

**INVENTEC CORPORATION**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005 AND 2004**  
**AND**  
**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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**INVENTEC CORPORATION**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005 AND 2004**

**TABLE OF CONTENTS**

<u>Contents</u>	<u>Page</u>
• Cover Page	1
• Table of Contents	2
• Independent Accountants' Review Report	3
• Balance Sheets	4
• Statements of Income	5
• Statements of Cash Flows	6
• Notes to Financial Statements	7-31

## **Independent Accountants' Review Report**

To the Board of Directors  
Inventec Corporation:

We have reviewed the accompanying balance sheets of Inventec Corporation as of September 30, 2005 and 2004, and the related statements of income, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the management of Inventec Corporation. Our responsibility is to issue a report on these financial statements based on our reviews.

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, Inventec Corporation had long-term equity investments of \$9,828,669 thousand and \$10,095,120 thousand, as of September 30, 2005 and 2004, respectively. Investment income for the nine-month periods ended September 30, 2005 and 2004, of \$568,841 thousand and \$284,320 thousand, respectively, were recognized under the equity method 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 auditors, 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 21, 2005

The accompanying financial statements are intended only to present the financial position, results of operation and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to 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, 2005 and 2004**

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

	<b>September 30, 2005</b>		<b>September 30, 2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 2,410,477	3	7,801,875	13
Notes receivable (Note 2)				
- Other customers	73	-	7,133	-
- Related parties	805	-	3,952	-
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b )				
- Other customers	20,874,633	25	15,906,491	26
- Related parties	6,285,162	8	6,814,514	11
Forward exchange contracts receivable , net	-	-	955	-
Discount on forward exchange contracts	-	-	91	-
Other financial assets - current	38,228,135	45	14,646,728	24
Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c)	1,762,252	2	1,785,970	3
Prepayments and other current assets	257,715	-	95,486	-
Deferred tax assets - current (Notes 2 and 4.g )	704,069	1	644,108	1
	<u>70,523,321</u>	<u>84</u>	<u>47,707,303</u>	<u>78</u>
<b>Long-term equity investments (Notes 2 and 4.d )</b>				
Accounted for under the equity method	9,828,669	12	10,095,120	16
Accounted for under the cost method	1,938,479	2	1,864,526	3
Prepayments for long-term investment	-	-	67,790	-
	<u>11,767,148</u>	<u>14</u>	<u>12,027,436</u>	<u>19</u>
<b>Other financial assets - non-current</b>	<u>41,029</u>	<u>-</u>	<u>56,749</u>	<u>-</u>
<b>Property, plant, and equipment (Notes 2 and 4.e)</b>				
Land	788,144	1	788,144	1
Buildings	427,252	1	427,252	1
Machinery	528,092	1	466,304	1
Transportation equipment	26,332	-	26,332	-
Furniture and office facilities:	1,147,660	1	979,079	2
Other equipment	188,896	-	211,046	-
Less: accumulated depreciation	(1,495,955)	(2)	(1,357,735)	(2)
Construction in progress	3,639	-	330	-
Prepayment for equipment	12,537	-	40,763	-
	<u>1,626,597</u>	<u>2</u>	<u>1,581,515</u>	<u>3</u>
<b>Intangible assets</b>				
Deferred Pension Cost (Notes 2)	59,505	-	117,546	-
<b>Other assets:</b>				
Deferred tax assets - non - current (Notes 2 and 4.g)	53,289	-	-	-
Deferred debits - losses on inter-affiliate accounts (Note 2)	194,663	-	194,663	-
Others	97,990	-	212,463	-
	<u>345,942</u>	<u>-</u>	<u>407,126</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>\$ 84,363,542</b>	<b>100</b>	<b>\$ 61,897,675</b>	<b>100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term borrowings	\$3,510,520	4	-	-
Notes payable	258,390	-	417,420	1
Accounts payable				
- Other vendors	18,380,697	22	14,458,627	23
- Related parties	28,942,082	34	15,955,079	26
Income tax payable	195,845	-	136,026	-
Accrued expenses	482,169	1	636,568	1
Payables on forward exchange purchased , net	87,682	-	-	-
Payables on forward exchange , net	20,061	-	-	-
Discount on forward exchange contracts	(231)	-	-	-
Advance receipts	93,082	-	27,820	-
Other current liabilities	1,117,393	2	584,942	1
Estimated warranty reserve (Note 2)	2,059,540	3	1,199,320	2
	<u>55,147,230</u>	<u>66</u>	<u>33,415,802</u>	<u>54</u>
<b>Other liabilities:</b>				
Accrued pension liabilities (Notes 2 and 4.f)	352,544	-	357,580	1
Deferred tax liabilities - non-current (Notes 2 and 4.g)	-	-	218,854	-
Deferred credits - gains on inter-affiliate accounts (Note 2)	114,019	-	117,349	-
Others	17,959	-	1,696	-
	<u>484,522</u>	<u>-</u>	<u>695,479</u>	<u>1</u>
<b>Total liabilities</b>	<u>55,631,752</u>	<u>66</u>	<u>34,111,281</u>	<u>55</u>
<b>Stockholders' equity</b>				
Capital Stock, par value \$10 per share; authorized 2,500,000,000 shares, 2,205,700,000 shares issued and outstanding as of September 30, 2005; 2,137,000,000 shares issued and outstanding as of September 30, 2004.	22,057,000	26	21,370,000	35
Capital Surplus (Note 2)				
Additional paid-in capita	447,723	1	447,723	1
Long-term equity investments	141,238	-	120,655	-
Others	175	-	177	-
Retained Earnings:				
Legal reserve (Note 2)	3,576,880	4	3,333,254	5
Special reserve	123,751	-	-	-
Unappropriated earnings (Notes 2 and 4.i)	2,306,905	3	2,400,956	4
Cumulative translation adjustments (Note 2)	78,118	-	113,629	-
	<u>28,731,790</u>	<u>34</u>	<u>27,786,394</u>	<u>45</u>
<b>Total stockholders' equity</b>	<u>28,731,790</u>	<u>34</u>	<u>27,786,394</u>	<u>45</u>
<b>Commitments and contingencies</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 84,363,542</b>	<b>100</b>	<b>\$ 61,897,675</b>	<b>100</b>

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

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

**INVENTEC CORPORATION**

**Statements of Income**

**Nine-month periods ended September 30, 2005 and 2004**

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

	<b>Nine Months Ended September 30,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating income:</b>				
Net sales	\$ 112,183,450	100	97,292,422	100
Technical service income	3,194	-	8,863	-
Net operating income	112,186,644	100	97,301,285	100
<b>Operating cost</b>	<b>(106,861,461)</b>	<b>(95)</b>	<b>(92,442,154)</b>	<b>(95)</b>
	5,325,183	5	4,859,131	5
Realized gain on inter-affiliate accounts	33,279	-	3,075	-
Unrealized gain on inter-affiliate accounts	(26,074)	-	(13,787)	-
<b>Gross margin</b>	<b>5,332,388</b>	<b>5</b>	<b>4,848,419</b>	<b>5</b>
<b>Operating expenses:</b>				
Selling	(2,422,182)	(2)	(2,021,422)	(2)
Administrative	(796,630)	(1)	(639,409)	(1)
Research and development	(1,094,618)	(1)	(992,523)	(1)
	<b>(4,313,430)</b>	<b>(4)</b>	<b>(3,653,354)</b>	<b>(4)</b>
<b>Net operating income</b>	<b>1,018,958</b>	<b>1</b>	<b>1,195,065</b>	<b>1</b>
<b>Non-operating income:</b>				
Interest income	35,143	-	93,004	-
Investment income on equity-method investees (Note 4.d)	568,841	1	284,130	-
Dividend income (Note 4.d)	-	-	480	-
Gain on disposal of properties	13,217	-	31,691	-
Gain on disposal of investments	-	-	127,651	-
Foreign exchange gain	445,845	-	-	-
Gain on inventory value recoveries	54,736	-	-	-
Miscellaneous income	230,200	-	441,177	1
	<b>1,347,982</b>	<b>1</b>	<b>978,133</b>	<b>1</b>
<b>Non-operating expenses and losses:</b>				
Interest expense	(36,670)	-	(24,462)	-
Other investment loss (Note 4.d)	(29,037)	-	-	-
Loss on disposal of properties	-	-	(577)	-
Foreign exchange loss	-	-	(154,110)	-
Losses on inventory devaluation and obsolescence	-	-	(1,874)	-
Miscellaneous expenses	(3,175)	-	(9,620)	-
	<b>(68,882)</b>	<b>-</b>	<b>(190,643)</b>	<b>-</b>
<b>Income before income tax</b>	<b>2,298,058</b>	<b>2</b>	<b>1,982,555</b>	<b>2</b>
<b>Income tax expense (Note 4.g)</b>	<b>(153,292)</b>	<b>-</b>	<b>(24,135)</b>	<b>-</b>
<b>Net income</b>	<b>\$ 2,144,766</b>	<b>2</b>	<b>1,958,420</b>	<b>2</b>
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
<b>Primary earnings per share (Notes 2 and 4.j)</b>	<b>\$ 1.04</b>	<b>0.97</b>	<b>0.93</b>	<b>0.92</b>
<b>Primary earnings per share after retroactive adjustments</b>	<b>\$ -</b>	<b>-</b>	<b>0.90</b>	<b>0.89</b>

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

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

**INVENTEC CORPORATION**  
**Statements of Cash Flows**  
**Nine-month periods ended 30, 2005 and 2004**  
**(New Taiwan Dollars in Thousands)**

	<u>Nine Months Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,144,766	1,958,420
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	193,729	229,495
Amortization	220,930	171,838
Gain on disposal of properties	(4,797)	(60,415)
Gain on disposal of deferred assets	(3,906)	(5,712)
Gain on disposal of long-term investments, net	-	(127,651)
(Gain on recovery of ) Loss on inventory market decline	(54,736)	1,874
Foreign currency exchange loss (gain), net	60,797	(8,558)
(Reversal of) Provision for doubtful accounts	12,243	(4,837)
Gain on investments recognized under the equity method less than cash dividends received	345,145	792,144
Loss on permanent market value decline of long-term equity investments	29,037	-
Provision for warranty reserve	779,347	446,138
Change in operating assets and liabilities:		
Notes and accounts receivable	(5,838,163)	(6,436,073)
Forward exchange contracts receivable	(4,512,746)	(340,955)
Discount on forward exchange contracts	(1,124)	(91)
Payables on forward exchange contracts	4,621,382	340,000
Other financial assets - current	(25,700,364)	(4,166,332)
Inventories	(38,820)	(143,050)
Prepayments and other current assets	(154,409)	(29,848)
Deferred tax assets and liabilities, net	(57,376)	(235,972)
Notes and accounts payable	24,515,790	10,142,355
Income tax payable	(37,239)	136,026
Accrued expenses	(151,436)	(125,043)
Advance receipts	64,752	(90,313)
Deferred credits - gains on inter-affiliate accounts	(19,040)	(3,971)
Other current liabilities	648,293	235,875
Accrued pension liabilities	42,829	32,527
<b>Net cash provided by (used in) operating activities</b>	<u>(2,895,116)</u>	<u>2,707,871</u>
<b>Cash flows from investing activities:</b>		
Purchase of long-term equity investments	(200,585)	(928,233)
Purchase of property and equipment	(244,206)	(327,675)
Purchase of deferred assets	(181,645)	(225,913)
Proceeds from disposal of long-term investments	-	264,610
Proceeds from disposal of property	5,381	34,337
Proceeds from disposal of deferred assets	26,447	18,934
Other financial assets - non-current	(1,275)	(147)
Increase in other assets	(1,281)	(29,832)
<b>Net cash used in investing activities</b>	<u>(597,164)</u>	<u>(1,193,919)</u>
<b>Cash flows from financing activities:</b>		
Remuneration to directors, supervisors and employee bonuses	(160,989)	(283,879)
Increase in short-term borrowings	3,510,520	-
Cash dividends	(1,495,900)	(2,431,200)
Increase in other liabilities	3,759	1,012
<b>Net cash (used in) provided by financing activities</b>	<u>1,857,390</u>	<u>(2,714,067)</u>
<b>Effect upon changes in foreign exchange rate</b>	<u>(60,797)</u>	<u>8,558</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(1,695,687)</u>	<u>(1,191,557)</u>
<b>Cash and cash equivalents, beginning of the period</b>	4,106,164	8,993,432
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 2,410,477</u>	<u>7,801,875</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	<u>\$ 40,530</u>	<u>24,462</u>
Cash paid during the period for income tax	<u>\$ (59,731)</u>	<u>124,081</u>
<b>Purchase of properties with cash and other payables:</b>		
Increase in property and equipment	\$ 240,571	173,845
Add: other payables - beginning of the period	14,242	168,072
Less: other payables - end of the period	(10,607)	(14,242)
Cash paid	<u>\$ 244,206</u>	<u>327,675</u>

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

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

**INVENTEC CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**(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) Co., Ltd. (Newly named "Inventec Electronics (M) Sdn. Bhd.")

1991- The Company invested in Inventec Electronics (Shanghai) Co., Ltd. (Newly named "Inventec Appliances (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. (Newly named "Inventec Appliances (Nanking) Co., Ltd."), Inventec Electronics (Tianjin) Co., Ltd., Inventec Electronics (Beijing) Co., Ltd. and Inventec Electronics (Xi'an) Co., Ltd. (Newly named "Inventec Besta (xian) IANCo. 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.

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

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

- 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.
- 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.

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

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

- The Company invested in Inventec Corporation (Cayman) Co., Ltd. which invested in Inventec (Pudong) Corp, engaging in computer parts assembling.
- 2004- The Company invested in Inventec Enterprise System Corp., which engages in developing and producing computer products
- The Company invested in Inventec (Czech) S.R.O., which engages in computer parts assembling.
  - The Company invested in Inventec Corporation (Cayman) Co., Ltd., which invested in Inventec (Pudong) Technology Corp. and Inventec (Shanghai) Service Co., Ltd, which engage in assembling and marketing computer products.
  - The Company reduced its shareholding in Inventec Tomorrow Studio Corp. and accounted for its investment under the cost method.
  - The Company sold its investment in Inventec Electronics (Nanking) Co., Ltd. to Inventec Appliances Corp.
- 2005- For operating purpose, the company invested in Inventec Corporation (Cayman) Co., Ltd, which invested in Inventec hi-tech Corp whose major line of business is wireless phone production.
- As of September 30, 2005 and 2004, the average number of employees in the company was 2,297, and 2,044, respectively.

## **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 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.

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

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

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.

**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.

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

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

Unrealized profits/losses on inter-company transactions are eliminated and deferred. 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 in which the Company has controlling interest are accounted for under the equity method and the Company is required to prepare consolidated financial statements for each of the period ended December 31, and June 30, according to rules set forth in the Statement of Financial Accounting Standards ("SFAS") and by the Securities and Futures Bureau ("SFB") under the Ministry of Finance ("MOF").

**f Property, Plant, Equipment and Depreciation**

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

Buildings	10 to 50 years
Machinery	2 to 11 years
Transportation equipment	3 to 6 years
Furniture and office facilities	2 to 18 years
Power equipment	2 to 16 years
Renovation and leasehold improvements	2 to 20 years
Miscellaneous equipment	2 to 16 years

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

**g Deferred Expenses**

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

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

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

**h Pension Plan**

The Company has a pension plan covering all regular employees, under which 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 July 1, 2005, the Company adopted the "Labor Pension Act" (the "Act") that prescribes a defined contribution pension scheme for those employees who were covered by the Labor Standards Law prior to the enforcement of this Act but chose to be subject to the pension mechanism under this Act or those employees who are employed after the enforcement of this Act. In accordance with this Act, the Company contributes monthly to the Labor Pension Fund for the employee individual pension fund accounts at the rate of 6% of the employee's monthly wages.

For defined benefit pension plan, the Company adopted SFAS No. 18 and secured an actuarial report on pension liabilities with December 31 as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets.

Effective January 1 1996, the net periodic pension cost should include current year service cost, transitional assets, prior year service cost and pension income/loss which is amortized over the employees' remaining service period (15 years). According to the Labor Standards Law, the Company contributes 2% of employees' monthly wages to the central trust of China.

For defined contribution pension plan, the contributions are reflected as current pension expense.

**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 at the 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 current 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 at year-end based on year-end exchange rate, with exchange gain and loss included in current earnings. Premium or discount, which represent the difference between the contract and the spot rates is recognized ratably over the term of forward contracts. The forward contract receivables is netted against related payables and the net amount is reflected as an asset or a liability.

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

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

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 distributing stock dividends and 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. 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 inflow, annual cash dividends paid cannot be lower than 10% of its cash and stock dividends combined of current fiscal year.

**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**

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

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

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

**q Classification of Capital and Operating Expenditures**

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

**r Income Tax**

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

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

**s Earnings per Share ("EPS")**

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

**3 REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES**

The Company adopted Statement of Financial Accounting Standards No.35 "Accounting for Asset Impairment" in 2005. Pursuant to this new accounting standard, the Company did not recognize any impairment loss based on the impairment test.

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 \$41,776 in 2005, and the earnings per share would increase \$0.02 per share.

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

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

**4 SUMMARY OF MAJOR ACCOUNTS**

**a Cash and Cash Equivalents**

	<b><u>September 30, 2005</u></b>	<b><u>September 30, 2004</u></b>
Cash on hand	\$ 726	472
Checking accounts	1,289	1,774
Demand deposits	13,464	10,926
Time deposits	1,456,950	1,719,960
Foreign currency time deposits	57,681	4,008,894
Foreign currency deposits	33,518	1,049,319
Cash equivalents (short-term bills and bonds)	846,849	1,010,530
Total	<b><u>\$ 2,410,477</u></b>	<b><u>7,801,875</u></b>

**b Accounts Receivable**

	<b><u>September 30, 2005</u></b>	<b><u>September 30, 2004</u></b>
Accounts receivable - other customers	\$ 20,890,243	15,907,964
Less: Allowance for doubtful accounts	(15,610)	(1,473)
Net	<u>20,874,633</u>	<u>15,906,491</u>
Accounts receivable - related parties	6,285,162	6,814,514
Total	<b><u>\$ 27,159,795</u></b>	<b><u>22,721,005</u></b>

**c Inventories**

	<b><u>September 30, 2005</u></b>	<b><u>September 30, 2004</u></b>
Raw materials	\$ 1,064,712	1,309,602
Work in process	301,930	341,966
Finished goods	525,506	573,734
Supplies-in-transit	131,862	204
	<u>2,024,010</u>	<u>2,225,506</u>
Less: Allowance for market decline and obsolescence	(261,758)	(439,536)
Net	<b><u>\$ 1,762,252</u></b>	<b><u>1,785,970</u></b>
Insurance coverage	<b><u>\$ 2,798,990</u></b>	<b><u>2,600,000</u></b>

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

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

**d Long-Term Equity Investments**

	September 30, 2005			September 30, 2004		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
<b><u>Under the equity method</u></b>						
Inventec Besta Co., Ltd.	38.69%	\$ 1,029,439	560,561	38.69%	1,200,784	765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	127,787	42,655	100.00%	123,297	42,655
Inventec Corporation (Scotland) Co., Ltd.	100.00%	440,091	39,518	100.00%	366,230	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	417	630	100.00%	6,763	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	494,945	159,003	100.00%	451,647	159,003
Inventec Multimedia and Telecom Corp.	48.46%	1,227,134	936,576	54.07%	1,249,061	877,694
Inventec Micro-Electronics Corp.	70.48%	171,320	401,625	70.48%	389,652	401,625
Inventec Appliances Corp.	48.81%	3,855,753	2,201,013	49.31%	3,370,826	2,828,594
Inventec Corporation (Cayman) Co., Ltd.	100.00%	2,141,283	3,566,778	100.00%	2,757,196	3,188,058
Inventec Enterprise System Corp.	100.00%	280,006	200,000	100.00%	108,145	200,000
Inventec (Czech) S.R.O.	100.00%	35,208	85,921	100.00%	71,519	69,873
Kohjinsha Co., Ltd.	33.33%	25,286	29,410	-	-	-
Subtotal		<u>9,828,669</u>			<u>10,095,120</u>	
<b><u>Under the cost method</u></b>						
<b><u>Common Stock</u></b>						
WK Technology Fund IV	1.52%	32,000		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%	38,711		8.57%	38,696	
Global Strategic Investment Fund	6.45%	100,000		6.45%	100,000	
Taiyi Print Enterprise Co., Ltd.	8.00%	48,000		-	-	
Subtotal		<u>327,951</u>			<u>305,096</u>	
<b><u>Preferred Stock</u></b>						
E28 Limited		1,394,600			1,394,600	
3UP SYSTEM, INC.		31,314			65,980	
Universal Network Machines, Inc.		61,414			98,850	
Maxxan Systems, Inc.		52,071			-	
Rasilient Systems, Inc.		37,904			-	
Accel Semiconductor Corporation		33,225			-	
Subtotal		<u>1,610,528</u>			<u>1,559,430</u>	
Subtotal-the cost method		<u>1,938,479</u>			<u>1,864,506</u>	
<b><u>Prepayments for Long-Term Investments in Stock</u></b>						
Maxxan System Inc.		-			67,790	
Subtotal		-			67,790	
Total		<u>\$ 11,767,148</u>			<u>12,027,416</u>	

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

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

For the nine-month periods ended September 30, 2005 and 2004, income (loss) from investments in investee companies accounted for under the equity method in which the Company has controlling interest were as follows:

<b>Investee</b>	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
Based on financial statements prepared by investee companies:		
Inventec Besta Co., Ltd.	\$ 64,968	25,602
Inventec Corporation (Hong Kong) Co., Ltd.	(2,122)	38,973
Inventec Corporation (Scotland) Co., Ltd.	138,765	37,514
Inventec Holding (North America) Co., Ltd.	52,340	39,664
Inventec Multimedia and Telecom Corp.	(52,630)	125,945
Inventec Micro-Electronics Corp.	(196,505)	(9,672)
Inventec Appliances Corp.	1,020,742	721,119
Inventec Corporation (Cayman) Co., Ltd.	(454,766)	(590,853)
Inventec Tomorrow Studio Corp.	-	(7,673)
Inventec Enterprise System Corp.	34,965	(91,855)
Inventec (Czech) S.R.O	(32,993)	(4,444)
Kohjinsha Co., Ltd.	(3,923)	-
Based on audited financial statements:		
Inventec Corporation (Singapore) Co., Ltd.	-	(190)
Total	<b>\$ 568,841</b>	<b>284,130</b>

For the nine-month periods ended September 30, 2005 and 2004, cash dividends from investee companies were the following:

<b>Investee</b>	<b>2005</b>	<b>2004</b>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ -	304,535
Inventec Appliances Corp.	770,355	659,690
Inventec Besta Co., Ltd.	32,720	8,180
Inventec Multimedia and Telecom Corp.	110,911	103,869
WK Technology Fund IV	-	480
Total	<b>\$ 913,986</b>	<b>1,076,754</b>

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

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

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

of prior year with the amount of \$ 304,535.

Effective March 1, 2001, wholly-owned subsidiary Inventec Corporation (Singapore) Co., Ltd. temporarily ceased operations. In July of 2005, Inventec Corp. received its partial investment return of 6,258 for the liquidation of Inventec Corporation (Singapore) Co., Ltd. As of September 2005, the liquidation procedure has not been completed.

In April 2005, the Company increased its investment which amounted to US\$12,000 in the wholly-owned subsidiary Inventec Corporation (Cayman) Co., Ltd., which is the holding company of its indirect investee in China.

In August 2005, the Company increased investment in Kohjinsha Co., Ltd. by JPY\$100,000, and its equity holding was 33.33%.

On November 2 2004, the Company sold 500,000 shares of Inventec Appliances Corp. to the underwriter for trading in Emerging Stock Market and the company decreased its equity holding in Inventec Appliances Corp from 49.31% to 49.13%. In addition, Inventec Appliances Corp. increased its capital by capitalizing its employee bonus in the appropriation of 2004 earning. For this reason, the company decreased its equity holding in Inventec Appliances Corp. from 49.13% to 48.81%.

Storage Bank Inc, Inventec Besta Co. Ltd., and WK Technology Fund IV had capital reduction in June, July and September 2005, respectively, and the company received investment return amounting to \$17,160, \$204,497 and \$8,000, respectively.

In September 2004, the company invested in the convertible preferred stock of Maxxan System Inc. reflected as prepayment for long-term investment.

In September 2004, the Company sold 10,616,000 shares of Inventec Multimedia and Telecom Co., Ltd., which decreased its equity holding from 59.6% to 54.07%. Gain on abovementioned disposal amounted to \$130,371. In November 2004, Inventec Multimedia and Telecom Co., Ltd. increased its capital in cash; however, the Company didn't subscribe to new shares resulting from this capital increase of Inventec Multimedia and Telecom Co., Ltd. Consequently, the company decreased its equity holding in Inventec Multimedia and Telecom Co., Ltd. to 48.57%. In 2005, Inventec Multimedia Co., Ltd. increased its capital by capitalizing its employee bonus in the appropriation of 2004 earnings. For this reason, the company decreased its equity holding in Inventec Multimedia and Telecom Co., Ltd. from 48.57% to 48.46%.

In April 2004, Inventec Tomorrow Studio Corp. proceeded the capital reduction. The Company received the investment return amounting to \$144,906. In November 2004, Inventec Tomorrow Studio Corp. increased its capital in cash; however, the company did not subscribe to new shares resulting from this capital increase, and the company decreased its equity holding in Inventec Tomorrow Studio Corp. from 60% to 8.57%; meanwhile the investment is accounted for under the cost method instead.

The fiscal year of Inventec Corporation (Singapore) Co., Ltd. and Kohjinsha Co., Ltd. ends on March 31 and Inventec Holding (North America) Co., Ltd. and Inventec Corporation (Scotland) Co., Ltd. had changed from a fiscal year of October 1 to September 30, to a calendar year.

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

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

Information regarding preferred stock held by the Company as of September 30, 2005 were as follows  
:

<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 of 3UP System Inc., Maxxan Systems, Inc. and Resilient System Inc. listed above may be permanent impaired and the possibility of recovery is remote. Therefore \$29,037 of investment loss is recognized.

**e Property, Plant, and Equipment**

As of September 30, 2005 and 2004, fire and auto accident insurance coverage of the property, plant, and equipment amounted to \$2,576,609 and \$3,427,144, respectively.

For the nine months ended, 2005 and 2004, interest capitalized was \$0.

**f Pension Plan**

	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Pension fund asset balance	\$ 369,132	416,778
Pension Expense		
For defined benefit sheme	63,099	57,826
For defined contribution scheme	13,964	-
Accured pension liability	352,544	357,580

**g Income Tax**

(i) Deferred income tax assets and liabilities:

	<u>September 30, 2005</u>	<u>September 30, 2004</u>
1) Total deferred income tax assets	\$ 1,197,359	703,374
2) Total deferred income tax liabilities	(440,001)	(278,120)



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

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

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

	<b><u>Nine Months Ended September 30,</u></b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
Income tax calculated per statutory tax rate	\$ 574,504	495,629
Permanent differences	(219,471)	(270,915)
Temporary differences	(43,953)	315,878
Tax-exempt income	-	(7,169)
10% surtax on undistributed earnings	134,610	-
Investment tax credits	<u>(222,845)</u>	<u>(266,712)</u>
Current income tax payable	222,845	266,711
Income tax separately levied	1,197	4,325
Prior years' income tax adjustments	(13,374)	(10,929)
Investment tax credits	(101,329)	79,906
Income tax effect of temporary differences:		
Provision and reversal of inventory obsolescence, net	13,684	(468)
Provision and reversal of loss on overseas investments, net	3,766	14,605
Provision and reversal of warranty reserve, net	(194,837)	(111,535)
Recognition of loss on investments	(75,675)	(195,968)
Recognition of unrealized intercompany gains, net	2,167	(2,530)
Recognition of unrealized foreign currency exchange gain (loss), net	310,372	(11,907)
Recognition of pension expense	(8,265)	(8,075)
Recognition of long-term Equity investment unrealized market decline	(7,259)	-
Income tax expense	<b><u>\$ 153,292</u></b>	<b><u>24,135</u></b>

- (v) The Company's tax returns through 2002 have been assessed by the Tax Authority. For the additional tax assessed during the period of 1998 to 2002, the Company has petitioned for administrative relief.

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

	<b><u>September 30, 2005</u></b>	<b><u>September 30, 2004</u></b>
Stockholder's imputation tax credit account	<b><u>\$ 65</u></b>	<b><u>34,471</u></b>
	<b><u>September 30, 2005</u></b>	<b><u>September 30, 2004</u></b>
Expected or actual deductible tax ratio	<b><u>23.06%</u></b>	<b><u>9.60%</u></b>
<b>Undistributed earnings:</b>	<b><u>September 30, 2005</u></b>	<b><u>September 30, 2004</u></b>
Accumulated prior to 1997 and before	\$ 162,139	437,138
Accumulated after 1998	2,144,766	1,963,818
Total	<b><u>\$ 2,306,905</u></b>	<b><u>2,400,956</u></b>

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

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

(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 following:

<u>Year of occurrence</u>	<u>Investment tax credits</u>	<u>Year of expiration</u>
2004	\$ 281,425	2008
2005	54,755	2009
	<u>\$ 336,180</u>	

**h Capital Increase**

On June 14, 2005, pursuant to resolutions of the annual stockholders' meeting, the company increased its capital by \$687,000 by capitalizing its earnings of \$641,000 and employee bonuses of \$45,900. Its outstanding capital following this capital increase amounted to \$22,057,000 with July 20, 2005 as the record date. The Company had completed relevant registration process for this capital increase.

On May 27, 2004, pursuant to resolutions of the annual stockholders' meeting, the Company increased its capital by \$1,110,000 by capitalizing its earnings of \$1,013,000, and employee bonuses of \$97,000. Its outstanding capital following this capital increase amounted to \$21,370,000 with July 13, 2004 as the record date. The Company had completed relevant registration process for this capital increase.

**i Earnings Distribution**

	<u>Nine Months Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
Beginning balance, January 1	\$ 2,873,406	\$ 4,685,416
Previous year's distribution:		
Provision for legal reserve	(243,627)	(423,199)
Provision for special reserve	(123,751)	-
Remuneration to directors and supervisors and employee bonuses	(160,989)	(283,879)
Cash dividends paid	(1,495,900)	(2,431,200)
Capitalization of retained earnings and employee bonus	(687,000)	(1,110,000)
Adjustments to long-term equity investments by shareholding ratio	-	5,398
Add: Net income, current period	2,144,766	1,958,420
Ending balance, September 30	<u>\$ 2,306,905</u>	<u>2,400,956</u>

**j Earnings Per Share**

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

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

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

**k Financial Instruments**

1) Financial Derivatives:

a) Amount of contracts and credit risk

<u>Financial Instrument</u>	<u>September 30, 2005</u>		<u>September 30, 2004</u>	
	<u>Contract</u>	<u>Credit</u>	<u>Contract</u>	<u>Credit</u>
Non-trading				
Forward contracts				
U.S dollars sold	<u>USD 25,000</u>	<u>\$ -</u>	<u>US\$ 10,000</u>	<u>\$ -</u>
Trading				
currency swaps	<u>EUR 20,000</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
currency swaps	<u>GBP 40,000</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
currency swaps	<u>USD 15,000</u>	<u>\$ -</u>	<u>-</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. 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 \$286,595 for the nine months ended September 30, 2005. The result was recorded as non-operating expense in the accompanying statements of operations.

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

2) Fair Value of Financial Instruments

	<b>September 30, 2005</b>	
<b>Financial Assets</b>	<b>Book Value</b>	<b>Fair Value</b>
Book value equal to fair value	\$ 67,840,314	67,840,314
Long-term investments	11,767,148	10,387,756
Total	<b>\$ 79,607,462</b>	<b>78,228,070</b>
<b>Financial Liabilities</b>		
Book value equal to fair value	<b>\$ 53,347,151</b>	<b>53,347,151</b>

  

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

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 fair value of long-term investment is based on market value if the invested is listed. 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.
- d) Fair value of derivative financial instruments is determined by the amount that the Company will pay or receive, assuming the date of contract termination falls 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.

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

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

As of September 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 September 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 September 30, 2005 and 2004, the Company's contracts with credit risk concentration were the following:

<b>Accounts Receivable, net - By Region</b>	<b>September 30, 2005</b>	<b>September 30, 2004</b>
Domestic	\$ 5,495,606	\$ 6,971,430
Asia	13,707,495	7,523,786
Europe	4,193,721	3,594,325
America	3,716,433	4,581,040
Oceania	46,540	50,424
Total	<b>\$ 27,159,795</b>	<b>22,721,005</b>

**5 Related Party Transactions**

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

<b>Name of Related Party</b>	<b>Relationship with the Company</b>
Inventec Besta Co., Ltd.	An investee company accounted for under the equity method
Inventec Appliances Corp.	"
Inventec Multimedia and Technology 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 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.

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

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

(i) Sales

For the nine-month periods ended September 30, 2005 and 2004, sales to related parties were as follows:

Name of Related Party	Nine Months Ended September 30,			
	2005		2004	
	Amount	% of Net Sales	Amount	% of Net Sales
Inventec Corporation(Scotland) Co., Ltd	\$ 10,694,462	10%	\$ 11,804,294	12%
Invertec Holding (North America) Co., Ltd.	10,791,103	10%	12,169,632	13%
Inventec Enterprise System Corp.	134,016			
Inventec Electronics (M) SDN. BHD.	14,935	-	18,350	-
Others	2,689	-	11,627	-
Total	<u>\$ 21,637,205</u>	<u>20%</u>	<u>24,003,903</u>	<u>25%</u>

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 warranty 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 warranty 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.

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

As of September 30, 2005 and 2004, unrealized gross profit of sales to related parties was \$26,074 and \$13,787, respectively.

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

(ii) Warranty Services and Product Maintenance

For the nine-month periods ended September 30, 2005 and 2004, payment to related parties for service and maintenance expenses, after netting product warranty reserve, was the following:

<b>Name of Related Party</b>	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
Inventec Holding (North America) Co., Ltd.	\$ 264,309	\$ 213,178
Inventec Corporation (Scotland) Co., Ltd.	169,609	158,571
Total	<b>\$ 433,918</b>	<b>371,749</b>

(iii) Purchases

For the nine-month periods ended September 30, 2005 and 2004, purchases of materials and goods were the following:

<b>Name of Related Party</b>	<b>Nine Months Ended September 30,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>% of Net Purchases</b>	<b>Amount</b>	<b>% of Net Purchases</b>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 92,324,735	84%	\$ 72,757,451	79%
Inventec Electronics (M) SDN. BHD.	243	-	138,440	-
Inventec Holding (North America) Co., Ltd.	122,048	-	64,799	-
Inventec Corporation (Scotland) Co., Ltd.	55,247	-	297,818	-
Total	<b>\$ 92,502,273</b>	<b>84%</b>	<b>73,258,508</b>	<b>79%</b>

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, 2005 and 2004, royalty collected from Inventec Besta Co., Ltd. was \$376 and \$1,601, respectively.

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**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-month periods ended September 2005 and 2004, royalty collected from Inventec Tomorrow Studio Corp. for the right to sell computer software amounted to \$2,818 and \$7,261, respectively.

(v) Purchase of Software

For the nine-month periods ended September 30, 2005 and 2004, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$122,469 and \$101,267, 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, 2005 and 2004, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,240 and \$17,398, respectively, with unrealized other revenue of \$2,931 and \$3,696, 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 September 30, 2005 and 2004, unrealized gain on sale of properties was \$51,958 and \$52,469, respectively, and unrealized other revenue was \$0 and \$8, 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, 2005 and 2004, unrealized gain on sale of properties was \$19,635 and \$28,625, respectively, and unrealized other revenue was \$854 and \$1,366, respectively.
- 4) For the nine-month periods ended September 30, 2005 and 2004, operating consulting fee paid to Inventec Enterprise System Corp. was \$230,985 and \$18,208, respectively, reflected as operating consulting expense.
- 5) For the nine-month periods ended September 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 \$90,285 and \$92,575, respectively, reflected as other revenue.

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

(vii) Accounts Receivable (Payable)

	<b>September 30, 2005</b>		<b>September 30, 2004</b>	
	<b>Balance</b>	<b>%</b>	<b>Balance</b>	<b>%</b>
Total notes receivable	<b>\$ 805</b>	<b>92%</b>	<b>3,952</b>	<b>36%</b>
<b>Accounts Receivable:</b>				
Inventec Holding (North America) Co., Ltd.	\$ 3,120,142	11%	\$ 4,026,666	18%
Inventec Corporation (Scotland) Co., Ltd.	3,116,165	12%	2,782,320	12%
Inventec Electronics (M) SDN. BHD.	17,556	-	2,378	-
Inventec Corporation (Hong Kong) Co., Ltd	2,712	-	44	-
Inventec Enterprise System Corp.	28,587		-	
Other	-	-	3,106	-
<b>Total</b>	<b>\$ 6,285,162</b>	<b>23%</b>	<b>6,814,514</b>	<b>30%</b>
Total other receivables	<b>\$ 1,706</b>	<b>1%</b>	<b>105,867</b>	<b>35%</b>
<b>Other financial Assets-current</b>				
Inventec Corporation (Hong Kong) Co., Ltd	\$38,020,646	99%	\$ 14,323,571	99%
Other	1,642	-	3,314	-
<b>Total</b>	<b>\$38,022,288</b>	<b>99%</b>	<b>14,326,885</b>	<b>99%</b>

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

Total notes payable	<b>\$ -</b>	<b>-</b>	<b>220</b>	<b>-</b>
<b>Accounts Payable:</b>				
Inventec Corporation (Hong Kong) Co., Ltd	\$28,904,421	61%	\$ 15,856,362	52%
Inventec Electronics (M) SDN. BHD.	-	-	932	-
Inventec Holding (North American) Co., Ltd	11,705	-	23,881	-
Inventec Enterprise System Corp.	25,740			
Inventec Corporation (Scotland) Co., Ltd.	216	-	70,001	-
Other	-	-	3,903	-
<b>Total</b>	<b>\$28,942,082</b>	<b>61%</b>	<b>15,955,079</b>	<b>52%</b>
Total payable Expense	<b>\$ -</b>	<b>-</b>	<b>115</b>	<b>-</b>
<b>Other Current Liabilities:</b>				
Inventec Corporation (Hong Kong) Co., Ltd	<b>\$ 101,489</b>	<b>9%</b>	<b>52,324</b>	<b>9%</b>

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

(viii) Guarantee and Endorsements

<u>Name of Related Party Guaranteed</u>	<u>Amount of Guarantee</u>				<u>Name of Bank</u>
	<u>September 30, 2005</u>	<u>September 30, 2004</u>	<u>September 30, 2005</u>	<u>September 30, 2004</u>	
Inventec Corporation (Hong Kong) Co., Ltd.	USD	5,450	USD	15,000	Citibank, N.A.
Inventec Corporation (Cayman) Co., Ltd.		30,000		30,000	"
Inventec Electronics (Nanking) Co., Ltd.		-		1,500	Bank of America
Inventec Electronics (Tianjin) Co., Ltd.		2,500		2,500	"
Inventec Electronics (Beijing) Co., Ltd.		1,000		1,000	"
Inventec Corp. (Shanghai) Co., Ltd.		5,000		5,000	"
Inventec Corporation (Scotland) Co., Ltd.	USD	3,000	USD	28,000	Citibank, N.A.
"	GBP	500	GBP	500	Government of Scotland
"	GBP	10,000		-	
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	EUR	-	Citibank, N.A.
Total	<b>USD</b>	<b>71,950</b>	<b>USD</b>	<b>110,000</b>	
	<b>GBP</b>	<b>10,500</b>	<b>GBP</b>	<b>500</b>	
	<b>EUR</b>	<b>1,450</b>	<b>EUR</b>	<b>-</b>	

**6 Pledged Assets**

<u>Asset</u>	<u>September 30, 2005</u>	<u>September 30, 2004</u>	<u>Purpose of pledge</u>
Refundable deposits	<b>\$ 41,029</b>	<b>56,749</b>	Customs duties, and property deposits.

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

- (a) As of September 30, 2005 and 2004, unused letters of credit amounted to US\$680 and US\$161, respectively.
- (b) As of September 30, 2005 and 2004, promissory notes issued for bank loans amounted to \$18,514,900 and \$9,103,292, respectively.
- (c) The Company had entered into a patent contract totally amounted to US\$13,400, and the Company had unpaid fee of US\$6,400 due to above contract as of September 30, 2005.

**8 Significant Catastrophic Losses: None.**

**9 Significant Subsequent Events: None.**

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**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	For the nine months ended September 30,					
	2005			2004		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Personnel expense						
Salary	\$ 362,919	1,025,265	1,388,184	\$ 367,457	804,090	1,171,547
Health and labor insurance	24,724	54,253	78,977	26,037	44,659	70,696
Pension	19,533	57,385	76,918	17,611	40,215	57,826
Other	616	62,539	63,155	12,946	57,044	69,990
Depreciation	53,514	139,417	192,931	67,158	105,561	172,719
Amortization	220,234	458	220,692	169,121	2,476	171,597

- (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.