

**INVENTEC CORPORATION
FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30,
2003 AND 2002
AND
INDEPENDENT ACCOUNTANTS' REVIEW
REPORT**

**Address: No. 66, Ho-Kang Street, Taipei
Telephone: (02) 2881-0721**

INVENTEC CORPORATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002

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Independent Accountants' Review Report

To the Board of Directors
Inventec Corporation:

We have reviewed the accompanying balance sheets of Inventec Corporation as of September 30, 2003 and 2002, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

Except as described in the following paragraph, we reviewed these financial statements in accordance with Statements of Auditing Standard No. 36 "Review of Financial Statements." A review is limited primarily to inquiries of company personnel and applying analytical procedures to financial data and thus provides less assurance than an audit. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. We did not perform an audit and, accordingly, we do not express an audit opinion.

As discussed in Note 4.d, as of September 30, 2003 and 2002, long-term equity investments of Inventec Corporation were \$8,463,384 and \$9,935,255, respectively. Investment income recognized under the equity method for the nine months ended September 30, 2003 and 2002, were \$1,197,510 and \$582,732, respectively, which were recognized based upon financial statements prepared by the investee companies and not reviewed in compliance with the review procedures mentioned in the preceding paragraph.

Based on our review, except for the effects of any adjustments that might have emerged had the financial statements of investee companies been reviewed by independent accountants, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles of the Republic of China.

Taipei, Taiwan, R.O.C.
October 18, 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 review such financial statements are those generally accepted and applied in the Republic of China.

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

INVENTEC CORPORATION

BALANCE SHEETS

September 30, 2003 and 2002

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

ASSETS	September 30, 2003		September 30, 2002	
	Amount	%	Amount	%
Current Assets				
Cash and cash equivalents (Notes 2 and 4)	\$ 8,651,748	19	\$ 8,486,539	21
Notes receivable (Note 2)				
Other customers	816	-	3,472	-
Related parties	20	-	1,992	-
Accounts receivable - less allowance for doubtful accounts (Notes 2 and 4)				
Other customers	7,476,038	17	3,100,077	8
Related parties	5,210,459	11	11,619,736	29
Other financial assets - current	9,154,898	20	298,643	1
Inventories, less allowance for inventory market decline and obsolescence (Notes 2 and 4)	1,689,438	4	2,678,078	7
Prepayments and other current assets	92,377	-	99,738	-
Deferred income tax assets (Notes 2 and 4)	521,544	1	250,443	1
	<u>32,797,338</u>	<u>72</u>	<u>26,538,718</u>	<u>67</u>
Long-term equity investments (Notes 2 and 4)				
Accounted for under the equity method	8,470,072	19	9,942,850	25
Accounted for under the cost method	1,561,000	3	180,202	1
Prepayment for long-term investments	69,873	-	-	-
	<u>10,100,945</u>	<u>22</u>	<u>10,123,052</u>	<u>26</u>
Other financial assets - non-current (Note 6)	<u>56,752</u>	<u>-</u>	<u>70,381</u>	<u>-</u>
Property, Plant, and Equipment (Notes 2 and 4)				
Land	788,870	2	1,035,730	3
Buildings	427,252	1	794,911	2
Machinery	544,212	1	1,049,686	3
Transportation equipment	24,458	-	25,277	-
Furniture and office facilities	899,511	2	817,387	2
Other equipment	198,293	1	395,929	1
Less: Accumulated depreciation	(1,347,358)	(3)	(1,692,406)	(4)
Construction in progress	6,657	-	-	-
Prepayment for equipment	16,145	-	8,849	-
	<u>1,558,040</u>	<u>4</u>	<u>2,435,363</u>	<u>7</u>
Other Assets				
Deferred debit - intercompany loss (Note 2)	194,663	-	194,663	-
Other assets (Notes 2 and 4)	844,929	2	129,222	-
	<u>1,039,592</u>	<u>2</u>	<u>323,885</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 45,552,667</u>	<u>100</u>	<u>\$ 39,491,399</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Notes payable	\$ 340,197	1	\$ 1,100,542	3
Accounts payable				
Other customers	8,683,362	19	7,062,576	18
Related parties	6,699,027	15	4,148,758	11
Accrued expenses	730,307	2	642,482	2
Advanced collection	41,319	-	12,857	-
Other current liabilities	167,919	-	293,376	1
Estimated warranty reserve (Note 2)	839,316	2	630,358	2
	<u>17,501,447</u>	<u>39</u>	<u>13,890,949</u>	<u>37</u>
Other Liabilities				
Accrued pension liabilities (Note 2)	194,770	1	447,699	1
Deferred income tax liabilities (Notes 2 and 4)	370,892	1	347,341	1
Deferred credit - intercompany profit (Notes 2)	132,833	-	155,943	-
Other liabilities	20,287	-	7,629	-
	<u>718,782</u>	<u>2</u>	<u>958,612</u>	<u>2</u>
Total Liabilities	<u>18,220,229</u>	<u>41</u>	<u>14,849,561</u>	<u>39</u>
Stockholders' Equity				
Capital stock, par value \$10 per share; authorized 2,500,000,000 shares, issued and outstanding 2,026,000,000 shares in September 30, 2003; authorized 2,000,000,000 shares, issued and outstanding 1,835,000,000 shares in September 30, 2002	20,260,000	44	18,350,000	46
Capital surplus (Note 2)				
Premium on stock issuance	447,723	1	447,723	1
Long-term equity investments	121,064	-	136,789	-
Others	177	-	177	-
Retained earnings:				
Legal reserve (Note 2)	2,910,055	6	2,575,062	7
Undistributed earnings (Note 2 and 4)	3,496,088	8	2,930,892	7
Cumulative translation adjustments (Note 2)	97,331	-	201,195	-
Total Stockholders' Equity	<u>27,332,438</u>	<u>59</u>	<u>24,641,838</u>	<u>61</u>
Commitments and Contingencies (Notes 2 and 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 45,552,667</u>	<u>100</u>	<u>\$ 39,491,399</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.
Please refer to Independent Accountants' Review Report dated October 18, 2003.

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

INVENTEC CORPORATION

STATEMENTS OF INCOME

Nine Months Ended September 30, 2003 and 2002

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

	Nine Months Ended September 30,			
	2003		2002	
	Amount	%	Amount	%
Operating Revenues:				
Gross sales (Note 2)	\$ 57,476,515	100	\$ 48,948,332	100
Technical services revenue (Note 4)	5,869	-	8,737	-
Processing revenue	-	-	38	-
Net operating revenues	57,482,384	100	48,957,107	100
Operating Costs:				
Cost of sales	(53,285,686)	(93)	(45,025,044)	(92)
	4,196,698	7	3,932,063	8
Add: Unrealized gross profit, beginning of period	99,201	-	102,369	-
Less: Unrealized gross profit, end of period	(8,160)	-	(61,863)	-
Gross Margin	4,287,739	7	3,972,569	8
Operating Expenses:				
Selling expense	(1,787,785)	(3)	(1,279,062)	(3)
Administrative and general expense	(907,547)	(2)	(694,925)	(1)
Research and development expense	(1,020,635)	(2)	(679,073)	(1)
	(3,715,967)	(7)	(2,653,060)	(5)
Operating Income	571,772	-	1,319,509	3
Non-Operating Income:				
Interest income	68,795	-	166,248	-
Investment income (Note 4)	1,197,294	2	588,732	1
Gain on disposal of property	19,742	-	40,795	-
Gain on disposal of investments	908,596	1	-	-
Gain on inventory market recovery	-	-	73,043	-
Other income	370,659	1	803,342	2
	2,565,086	4	1,672,160	3
Non-Operating Expenses:				
Interest expense	(399)	-	(479)	-
Loss on disposal of properties	-	-	(17)	-
Foreign exchange loss	(171,216)	1	(112,397)	-
Loss on inventory devaluation and obsolescence	(14,460)	-	-	-
Other expenses	(34,203)	-	(338)	-
	(220,278)	1	(113,231)	-
Income before income tax	2,916,580	5	2,878,438	6
Income tax benefit (expense) (Note 4)	142,198	-	(426,191)	(1)
Net income	\$ 3,058,778	5	\$ 2,452,247	5
	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (Notes 2 and 4)				
Basic	\$ 1.44	\$ 1.51	\$ 1.57	\$ 1.34
Earnings per share - retroactively adjusted				
Basic	\$ -	\$ -	\$ 1.42	\$ 1.21

**The accompanying notes are an integral part of the financial statements.
Please refer to Independent Accountants' Review Report dated October 18, 2003.**

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

INVENTEC CORPORATION
STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2003 and 2002
(New Taiwan Dollars in Thousands)

	Nine Months Ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income	\$ 3,058,778	\$ 2,452,247
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	209,709	230,275
Amortization	222,998	414,440
Gain on disposition and scrapping of property, plant, and equipment, net	(28,579)	(32,550)
Gain on disposition of deferred assets	(2,561)	(282)
Gain on disposition of long-term investments, net	(908,596)	-
Provision (reversal) for inventory devaluation	14,460	(73,043)
Foreign currency exchange gain	(78,038)	(6,710)
Allowance for doubtful accounts	4,921	15,839
Investment income recognized under the equity method over cash dividends received	(528,797)	(545,312)
Estimated warranty reserve	333,762	44,917
Changes in assets and liabilities:		
Notes and accounts receivable	1,597,653	(2,812,668)
Other financial assets - current	(6,354,614)	(182,949)
Inventories	830,188	(412,451)
Prepayments and other current assets	(20,365)	(93,297)
Deferred income tax assets and liabilities	(228,022)	112,422
Notes and accounts payable	1,121,471	4,188,608
Income tax payable	-	(260,752)
Accrued expenses	219,014	(48,408)
Advanced collection	13,624	(53,231)
Deferred credits - intercompany profit	(80,490)	(50,079)
Other current liabilities	(66,519)	11,373
Accrued pension liabilities	35,035	52,624
Net cash provided by (used in) operating activities	<u>(634,968)</u>	<u>2,951,013</u>
Cash flows from investing activities:		
Increase in long-term investments	(373,448)	(2,453,876)
Purchase of property and equipment	(135,001)	(113,182)
Purchase of deferred assets	(257,971)	(409,409)
Preceeds from disposition of long-term investments	3,229,512	-
Proceeds from disposition of property and equipment	110,166	49,016
Proceeds from disposition of deferred assets	13,035	645
Other financial assets - non-current	13,627	3,063
Decrease in other assets	7,550	47,436
Net cash provided by (used in) investing activities	<u>2,607,470</u>	<u>(2,876,307)</u>
Cash flows from financing activities:		
Compensation to directors and supervisors and employee bonuses	(226,494)	(261,275)
Cash dividends paid	(917,500)	(1,660,700)
Increase in other liabilities	19,284	(1,929)
Net cash used in financing activities	<u>(1,124,710)</u>	<u>(1,923,904)</u>
Foreign exchange effects	<u>78,038</u>	<u>6,710</u>
Net decrease in cash and cash equivalents	925,830	(1,842,488)
Cash and cash equivalents, beginning of the period	7,725,918	10,329,027
Cash and cash equivalents, end of the period	<u>\$ 8,651,748</u>	<u>\$ 8,486,539</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	<u>\$ 399</u>	<u>\$ 3,108</u>
Cash paid during the period for income tax	<u>\$ 85,825</u>	<u>\$ 574,521</u>
Purchase of property and equipment with cash and other payables:		
Increase in property and equipment	\$ 138,365	\$ 136,995
Add: Other payables - beginning of the period	5,044	3,229
Less: Other payables - end of the period	(8,408)	(27,042)
Cash paid	<u>\$ 135,001</u>	<u>\$ 113,182</u>

The accompanying notes are an integral part of the financial statements.
Please refer to Independent Accountants' Review Report dated October 18, 2003.

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**INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS
Nine Months Ended September 30, 2003 and 2002
(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 as follows:

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

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

The Company invested in 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 PDAs commenced.

1994- The Company invested in Inventec Electronics (Nanking) Co., Ltd., Inventec Electronics (Beijing) 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 its construction was launched.

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Taoyuan. 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 bought 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 Co. for software development.

2000-The PDA division was transferred to Inventec Appliances Corp. and assets valuation was used as the basis of the Company's investment.

-The Company established Inventec Communication and Technology Co. for investment business.

-The Company sold its investments in Inventec Electronics (M) SDN. BHD. to the investee company Inventec Communication and Technology Co. to integrate operation and business.

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

-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 books and electronic publications and sales.

2002-Inventec Online Corp. and Inventec Appliances Corp. merged to integrate resources. Inventec Appliances Corp. is the continuing company after the merger.

2003-The Company sold its investment in Inventec Appliances (Shanghai) Co., Ltd. to Inventec Appliances Corp.

-The Company invested in Inventec Corporation (Cayman) Co., Ltd. For further investment in Inventec (Pudong) Corp. of which parts assembling is the major line of its business.

As of September 30, 2003, the average number of employees was 1,916.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. The financial statements are based on historical cost. Summary of significant accounting policies is as follows:

a. Cash Equivalents

Cash equivalents are Treasury bills, commercial paper, and banker's acceptances with maturities within three months. Commercial paper and banker's acceptances are stated at cost and valued by the specific identification method. On the balance sheet date, 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 period-end. Allowance for receivables outstanding beyond 1 year and of clients with financial difficulties is fully provided, net of likely collectible amount.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 on the balance sheet date. 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, investment loss is recognized currently with the restated book value as the new cost.

Long-term equity investments where the Company can exercise significant influence are accounted for under the equity method. Premium or discount on investments is amortized equally over 5 years. Exchange differences from translation of foreign-denominated financial statements at period-end are reflected as translation adjustment under stockholders' equity. If the fiscal year of an investee company is different from that of the Company, equity earnings of an investee company are recognized according to equivalent ownership at period-end. If the current audited financial statements are unavailable, gain and loss on investments are recognized in the following year by the current equivalent ownership of the investee company on the balance sheet date. Majority-owned investee companies are valued by the equity method when preparing interim financial statements.

Unrealized intercompany transactions are eliminated and recorded as deferred debits. Regardless of downstream or upstream transactions, unrealized intercompany gains and losses are eliminated in proportion to the 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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

e. Property, Plant, Equipment and Depreciation

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:

Buildings	10 to 46 years
Machinery	4 to 6 years
Transportation equipment	3 to 6 years
Furniture and office facilities	2 to 10 years
Electric equipment	2 to 16 years
Renovation	2 to 14 years
Miscellaneous equipment	2 to 16 years

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.

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 unused for production for over six months, then the software will be fully reflected as other losses.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 transition 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 sheet 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 during 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 balance-sheet-date adjustment to foreign-denominated assets and liabilities by the spot rates then are included in current earnings.

i. Non-Trading Financial Derivatives

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

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 any other distribution 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% be appropriated as legal reserve. Special reserve may be set aside for operations or to meet regulations. 7% and 3% of the remainder are distributed as employee bonus and compensation for directors and supervisors, respectively. The rest is distributed per the proposal presented to annual stockholders' meeting by the Board of Directors.

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

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.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 and benefit from unearned gain and loss and 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 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, regardless of the outstanding period in which the incremental shares are issued.

3. REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES: None.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. SUMMARY OF MAJOR ACCOUNTS

a. Cash and Cash Equivalents

	<u>September 30, 2003</u>	<u>September 30, 2002</u>
Cash on hand	\$ 793	\$ 473
Checking accounts	10,150	711
Demand deposits	13,111	12,766
Time deposits	6,046,829	8,046,428
Foreign currency deposits	164,084	58,209
Cash equivalents	2,416,781	367,952
Total	<u>\$ 8,651,748</u>	<u>\$ 8,486,539</u>

b. Accounts Receivable

	<u>September 30, 2003</u>	<u>September 30, 2002</u>
Accounts receivable - other customers	\$ 7,483,189	\$ 3,114,172
Less: Allowance for doubtful accounts	(7,151)	(14,095)
Net book value	7,476,038	3,100,077
Accounts receivable - related parties	5,210,459	11,619,736
Total	<u>\$ 12,686,497</u>	<u>\$ 14,719,813</u>

c. Inventories

	<u>September 30, 2003</u>	<u>September 30, 2002</u>
Raw materials	\$ 1,073,989	\$ 2,008,008
Work in process	323,441	324,562
Finished goods	779,128	804,395
Supplies-in-transit	-	62,947
Subtotal	2,176,558	3,199,912
Less: Allowance for inventory market decline and obsolescence	(487,120)	(521,834)
Net	<u>\$ 1,689,438</u>	<u>\$ 2,678,078</u>
Insurance Coverage	<u>\$ 3,507,200</u>	<u>\$ 4,909,340</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d. Long-Term Equity Investments

Name of Investee Company	September 30, 2003			September 30, 2002		
	Ownership	Book Value	Original Investment	Ownership	Book Value	Original Investment
<u>Accounted for under the equity method</u>						
Inventec Besta Co., Ltd.	38.69%	\$ 1,194,061	\$ 765,058	38.69%	\$ 1,157,109	\$ 765,058
Inventec Corporation (Hong Kong) Co., Ltd.	100.00%	352,624	8,705	100.00%	1,729,919	781,090
Inventec Corporation (Scotland) Co., Ltd.	100.00%	274,430	39,518	100.00%	202,420	39,518
Inventec Corporation (Singapore) Co., Ltd.	100.00%	6,688	6,888	100.00%	7,595	6,888
Inventec Holding (North America) Co., Ltd.	100.00%	412,914	159,003	100.00%	429,331	159,003
Inventec Multimedia and Telecom Corp.	58.03%	1,263,453	967,400	59.71%	1,272,768	967,400
Inventec Micro-Electronics Corp.	70.48%	413,323	401,625	70.48%	432,036	401,625
Inventec Online Corp.	-	-	-	69.17%	76,902	165,409
Inventec Appliances Corp.	50.13%	2,591,184	2,489,325	95.59%	3,916,022	3,379,066
Inventec Corporation (Cayman) Co., Ltd.	100.00%	1,768,711	1,632,423	100.00%	477,933	556,463
Inventec Tomorrow Studio Corp.	60.00%	192,684	298,800	60.00%	240,815	298,800
Subtotal		<u>8,470,072</u>			<u>9,942,850</u>	
<u>Accounted for under the cost method</u>						
WK Technology Fund IV	1.52%	40,000		1.52%	40,000	<u>Market Price</u>
SINA.COM	-	-		0.78%	13,802	<u>\$ 24,240</u>
Eastern Broadband	0.15%	100,000		0.15%	100,000	
Storage Bank Inc.	10.09%	26,400		10.09%	26,400	
E 28 Limited	-	1,394,600		-	-	
Subtotal		<u>1,561,000</u>			<u>180,202</u>	
<u>Prepaid stock</u>						
Inventec (Czech) S.R.O		69,873			-	
Total		<u>\$10,100,945</u>			<u>\$10,123,052</u>	

For the nine months ended September 30, 2003 and 2002, income and loss from investments in investee companies accounted for under the equity method in which the Company has controlling interest were as follows:

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	Nine Months Ended September 30,	
	2003	2002
Based on financial statements prepared by investee companies:		
Inventec Besta Co., Ltd.	\$ 13,571	\$ (24,335)
Inventec Corporation (Hong Kong) Co., Ltd.	(24,823)	244,405
Inventec Corporation (Scotland) Co., Ltd.	32,071	23,877
Inventec Holding (North America) Co., Ltd.	32,363	126,863
Inventec Multimedia and Telecom Corp.	36,679	32,230
Inventec Micro-Electronics Corp.	(5,019)	14,108
Inventec Online Corp.	-	23,672
Inventec Appliances Corp.	789,888	234,181
Inventec Corporation (Cayman) Co., Ltd.	338,800	(75,591)
Inventec Tomorrow Studio Corp.	(16,020)	(16,678)
Based on reviewed financial statements:		
Inventec Corporation (Singapore) Co., Ltd.	(216)	-
Total	\$ 1,197,294	\$ 582,732

Registered capital of the 100%-owned subsidiary Inventec Corporation (Hong Kong) Co., Ltd. is HK\$2,500 (US\$322), representing 2,500,000 shares. On January 2, 2003, the Company sold all shares of Inventec Appliances (Shanghai) 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, resulting in a loss of \$1,518. Recognition of the gain is deferred until the shares of Inventec Appliances (Shanghai) Co., Ltd. are sold to a non-related party. As of September 30, 2003, the Company received returned capital of US\$24,865 (Reflected as advance receipts for capital in Inventec Corporation (Hong Kong) Co., Ltd.'s accounts. Cash capitalization procedures have not been processed).

Effective March 1, 2001, the 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%.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The 100%-owned subsidiary Inventec Corporation (Cayman) Co., Ltd. was founded in November 2000 with a registered capital of US\$6,500. In February and March 2003, and March 2002 the Company increased its investment by US\$31,000 and US\$5,000, and the investment were approved by Investment Commission's Letter Ruling No.(91)(2)091023283, (92)(2)091049980, and (90)(2)90025133.

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 Appliances Corp. as the surviving company. After the merger, the Company's ownership in Inventec Appliances Corp. decreased to 95.03%. On May 30, 2003, the Company's shareholders meeting resolved to sale 105,515,000 shares of Inventec Appliance Corp. in order to meet the ownership diversification requirement for Inventec Appliances Corp's application for listed stocks. Consequently, shareholding ratio declined to 50.13%.

In September 2003, the Company established Inventec (Czech) S.R.O, with a registered capital of US\$2,000. As of September 30, 2003, the Company remitted EUR1,806 and registration has not been completed.

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.

Cash dividends received from investee companies were as follows:

Name of investee company	Nine Months Ended September 30,	
	2003	2002
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 524,385	\$ -
Inventec Appliances Corp.	117,802	-
Inventec Besta Co., Ltd.	12,270	16,360
Inventec Micro-Electronics Corp.	14,040	21,060
WK Technology Fund IV	600	6,000
Total	\$ 669,097	\$ 43,420

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

e. Property, Plant and Equipment

September 30, 2003	Cost	Accumulated Depreciation	Net
Land	\$ 788,870	\$ -	\$ 788,870
Buildings	427,252	111,830	315,422
Machinery	544,212	437,729	106,483
Transportation equipment	24,458	23,147	1,311
Furniture and office facilities	899,511	621,566	277,945
Other equipment			
Electric equipment	76,862	57,952	18,910
Renovation	81,274	64,550	16,724
Miscellaneous equipment	40,157	30,584	9,573
Construction in progress	6,657	-	6,657
Prepayment for equipment	16,145	-	16,145
Total	<u>\$ 2,905,398</u>	<u>\$ 1,347,358</u>	<u>\$ 1,558,040</u>
<u>September 30, 2002</u>			
Land	\$ 1,035,730	\$ -	\$ 1,035,730
Buildings	794,911	139,766	655,145
Machinery	1,049,686	716,603	333,083
Transportation equipment	25,277	22,362	2,915
Furniture and office facilities	817,387	570,307	247,080
Other equipment			
Electric equipment	255,851	135,183	120,668
Renovation	92,444	74,135	18,309
Miscellaneous equipment	47,634	34,050	13,584
Prepayment for equipment	8,849	-	8,849
Total	<u>\$ 4,127,769</u>	<u>\$ 1,692,406</u>	<u>\$ 2,435,363</u>

As of September 30, 2003 and 2002, fire and auto accident insurance coverage of the above property, plant, and equipment amounted to \$4,452,073 and \$4,139,046, respectively.

Interest capitalized for the nine months ended September 30, 2003 and 2002, was \$0.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

f. Other Assets

	<u>September 30, 2003</u>	<u>September 30, 2002</u>
Deferred charges	\$ 75,128	\$ 41,139
Temporary payments	19,196	22,865
Assets held for lease, less accumulated depreciation	3,437	3,514
Idle assets, less accumulated depreciation	741,134	49,998
Prepayments for molds and tools	6,034	11,706
Accounts overdue	24,838	-
Less: Allowance for doubtful accounts	<u>(24,838)</u>	<u>-</u>
Total	<u>\$ 844,929</u>	<u>\$ 129,222</u>

On May 18, 1998, the Company provided idle land located at Nanjing East Road and demolished construction built thereupon. The construction of the new building and renovations was completed in late September 2002. The building is reflected under idle assets since the building is unused.

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

As of September 30, 2003 and 2002, insurance coverage of the above idle and rental assets amounted to \$76,816 and \$5,000, respectively.

g. Capital Increase

On May 30, 2003, pursuant to resolutions of the annual stockholders' meeting, the Company capitalized earnings of \$1,835,000 and employee bonuses of \$75,000, and capital increase amounted to \$1,910,000 with July 21, 2003 as the record date. Total capital stock after the increase was \$20,260,000 and the Company has secured license after change in registration.

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, and capital increase amounted to \$1,743,000. Total capital stock after the increase was \$18,350,000 with July 16, 2002 as the record date. The Company has secured license after change in registration.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

h. Earnings Distribution

	Nine Months Ended September 30,	
	2003	2002
Beginning balance, January 1	\$ 3,828,661	\$ 4,227,410
Previous year's distribution:		
Provision for legal reserve	(334,993)	(381,749)
Remuneration to directors and supervisors and employee bonuses	(226,494)	(261,275)
Cash dividends paid	(917,500)	(1,660,700)
Capitalization of retained earnings and employee bonus	(1,910,000)	(1,493,895)
Adjustments to long-term equity investments by shareholding ratio	(2,364)	(1,087)
Add: Net income, current period	3,058,778	2,452,247
Gain on disposal of fixed assets transferred to capital surplus	-	49,941
Ending balance, September 30	<u>\$ 3,496,088</u>	<u>\$ 2,930,892</u>

i. Income Tax

1. Deferred income tax assets and liabilities

	September 30, 2003	September 30, 2002
a. Total deferred income tax assets	\$ 569,803	\$ 399,091
b. Total deferred income tax liabilities	(419,151)	(495,989)

	September 30, 2003		September 30, 2002	
	Amount	Income Tax Effect	Amount	Income Tax Effect
c. Temporary differences:				
- Recognition of unrealized exchange gain: deductible	\$ 106,468	\$ 26,617	\$ (150,420)	\$ (37,605)
- Recognition of inventory market decline and obsolescence: deductible	487,119	121,780	521,834	130,458
- Recognition of warranty expenses: deductible	839,316	209,829	630,358	157,590
- Recognition of loss on overseas investments: taxable	(375,716)	(93,929)	(161,832)	(40,458)
- Recognition of gain on investments: taxable	(1,022,405)	(255,601)	(1,265,981)	(316,495)
- Recognition of unrealized intercompany profits: taxable	(148,708)	(37,177)	(137,464)	(34,366)
- Cumulative translation adjustment to long-term investments: taxable	(129,775)	(32,444)	(268,260)	(67,065)
- Recognition of pension expense: deductible	193,034	48,259	444,173	111,043
- Unused balance of investment tax credits	-	163,318	-	-

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	<u>September 30, 2003</u>	<u>September 30, 2002</u>
2. Deferred income tax assets - current	\$ 521,544	\$ 288,048
Deferred income tax liabilities - current	-	(37,605)
Net	<u>\$ 521,544</u>	<u>\$ 250,443</u>
3. Deferred income tax assets- non-current	\$ 48,259	\$ 111,043
Deferred income tax liabilities- non-current	(419,151)	(458,384)
Net	<u>\$ (370,892)</u>	<u>\$ (347,341)</u>
4. Calculation of income tax expense:	<u>Nine Months Ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
Income tax calculated per statutory tax rate	\$ 729,135	\$ 719,599
Permanent differences	(498,683)	(70,535)
Temporary differences	64,706	(112,422)
5-year tax-exempt income	(59,131)	(10,029)
Investment tax credits	(118,013)	(191,877)
Income tax payable	118,014	334,736
Income tax separately levied	1,235	3,355
Adjustment to prior years' income tax	(33,423)	(24,322)
Unused balance of investment tax credits	(163,318)	-
Income tax effect due to temporary differences:		
Provision for inventory obsolescence and market decline	(3,615)	94,578
Provision and reversal for loss on foreign investments, net	53,471	(15,274)
Reversal of provision for warranty reserve, net	(83,440)	(11,230)
Recognition of gain on investments	(36,548)	79,889
Reversal and provision of unrealized intercompany profit, net	18,247	10,644
Recognition of unrealized exchange gain	(3,872)	(33,015)
Recognition of pension expense	(8,949)	(13,170)
Income tax expense (benefit)	<u>\$ (142,198)</u>	<u>\$ 426,191</u>
5. The Company's tax returns through year 1997 have been assessed by the Tax Authority. Additional taxes for 1995, 1996, and 1997 was \$8,555, \$26,455 and \$31,743, respectively, and the Company has petitioned for administrative relief.		
6. Stockholder's Imputation Tax Credit Account ("ICA") and Tax Rate:		
	<u>September 30, 2003</u>	<u>September 30, 2002</u>
Stockholder's imputation tax credit account	<u>\$ 28,826</u>	<u>\$ 12,498</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

In 2003 and 2002, after filing the corporate income tax returns, the estimated and the actual imputation tax credit rate for earnings distributed to R.O.C. residents would approximately be 11.33% and 18.19%, respectively.

Information on unappropriated earnings:

Undistributed earnings:	September 30, 2003	September 30, 2002
Accumulated prior to 1997 and before	\$ 447,632	\$ 447,632
Accumulated after 1998	3,048,456	2,483,260
Total	<u>\$ 3,496,088</u>	<u>\$ 2,930,892</u>

j. Pension Plan

The Company has a pension plan covering all employees, and payment is commensurate with years of service. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. Any fraction of a year shorter than 6 months is counted as half a year and any fraction of a year longer than 6 months is counted as 1 year of service. Effective February 1987, the Company contributed to the pension fund deposited with Central Trust of China. As of September 30, 2003 and 2002, balance of the pension fund account was \$392,321 and \$467,444 (includes deposit-in transit of \$3,649), respectively.

k. Earnings per Share (EPS)

Earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. As of September 30, 2003 and 2002, weighted-average number of common shares outstanding was 2,026,000,000 and 1,835,000,000, respectively. As of September 30, 2002, the number of outstanding shares retroactively adjusted due to stock dividends was 2,026,000,000.

l. Information on Financial Instruments

(1) Financial Derivatives: None.

(2) Fair Value of Financial Instruments

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

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Financial Assets	September 30, 2002	
	Book Value	Fair Value
Book value equal to fair value	\$ 23,580,840	\$ 23,580,840
Long-term investments	10,123,052	10,146,998
Total financial assets	\$ 33,703,892	\$ 33,727,838
Financial Liabilities		
Book value equal to fair value	\$ 13,686,317	\$ 13,686,317

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 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 reviewed 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 the net equity worth.
- (c) With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operations of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. The book value is used as the fair market value.

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

As of September 30, 2003 and 2002, guarantees provided by the Company for bank loans to related parties amounted to US\$118,000, GBP500 and US\$121,500, GBP500, respectively.

As of September 30, 2003 and 2002, promissory notes issued for bank loans amounted to \$6,058,292 and \$5,873,000, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) Information on Concentration of Credit Risk:

Group concentration of credit risk exist if the transacting party is an individual or a number of counterparties which engage in similar activities or activities in the same region or share other similar economic characteristics that would similarly affect their ability to meet contractual obligations with changes in economic or other conditions. As of September 30, 2003 and 2002, the Company's contracts with credit risk concentration were the following:

<u>Accounts receivable, net - by region</u>	<u>September 30, 2003</u>	<u>September 30, 2002</u>
Domestic	\$ 1,356,192	\$ 643,335
Asia	3,016,572	4,810,753
Europe	3,085,313	4,286,382
America	5,176,200	4,929,827
Oceania	52,220	49,516
Total	<u>\$ 12,686,497</u>	<u>\$ 14,719,813</u>

5. RELATED PARTY TRANSACTIONS

A. Name of Related Party and Relationship with the Company:

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Inventec Besta Co., Ltd.	An investee company accounted for under the equity method
Inventec Corporation (Scotland) Co., Ltd.	A subsidiary of the Company
Inventec Corporation (Singapore) Co., Ltd.	"
Inventec Multimedia and Telecom Corp.	"
Inventec Micro-Electronics Corp.	"
Inventec Appliances Corp.	"
Inventec Corporation (Cayman) Co., Ltd.	"
Inventec Corporation (Hong Kong) Co., Ltd.	"
Inventec Holding (North America) Co., Ltd.	"
Inventec Electronics (Beijing) Co., Ltd.	A subsidiary of Inventec Corporation (Hong Kong) Co., Ltd.
Inventec Electronics (Nanking) Co., Ltd.	"
Inventec Electronics (Tianjin) Co., Ltd.	"
Inventec Appliances (Shanghai) Co., Ltd.	A third-level subsidiary of Inventec Appliances Corp.
Inventec Corporation (Shanghai) Co., Ltd.	A subsidiary of Inventec Corporation (Cayman) Co., Ltd.
Inventec (Pudong) Corp.	"
Inventec Electronics (M) SDN. BHD.	A subsidiary of Inventec Multimedia and Telecom Corp.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

B. Significant Transactions with Related Parties:

i) Sales

Related Party	Nine Months Ended September 30,			
	2003		2002	
	Amount	% Net Sales	Amount	% Net Sales
Inventec Electronics (M) SDN. BHD	\$ 277,404	-	\$ 361,031	1%
Inventec Corporation (Scotland) Co., Ltd.	9,365,607	16%	13,320,347	27%
Invertec Holding (North America) Co., Ltd.	8,946,730	16%	11,363,199	23%
Inventec Corporation (Hong Kong) Co., Ltd.	845,781	2%	5,639,393	12%
other	791	-	3,707	-
Total	\$19,436,313	34%	\$30,687,677	63%

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

The Company sold work-in-process to the assembling department of Inventec Corporation (Scotland) Co., Ltd. and upon completion of assembling, finished products were sold to 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.

Inventec Holding (North America) Co., Ltd. is an overseas warranty service and packaging center and prices of sales thereto are negotiated. Accordingly, no basis of price reference exists. Collection period depends on its collection from others and remittance and averages within three months.

Prices of raw materials sold to Inventec Corp. (H.K.) Co., Ltd. are the same as those with other clients. Collection period averages within two months.

As of September 30, 2003 and 2002, unrealized gross margin from sales to related parties was \$8,160 and \$61,863, respectively.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

ii) Warranty Services and Product Maintenance

For the nine months ended September 30, 2003 and 2002, payment to related parties for service and maintenance, after netting product warranty reserve, was the following:

<u>Related Party</u>	<u>Nine Months Ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
	<u>Amount</u>	<u>Amount</u>
Inventec Holding (North America) Co., Ltd.	\$ 214,597	\$ 174,821
Inventec Corporation (Scotland) Co., Ltd.	113,089	104,891
Total	<u>\$ 327,686</u>	<u>\$ 279,712</u>

iii) Purchases

<u>Related Party</u>	<u>Nine Months Ended September 30,</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>% Net Purchase</u>	<u>Amount</u>	<u>% Net Purchase</u>
Inventec Electronics (M) SDN. BHD.	702,641	1%	1,710,077	7%
Inventec Holding (North America) Co., Ltd.	31,108,844	59%	5,410,517	22%
Inventec Corporation (Scotland) Co., Ltd.	99,849	-	-	-
Inventec Corporation (Hong Kong) Co., Ltd.	229,807	-	-	-
Others	7,464	-	5,087	-
Total	<u>\$ 32,148,605</u>	<u>60%</u>	<u>\$ 7,125,681</u>	<u>29%</u>

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

The Company purchased finished goods and work in process from Inventec Corporation (Hong Kong) Co., Ltd, at an agreed-upon price. The payment term is approximately two to three months.

The Company purchased supplies used for warranty service from Inventec Holding (North America) Co., Ltd. at an agreed-upon price. The payment term is within two months.

The Company purchased supplies used for warranty service from Inventec Corporation (Scotland) Co., Ltd. at an agreed-upon price. The payment term is within two months.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

As of September 30, 2002, intercompany gains (reflected as an item under long-term investments) from related-party purchases amounted to \$2,244.

iv) Technical Service Revenue

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 information and electronic-related products. Royalty is determined by sales volume.

For the nine months ended September 30, 2003 and 2002, royalty collected from Inventec Besta Co., Ltd. was \$1,237 and \$3,789, 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 nine months ended September 30, 2003 and 2002, royalty collected from Inventec Tomorrow Studio Corp. for the right to sale computer software amounted to \$3,874 and \$4,948, respectively.

v) Purchase of Software

For the nine months ended September 30, 2003 and 2002, cost of software purchased from Inventec Corp. (Hong Kong) Co., Ltd., reflected as deferred expenses, was \$139,042 and \$333,689, 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 expenses, 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 September 30, 2003 and 2002, unrealized gain on sale of properties to Inventec Besta Co., Ltd. was \$17,558 and \$17,785, respectively, with unrealized other revenue of \$4,461 and \$5,232, respectively.

(2) In 1999, the Company sold properties, deferred assets, and assets stated under expense to Inventec Multimedia & Telecom Corp., resulting in a gain on property disposition of \$295 and other revenue of \$5,088. As of September 30, 2003 and 2002, there was no unrealized gain on sale of properties to Inventec Multimedia & Telecom Corp., and no unrealized other revenue.

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (3) In 2000, the Company invested in Inventec Appliances Corp. with properties, deferred assets, and assets stated under expense, resulting in a gain on property disposition of \$103,713 and other revenue of \$31,693. Sale of properties, deferred assets, and asset stated under expense resulted in gain on property disposition of \$1,156 and other revenue of \$6,427. As of September 30, 2003 and 2002, unrealized gain on property sales was \$61,838 and \$71,034, respectively, and unrealized other revenue was \$22 and \$29, respectively.
- (4) For the nine months ended September 30, 2003, the Company sold properties, deferred assets, and assets stated under expense to Inventec Corporation (Hong Kong) Co., Ltd. resulting in a gain on property disposition of \$44,946 and other revenue of \$2,562. As of September 30, 2003, unrealized gain on sale of properties \$38,788 and unrealized other revenue was \$2,007.
- (5) For the nine months ended September 30, 2003 and 2002, general and administrative expenses collected from Inventec Appliances Corp., Inventec Micro-Electronic Corp., were \$49,113 and \$34,087, respectively, reflected as other revenue.
- (6) As of September 30, 2003, promissory notes issued to Inventec Application Corp. for the Company's participation in the Ministry of Economic Affairs "Mobile Terminal Application Platform" plan amounted to \$50,292.

vii) Accounts Receivable (Payable)

	<u>September 30, 2003</u>		<u>September 30, 2002</u>	
	Amount	%	Amount	%
Notes Receivable	\$ 20	2%	\$ 1,992	35%
Accounts Receivable:				
Inventec Holding (North America) Co., Ltd.	\$ 2,630,381	21%	\$ 2,841,057	19%
Inventec Corporation (Scotland) Co., Ltd.	2,461,473	19%	4,085,742	28%
Inventec Electronics (M) SDN. BHD	51,394	-	34,399	-
Inventec Corporation (Hong Kong) Co., Ltd.	66,897	1%	4,655,326	32%
Others	314	-	3,212	-
Total	<u>\$ 5,210,459</u>	<u>41%</u>	<u>\$ 11,619,736</u>	<u>79%</u>
Other Receivables	<u>\$ 8,895</u>	<u>55%</u>	<u>\$ 88,498</u>	<u>96%</u>
Other Current Assets				
Inventec Corporation (Hong Kong) Co., Ltd.	<u>\$ 8,860,619</u>	<u>97%</u>	<u>\$ 6,266</u>	<u>2%</u>

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	September 30, 2003		September 30, 2002	
	Amount	%	Amount	%
Notes Payable	\$ 19	-	\$ 207	
Accounts Payable:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 6,567,869	43%	\$ 3,875,326	35%
Inventec Electronics (M) SDN. BHD.	131,158	1%	236,061	2%
Others	-	-	37,371	-
Total Accounts Payable	\$ 6,699,027	44%	\$ 4,148,758	37%
Other Current Liabilities:				
Inventec Corporation (Hong Kong) Co., Ltd.	\$ 92,859	55%	\$ 232,346	79%

viii) Endorsement Guarantees

As of September 30, 2003 and 2002, endorsement guarantees provided to related parties for bank loans were as follows:

Related Party Guaranteed	Amount Guaranteed		
	September 30, 2003	September 30, 2002	
Inventec Corporation (Hong Kong) Co., Ltd.	US\$ 15,000	US\$ 25,000	Citibank, N.A.
Inventec Corporation (Cayman) Co., Ltd.	US\$ 30,000	US\$ 30,000	"
Inventec Appliances (Shanghai) Co., Ltd.	US\$ 8,000	US\$ 14,500	Bank of America
Inventec Corporation (Shanghai) Co., Ltd.	US\$ 25,000	US\$ 25,000	"
Inventec Electronics (Nanking) Co., Ltd.	US\$ 1,500	US\$ 1,500	"
Inventec Electronics (Tianjin) Co., Ltd.	US\$ 2,500	US\$ 2,500	"
Inventec Electronics (Beijing) Co., Ltd.	US\$ 1,000	US\$ 1,000	"
Inventec Corporation (Scotland) Co., Ltd.	US\$ 28,000	US\$ 20,000	Citibank, N.A.
"	GBP 500	GBP 500	Government of Scotland
Inventec Holding (North America) Co., Ltd.	US\$ 2,000	US\$ 2,000	Bank of America
Inventec (Pudong) Corp.	US\$ 5,000	-	"
Total	US\$ 118,000	US\$ 121,500	
	GBP 500	GBP 500	

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. PLEDGED ASSETS

As of September 30, 2003 and 2002, following assets were pledged as collateral:

Asset	September 30, 2003	September 30, 2002	Purpose of pledge
Refundable deposits	\$ 56,752	\$ 70,381	Guarantees for foreign labor, customs duties, and property deposits.

7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (excluding related-party transactions):

- As of September 30, 2003 and 2002, unused letters of credit amounted to US\$712, and US\$1,813, respectively.

8. SIGNIFICANT CATASTROPHIC LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS:

To comply with the Company's policy to move manufacturing assembling to China, on September 23, 2003, the Board of Directors resolved to sell factories and land located at the Linkou factory to non-related parties for \$610,000. The transaction is estimated to be completed by October 12, 2003.

10. OTHERS:

- Personnel, depreciation, and amortization expense incurred categorized as operating cost on expense are as follows:

Categorized as: Nature	Nine months ended September 30, 2003			Nine months ended September 30, 2002		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Personnel expenses						
Salary expense	436,921	908,269	1,345,190	762,712	813,999	1,576,711
Health and labor insurance expense	29,083	44,864	73,947	52,947	37,214	90,161
Pension expense	15,389	43,414	58,803	40,371	43,814	84,185
Other expense	6,210	5,508	11,718	14,560	4,650	19,210
Depreciation expense	74,790	97,767	172,557	137,896	90,690	228,586
Amortization expense	35,170	46,038	81,208	67,952	10,597	78,549

INVENTEC CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (2) In January 2002, 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. As of September 30, 2003, four of the six claims have been dropped by Samsung. Patents Nos. 5228128 and 5333273 are currently under trial. The Company has appointed a counsel for the litigation. In November 2002, the Magistrate Judge ruled that unless the Company and Samsung object within a stated period of time, the trial will be tried by a federal judge. After the judge's decision, the trial proceedings will continue. Litigation procedures will commence within a year after trial proceedings are underway.