DBTEL Incorporated and Subsidiaries

Consolidated Financial Statements

December 31, 2003 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 and subsidiaries (the Consolidated Companies) as of December 31, 2003 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 D&B Holding Co., Ltd. and its subsidiaries and of DBTEL International (Europe) Ltd. in 2003 and 2002, whose statements reflected total assets amounting to NT$16,705,741 thousands and NT$7,410,584 thousands, respectively, constituting 67.38% and 58.36%, respectively, of consolidated assets and total operating revenues amounting to NT$15,379,713 thousands and NT$6,353,599 thousands, constituting 84.68% and 72.92%, of consolidated operating revenues after eliminating inter-company transactions for the years ended December 31, 2003 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 Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants. 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 report 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 Consolidated Companies as of December 31, 2003 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 and the Guidelines Governing the Preparation of Financial Report by Securities Issuers .

April 16, 2004

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, 2003 and 2002

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

Assets	2003 Amount	%	2002 Amount	%
Current assets:				
Cash and cash equivalents	$ 9,392,838	38	3,131,853	25
Short-term investments (note 3)	872,505	4	782,457	6
Notes receivable	1,519,240	6	3,175	-
Accounts receivable, less allowance for doubtful accounts of $239,813 and $187,060 in 2003 and 2002, respectively	983,810	4	1,501,419	12
Other monetary assets – current (note 11)	35,463	-	22,486	-
Inventories (note 4)	6,221,794	25	2,399,444	19
Prepayments to suppliers	82,449	-	157,749	1
Deferred income tax assets – current (note 11)	99,586	-	98,002	1
Pledged time deposits (note 15)	621,321	2	155,842	1
Other current assets (note 14)	102,951	-	103,125	1
	19,931,957	79	8,355,552	66
Long-term equity investments (notes 5 and 14):				
Long-term investments under cost method	130,531	1	168,509	1
Property, plant and equipment (notes 6, 9, 15 and 16):				
Cost:				
Land	215,569	1	226,660	2
Buildings and improvements	434,628	2	370,133	3
Machinery and equipment	4,720,941	19	4,425,040	35
Molds and equipment	58,735	-	58,735	-
Furniture and fixtures	149,135	1	112,086	1
Leasehold improvements	889,687	3	726,089	6
Miscellaneous equipment	68,338	-	53,792	-
	6,537,033	26	5,972,535	47
Less: accumulated depreciation	(2,594,106)	(10)	(2,150,134)	(17)
Construction in progress and prepayments for equipment	397,023	2	31,288	-
	4,339,950	18	3,853,689	30
Intangible assets:				
Deferred pension cost (note 10)	-	-	1,080	-
Other assets:				
Assets leased to others (notes 7 and 15)	35,098	1	35,348	1
Refundable deposits	9,384	-	7,532	-
Deferred charges (note 16)	101,886	-	83,931	1
Deferred income tax assets – noncurrent (note 11)	88,837	-	17,064	-
Pledged time deposits–noncurrent (note 15)	28,000	-	16,000	-
Other assets–others (note 10)	126,810	1	159,884	1
	39,015	2	319,759	3
Total assets	$ 24,792,453	100	12,698,589	100

Liabilities and Stockholders' Equity	2003 Amount	%	2002 Amount	%
Current liabilities:				
Short-term loans (notes 8 and 15)	$ 1,889,807	8	25,991	-
Current portion of long-term loans (notes 9 and 15)	19,879	-	12,578	-
Notes payable	4,437,048	18	145,103	1
Accounts payable	7,410,009	30	4,583,299	36
Income tax payable (note 11)	75,713	-	92,923	1
Accrued expenses	764,530	3	169,166	1
Other current liabilities	198,767	1	71,626	1
	14,795,753	60	5,100,686	40
Long-term liabilities:				
Long-term loans, less current portion (notes 9 and 15)	82,391	-	25,815	-
Other liabilities:				
Accrued pension cost (note 10)	108,878	-	75,718	1
Guarantee deposits received	771	-	828	-
Minority interest	440,060	2	220,495	2
	549,709	2	297,041	3
Total liabilities	15,427,853	62	5,423,542	43
Stockholders' equity (notes 5 and 12):				
Common stock of $10 par value; authorized 930 and 930 million shares and issued 683 and 659 million shares in 2003 and 2002, respectively	6,829,794	28	6,591,179	52
Capital surplus:				
Paid-in capital in excess of par value	2,524	-	2,524	-
Others	182,349	1	189,160	3
	184,873	1	191,684	3
Retained earnings:				
Legal reserve	423,037	2	396,824	3
Unappropriated earnings	2,068,409	8	266,326	2
	2,491,446	10	663,150	5
Cumulative translation adjustments	172,307	-	142,862	-
Treasury stock	(313,820)	(1)	(313,828)	(3)
Total stockholders' equity	9,364,600	38	7,275,047	57
Commitments and contingencies (notes 7, 13 and 16)				
Total liabilities and stockholders' equity	$ 24,792,453	100	12,698,589	100

See accompanying notes to consolidated financial statements.

DBTEL INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

(expressed in thousands of New Taiwan dollars)

	2003	2002
Cash flows from operating activities:		
Net income	$ 2,069,443	262,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Income (loss) for minority interest	147,193	(43,518)
Depreciation	573,946	466,223
Amortization expenses	54,651	31,294
Prepayments for equipment transferred to expenses	4,509	9,212
Loss on disposal of equipment	269	46,778
Loss (gain) on sale of short-term and long-term investments	3,352	(31,766)
Reversal (recovery) for devaluation of short-term investments	(84,602)	262,861
Provision for allowance for doubtful accounts	52,753	3,827
Unrealized foreign currency exchange loss (gain)	27,488	(22,347)
Loss on inventory devaluation and obsolescence	131,757	69,482
Loss from investments' reduction of capital	37,585	-
Devaluation loss on long-term investments transferred to short-term investments	-	18,356
Permanent devaluation loss on long-term investments	-	517
Decrease in short-term investments of subsidiary companies	39,466	10,360
Increase in notes receivable	(1,516,065)	(2,202)
Decrease (increase) in accounts receivable	464,787	(792,430)
Decrease (increase) in other monetary assets – current	(12,977)	14,484
Increase in inventories	(3,954,107)	(1,397,887)
Decrease (increase) in prepayments to suppliers	75,300	(155,023)
Decrease (increase) in other current assets	174	(21,505)
Net changes in deferred income tax assets and liabilities	(73,357)	4,134
Increase in notes payable	4,291,945	112,318
Increase in accounts payable	2,826,710	2,266,459
Increase (decrease) in income tax payable	(17,210)	91,974
Increase (decrease) in accrued expenses	595,364	(8,271)
Increase (decrease) in other current liabilities	124,518	(67,685)
Increase in accrued pension cost	34,240	25,545
Net cash flows provided by operating activities	5,897,132	1,153,318
Cash flows from investing activities:		
Decrease (increase) in short-term investments	(50,044)	21,451
Proceeds from sale of long-term investments	-	15,254
Increase in long-term equity investments	-	(5,967)
Proceeds from capital reduction of long-term investments	2,173	818
Purchase of property and equipment	(1,237,801)	(707,882)
Proceeds from sale of property and equipment	120,017	41,827
Decrease (increase) in pledged time deposits	(477,479)	159,836
Increase in other assets	(41,896)	(14,941)
Net cash flows used in investing activities	(1,685,030)	(489,604)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	1,863,816	(516,072)
Increase in long-term loans	76,468	8,884
Repayment of long-term loans	(12,591)	(11,745)
Increase (decrease) in minority interest	92,483	(81,408)
Increase (decrease) in guarantee deposits received	(3,265)	77
Net changes in unclaimed cash dividends	(1)	(12)
Purchase of common stock of the company	-	(228,288)
Net cash flows provided by (used in) financing activities	2,016,910	(828,564)
Effects of changes in foreign exchange rates	31,973	4,873
Net increase (decrease) in cash and cash equivalents	6,260,985	(159,977)
Cash and cash equivalents at beginning of year	3,131,853	3,291,830
Cash and cash equivalents at end of year	**$ 9,392,838**	**3,131,853**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 42,236**	**15,057**
Cash payments of income tax	**$ 120,266**	**4,023**
Investing and financing activities not affecting cash:		
The effects of change in long-term equity investments due to change in investment percentage	**$ 9,342**	**57,261**
Cumulative translation adjustments on foreign long-term investments	**$ 29,445**	**(997)**
Decrease in deferred pension cost	**$ 1,080**	**497**
Current portion of long-term loans	**$ 19,879**	**12,578**
Others:		
Increase in property and equipment	$ 1,240,424	717,467
Increase in equipment payable	(2,623)	(9,585)
Cash paid for purchase of property and equipment	**$ 1,237,801**	**707,882**
Increase in short-term investments	$ (10,578)	(360,613)
Decrease in receivable from sale of stock	-	392,424
Cash received (paid) for short-term investments	**$ (10,578)**	**31,811**
Increase in minority interest	$ 92,483	15,952
Decrease in dividends payable	-	(97,360)
Cash flows from changes in minority interest	**$ 92,483**	**(81,408)**

See accompanying notes to consolidated financial statements.

DBTEL INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2003 and 2002

(expressed in thousands of New Taiwan dollars, except earnings per share)

	2003 Amount	%	2002 Amount	%
Operating revenue:				
Gross sales	$ 18,081,668	100	8,640,730	100
Less: sales returns and allowances	99,292	1	44,997	1
	17,982,376	99	8,595,733	99
Other operating revenue	179,451	1	117,268	1
Total operating revenue	18,161,827	100	8,713,001	100
Operating costs (notes 5, 10 and 17)	10,643,392	59	5,486,093	63
Gross profit	7,518,435	41	3,226,908	37
Operating expenses (notes 10, 14 and 17):				
Selling expenses	2,385,695	13	1,006,546	12
Administrative expenses	1,872,099	10	1,011,296	12
Research and development expenses	1,010,110	6	584,924	6
	5,267,904	29	2,602,766	30
Operating income	2,250,531	12	624,142	7
Non-operating income:				
Interest income	22,288	-	43,965	1
Dividend income	4,831	-	5,860	-
Gain on disposal of equipment	56	-	96	-
Gain on sale of investment	-	-	33,037	1
Gain on physical inventory, net	29,304	-	-	-
Foreign currency exchange gain, net	23,318	-	-	-
Rental revenue (note 7)	2,532	-	2,783	-
Recovery on devaluation of short-term investment	50,045	1	-	-
Other income	32,002	-	27,165	-
	164,376	-	112,906	2
Non-operating expenses:				
Interest expense	42,658	-	12,377	-
Loss on short-term investment devaluation	-	-	192,644	2
Loss on other investment (note 5)	3,226	-	974	-
Loss on disposal of equipment	325	-	46,778	1
Foreign currency exchange loss, net	-	-	60,970	1
Loss on inventory devaluation and obsolescence	131,757	1	69,482	1
Other loss (note 17)	2,058	-	8,430	-
	180,024	1	391,655	5
Income before income tax and minority interest	2,234,883	12	345,393	4
Income tax expense (note 11)	18,247	-	126,783	1
Income before minority interest	2,216,636	12	218,610	3
Loss (income) for minority interest	(147,193)	(1)	43,518	-
Net income	$ 2,069,443	11	262,128	3

	Before income tax	After income tax	Before income tax	After income tax
Primary earnings per share of common stock	$ 3.10	3.10	0.56	0.39

See accompanying notes to consolidated financial statements.

DBTEL INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2003 and 2002
(expressed in thousands of New Taiwan dollars)

			Retained Earnings		Cumulative		
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	translation adjustments	Treasury stock	Total
Balance at January 1, 2002	$ 5,556,026	235,287	392,226	943,097	143,859	(85,540)	7,184,955
Reversal of gain on disposal of property and equipment before 2000	-	(843)	-	843	-	-	-
Appropriation of retained earnings (note 12):							
Legal reserve	-	-	4,598	(4,598)	-	-	-
Capitalization of 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)
Net income for 2002	-	-	-	262,128	-	-	262,128
Unclaimed cash dividends	-	(12)	-	-	-	-	(12)
The effects of change in long-term equity investments due to change in investment percentage (note 5)	-	57,261	-	-	-	-	57,261
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	(997)	-	(997)
Balance at December 31, 2002	6,591,179	191,684	396,824	266,326	142,862	(313,828)	7,275,047
Appropriation of retained earnings (note 12):							
Legal reserve	-	-	26,213	(26,213)	-	-	-
Capitalization of bonus to employees	43,880	-	-	(43,880)	-	-	-
Stock dividends	194,735	-	-	(194,735)	-	-	-
Net income for 2003	-	-	-	2,069,443	-	-	2,069,443
Unclaimed cash dividends	-	(1)	-	-	-	-	(1)
The effects of change in long-term equity investments due to change in investment percentage (note 5)	-	(6,810)	-	(2,532)	-	-	(9,342)
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	29,445	-	29,445
The Company's stock held by subsidiary transferred to minority interest	-	-	-	-	-	8	8
Balance at December 31, 2003	**$ 6,829,794**	**184,873**	**423,037**	**2,068,409**	**172,307**	**(313,820)**	**9,364,600**

See accompanying notes to consolidated financial statements.

(all amounts expressed in thousands of New Taiwan 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.

The invested companies in which 50% or more of the voting stock is owned directly by the Company, and the invested companies in which 50% or more of the voting stock is owned by the Company and its subsidiaries, are summarized below according to their primary business activity.

1) Design, manufacturing and sales of telephones, wireless telephones, mobile phones, fax machines and answering machines

	Ownership percentage (direct or indirect)	
	December 31, 2003	**December 31, 2002**
D&B Holding Co., Ltd. (DBH)	100.00	100.00
Shanghai Da Ba Electronic Co., Ltd. (SDBE)	100.00	100.00
Shanghai DBTEL Industry Co., Ltd. (SDI)	100.00	100.00
Shanghai Wanzhou Battery Co., Ltd. (SWB)	100.00	100.00
Tianjin Ares Industry Co., Ltd. (TAI)	100.00	100.00
Shanghai AGIT Communication Tech. Co., Ltd. (AGIT)	100.00	-
Formula Electronic Sdn Bhd. (FE)	100.00	100.00
Nicenrich (M) Sdn Bhd. (Nicenrich)	100.00	100.00
Ares Communication Tech, Inc. (Ares)	53.44	53.44
DB Distribution, Inc. (DBD)	100.00	100.00
DBTEL International (Europe) Ltd. (DBE)	100.00	100.00
Shanghai Ares Communication Tech. Co., Ltd. (SACT)	100.00	100.00
DB Networks (DBN)	99.92	99.89

(Continued)

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Design, manufacturing and sales of ink jet nozzles, ink jet refill ink, ink jet cartridges, ink jet motor device modules, and data storage devices

	Ownership percentage (direct or indirect)	
	December 31, 2003	**December 31, 2002**
DBTEL Technology Co., Ltd. (DBT)	99.99	99.99
Microjet Technology Co., Ltd. (Microjet)	64.74	66.01
Shanghai Zhouku Industry Co., Ltd. (Zhouku)	98.35	93.88

3) Professional investment and shareholding

	Ownership percentage directly or indirectly	
	December 31, 2003	**December 31, 2002**
DBTEL (BVI) Inc. (DBVI)	100.00	100.00
Ennerdale Limited (Ennerdale)	100.00	100.00
Formula Telecommunication (M) Berhad (FT)	100.00	100.00
Epson Holdings Limited (Epson)	100.00	100.00
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	100.00
Rui Dee Investment & Development, Inc. (Rui Dee)	100.00	100.00
Wanzhou Investment & Development, Inc. (Wanzhou)	100.00	100.00
Tai Yao Investment & Development, Inc. (Tai Yao)	100.00	100.00
Capital Investment & Development Inc. (Capital)	100.00	100.00
Jin Chou Investment & Development, Inc. (Jin Chou)	100.00	100.00
Lih Der Investment & Development, Inc. (Lih Der)	100.00	100.00
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	100.00
DBTEL Int. Holding Inc. Co., Ltd. (DBI)	100.00	100.00
Ares Holding International Limited (AHI)	100.00	100.00
Ares Wireless Corporation (AWC)	100.00	100.00
Ares Global Inc. (AGI)	100.00	100.00
Yan Tak Resource Limited (Yan Tak)	100.00	100.00

The Company and its subsidiaries had approximately 14,650 employees on December 31, 2003.

(Continued)

(2) Summary of Significant Accounting Policies

The Consolidated Company prepares the accompanying financial statements in accordance with the ROC generally accepted accounting principles. Unless specified otherwise, the preparation of he financial statements is based on historical cost. A summary of significant accounting policies and valuations is as follows:

1) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and subsidiaries in which the Company, or the Company and its subsidiary, directly or indirectly, own greater than 50% (the Consolidated Companies). Nevertheless, the consolidated financial statements of DBH and its subsidiaries (Ennerdale, FT, Epson, SDBE, SDI, SWB, TAI, AGIT, FE, and Nicenrich) are furnished as one business entity. All significant inter-company transactions among the Consolidated Companies are eliminated in consolidation.

2) Foreign currency transactions and translations

The accounts of the Consolidated and subsidiaries are maintained in local currency (New Taiwan Dollar) except for those of DBVI, DBH, Yan Tak, DBC, DBI, AHI, AWC and AGI, which are maintained in U.S. 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.

The assets and liabilities of the Company's foreign subsidiaries are translated into New Taiwan dollars at the approximate market rates 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 rates 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 adjustments are included in the cumulative foreign currency translation adjustments in the stockholders' equity section, and recognized as income or loss at the time of disposal of the foreign subsidiaries.

3) Cash equivalents

Cash equivalents represent all highly liquid investments with insignificant interest rate risk, such as commercial paper purchased under agreements to sell with a maturity of three month or less.

(Continued)

4) 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 closing price in the last month of the reporting period; for open-end mutual funds, market value is based on the net worth of the funds on the balance sheet date. When sold, cost is determined by the weighted-average method.

5) Allowance for doubtful accounts

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

6) 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.

7) Long-term equity investments

Long-term 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 other than temporary, 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 sold, cost is determined by the weighted-average method.

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. The net difference amount on the consolidated financial statements is recorded as other assets – other.

(Continued)

8) 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. Maintenance and repairs are regarded as period 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 listed as follows:

Buildings and improvements	5~50 years
Machinery and equipment	2~15 years
Molds and equipment	2~4 years
Furniture and fixtures	2~8 years
Leasehold improvements	3~50 years
Miscellaneous equipment	2~15 years

Gain or loss on the disposal of property, plant and equipment is recorded as non-operating income or expenses.

9) 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.

10) Deferred charges

Payments for computer software and technology royalties are deferred and recorded at cost, and are amortized over two to six years.

11) Employee pension benefits

The Company and its subsidiaries Microjet, Ares 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 and DBD make monthly deposits to the Central Trust of China.

(Continued)

The aforementioned companies have defined benefit pension plans and adopt Statement of Financial Accounting Standards (SFAS) No. 18, “Accounting for Pensions”. The last day of the fiscal year is defined 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 asset is amortized by using the straight-line method over the average residual service years of the employees.

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

Other subsidiaries of the Consolidated Companies have no pension plans.

12) Provision for product warranties

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

13) Revenue and cost

Revenue is recognized upon transfer of risk and compensation, along with delivery for goods.

14) 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, then 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.

(Continued)

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 regarded as treasury stock, with no retroactive adjustment needed when recognizing gain (loss) on investment or preparing financial statements. In addition, according to SFAS No. 7, treasury stock is debited from purchase year using the cost method when making consolidated financial statements.

15) Income tax

Each of the Consolidated Companies is an independent taxable entity, 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 when the differences are expected to be reversed. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to 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 in connection with the deferred accounts, 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.

The subsidiaries located in the British Virgin Islands, the Cayman Islands, Bermuda and Western Samoa have no need to pay income tax, but fixed annual fees recorded as operating expenses are necessary.

16) 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.

(Continued)

The receivable and payable balance resulting from the same foreign currency exchange forward contract should be offset on the balance sheet date and recognized as an asset or liability accordingly.

17) 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 resulting from retained earnings or capital surplus. Furthermore, if the base date of the capital increase for a stock dividend is before the issuance date of the financial statements, the earnings per common share shall be adjusted retroactively.

The number of shares outstanding in 2003 and 2002 was 667,676 thousand shares and 676,901 thousand shares, respectively.

(3) Short-term Investments

	December 31, 2003	December 31, 2002
Mutual funds	$ 134,176	84,102
Common stocks	1,050,550	1,095,176
	1,184,726	1,179,278
Less: provision for devaluation	312,221	396,821
	$ 872,505	782,457

(4) Inventories

	December 31, 2003	December 31, 2002
Raw materials	$ 3,756,992	1,801,148
Work in process	841,223	256,668
Finished goods	1,550,619	351,811
Merchandise	105,145	39,253
Deferred designated cost	75,370	-
Inventories-in-transit	109,175	45,163
	6,438,524	2,494,043
Less: provision for devaluation	216,730	94,599
	$ 6,221,794	2,399,444

As of December 31, 2003 and 2002, the insurance coverage for the aforementioned inventories of the Consolidatd Companies amounted to $1,426,328 and $1,081,337, respectively.

(Continued)

(5) Long-term Equity Investments

Investee	December 31, 2003 Percentage (%) of ownership	December 31, 2003 Cost of investment	December 31, 2003 Amount	December 31, 2002 Percentage (%) of ownership	December 31, 2002 Cost of investment	December 31, 2002 Amount
Cost method:						
Crownpo Technology Inc. (Formely Lizhi Electronic Engineering Co., Ltd.)	1.08	$ 6,998	3,593	4.20	26,696	26,158
Jian Rong Investment Co., Ltd.	2.27	1,908	1,642	2.27	1,908	1,642
China-America Wantai Technology Co., Ltd.	1.53	2,750	2,750	1.53	2,750	2,750
Hanchang Technology Co., Ltd.	2.92	38,228	38,228	3.17	38,228	38,228
Hong Yuan Communication Co., Ltd.	0.28	3,778	2,712	2.01	15,952	15,952
Hwa Young Co., Ltd.	2.38	15,638	15,638	2.38	17,811	17,811
Bao Lai Securities Co., Ltd.	14.75	52,650	52,650	14.75	52,650	52,650
Tai Yu Securities Co., Ltd.	4.90	14,700	13,318	4.90	14,700	13,318
China Porcelain Engineering Co., Ltd.	0.41	3,713	-	0.41	3,713	-
Jia Di Investment Co., Ltd.	1.77	1,226	-	1.77	1,226	-
		$ 141,589	130,531		175,634	168,509

Ares was established in April 2001. The latest cash capital injections were made in September 2002. 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 $57,261 in 2002.

Microjet made a reduction of capital to cover accumulated deficits of $171,000 on October 14, 2003 and a cash capital injection of 200,000 on October 15, 2003. The Company's not subscribing the newly issued shares on a pro rata basis led to a decline of $9,342 in net equity value. Thus the Company debited capital surplus of $6,810 generated from long-term investments and retained earnings of $2,532 because of insufficientness of capital surplus.

Some investees under the cost method made a reduction of capital to cover deficits in 2003. The losses on a pro rata basis were as follows:

Investee	Amount
Crownpo Technology Inc.	$ 22,565
Hong Yuan Communication Co., Ltd.	13,240
	$ 35,805

(Continued)

The losses above belong to operating cost of $34,359 and other investment loss of $1,446.

Hwa Young Co., Ltd. made a reduction of capital in December 2003, and got back original investments of $2,173 to the Consolidated Companies.

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 $97,360. The amount was fully paid in 2002.

All subsidiaries' shareholding of the parent company is regarded as treasury stock. As of December 31, 2003 and 2002, the number of shares was 5,304 thousand shares and 5,149 thousand shares, respectively. The book value (equal to the original cost) was as follows:

Subsidiary	December 31, 2003	December 31, 2002
DBT	$ 83,337	83,337
Tai Yao	1,688	1,688
Capital	515	515
	$ 85,540	85,540

(6) Property, Plant and Equipment

As of December 31, 2003 and 2002, insurance coverage for property, plant and equipment of the Consolidated Companies was $3,518,526 and $3,553,219, respectively.

(7) Assets Leased to Others

	December 31, 2003	December 31, 2002
Land	$ 23,300	24,300
Property and plant	14,461	13,461
	37,761	37,761
Less: accumulated depreciation	2,663	2,413
	$ 35,098	35,348

The major terms of the lease contracts are as follows:

1) The contract period is 1 to 3 years.

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

(Continued)

3) As of December 31, 2003 and 2002, the insurance coverage for leased assets was $60,761 and $17,000, respectively.

In 2003 and 2002, the total rental revenues amounted to $2,532 and $2,783, respectively. The lease revenues for subsequent years were as follows:

Period	Amount
2004.1.1~2004.12.31	$ 1,520
2005.1.1~2005.12.31	443
	$ 1,963

(8) Short-term loans

	December 31, 2003	December 31, 2002
Short-term loans	**$ 1,889,807**	**25,991**

The aforementioned loans will be due within 365 days. The average annual interest rate for the short-term loans ranged from 0.85% to 6.50% and 2.49% to 6.00% for 2003 and 2002, respectively. As of December 31, 2003 and 2002, the unused credit facilities approximated $1,923,560 and $2,150,345, respectively.

(10) Long-term Debts

Bank	Description	Period of loan	Type of repayment	Interest rate (%)	December 31, 2003	December 31, 2002
International Bank of Taipei	Working capital, for which the leased equipment from related party is pledged. Credit line is $49,500	March 2000~ March 2005	In 48 monthly installments beginning in April 2001	2003: 6.385~6.595 2002: 6.82~6.595	$ 16,918	29,509
Chiao Tung Bank	Authorized by Ministry of Economy. Credit line is $17,250	January 2002~ April 2007	In 12 quarterly installments beginning in one year after successful development date (June 2003)	None	15,352	8,884

(Continued)

Bank	Description	Period of loan	Type of repayment	Interest rate (%)	December 31, 2003	December 31, 2002
Hua Nan Bank	Mortgage loan	December 2003~ December 2018	In 180 monthly installments beginning in January 2004	2003: 2.5	$ 70,000	-
					102,270	38,393
Less: current portion					19,879	12,578
					$ 82,391	25,815

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

Period	Amount
2004	$ 19,879
2005	12,604
2006	9,212
2007	6,758
After 2007	53,817
	$ 102,270

(10) Employee Pension Benefits

The Consolidated Companies which have defined benefit pension plans adopted December 31, 2003 and 2002, as the measurement dates for the actuarial assessment of pension liability. According to the actuarial report, the reconciliations of funded status to accrued pension cost were as follows:

	December 31, 2003	December 31, 2002
Benefit obligation:		
Vested benefit obligation	$ (105,445)	(86,110)
Non-vested benefit obligation	(65,322)	(49,690)
Accumulated benefit obligation	(170,767)	(135,800)
Additional benefits based on future salaries	(57,295)	(41,749)
Projected benefit obligation	(228,062)	(177,549)
Fair value of plan assets	89,744	77,736
Funded status	(138,318)	(99,813)
Unrecognized amortization of net transition obligation	6,748	7,335
Unrealized pension loss	24,567	19,205
Additional minimum liability	-	(1,080)
Accrued pension cost	**$ (107,003)**	**(74,353)**
Vested benefit	**$ (144,418)**	**(117,140)**

(Continued)

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of accrued pension cost were as follows:

	December 31, 2003	December 31, 2002
Prepaid pension expense (recorded as other assets – others)	$ 1,875	1,365
Accrued pension cost	(108,878)	(75,718)
	$ (107,003)	**(74,353)**

The components of net pension cost were as follows:

	2003	2002
Service cost	$ 41,765	32,046
Interest cost	6,640	5,787
Actual return on plan assets	(1,123)	(1,574)
Amortization	(1,142)	(925)
Net periodic pension cost	**$ 46,140**	**35,334**

	2003	2002
The following are the actuarial assumptions:		
Discount rate	3.50%	3.75%
Rate of future increase in compensation	3.00%	2.00%~3.00%
Expected long-term rate of return on plan assets	3.50%	3.75%

(11) Income Tax

Each of the Consolidated Companies should file its income tax return independently, but not file a consolidated income tax return. According to the ROC Income Tax Law, net losses can be carried forward for five consecutive years to reduce taxable income. 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 subsidiaries Ennerdale and FT are tax–free. The income tax rate for the subsidiaries located in the Peoples' Republic of Chian (PRC) are 24%. Where they are entitled to exemptions from PRC income tax for two years and have a 50% discount of PRC income taxe 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, therefore, they enjoy the income tax exemption for 2002 and save 50% income tax for 2003. SWB, TAI, AGIT, SACT and Zhouku have not reported any profit yet.

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of income tax expense (benefit) of the Consolidated Companies are as follows:

	2003	2002
Current income tax expense	$ 91,604	48,966
Deferred income tax expense (benefit)	(73,357)	4,134
10% surtax on undistributed earnings	-	73,683
	$ 18,247	126,783

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

	2003	2002
"Expected" income tax expense	$ 558,721	86,348
Differences from a change of tax rate	(17,960)	-
Investment loss (gain)	(28,663)	86,579
Differences from tax-exempt income	(282,376)	(100,025)
10% income surtax on undistributed earnings	-	73,683
Loss carryforwards	19,302	15,073
Investment tax credit	(24,249)	(87,969)
Royalty revenue	(95,025)	-
Under-accrual of prior year's income tax	116	64
Others	(8,204)	(2,949)
Valuation allowance–deferred income tax assets	(103,415)	55,979
	$ 18,247	126,783

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

	2003	2002
Unrealized foreign exchange loss	$ (2,797)	(3,806)
Loss from inventory devaluation	(6,164)	(1,039)
Allowance for bad debts	(5,249)	2,890
Gain (loss) on long-term investments	25,642	(6,442)
Realized (unrealized) profit on inter-affiliate accounts	(5,339)	6,859
Patent rights capitalized	(1,386)	-
Estimate of after-sales service cost	(12,162)	-
Pension cost	(8,573)	(6,354)
Loss carryforwards	31,179	(8,693)
Investment tax credits	14,673	(34,929)
Others	234	(331)
Valuation allowance–deferred income tax assets	(103,415)	55,979
	$ (73,357)	4,134

(Continued)

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Deferred income tax assets (liabilities) were as follows:

	December 31, 2003	December 31, 2002
Current:		
Deferred income tax assets	$ 119,068	114,804
Less: valuation allowance	(9,991)	(4,514)
Net deferred income tax assets	109,077	110,290
Deferred income tax liabilities	(9,491)	(12,288)
Net current deferred income tax assets	**$ 99,586**	**98,002**
Non-current:		
Deferred income tax assets	$ 463,434	500,553
Less: valuation allowance	(374,597)	(483,489)
Net deferred income tax assets	88,837	17,064
Deferred income tax liabilities	-	-
Net non-current deferred income tax assets	**$ 88,837**	**17,064**
Total deferred income tax assets	**$ 582,502**	**615,357**
Total deferred income tax liabilities	**$ 9,491**	**12,288**
Valuation allowance–deferred income tax assets	**$ 384,588**	**488,003**

The temporary differences related to the deferred income tax assets (liabilities), loss carryforwords, investment tax credits and the respective tax effects were as follows:

	December 31, 2003		December 31, 2002	
	Amount	**Tax effect**	**Amount**	**Tax effect**
Deferred income tax assets (liabilities):				
Unrealized foreign exchange gain	$ (37,967)	(9,491)	(49,157)	(12,288)
Inventory devaluation	87,937	21,985	63,278	15,821
Allowance for bad debts	188,922	47,231	167,929	41,982
Unrealized loss on long-term investments	71,835	17,958	174,398	43,600
Unrealized profit on inter-affiliate accounts	21,354	5,339	-	-
Patent rights capitalized	6,254	1,564	708	178
Estimate of after-sales service cost	48,648	12,162	-	-
Accrued pension cost	108,930	27,232	74,638	18,659
Loss carryforwards	582,679	145,671	707,396	176,850
Investment tax credits	302,479	302,479	317,152	317,152
Others	3,520	881	4,458	1,115
Valuation allowance–deferred income tax assets	-	(384,588)	-	(488,003)
		$ 188,423		**115,066**

(Continued)

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Income tax payable (refundable) was as follows:

	December 31, 2003	December 31, 2002
Current income tax expense	$ 91,604	48,846
10% surtax on undistributed earnings	-	73,683
Taxes paid	(24,538)	(4,188)
Under-accrual of prior years' income tax	(116)	(64)
Income tax payable (refundable) balance at the beginning of the year	(4,346)	(27,334)
	$ 62,604	**90,943**
Income tax refundable (recorded as other monetary assets – current)	$ (13,109)	(1,980)
Income tax payable	75,713	92,923
	$ 62,604	**90,943**

Pursuant to the ROC Statute for Upgrading Industries, the Company's investment tax credit can be used to deduct one-half of the tax payable that year, and the unused portion can be used over the next four years, with the amount deducted not more than one-half of the tax payable that year. The unused portion in the last year can be used in full. As of December 31, 2003, the unused investment tax credits of the Consolidated Companies for the expenditure on research and development, automation equipment, and other investment in essential technology business were as follows:

Year	December 31, 2003	Year of Expiration
2000	$ 27,793	2004
2001	83,528	2005
2002	29,518	2006
2003	161,640	2007
	$ 302,479	

(Continued)

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

Year	December 31, 2003	Year of Expiration
1999	$ 132,558	2004
2000	115,438	2005
2001	109,143	2006
2002	130,063	2007
2003	95,477	2008
	$ 582,679	

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
1999	DBT
2000	Din Shun, Rui Dee, Tai Yao
2001	DBN, Wanzhou, Capital, Microjet, Ares, DBD and the Company (except 1999 and 2000)

Jin Chou and Lin Der were newly established companies in 2002. The income tax authorities have not assessed the companies' income tax returns.

(12) Stockholders' Equity

1) Issuance of common stock

On June 27, 2002, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of $888,964, capital surplus of $100,009, and employee bonus of $46,180. The total amount capitalized was $1,035,153. 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.

On June 27, 2003, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of $194,735 and employee bonus of $43,880. The total amount capitalized was $238,615. The total number of new shares of common stock issued was 23,861,535 shares. The issuance date was August 28, 2003. The registration procedures were completed on September 18, 2003.

(Continued)

2) Treasury stock

The Company purchased treasury stock in accordance with Stock Exchange Law (the SEL) in 2003 and 2002. The change in the Company's treasury stock was as follows:

Unit: Thousands of shares

2003

Reason for Buyback	Beginning Balance	Increase	Decrease	Ending Balance
Employees incentives and loyalty	10,000	-	-	10,000
Amount	$ 228,288	-	-	228,288

2002

Reason for Buyback	Beginning Balance	Increase	Decrease	Ending Balance
Employees' incentives and loyalty	-	10,000	-	10,000
Amount	$ -	228,288	-	228,288

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 and realized capital surplus. Using the outstanding shares on September 30, 2002, as the basis for calculation, the Company can purchase a maximum of 65,912 thousand shares in the amount of $466,228. The Company owned 10,000 thousand shares of treasury stock, totaling $228,288, in 2003 and 2002. This did not exceed the limit set by the SEL.

According to the SEL, the treasury stock hold 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 2003 and 2002. As of December 31, 2003 and 2002, the Company's subsidiaries hold 5,304 and 5,149 thousand shares of the Company stock, whose market price was totaling 168,390 and $109,780.

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(5).

(Continued)

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 Company's special reserve as of December 31, 2003 and 2002.

3) 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. Capital surplus should not be used for distribution of cash dividend. 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 were as follows:

	December 31, 2003	December 31, 2002
Paid-in capital in excess of par value	$ 2,524	2,524
Past-due dividend transferred to capital surplus	2,372	2,373
Excess amount of merged company's net asset value over par value of its newly issued stock	331	331
The effects of changes in stockholders' equity of equity method investee companies	179,646	186,456
	$ 184,873	**191,684**

4) 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)

5) Special reserve

Since 2000 in accordance with SFC regulations, in addition to the legal reserve, the Company should provide a special reserve of equal amount for any current year stockholders' equity contra account through current year's after-tax earnings or prior years' unappropriated earnings. However, the special reserve of equal amounts for prior years' accumulated stockholders' equity contra accounts should only be provided from prior years' unappropriated earnings. If a reversal of stockholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

6) 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:

1. prescribed dividends at no more than 10% of share capital

2. at least 3% of remaining income after prescribed dividends as employee bonus

3. 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.

In accordance with the Company's former articles of incorporation, the Company operated in a high-growth industry that required it to invest capital constantly in research and development and business expansion to maintain competitiveness in the market. Retained earnings were distributed as stock dividends to the utmost to retain operating funds and then were distributed as cash dividends. The high stock dividend policy was 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%.

In accordance the Company's new articles of incorporation, which were resolved by the stockholders on June 27, 2003, the Company operates in a growth industry in which the life cycle of enterprises grows with the industry. After considering the operating circumstances, long-term financial planning, and future demand for capital and to satisfy the stockholders' requirements for cash, the distribution ratio for retained earnings and cash dividends is resolved by the board of directors. The dividend policy is for cash dividends to be not less than 10%. However, this could be adjusted by the agreement of the Company's stockholders.

(Continued)

The 2002 and 2001 earnings distributed to employees and to directors and supervisors were as follows:

	2002	2001
Employee bonus–stock dividends (par value)	$ 43,880	46,180
Directors' and supervisors' remuneration (none was distributed)	-	-
	$ 43,880	46,180

Shares distributed to employees as stock bonus totaled 4,388 and 4,618 thousands shares, equal to 0.68% and 0.83% of the outstanding shares as of December 31, 2002 and 2001.

If the employee bonus were recognized as expenses of the years 2002 and 2001, the primary earnings (losses) per share of common stock for 2003 and 2002 would be 0.33 and (0.002).

The Company's 2003 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.

7) Imputation credit account and imputation tax credit ratio

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

	December 31, 2003	December 31, 2002
Imputation credit	$ 28,892	2,233

	2003 (estimated)	2002
Imputation tax credit ratio	2.07%	33.54%

The components of unappropriated earnings were as follows:

	December 31, 2003	December 31, 2002
Before 1997	$ 466	466
After 1998	2,067,943	265,860
	$ 2,068,409	266,326

(14) Disclosure of Financial Instruments

(Continued)

1) Derivatives

The Company entered into a forward exchange contract to hedge against the exposure to exchange rate fluctuations of foreign current liabilities.

The contract amount and maturity date were as follows:

	December 31, 2003
Nominal principal for purchase contract	USD 5,022
Fair value – gain	$ 110

The income caused by the rate exchange is compensated with that caused by the hedging items, therefore, the risk of market price is not significant.

The fair value of derivative financial instruments, including unrealized gain or loss on outstanding contracts at year-end, was the estimated amount that the Company would receive or pay to terminate the agreement at the balance sheet date. Most of the derivatives have a quoted price available from financial institutions.

The Company only enters into financial instrument agreements with banks which maintain good credit. Therefore, the credit risk from breach of contract is relatively low.

As of December 31, 2003, the Company had forward exchange contracts that will create US$ 5,022 cash-out flow and NT$170,450 cash-in flow in January 2004, respectively. The Company maintains sufficient working capital; therefore, no future cash demands risk are expected.

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

(Continued)

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Non-derivative financial instruments:

	December 31, 2003		December 31, 2002	
	Book value	**Fair value**	**Book value**	**Fair value**
Non-derivatives:				
Financial Assets:				
Short-term investments	$ 872,505	872,505	782,457	782,457
Long-term investments	130,531	130,343	168,509	159,199
Off-balance-sheet financial instruments:				
Outstanding letters of credit	-	1,156,525	-	222,720
Guarantee notes	-	29,250	-	34,500

Methods and assumptions for estimation of fair value of financial instruments are as follows:

1. 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, and other monetary assets-current and non-current (including interest receivable, VAT tax refundable, income tax refundable, and refundable deposits); financial liabilities include short-term loans, notes and accounts payable, income tax payable, accrued expenses, accrued pension cost, and guarantee deposits received.

2. The fair value of short-term investments (including mutual funds and common stocks) is its market value.

3. Long-term equity investment 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 equity value or the book value is used as their fair value.

4. The long-term loans (including current portion) are contracted at a floating rate, and their fair value is the book value.

5. The fair value of outstanding letters of credit and guarantee notes is equal to the contract amount.

(Continued)

3) Concentration of credit risk

Concentrations of credit risks 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, 2002, the Group's notes receivable and accounts receivable were concentrated on a few counter-parties as follows:

	December 31, 2002	
Customer	**Amount**	**% of the Company's notes receivable and accounts receivable**
A	$ 213,191	14.17
B	194,123	12.90
C	176,588	11.74

As of December 31, 2003, there is no concentrations of credit risks.

(15) Related-party Transactions

1) Name and relationship

Name	Relationship
Dui Hui Investment Inc. (Dui Hui)	Same chairman
Fu Mao Investment Inc. (Fu Mao)	Same chairman
Yu Tai Investment Inc. (Yu Tain)	Director of the Company
Li Yu Investment Inc. (Li Yu)	Director of the Company
Shanghai Kaimin Technology Co., Ltd. (Kaimin)	Same director
Kuo, Pei-Chih	Director and general manager of the Company

2) Significant transactions with related parties

1. Advance payments for related party

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

	December 31, 2003	December 31, 2002
Fu Mao	$ 303	-
Kaimin	1,132	-
	$ 1,435	-

Major transactions were as follows:

	2003 Maximum amount	Period
Fuo Mao	$ 303	2003.12
Dui Hui	606	2003.2
Kaimin	1,132	2003.12

	2002 Maximum amount	Period
Kuo Pei-Chih	$ 3,280	2002.6

2. Rental expenses

DBD had an operating lease contract with Fu Mao for its office premises, and the rental expenses were $21 and $36 in 2003 and 2002, respectively. The payables were paid before year-end.

(Continued)

3. Long-term investments

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

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

The purchase prices for the transactions listed above are based on the unaudited book values of the object company on July 31, 2002. All relevant prices were paid in 2002. There was no such transaction in 2003.

(16) Pledged Assets

Pledged assets	Purpose	December 31, 2003	December 31, 2002
Pledged time deposits	Borrowings for purchase of material, guarantee, and overdraft	$ 649,321	171,842
Property, plant and equipment:			
Land	Credit facilities for long-term and short-term borrowings	106,892	112,253
Buildings and plant	Credit facilities for long-term and short-term borrowings	$ 215,960	234,436
Machinery and equipment	Credit facilities for long-term and short-term borrowings	52,660	58,918
Other assets–assets leased to others	Credit facilities for long-term and short-term borrowings	-	35,348
		$ 1,024,833	**612,797**

(17) Commitments and Contingencies

1) As of December 31, 2003 and 2002, the Consolidated Companies had outstanding letters of credit for purchase of material and equipment totaling approximately $1,156,525 and $222,720, respectively.

(Continued)

2) For the purpose of expending building plants and purchasing machinery, the Consolidated Companies signed a contract with the PRC government to acquire the land use rights. They also signed other contracts with the domestic and foreign companies for planning, designing and constructing of several construction projects. As of December 31, 2003 and 2002, the contracts amounted to $361,954 and $114,590, respectively, of which $291,930 and $22,716, respectively, had been paid and recorded under construction in progress and prepayments for equipment. The Company signed constricts with foreign companies for purchasing computer software used by itself. As of December 31, 2003, the contracts amounted to $41,135, of which $21,046 had been paid and recorded under deferred charges.

3) As of December 31, 2003 and 2002, the Consolidated Companies signed guarantee notes of $29,250 and $34,500, respectively, in order to apply for subsidy related to industry development plan by Ministry of Economy.

4) The Consolidated Companies entered into several operating lease agreements for warehouses, land and buildings. Minimum lease payments are summarized as follows:

2004	$ 34,376
2005	18,110
2006	3,294
	$ 55,780

5) 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. On March 31, 2003, the District Court officially rejected Motorola’s request. The management of the Company has analyzed this litigation and does not believe it will result in any material effects to the financial statements.

6) A board of directors’ meeting on August 12, 2003, approved the Company to issue a Euro Convertible Bond of up to US$ 60 million, which will be used for capital expenditure, mainly to construct the building for the Company’s headquarters, which will serve all research and development, marketing, and administrative functions. The ROC SFC approved the issuance in September 2003. But in February 2004, the Company finally cancelled the resolution and it was approved by SFC.

(18) Other

1) A summary of employment, depreciation and amortization expenses for the years ended December 31, 2003 and 2002, is as follows:

Function / Accounts	2003 Cost of goods sold	2003 Operating expenses	2003 Total	2002 Cost of goods sold	2002 Operating expenses	2002 Total
Employment expenses:						
Salary	321,394	1,377,408	1,698,802	235,391	941,256	1,176,647
Labor and health insurance	13,315	39,754	53,069	11,919	30,684	42,603
Pension cost	24,787	78,349	103,136	20,054	40,424	60,478
Other employment expense	7,806	65,452	73,258	4,507	21,219	25,726
Depreciation expense	307,695	265,724	573,419	181,875	284,122	465,997
Amortization expense	7,535	47,116	54,651	87	31,207	31,294

In addition, depreciation expenses of assets leased to others amounted to $527 and $226, and were recorded under non-operating expenses in 2003 and 2002, respectively.

2) Reclassification

Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 presentation for comparative purposes. These reclassifications do not have significant impact on the presentation of the financial statements.

(Continued)

(19) Segment Information

1) Business segment information

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

2) Geographic information

	2003			
	Foreign operating unit	Domestic	Eliminations and adjustments	Consolidated
Revenue to third-parties:				
Customers	$ 15,680,380	2,301,996	-	17,982,376
Others	116,854	449,925	(387,328)	179,451
Inter-company	1,734,748	7,272,245	(9,006,993)	-
Segment revenue	**$ 17,531,982**	**10,024,166**	**(9,394,321)**	**18,161,827**
Segment operating income (loss)	**$ 1,392,427**	**858,104**	**-**	2,250,531
Routine expense, net				4,722
Interest income				22,288
Interest expense				(42,658)
Continuing operations' income				**2,234,883**
Identifiable assets	**$ 17,299,978**	**10,998,011**	**(3,636,067)**	24,661,922
Long-term investments				130,531
Total assets				**$ 24,792,453**
Depreciation	**$ 399,371**	**174,575**		
Capital expenditures	**$ 902,175**	**335,626**		

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:

1. Inter-company sales: $9,394,321.

2. Inter-company receivable: $3,636,067.

(Continued)

DBTEL INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2002			
	Foreign operating unit	**Domestic**	**Eliminations and adjustments**	**Consolidated**
Revenue to 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**		

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:

1. Inter-company sales: $5,638,986.

2. Inter-company receivable: $3,263,319.

3) Information about export sales

Region	**2003**	**2002**
Asia	$ 16,886,405	19,609,310
Europe	579,889	858,415
Others (less than 10%)	219,790	298,334
	$ 17,686,084	**20,766,059**

4) Information regarding major customers

In both 2003 and 2002, the Consolidated Companies had no sales to the customer representing greater than 10% of consolidated revenue.