

INVENTEC CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001
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	8-9
2. Summary of Significant Policies	10-14
3. Reasons for and Effects of Accounting Changes	15
4. Summary of Major Accounts	15-26
5. Related Party Transactions	26-31
6. Pledged Assets	31
7. Significant Commitments and Contingencies	31
8. Significant Catastrophic Losses	31
9. Significant Subsequent Events	32
10. Others	32
11. Business Segment Information	33

Independent Auditors' Report

The Board of Directors
Inventec Corporation:

We have audited the accompanying balance sheets of Inventec Corporation as of December 31, 2002 and 2001, 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, which statements reflect total assets constituting 0.57 percent and 0.54 percent and total revenues constituting 1.0 percent and 0.3 percent in 2002 and 2001, respectively, of the related totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the investee companies, is based solely upon the reports of 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, 2002 and 2001, 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, 2002 and 2001, on which we have expressed an unqualified opinion with explanatory paragraphs.

Taipei, Taiwan, R.O.C.
February 14, 2003

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, 2002 AND 2001
(New Taiwan Dollars in Thousands, Except for Share Data)

ASSETS	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Current Assets:				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 7,725,918	19	\$ 10,329,027	30
Notes receivable (Note 2)	39,599	-	4,183	-
Accounts receivable - net of allowance for doubtful accounts (Notes 2 and 4.b)				
- Other customers	4,328,161	10	3,242,035	9
- Related parties	9,922,147	24	8,682,230	25
Other receivables	208,044	-	113,385	-
Inventories, net of allowance for market value decline and obsolescence (Notes 2 and 4.c)	2,534,086	6	2,192,584	6
Prepayments and other current assets	2,664,252	6	43,320	-
Deferred tax assets (Notes 2 and 4.g)	267,299	1	300,776	1
	<u>27,689,506</u>	<u>66</u>	<u>24,907,540</u>	<u>71</u>
Long-Term Investments:				
Long-term equity investments (Notes 2 and 4.d)	11,686,401	28	7,041,728	20
Property, Plant, and Equipment (Notes 2 and 4.e)				
Land	788,870	2	1,035,730	3
Buildings	427,252	1	794,910	3
Machinery	960,222	2	1,264,203	4
Transportation equipment	24,458	-	26,599	-
Furniture and office facilities	849,137	2	731,233	2
Other equipment	391,468	1	421,978	1
Less: Accumulated depreciation	(1,609,736)	(4)	(1,706,423)	(5)
Construction in progress	-	-	20,889	-
Prepayment on equipment	460	-	5,041	-
	<u>1,832,131</u>	<u>4</u>	<u>2,594,160</u>	<u>8</u>
Other Assets:				
Deferred debits - inter-company loss (Note 2)	194,663	-	194,663	1
Other (Notes 2, 4.f, and 6)	777,201	2	171,875	-
	<u>971,864</u>	<u>2</u>	<u>366,538</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 42,179,902</u>	<u>100</u>	<u>\$ 34,909,966</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Notes payable	\$ 1,112,547	3	\$ 1,304,395	4
Accounts payable:				
- Other customers	8,809,181	21	5,947,952	17
- Related parties	4,679,387	11	870,921	2
Income tax payable	-	-	260,752	1
Accrued expenses	511,293	1	690,890	2
Advance collection	27,695	-	66,088	-
Other current liabilities	231,074	1	258,190	1
Estimated warranty reserve (Note 2)	505,554	1	585,441	1
	<u>15,876,731</u>	<u>38</u>	<u>9,984,629</u>	<u>28</u>
Other Liabilities:				
Accrued pension liabilities (Notes 2 and 4.i)	159,735	-	395,075	1
Guarantee deposits	-	-	4,023	-
Deferred tax liabilities (Notes 2 and 4.g)	385,776	1	283,711	1
Deferred credits - inter-company profits (Note 2)	213,323	1	206,022	1
Other	1,003	-	5,535	-
	<u>759,837</u>	<u>2</u>	<u>894,366</u>	<u>2</u>
Total Liabilities	<u>16,636,568</u>	<u>40</u>	<u>10,878,995</u>	<u>30</u>
Stockholders' Equity				
Capital Stock, par value \$10 per share; authorized 2,000,000,000 shares in 2002 and 2001, 1,835,000,000 shares issued and outstanding in 2002; 1,660,700,000 shares issued and outstanding in 2001.(Note 4.j)	18,350,000	44	16,607,000	48
Capital Surplus (Note 2)				
Additional paid-in capital	447,723	1	696,828	2
After-tax gain on disposition of properties	-	-	49,941	-
Capital surplus of long-term investments	121,064	-	59,731	-
Other	177	-	177	-
Retained Earnings:				
Legal reserve (Note 2)	2,575,062	6	2,193,313	6
Undistributed earnings (Note 2)	3,828,661	9	4,227,410	12
Cumulative translation adjustments (Note 2)	220,647	-	196,571	1
Total Stockholders' Equity	<u>25,543,334</u>	<u>60</u>	<u>24,030,971</u>	<u>69</u>
Commitments and Contingencies (Notes 2 and 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 42,179,902</u>	<u>100</u>	<u>\$ 34,909,966</u>	<u>99</u>

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

Please refer to Independent Auditors' Report dated February 14, 2003.

INVENTEC CORPORATION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002 AND 2001
(New Taiwan Dollars in Thousands, Except for Share Data)

	2002		2001	
	Amount	%	Amount	%
Operating Revenue :				
Gross sales	\$ 68,289,869	100	\$ 62,296,442	100
Less: Sales allowances	-	-	(36)	-
Net sales	68,289,869	100	62,296,406	100
Technical service revenue (Note 4.h)	10,009	-	1,137	-
Processing revenue	38	-	569	-
Net operating revenue	68,299,916	100	62,298,112	100
Operating Costs :				
Cost of sales	(62,561,276)	(92)	(57,636,524)	(92)
Processing costs	-	-	(1,105)	-
	5,738,640	8	4,660,483	8
Add: Unrealized gross margin, beginning of the year	102,369	-	89,459	-
Less: Unrealized gross margin, end of the year	(99,201)	-	(102,369)	-
Gross margin	5,741,808	8	4,647,573	8
Operating Expenses:				
Selling expenses	(1,826,110)	(3)	(1,545,720)	(2)
Administrative expenses	(1,071,839)	(2)	(995,036)	(2)
Research and development expenses	(953,315)	(1)	(888,781)	(1)
	(3,851,264)	(6)	(3,429,537)	(5)
Income from Operations	1,890,544	2	1,218,036	3
Non-Operating Revenues:				
Interest revenue	201,857	-	306,750	-
Investment income (Note 4.d)	747,185	1	527,821	1
Gain on disposition of property	25,409	-	12,888	-
Gain on disposition of investments	-	-	99,400	-
Foreign currency exchange gain	-	-	868,268	1
Gain on inventory market recovery	122,217	-	167,557	-
Other revenue	986,032	1	1,398,350	2
	2,082,700	2	3,381,034	4
Non-Operating Expenses:				
Interest expense	(550)	-	(17,576)	-
Loss on disposal of properties	(34)	-	(646)	-
Foreign currency exchange loss	(146,071)	-	-	-
Other losses	(426)	-	(17,819)	-
	(147,081)	-	(36,041)	-
Income before income tax	3,826,163	4	4,563,029	7
Income tax expense (Notes 2 and 4.g)	(476,232)	(1)	(785,809)	(1)
Net Income	\$ 3,349,931	3	\$ 3,777,220	6
	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (Notes 2 and 4.l)				
Basic	\$ 2.09	\$ 1.83	\$ 2.75	\$ 2.27
Earnings per share after retroactive adjustment:				
Basic	\$ -	\$ -	\$ 2.49	\$ 2.06

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

Please refer to Independent Auditors' Report dated February 14, 2003.

INVENTEC CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001
(New Taiwan Dollars in Thousands)

	Capital Stock	Capital Surplus	Retained Earnings			Cumulative Translation Adjustment	Total
			Legal Reserve	Special Reserve	Undistributed Earnings		
Beginning balance, January 1, 2001	\$ 13,758,600	\$ 1,064,065	\$ 1,810,931	\$ 92,162	\$ 4,271,455	\$ 54,717	\$ 21,051,930
2000 earnings distribution and appropriation:							
Legal reserve	-	-	382,382	-	(382,382)	-	-
Special reserve	-	-	-	(92,162)	92,162	-	-
Compensation to directors and supervisors	-	-	-	-	(103,243)	-	(103,243)
Employee bonus	-	-	-	-	(144,221)	-	(144,221)
Employee bonus in stock dividends	96,680	-	-	-	(96,680)	-	-
Stock dividends	2,476,548	-	-	-	(2,476,548)	-	-
Cash dividends distributed	-	-	-	-	-687,930	-	(687,930)
Capitalization of capital surplus	275,172	-275,172	-	-	-	-	-
Net income for 2001	-	-	-	-	3,777,220	-	3,777,220
After-tax gain on disposition of properties transferred to capital surplus	-	9,666	-	-	(9,666)	-	-
Adjustment arising from change in ownership percentage in an investee	-	8,118	-	-	(12,757)	-	(4,639)
Translation adjustment to long-term investments (net of income tax of \$47,283)	-	-	-	-	-	141,854	141,854
Ending balance, December 31, 2001	<u>\$ 16,607,000</u>	<u>\$ 806,677</u>	<u>\$ 2,193,313</u>	<u>\$ -</u>	<u>\$ 4,227,410</u>	<u>\$ 196,571</u>	<u>\$ 24,030,971</u>
Beginning balance, January 1, 2002	\$ 16,607,000	\$ 806,677	\$ 2,193,313	\$ -	\$ 4,227,410	\$ 196,571	\$ 24,030,971
2001 earnings distribution and appropriation:							
Legal reserve	-	-	381,749	-	(381,749)	-	-
Compensation to directors and supervisors	-	-	-	-	(103,072)	-	(103,072)
Employee bonus	-	-	-	-	(158,202)	-	(158,202)
Employee bonus in stock dividends	82,300	-	-	-	(82,300)	-	-
Stock dividends	1,411,595	-	-	-	(1,411,595)	-	-
Cash dividends distributed	-	-	-	-	(1,660,700)	-	(1,660,700)
Capitalization of capital surplus	249,105	(249,105)	-	-	-	-	-
Net income for 2002	-	-	-	-	3,349,931	-	3,349,931
After-tax gain on disposition of properties transferred to capital surplus	-	(49,941)	-	-	49,941	-	-
Adjustment arising from change in ownership percentage in an investee	-	61,333	-	-	(1,003)	-	60,330
Translation adjustment to long-term investments (net of income tax of \$8,025)	-	-	-	-	-	24,076	24,076
Ending balance, December 31, 2002	<u>\$ 18,350,000</u>	<u>\$ 568,964</u>	<u>\$ 2,575,062</u>	<u>\$ -</u>	<u>\$ 3,828,661</u>	<u>\$ 220,647</u>	<u>\$ 25,543,334</u>

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

Please refer to Independent Auditors' Report dated February 14, 2003.

INVENTEC CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(New Taiwan Dollars in Thousands)

	2002	2001
Cash flows from operating activities:		
Net income	\$ 3,349,931	\$ 3,777,220
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	305,376	368,027
Amortization	478,384	711,119
Gain (loss) on disposal of properties	(34,803)	360
Gain (loss) on disposal of deferred assets	(539)	26
Gain on disposition of long-term investments	-	(99,400)
Property and equipment transferred to expenses	-	457
Gain on inventory market recovery	(122,217)	(167,557)
Foreign currency exchange loss (gain), net	31,152	(77,191)
Provision (reversal) for doubtful accounts	28,811	(66,381)
Gain on investments recognized under the equity method over cash dividends received	(703,766)	(485,050)
Provision (reversal) for warranty reserve	(79,887)	180,468
Change in assets and liabilities:		
Notes and accounts receivable	(2,390,270)	5,959,967
Inventories	(219,285)	2,789,671
Other receivables	(94,659)	27,323
Foreign exchange forward contracts payable	-	(3,905,850)
Foreign exchange forward contracts receivable	-	3,958,800
Premium or discount on foreign exchange forward contracts	-	(8,273)
Prepayments and other current assets	(2,620,932)	5,221
Deferred tax assets and liabilities, net	127,517	99,938
Notes and accounts payable	6,477,847	(4,406,703)
Income tax payable	(260,752)	254,689
Accrued expenses	(179,597)	106,393
Advance collection	(38,393)	(136,730)
Deferred credits - intercompany profits	7,301	(23,869)
Other current liabilities	(28,930)	(14,644)
Accrued pension liabilities	(235,340)	76,009
Net cash provided by operating activities	3,796,949	8,924,040
Cash flows from investing activities:		
Increase in long-term investments	(3,848,476)	(927,183)
Proceeds from disposal of long-term investments	-	291,819
Purchase of property and equipment	(188,676)	(85,275)
Proceeds from disposal of property and equipment	62,994	347
Proceeds from disposal of deferred assets	906	16
Increase in deferred charges	(482,847)	(549,213)
Increase in other assets	17,722	(25,580)
Net cash used in investing activities	(4,438,377)	(1,295,069)
Cash flows from financing activities:		
Compensation to directors and supervisor and employee bonus	(261,274)	(247,464)
Cash dividends paid	(1,660,700)	(687,930)
Increase in other liabilities	(8,555)	744
Net cash used in financing activities	(1,669,255)	(687,186)
Effect of changes in foreign exchange rate	(31,152)	77,191
Net (decrease) increase in cash and cash equivalents	(2,603,109)	6,771,512
Cash and cash equivalents, beginning of the year	10,329,027	3,557,515
Cash and cash equivalents, end of the year	\$ 7,725,918	\$ 10,329,027
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest (excluding capitalized interest)	\$ 3,182	\$ 20,210
Cash paid during the year for income taxes	\$ 607,121	\$ 431,183
Acquisition of properties with cash and other payables:		
Increase in property and equipment	\$ 190,490	\$ 75,679
Add: Other payables - beginning of the year	3,230	12,826
Less: Other payables - end of the year	(5,044)	(3,230)
Cash paid	\$ 188,676	\$ 85,275

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

Please refer to Independent Auditors' Report dated February 14, 2003.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

1. OVERVIEW

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

- 1975- The Company was founded with a registered capital of \$1,000 to produce calculators and telephone sets.
- 1989- The Company started to manufacture laptops and word processors.
The Company invested in Inventec Besta Co., Ltd.
The Company commenced to manufacture a series of electronic dictionaries as well as language CDs.
- 1990- The Company built overseas manufacturing plants to manufacture telephone and facsimile machines through investing in Inventec Electronics (M) SDN. BHD.
- 1991- The Company invested in Inventec Electronics (Shanghai) Co., Ltd. through its investment in Inventec Corporation (Hong Kong) Co., Ltd. to expand software business.
- 1993- Mass production of PDA's commenced.
- 1994- The Company invested in Inventec Electronics (Nanking) Co., Ltd., Inventec Electronics (Tianjin) Co., Ltd., Inventec Electronics (Beijing) Co., Ltd. and Inventec Electronics (Xi'an) Co., Ltd. for software production.
- 1995- Mass production of multi-function, multimedia Pentium-computers commenced and a site at Wu-Ku Industrial Park for plant expansion was purchased.
- 1996- Operation of the factory in Wu-Ku commenced.
A site at Lin-Ko Industrial Park was acquired by the Company for factory expansion and construction was launched.
The Company's stock was listed in Taiwan Stock Exchange in November.
- 1997- Operation of the factories in Lin-Ko Industrial Zone commenced.
Subsidiaries of the Company in Scotland, Singapore and the United States were registered and engaged in assembling and after-sales services.
- 1998- The Company established Inventec Holding (North America) Co., Ltd. for after-sale services of its U.S. subsidiaries.
- The Company purchased Ta-Shi plant in Tao-Yuan. Production of servers and desktops commenced.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

- 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 further investment.
 - 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 Co. and Inventec Communication and Technology Co. merged to reinforce administrative efficiency, integrate resources, and reduce costs. Inventec Multimedia and Telecom Co. 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 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 continuing company after the merger.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Cash Equivalents

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

b. Notes and Accounts Receivable and Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided for by reviewing the balance of various receivables at year-end. Allowance for receivables outstanding beyond 1 year and of customers with financial difficulties is fully provided, net of likely collectible amount.

c. Inventories and Allowance for Inventory Market Decline and Obsolescence

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

d. Long-Term Equity Investments

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

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 in time, gain or loss on investments are recognized in the following year based upon the current equivalent ownership of the investee company at year-end.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

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

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

Long-term equity investments where the Company has controlling interest are accounted for under the equity method and consolidated financial statements are required according to rules set forth in the Statement of Financial Accounting Standards ("SFAS") and by the Securities and Futures Commission ("SFC") under the Ministry of Finance ("MOF").

e. Property, Plant, Equipment and Depreciation

Land is stated at cost. Depreciation is applied by the straight-line method with economic lives stipulated by the government plus 1 year's salvage value. Assets still in use after full depreciation may continue to be depreciated by estimated economic lives and salvage value. Economic lives of major property and equipment are the following:

Building	10 to 46 years
Machinery	2 to 13 years
Transportation equipment	4 to 6 years
Furniture and office facilities	3 to 18 years
Power equipment	2 to 16 years
Renovation and leasehold improvements	2 to 15 years
Miscellaneous equipment	2 to 16 years

Gain and loss on disposal of properties are included in current earnings. After-tax gain prior to the amendment of the Commercial Accounting Law in December 2001 is transferred to capital surplus in the same period.

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)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

f. Deferred Expenses

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

g. Pension Plan

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

h. Foreign Currency Translations

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

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

i. Non-Trading Financial Derivatives

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

Non-trading foreign currency options are not reflected in the balance sheet on the contract date. Upon settlement, exchange gain and loss are included in current earnings. Premium paid or collected on purchase or sale of foreign currency options is reflected as receivable or payable, and is ratably recognized over the contract term as current gain or loss.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

Since there is no physical transfer of principals in interest rate swaps, only memorandum entries of notional principals are made for non-trading swaps. Interest receivables or payables on settlement or accrued on the balance sheet date will adjust foreign exchange gain and loss on the hedged assets or liabilities.

j. Capital Surplus

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

k. Legal Reserve

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

l. Earnings Distribution and Dividends 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 set aside 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.

The Company expects to experience steady growth for 3 years from 2000. Given the long-run budget planning and funding needs and to meet shareholders' demand of cash flow, annual cash dividends paid cannot be fewer than 10% of the total current dividends.

m. Commitments and Contingencies

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

n. Revenue Recognition

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

o. Warranty Reserve

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

p. Classification of Capital and Operating Expenditures

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

q. Income Tax

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

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

r. Earnings per Share (EPS)

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

3. REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES:

Effective 2001, the Company adopted the amended SFAS No.3 "Accounting for Interest Capitalization", which broadens the scope of interest and expenses eligible for capitalization. The accounting change had remote impact upon 2001 earnings.

4. SUMMARY OF MAJOR ACCOUNTS

a. Cash and Cash Equivalents

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cash on hand	\$ 509	\$ 617
Checking accounts	13,849	16,168
Demand deposits	12,724	15,423
Time deposits	7,503,680	10,021,025
Foreign currency deposits	57,156	60,622
Cash equivalents (short-term bills)	138,000	215,172
Total	<u>\$ 7,725,918</u>	<u>\$ 10,329,027</u>

b. Accounts Receivable

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Accounts receivable - other customers	\$ 4,330,729	\$ 3,242,867
Less: Allowance for doubtful accounts	(2,568)	(832)
Net book value	<u>4,328,161</u>	<u>3,242,035</u>
Accounts receivable - related parties	9,922,147	8,682,230
Total	<u>\$ 14,250,308</u>	<u>\$ 11,924,265</u>

c. Inventories

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Raw materials	\$ 1,640,375	\$ 1,483,195
Work in process	508,152	354,193
Finished goods	833,277	1,222,067
Supplies-in-transit	24,942	33,271
	<u>3,006,746</u>	<u>3,092,726</u>
Less: Allowance for market decline and obsolescence	(472,660)	(900,142)
Net	<u>\$ 2,534,086</u>	<u>\$ 2,192,584</u>
Insurance coverage	<u>\$ 4,908,230</u>	<u>\$ 5,049,950</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

d. Long-Term Equity Investments

Name of Investee Company	December 31, 2002			December 31, 2001		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
Carried under the equity method						
Inventec Besta Co., Ltd.	38.69%	\$ 1,193,248	\$ 765,058	38.69%	\$ 1,197,803	\$ 765,058
Inventec Corporation (Hong Kong) Co., Ltd	100.00%	1,743,106	781,090	100.00%	1,482,652	781,090
Inventec Corporation (Scotland) Co., Ltd.	100.00%	233,934	39,518	100.00%	179,682	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	6,829	6,888	100.00%	7,595	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	384,704	159,003	100.00%	314,247	159,003
Inventec Multimedia and Telecom Corp.	59.71%	1,266,019	967,400	60.14%	1,224,079	967,400
Inventec Micro-Electronics Corp.	70.48%	432,381	401,625	70.48%	438,988	401,625
Inventec Online Corp.	-	-	-	69.17%	53,230	165,409
Inventec Appliances Corp.	95.03%	4,226,211	3,544,475	99.99%	1,325,657	1,099,940
Inventec Corporation (Cayman) Co., Ltd.	100.00%	416,463	556,463	100.00%	380,100	381,713
Inventec Tomorrow Studio Corp.	60.00%	208,704	298,800	60.00%	257,493	298,800
Subtotal		<u>10,111,599</u>			<u>6,861,526</u>	
Carried under the cost method						
WK Technology Fund IV	1.52%	40,000	Market Price	1.52%	40,000	Market Price
SINA.COM	0.78%	13,802	<u>\$ 72,547</u>	0.78%	13,802	<u>\$ 17,736</u>
Eastern Broadband	0.15%	100,000		0.15%	100,000	
Storage Bank Inc.	10.09%	26,400		10.09%	26,400	
E28 Limited	49.26%	1,394,600		-	-	
Subtotal		<u>1,574,802</u>			<u>180,202</u>	
Total		<u>\$11,686,401</u>			<u>\$ 7,041,728</u>	

In 2002 and 2001, gains and losses on investments where the Company has controlling interest or can exercise significant influence, carried under the equity method were the following:

	2002	2001
Inventec Besta Co., Ltd.	\$ 13,507	\$ 18,294
Inventec Corporation (Hong Kong) Co., Ltd.	255,818	192,881
Inventec Corporation (Scotland) Co., Ltd.	39,656	14,578
Inventec Corporation (Singapore) Co., Ltd.	(1,038)	(675)
Inventec Holding (North America) Co., Ltd.	65,845	28,131
Inventec Multimedia and Telecom Corp.	32,614	118,604
Inventec Micro-Electronics Corp.	15,034	24,997
Inventec Online Corp.	(9,010)	(72,222)
Inventec Appliances Corp.	515,660	248,938
Inventec Corporation (Cayman) Co., Ltd.	(138,111)	(17,198)
Inventec Tomorrow Studio Corp.	(48,790)	(41,307)
Total	<u>\$ 741,185</u>	<u>\$ 515,021</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

Registered capital of the 100%-owned subsidiary Inventec Corporation (Hong Kong.) Co., Ltd. is HK\$2,500 (US\$322), representing 2,500,000 shares. As of December 31, 2002 and 2001, application to increase capital by US\$24,865, have yet to be submitted.

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

The 100%-owned subsidiary Inventec Corporation (Cayman) Co., Ltd. was founded in November 2000 with a registered capital of US\$6,500, which was approved by Investment Commission's Letter Ruling No. (89)(2)89037593. In September 2001 and March 2002, the Company invested US\$5,000 for both years, and the investments were approved by Investment Commission's Letter Ruling No. (90)(2)90025133. As of December 31, 2002, total registered capital was US\$16,500.

The Company's investee, Inventec Appliances Corp. increased capital with cash in June 2002. Pursuant to the Company law, 10% of new shares were withheld for employee subscription. Consequently, shareholding ratio declined from 99.99% to 95.59%. In November 2002, Inventec Online Corp. merged with Inventec Appliances Corp. with Inventec Online Corp. as the surviving company. The Company's ownership in Inventec Appliances Corp. decreased to 95.03%.

In October 2002, the Company purchased 40,000,000 shares of convertible preferred stock of E28 Limited for US\$40,000. The preferred shares pay a dividend of 4% per annum and the dividend is neither cumulative nor participating.

The fiscal year of Inventec Corporation (Singapore) Co., Ltd. ends on March 31 and those of Inventec Holding (North America) Co., Ltd. and Inventec Corporation (Scotland) Co., Ltd. end on September 30.

In September 2001, the Company sold its shares of Foxconn Advanced Technology Inc.

In 2002 and 2001, cash dividends from investee companies were the following:

Name of investee company	2002	2001
Inventec Besta Co., Ltd.	\$ 16,359	\$ 6,932
Inventec Multimedia and Telecom Corp.	-	9,674
Inventec Micro-Electronics Corp.	21,060	13,365
WK Technology Fund IV	6,000	12,800
Total	\$ 43,419	\$ 42,771

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

The Company has controlling interests in Inventec Appliances Corp., Inventec Holding (North America) Co., Ltd., Inventec Corporation (Scotland) Co., Ltd., Inventec Multimedia & Telecom Corp., Inventec Corporation (Hong Kong) Co., Ltd., and Inventec Corporation (Cayman) Co., Ltd. Consolidated financial statements are required for these companies. Since total assets or total operating revenues of the investee companies Inventec Besta Co., Ltd., Inventec Corporation (Singapore) Co., Ltd., Inventec Micro-Electronics Corp., and Inventec Tomorrow Studio Corp., are not over 10% of the Company's respective accounts, and the combined total assets or operating revenues of these investee companies do not exceed 30% of the Company's respective accounts, consolidated financial statements are not required.

e. Property, Plant, and Equipment

December 31, 2002	Cost	Accumulated Depreciation	Net
Land	\$ 788,870	\$ -	\$ 788,870
Buildings	427,252	100,403	326,849
Machinery	960,222	658,096	302,126
Transportation equipment	24,458	21,924	2,534
Furniture and office facilities	849,137	582,535	266,602
Electrical equipment	255,851	140,606	115,245
Renovation	88,348	71,806	16,542
Miscellaneous equipment	47,269	34,366	12,903
Prepayment for equipment	460	-	460
Total	\$ 3,441,867	\$ 1,609,736	\$ 1,832,131

December 31, 2001			
Land	\$ 1,035,730	\$ -	\$ 1,035,730
Buildings	794,910	121,265	673,645
Machinery	1,264,203	813,062	451,141
Transportation equipment	26,599	21,879	4,720
Furniture and office facilities	731,233	501,547	229,686
Electrical equipment	257,999	120,340	137,659
Renovation	112,168	93,708	18,460
Miscellaneous equipment	51,811	34,622	17,189
Construction in progress	20,889	-	20,889
Prepayment for equipment	5,041	-	5,041
Total	\$ 4,300,583	\$ 1,706,423	\$ 2,594,160

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

As of December 31, 2002 and 2001, fire and auto accident insurance coverage of the above property, plant, and equipment amounted to \$3,943,151 and \$4,139,225, respectively.

In 2002 and 2001, interest capitalized was \$0.

f. Other Assets

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Refundable deposits	\$ 70,379	\$ 73,444
Deferred expenses	50,629	46,533
Temporary payments	8,893	32,952
Rental assets, net of accumulated depreciation	3,495	3,572
Idle assets, net of accumulated depreciation	619,918	889
Prepayment for molds and tools	23,887	14,485
Overdue accounts in collection	24,500	2,302
Less: Allowance for doubtful accounts	(24,500)	(2,302)
Total	<u>\$ 777,201</u>	<u>\$ 171,875</u>

On May 18, 1998, the Company entered into a construction agreement with Hung Chang Construction Company. The Company agreed to provide idle land and to negotiate with other landowners to demolish construction built thereupon. Hung-Chang agreed to finance the planning, design, and completion of the new building. With respect to the ownership of land and the new building, it was agreed that the Company and other landowners would have 60% of the building in exchange for 40% of the land ownership. Construction commenced in June 2000 and its was completed on September 30, 2002. The building is reflected under idle assets.

In November 2002, due to a change in operation policy, operating activities at the plant and factories located in Lin-Kou Industrial Park were decreased. Related land and buildings were transferred from property, plant, and equipment to idle assets.

As of December 31, 2002 and 2001, insurance coverage of the above idle and rental assets amounted to \$201,000 and \$5,000, respectively.

g. Income Tax

1. Deferred income tax assets and liabilities:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
a. Total deferred tax assets	\$ 306,609	\$ 469,269
b. Total deferred tax liabilities	(425,086)	(452,204)

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

c. Temporary differences:	2002		2001	
	Amount	Income Tax Effects	Amount	Income Tax Effects
- Recognition of unrealized foreign exchange loss (gain): deductible (taxable)	\$ 90,980	\$ 22,745	\$ (282,479)	\$ (70,620)
- Recognition of inventory obsolescence: deductible	472,661	118,165	900,142	225,036
- Recognition of warranty expenses: deductible	505,554	126,389	585,441	146,360
- Recognition of loss on overseas investments: taxable	(161,832)	(40,458)	(222,930)	(55,732)
- Recognition of gain on investments: taxable	(1,168,596)	(292,149)	(946,246)	(236,606)
- Recognition of unrealized inter-company profits: taxable	(75,718)	(18,930)	(94,890)	(23,722)
- Cumulative translation adjustment to long-term investments: taxable	(294,196)	(73,549)	(262,095)	(65,524)
- Recognition of pension expense: deductible	157,239	39,310	391,494	97,873
	December 31, 2002		December 31, 2001	
2. Deferred tax assets - current	\$ 267,299		\$ 371,396	
Deferred tax liabilities - current		-		(70,620)
Net	\$ 267,299		\$ 300,776	
3. Deferred tax assets - non-current	\$ 39,310		\$ 97,873	
Deferred liabilities - non-current		(425,086)		(381,584)
Net	\$ (385,776)		\$ (283,711)	

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

4. Income taxation calculation for 2002 and 2001 were the following:

	<u>2002</u>	<u>2001</u>
Income tax calculated per statutory tax rate	\$ 956,531	\$ 1,140,747
Permanent differences	(134,956)	(100,185)
Temporary differences	(137,101)	(99,936)
Tax-exempt income	(61,795)	(96,193)
Investment tax credits	(263,030)	(197,738)
Current income tax payable	<u>359,649</u>	<u>646,695</u>
Income tax separately levied	3,804	1,812
Prior years' income tax adjustments	(24,322)	13,672
10% surtax on undistributed earnings	-	23,694
Income tax effect of temporary differences:		
Provision and reversal of inventory obsolescence, net	106,871	41,898
Provision and reversal of loss on overseas investments, net	(15,274)	16,753
Provision and reversal of warranty reserve, net	19,971	(45,117)
Recognition of loss on investments	55,543	54,428
Recognition of unrealized intercompany gains, net	4,792	23,372
Recognition of unrealized foreign currency exchange loss (gain), net	(93,365)	27,636
Recognition of pension expense	58,563	(19,034)
Income tax expense	<u>\$ 476,232</u>	<u>\$ 785,809</u>

5. The Company's tax returns through 1996 have been assessed by the Tax Authority. Additional tax assessed for 1995 and 1996 was \$8,555 and \$26,455, respectively. The Company has petitioned for administrative relief.

6. Stockholders' Imputation Tax Credit Account and Tax Rate:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Stockholder's imputation tax credit account	\$ 490,605	\$ 465,534
Deductible ratio of earnings distributed to R.O.C. residents	<u>12.15%(estimated)</u>	<u>14.10%</u>
Undistributed earnings:	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Accumulated prior to 1997 and before	\$ 477,632	\$ 477,632
Accumulated after 1998	3,351,029	3,749,778
Total	<u>\$ 3,828,661</u>	<u>\$ 4,227,410</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

h. 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, 2002 and 2001, pension fund was \$378,484 and \$ 456,536 (including deposit-in-transit of \$3,621), respectively.

Actuarial assumptions used for pension cost calculation in 2002 and 2001 and the reconciliation between funded status and accrued pension liabilities per books as of December 31, 2002 and 2001 were the following:

	<u>2002</u>	<u>2001</u>
Discount rate	4.00%	5.00%
Growth rate of compensations in the future	3.00%	3.75%
Estimated long-term rate of return on investment	4.00%	5.00%

As of December 31, 2002 and 2001, reconciliation between funded status and accrued pension liabilities per books was the following:

	<u>December 31, 2002</u>	<u>December 31, 2002</u>	<u>December 31, 2002</u>	<u>December 31, 2001</u>
	(Before payment)	(Effect)	(After payment)	
Benefit obligations:				
Vested benefit obligation	\$ (14,426)	\$ -	\$ (14,426)	\$ (17,208)
Non-vested benefit obligation	<u>(745,201)</u>	<u>253,564</u>	<u>(491,637)</u>	<u>(594,340)</u>
Accumulated benefit obligation	(759,627)	253,564	(506,063)	(611,548)
Effect of increase in future salary	<u>(391,682)</u>	<u>163,702</u>	<u>(227,980)</u>	<u>(538,182)</u>
Estimated benefit obligation	(1,151,309)	417,266	(734,043)	(1,149,730)
Fair value of pension fund assets	<u>378,483</u>	<u>-</u>	<u>378,483</u>	<u>456,536</u>
Funded status	(772,826)	417,266	(355,560)	(693,194)
Unrecognized net transitional benefit obligation	(126,644)	45,899	(80,745)	(142,474)
Unrecognized gain on pension fund assets	433,785	(157,215)	276,570	440,593
Accrued pension liabilities	<u>\$ (465,685)</u>	<u>\$ 305,950</u>	<u>\$ (159,735)</u>	<u>\$ (395,075)</u>

In 2002, there were significant changes in the Company's personnel. A portion of the employees accepted retirement. Gain on payment amounted to \$309,950, reflected under salary expense as a deduction to pension fund.

As of December 31, 2002 and 2001, vested benefit obligation was \$14,426 and \$17,208, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

In 2002 and 2001, components of net pension costs were the following:

	<u>2002</u>	<u>2001</u>
Service cost	\$ 75,445	\$ 76,603
Interest cost	57,487	64,283
Actual return on pension fund assets	\$ (10,480)	\$ (31,612)
Gain on pension fund assets	<u>(12,347)</u>	<u>6,592</u>
Estimated return on pension fund assets	(22,827)	(25,020)
Amortization of unrecognized net transitional obligation	(15,831)	(15,831)
Amortization of gain on pension fund assets	19,154	20,255
Gain on payment	<u>(305,950)</u>	<u>-</u>
Net pension costs	<u>\$ (192,522)</u>	<u>\$ 120,290</u>

i. Capital Increase

On May 30, 2002, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$1,411,595, capital surplus \$249,105 and employee bonuses of \$82,300, for a total of \$1,743,000. Total capital after the increase was \$18,350,000 with July 16, 2002 as the record date. The Company completed relevant registration change.

On April 27, 2001, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$2,476,548, capital surplus of \$275,172 and employee bonuses of \$96,680, for a total of \$2,848,400. Total capital after the increase was \$16,607,000. The Company completed relevant registration change

j. Earnings Distribution

The Articles of Incorporation of the Company mandate that after-tax earnings should first offset cumulative losses, then 10% of the remainder be set aside as legal reserve. 7% and 3% of the remainder are appropriated as employee bonus and remuneration to directors and supervisors, respectively. The rest will be distributed per the proposal presented to annual stockholders' meeting for resolutions.

Information regarding the Company's 2001 earnings distribution for remuneration of directors and supervisors and employee bonuses is as follows:

	<u>Amount</u>
Employee bonus - stock	\$ 82,300
Employee bonus - cash	158,202
Compensation to directors and supervisors	<u>103,072</u>
	<u>\$ 343,574</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

The total number of employee bonus issued was 8,230,000 shares or 0.5% of the total number of shares outstanding as of December 31, 2001.

If the above employee bonus and remuneration to directors and supervisors were included in current expenses, then calculated basic earnings per share (after tax) would be \$2.07.

The proposal for the appropriation of employee bonus and remuneration to directors and supervisors for 2002 has yet to be presented in the shareholders' meeting. Information regarding employee bonus and remuneration to directors and supervisors distributed shall be posted on the market observation post system after the related meetings are held.

k. Earnings Per Share (EPS)

EPS is calculated by dividing net income by the weighted-average shares outstanding during the period. As of December 31, 2002 and 2001, weighted-average numbers of common shares outstanding were 1,835,000,000 and 1,660,700,000, respectively. As of December 31, 2001, the number of outstanding shares retroactively adjusted was 1,835,000,000 because no dividends were distributed.

l. Financial Instruments

(1) Financial Derivatives: None.

(2) Fair Value of Financial Instruments

	December 31, 2002	
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 24,886,488	\$ 24,886,488
Long-term investments	11,686,401	11,814,319
	<u>\$ 36,572,889</u>	<u>\$ 36,700,807</u>
Financial Liabilities		
Book value equal to fair value	<u>\$ 15,504,268</u>	<u>\$ 15,504,268</u>
	December 31, 2001	
Financial Assets	Book Value	Fair Value
Book value equal to fair value	\$ 22,444,304	\$ 22,444,304
Long-term investments	7,041,728	7,086,865
	<u>\$ 29,486,032</u>	<u>\$ 29,531,169</u>
Financial Liabilities		
Book value equal to fair value	<u>\$ 9,723,172</u>	<u>\$ 9,723,172</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

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

- (a) The fair value of short-term financial instruments is determined by their face value on the balance sheet. Since such instruments will mature with short notice, the face value is a reasonable basis in establishing the fair value. The method is applicable to cash and cash equivalents, notes and accounts receivable, other current assets, short-term borrowings, notes and accounts payable, and other current liabilities.
- (b) The book value of long-term investments is accounted for under the cost or the equity method based on audited or 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 non-trading foreign-denominated financial derivatives is determined by the amount 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 non-trading financial derivatives held by the Company.

(3) Financial Instruments with Off-Balance-Sheets Credit Risks:

As of December 31, 2002 and 2001, guarantees provided by the Company to related parties for their bank loans were US\$111,500, GBP500 and US\$71,500, GBP900, respectively.

As of December 31, 2002 and 2001, promissory notes issued for bank loans were \$5,913,292 and \$5,626,000, respectively.

(4) Information on Concentration of Credit Risks:

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, 2002 and 2001, the Company's contracts with credit risk concentration were the following:

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

Region	December 31, 2002	December 31, 2001
Domestic	\$ 889,065	\$ 253,821
Asia	3,443,679	1,150,990
Europe	4,975,455	6,021,581
Americas	4,902,188	4,474,097
Australia	39,921	23,776
Total	<u>\$ 14,250,308</u>	<u>\$ 11,924,265</u>

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 Corporation (Scotland) Co., Ltd.	A subsidiary
Inventec Corporation (Singapore) Co., Ltd.	"
Inventec Multimedia and Technology Corp.	"
Inventec Online Corp.	(Merged with Inventec Appliances Corp. in November 2002 and dissolved)
Inventec Micro-Electronic Corp.	A subsidiary
Inventec Appliances Corp.	"
Inventec Corporation (Hong Kong) Co., Ltd.	"
Inventec Holding (North America) Co., Ltd.	"
Inventec Corporation (Cayman) Co., Ltd.	"
Inventec Tomorrow Studio Corp.	"
Inventec Appliances (Shanghai) Co., Ltd.	A subsidiary of Inventec Corporation (Hong Kong) Co., Ltd.
Inventec Electronics (Beijing) Co., Ltd.	"
Inventec Electronics (Nanking) Co., Ltd.	"
Inventec Electronics (Tianjin) Co., Ltd.	"
Inventec Appliances (USA) Distribution Corp.	A third-level subsidiary of Inventec Appliances Corp.
Inventec Corp. (Shanghai) Co., Ltd.	A subsidiary of Inventec Corporation (Cayman) Co., Ltd.
Inventec Electronics (M) SDN. BHD.	A subsidiary of Inventec Multimedia and Telecom Corp.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

B. Significant Transactions with Related Parties:

1) Sales

Name of related party	2002		2001	
	Amount	% of net	Amount	net
Inventec Electronics (M) SDN. BHD.	\$ 665,132	1%	\$ 395,478	1%
Inventec Corporation(Scotland) Co., Ltd.	18,212,535	27%	21,616,039	35%
Invertec Holding (North America) Co., Ltd.	14,794,853	22%	8,153,053	13%
Inventec Corporation (Hong Kong) Co., Ltd.	9,083,180	13%	1,632,392	3%
Inventec Appliances Corp.	-	-	7,125	-
Others	4,055	-	617	-
Total	<u>\$ 42,759,755</u>	<u>63%</u>	<u>\$ 31,804,704</u>	<u>52%</u>

Prices of sale of motherboards to Inventec Electronics (M) SDN. BHD. are based on cost with collection terms varying between one to three months (for ordinary clients, the collection period is within 15 days.)

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

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

Prices of raw materials sold to Inventec Corporation (Hong Kong) Co., Ltd. are the same as those with other clients. Collection period averages from one to two months.

Prices of word processor supplies sold to Inventec Appliances Corp. are determined by the cost and have a collection period within four months.

As of December 31, 2002 and 2001, unrealized gross margin of sales to related parties was \$99,201 and \$102,369, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

2) Warranty Services and Product Maintenance

In 2002 and 2001, payment to related parties for service and maintenance expenses, after netting product warranty reserve, was the following:

Related Party	2002	2001
Inventec Holding (North America) Co., Ltd.	\$ 266,665	\$ 232,563
Inventec Corporation (Scotland) Co., Ltd.	139,939	124,722
Inventec Corporation (Singapore) Co., Ltd.	-	2,767
Total	<u>\$ 406,604</u>	<u>\$ 360,052</u>

3) Purchases

In 2002 and 2001, purchases of materials and goods were the following:

	2002		2001	
	Amount	% of Net	Amount	% of Net
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 12,020,654	34%	\$ 1,469,844	3%
Inventec Electronics (M) SDN. BHD.	2,039,941	6%	2,274,692	4%
Others	8,320	-	352	-
Total	<u>\$ 14,068,915</u>	<u>40%</u>	<u>\$ 3,744,888</u>	<u>7%</u>

The Company purchased motherboards from Inventec Electronics (M) SDN. BHD. at an agreed-upon price. The payment term is from 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 from two to three months.

In 2002 and 2001, unrealized gross margin of purchases from related parties, reflected as a contra account to long-term investments, was \$5,910 and \$3,279, respectively.

4) Technical Service

The Company entered into an agreement with Inventec Besta Co., Ltd., which would pay royalty to the Company on use of patents and copyrights in the manufacturing information and electronic-related products. Royalty is determined by sales volume.

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

In 2002, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounted to \$4,948.

In 2002 and 2001, royalty collected from Inventec Besta Co., Ltd. was \$5,061 and \$1,136, respectively.

5) Purchase of Software

In 2002 and 2001, purchase of software for product development from Inventec Corporation (Hong Kong) Co., Ltd., reflected as deferred expense, was \$375,799 and \$461,334, respectively. Prices were negotiated with payment terms of one to three months.

6) Others

(1) In 1999, the Company sold properties, deferred assets and trademark 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, 2002 and 2001, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,708 and \$18,109, respectively, with unrealized other revenue of \$5,040 and \$6,939, respectively.

(2) In 1999, the Company sold properties and deferred assets to Inventec Multimedia & Telecom Corp., resulting in a gain on property disposition of \$295 and other revenue of \$5,088. As of December 31, 2002 and 2001, unrealized gain on sale of properties to Inventec Multimedia & Telecom Corp. was \$0 and \$145, respectively, and unrealized other revenue was \$0.

(3) In 2002, the Company sold properties and deferred assets to Inventec Corporation (Hong Kong) Co., Ltd., resulting in a gain on property disposition of \$23,477 and other revenue of \$2,562. As of December 31, 2002, unrealized gain on sale of properties to Inventec Corporation (Hong Kong) Co., Ltd., was \$20,738 and unrealized other revenue was \$2,263.

(4) In 2000, the Company invested in Inventec Appliances Corp. with properties and deferred assets, resulting in a gain on asset disposition of \$103,713 and other revenue of \$31,693. The Company sold properties and deferred assets, resulting in a gain on property disposition of \$1,156 and other revenue of \$6,427. As of December 31, 2002 and 2001, unrealized gain on sale of properties was \$68,340 and \$78,414, respectively, and unrealized other revenue was \$33 and \$46, respectively.

(5) In 2002 and 2001, the Company subsidized Inventec Besta Co., Ltd. for warranty and advertising costs and other expenses totaling \$9,442 and \$11,620, respectively. In 2001, the Company leased MIS thereto for \$4,560. Both agreed that the payment would be made monthly and the payment term is within one month.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

(6) In 2002 and 2001, general and administrative expenses collected from Inventec Appliances Corp., Inventec Micro-Electronic Corp., Inventec Multimedia and Telecom Corp. and Inventec Tomorrow studio Corp. were \$49,775 and \$44,378, respectively, reflected as other revenue.

(7) In 2001, processing fees paid to Inventec Appliances Corp. were \$45,522.

7) Accounts Receivable (Payable)

	December 31, 2002		December 31, 2001	
	Balance	%	Balance	%
Total notes receivable	\$ 1,193	3%	\$ 1,817	43%
<u>Accounts Receivable:</u>				
Inventec Holding (North America) Co., Ltd.	\$ 2,012,237	14%	\$ 2,059,334	17%
Inventec Corporation (Scotland) Co., Ltd.	4,602,774	33%	5,325,242	45%
Inventec Electronics (M) SDN. BHD.	197,753	1%	116,218	1%
Inventec Corporation (Hong Kong) Co., Ltd.	3,109,109	22%	1,001,215	8%
Inventec Online Corp.	-	-	94	-
Inventec Appliances Corp.	-	-	180,127	2%
Inventec Multimedia and Telecom Corp.	182	-	-	-
Inventec Besta Co., Ltd.	92	-	-	-
Total	<u>\$ 9,922,147</u>	<u>70%</u>	<u>\$ 8,682,230</u>	<u>73%</u>
Other receivables, total	<u>\$ 52,867</u>	<u>38%</u>	<u>\$ 39,474</u>	<u>35%</u>
<u>Other Current Assets:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 2,557,754	96%	\$ -	-
Other	1,282	-	-	-
Total	<u>\$ 2,559,036</u>	<u>96%</u>	<u>\$ -</u>	<u>-</u>
Total notes payable	<u>\$ 2,864</u>	<u>-</u>	<u>\$ 41</u>	<u>-</u>
<u>Accounts Payable:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 4,542,200	34%	\$ 519,580	8%
Inventec Electronics (M) SDN. BHD.	137,006	1%	351,289	5%
Other	181	-	52	-
Total	<u>\$ 4,679,387</u>	<u>35%</u>	<u>\$ 870,921</u>	<u>13%</u>
<u>Other Current Liabilities:</u>				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 177,763	81%	\$ 193,120	75%
Inventec Appliances Corp.	-	-	98	-
Total	<u>\$ 177,763</u>	<u>81%</u>	<u>\$ 193,218</u>	<u>75%</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

8) Guarantee and Endorsements

Name of Related Party Guaranteed	December 31, 2002		December 31, 2001		Name of Bank
Inventec Corporation (Hong Kong) Co., Ltd.	US\$	15,000	US\$	30,000	Citibank, N.A.
Inventec Corporation (Cayman) Co., Ltd.		30,000		-	"
Inventec Appliances (Shanghai) Co., Ltd.		14,500		14,500	Bank of America
Inventec Electronics (Nanking) Co., Ltd.		1,500		1,500	"
Inventec Electronics (Tianjin) Co., Ltd.		2,500		2,500	"
Inventec Electronics (Beijing) Co., Ltd.		1,000		1,000	"
Inventec Corp. (Shanghai) Co., Ltd.		25,000		-	"
Inventec Corporation (Scotland) Co., Ltd.		-	GBP	400	Citibank, N.A.
"	GBP	500	GBP	500	Government of Scotland
"	US\$	20,000	US\$	20,000	Citibank, N.A.
Inventec Holding (North America) Co., Ltd.	US\$	2,000	US\$	2,000	Bank of America
Total	US\$	111,500	US\$	71,500	
	GBP	500	GBP	900	

6. PLEDGED ASSETS

Asset	December 31, 2002		December 31, 2001		Purpose of pledge
Refundable deposits	\$	70,379	\$	73,444	Guarantees for foreign labor, customs duties, and property deposits.

7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (EXCLUDING RELATED PARTY TRANSACTIONS)

As of December 31, 2002 and 2001, unused standby letters of credit were US\$1,721 and US\$5,854, respectively.

8. SIGNIFICANT CATASTROPHIC LOSSES: None.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

9. SIGNIFICANT SUBSEQUENT EVENTS:

On September 23, 2002, the Board of Directors resolved to sell shares of Inventec Appliances Corp. held by Inventec Corporation (Hong Kong) to Inventec Appliances (Cayman) Holding Corporation, an investee of Inventec Appliances Corp. The shares were transferred on January 2, 2003 for a price of \$1,110,747.

10. OTHERS:

a. Long-term equity investments acquired in 2002

Name of security	Shares of Inventec Appliances Corp.	Shares of E28 Limited
Date	June 2002	October 2002
Transaction volume	91,165,032 shares	40,000,000 shares
Price per share	\$25 per share	US\$ 1 per share
Transaction amount	\$2,279,126	US\$40,000
Transacting party	Inventec Appliances Corp.	E28 Limited
Relationship with transacting party	Investee with 95.03% ownership	Investee with 49.26% ownership of preferred stock
Method of transaction	Cash capitalization	Cash capitalization
Determination of price	Price of cash capitalization	Par value
Purpose	Long-term investment	Long-term investment

b. On October 13, 2000, Samsung Electronics Co., Ltd. named the Company and 10 other parties as defendants for patents infringement in California district court. The plaintiff claimed that the defendants violated its U.S. patents Nos. 568011, 4685082, 4503525, 5588054, 5228128, and 5333273. The Company has appointed a counsel for the litigation.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
Years Ended December 31, 2002 and 2001
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

11. BUSINESS SEGMENT INFORMATION:

a. Industry:

The Company only operates in the electronics industry.

b. Geographic Region:

The Company has only a domestic operating unit and has no overseas business unit.

c. Exports:

Area	2002	2001
Americas	\$ 27,490,109	\$ 26,074,933
Europe	21,351,206	26,822,648
Asia	15,928,029	7,239,497
Other	2,945,832	1,812,110
Total Exports	\$ 67,715,176	\$ 61,949,188

d. Major Clients:

In 2002 and 2001, clients with revenues that account for more than 10% of total revenues of the Company were the following:

2002			2001		
Client	Sales	%	Client	Sales	%
C H	\$ 20,919,120	30%	C H	\$ 30,144,513	46%
	\$ 20,919,120	30%		\$ 30,144,513	46%