (25,677) | - | (13,627) | - |
| Realized intercompany profits | 33,279 | - | 3,075 | - |
| Gross margin | 3,529,667 | 5 | 3,146,167 | 5 |
| Operating Expenses: | | | | |
| Selling expenses | (1,629,074) | (2) | (1,269,515) | (2) |
| Administrative expenses | (514,948) | (1) | (369,720) | (1) |
| Research and development expenses | (727,483) | (1) | (700,210) | (1) |
| | (2,871,505) | (4) | (2,339,445) | (4) |
| Net Operating Income | 658,162 | 1 | 806,722 | 1 |
| Non-Operating Income: | | | | |
| Interest income | 28,442 | - | 60,862 | - |
| Investment income accounted for under the equity method(Note 4.d) | 170,778 | - | 354,474 | 1 |
| Dividend income(Note 4.d) | - | - | 480 | - |
| Gain on disposal of properties | 10,772 | - | 18,097 | - |
| Gain on recovery of inventory market decline | 11,221 | - | - | - |
| Other income | 160,880 | - | 355,274 | 1 |
| | 382,093 | - | 789,187 | 2 |
| Non-Operating Expenses: | | | | |
| Interest expense | (9,107) | - | (7,604) | - |
| Investment loss (Note 4.d) | (22,459) | - | - | - |
| . | - | - | (25) | - |
| Foreign exchange loss | (181,907) | - | (319,990) | (1) |
| Losses on inventory market decline and obsolescence | - | - | (15,935) | - |
| Other expenses | (2,889) | - | (7,269) | - |
| | (216,362) | - | (350,823) | (1) |
| Income before income tax | 823,893 | 1 | 1,245,086 | 2 |
| Income tax benefit (Note 4.h) | 51,516 | - | 14,668 | - |
| Net Income | \$ 875,409 | 1 | 1,259,754 | 2 |
| | Before Tax | After Tax | Before Tax | After Tax |
| Primary earnings per share (Notes 2 and 4.k) | \$ 0.39 | 0.41 | 0.61 | 0.62 |
| Primary earnings per share after retroactive adjustment | \$ 0.37 | 0.40 | 0.56 | 0.57 |

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

INVENTEC CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 and 2004
(New Taiwan Dollars in Thousands)

| | Stock | | Capital Surplus | Retained Earnings | | | Cumulative Translation Adjustment | Total |
|---|----------------------|-------------------------------|--------------------|-------------------|--------------------|----------------------------|---|-------------------|
| | Capital Stock | Dividend to be Distributed | | Legal Reserve | Special Reserve | Unappropriated Earnings | | |
| Beginning balance, January 1, 2004 | \$ 20,260,000 | - | 568,964 | 2,910,055 | - | 4,685,416 | 85,901 | 28,510,336 |
| Appropriation of 2003 earnings: | | | | | | | | |
| Legal reserve | - | - | - | 423,199 | - | (423,199) | - | - |
| Remuneration to directors and supervisors | - | - | - | - | - | (114,264) | - | (114,264) |
| Employee bonuses | - | - | - | - | - | (169,615) | - | (169,615) |
| Employee bonus in stock dividends | - | 97,000 | - | - | - | (97,000) | - | - |
| Cash dividends | - | 1,013,000 | - | - | - | (1,013,000) | - | - |
| Stock dividends | - | - | - | - | - | (2,431,200) | - | (2,431,200) |
| Net income | - | - | - | - | - | 1,259,753 | - | 1,259,753 |
| Adjustment arising from change in ownership percentage in an invenstee | - | - | - | - | - | 1,872 | - | 1,872 |
| Translation adjustment to long-term investments (net of income tax of \$2,418) | - | - | - | - | - | - | (7,252) | (7,252) |
| Ending balance, June 30, 2004 | \$ 20,260,000 | 1,110,000 | 568,964 | 3,333,254 | - | 1,698,763 | 78,649 | 27,049,630 |
| Beginning balance, January 1, 2005 | \$ 21,370,000 | - | 602,843 | 3,333,254 | - | 2,873,406 | (123,751) | 28,055,752 |
| Appropriation of 2004 earnings: | | | | | | | | |
| Special reserve | - | - | - | - | 123,751 | (123,751) | - | - |
| Legal reserve | - | - | - | 243,627 | - | (243,627) | - | - |
| Remuneration to directors and supervisors | - | - | - | - | - | (62,067) | - | (62,067) |
| Employee bonuses | - | - | - | - | - | (98,922) | - | (98,922) |
| Employee bonus in stock dividends | - | 45,900 | - | - | - | (45,900) | - | - |
| Stock dividends | - | 641,100 | - | - | - | (641,100) | - | - |
| Cash dividends | - | - | - | - | - | (1,495,900) | - | (1,495,900) |
| Cash dividends paid for prior year | - | - | (2) | - | - | - | - | (2) |
| Net income | - | - | - | - | - | 875,409 | - | 875,409 |
| Translation adjustment to long-term investments (net of income tax of \$22,673) | - | - | - | - | - | - | (67,657) | (67,657) |
| Ending balance, June 30, 2005 | \$ 21,370,000 | 687,000 | 602,841 | 3,576,881 | 123,751 | 1,037,548 | (191,408) | 27,206,613 |

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

INVENTEC CORPORATION
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005 and 2004
(New Taiwan Dollars in Thousands)

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|-------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 875,409 | 1,259,753 |
| Adjustment to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 127,087 | 119,259 |
| Amortization | 154,144 | 137,223 |
| Gain on disposal and scrapping of properties | (4,721) | (6,856) |
| Gain on disposal of deferred assets | (3,798) | (1,442) |
| (Gain on recovery of) Loss on inventory market decline | (11,221) | 15,935 |
| Foreign currency exchange loss (gain), net | 30,457 | (25,242) |
| (Reversal) Provision for doubtful accounts | 11,057 | (5,215) |
| (Gain) loss on investments recognized under the equity method in excess of cash dividends received | (170,778) | 427,881 |
| Loss on long-term investment market decline perpetual under the cost method | 22,459 | - |
| Provision for warranty reserve | 504,916 | 237,812 |
| Change in assets and liabilities: | | |
| Notes and accounts receivable | (1,283,179) | (3,417,399) |
| Other financial assets - current | (19,375,470) | (6,895,669) |
| Forward exchange contracts receivable | 318,393 | - |
| Payables on forward exchange purchased | 21,901 | - |
| Payables on forward exchange | (289,175) | - |
| Discount on forward exchange contracts | (1,627) | - |
| Inventories | (18,683) | (210,737) |
| Prepayments and other current assets | (86,987) | (23,758) |
| Deferred tax assets and liabilities, net | (172,723) | (98,166) |
| Notes and accounts payable | 17,525,047 | 10,334,318 |
| Income tax payable | (78,601) | 87,850 |
| Accrued expenses | (185,428) | (194,474) |
| Advance receipts | (28,277) | (91,172) |
| Deferred credits - intercompany profits | (10,499) | 132 |
| Other current liabilities | (168,460) | 22,206 |
| Accrued pension liabilities | 22,482 | 21,903 |
| Net cash (used in) provided by operating activities | <u>(2,276,275)</u> | <u>1,694,142</u> |
| Cash flows from investing activities: | | |
| Increase in long-term investments | (373,884) | (521,172) |
| Purchase of property and equipment | (145,612) | (244,992) |
| Purchase of deferred assets | (145,282) | (142,263) |
| Proceeds from disposal of property and equipment | 5,305 | 13,089 |
| Proceeds from disposal of deferred assets | 25,973 | 10,040 |
| Other financial assets - non-current | (15,997) | (150) |
| (Increase) Decrease in other assets | 24,678 | (21,151) |
| Net cash used in investing activities | <u>(624,819)</u> | <u>(906,599)</u> |
| Cash flows from financing activities: | | |
| Increase in short - term borrowings | 716,306 | 581,735 |
| Cash dividends paid | (2) | - |
| Increase(decrease) in other liabilities | 49,967 | (234) |
| Net cash provided by financing activities | <u>766,271</u> | <u>581,501</u> |
| Effect of changes in foreign exchange rate | <u>(30,457)</u> | <u>25,242</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(2,165,280)</u> | <u>1,394,286</u> |
| Cash and cash equivalents, beginning of the period | <u>4,106,164</u> | <u>8,993,432</u> |
| Cash and cash equivalents, end of the period | <u>\$ 1,940,884</u> | <u>10,387,718</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for interest | <u>\$ 10,673</u> | <u>7,472</u> |
| Cash paid during the period for income taxes | <u>\$ 199,807</u> | <u>-</u> |
| Investing and financing activities with no effect on cash flows: | | |
| Unpaid employee bonuses and remuneration to directors and supervisors | <u>\$ 160,989</u> | <u>283,879</u> |
| Unpaid cash dividends | <u>\$ 1,495,900</u> | <u>2,431,200</u> |
| Acquisition of properties with cash and other payables: | | |
| Increase in property and equipment | \$ 190,356 | 85,472 |
| Add: Other payables - beginning of the period | 14,242 | 168,072 |
| Less: Other payables - end of the period | (58,986) | (8,552) |
| Cash paid | <u>\$ 145,612</u> | <u>244,992</u> |

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS
Six Months Ended June 30, 2005 and 2004
(Expressed 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 Inventec Besta Co., Ltd.
 - The Company commenced to manufacture a series of electronic dictionaries as well as language CDs.
- 1990- The Company built overseas manufacturing plants to manufacture telephone and facsimile machines through investing in Inventec Electronics (M) SDN. BHD.
- 1991- The Company invested in Inventec Electronics (Shanghai) Co., Ltd. through its investment in Inventec Corporation (Hong Kong) Co., Ltd. to expand software business.
- 1993- Mass production of PDA's commenced.
- 1994- The Company invested in Inventec Electronics (Nanking) Co., Ltd., Inventec Electronics (Tianjin) Co., Ltd., Inventec Electronics (Beijing) Co., Ltd. and Inventec Electronics (Xi'an) Co., Ltd. to engage in software business.
- 1995- Mass production of multi-function, multimedia Pentium-computers commenced and a site at Wu-Ku Industrial Park for plant expansion was purchased.
- 1996- Operation of the factory in Wu-Ku commenced.
- A site at Lin-Ko Industrial Park was acquired by the Company for factory expansion and construction was launched.
 - The Company's stock was listed in Taiwan Stock Exchange in November.
- 1997- Operation of the factories in Lin-Ko Industrial Zone commenced.
- Subsidiaries of the Company in Scotland, Singapore and the United States were registered and engaged in assembling and after-sales services.
- 1998- The Company established Inventec Holding (North America) Co., Ltd. for after-sale services of its U.S. subsidiaries.
- The Company purchased Ta-Shi plant in Tao-Yuan. Production of servers and desktops commenced.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

As of June 30, 2005 and 2004, the average number of employees in the Company was 2,255 and 2,014, respectively.

2 Summary of Significant Accounting Policies

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

The Company's financial statements were prepared in accordance with "Rules Governing Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles of the Republic of China. Summary of significant accounting polices and their measurement basis are as follows:

a Assets Impairment

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

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

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

b Cash Equivalents

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

c Notes and Accounts Receivable and Allowance for Doubtful Accounts

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

d Inventories and Allowance for Inventory Market Decline and Obsolescence

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

e Long-Term Equity Investments

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

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

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 for the period ended December 31, and June 30, are required according to rules set forth in the Statement of Financial Accounting Standards ("SFAS") and by the Securities and Futures Bureau ("SFB") under the Ministry of Finance ("MOF").

f Property, Plant, Equipment and Depreciation

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

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

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

g Deferred Expenses

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

h Pension Plan

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

i Foreign Currency Translation

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

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

j 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.

Memorandum entries of notional principals are made on the contract date for foreign currency swaps. On the balance sheet date, forward accounts receivables are offset against payables, with the difference reflected either as an asset or a liability. Unrealized gains and losses from unsettled positions are computed based on differences between contract and prevailing rates. On settlement, gain and losses due to the difference between spot and contract rates are charged to current earnings.

k Capital Surplus

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

l Legal Reserve

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

m Earnings Distribution and Dividend Policy

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

n Commitments and Contingencies

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

o Revenue Recognition

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

p Warranty Reserve

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

q Classification of Capital and Operating Expenditures

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

r Income Tax

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

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

s Earnings per Share ("EPS")

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3 REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES

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

The Company adopted Statement of Financial Accounting Standards No. 7 “Consolidated Financial Statements” in 2005. Due to the investee companies accounted for under equity method changed from a fiscal year of October 1 to September 30, to a calendar year, the Company retroactively recognized investment income amounting to \$47,813 in 2005, and the earnings per share would increase \$0.02 per share.

4 SUMMARY OF MAJOR ACCOUNTS

a Cash and Cash Equivalents

| | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|---|----------------------|----------------------|
| Cash on hand | \$ 514 | 496 |
| Checking accounts | 1,230 | 3,459 |
| Demand deposits | 10,103 | 14,147 |
| Time deposits | 1,439,960 | 1,719,960 |
| Foreign currency time deposits | 55,202 | 4,278,877 |
| Foreign currency deposits | 61,246 | 1,083,528 |
| Cash equivalents (short-term bills and bonds) | 372,629 | 3,287,251 |
| Total | <u>\$ 1,940,884</u> | <u>10,387,718</u> |

b Accounts Receivable

| | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|---------------------------------------|----------------------|----------------------|
| Accounts receivable - other customers | \$ 16,588,277 | 13,780,093 |
| Less: Allowance for doubtful accounts | (14,424) | (905) |
| Net | 16,573,853 | 13,779,188 |
| Accounts receivable - related parties | 6,032,744 | 5,925,841 |
| Total | <u>\$ 22,606,597</u> | <u>19,705,029</u> |

c Inventories

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

| | June 30, 2005 | June 30, 2004 |
|--|----------------------------|-------------------------|
| Raw materials | \$ 1,105,064 | 1,428,844 |
| Work-in-process | 283,944 | 306,903 |
| Finished goods | 506,603 | 557,447 |
| Supplies-in-transit | 108,262 | - |
| | <u>2,003,873</u> | <u>2,293,194</u> |
| Less: Allowance for market decline and obsolescence | (305,273) | (453,598) |
| Net | <u>\$ 1,698,600</u> | <u>1,839,596</u> |
| Insurance coverage | <u>\$ 2,790,500</u> | <u>2,600,000</u> |

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d Long-Term Equity Investments

| Name of Investee Company | June 30, 2005 | | | June 30, 2004 | | |
|--|----------------|-----------------------------|---------------------|----------------|--------------------------|---------------------|
| | Equity Holding | Book Value | Original Investment | Equity Holding | Book Value | Original Investment |
| Carried under the equity method | | | | | | |
| Inventec Besta Co., Ltd. | 38.69% | \$ 1,213,933 | 765,058 | 38.69% | \$ 1,167,940 | 765,058 |
| Inventec Corporation (Hong Kong) Co., Ltd. | 100.00% | 123,014 | 42,655 | 100.00% | 428,686 | 42,655 |
| Inventec Corporation (Scotland) Co., Ltd. | 100.00% | 396,298 | 39,518 | 100.00% | 360,566 | 39,518 |
| Inventec Corporation (Singapore) Co., Ltd. | 100.00% | 6,262 | 6,888 | 100.00% | 6,800 | 6,888 |
| Inventec Holding (North America) Co., Ltd. | 100.00% | 459,210 | 159,003 | 100.00% | 446,288 | 159,003 |
| Inventec Multimedia and Telecom Corp. | 48.57% | 1,168,322 | 936,576 | 59.60% | 1,350,062 | 967,400 |
| Inventec Micro-Electronics Corp. | 70.48% | 273,445 | 401,625 | 70.48% | 399,413 | 401,625 |
| Inventec Appliances Corp. | 49.13% | 3,364,037 | 2,201,014 | 50.13% | 2,719,824 | 1,869,745 |
| Inventec Corporation (Cayman) Co., Ltd. | 100.00% | 1,933,769 | 3,566,778 | 100.00% | 3,104,477 | 3,188,058 |
| Inventec Enterprise System Corp. | 100.00% | 281,516 | 200,000 | 100.00% | 152,796 | 200,000 |
| Inventec (Czech) S.R.O. | 100.00% | 30,434 | 69,873 | 100.00% | 69,873 | 69,873 |
| Subtotal | | <u>9,250,240</u> | | | <u>10,206,725</u> | |
| Carried under the cost method | | | | | | |
| <u>Common Stock</u> | | | | | | |
| WK Technology Fund IV | 1.52% | 40,000 | | 1.52% | 40,000 | |
| Eastern Broadband Corp. | 0.15% | 100,000 | | 0.15% | 100,000 | |
| Storage Bank Inc. | 10.09% | 9,240 | | 10.09% | 26,400 | |
| Inventec Tomorrow Studio Corp. | 8.57% | 100,000 | | 6.45% | 100,000 | |
| Global Strategic Investment Fund | 6.45% | 38,711 | | 8.57% | 39,284 | |
| Taiyi Print Enterprise Co., Ltd. | 8.00% | 48,000 | | - | - | |
| Subtotal | | <u>335,951</u> | | | <u>305,684</u> | |
| <u>Preferred Stock</u> | | | | | | |
| E28 Limited | | 1,394,600 | | | 1,394,600 | |
| 3UP Systems, Inc. | | 33,128 | | | 65,980 | |
| Universal Network Machines, Inc. | | 64,849 | | | 98,850 | |
| Maxxan Systems, Inc. | | 53,717 | | | - | |
| Rasilient Systems, Inc. | | 40,635 | | | - | |
| Accel Semiconductor Corporation | | 30,178 | | | - | |
| Subtotal | | <u>1,617,107</u> | | | <u>1,559,430</u> | |
| Subtotal-the cost method | | <u>1,953,058</u> | | | <u>1,865,114</u> | |
| Total | | <u><u>\$ 11,203,298</u></u> | | | <u><u>12,071,839</u></u> | |

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

For the six months ended June 30, 2005 and 2004, investment income (loss) from investments in investee companies accounted for under the equity method in which the Company has controlling interest were as follows:

| <u>Name of investee company</u> | <u>2005</u> | <u>2004</u> |
|---|-------------------|----------------|
| Based on financial statements prepared by investee: | | |
| Inventec Besta Co., Ltd. | \$ 44,965 | (7,241) |
| Inventec Corporation (Hong Kong) Co., Ltd. | 1,177 | 38,395 |
| Inventec Corporation (Scotland) Co., Ltd. | 101,753 | 34,047 |
| Inventec Corporatin (Singapore) Co., Ltd. | (96) | - |
| Inventec Holding (North America) Co., Ltd. | 39,477 | 30,424 |
| Inventec Multimedia and Telecom Corp. | (44,690) | 105,048 |
| Inventec Micro-Electronics Corp. | (94,380) | 89 |
| Inventec Corporation (Cayman) Co., Ltd. | (501,721) | (220,812) |
| Inventec Tomorrow Studio Corp. | - | (3,558) |
| Inventec Appliances Corp. | - | 425,286 |
| Inventec Enterprise System Corp. | 36,475 | (47,204) |
| Inventec (Czech) S.R.O | (21,935) | - |
| Based on audited financial statements: | | |
| Inventec Appliances Corp. | 609,753 | - |
| Total | <u>\$ 170,778</u> | <u>354,474</u> |

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

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%.

In the first half year 2005, the Company increased the investment amounting to US\$12,000 in the wholly-owned subsidiary Inventec Corporation (Cayman) Co., Ltd., which is the holding company for indirectly investing in China.

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

In September 2004, the Company reinvested in Inventec Multimedia and Telecom Co., Ltd. by sale of 10,616,000 shares, \$130,371 of provision for investment profits are recognized. Consequently, the shareholding ratio declined from 59.60% to 54.07%. Inventec Multimedia and Telecom Co., Ltd. increase capital with cash in November, 2004, the Company didn't purchase stock, consequently, shareholding ratio further declined to 48.57%.

In June 2005, Storage Bank Inc. an investee company accounted for under the cost method proceeded the capital reduction to offset the accumulative deficit. The Company received the investment return with an amount of \$17,160.

Effective 2005, Inventec Corporation (Scotland) Co., Ltd. and Inventec Holding (North America) Co., Ltd. had changed from a fiscal year of October 1 to September 30, to a calendar year.

The fiscal year of Inventec Corporation (Singapore) Co., Ltd. ends on March 31.

Information regarding preferred stock held by the Company as of June 30, 2005 :

| <u>Name of investee Company</u> | <u>Shares (thousands)</u> | <u>Dollars per share</u> | <u>Convertible</u> | <u>Exercise Significant influence</u> |
|----------------------------------|---------------------------|--------------------------|--------------------|---------------------------------------|
| E 28 Limited | 40,000 | US\$ 1.00 | Yes | No |
| 3UP System, Inc. | 2,667 | 0.75 | Yes | No |
| Universal Network Machines, Inc. | 823 | 4.12 | Yes | No |
| Maxxan Systems, Inc. | 5,628 | 0.35 | Yes | No |
| Resilient Systems, Inc. | 2,000 | 1.00 | Yes | No |
| Accel Semiconductor Corp. | 2,000 | 0.50 | Yes | No |

The investment value impairment of 3UP System Inc., Maxxan Systems, Inc. and Resilient System Inc. listed above may be permanent and the possibility of recovery is remote. Therefore \$22,459 of investment loss is recognized.

The Company has controlling interests in Inventec Besta Co., Ltd., Inventec Multimedia and Telecom Corp., Inventec Holding (North America) Co., Ltd., Inventec Corp. (Scotland) Co., Ltd., Inventec Corp. (Hong Kong) Co., Ltd., and Inventec Corporation (Cayman) Co., Ltd. and therefore the above investees were included in consolidated financial statements. Since total assets or total operating revenues of Inventec Corp. (Singapore) Co., Ltd., Inventec Micro-Electronics Corp., Inventec Enterprise System Corp and Inventec (Czezn) S.R.O do not exceed the material criteria, the above investees were not included in the consolidated financial statements.

e Property, Plant, and Equipment

As of June 30, 2005 and 2004, fire and auto accident insurance coverage of the property, plant, and equipment amounted to \$2,576,684 and \$3,430,598, respectively.

For the six months ended June 30, 2005 and 2004, interest capitalized was \$0.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

f 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 June 30, 2005 and 2004, pension fund was \$393,713 and \$408,091, respectively.

g Income Tax

(i) Deferred income tax assets and liabilities:

| | <u>June 30, 2005</u> | | <u>June 30, 2004</u> | |
|--|----------------------|----------------|----------------------|----------------|
| 1) Total deferred income tax assets | \$ | 1,174,159 | | 740,092 |
| 2) Total deferred income tax liabilities | | (211,612) | | (440,984) |
| | | | | |
| 3) Temporary differences: | <u>Amount</u> | <u>Effects</u> | <u>Amount</u> | <u>Effects</u> |
| - Recognition of unrealized foreign exchange loss(gain): deductible | \$ (51,574) | (12,893) | 72,361 | 18,090 |
| - Recognition of inventory obsolescence : deductible | 305,273 | 76,318 | 453,598 | 113,399 |
| - Recognition of warranty expenses: deductible | 1,785,109 | 446,277 | 990,994 | 247,749 |
| - Recognition of loss on overseas investments: taxable | (657,778) | (164,444) | (684,771) | (171,193) |
| - Recognition of gain (loss) on investments: deductible(taxable) | 797,037 | 199,259 | (827,520) | (206,880) |
| - Recognition of unrealized intercompany profits: taxable | (137,098) | (34,275) | (146,780) | (36,695) |
| - Cumulative translation adjustment to long-term investments: deductible (taxable) | 255,212 | 63,803 | (104,865) | (26,216) |
| - Recognition of pension expense: deductible | 263,999 | 66,000 | 226,571 | 56,643 |
| - Recognition of unrealized market decline with long-term investments are stated at cost: deductible | 123,582 | 30,896 | - | - |
| - Unused balance of investment tax credits | - | 291,606 | - | 304,211 |

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

| | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|--|----------------------|----------------------|
| (ii) Deferred income tax assets - current | \$ 814,201 | 683,449 |
| Deferred income tax liabilities - current | (12,893) | - |
| Net | <u>\$ 801,308</u> | <u>683,449</u> |
| (iii) Deferred income tax assets - non-current | \$ 359,958 | 56,643 |
| Deferred income tax liabilities - non-current | (198,719) | (440,984) |
| Net | <u>\$ 161,239</u> | <u>(384,341)</u> |

- (iv) Income taxation calculation for the six months ended June 30, 2005 and 2004 were the following:

| | <u>2005</u> | <u>2004</u> |
|--|--------------------|-----------------|
| Income tax calculated per statutory tax rate | \$ 205,963 | 311,261 |
| Permanent differences | (139,044) | (91,957) |
| Temporary differences | 115,968 | 86,004 |
| Tax-exempt income | - | (118,076) |
| Investment tax credits | (158,748) | (93,616) |
| 10% surtax on undistributed earnings | 134,610 | - |
| Current income tax payable | 158,749 | 93,616 |
| Income tax separately levied | 671 | 811 |
| Prior years' income tax adjustments | (38,213) | (10,929) |
| Investment tax credits | (56,755) | (12,162) |
| Income tax effect of temporary differences: | | |
| Provision and reversal of inventory obsolescence, net | 2,806 | (3,983) |
| Provision and reversal of loss on overseas investments, net | 1,493 | 22,847 |
| Provision and reversal of warranty reserve, net | (126,229) | (59,454) |
| Recognition of loss on investments | (95,336) | (29,487) |
| Recognition of unrealized intercompany gains, net | 1,633 | (2,729) |
| Recognition of unrealized foreign currency exchange loss, net | 110,829 | (7,746) |
| Recognition of pension expense | (5,549) | (5,452) |
| Recognition of long-term Equity Investment unrealized market decline | (5,615) | - |
| Income tax benefit | <u>\$ (51,516)</u> | <u>(14,668)</u> |

- (v) The Company's tax returns through 2002 have been assessed by the Tax Authority. The Company has petitioned for administrative relief in 1997, 1998, 1999, 2000, 2001 and 2002.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

| | June 30, 2005 | June 30, 2004 |
|---|----------------------|----------------------|
| Stockholder's imputation tax credit account | \$ 362,068 | 407,728 |

2004 and 2003, after filing the corporate income tax returns, the actual imputation tax credit rate for earnings distributed to R.O.C. residents would approximately be 23.06% and 9.60%, respectively.

| Unappropriated earnings: | June 30, 2005 | June 30, 2004 |
|--------------------------------------|----------------------|----------------------|
| Accumulated prior to 1997 and before | \$ 162,139 | 437,138 |
| Accumulated after 1998 | 875,409 | 1,261,625 |
| Total | \$ 1,037,548 | 1,698,763 |

(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 as follows:

| Year of occurrence | Unused investment tax credits | Year of expiration |
|---------------------------|--------------------------------------|---------------------------|
| 2004 | \$ 122,676 | 2008 |
| 2005 | 168,930 | 2009 |
| | \$ 291,606 | |

h Capital Increase

On June 14, 2005, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$641,100 and employee bonuses of \$45,900, for a total of \$687,000. Total capital after the increase was \$22,057,000 with August 2, 2005 as the record date. The Company completed relevant registration change.

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.

i Earnings Per Share

EPS is calculated by dividing net income by the weighted-average shares outstanding during the period. As of June 30, 2005 and 2004, weighted-average number of common shares outstanding were 2,137,000,000 and 2,026,000,000, respectively. As of June 30, 2005 and 2004, the number of outstanding shares retroactively adjusted due to stock dividends was both 2,205,700,000.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

j Financial Instruments

1) Financial Derivatives:

a) Amount of contracts and credit risk

| <u>Financial Instrument</u> | <u>June 30, 2005</u> | | <u>June 30, 2004</u> | |
|-----------------------------|----------------------|---------------|----------------------|---------------|
| | <u>Contract</u> | <u>Credit</u> | <u>Contract</u> | <u>Credit</u> |
| Non-trading | | | | |
| Forward contracts | | | | |
| U.S. dollars sold | USD 50,000 | - | - | - |
| Trading | | | | |
| Currency swaps | EUR 30,000 | - | - | - |
| Currency swaps | GBP 40,000 | - | - | - |
| Currency swaps | USD 35,000 | - | - | - |

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. Since the Company enters into foreign currency forward contracts and foreign currency swap contracts with reputable financial institutions, management believes that there is a remote risk that these financial institutions will not honor their obligations under these contracts.

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

For non-trading purpose financial derivatives, the Company uses its own funds to settle these contracts with banks.

For trading purpose financial derivatives, since notional principals of financial derivatives are used mainly to calculate payables or receivables of parties to transactions, rather than the amounts actually paid or cash demand, amounts settled are generally lower than notional principals. The Company uses its owned funds to settle these contracts with banks.

d) Gain or loss, market price difference resulting from trading foreign currency swap and relevant disclosures.

The exchange loss resulting from transactions in foreign currency swap contracts amounted to \$124,921 for the six months ended June 30, 2005. The result was recorded as non-operating expense in the accompanying statements of operations.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2) Fair Value of Financial Instruments

| June 30, 2005 | | |
|-----------------------------------|----------------------|-------------------|
| Financial Assets | Book Value | Fair Value |
| Book value equal to fair value | \$ 57,420,737 | 57,420,737 |
| Long-term investments | 11,203,298 | 10,020,700 |
| Total | \$ 68,624,035 | 67,441,437 |
| Financial Liabilities | | |
| Book value equal to fair value | \$ 44,247,497 | 44,247,497 |
| Non-trading financial liabilities | | |
| -Forward Contracts | 11,361 | 11,361 |
| Trading financial liabilities | | |
| -Currency Swaps | 38,131 | 38,131 |
| Total | \$ 44,296,989 | 44,296,989 |
| June 30, 2004 | | |
| Financial Assets | Book Value | Fair Value |
| Book value equal to fair value | \$ 47,534,329 | 47,534,329 |
| Long-term investments | 12,071,839 | 12,263,539 |
| Total | \$ 59,606,168 | 59,797,868 |
| Financial Liabilities | | |
| Book value equal to fair value | \$ 35,687,429 | 35,687,429 |

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

- a) The fair value of short-term financial instruments is determined by their face value on the balance sheet. Since such instruments will mature within the short term, the face value is a reasonable basis in establishing the fair value. The method is applicable to cash and cash equivalents, notes and accounts receivable, other current assets, 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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d) Fair value of derivative financial instruments is determined by the amount that the Company will pay or receive, assuming contract termination on the balance sheet date. In general, it includes unrealized gains and losses on currently unsettled contracts. There are reference reports issued by financial institutions for most of the financial derivatives held by the Company.

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

As of June 30, 2005 and 2004, guarantees provided by the Company to related parties for their bank loans, please refer to Note 5.(b).(viii).

As of June 30, 2005 and 2004, promissory notes issued for bank loans, please refer to Note 7.

4) Information on Concentration of Credit Risk:

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is material in relation to the Company's total credit exposure. As of June 30, 2005 and 2004, the Company's contracts with credit risk concentration were as follows:

Accounts Receivable,net - By

| Region | June 30, 2005 | June 30, 2004 |
|---------------|----------------------|----------------------|
| Domestic | \$ - | - |
| Asia | 14,921,598 | 12,496,776 |
| Europe | 3,736,927 | 3,336,959 |
| America | 3,887,382 | 3,826,610 |
| Oceania | 60,690 | 44,684 |
| Total | \$ 22,606,597 | 19,705,029 |

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

5 Related Party Transactions

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

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

(b) Significant Transactions with Related Parties:

(i) Sales

| Name of Related Party | 2005.6.30 | | 2004.6.30 | |
|--|----------------------|----------------|-------------------|----------------|
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Inventec Corporation(Scotland) Co., Ltd | \$ 7,007,855 | 10% | 7,592,432 | 13% |
| Inventec Holding (North America) Co., Ltd. | 7,528,195 | 11% | 7,544,907 | 13% |
| Inventec Enterprise System Corp. | 86,248 | - | 43 | - |
| Others | 1,925 | - | 19,740 | - |
| Total | \$ 14,624,223 | 21% | 15,157,122 | 26% |

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Enterprise System Corp. are the same as those with other clients. Collection period is within two months.

As of June 30, 2005 and 2004, unrealized gross profit of sales to related parties was \$25,677 and \$13,627, respectively.

(ii) Warranty Services and Product Maintenance

For the six months ended June 30, 2005 and 2004, payment to related parties for service and maintenance expenses, after netting product warranty reserve, were as follows:

| <u>Name of Related Party</u> | <u>2005.6.30</u> | <u>2004.6.30</u> |
|--|-------------------|------------------|
| Inventec Holding (North America) Co., Ltd. | \$ 162,382 | 141,617 |
| Inventec Corporation (Scotland) Co., Ltd. | 116,272 | 103,719 |
| Total | <u>\$ 278,654</u> | <u>245,336</u> |

(iii) Purchases

For the six months ended June 30, 2005 and 2004, purchases of materials and goods were as follows:

| <u>Name of Related Party</u> | <u>2005.6.30</u> | | <u>2004.6.30</u> | |
|--|----------------------|---------------------------|-------------------|---------------------------|
| | <u>Amount</u> | <u>% of Net Purchases</u> | <u>Amount</u> | <u>% of Net Purchases</u> |
| Inventec Electronics (M) SDN. BHD. | \$ 243 | - | 122,146 | - |
| Inventec Corporation (Hong Kong) Co., Ltd. | 57,221,142 | 86% | 42,981,630 | 77% |
| Inventec Holding (North America) Co., Ltd. | 107,754 | - | 31,359 | - |
| Inventec Corporation (Scotland) Co., Ltd. | 37,017 | - | 201,675 | 1% |
| Others | 58 | - | - | - |
| Total | <u>\$ 57,366,214</u> | <u>86%</u> | <u>43,336,810</u> | <u>78%</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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

(iv) Technical Service

The Company entered into an agreement with Inventec Besta Co., Ltd., which would pay royalty to the Company for use of patents and copyrights in the manufacturing of information and electronic-related products. Royalty is determined by sales volume. For the six months ended June 30, 2005 and 2004, royalty collected from Inventec Besta Co., Ltd. was \$289 and \$1,287, respectively.

The Company entered into an agreement with Inventec Tomorrow Studio Corp. in which the Company collects royalty through production, distribution, and sale of Dr. Eye 2002. Royalty is based on sales volume. For the six months ended June 30, 2005 and 2004, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounting to \$2,818 and \$470, respectively.

(v) Purchase of Software

For the six months ended June 30, 2005 and 2004, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$94,990 and \$67,484, 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 June 30, 2005 and 2004, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,279 and \$17,438, respectively, with unrealized other revenue of \$3,123 and \$3,887, 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. In 2005, the Company sold properties, resulting in a gain on disposal properties amounting to \$4,673. As of June 30, 2005 and 2004, unrealized gain on sale of properties was \$53,617 and \$54,122, respectively, and unrealized other revenue was \$0 and \$12, 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 June 30, 2005 and 2004, unrealized gain on sale of properties was \$21,883 and \$30,872, respectively, and unrealized other revenue was \$981 and \$1,494, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 4) For the six months ended June 30, 2005 and 2004, operating consulting fee paid to Inventec Enterprise System Corp. was \$160,511 and \$18,208, respectively, reflected as operating consulting expense.
- 5) For the six months ended June 30, 2005 and 2004, general and administrative expenses collected from Inventec Appliances Corp., Inventec Micro-Electronic Corp., Inventec Multimedia and Telecom Corp., Inventec Besta Corp., Ltd., Inventec Enterprise System Corp., and Inventec Tomorrow Studio Corp. were \$66,035 and \$77,316, respectively, reflected as other revenue.

(vii) Accounts Receivable (Payable)

| | June 30, 2005 | | June 30, 2004 | |
|--|----------------------|------------|----------------------|-------------|
| | Amount | % | Amount | % |
| Total notes receivable | \$ 95 | 34% | 8,747 | 100% |
| <u>Accounts Receivable:</u> | | | | |
| Inventec Holding (North America) Co., Ltd. | \$ 3,272,133 | 14% | 3,438,933 | 18% |
| Inventec Corporation (Scotland) Co., Ltd. | 2,747,237 | 12% | 2,423,185 | 12% |
| Inventec Electronics (M) SDN. BHD. | 43 | - | 26,149 | - |
| Inventec Corporation (Hong Kong) Co., Ltd. | 1,829 | - | 37,365 | - |
| Inventec Enterprise System Corp. | 11,502 | - | - | - |
| Others | - | - | 209 | - |
| Total | \$ 6,032,744 | 26% | 5,925,841 | 30% |
| <u>Other Receivables:</u> | | | | |
| Inventec Enterprise System Corp. | \$ - | - | 1,470 | 6% |
| Inventec Appliances Corp. | 791,992 | - | - | - |
| Inventec Multimedia and Telecom Corp. | 121,973 | - | 687 | 3% |
| Inventec Besta Co., Ltd. | 34,996 | - | 9,040 | 36% |
| Others | 2,132 | - | 604 | 2% |
| Total | \$ 951,093 | - | 11,801 | 47% |
| <u>Other Current Assets:</u> | | | | |
| Inventec Corporation (Hong Kong) Co., Ltd. | \$ 31,629,758 | 99% | 16,895,688 | 97% |
| Inventec (Czech) S.R.O | - | - | 18,028 | - |
| Others | 1,642 | - | 3,334 | - |
| Total | \$ 31,631,400 | 99% | 16,917,050 | 97% |

Note: Mainly due to purchasing raw materials on behalf of the Company's subsidiaries.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

| | June 30, 2005 | | June 30, 2004 | |
|---|----------------------|------------|----------------------|------------|
| | Balance | % | Balance | % |
| Notes Payable: | \$ - | - | 125 | - |
| <u>Accounts Payable:</u> | | | | |
| Inventec Corporation (Hong Kong) Co., Ltd. | \$ 25,225,699 | 63% | 16,252,630 | 53% |
| Inventec Holding (North American) Co., Ltd. | 21,716 | - | 9,187 | - |
| Inventec Corporation (Scotland) Co., Ltd. | 3,984 | - | 23,336 | - |
| Inventec Enterprise System Corp. | 28,199 | - | - | - |
| Others | 7 | - | 8,775 | - |
| Total | \$ 25,279,605 | 63% | 16,293,928 | 53% |
| <u>Other Current Liabilities:</u> | | | | |
| Inventec Corporation (Hong Kong) Co., Ltd. | \$ 101,553 | 5% | 51,591 | 2% |

(viii) Guarantee and Endorsements

| <u>Name of Related Party Guaranteed</u> | <u>June 30, 2005</u> | | <u>June 30, 2004</u> | | <u>Name of Bank</u> |
|--|----------------------|---------------|----------------------|----------------|--|
| Inventec Corporation (Hong Kong) Co., Ltd. | USD | 5,450 | USD | 15,000 | Citibank, N.A. |
| Inventec Corporation (Cayman) Co., Ltd. | | 30,000 | | 20,000 | " |
| Inventec Appliances (Nanking) Co., Ltd. | | - | | 1,500 | Blank of America |
| Inventec Electronics (Tianjin) Co., Ltd. | | 2,500 | | 2,500 | " |
| Inventec Electronics (Beijing) Co., Ltd. | | 1,000 | | 1,000 | " |
| Inventec Corp. (Shanghai) Co., Ltd. | | 5,000 | | 5,000 | " |
| Inventec Corporation (Scotland) Co., Ltd. | USD | 3,000 | USD | 28,000 | Citibank, N.A. |
| " | GBP | 500 | GBP | 500 | Government of Scotland Hua Nan Commercial |
| " | GBP | 10,000 | | - | Bank Ltd. |
| Inventec Holding (North America) Co., Ltd. | USD | - | USD | 2,000 | Bank of America |
| Inventec (Pudong) Corp. | USD | 25,000 | USD | 25,000 | " |
| Inventec (Czech) S.R.O. | EUR | 1,450 | | - | Citibank, N.A. |
| Total | USD | 71,950 | USD | 100,000 | |
| | GBP | 10,500 | GBP | 500 | |
| | EUR | 1,450 | | - | |

6 Pledged Assets

As of June 30, 2005 and 2004, pledged assets were as follows:

| <u>Asset</u> | <u>June 30, 2005</u> | <u>June 30, 2004</u> | <u>Purpose of pledge</u> |
|---------------------|----------------------|----------------------|--|
| Refundable deposits | \$ 55,751 | 56,752 | Customs duties, deposits for foreign labors and property deposits. |

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

7 Significant Commitments And Contingencies (Excluding Related Party Transactions)

- (a) As of June 30, 2005 and 2004, unused standby letters of credit were EUR\$17 and US\$712, respectively.
- (b) As of June 30, 2005 and 2004, promissory notes issued for bank loans totaled \$18,815,192 and \$6,058,292, respectively.
- (c) The Company had entered into a patent contract totally amounted to US\$12,000, and the Company had unpaid fee of US\$7,900 due to above contract as of June 30, 2005.

8 Significant Catastrophic Losses: None.

9 Significant Subsequent Events: None.

10 Other

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

| Categorized as Nature | 2005.6.30 | | | 2004.6.30 | | |
|---------------------------------------|-------------------|----------------------|---------|-------------------|----------------------|---------|
| | Operating Cost | Operating expense | Total | Operating Cost | Operating expense | Total |
| Personnel expense | | | | | | |
| Salary expense | \$ 238,787 | 654,786 | 893,573 | 238,891 | 528,131 | 767,022 |
| Health and labor insurance expense | 16,467 | 34,762 | 51,229 | 17,284 | 29,469 | 46,753 |
| Pension expense | 10,984 | 31,018 | 42,002 | 11,814 | 26,743 | 38,557 |
| Other expense | 3,743 | 39,265 | 43,008 | 11,118 | 35,272 | 46,390 |
| Depreciation expense | 34,650 | 91,737 | 126,387 | 45,503 | 67,888 | 113,391 |
| Amortization expense | 153,741 | 348 | 154,089 | 135,459 | 1,601 | 137,060 |

- (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 United States District Court for the District of Texas had a hearing for the patents infringement trial, and the Magistrate Judge raised a formal proposal for following legal process. However, both the Company and Samsung objected to the proposal, and the trial would be tried by a federal judge. In March 2005, the Company and Samsung had reached an agreement, and had settled with patenting each other based upon the above agreement. The Company and Samsung had rescinded the proceeding litigation procedures.