

INVENTEC CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004
AND
INDEPENDENT AUDITORS' REPORT

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INVENTEC CORPORATION
FINANCIAL STATEMENTS

TABLE OF CONTENTS

<u>Contents</u>	<u>Page</u>
• Cover Page	1
• Table of Contents	2
• Independent Auditors' Report	3
• Balance Sheets	4
• Statements of Income	5
• Statements of Changes in Stockholders' Equity	6
• Statements of Cash Flows	7
• Notes to Financial Statements	
1. Organization and Business	8-10
2. Summary of Significant Policies	10-14
3. Reasons for and Effects of Accounting Changes	15
4. Summary of Major Accounts	15-27
5. Related Party Transactions	27-32
6. Pledged Assets	32
7. Significant Commitments and Contingencies	32
8. Significant Catastrophic Losses	32
9. Significant Subsequent Events	32
10. Others	33-34
11. Segment Information	

Independent Auditors' Report

The Board of Directors
Inventec Corporation:

We have audited the accompanying balance sheets of Inventec Corporation as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the years 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. We did not audit the financial statements of certain investee companies accounted for under the equity method, which statements reflect long-term equity investment constituting 4.97 percent and 0.60 percent of total assets and total investment loss or income constituting (6.53) percent and (0.40) percent of income before income tax in 2005 and 2004, respectively. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for the investee companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with "Rules Governing Certified Public Accountant's Examination and Certification of Financial Statements" 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 and reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Inventec Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of China.

For reference purposes, Inventec Corporation has prepared consolidated financial statements for the years ended December 31, 2005 and 2004, on which we have expressed a modified unqualified opinion.

Taipei, Taiwan, ROC
March 9, 2006

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
December 31, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

	December 31, 2005		December 31, 2004	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 2,041,808	3	4,106,164	8
Notes receivable (Note 2)				
- Other customers	93	-	357	-
- Related parties (Note 5)	-	-	378	-
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b)				
- Other customers (Note 4.b)	22,937,403	28	14,609,345	27
- Related parties (Note 5)	7,297,600	9	6,724,673	13
Receivable on sale of forward exchange contracts-net of forward exchange contracts payable	-	-	893	-
Premium on Forward Exchange Contracts	-	-	(893)	-
Other receivable - related parties	29,536,731	37	12,275,687	23
Other financial assets - current	214,756	-	252,084	-
Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c)	1,487,250	2	1,668,696	3
Prepayments and other current assets (Note 2)	103,420	-	103,069	-
Deferred tax assets - current (Notes 2 and 4.h)	1,004,790	1	731,959	1
	<u>64,623,851</u>	<u>80</u>	<u>40,472,412</u>	<u>75</u>
Long-term equity investments (Notes 2 and 4.d)				
Accounted for under the equity method	12,276,186	15	9,704,939	18
Accounted for under the cost method	1,887,639	2	1,980,353	4
	<u>14,163,825</u>	<u>17</u>	<u>11,685,292</u>	<u>22</u>
Other financial assets - non-current (Notes 6)				
	65,001	-	39,754	-
Property, Plant, and Equipment (Notes 2 and 4.e)				
Land	787,828	1	788,144	1
Buildings	427,113	1	427,252	1
Machinery	575,863	1	476,536	1
Transportation equipment	26,332	-	26,332	-
Furniture and office facilities	1,217,556	2	993,589	2
Other equipment	191,515	-	171,236	-
	<u>3,226,207</u>	<u>5</u>	<u>2,883,089</u>	<u>5</u>
Less: Accumulated depreciation	(1,561,355)	(2)	(1,347,809)	(2)
Construction in progress	8,400	-	3,704	-
Prepayment on equipment	1,347	-	40,805	-
	<u>1,674,599</u>	<u>3</u>	<u>1,579,789</u>	<u>3</u>
Intangible Assets				
Deferred Pension Cost (Notes 2)	73,820	-	59,505	-
Other Assets:				
Deferred debits - intercompany loss	194,663	-	194,663	-
Deferred tax assets - non - current (Notes 2 and 4.h)	-	-	35,312	-
Other assets	77,558	-	159,322	-
	<u>272,221</u>	<u>-</u>	<u>389,297</u>	<u>-</u>
TOTAL ASSETS	\$ 80,873,317	100	54,226,049	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-Term Borrowings (Note 4.f)	\$ 2,256,148	3	-	-
Notes payable				
- Other customers	353,535	-	394,020	1
- Related parties (Note 5)	41	-	255	-
Accounts payable				
- Other customers	17,410,420	22	10,552,319	20
- Related parties	25,340,184	31	12,101,167	22
Income tax payable	330,368	-	233,084	-
Accrued expenses	683,203	1	651,223	1
Payables on forward exchange purchased, net of forward exchange contracts receivable	43,737	-	-	-
Payable on forward exchange, net of forward exchange contracts receivable	4,404	-	-	-
Advance collection	7,679	-	28,330	-
Other current liabilities	1,263,173	2	472,735	1
Estimated warranty reserve (Note 2)	2,083,166	3	1,280,193	2
	<u>49,776,058</u>	<u>62</u>	<u>25,713,326</u>	<u>47</u>
Other Liabilities:				
Accrued pension liabilities (Notes 2 and 4.g)	368,191	-	309,715	1
Deferred tax liabilities - non-current (Notes 2 and 4.h)	17,404	-	-	-
Deferred credits - intercompany profits (Note 2)	113,986	-	133,059	-
Other liabilities	12,119	-	14,198	-
	<u>511,700</u>	<u>-</u>	<u>456,972</u>	<u>1</u>
Total Liabilities	50,287,758	62	26,170,298	48
Stockholders' Equity				
Capital Stock, par value \$10 per share; authorized 2,500,000,000 shares, 2,205,700,000 shares issued and outstanding as of December 31, 2005; 2,137,000,000 shares issued and outstanding as of December 31, 2004.(Note 4.i)	22,057,000	27	21,370,000	40
Capital Surplus				
Additional paid-in capital	447,723	1	447,723	1
Capital surplus of long-term investments	962,179	1	154,943	-
Other	175	-	177	-
Retained Earnings:				
Legal reserve	3,576,880	5	3,333,253	6
Special reserve	123,751	-	-	-
Undistributed earnings (Notes 4.j)	3,415,915	4	2,873,406	5
Cumulative translation adjustments (Note 2)	7,143	-	(123,751)	-
Net loss not recognized as pension cost-long-term investments	(5,207)	-	-	-
	<u>30,585,559</u>	<u>38</u>	<u>28,055,751</u>	<u>52</u>
Total Stockholders' Equity	30,585,559	38	28,055,751	52
Commitments and Contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 80,873,317	100	54,226,049	100

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

INVENTEC CORPORATION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands, Except for Earning Per Share)

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating Revenue:				
Net sales	\$ 162,546,698	100	131,357,153	100
Technical service revenue	7,497	-	12,573	-
Net operating revenue	162,554,195	100	131,369,726	100
Operating Cost	<u>(154,888,083)</u>	<u>(95)</u>	<u>(124,239,298)</u>	<u>(94)</u>
	7,666,112	5	7,130,428	6
Unrealized intercompany profits	(25,223)	-	(33,279)	-
Realized intercompany profits	33,279	-	3,075	-
Gross margin	<u>7,674,168</u>	<u>5</u>	<u>7,100,224</u>	<u>6</u>
Operating Expenses:				
Selling expenses	(3,340,970)	(2)	(2,910,480)	(2)
Administrative expenses	(1,132,037)	(1)	(872,310)	(1)
Research and development expenses	<u>(1,600,756)</u>	<u>(1)</u>	<u>(1,411,377)</u>	<u>(1)</u>
	<u>(6,073,763)</u>	<u>(4)</u>	<u>(5,194,167)</u>	<u>(4)</u>
Income from Operations	<u>1,600,405</u>	<u>1</u>	<u>1,906,057</u>	<u>2</u>
Non-Operating Income:				
Interest income	42,493	-	106,166	-
Investment income accounted for under the equity method (Note 4.d)	1,041,244	1	19,075	-
Dividend income	-	-	480	-
Gain on disposal of properties	14,532	-	29,358	-
Gain on disposal of Investments	163,755	-	156,936	-
Foreign exchange gain	271,166	-	-	-
Gain on recovery of inventory market decline	21,691	-	121,168	-
Other income	<u>373,011</u>	<u>-</u>	<u>524,421</u>	<u>-</u>
	<u>1,927,892</u>	<u>1</u>	<u>957,604</u>	<u>-</u>
Non-Operating Expenses:				
Interest expense	(83,790)	-	(25,174)	-
Investment loss (Note 4.d)	(79,877)	-	-	-
Interest expense	(82)	-	(552)	-
Foreign exchange loss	-	-	(545,380)	-
Other expenses	<u>(3,688)</u>	<u>-</u>	<u>(8,224)</u>	<u>-</u>
	<u>(167,437)</u>	<u>-</u>	<u>(579,330)</u>	<u>-</u>
Income before income tax	3,360,860	2	2,284,331	2
Income tax benefit (Note 4.h)	<u>(107,085)</u>	<u>-</u>	<u>139,836</u>	<u>-</u>
Net Income	<u>\$ 3,253,775</u>	<u>2</u>	<u>2,424,167</u>	<u>2</u>
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Earnings per share (Notes 2 and 4.k)				
Basic	<u>\$ 1.52</u>	<u>1.48</u>	<u>1.07</u>	<u>1.13</u>
Earnings per share after retroactive adjustment				
Basic	<u>\$ -</u>	<u>-</u>	<u>1.03</u>	<u>1.09</u>

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

INVENTEC CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands)

	Capital		Retained Earnings			Cumulative Translation Adjustment	Net Loss Not Recognized as Pension Cost	Total
	Stock	Surplus	Legal Reserve	Special Reserve	Undistributed Earnings			
Beginning balance, January 1, 2004	\$ 20,260,000	568,964	2,910,055	-	4,685,416	85,901	-	28,510,336
2003 earnings distribution and appropriation:								
Legal reserve	-	-	423,198	-	(423,198)	-	-	-
Compensation to directors and supervisors	-	-	-	-	(114,264)	-	-	(114,264)
Employee bonus	-	-	-	-	(169,615)	-	-	(169,615)
Employee bonus in stock dividends	97,000	-	-	-	(97,000)	-	-	-
Cash dividends distributed	-	-	-	-	(2,431,200)	-	-	(2,431,200)
Stock dividends	1,013,000	-	-	-	(1,013,000)	-	-	-
Net income for 2004	-	-	-	-	2,424,167	-	-	2,424,167
Adjustment arising from change in ownership percentage in an investee	-	33,879	-	-	12,100	-	-	45,979
Translation adjustment to long-term investments (net of income tax of \$69,884)	-	-	-	-	-	(209,652)	-	(209,652)
Ending balance, December 31, 2004	21,370,000	602,843	3,333,253	-	2,873,406	(123,751)	-	28,055,751
2004 earnings distribution and appropriation:								
Legal reserve	-	-	243,627	-	(243,627)	-	-	-
Special Reserve	-	-	-	123,751	(123,751)	-	-	-
Compensation to directors and supervisors	-	-	-	-	(62,066)	-	-	(62,066)
Employee bonus	-	-	-	-	(98,922)	-	-	(98,922)
Employee bonus in stock dividends	45,900	-	-	-	(45,900)	-	-	-
Cash dividends distributed	-	-	-	-	(1,495,900)	-	-	(1,495,900)
Stock dividends	641,100	-	-	-	(641,100)	-	-	-
Net income for 2005	-	-	-	-	3,253,775	-	-	3,253,775
Adjustment arising from change in ownership percentage in an investee	-	807,234	-	-	-	-	-	807,234
Translation adjustment to long-term investments (net of income tax of \$43,630)	-	-	-	-	-	130,894	-	130,894
Raising from net loss not recognized as pension cost in ownership	-	-	-	-	-	-	(5,207)	(5,207)
Ending balance, December 31, 2005	\$ 22,057,000	1,410,077	3,576,880	123,751	3,415,915	7,143	(5,207)	30,585,559

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

INVENTEC CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 and 2004
(New Taiwan Dollars in Thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 3,253,775	2,424,167
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	272,280	240,253
Amortization	272,386	273,211
Gain on disposal and scrapping of properties	(4,715)	(10,750)
Gain on disposal of deferred assets and idle assets	(51,764)	(6,141)
Gain on disposal of long-term investments, net	(163,755)	(156,936)
Gain on recovery of inventory market decline	(21,691)	(121,168)
Foreign currency exchange gain, net	(1,623)	(8,558)
Provision (Reversal) for doubtful accounts	1,608	(3,421)
Gain (loss) on investments recognized under the equity method in excess of cash dividends received	(127,258)	956,076
Loss on long-term investment market decline perpetual under the cost method	79,877	101,123
Provision for warranty reserve	802,973	527,011
Change in assets and liabilities:		
Notes and accounts receivable	(8,901,951)	(5,040,152)
Other receivable - related parties	(17,261,044)	(2,147,659)
Other financial assets - current	37,369	100,284
Forward exchange contracts receivable	362,130	(318,393)
Payables on forward exchange	(313,096)	317,500
Discount on forward exchange contracts	(893)	893
Inventories	203,137	97,266
Prepayments and other current assets	(217)	(28,698)
Deferred tax assets and liabilities, net	(263,746)	(498,863)
Notes and accounts payable	20,056,419	2,358,990
Income tax payable	97,284	233,084
Accrued expenses	31,980	(110,388)
Advance collection	(20,651)	(89,803)
Deferred credits - intercompany profits	(19,073)	11,739
Other current liabilities	736,837	123,668
Accrued pension liabilities	44,161	42,703
Net cash (used in) provided by operating activities	<u>(899,261)</u>	<u>(732,962)</u>
Cash flows from investing activities:		
Increase in long-term investments	(1,460,586)	(1,136,260)
Purchase of property and equipment	(360,536)	(386,268)
Purchase of deferred assets	(235,098)	(311,901)
Proceeds from disposal of long-term investments	215,352	303,494
Proceeds from disposal of property and equipment	5,747	34,499
Proceeds from disposal of deferred assets	26,623	28,303
Proceeds from disposal of idle assets	73,510	-
Other financial assets - non-current	(25,247)	16,848
Increase in other assets	(4,736)	(10,014)
Net cash (used in) provided by investing activities	<u>(1,764,971)</u>	<u>(1,461,299)</u>
Cash flows from financing activities:		
Compensation to directors and supervisors and employee bonuses	(160,988)	(283,879)
Increase in short-term borrowings	2,256,148	-
Cash dividends paid	(1,495,900)	(2,431,200)
Increase (decrease) in other liabilities	(2,079)	13,514
Net cash provided by (used in) financing activities	<u>597,181</u>	<u>(2,701,565)</u>
Effect of changes in foreign exchange rate	<u>2,695</u>	<u>8,558</u>
Net decrease in cash and cash equivalents	<u>(2,064,356)</u>	<u>(4,887,268)</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>\$ 2,041,808</u>	<u>4,106,164</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	<u>\$ 82,267</u>	<u>25,174</u>
Cash paid during the period for income taxes	<u>\$ 273,547</u>	<u>125,943</u>
Acquisition of properties with cash and other payables:		
Increase in property and equipment	\$ 366,661	232,438
Add: Other payables - beginning of the period	14,242	168,072
Less: Other payables - end of the period	(20,367)	(14,242)
Cash paid	<u>\$ 360,536</u>	<u>386,268</u>

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004
(Amounts 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 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. (Later known as "Inventec Electronics (M) Sdn. Bhd.")

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

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.

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- The company invested in Inventec Corporation (Cayman) Co., Ltd., for further investment in Inventec hi-tech Co., Ltd. whose major line of business is wireless phone production.
 - The company invested in Inventec Corporation Korea Branch which engages in developing wireless phone software.

As of December 31, 2005 and 2004, the average number of employees in the Company was 2,435 and 2,060, respectively.

2 Summary of Significant Accounting Policies

The Company's financial statements were prepared in accordance with "Rules Governing Certified Public Accountant's Examination Statements" and generally accepted accounting principles of the Republic of China. Summary of significant accounting policies and their measurement basis is as follows:

a Foreign Currency Translation

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.

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

b 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.

c 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.

d 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.

e 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.

f Long-Term Equity Investments

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Unrealized 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").

g Property, Plant, Equipment and Depreciation

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

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

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

h Deferred Expenses

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.

i 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. Premiums or discounts, 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.

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.

j 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 minimum rate of 6% of the employee's monthly wages. However, the Company has not yet revised its pension plan in coordination of the Act, thus any matters that is not covered by the pension plan are transacted in accordance to the act.

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

For defined contribution pension plan, the Company contributes to the Labor Pension Fund at the rate of 6% of the employee's monthly wages; contributions are reflected as current pension expense.

k Warranty Reserve

A warranty reserve is provided for products sold with warranty based on estimated warranty service cost, and in consideration of past experience. It is recognized as current or non-current liabilities depending on its nature and charged against current expense.

l 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.

m 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.

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 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 when the stockholders resolved not to distribute the earnings during their annual meeting.

p Earnings per Share ("EPS")

Basic EPS is computed based on the weighted – average number of common shares issued and outstanding. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of share is retroactively adjusted for additional shares 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. 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 \$102,744 in 2005, and the earnings per share would increase \$0.05 per share.

4 SUMMARY OF MAJOR ACCOUNTS

a Cash and Cash Equivalents

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Cash on hand	\$ 962	606
Checking accounts	1,225	4,291
Demand deposits	8,761	10,464
Time deposits	1,443,560	1,456,960
Foreign currency time deposits	56,144	2,305,559
Foreign currency deposits	23,790	93,127
Cash equivalents (short-term bills and bonds)	507,366	235,157
Total	<u>\$ 2,041,808</u>	<u>4,106,164</u>

b Accounts Receivable – Other Customers

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Accounts receivable - other customers	\$ 22,942,391	14,612,712
Less: Allowance for doubtful accounts	(4,988)	(3,367)
Net	<u>\$ 22,937,403</u>	<u>14,609,345</u>

c Inventories

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Raw materials	\$ 906,317	1,145,838
Work in process	351,544	286,141
Finished goods	426,992	439,177
Supplies-in-transit	97,200	114,034
	1,782,053	1,985,190
Less: Allowance for market decline and obsolescence	(294,803)	(316,494)
Net	<u>\$ 1,487,250</u>	<u>1,668,696</u>
Insurance coverage	<u>\$ 2,290,000</u>	<u>2,790,500</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d Long-Term Equity Investments

<u>Name of Investee Company</u>	<u>December 31, 2005</u>			<u>December 31, 2004</u>		
	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>	<u>Equity Holding</u>	<u>Book Value</u>	<u>Original Investment</u>
Carried under the equity method						
Inventec Besta Co., Ltd.	38.69%	\$ 1,057,861	560,561	38.69%	\$ 1,202,773	765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	127,761	42,655	100.00%	122,321	42,655
Inventec Corporation (Scotland) Co., Ltd.	100.00%	340,918	39,518	100.00%	318,893	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	417	630	100.00%	6,675	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	586,966	159,003	100.00%	454,256	159,003
Inventec Multimedia and Telecom Corp.	48.46%	1,162,910	936,576	48.57%	1,332,313	936,576
Inventec Micro-Electronics Corp.	70.48%	123,261	401,625	70.48%	367,825	401,625
Inventec Appliances Corp.	44.84%	4,918,955	2,171,923	49.13%	3,536,982	2,201,014
Inventec Corporation (Cayman) Co., Ltd.	100.00%	3,554,055	4,826,488	100.00%	2,063,123	3,188,058
Inventec Enterprise System Corp.	100.00%	356,066	200,000	100.00%	245,041	200,000
Inventec (Czech) S.R.O.	100.00%	27,206	85,921	100.00%	54,737	69,873
Kohjinsha Co., Ltd.	33.67%	19,810	29,698	- %	-	-
Subtotal		<u>12,276,186</u>			<u>9,704,939</u>	
Carried under the cost method						
<u>Common Stock</u>						
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.	10.08%	4,300		10.09%	26,400	
Global Strategic Investment Fund	6.45%	100,000		6.45%	100,000	
Inventec Tomorrow Studio Corp.	8.57%	38,711		8.57%	38,711	
Taiyi Print Enterprise Co., Ltd.	6.67%	48,000		6.67%	48,000	
Subtotal		<u>323,011</u>			<u>353,111</u>	
<u>Preferred Stock</u>						
E28 Limited		1,394,600			1,394,600	
3UP Systems, Inc.		-			35,718	
Universal Network Machines, Inc.		59,605			52,525	
Maxxan Systems, Inc.		40,507			67,790	
Rasilient Systems, Inc.		36,691			43,384	
Accel Semiconductor Corporation		33,225			33,225	
Subtotal		<u>1,564,628</u>			<u>1,627,242</u>	
Total		<u>1,887,639</u>			<u>1,980,353</u>	
Total		<u>\$ 14,163,825</u>			<u>\$ 11,685,292</u>	

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

For the year ended December 31, 2005 and 2004, investment income (loss) from investments in investee companies accounted for under the equity method in which the Company has controlling interest were as follows:

<u>Name of investee company</u>	<u>2005</u>	<u>2004</u>
Based on audited financial statements :		
Inventec Besta Co., Ltd.	\$ 81,904	38,331
Inventec Corporation (Hong Kong) Co., Ltd.	(721)	39,790
Inventec Corporation (Scotland) Co., Ltd.	47,761	(9,007)
Inventec Corporation (Singapore) Co., Ltd.	-	(189)
Inventec Holding (North America) Co., Ltd.	151,212	38,701
Inventec Multimedia and Telecom Corp.	(95,617)	170,803
Inventec Micro-Electronics Corp.	(245,306)	(22,979)
Inventec Appliances Corp.	1,316,414	953,194
Inventec Corporation (Cayman) Co., Ltd.	(275,046)	(1,104,830)
Inventec Enterprise System Corp.	111,025	45,041
Inventec (Czech) S.R.O	(42,031)	(21,090)
Based on financial statements prepared by investee:		
Inventec Tomorrow Studio Corp.	-	(7,567)
Kohjinsha Co., Ltd.	(8,351)	-
Total	\$ 1,041,244	120,198

For the twelve-month periods ended December 31, 2005 and 2004, cash dividends from investee companies were the following:

<u>Name of investee company</u>	<u>2005</u>	<u>2004</u>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ -	304,535
Inventec Appliances Corp.	770,356	659,690
Inventec Besta Co., Ltd.	32,719	8,180
Inventec Multimedia and Telecom Corp.	110,911	103,869
WK Technology Fund IV	-	480
Total	\$ 913,986	1,076,754

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 December 2005, the liquidation procedure has not been completed.

In April and December of 2005, the Company increased the investment amounting to US\$12,000 and US\$38,000, respectively in the wholly-owned subsidiary Inventec Corporation (Cayman) Co., Ltd., which is the holding company for indirectly investing in China.

In August 2005, the Company increased its investment amounting to US\$500 in the wholly-owned subsidiary Inventec (Czech) S.R.O. which engages in computer products assembling.

In August 2005, the Company increased its investment in Kohjinsha Co., Ltd. by JPY\$101,000, and its equity holding was 33.67%.

On November 2 of 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 earnings. For this reason, the company decreased its equity holding in Inventec Appliances Corp. from 49.13% to 48.81%. On October 21 of 2005, the company sold 2,000,000 shares of Inventec Appliances Corp. to the underwriter due to excessive shares distributed resulting its equity holding drop to 48.17%. On November 8 of 2005, Inventec Appliances Corp. increased its capital with cash thus the Company's equity holding of Inventec Appliances Corp. drop from 48.17% to 44.84%.

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 addition, the Company recognized loss due to capital reduction with the amount of \$4,941 in WK Technology Fund IV.

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%. 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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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. Due to this reason, the recognition of investment gain of 2005 is based on the operating results from October 1 of 2004 to December 31 of 2005.

Information regarding preferred stock held by the Company as of December 31, 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 Systems, 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 Universal Network Machines, Inc., Maxxan Systems, Inc. and Resilient Systems Inc. listed above may be permanently impaired and the possibility of recovery is remote. Therefore \$39,218 of investment loss is recognized. Additionally, 3UP Systems Inc. has proceeded to liquidate resulting recognized investment loss of \$35,718.

The Company has controlling interests in Inventec Holding (North America) Co., Ltd., Inventec Corp. (Scotland) Co., Ltd., Inventec Corp. (Hong Kong) Co., Ltd., Inventec Corporation (Cayman) Co., Ltd., Inventec Multimedia and Telecom Corp., Inventec Besta Co., Ltd., Inventec Micro-Electronics Corp., Inventec Enterprise System Corp. and Inventec (Czech) S.R.O. Therefore, the above investees were included in consolidated financial statements. Due to the proceeding liquidation procedures, Inventec Corporation (Singapore) Co., Ltd. was not included in the consolidated financial statements.

e Property, Plant, and Equipment

As of December 31, 2005 and 2004, fire and auto accident insurance coverage of the property, plant, and equipment amounted to \$3,055,609 and \$2,578,144, respectively.

For the year ended December 31, 2005 and 2004, interest capitalized was \$0.

f Short-Term Borrowings

<u>Types of Debt</u>	<u>Ending Balance</u>		<u>Rate</u>	<u>Credit Line</u>
<u>December 31, 2005</u>	<u>Foreign Currency</u>	<u>Amount</u>		
Credit loan	USD 68,785	<u>\$2,256,148</u>	4.82%~4.90%	<u>7,875,000</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

g Pension Plan

The Company has a pension plan covering all employees, and payment is commensurate with years of service. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. Any fraction of a year shorter than 6 months is counted as half a year and any fraction of a year longer than 6 months is counted as 1 year of service. Effective February 1987, the Company contributed to the pension fund deposited with Central Trust of China. As of December 31, 2005 and 2004, pension fund was \$348,761 and \$430,829, respectively.

Under the defined benefit scheme, the Company has the pension expense of \$29,402 for the year of 2005 and the amount has been deposited in Bureau of Labor Insurance.

According to Statement of Financial Accounting Standards No.18 (SFAS 18)"Accounting for Pension Costs", the Company's defined pension payable is determined by actuarial report.

Actuarial assumptions used for pension cost calculation in 2005 and 2004 were the following:

	<u>2005</u>	<u>2004</u>
Discount rate	3.00%	2.50%
Growth rate of compensations in the future	2.00%	1.50%
Estimated long-term rate of return on investment	3.00%	2.50%

As of December 31, 2005 and 2004, reconciliation between funded status and accrued pension :

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Benefit obligations:		
Vested benefit obligation	\$ (82,305)	(48,401)
Non-vested benefit obligation	(634,647)	(692,144)
Accumulated benefit obligation	(716,952)	(740,545)
Effect of increase in future salary	(262,332)	(180,122)
Estimated benefit obligation	(979,284)	(920,667)
Fair value of pension fund assets	348,761	430,829
Funded status	(630,523)	(489,838)
Unrecognized net transitional benefit obligation	(33,253)	(49,083)
Unamortized prior years' service cost	45,755	53,381
Unrecognized gain on pension fund assets	323,650	235,330
Retroactive recognition of accrued pension	(73,820)	(59,505)
Accrued pension liabilities	<u>\$ (368,191)</u>	<u>(309,715)</u>

As of December 31, 2005 and 2004, vested benefit was \$85,825 and \$50,049, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

In 2005 and 2004, components of net pension costs were the following:

	<u>2005</u>	<u>2004</u>
Service cost	\$ 69,215	64,176
Interest cost	27,620	21,607
Actual return on pension fund assets	\$ (5,645)	(4,878)
Gain on pension fund assets	<u>(7,280)</u>	<u>(5,248)</u>
Estimated return on pension fund assets	(12,925)	(10,126)
Amortization of unrecognized net transitional obligation	(15,831)	(15,831)
Amortized prior years service cost	7,626	7,626
Amortization of gain on pension fund	<u>8,427</u>	<u>9,962</u>
Net pension costs	<u><u>\$ 84,132</u></u>	<u><u>\$ 77,414</u></u>

h Income Tax

(i) Deferred income tax assets and liabilities:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
1) Total deferred income tax assets	\$ 1,255,162	962,864
2) Total deferred income tax liabilities	(267,776)	(195,593)

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2005		December 31, 2004	
	Amount	Income Tax Effects	Amount	Income Tax Effects
3) Temporary differences:				
- Recognition of unrealized foreign exchange loss: deductible	\$ 198,857	49,714	391,742	97,936
- Recognition of inventory market decline and obsolescence : deductible	294,803	73,701	316,494	79,124
- Recognition of loss on overseas investments: taxable	(918,869)	(229,717)	(651,805)	(162,951)
- Recognition of loss on investments: deductible	542,869	135,717	415,693	103,923
- Recognition of unrealized intercompany profits: taxable	(142,711)	(35,678)	(130,566)	(32,642)
- Cumulative translation adjustment to long-term investments: deductible (taxable)	(7,678)	(1,920)	165,001	41,250
- Cumulative translation adjustment to oversea branch: taxable	(1,846)	(461)	-	-
- Recognition of unrealized market decline with long-term investments stated at cost: deductible	176,060	44,015	101,123	25,281
- Recognition of warranty expenses: deductible	2,083,166	520,792	1,280,193	320,048
- Recognition of pension expense: deductible	282,558	70,640	241,802	60,451
- Unused balance of investment tax credits	-	360,583	-	234,851
			December 31, 2005	December 31, 2004
(ii) Deferred income tax assets - current			\$ 1,004,790	731,959
Deferred income tax liabilities - current			-	-
Net			\$ 1,004,790	731,959
(iii) Deferred income tax assets - non-current			\$ 250,372	230,905
Deferred income tax liabilities - non-current			(267,776)	(195,593)
Net			\$ (17,404)	35,312

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (iv) Income taxation calculation for 2005 and 2004 were the following:

	<u>2005</u>	<u>2004</u>
Income tax calculated per statutory tax rate	\$ 840,205	571,073
Permanent differences	(345,883)	(384,832)
Temporary differences	138,014	556,061
Tax-exempt income	(398)	(7,584)
Investment tax credits	(383,274)	(367,359)
10% surtax on undistributed earnings	134,610	-
Current income tax payable	383,274	367,359
Income tax separately levied	931	1,865
Prior years' income tax adjustments	(13,374)	64,945
Investment tax credits	(125,732)	(17,944)
Income tax effect of temporary differences:		
Recognition of unrealized foreign currency exchange loss, net	48,222	(87,592)
Provision and reversal of inventory market decline and obsolescence, net	5,423	30,292
Provision and reversal of loss on overseas investments, net	66,766	14,605
Recognition of loss on investments	(31,794)	(340,290)
Recognition of unrealized intercompany gains, net	3,036	(6,782)
Recognition of unrealized market decline on long-term investment stated at cost	(18,734)	(25,281)
Provision and reversal of warranty reserve, net	(200,744)	(131,753)
Recognition of pension expense	(10,189)	(9,260)
Income tax (benefit) expense	<u>\$ 107,085</u>	<u>(139,836)</u>

- (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:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Stockholder's imputation tax credit account	<u>\$ 79,260</u>	<u>166,908</u>
	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Expected or actual deductible tax ratio	<u>12.59%</u>	<u>23.06%</u>
Undistributed earnings:	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Accumulated prior to 1997 and before	\$ 162,140	437,139
Accumulated after 1998	3,253,775	2,436,267
Total	<u>\$ 3,415,915</u>	<u>2,873,406</u>

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 follows:

<u>Year of occurrence</u>	<u>Unused investment tax credits</u>	<u>Year of expiration</u>
2005	\$ 360,583	2009

i 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 July 20, 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.

j 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.

Pursuant to resolution of the annual stockholder's meetings held on June 14, 2005 and May 27, 2004, the Company resolved to distribute retained earnings of 2003 and 2004, the summarized distribution are shown below:

	<u>2004</u>	<u>2003</u>
Common stock dividends per share (dollars)		
Cash	0.7	1.2
Stock at par	0.3	0.5
Total	1.0	1.7
Employee bonus - stock (at par)	\$ 45,900	97,000
Employee bonus - cash	98,922	169,615
Compensation to directors and supervisors	62,066	114,264
Total	\$ 206,888	380,879

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The distributions stated above fulfilled the resolution of the Board of Directors meetings. Earnings per share after tax of 2004 and 2003 will decrease from \$1.13 and \$2.10 to \$1.03 and \$1.91 if the above employee bonus and remuneration to directors and supervisors were all distributed in cash and were recognized as current expense. Total shares issued for bonus to employee reflected total outstanding shares constituting 021% and 0.48% as of December 2004 and 2003, respectively.

The Board of Directors has yet to submit the proposal for the distribution of 2005 earnings to the stockholder's meeting for resolutions. The information of the distribution of 2005 earnings will be announced through Market Observation Post System on the internet after the stockholder's meeting.

k Earnings Per Share

EPS is calculated by dividing net income by the weighted-average shares outstanding during the period. As of December 31, 2005 and 2004, weighted-average numbers of common shares outstanding were 2,205,700,000 and 2,137,000,000, respectively. As of December 31, 2004, the number of outstanding shares retroactively adjusted due to stock dividends was 2,205,700,000.

l Financial Instruments

1) Financial Derivatives:

a) Amount of contracts and credit risk

<u>Financial Instrument</u>	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Contract</u>	<u>Credit</u>	<u>Contract</u>	<u>Credit</u>
Non-trading				
Forward contracts				
U.S. dollars sold	USD -	-	10,000	-
Trading				
Currency swaps	EUR 30,000	-	-	-
Currency swaps	GBR 40,000	-	-	-
Currency swaps	USD 15,000	-	-	-

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 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 \$478,242 for the year ended December 31, 2005. The result was recorded as non-operating expense in the accompanying statements of operations.

2) Fair Value of Financial Instruments

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets				
Book value equal to fair value	\$ 62,093,392	62,093,392	\$ 38,008,442	38,008,442
Long-term investments	14,163,825	13,026,586	11,685,292	10,861,935
Total	<u>\$ 76,257,217</u>	<u>75,119,978</u>	<u>\$ 49,693,734</u>	<u>48,870,377</u>
Financial Liabilities				
Book value equal to fair value	\$ 48,005,263	48,005,263	\$ 24,714,518	24,714,518
Non-trading financial liabilities				
-Forward Contracts				
Trading financial liabilities				
-Currency Swaps	48,141	48,141	-	-
Total	<u>\$ 48,053,404</u>	<u>48,053,404</u>	<u>\$ 24,714,518</u>	<u>24,714,518</u>

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- c) With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operations of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. The book value is used as the fair market value.
- 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 December 31, 2005 and 2004, guarantees provided by the Company to related parties for their bank loans, please refer to Note 5.(b).(viii).

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

4) Information on Concentration of Credit Risk:

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is material in relation to the Company's total credit exposure. As of December 31, 2005 and 2004, the Company's contracts with credit risk concentration were as follows:

Accounts Receivable, net - By		
Region	December 31, 2005	December 31, 2004
Domestic	\$ 7,609,420	6,687,385
Asia	13,303,688	6,452,387
Europe	5,169,240	4,207,364
America	4,111,152	3,940,086
Oceania	41,503	46,796
Total	\$ 30,235,003	21,334,018

5 Related Party Transactions

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

Name of Related Party	Relationship with the Company
Inventec Besta Co., Ltd.	An investee company accounted for under the equity method
Inventec Appliances Corp.	"
Inventec Multimedia and Telecom Corp.	"
Inventec Corporation (Scotland) Co., Ltd.	A subsidiary
Inventec Micro-Electronic Corp.	"
Inventec Corporation (Hong Kong) Co., Ltd.	"

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Inventec Holding (North America) Co., Ltd.	A subsidiary
Inventec Corporation (Cayman) Co., Ltd.	"
Inventec Enterprise System Corp.	"
Inventec (Czech) S.R.O.	"
Inventec Tomorrow Studio Corp.	Affiliate (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 (Shanghai) Co., Ltd.	A subsidiary of Inventec Corporation (Cayman) Co., Ltd.
Inventec (Pudong) Corp.	"
Inventec Electronics (M) SDN. BHD.	A subsidiary of Inventec Multimedia and Telecom Corp.

(b) Significant Transactions with Related Parties:

(i) Sales

<u>Name of Related Party</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>
Inventec Corporation (Scotland) Co., Ltd.	\$ 15,624,035	10%	16,155,594	12%
Inventec Holding (North America) Co., Ltd.	15,121,075	9%	16,601,912	13%
Inventec Enterprise System Corp.	195,384	-	29,820	-
Inventec Electronics (M) Sdn. Bhd.	14,942	-	25,178	-
Others	8,825	-	3,406	-
Total	<u>\$ 30,964,261</u>	<u>19%</u>	<u>32,815,910</u>	<u>25%</u>

The Company sold work-in-process to the assembling department of Inventec Corporation (Scotland) Co., Ltd. Prices of work-in-process is 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 between two to three 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 between two to three months.

Prices of finished goods sold to Inventec Enterprise System Corp. are the same as those with other clients. Collection period is between two to three months.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 December 31, 2005 and 2004, unrealized gross profit of sales to related parties was \$25,223 and \$33,279, respectively.

(ii) Warranty Services and Product Maintenance

For the year ended December 31, 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</u>	<u>2004</u>
Inventec Holding (North America) Co., Ltd.	\$ 347,293	323,008
Inventec Corporation (Scotland) Co., Ltd.	234,403	215,672
Total	<u>\$ 581,696</u>	<u>538,680</u>

(iii) Purchases

For the year ended December 31, 2005 and 2004, purchases of materials and goods were as follows:

<u>Name of Related Party</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Net Purchases</u>	<u>Amount</u>	<u>% of Net Purchases</u>
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 130,620,938	85%	97,378,623	78%
Inventec Holding (North America) Co., Ltd.	196,434	-	148,242	-
Inventec Corporation (Scotland) Co., I	78,939	-	314,944	1%
Inventec Electronics (M) Sdn. Bhd.	242	-	123,436	-
Total	<u>\$ 130,896,553</u>	<u>85%</u>	<u>97,965,245</u>	<u>79%</u>

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 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 approximately two to three months.

The Company purchased motherboards from Inventec Electronics (M) Sdn. Bhd. at an agreed-upon price. The payment term is approximately one to three 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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

the year ended December 31, 2005 and 2004, royalty collected from Inventec Besta Co., Ltd. was \$454 and \$1,925, 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 year ended December 31, 2005 and 2004, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounting to \$7,043 and \$10,648, respectively.

(v) Purchase of Software

For the year ended December 31, 2005 and 2004, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$160,389 and \$150,771, 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 December 31, 2005 and 2004, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,200 and \$17,358, respectively, with unrealized other revenue of \$2,740 and \$3,505, 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, deferred assets and assets stated under expense, 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 December 31, 2005 and 2004, unrealized gain on sale of properties was \$50,709 and \$51,297, respectively, and unrealized other revenue was \$0 and \$5, 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. In 2005, the Company sold deferred assets and assets stated under expense, resulting in other revenue of \$5,611. As of December 31, 2005 and 2004, unrealized gain on sale of properties was \$17,388 and \$26,377, respectively, and unrealized other revenue was \$726 and \$1,238, respectively.
- 4) For the year ended December 31, 2005 and 2004, development fee paid to Inventec Enterprise System Corp. was \$311,255 and \$128,829, respectively.
- 5) For the year ended December 31, 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 \$101,879 and \$117,744, respectively, reflected as other revenue.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- 6) In 2005, the Company sold properties and assets stated under expense to Inventec Tomorrow Studio Corp. resulting in a gain on property disposition of \$47,688.

(vii) Accounts Receivable (Payable)

	December 31, 2005		December 31, 2004	
	Amount	%	Amount	%
Total notes receivable	\$ -	-	378	51%
<u>Accounts Receivable:</u>				
Inventec Holding (North America) Co., Ltd.	\$ 3,611,394	12%	3,395,236	16%
Inventec Corporation (Scotland) Co., Ltd.	3,627,295	12%	3,309,976	16%
Inventec Enterprise System Corp.	50,196	-	12,834	-
Inventec Corporation (Hong Kong) Co., Ltd.	4,636	-	41	-
Inventec Electronics (M) SDN. BHD.	-	-	6,586	-
Others	4,079	-	-	-
Total	\$ 7,297,600	24%	6,724,673	32%
<u>Other Receivables:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 29,474,920	100%	12,265,445	98%
Others	61,811	-	10,242	-
Total	\$ 29,536,731	100%	12,275,687	98%
Note: Mainly due to purchasing raw materials on behalf of the Company's subsidiaries.				
<u>Other Current Assets:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ -	-	14,640	-
Notes Payable:	\$ 41	-	255	-
<u>Accounts Payable:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 25,267,567	59%	12,010,871	53%
Inventec Holding (North American) Co., Ltd.	52,946	-	75,705	-
Inventec Corporation (Scotland) Co., Ltd.	19,671	-	14,460	-
Inventec Electronics (M) SDN. BHD.	-	-	131	-
Total	\$ 25,340,184	59%	12,101,167	53%
<u>Other Current Liabilities:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 75,486	5%	66,357	14%
Inventec Enterprise System Corp.	40,151	4%	17,618	4%
Others	85	-	25	-
Total	\$ 115,722	9%	84,000	18%

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(viii) Guarantee and Endorsements

<u>Name of Related Party Guaranteed</u>	<u>December 31,</u>		<u>December 31,</u>		<u>Name of Bank</u>
	<u>2005</u>		<u>2004</u>		
Inventec Corporation (Hong Kong) Co., Ltd.	USD	5,450	USD	5,450	Citibank, N.A.
Inventec Corporation (Cayman) Co., Ltd.		30,000		30,000	"
Inventec Electronics (Tianjin) Co., Ltd.		2,500		2,500	Bank of America
Inventec Electronics (Beijing) Co., Ltd.		1,000		1,000	"
Inventec (Shanghai) Co., Ltd.		5,000		5,000	"
Inventec Corporation (Scotland) Co., Ltd.	USD	3,000	USD	3,000	Citibank, N.A.
Inventec Corporation (Scotland) Co., Ltd.	GBP	500	GBP	500	Government of Scotland Hua Nan Commercial
Inventec Corporation (Scotland) Co., Ltd.	GBP	10,000	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	EUR	1,450	Citibank, N.A.
Total		<u>USD 71,950</u>		<u>USD 73,900</u>	
		<u>GBP 10,500</u>		<u>GBP 10,500</u>	
		<u>EUR 1,450</u>		<u>EUR 1,450</u>	

6 Pledged Assets

As of December 31, 2005 and 2004, pledged assets were as follows:

<u>Asset</u>	<u>December 31,</u>		<u>Purpose of pledge</u>
	<u>2005</u>		
	<u>2004</u>		
Refundable deposits	<u>\$ 65,001</u>	<u>39,754</u>	Customs duties, deposits for foreign labors and property deposits.

7 Significant Commitments And Contingencies (Excluding Related Party Transactions)

- (a) As of December 31, 2004, unused letters of credit were US\$875.
- (b) As of December 31, 2005 and 2004, promissory notes issued for bank credit limits, Industrial Development Bureau (IDB) Cooperation funds amounted to \$16,814,900 and \$20,655,292, respectively.
- (c) The Company had entered into a patent contract totally amounted to US\$15,000 and the Company had unpaid fee of US\$7,320 due to above contract as of December 31, 2005.

8 Significant Catastrophic Losses: None.

9 Significant Subsequent Events: None.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10 Other

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

Categorized as Nature	2005.12.31			2004.12.31		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Personnel expense						
Salary expense	497,020	1,466,403	1,963,423	497,182	1,105,918	1,603,100
Health and labor insurance expense	33,240	75,254	108,494	34,616	60,739	95,355
Pension expense	28,455	84,877	113,332	23,106	53,999	77,105
Other expense	13,935	89,980	103,915	547,261	73,560	620,821
Depreciation expense	73,980	197,125	271,105	86,124	146,261	232,385
Amortization expense	271,544	810	272,354	270,190	1,793	271,983

- (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. 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.
- (c) Certain numbers in 2004 financial statement has been appropriately reclassified for the presentation of 2005 financial statement. This reclassification has no material effects on the presentation of financial statement.

11 Segment Information

- (a) Industry:

The Company operates in one single industry (electronics related business).

- (b) Geographical regions:

The Company conducts its businesses only domestically and has no overseas business units.

- (c) Exports:

Region	For the Year Ended December 31,	
	2005	2004
America	\$ 65,479,685	54,201,490
Europe	69,353,794	55,711,821
Asia	20,346,240	15,720,125
Oceania	4,526,400	4,025,338
Africa	2,057,474	629,834
Total	<u>\$ 161,763,593</u>	<u>130,288,608</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(d) Major Clients

During 2005 and 2004, revenues from major customers which account for more than 10% of total revenue of the Company are as follow:

2005			2004		
<u>Client Name</u>	<u>Sales Amount</u>	<u>%</u>	<u>Client Name</u>	<u>Sales Amount</u>	<u>%</u>
HP	\$ 88,065,375	54%	HP	59,233,468	45%
Toshiba	32,932,890	20%	Toshiba	26,967,237	20%
Total	<u><u>\$ 120,998,265</u></u>	<u><u>74%</u></u>	Total	<u><u>86,200,705</u></u>	<u><u>65%</u></u>