DBTEL Incorporated and Subsidiaries

Consolidated Financial Statements

December 31, 2000, 2001 and 2002

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
DBTEL Incorporated:

We have audited the consolidated balance sheets of DBTEL Incorporated (the Company) and subsidiaries (the Consolidated Companies) as of December 31, 2000, 2001 and 2002, and the related consolidated 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 Dialer and Business Holding Co., Ltd. and its subsidiaries and of DBTEL International (Europe) Ltd. as of and for the years ended December 31, 2000, 2001 and 2002, and DBTEL Hungary Technology Ltd. as of and for the year ended December 31, 2000, whose financial statements reflected total assets amounting to NT$3,885,695 thousands, NT$4,523,406 thousands and NT$7,410,584 thousands, respectively, constituting 36.31%, 41.47% and 58.36%, respectively, of total consolidated assets, total operating revenue amounting to NT$250,058 thousands, NT$975,128 thousands and NT$6,353,599 thousands, constituting 2.38%, 17.64% and 72.92%, of consolidated operating revenue, and total operating costs amounting to NT$7,753,372 thousands, NT$2,740,122 thousands and NT$2,405,524 thousands, constituting 93.99%, 62.01% and 43.85%, of consolidated operating costs after eliminating inter-company transactions for the years ended December 31, 2000, 2001 and 2002, respectively. Those financial 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 these companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the Republic of China Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements. Those standards and Guidelines 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2000, 2001 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with Republic of China generally accepted accounting principles.

As described in note 3 to the consolidated financial statements, due to the change in subsidiaries included in the 2002 consolidated financial statements, DBTEL Incorporated restated the 2000 and 2001 consolidated financial statements to give effect to the change for comparative analysis.

The accompanying consolidated financial statements as of and for the year ended December 31, 2002, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(r) of the notes to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
March 20, 2003

The accompanying financial statements are intended only to present the financial position, results of operations 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.

DBTEL Incorporated and Subsidiaries

Consolidated Balance Sheets

December 31, 2000, 2001 and 2002

(expressed in thousands of New Taiwan dollars and US dollars, except par value)

Assets	2000 NT$	2001 NT$	2002 NT$	2002 US$
Current assets:				
Cash and cash equivalents	3,837,854	3,291,830	3,131,853	90,125
Short-term investments (note 4)	252,864	542,686	782,457	22,517
Notes receivable	166	973	3,175	91
Accounts receivable, less allowance for doubtful accounts of $130,634, $183,233 and $187,060 in 2000, 2001 and 2002, respectively	440,289	709,961	1,501,419	43,206
Receivable from sale of stocks (note 4)	-	392,424	-	-
Inventories (note 5)	1,240,837	1,071,039	2,399,444	69,049
Pledged time deposits (note 16)	402,721	337,731	155,842	4,485
Prepayments to suppliers	9,761	2,726	157,749	4,540
Deferred income tax assets (note 13)	98,573	106,879	98,002	2,820
Other current assets (notes 13 and 15)	101,274	118,590	125,611	3,615
	6,384,339	6,574,839	8,355,552	240,448
Long-term equity investments (notes 6 and 17)	307,740	307,740	168,509	4,849
Property, plant and equipment (notes 7, 16 and 17):				
Cost:				
Land	176,734	170,068	226,660	6,523
Buildings and improvements	329,950	341,761	370,133	10,651
Machinery and equipment	3,635,649	4,076,910	4,425,040	127,339
Molds and equipment	45,442	58,735	58,735	1,690
Furniture and fixtures	57,343	79,183	112,086	3,225
Leasehold improvements	609,907	676,692	726,089	20,895
Miscellaneous equipment	43,586	50,288	53,792	1,548
	4,898,611	5,453,637	5,972,535	171,871
Less: accumulated depreciation	(1,333,786)	(1,787,208)	(2,150,134)	(61,874)
Construction in progress and prepayments for equipment	10,472	22,720	31,288	900
	3,575,297	3,689,149	3,853,689	110,897
Deferred pension cost (note 11)	224	1,577	1,080	31
Other assets:				
Assets leased to others (notes 8 and 16)	48,312	47,947	35,348	1,017
Deferred charges (note 17)	58,775	66,453	83,931	2,415
Deferred income tax assets (note 13)	92,803	12,321	17,064	491
Pledged time deposits–non-current (note 16)	-	6,000	16,000	461
Other (note 11)	234,394	202,498	167,416	4,818
	434,284	335,219	319,759	9,202
Total assets	**10,701,884**	**10,908,524**	**12,698,589**	**365,427**

Liabilities and Stockholders' Equity	2000 NT$	2001 NT$	2002 NT$	2002 US$
Current liabilities:				
Short-term loans (notes 9 and 16)	487,857	542,063	25,991	748
Current portion of long-term loans (notes 10 and 16)	95,695	11,740	12,578	362
Notes payable	84,621	32,785	145,103	4,176
Accounts payable	1,703,475	2,317,690	4,583,299	131,893
Income tax payable (note 13)	7,663	949	92,923	2,674
Accrued expenses	129,848	177,437	169,166	4,868
Dividends payable (note 6)	-	97,360	-	-
Other current liabilities	162,554	157,161	80,510	2,317
	2,671,713	3,337,185	5,109,570	147,038
Long-term liabilities:				
Long-term loans, less current portion (notes 10 and 16)	337,094	29,514	16,931	487
Other liabilities:				
Accrued pension cost (note 11)	42,693	50,797	75,718	2,179
Guarantee deposits received	1,308	751	828	24
Minority interest	512,829	305,322	220,495	6,345
	556,830	356,870	297,041	8,548
Total liabilities	3,565,637	3,723,569	5,423,542	156,073
Stockholders' equity (notes 6 and 12):				
Common stock of $10 par value; authorized 700, 700 and 930 million shares and issued 459, 556 and 659 million shares for 2000, 2001 and 2002, respectively	4,591,538	5,556,026	6,591,179	189,674
Capital surplus:				
Paid-in capital in excess of par value	332,110	102,533	2,524	73
Gain on disposal of property and equipment	843	843	-	-
Others	130,663	131,911	189,160	5,443
	463,616	235,287	191,684	5,516
Retained earnings:				
Legal surplus	212,915	392,226	396,824	11,420
Special reserve	52,496	-	-	-
Unappropriated earnings	1,794,323	943,097	266,326	7,664
	2,059,734	1,335,323	663,150	19,084
Cumulative translation adjustments	46,597	143,859	142,862	4,111
Net loss not recognized as pension cost of investee companies	(394)	-	-	-
Treasury stock	(24,844)	(85,540)	(313,828)	(9,031)
Total stockholders' equity	7,136,247	7,184,955	7,275,047	209,354
Commitments and contingencies (notes 8 and 17)				
Total liabilities and stockholders' equity	**10,701,884**	**10,908,524**	**12,698,589**	**365,427**

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2000, 2001 and 2002

(expressed in thousands of New Taiwan dollars and US dollars)

	2000 NT$	2001 NT$	2002 NT$	2002 US$
Cash flows from operating activities:				
Net income	1,793,289	45,139	262,128	7,543
Adjustments to reconcile net income to net cash provided by operating activities:				
Income (loss) for minority interest	178,351	(81,040)	(43,518)	(1,252)
Depreciation	405,247	429,009	466,223	13,416
Amortization expense	46,003	24,451	31,294	901
Loss on disposal and obsolescence of equipment, net	277,724	19,856	46,778	1,346
Prepayments for equipment transferred to expenses	158	153	9,212	265
Gain on sale of short-term and long-term investments	(723,615)	(84,212)	(31,766)	(914)
Loss on devaluation of short-term investments and treasury stock	74,810	84,850	262,861	7,564
Devaluation loss on long-term investments transferred to short-term investments	-	-	18,356	528
Loss from investee companies' capital reduction and prepayment for investments	4,365	-	-	-
Permanent devaluation loss on long-term investments	-	-	517	15
Decrease (increase) in short-term investments of subsidiary companies	(255,948)	(200,848)	10,360	298
Provision for allowance for doubtful accounts	118,234	52,599	3,827	110
Unrealized foreign currency exchange gain	(80,931)	(2,234)	(22,347)	(643)
Loss on inventory devaluation and obsolescence	34,685	44,142	69,482	1,999
Increase in notes receivable	(97)	(807)	(2,202)	(63)
Decrease (increase) in accounts receivable	787,027	(305,359)	(792,430)	(22,804)
Decrease (increase) in inventories	(716,067)	125,656	(1,397,887)	(40,227)
Decrease (increase) in prepayments to suppliers	(6,251)	33,784	(155,023)	(4,461)
Increase in other current assets	(1,245)	(44,065)	(7,021)	(202)
Net changes in deferred income tax assets and liabilities	(79,936)	72,176	4,134	119
Increase (decrease) in notes payable	34,685	(51,836)	112,318	3,232
Increase in accounts payable	375,867	615,065	2,266,459	65,222
Increase (decrease) in income tax payable	4,844	(6,714)	91,974	2,647
Increase (decrease) in accrued expenses	25,459	47,589	(8,271)	(238)
Increase (decrease) in other current liabilities	(9,664)	69,377	(58,801)	(1,692)
Increase in accrued pension cost	11,231	5,555	25,545	735
Net cash flows provided by operating activities	2,298,225	892,286	1,162,202	33,444
Cash flows from investing activities:				
Decrease (increase) in short-term investments	723,615	(470,425)	21,451	617
Proceeds from sale of long-term investments	-	-	15,254	439
Decrease (increase) in long-term equity investments	46,109	-	(5,967)	(172)
Proceeds from capital reduction of long-term investments	1,564	-	818	24
Proceeds from sale of property and equipment	55,579	48,353	41,827	1,204
Purchase of property and equipment	(962,617)	(542,428)	(707,882)	(20,371)
Decrease in pledged time deposits	95,177	58,247	159,836	4,600
Decrease (increase) in other assets	(130,103)	5,212	(14,941)	(430)
Net cash flows used in investing activities	(170,676)	(901,041)	(489,604)	(14,089)
Cash flows from financing activities:				
Increase (decrease) in short-term loans	(492,728)	54,206	(516,072)	(14,851)
Decrease in short-term bonds payable	(49,871)	-	-	-
Increase in long-term loans	429,500	-	-	-
Repayment of long-term loans	(47,288)	(391,535)	(11,745)	(338)
Repayment of bonds payable	(1,642,670)	-	-	-
Decrease (increase) in common stock of parent company by subsidiaries	1,156,087	(71,504)	-	-
Decrease in minority interest	-	(29,107)	(81,408)	(2,343)
Net changes in unclaimed cash dividends	(13)	(3)	(12)	-
Increase (decrease) in guarantee deposits received	-	(557)	77	2
Purchase of common stock of the Company	-	-	(228,288)	(6,569)
Remuneration to directors and supervisors	-	(34,639)	-	-
Net cash flows used in financing activities	(646,983)	(473,139)	(837,448)	(24,099)
Effects of changes in foreign exchange rates	55,832	(64,130)	4,873	140
Net increase (decrease) in cash and cash equivalents	1,536,398	(546,024)	(159,977)	(4,604)
Cash and cash equivalents at beginning of year	2,301,456	3,837,854	3,291,830	94,729
Cash and cash equivalents at end of year	**3,837,854**	**3,291,830**	**3,131,853**	**90,125**
Supplemental disclosures of cash flow information:				
Cash payments of interest	**185,646**	**23,779**	**15,057**	**433**
Cash payments (refund) of income tax	**(4,351)**	**44,776**	**4,023**	**116**
Investing and financing activities not affecting cash:				
The effects of change in long-term equity investments due to change in investment percentage	**(75)**	**1,251**	**57,261**	**1,648**
Cumulative translation adjustments on foreign long-term investments	**143,738**	**97,262**	**(997)**	**(29)**
Decrease (increase) in deferred pension cost	**20**	**(1,353)**	**497**	**14**
Net loss not recognized as pension cost of investee companies	**28**	**394**	**-**	**-**
Capitalization of capital surplus, stock bonus to employees, and stock dividends	**565,582**	**964,488**	**1,035,153**	**29,789**
Current portion of long-term loans	**95,695**	**11,740**	**12,578**	**362**
Others:				
Increase in property and equipment	1,029,875	468,484	717,467	20,647
Decrease (increase) in payable for equipment purchases	(67,258)	73,944	(9,585)	(276)
Cash paid for purchase of property and equipment	**962,617**	**542,428**	**707,882**	**20,371**
Property and equipment transferred to other assets	**7,107**	**-**	**-**	**-**
Increase in short-term investments	(467,667)	278,849	360,613	10,378
Increase (decrease) in receivable from sale of stock	-	392,424	(392,424)	(11,293)
Cash paid (received) for short-term investments	**(467,667)**	**671,273**	**(31,811)**	**(915)**
Increase (decrease) in minority interest	-	(126,467)	15,952	459
Increase (decrease) in dividends payable	-	97,360	(97,360)	(2,802)
Cash flows from changes in minority interest	**-**	**(29,107)**	**(81,408)**	**(2,343)**

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2000, 2001 and 2002
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2000	2001	2002	
	NT$	NT$	NT$	US$
Operating revenue:				
Gross sales	$ 8,669,238	5,446,492	8,640,730	248,654
Less: sales returns and allowances	77,743	110,882	44,997	1,295
	8,591,495	5,335,610	8,595,733	247,359
Other operating revenue (note 6)	1,898,131	192,704	117,268	3,375
Total operating revenue	10,489,626	5,528,314	8,713,001	250,734
Operating costs (notes 6 and 11)	8,249,379	4,418,646	5,486,093	157,873
Gross profit from operations	2,240,247	1,109,668	3,226,908	92,861
Operating expenses (notes 11, 15 and 17):				
Selling expenses	215,257	306,443	1,006,546	28,966
Administrative expenses	510,484	560,545	1,011,296	29,102
Research and development expenses	308,808	348,202	584,924	16,832
	1,034,549	1,215,190	2,602,766	74,900
Operating income (loss)	1,205,698	(105,522)	624,142	17,961
Non-operating income:				
Interest income	155,776	97,607	43,965	1,265
Investment income, net (note 6)	722,364	84,240	37,923	1,091
Gain on disposal of equipment	240	96	96	3
Rental revenue (note 8)	5,471	3,137	2,783	80
Foreign currency exchange gain, net	299,357	112,890	-	-
Other income	9,148	25,099	27,165	782
	1,192,356	323,069	111,932	3,221
Non-operating expenses:				
Interest expense	156,192	20,248	12,377	356
Loss on disposal of equipment	1,786	19,856	46,778	1,346
Loss on equipment obsolescence	276,178	-	-	-
Loss on short-term investment devaluation	12,755	76,525	192,644	5,544
Foreign currency exchange loss, net	-	-	60,970	1,755
Loss on inventory devaluation and obsolescence	34,685	44,142	69,482	1,999
Other loss	10,601	10,198	8,430	243
	492,197	170,969	390,681	11,243
Income before income tax and minority interest	1,905,857	46,578	345,393	9,939
Income tax expense (benefit)(note 13)	(65,783)	82,479	126,783	3,648
Income (loss) before minority interest	1,971,640	(35,901)	218,610	6,291
Income (loss) for minority interest	178,351	(81,040)	(43,518)	(1,252)
Net income	$ 1,793,289	45,139	262,128	7,543

	Before income tax	After income tax	Before income tax	After income tax	Before income tax	After income tax	Before income tax	After income tax
Earnings per share of common stock	$ 2.62	2.72	0.07	0.07	0.58	0.40	0.02	0.01

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2000, 2001 and 2002
(expressed in thousands of New Taiwan dollars and US dollars)

	Common stock $	Capital surplus NT$	Retained Earnings: Legal reserve NT$	Retained Earnings: Special reserve NT$	Retained Earnings: Unappropriated earnings NT$	Cumulative translation adjustments NT$	Net loss not recognized as pension cost NT$	Treasury stock NT$	Total NT$	Total US$
New Taiwan Dollars										
Balance at December 31, 1999	4,025,956	866,119	191,986	-	237,626	(97,141)	(422)	(1,180,931)	4,043,193	
Appropriation of retained earnings (note 12):										
Legal reserve	-	-	20,929	-	(20,929)	-	-	-	-	
Special reserve	-	-		52,496	(52,496)	-	-	-	-	
Stock bonus to employees	10,000	-	-	-	(10,000)	-	-	-	-	
Stock dividends	152,986	-	-	-	(152,986)	-	-	-	-	
Capitalization of capital surplus (note 12)	402,596	(402,596)	-	-	-	-	-	-	-	
Net income for 2000	-	-	-	-	1,793,289	-	-	-	1,793,289	
Capital surplus arising from net gain on disposal of property and equipment	-	181	-	-	(181)	-	-	-	-	
Unclaimed cash dividends	-	(13)	-	-	-	-	-	-	(13)	
The effects of change in stockholders' equity of investee companies (note 6)	-	(75)	-	-	-	-	-	-	(75)	
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	143,738	-	-	143,738	
Reversal of net loss not recognized as pension cost of investee companies (note 6)	-	-	-	-	-	-	28	-	28	
Net changes in sale of common stock of parent company by subsidiaries (note 6)	-	-	-	-	-	-	-	1,156,087	1,156,087	
Balance at December 31, 2000	4,591,538	463,616	212,915	52,496	1,794,323	46,597	(394)	(24,844)	7,136,247	
Appropriation of retained earnings (note 12):										
Legal reserve	-	-	179,311	-	(179,311)	-	-	-	-	
Reversal of special reserve	-	-	-	(52,496)	52,496				-	
Remuneration to directors and supervisors	-	-	-	-	(34,639)	-	-	-	(34,639)	
Stock bonus to employees	46,180	-	-	-	(46,180)	-	-	-	-	
Stock dividends	688,731	-	-	-	(688,731)	-	-	-	-	
Capitalization of capital surplus (note 12)	229,577	(229,577)	-	-	-	-	-	-	-	
Net income for 2001	-	-	-	-	45,139	-	-	-	45,139	
Unclaimed cash dividends	-	(3)	-	-	-	-	-	-	(3)	
The effects of change in long-term equity investments due to change in investment percentage (note 6)	-	1,251	-	-	-	-	-	-	1,251	
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	97,262	-	-	97,262	
Reversal of net loss not recognized as pension cost of investee companies (note 6)	-	-	-	-	-	-	394	-	394	
Net changes in purchase of common stock of parent company by subsidiaries (note 6)	-	-	-	-	-	-	-	(60,696)	(60,696)	
Balance at December 31, 2001	5,556,026	235,287	392,226	-	943,097	143,859	-	(85,540)	7,184,955	206,762
Reversal of gain on disposal of property and equipment	-	(843)	-	-	843	-	-	-	-	-
Appropriation of retained earnings (note 12):										
Legal reserve	-	-	4,598	-	(4,598)	-	-	-	-	-
Stock bonus to employees	46,180	-	-	-	(46,180)	-	-	-	-	-
Stock dividends	888,964	-	-	-	(888,964)	-	-	-	-	-
Capitalization of capital surplus (note 12)	100,009	(100,009)	-	-	-	-	-	-	-	-
Purchase of common stock (note 12)	-	-	-	-	-	-	-	(228,288)	(228,288)	(6,569)
Net income for 2002	-	-	-	-	262,128	-	-	-	262,128	7,543
Unclaimed cash dividends	-	(12)	-	-	-	-	-	-	(12)	(1)
The effects of change in long-term equity investments due to change in investment percentage (note 6)	-	57,261	-	-	-	-	-	-	57,261	1,648
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	(997)	-	-	(997)	(29)
Balance at December 31, 2002	6,591,179	191,684	396,824	-	266,326	142,862	-	(313,828)	7,275,047	209,354

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000, 2001 and 2002
(all amounts expressed in thousands of New Taiwan dollars and US dollars, except where otherwise stated)

(1) Organization and Business Scopes

DBTEL Incorporated (the Company) was incorporated on January 14, 1979, under the laws of the Republic of China (ROC). The Company is engaged in the manufacture and sale of fax machines, telephones, wireless telephones, mobile phones and answering machines.

Reporting entities of the consolidated financial statements include the Company and its subsidiaries (hereinafter jointly referred to as the "Consolidated Companies"). For the purpose of preparing the consolidated financial statements, an entity is deemed a subsidiary if the Company directly or indirectly owns 50% or more of its voting stock and is able to exercise control over its operations and financial policies. The Consolidated Companies are summarized below according to their primary business activity.

(a) Design, manufacture and sale of telephones, wireless telephones, mobile phones, fax machines and answering machines

	Percentage of Ownership by the Company at December 31,		
	2000	**2001**	**2002**
Dialer and Business Holding Co., Ltd. (DBH)	100.00	100.00	100.00
Shanghai Da Ba Electronics Co., Ltd. (SDBE)	100.00	100.00	100.00
Shanghai DBTEL Industry Co., Ltd. (SDI)	100.00	100.00	100.00
Shanghai Wanzhou Battery Co., Ltd. (SWB)	100.00	100.00	100.00
Tianjin Ares Industry Co., Ltd. (TAI)	100.00	100.00	100.00
Formula Electronic Sdn. Bhd. (FE)	100.00	100.00	100.00
Nicenrich (M) Sdn. Bhd. (Nicenrich)	100.00	100.00	100.00
Ares Communication Tech, Inc. (Ares)	-	90.03	53.44
DB Distribution Inc. (DBD)	100.00	100.00	100.00
DBTEL International (Europe) Limited (DBE)	100.00	100.00	100.00
Shanghai Ares Communication Tech Co., Ltd. (SACT)	-	-	100.00
DB Networks (DBN)	74.01	74.01	99.89

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

(b) Design, manufacture and sale of ink jet nozzles, ink jet refill ink, ink jet cartridges, ink jet motor device modules, and data storage devices

	Percentage of Ownership by the Company at December 31,		
	2000	**2001**	**2002**
DBTEL Technology Co., Ltd. (DBT)	74.13	80.04	99.99
Microjet Technology Co., Ltd. (Microjet)	66.01	66.01	66.01
Shanghai Zhougu Industry Co., Ltd. (Zhougu)	-	-	93.88

(c) Professional investment and shareholding

	Percentage of Ownership by the Company at December 31,		
	2000	**2001**	**2002**
DBTEL (BVI) Inc. (DBVI)	-	100.00	100.00
Ennerdale Limited (Ennerdale)	100.00	100.00	100.00
Formula Telecommunication (M) Sdn. Bhd. (FT)	100.00	100.00	100.00
Epson Holdings Limited (Epson)	100.00	100.00	100.00
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	100.00	100.00
Rui Dee Investment & Development, Inc. (Rui Dee)	100.00	100.00	100.00
Wanzhou Investment & Development, Inc. (Wanzhou)	100.00	100.00	100.00
Tai Yao Investment & Development, Inc. (Tai Yao)	100.00	100.00	100.00
Capital Investment & Development Inc. (Capital)	100.00	100.00	100.00
Jin Chou Investment & Development, Inc. (Jin Chou)	-	-	100.00
Lih Der Investment & Development, Inc. (Lih Der)	-	-	100.00
Jing Young Investment & Development, Inc. (Jing Young) (Note)	100.00	100.00	-
Chang Hui Investment & Development, Inc. (Chang Hui) (Note)	-	100.00	-
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	100.00	100.00
DBTEL International Holding Co., Ltd. (DBI)	100.00	100.00	100.00
DBTEL Hungary Technology Ltd. (DHT)	100.00	-	-
Ares Holding International Limited (AHI)	-	-	100.00
Ares Wireless Corporation (AWC)	-	-	100.00

(Continued)

	Percentage of Ownership by the Company at December 31, 2000	2001	2002
Ares Global Inc. (AGI)	-	-	100.00
Yau Tak Resources Limited (Yau Tak)	-	-	100.00

Note: The two companies were liquidated on November 11, 2002.

(2) Summary of Significant Accounting Policies

(a) Principles for preparation and presentation of consolidated financial statements

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These consolidated financial statements are not intended to present the consolidated financial position of the Consolidated Companies and the related consolidated results of operations and consolidated cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the ROC.

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company owns, directly or indirectly, greater than 50% of the subsidiary's voting stock and is able to exercise control over the subsidiary's operating and financial policies.

(b) Foreign currency transactions and translations

The accounts of the Company and subsidiaries are maintained in local currency (New Taiwan Dollar) except for those of DBVI, DBH, Yau Tak, DBC, DBI, AHI, AWC and AGI, which are maintained in US dollars. Foreign exchange transactions, except forward exchange contracts, are recorded at the exchange rates prevailing at the transaction dates. The assets and liabilities denominated in foreign currency are translated at the exchange rate of the balance sheet date. The resulting realized or unrealized gain or loss on foreign currency exchange from the settlement or translation are recorded as non-operating income or expenses.

For consolidation, the assets and liabilities of the Company's foreign subsidiaries are translated into New Taiwan dollars, the Company's reporting currency, at the approximate market rate of exchange prevailing on the balance sheet date; their stockholders' equity accounts are translated at historical exchange rates with the exception that retained earnings at the beginning of the year are carried forward from the last-year end; dividends are translated at the approximate market rate of exchange prevailing on the date of declaration; and income and expense accounts are translated at the average rates of exchange prevailing during the year. The related translation adjustments are included in the cumulative foreign currency translation adjustments in the consolidated statements of changes in stockholders' equity and recognized as investment income or loss upon disposal of the foreign subsidiaries.

(Continued)

(c) Cash equivalents

Cash equivalents represent all highly liquid investments with insignificant interest rate risk.

(d) Short-term investments

Short-term investments represent purchases of common stocks of listed companies and open-end mutual funds. Short-term investments are stated at the aggregate lower of cost or market value. Market value of common stocks is determined by the average daily close price in the last month of the reporting period; for open-end mutual funds, market value is based the net worth of the funds on the balance sheet date. When sold, cost is determined by the weighted-average method.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for by considering the collectibility of receivables.

(f) Inventories

Inventories are stated at the aggregate lower of cost or market value. Cost is determined by the weighted-average method. Market value of raw materials is determined using the replacement cost, except for DBH and its subsidiaries, where the net realizable value is used. Market value of work in progress, finished goods, and merchandise is determined using the net realizable value.

(g) Long-term equity investments

Long-term equity investments in listed companies where the Company owns less than 20% of the voting stock and lacks significant influence over the investees are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. Long-term investments in non-listed companies that represent less than 20% of the investee's common stock ownership are stated at cost. However, when there is evidence showing that a decline in the market value of such investment is permanent in nature, the investment is written down to reflect the market value and the resulting loss is recognized in the period of such a write-down. Stock dividends are not recognized as income but treated as an increase in the number of shares held. When such investments are sold, cost is determined by the weighted-average method.

Long-term equity investments are accounted for by the equity method when the Company owns 20% or more of an investee's voting stock or the Company is able to exercise significant influence over the investee's operating and financial policies. Under the equity method, the difference between the acquisition cost of the investment and the underlying net equity of the investee is amortized over five years on a straight-line basis and recognized as investment income or loss. Unrealized gain or loss on inter-company transactions is deferred. Gain or loss resulting from depreciable or amortizable assets is amortized over their estimated useful lives, whereas that of other assets is recognized in the year realized.

(Continued)

(h) Property, plant and equipment, and related depreciation

Property, plant and equipment are stated at acquisition cost. Major additions, improvements and replacements are treated as capital expenditures. Interest expenses relating to the construction of plants and buildings and purchases of machinery and equipment are capitalized and included in the cost of related assets. Depreciation of plant and equipment is provided for by using the straight-line method based on the estimated useful lives of the respective assets. Gain or loss on the disposal of property, plant and equipment is recorded as non-operating income or expenses.

(i) Assets leased to others

Property and equipment leased out under operating leases are reclassified as assets leased to others. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, and is recorded as a non-operating loss.

(j) Deferred charges

Payments for computer software and technology royalties are deferred and recorded at cost, and are amortized over two to six years. Underwriting costs of convertible bonds are amortized on a straight-line basis throughout the term of the bond.

(k) Employee pension benefits

The Company and its subsidiaries Microjet, Ares, DBT, DBN and DBD have established an employee retirement plan providing for lump-sum retirement benefits to employees who meet retirement requirements. The pension payment is calculated based on the number of years of service and salary upon retirement.

In accordance with the ROC Labor Standards Law, the Company and its subsidiaries Microjet, Ares, DBT and DBN make monthly deposits to the Central Trust of China. As of December 31, 2002, DBD had not made any monthly deposits to the pension fund accounts with the Central Trust of China.

The aforementioned companies have defined benefit pension plans and have adopted Statement of Financial Accounting Standards (SFAS) No. 18, “Accounting for Pensions”. The end of the fiscal year is used as the measurement date for the completion of the actuarial assessment. The amount of the accumulated benefit obligation over the pension plan assets is recognized as minimum pension liability on the balance sheet date. The unrecognized net transition obligation is amortized by using the straight-line method over the average residual years of service of the employee.

DBE and the subsidiaries located in Peoples’ Republic of China (PRC) have defined contribution pension plans and make contributions according to local regulations. The contributions are charged to expenses.

(Continued)

Other subsidiaries of the Company have no pension plans.

(l) Provision for product warranties

Provision for product warranties is determined by estimating after-sales service cost based on past experience and recognized as operating expense at the time of sale.

(m) Revenue and cost

Revenue is recognized upon transfer of risk and compensation, along with delivery of goods. The costs directly related to the revenue are recognized at the same time as revenue, and expenses are charged to current operation when incurred.

(n) Treasury stock

The Company uses the cost method to account for treasury stock according to the provisions of Statement of Financial Accounting Standards (SFAS) No. 30, “Accounting for Treasury Stock”. Under the cost method, the treasury stock account is debited for the cost of the Company’s shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus–treasury stock; otherwise, the excess of the cost over the price is debited to capital surplus generated from similar treasury stock transactions. If the capital surplus–treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average cost and is calculated by each group member according to the reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus generated from similar treasury stock transactions. If the capital surplus–treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus–treasury stock.

In accordance with the regulations of the Securities and Futures Commission, ROC Ministry of Finance (SFC), on January 1, 2002, the Company adopted the provisions of SFAS No. 30, “Accounting for Treasury Stock”. As a result, the subsidiaries’ holdings of the Company’s stock are recorded as treasury stock with no retroactive adjustment needed when recognizing gain (loss) on investment or preparing financial statements.

(Continued)

(o) Income tax

The Company and each of its subsidiaries is an independent entity for tax purposes, and the taxable income and operating losses of each entity cannot be offset against those of the others.

Income tax is estimated based on the net income per financial reporting. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to be reversed. The income tax effects of taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects of deductible temporary differences, utilization of loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and a valuation allowance is recognized accordingly.

Deferred income tax assets and liabilities are classified as current or noncurrent in accordance with the classification of related assets and liabilities. If no assets or liabilities are related, they are classified according to the expected period of realization.

The Company and subsidiaries located in the ROC charge the 10% surtax on undistributed earnings to current income tax expense in the year of earnings distribution following a resolution at the shareholders' meeting.

(p) Derivatives

A hedging forward contract is recorded at the spot exchange rate prevailing on the contract date. The difference between the spot rate and contract rate is amortized over the contract period. Outstanding contracts are revalued at the spot rate on the balance sheet date. The resulting exchange difference is recognized as non-operating income or loss. A non-hedging forward contract is recorded at the contract forward rate on the transaction date. Outstanding contracts are revalued at the forward rates for the remaining contract periods on the balance sheet date. The resulting difference is recognized as non-operating income or loss.

Premiums for options are recorded at cost. Premiums for hedging-purpose options are accounted for as assets or liabilities which are amortized per month over the life of the contract period and are remeasured at market prices at the balance sheet date. For premiums to hedge existing asset or liability risks, any unrealized gain or loss should be recognized in the current period; for premiums to hedge expected transaction risk, any unrealized gain or loss is deferred until it is realized, and then becomes an adjustment to the transaction price. Premiums for speculation-purpose options should be recorded in the income statement and remeasured using the lower-of-cost-or-market-price method monthly, while any unrealized gain or loss should be recognized in the current period.

(Continued)

(q) Earnings per common share

Earnings per common share are computed by dividing earnings after income tax by the weighted-average number of common shares outstanding during the year. Earnings per common share are adjusted retroactively by stock dividends distributed from retained earnings or capital surplus.

The number of shares outstanding for 2000, 2001 and 2002 was 659,118 thousand shares, 659,118 thousand shares and 653,194 thousand shares, respectively.

(r) Translation of New Taiwan dollar amounts into United States dollar amounts

The consolidated financial statements are stated in New Taiwan dollars. The translations of the 2002 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the middle spot rate provided by Bank of Taiwan on December 31, 2002, of NT$34.75 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(3) The Reason for the Change in Reporting Entities of the Consolidated Financial Statements

The business entities included in the 2000 and 2001 consolidated financial statements were originally the Company, DBVI, DBH and its subsidiaries, Ding Shun, Jing Young, Rui Dee, DBN, DBT, Microjet, Chang Hui, and Ares. Other subsidiaries were not included for not having met the consolidation criteria set by the SFC. However, all subsidiaries that were over 50% owned by the Company, or by the Company and its subsidiaries, were included in the 2002 consolidated financial statements. In line with the change, Wanzhou, Tai Yao, Capital, DBD, DBE, and DBC and its subsidiaries are included. For comparative analysis, the 2000 and 2001 consolidated financial statements were restated based on the reporting entities of the 2002 consolidated financial statements.

(4) Short-term Investments

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	NT$	NT$	US$
Mutual funds	37,112	44,142	84,102	2,420
Common stocks	327,917	683,949	1,095,176	31,516
	365,029	728,091	1,179,278	33,936
Less: provision for devaluation	112,165	185,405	396,821	11,419
	252,864	**542,686**	**782,457**	**22,517**

As of December 31, 2001, the receivable from sale of short-term investments was NT$392,424, which was collected on January 3, 2002.

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

(5) Inventories

	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
Raw materials	973,298	825,010	1,801,148	51,831
Work in process	153,048	206,717	256,668	7,386
Finished goods	47,924	47,365	351,811	10,124
Merchandise	41,172	33,863	39,253	1,130
Inventories-in-transit	46,771	17,206	45,163	1,300
	1,262,213	1,130,161	2,494,043	71,771
Less: provision for devaluation	21,376	59,122	94,599	2,722
	1,240,837	1,071,039	2,399,444	69,049
Insurance coverage for inventories	965,230	1,032,770	1,081,337	31,118

(6) Long-term Equity Investments

Investee	December 31, 2000			December 31, 2001			December 31, 2002			
	Percentage (%) of ownership	Cost of investment NT$	Book value NT$	Percentage (%) of ownership	Cost of investment NT$	Book value NT$	Percentage (%) of ownership	Cost of investment NT$	Book value NT$	Book value US$
Cost method:										
Lizhi Electronic Engineering Co., Ltd.	4.20	26,696	26,158	4.20	26,696	26,158	4.20	26,696	26,158	753
Jian Rong Investment Co., Ltd.	2.27	2,725	2,346	2.27	2,725	2,346	2.27	1,908	1,642	47
China-America Wantai Technology Co., Ltd.	2.75	2,750	2,750	1.72	2,750	2,750	1.53	2,750	2,750	79
Hanchang Technology Co., Ltd.	3.21	32,261	32,261	3.21	32,261	32,261	3.17	38,228	38,228	1,100
Hong Yuan Communication Co., Ltd.	2.01	15,952	15,952	2.01	15,952	15,952	2.01	15,952	15,952	459
Hwa Young Co., Ltd.	2.38	17,811	17,811	2.38	17,811	17,811	2.38	17,811	17,811	513
Bao Lai Securities Co., Ltd.	14.75	52,650	52,650	14.75	52,650	52,650	14.75	52,650	52,650	1,515
Tai Yu Securities Co., Ltd.	10.00	30,000	27,180	10.00	30,000	27,180	4.90	14,700	13,318	383
China Porcelain Engineering Co., Ltd.	0.41	3,713	631	0.41	3,713	631	0.41	3,713	-	-
Jia Di Investment Co., Ltd.	1.77	1,226	-	1.77	1,226	-	1.77	1,226	-	-
International Securities Co., Ltd.	1.92	130,001	130,001	1.92	130,001	130,001	-	-	-	-
		315,785	307,740		315,785	307,740		175,634	168,509	4,849

(Continued)

In 2000, the Company and its subsidiaries recognized investment losses in their investments accounted for by the cost method, due to the investee companies' reduction of capital. The details were as follows:

Investee	Amount NT$	Accounted as
Lizhi Electronic Engineering	23,476	NT$21,902 recorded as operating costs; NT$1,574 recorded as investment income, net
Hong Yuan Communication	26,227	operating costs
Bao Lai Securities	20,250	operating costs
Tai Yu Securities	2,820	operating costs
	72,773	

The Company's reversal of net loss not recognized as pension cost from invested companies accounted for under the equity method was NT$28 and NT$394 in 2000 and 2001, respectively.

Ares was established in April 2001. Two cash capital injections were made, in June 2001 and September 2002, respectively. The Company did not subscribe the newly issued stock on a pro rata basis. As a result, the long-term equity investments changed due to change in the investment percentage. The Company recognized such differences as capital surplus totaling NT$1,251 and NT$57,261 (US$1,648) in 2001 and 2002, respectively.

In September 2000, Ding Shun and Wanzhou sold their long-term investments accounted for by the equity method, and reversed the capital surplus recognized before. The Company decreased the capital surplus by NT$75 based on its change of ownership percentage in Ding Shun and Wanzhou.

The 2001 stockholders' meeting of DBT resolved the distribution of cash dividends. As of December 31, 2001, the dividends payable to minority interest amounted to NT$97,360. The amount was fully paid in 2002.

All subsidiaries' holdings of the Company's stock are regarded as treasury stock. As of December 31, 2000, 2001 and 2002, the number of shares of the Company's stock held by its subsidiaries was 1,128 thousand shares, 4,371 thousand shares and 5,149 thousand shares, respectively. The book value (equal to the original cost) was as follows:

Subsidiary	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
DBT	22,641	83,337	83,337	2,398
Tai Yao	1,688	1,688	1,688	49
Capital	515	515	515	15
Total	24,844	85,540	85,540	2,462

(Continued)

In 2000, DBT and DBN sold the Company's stock and recorded the gain of NT$723,615 as investment income, and Ding Shun, Rui Dee, Wanzhou and Jing Young sold the Company's stock and recorded the gain of NT$1,687,009 as other operating revenue.

In July 2001, DBT reclassified the aforementioned investments in the Company from short-term investment to long-term investment. DBT recognized immediately losses totaling NT$11,611 under net investment income due to a decline in stock price and used the market price as the new cost for the long-term investment.

(7) Property, Plant and Equipment

As of December 31, 2000, 2001 and 2002, insurance coverage for the consolidated property, plant and equipment was NT$2,745,094, NT$3,616,103 and NT$3,553,219 (US$102,251), respectively.

(8) Assets Leased to Others

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	NT$	NT$	US$
Land	32,217	32,217	24,300	699
Property and plant	19,839	19,973	13,461	388
	52,056	52,190	37,761	1,087
Less: accumulated depreciation	3,744	4,243	2,413	70
	48,312	**47,947**	**35,348**	**1,017**

The major terms of the lease contracts are as follows:

(a) The contract period is 1 to 3 years.

(b) The lessee has usage rights during the leasehold period. The leased assets cannot be lent to others, sub-leased or used by others.

(c) As of December 31, 2000, 2001 and 2002, the insurance coverage for leased assets was NT$8,090, NT$32,000 and NT$17,000 (US$489), respectively.

In 2000, 2001 and 2002, the total rental revenues amounted to NT$5,471, NT$3,137 and NT$2,783 (US$80), respectively. The rental revenues for subsequent years are as follows:

	Amount	
Period	**NT$**	**US$**
2003.1.1~2003.12.31	1,520	44
2004.1.1~2004.12.31	1,520	44
2005.1.1~2005.4.15	443	12
	3,483	100

(9) Short-term Loans

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	**NT$**	**NT$**	**US$**
Credit loans	354,716	406,232	-	-
Secured loans	133,141	135,831	25,991	748
	487,857	542,063	25,991	748
Unused credit line	2,269,202	3,092,128	2,150,345	61,880

The average annual interest rate for the short-term loans ranged from 2.25% to 8.95%, 2.25% to 8.75% and 2.49% to 6.00% for 2000, 2001 and 2002, respectively.

(10) Long-term Loans

Bank	Description	Period of loan	Method of repayment	Interest rate (%)	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
International Bank of Taipei	Working capital, for which the leased equipment from related party is pledged	March 2000~ March 2005	Repayable in 48 monthly installments beginnings April 2001	2000: 7.45 2001: 6.82~7.45 2002: 6.595~6.82	49,500	41,254	29,509	849
International Bank of Taipei	Purchase of machinery and equipment, for which credit line was $250 million	March 2000~ March 2005	Repayable in 16 quarterly installments beginning in December 2000. The total amount was repaid in April 2001.	7.45 interest paid monthly	250,000	-	-	-

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

Bank	Description	Period of loan	Method of repayment	Interest rate (%)	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
Land Bank of Taiwan	Purchase of machinery and equipment, for which credit line was $100 million	March 2000~ March 2003	Repayable in 4 semiannual installments beginning in December 2000. The total amount was repaid in February 2001.	7.49 interest paid monthy	100,000	-	-	-
Hua Nan Commercial Bank	Purchase of machinery and equipment, for which credit line was $30 million	January 2000~ March 2003	Repayable in 8 quarterly installments beginning in December 2000. The total amount was repaid in February 2001.	8.00 interest paid monthly	30,000	-	-	-
Industrial Development Bureau, MOEA, cooperation loan	Development of new leading products, for which credit line was $12,390 thousand	January 1999~ December 2001	Repayable in 12 quarterly installments beginning in January 1999. The total amount was repaid in December 2001.	-	3,289	-	-	-
					432,789	41,254	29,509	849
Less: current portion					95,695	11,740	12,578	362
					337,094	**29,514**	**16,931**	**487**

The above-mentioned cooperation loan provided by the Industrial Development Bureau, MOEA, was appropriated by Chiao Tung Bank according to the agreement for development of new products with the Industrial Development Bureau, and was recorded as a government loan designated for a specific use. In addition, the Company shall pay a technical fee equal to 2% of the revenue, but not more than 40% of cooperation loan, commencing on the initial sale of the new product.

The repayment schedule for the long-term debts is as follows:

Period	Amount NT$	Amount US$
2003	12,578	362
2004	13,433	386
2005	3,498	101
	29,509	**849**

(Continued)

(11) Employee Pension Benefits

The Company and subsidiaries which have defined benefit pension plans obtained the actuarial assessment of their pension liability as of December 31, 2000, 2001 and 2002. According to the actuarial reports, the reconciliations of funded status to accrued pension cost were as follows:

	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
Benefit obligation:				
Vested benefit obligation	(58,499)	(66,010)	(86,110)	(2,478)
Non-vested benefit obligation	(21,881)	(33,470)	(49,690)	(1,430)
Accumulated benefit obligation	(80,380)	(99,480)	(135,800)	(3,908)
Additional benefits based on future salaries	(28,209)	(28,519)	(41,749)	(1,201)
Projected benefit obligation	(108,589)	(127,999)	(177,549)	(5,109)
Fair value of plan assets	57,567	66,734	77,736	2,237
Funded status	(51,022)	(61,265)	(99,813)	(2,872)
Unrecognized amortization of net transition obligation	4,655	6,949	7,335	211
Unrealized pension loss	4,726	6,588	19,205	552
Additional minimum liability	(756)	(1,577)	(1,080)	(31)
Accrued pension cost	**(42,397)**	**(49,305)**	**(74,353)**	**(2,140)**
Vested benefit	**(91,103)**	**(95,292)**	**(117,140)**	**(3,371)**

The components of accrued pension cost were as follows:

	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
Prepaid pension expense (recorded as other assets)	296	1,492	1,365	39
Accrued pension cost	(42,693)	(50,797)	(75,718)	(2,179)
	(42,397)	**(49,305)**	**(74,353)**	**(2,140)**

As of December 31, 2000, the amount of DBT's additional minimum liability charged to the net loss not recognized as pension cost account was NT$532. The amount was fully reversed in 2001.

The components of net pension cost were as follows:

	2000	2001	2002	
	NT$	NT$	NT$	US$
Service cost	14,218	14,343	32,046	922
Interest cost	5,285	6,476	5,787	167
Actual return on plan assets	(2,302)	(2,430)	(1,574)	(45)
Amortization	(723)	(764)	(925)	(27)
Curtailment gain	-	(4,925)	-	-
Net periodic pension cost	**16,478**	**12,700**	**35,334**	**1,017**

The following are the actuarial assumptions used for actuarial assessment:

	2000	2001	2002
Discount rate	6.00%	4.50%	3.75%
Rate of future increase in compensation	4.00%~5.00%	3.00%	2.00%~3.00%
Expected long-term rate of return on plan assets	6.00%	4.50%	3.75%

(12) Stockholders' Equity

(a) Issuance of common stock

On May 26, 2000, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of NT$152,986, capital surplus of NT$402,596, and employee bonus of NT$10,000. The total amount capitalized was NT$565,582. The total number of shares of common stock issued was 56,558,196 shares. The issuance date was July 21, 2000. The registration procedures were completed on August 7, 2000.

On June 29, 2001, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of NT$688,731, capital surplus of NT$229,577, and employee bonus of NT$46,180. The total amount capitalized was NT$964,488. The total number of shares of common stock issued was 96,448,763 shares. The issuance date was August 25, 2001. The registration procedures were completed on September 12, 2001.

On June 27, 2002, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of NT$888,964 (US$25,582), capital surplus of NT$100,009 (US$2,878), and employee bonus of NT$46,180 (US$1,329). The total amount capitalized was NT$1,035,153 (US$29,789). The total number of shares of common stock issued was 103,515,257 shares. The issuance date was August 28, 2002. The registration procedures were completed on September 19, 2002.

(Continued)

(b) Treasury stock

The Company purchased treasury stock in accordance with Stock Exchange Law (SEL) regulations in 2002. In 2002, the change in the Company's treasury stock was as follows:

Unit: Thousands of shares

Reason for Buyback		Beginning Balance	Increase	Decrease	Ending Balance
Employee incentives and loyalty		-	10,000	-	10,000
Amount	NT$	-	228,288	-	228,288
	US$	-	-	-	6,569

According to the SEL, the number of shares of treasury stock can not exceed 10% of the number of shares issued. Moreover, the total value of treasury stock can not exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. The Company owned 10,000 thousand shares of treasury stock, totaling NT$228,288, in 2002. This did not exceed the limit set by the SEL.

According to the SEL, the treasury stock held by the Company can not be pledged for debts. Until the treasury stock is transferred to employees, it does not carry any shareholder rights.

The Company's subsidiaries did not purchase or sell any shares of the Company in 2002. As of December 31, 2002, the Company's subsidiaries held 5,149 thousand shares of the Company's stock, whose book value was NT$85,540 (US$2,462) and market price was NT$109,780 (US$3,159).

In accordance with the regulations of the SFC, on January 1, 2002, the Company's subsidiaries recorded their shareholding of the Company as treasury stock. If the market price of the Company's stock is lower than the book value recorded as investments by the subsidiaries at the end of the year, the Company should calculate the unrealized loss on short-term or long-term investments on a pro rata basis. Then, the Company ought to provide a special reserve of equal amount for the unrealized loss. Such special reserve can not be distributed as dividends. Subsequently, if a reversal for devaluation of the Company's stock held by the subsidiaries occurs, the Company can reverse the portion of the special reserve on a pro rata basis. If the Company's stock were recorded as short-term investments by the subsidiaries, the maximum amount for reversal would be the balance of provision for devaluation of short-term investments on January 1, 2002. The provision or reversal of special reserve previously stated should be treated together with other stockholders' equity contra accounts as described in note 12(e). Accordingly, the amount of the stockholders' equity contra account stated in the financial statements may be different from the amount to be provided or reversed for special reserve. The regulations had no impact on the Company's special reserve as of December 31, 2002.

(Continued)

(c) Capital surplus

According to the ROC Company Law, capital surplus should not be used for distribution of cash dividends and can only be used for offsetting accumulated deficit and transferring to share capital. After the amendment of the ROC Company Law on November 12, 2001, realized capital surplus can be capitalized and transferred to share capital after offsetting accumulated deficit. Realized capital surplus includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Company. The amount of capital surplus to capitalize each year may not exceed a certain percentage of the Company's issued share capital. Issuance of new stock from capital surplus of the proceeds received in excess of par value of common stock issued can be made only once per year, and cannot be made in the same year the stock was issued.

The components of capital surplus are as follows:

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	NT$	NT$	US$
Paid-in capital in excess of par value	332,110	102,533	2,524	73
Gain on disposal of property and equipment	843	843	-	-
Past-due dividend transferred to capital surplus	2,388	2,385	2,373	68
Excess amount of merged company's net asset value over par value of newly issued stock	331	331	331	9
The effects of changes in stockholders' equity of equity method investee companies	127,944	129,195	186,456	5,366
	463,616	**235,287**	**191,684**	**5,516**

(d) Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. Legal reserve can only be used to offset deficits and cannot be distributed as cash dividends. Up to one-half of legal reserve can be converted to share capital when it reaches an amount equal to one-half of issued share capital.

(Continued)

(e) Special reserve

Since 2000 in accordance with SFC regulations, in addition to the legal reserve retained, the Company should appropriate a special reserve from current year's earnings after tax or prior years' unappropriated earnings in an amount equal to any deduction amounts included in current year stockholders' equity. However, if any such deduction amounts are eliminated, an equal amount of special reserve can be reversed back to the unappropriated earnings account and be available for distribution of dividends.

(f) Distribution of retained earnings and dividend policy

In accordance with the Company's articles of incorporation, after payment of corporate income tax, offsetting prior year's deficits, and appropriation of legal reserve and special reserve, the Company's annual net income is subject to distribution as follows:

- prescribed dividends at no more than 10% of share capital
- at least 3% of remaining income after prescribed dividends as employee bonus
- 3% of remaining income after prescribed dividends as directors' and supervisors' remuneration

The remainder can be distributed pursuant to a resolution of the stockholders' meeting.

The Company operates in a high-growth industry that requires it to invest capital constantly in research and development and business expansion to maintain competitiveness in the market. Retained earnings are distributed as stock dividends to the utmost to retain operating funds and then are distributed as cash dividends. The high stock dividend policy is for stock dividends (including capitalization of unappropriated earnings and of capital surplus) to be not less than 80% and cash dividends to be not more than 20%.

2001 earnings distributed to employees, directors and supervisors were as follows:

Stock bonus to employees	NT$	46,180
Directors' and supervisors' remuneration (none was distributed)		-
	NT$	**46,180**

Shares distributed to employees as stock bonus totaled 4,618 thousands shares, equal to 0.83% of the outstanding shares as of December 31, 2001.

If the employee bonus were recognized as expenses of the year 2001, the primary losses after tax per share of common stock for 2001 would be NT$0.002.

(Continued)

The Company's 2002 appropriation of earnings to employee bonus and directors' and supervisors' remuneration is subject to the Company's directors' and shareholders' resolutions. After the resolutions, the related information can be obtained from the public information Website.

(g) Imputation credit account and imputation tax credit ratio

Information on the imputation credit account and imputation tax credit ratio was as follows:

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	NT$	NT$	US$
Imputation credit	2,884	27,546	2,233	64

	2000	2001	2002 (Estimated)
Imputation tax credit ratio	1.54%	3.02%	33.53%

The components of unappropriated earnings were as follows:

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	NT$	NT$	US$
From earnings of				
1997 and before	-	-	518	15
1998 and after	1,794,323	943,097	265,808	7,649
	1,794,323	943,097	266,326	7,664

(13) Income Tax

The Company and its subsidiaries file their own individual income tax returns independently. According to the ROC Income Tax Law, net losses can be carried forward for five consecutive years to reduce taxable income in those years. The Company and its subsidiaries located in the ROC are subject to income tax at a maximum rate of 25%. DBE has a rate of 33%. DBVI, DBC, DBI, AHI, AWC, AGI, Yan Tak, DBH and its subsidiary Ennerdale, and FT are tax-exempt. SDBE, SDI, SWB, TAI, SACT and Zhouku are subject to the tax regulations of the PRC, where they are entitled to exemptions from PRC income tax for two years and have a 50% discount on PRC income tax for three years after beginning to generate a profit. Generating a profit means showing a profit after deducting the accumulated loss from previous years. SDBE and SDI have reported a profit since 2001 and still enjoy the income tax exemption. SDBE, TAI, SACT and Zhougu have not reported any profit yet.

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Notes to Consolidated Financial Statements

The components of income tax expense (benefit) for the consolidated financial statements are as follows:

	2000	2001	2002	
	NT$	NT$	NT$	US$
Current income tax expense	4,802	5,275	48,966	1,409
10% surtax on undistributed earnings	9,351	4,578	73,683	2,120
Deferred income tax expense (benefit)	(79,936)	72,176	4,134	119
	(65,783)	**82,479**	**126,783**	**3,648**

The difference between "expected" income tax at the statutory income tax rate and "estimated" income tax reported in the accompanying consolidated financial statements is summarized as follows:

	2000	2001	2002	
	NT$	NT$	NT$	US$
"Expected" income tax expense	476,290	11,645	86,348	2,485
Differences from a change of tax rate	-	(13,185)	-	-
Investment loss (gain)	86,319	196	86,579	2,491
Loss from long-term equity investment due to investee's capital reduction	-	(24,973)	-	-
Differences from tax-exempt income	(610,566)	(81,810)	(89,511)	(2,576)
10% surtax on undistributed earnings	9,351	4,578	73,683	2,120
Tax-exempt income	-	-	(10,514)	(303)
Loss carryforwards	1,389	37,524	15,073	434
Investment tax credit	(162,908)	(90,854)	(87,969)	(2,531)
Under-accrual of prior year's income tax	2,070	2,530	64	2
Others	10,027	1,812	(2,949)	(85)
Valuation allowance–deferred income tax assets	122,245	235,016	55,979	1,611
	(65,783)	**82,479**	**126,783**	**3,648**

The ROC Statute for the Establishment and Administration of a Science-based Industrial Park was amended on January 20, 2001, to raise the income tax rate from 20% to 25%. As a result, Microjet began to record its deferred income tax asset or liability according to the new tax rate in 2001. The effect was an increase in deferred income tax assets of NT$13,185.

(Continued)

The major components of deferred income tax expense (benefit) are summarized as follows:

	2000	2001	2002	
	NT$	NT$	NT$	US$
Allowance for doubtful accounts	(30,423)	(12,755)	2,890	83
Unrealized foreign exchange gain (loss)	31,609	(14,069)	(3,806)	(109)
Loss from inventory devaluation	(2,526)	(9,663)	(1,039)	(30)
Gain (loss) on long-term investments	(589)	(13,516)	(6,442)	(185)
Unrealized profit on inter-company transactions	1,178	(6,811)	6,859	197
Pension cost	(2,871)	(1,744)	(6,354)	(183)
Loss carryforwards	(49,644)	(18,386)	(8,693)	(250)
Investment tax credits	(158,070)	(87,444)	(34,929)	(1,005)
Others	1,683	1,548	(331)	(10)
Valuation allowance–deferred income tax assets	129,717	235,016	55,979	1,611
	(79,936)	72,176	4,134	119

Deferred income tax assets (liabilities) were as follows:

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT$	NT$	NT$	US$
Current:				
Deferred income tax assets	129,595	127,657	114,804	3,304
Less: valuation allowance	(859)	(4,684)	(4,514)	(130)
Net deferred income tax assets	128,736	122,973	110,290	3,174
Deferred income tax liabilities	(30,163)	(16,094)	(12,288)	(354)
Net current deferred income tax assets	98,573	106,879	98,002	2,820
Non-current:				
Deferred income tax assets	288,952	439,661	500,553	14,404
Less: valuation allowance	(196,149)	(427,340)	(483,489)	(13,913)
Net deferred income tax assets	92,803	12,321	17,064	491
Deferred income tax liabilities	-	-	-	-
Net non-current deferred income tax assets	92,803	12,321	17,064	491
Total deferred income tax assets	418,547	567,318	615,357	17,708
Total deferred income tax liabilities	30,163	16,094	12,288	354
Valuation allowance–deferred income tax assets	197,008	432,024	488,003	14,043

(Continued)

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The temporary differences and their respective tax effects that were recognized as deferred income tax assets (liabilities) were as follows:

	December 31, 2000		December 31, 2001		December 31, 2002		
	Amount NT$	Tax effect NT$	Amount NT$	Tax effect NT$	Amount NT$	Tax effect NT$	Tax effect US$
Deferred income tax assets (liabilities):							
Allowance for doubtful accounts	128,468	32,117	179,488	44,872	167,929	41,982	1,208
Inventory devaluation	21,376	5,119	59,112	14,782	62,378	15,821	455
Unrealized foreign exchange gain	(120,704)	(30,163)	(64,379)	(16,094)	(49,157)	(12,288)	(354)
Unrealized loss on long-term investments	94,568	23,642	148,631	37,158	174,398	43,600	1,255
Unrealized profit on inter-company transactions	193	48	27,436	6,859	-	-	-
Accrued pension cost	42,239	10,561	49,221	12,305	74,638	18,659	537
Loss carryforwards	654,577	149,771	672,173	168,157	707,396	176,850	5,089
Investment tax credits	194,779	194,779	282,223	282,223	317,152	317,152	9,127
Others	10,122	2,510	3,852	962	538	1,293	37
Valuation allowance–deferred income tax assets	-	(197,008)	-	(432,024)	-	(488,003)	(14,043)
		191,376		**119,200**		**115,066**	**3,311**

Income tax payable (refundable) was as follows:

	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
Current income tax expense	4,802	5,725	48,846	1,406
10% surtax on undistributed earnings	9,351	4,578	73,683	2,120
Taxes paid	(12,056)	(14,074)	(4,188)	(120)
Under-accrual of prior years' income tax	(2,070)	(2,530)	(64)	(2)
Income tax payable (refundable) balance at the beginning of the year	6,070	(21,734)	(27,334)	(787)
	6,097	**(28,035)**	**90,943**	**2,617**
Income tax refundable	(1,566)	(28,984)	(1,980)	(57)
Income tax payable	7,663	949	92,923	2,674
	6,097	**(28,035)**	**90,943**	**2,617**

(Continued)

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Pursuant to the ROC Statute for Upgrading Industries, the Company's investment tax credits can be used to deduct one-half of the income tax payable of the same year, and the unused portion can be used over the next four years, with each year's used amount not more than one-half of the income tax payable of that year, except for the ending year, when any remaining investment tax credit can be used in full. As of December 31, 2002, the unused investment tax credits derived from the expenditure on research and development, automation equipment, and investment in essential technology business were as follows:

Expenditure year	December 31, 2002 NT$	December 31, 2002 US$	Year of expiration
1999	118,885	3,421	2003
2000	57,657	1,659	2004
2001	78,559	2,261	2005
2002	62,051	1,786	2006
	317,152	**9,127**	

According to the ROC Income Tax Law, assessed net loss can be carried forward for five consecutive years to reduce taxable income. The Company's management assessed that the deferred income tax assets derived therefrom can be realized. The balance of unused loss carryforwards and the expiration years were as follows:

Year loss incurred	December 31, 2002 NT$	December 31, 2002 US$	Year of expiration
1998	155,286	4,469	2003
1999	135,028	3,886	2004
2000	127,445	3,667	2005
2001	170,970	4,920	2006
2002	118,667	3,415	2007
	707,396	**20,357**	

The income tax authorities have assessed the Company's and its subsidiaries' income tax returns for all years through the years listed as follows:

Year	Company
1998	The Company and Microjet
1999	DBT
2000	Din Shun, DBN, Jing Young, Rui Dee, Wanzhou, Tai Yao, Capital and DBD
2001	SDBE, SDI, TAI, SWB, DBE

Jin Chou, Lin Der, SACT and Zhougu are newly established companies. These companies have not filed their income tax returns.

(Continued)

(14) Disclosure of Financial Instruments

(a) Derivatives

There was no unsettled contract as of December 31, 2000, 2001 and 2002.

(b) Non-derivative financial instruments:

i) The book value and fair value of non-derivative financial instruments are summarized as follows:

	December 31, 2000		December 31, 2001		December 31, 2002			
	Book value NT$	Fair value NT$	Book value NT$	Fair value NT$	Book value NT$	Fair value NT$	Book value US$	Fair value US$
Financial Assets:								
Fair value equal to book value of assets	4,684,548	4,684,548	4,771,912	4,771,912	4,816,436	4,816,436	138,602	138,602
Short-term investments	252,864	252,864	542,686	542,686	782,457	782,457	22,517	22,517
Long-term investments	307,740	307,740	307,740	307,740	168,509	168,509	4,849	4,849
	5,245,152	5,245,152	5,622,338	5,622,338	5,767,402	5,767,402	165,968	165,968
Financial Liabilities:								
Fair value equal to book value of liabilities	2,457,465	2,457,465	3,219,832	3,219,832	5,093,028	5,093,028	146,562	146,562
Long-term loans (including current portion)	432,789	432,789	41,254	41,254	29,509	29,509	849	849
	2,890,254	2,890,254	3,261,086	3,261,086	5,122,537	5,122,537	147,411	147,411
Off-balance-sheet financial instruments:								
Outstanding letters of credit	-	229,205	-	68,829	-	222,720	-	6,409

ii) Methods and assumptions for estimation of fair value of financial instruments are as follows.

A. The fair value of short-term financial instruments is estimated based on the carrying amount, due to their short maturities. Financial assets include cash and cash equivalents, short-term investments, notes and accounts receivable, pledged time deposits, refundable income tax, and guarantee deposits paid; financial liabilities include short-term loans, notes and accounts payable, income tax payable, accrued expenses, dividends payable, accrued pension cost, and guarantee deposits received.

B. Long-term equity investments were investments in non-listed companies. Since the shares of those companies are not traded openly, fair value of the investments is not available. Therefore, the book value is used as their fair value. The related book value and cost of long-term equity investments are described in note 6.

C. The long-term loans are contracted at a floating rate, and its fair value is the book value.

(Continued)

(c) Concentration of credit risk

Concentrations of credit risk exist if the financial instrument transactions are obviously concentrated on a few counter-parties, or the counter-parties are engaged in similar business activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. As of December 31, 2000, 2001 and 2002, the consolidated notes and accounts receivable were concentrated on a few customers as follows:

	December 31, 2000	
Customer	**Amount NT$**	**% of the consolidated notes and accounts receivable**
A	125,697	28.54
B	111,496	25.31
C	94,938	21.55
D	64,265	14.59

	December 31, 2001	
Customer	**Amount NT$**	**% of the consolidated notes and accounts receivable**
E	195,632	27.52
C	162,756	22.89
A	100,195	14.09
F	77,647	10.92
B	76,729	10.79

	December 31, 2002		
	Amount		
Customer	**NT$**	**US$**	**% of the consolidated notes and accounts receivable**
G	213,191	6,135	14.17
E	194,123	5,586	12.90
H	176,588	5,082	11.74

(Continued)

(15) Related-party Transactions

(a) Name and relationship

Name	Relationship
Kuo, Pei-Chih	Director of the Company
Fu Mao Investment Inc. (Fu Mao)	Same chairman as the Company
Yu Tai Investment Inc. (Yu Tai)	Director of the Company
Li Yu Investment Inc. (Li Yu)	Director of the Company

(b) Significant transactions with related parties

i) Advance payments for the related party

Advance payments made by Ennerdale for a related party, recorded as other current assets, were as follows:

	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$
Kuo Pei-Chih	3,099	3,280	-

Major transactions during the year were as follows:

	2000 Maximum amount NT$	Period incurred
Kuo Pei-Chih	3,099	December 2000

	2001 Maximum amount NT$	Period incurred
Kuo Pei-Chih	3,280	December 2001

	2002 Maximum amount NT$	2002 Maximum amount US$	Period incurred
Kuo Pei-Chih	3,280	94	June 2002

(Continued)

ii) Rental expenses

DBD had an operating lease contract with Fu Mao for its office premises, and the yearly rental expenses were NT$36 (US$1) in 2000, 2001 and 2002. They were fully paid before each year-end.

iii) Long-term investments

The long-term investments that the Company purchased from related parties at book value in August 2002 were as follows:

Seller	Object	Number of shares (thousands)	Cost NT$	Cost US$
Fu Mao	Shares of DBT	9,714	90,505	2,604
Fu Mao	Shares of DBN	1,720	18,528	533
Yu Tai	Shares of DBN	5,120	55,142	1,587
Li Yu	Shares of DBN	2,816	30,328	873
			194,503	**5,597**

The purchase prices for the transactions listed above are based on the book values of the subject companies on July 31, 2002. All relevant prices were paid in 2002, and no such transaction occurred in 2000 and 2001.

(16) Pledged Assets

Pledged assets	To recure	December 31, 2000 NT$	December 31, 2001 NT$	December 31, 2002 NT$	December 31, 2002 US$
Pledged time deposits	Credit lines for short-term loans, guarantees, and overdrafts	402,721	343,731	171,842	4,946
Property, plant and equipment:					
Land	Credit lines for long-term and short-term loans	104,336	104,336	112,253	3,230
Buildings and plant	Credit lines for long-term and short-term loans	223,398	239,764	234,436	6,746
Machinery and equipment	Credit lines for long-term and short-term loans	64,392	65,174	58,918	1,696
Leasehold improvements	Short-term loans	135,066	134,827	-	-
Other assets–assets leased to others	Credit lines for long-term and short-term loans	48,312	47,947	35,348	1,017
		978,225	**935,779**	**612,797**	**17,635**

(Continued)

(17) Commitments and Contingencies

(a) As of December 31, 2000, 2001 and 2002, outstanding letters of credit for purchase of material and equipment totaled approximately NT$229,205, NT$68,829 and NT$222,720 (US$6,409), respectively.

(b) For the purpose of building plants, the consolidated subsidiary DBH signed a contract with the PRC government to acquire land use rights. The Company and subsidiaries also signed other contracts with domestic and foreign companies for planning, designing and constructing several construction projects. As of December 31, 2000, 2001 and 2002, the contracts amounted to NT$47,933, NT$16,652 and NT$114,590 (US$3,298), respectively, of which NT$8,858, NT$5,076 and NT$22,716 (US$654), respectively, had been paid and recorded under construction in progress and prepayments for equipment.

(c) The Company and subsidiaries entered into several operating lease agreements for warehouses, land and buildings. Minimum lease payments are summarized as follows:

	NT$	US$
2003	24,164	695
2004	9,889	285
2005	6,081	175
	40,134	**1,155**

(d) The Company signed an "Authorization Contract on GSM Dual Band Cellular Phone Technology" with the Industrial Technology Research Institute (ITRI) in March 2000. Based on the contract, a royalty fee should be paid to ITRI from the day the Company begins its sales of GSM dual-band cellular phones to February 28, 2010, at a rate of 1% of sales. The royalty fees incurred in 2000, 2001 and 2002 were NT$0, NT$149 and NT$0, respectively.

(e) The Company signed a permanent patent licensing of a caller-ID system with Nortel Networks in July 1999. According to the contract, any product manufactured by implementing that system is subject to a one US dollar royalty fee per item to Nortel Networks. In 2000, 2001 and 2002, no such royalty fee was incurred.

(f) The Company signed a five-year (September 2000 to September 2005) patent licensing agreement for Numeric Signal Processor Broad-Band Built-In Solution with Shanghai Chuan-Jin Numeric Technology Ltd. through DBH. The Company paid $18,762 for patent licensing fees in September 2000. Within the period of the contract, a royalty fee ranging from 0.5 to 3 US dollars per item should be paid based on the number of products sold. As of December 31, 2002, no products had been sold.

(Continued)

(g) The Company's board of directors resolved in August 2002 to invest US$990 to establish Chengdu DBTEL Electronic Communication Ltd. as a wholly owned subsidiary through the Company's indirectly wholly owned subsidiary Ennerdale. The ROC Investment Commission approved the investment in January 2002. The Company withdrew the same investment in February 2003.

(h) The Company's board of directors resolved in November 2002 to increase SDBE's capital by US$4,400 through the Company's indirectly wholly owned subsidiary Ennerdale. The ROC Investment Commission approved the investment in March 2002. The Company withdrew the same investment in February 2003.

(i) The Company's board of directors resolved in June 2002 to increase TAI's capital by providing machinery and equipment totaling US$5,874 through the Company's indirectly wholly owned subsidiary Ennerdale. The ROC Investment Commission has approved the investment. However, the investment has not been implemented yet.

(j) The Company's board of directors resolved in October 2002 to increase SDI's capital by US$8,000 through the Company's indirectly wholly owned subsidiary Ennerdale. The ROC Investment Commission has approved the investment. However, the investment has not been implemented yet.

(k) On May 9, 2002, Motorola filed a lawsuit with the District Court for the District of Illinois against the Company and DBH for manufacturing mobile phones in violation of the OEM contract and in breach of the confidentiality agreement. Motorola also requested the Company suspend mobile phone sales and manufacturing for six months. On July 19, 2002, the District Court for the District of Illinois adjudged the accusation invalid. Motorola has filed an appeal with the federal District Court. As of March 20, 2003, the legal process was still ongoing. The management of the Company has analyzed this litigation and does not believe it will result in any material effects to the consolidated financial statements.

(Continued)

(18) Segment Information

(a) Business segment information

The Company is involved in business in one industry segment–the electronics industry.

(b) Geographic information

	2000			
	Foreign operating unit NT$	Domestic NT$	Eliminations and adjustments NT$	Consolidated NT$
Revenue from third parties:				
Customers	234,276	8,357,219	-	8,591,495
Others	15,782	1,882,349	-	1,898,131
Inter-company	7,460,712	410,180	(7,870,892)	-
Segment revenue	7,710,770	10,649,748	(7,870,892)	10,489,626
Segment operating income (loss)	(685,787)	1,891,485	-	1,205,698
Routine expense, net				700,575
Interest income				155,776
Interest expense				(156,192)
Continuing operations' income				1,905,857
Identifiable assets	4,429,023	7,170,896	(1,205,775)	10,394,144
Long-term investments				307,740
Total assets				10,701,884
Depreciation	287,230	118,051	-	
Capital expenditures	746,859	215,758	-	

In order to reconcile the amounts in the geographic financial information and in the financial statements, the following amounts were listed in "eliminations and adjustments" above:

i) Inter-company sales: NT$7,870,892.

ii) Inter-company receivable: NT$1,205,775.

(Continued)

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	2001			
	Foreign operating unit NT$	**Domestic NT$**	**Eliminations and adjustments NT$**	**Consolidated NT$**
Revenue from third parties:				
Customers	953,066	4,382,544	-	5,335,610
Others	22,062	170,642	-	192,704
Inter-company	2,823,137	484,019	(3,307,156)	-
Segment revenue	**3,798,265**	**5,037,205**	**(3,307,156)**	**5,528,314**
Segment operating income (loss)	**195,243**	**(300,765)**	**-**	(105,522)
Routine expense, net				74,741
Interest income				97,607
Interest expense				(20,248)
Continuing operations' income				46,578
Identifiable assets	**5,082,886**	**7,663,832**	**(2,145,934)**	10,600,784
Long-term investments				307,740
Total assets				**10,908,524**
Depreciation	**281,605**	**147,404**	**-**	
Capital expenditures	**280,377**	**262,051**	**-**	

In order to reconcile the amounts in the geographic financial information and in the financial statements, the following amounts were listed in "eliminations and adjustments" above:

i) Inter-company sales: NT$3,307,156.

ii) Inter-company receivable: NT$2,145,934.

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

	2002			
	Foreign operating unit NT$	**Domestic NT$**	**Eliminations and adjustments NT$**	**Consolidated NT$**
Revenue from third parties:				
Sales revenue	6,255,394	2,340,339	-	8,595,733
Others	98,205	19,063	-	117,268
Inter-company	1,588,241	4,050,745	(5,638,986)	-
Segment revenue	7,941,840	6,410,147	(5,638,986)	8,713,001
Segment operating income	299,657	324,485	-	624,142
Routine expense, net				(310,337)
Interest income				43,965
Interest expense				(12,377)
Continuing operations' income				345,393
Identifiable assets	8,012,126	7,781,273	(3,263,319)	12,530,080
Long-term investments				168,509
Total assets				12,698,589
Depreciation	301,307	164,916	-	
Capital expenditures	511,328	196,554	-	

	2002			
	Foreign operating unit US$	**Domestic US$**	**Eliminations and adjustments US$**	**Consolidated US$**
Revenue from third parties:				
Sales revenue	180,011	67,348	-	247,359
Others	2,826	549	-	3,375
Inter-company	45,705	116,568	(162,273)	-
Segment revenue	228,542	184,465	(162,273)	250,734
Segment operating income	8,623	9,338	-	17,961
Routine expense, net				(8,931)
Interest income				1,265
Interest expense				(356)
Continuing operations' income				9,939
Identifiable assets	230,565	223,921	(93,908)	360,578
Long-term investments				4,849
Total assets				365,427
Depreciation	8,670	4,746	-	
Capital expenditures	14,715	5,656	-	

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

In order to reconcile the amounts in the geographic financial information and in the financial statements, the following amounts were listed in "eliminations and adjustments" above:

i) Inter-company sales: NT$5,638,986 (US$162,273).

ii) Inter-company receivable: NT$3,263,319 (US$93,908).

(c) Information about export sales

	2000	2001	2002	
	NT$	NT$	NT$	US$
Europe	7,474,417	2,449,318	858,415	24,702
Asia	1,096,983	1,554,625	7,234,001	208,173
Others (less than 10%)	441,477	140,608	298,334	8,585
	9,012,877	4,144,551	8,390,750	241,460

(d) Information regarding major customers

In 2002, no sales to a single customer represented greater than 10% of consolidated operating revenue. In 2000 and 2001, the list of major customers was as follows:

2000

Name of customer	Sale amount NT$	Percentage of net sales (%)
D	4,200,742	40.05
F	1,884,356	17.96

2001

Name of customer	Sale amount NT$	Percentage of net sales (%)
I	1,241,576	22.46
C	1,101,170	19.92
B	775,685	14.03
J	608,898	11.01