DBTEL Incorporated

Financial Statements

March 31, 2003 and 2002

(With Accountants' Review Report Thereon)

Independent Accountants' Review Report

The Board of Directors
DBTEL Incorporated:

We have reviewed the accompanying balance sheets of DBTEL Incorporated (the Company) as of March 31, 2003 and 2002, and the related statements of income and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except as described in the third paragraph, our reviews, which were made in accordance with Republic of China Statement of Auditing Standards No. 36, "The Review of Financial Statements", consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in note 6 to the financial statements, the long-term equity investments accounted for under the equity method amounting to $3,286,453 thousand and $3,208,159 thousand, and long-term equity investment credits amounting to $67,236 thousand and $31,764 thousand as of March 31, 2003 and 2002, respectively, and the related investment loss of $100,762 thousand and income of $182,349 thousand recognized for the three-month periods ended March 31, 2003 and 2002, respectively, were based on the financial statements prepared by the respective investee companies, which were not reviewed in accordance with Republic of China Statement of Auditing Standards No. 36, "The Review of Financial Statements".

Based on our review, except for the effect of such adjustments, if any, as might have been determined to be necessary had the investee companies' financial statements been reviewed as stated in the above paragraph, we are not aware of any material modifications that should be made to the financial statements referred to in the first paragraph in order for them to be in conformity with Republic of China generally accepted accounting principles.

As described in note 3 to the financial statements, starting from 2002, the shares of the Company's stock held by its subsidiaries were recorded as the Company's treasury stock.

Taipei, Taiwan (the Republic of China)
April 24, 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 review such financial statements are those generally accepted and applied in the Republic of China.

Unaudited

DBTEL Incorporated

Balance Sheets

March 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	$ 1,160,501	14	1,716,415	22
Short-term investments (note 4)	183,635	2	336,447	5
Notes receivable	40	-	-	-
Notes receivable – related parties (note 14)	45,777	1	6,597	-
Accounts receivable, less allowance for doubtful accounts of $189,732 and $182,599 in 2003 and 2002, respectively	432,552	5	391,914	5
Accounts receivable – related parties (note 14)	729,386	9	232,673	3
Dividends receivable (note 6)	227,200	3	227,200	3
Other receivables – related parties (note 14)	765,706	9	153,770	2
Other monetary assets – current (note 12)	6,744	-	32,887	-
Inventories (note 5)	207,794	2	79,928	1
Pledged time deposits (notes 14 and 15)	133,842	2	357,991	5
Prepayments to suppliers	38,510	-	3,812	-
Deferred income tax assets (note 12)	90,988	1	97,139	1
Other current assets (note 14)	103,621	1	9,985	-
	4,126,296	49	3,646,758	47
Long-term equity investments (notes 3, 6 and 16)				
Long-term investments under equity method	3,286,453	39	3,208,159	41
Long-term investments under cost method	44,374	1	39,742	-
Prepayment for long-term investments	101,112	1	51,759	1
	3,431,939	41	3,299,660	42
Other monetary assets – non-current	462	-	317	-
Property, plant and equipment (notes 7, 14, 15 and 16):				
Cost:				
Land	59,992	1	59,992	1
Buildings and improvements	252,910	3	247,607	3
Machinery and equipment	549,640	6	497,904	6
Molds and equipment	58,735	1	58,735	1
Furniture and fixtures	70,288	1	59,872	1
Miscellaneous equipment	17,130	-	17,130	-
	1,008,695	12	941,240	12
Less: accumulated depreciation	(458,346)	(5)	(354,541)	(4)
Construction in progress and prepayments for equipment	19,402	-	16,815	-
	569,751	7	603,514	8
Other assets:				
Assets leased to others (notes 8 and 15)	154,405	2	154,425	2
Deferred charges (note 16)	60,126	1	48,368	1
Long-term receivables – related parties (note 14)	31,941	-	45,558	-
Deferred income tax assets (note 12)	18,393	-	13,219	-
	264,865	3	261,570	3
Total assets	$ 8,393,313	100	7,811,819	100

Liabilities and Stockholders' Equity	2003 Amount	%	2002 Amount	%
Current liabilities:				
Notes payable	$ 74,192	1	7,638	-
Accounts payable	566,633	7	156,057	2
Accounts payable – related parties (note 14)	47,986	-	-	-
Income tax payable (note 12)	89,629	1	-	-
Accrued expenses	68,466	1	82,507	1
Other payable – related parties (note 14)	76,801	1	10,037	-
Other current liabilities (note 14)	51,376	-	94,706	2
	975,083	11	350,945	5
Other liabilities:				
Accrued pension cost (note 10)	73,575	1	52,370	1
Guarantee deposits received	771	-	1,149	-
Other (note 6)	67,236	1	31,764	-
Deferred credits – gains on inter-company accounts (note 6)	89,790	1	89,790	1
	231,372	3	175,073	2
Total liabilities	1,206,455	14	526,018	7
Stockholders' equity (notes 3, 6 and 11):				
Common stock of $10 par value; authorized 930 and 700 million shares and issued 659 and 556 million shares for 2003 and 2002, respectively	6,591,179	79	5,556,026	71
Capital surplus:				
Paid-in capital in excess of par value	2,524	-	102,533	1
Gain on disposal of property and equipment	-	-	843	-
Others	189,160	2	131,911	2
	191,684	2	235,287	3
Retained earnings:				
Legal surplus	396,824	5	392,226	5
Unappropriated earnings	176,285	2	1,029,517	13
	573,109	7	1,421,743	18
Cumulative translation adjustments	144,706	2	141,651	2
Treasury stock	(313,820)	(4)	(68,906)	(1)
Total stockholders' equity	7,186,858	86	7,285,801	93
Commitments and contingencies (notes 8, 14 and 16)				
Total liabilities and stockholders' equity	$ 8,393,313	100	7,811,819	100

See accompanying notes to financial statements and accountants' review report.

Unaudited

DBTEL Incorporated

Statements of Income

For the three-month periods ended March 31, 2003 and 2002
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2003		2002	
	Amount	**%**	**Amount**	**%**
Operating revenue (note 14):				
Gross sales	$ 1,242,386	100	623,223	100
Less: sales returns and allowances	104	-	781	-
	1,242,282	100	622,442	100
Other operating revenue	94	-	1,117	-
Total operating revenue	1,242,376	100	623,559	100
Operating costs (notes 10, 14 and 17)	974,559	79	549,487	88
Gross profit	267,817	21	74,072	12
Unrealized gain on inter-company transactions (note 14)	-	-	(28,007)	(4)
Net gross profit	267,817	21	46,065	8
Operating expenses (notes 10, 14 and 17):				
Selling expenses	65,718	5	30,849	5
Administrative expenses	69,812	6	72,285	12
Research and development expenses	117,219	9	89,681	14
	252,749	20	192,815	31
Operating income (loss)	15,068	1	(146,750)	(23)
Non-operating income:				
Interest income	6,603	1	10,694	2
Investment income under equity method (note 6)	-	-	182,349	29
Gain on sale of equipment	-	-	24	-
Gain on sale of investments	-	-	22,991	4
Rental revenue (notes 8 and 14)	2,482	-	1,969	-
Recovery on devaluation of short-term investments	-	-	29,903	5
Other income	22	-	1,671	-
	9,107	1	249,601	40
Non-operating expenses:				
Interest expense	5	-	5	-
Loss on short-term investment devaluation	8,512	1	-	-
Investment loss under equity method (note 6)	100,762	8	-	-
Foreign currency exchange loss	3,090	-	13,560	2
Loss on inventory devaluation and obsolescence	584	-	1,643	1
Other loss (note 17)	1,263	-	1,224	-
	114,216	9	16,432	3
Income (loss) before income tax	(90,041)	(7)	86,419	14
Income tax expense (note 12)	-	-	-	-
Net income (loss)	$ (90,041)	(7)	86,419	14

	2003 Before income tax	2003 After income tax	2002 Before income tax	2002 After income tax
Earnings (loss) per share of common stock (expressed in New Taiwan dollars)	$ (0.14)	(0.14)	0.13	0.13

If the shares of the Company's stock held by its subsidiaries were not recorded as the Company's treasury stock:

	Before income tax	After income tax	Before income tax	After income tax
Net income (loss)	$ (90,041)	(90,041)	86,419	86,419
Earnings (loss) per share of common stock (expressed in New Taiwan dollars)	$ (0.14)	(0.14)	0.13	0.13

See accompanying notes to financial statements and accountants' review report.

Unaudited

DBTEL Incorporated

Statements of Cash Flows

For the three-month periods ended March 31, 2003 and 2002
(expressed in thousands of New Taiwan dollars)

	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ (90,041)	86,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	29,614	29,257
Amortization expense	6,277	5,202
Investment loss (income) under equity method, net	100,762	(182,349)
Cash dividends under equity method	-	542,140
Unrealized gain on inter-company transactions	-	27,983
Loss (recovery) on devaluation of short-term investments	8,512	(29,903)
Gain on sale of short-term investments	-	(22,991)
Provision for allowance for doubtful accounts	7,133	-
Unrealized foreign currency exchange loss (gain)	(4,911)	14,551
Loss on inventory devaluation and obsolescence	584	1,643
Increase in notes receivable	(40)	-
Increase in notes receivable–related parties	(45,777)	(5,813)
Decrease in accounts receivable	17,659	36,527
Decrease (increase) in accounts receivable–related parties	458,287	(168,219)
Increase in other receivables–related parties	(605)	(930)
Decrease (increase) in other monetary assets–current	9,034	(7,908)
Decrease in inventories	5,765	16,754
Decrease (increase) in prepayments to suppliers	119,239	(1,086)
Increase in other current assets	(2,451)	(7,586)
Net changes in deferred income tax assets and liabilities	(3,906)	-
Decrease in notes payable	(25,194)	(2,258)
Decrease in notes payable–related parties	(11,855)	-
Increase (decrease) in accounts payable	(297,440)	90,239
Increase in accounts payable – related parties	15,218	-
Increase in income tax payable	3,692	-
Decrease in other payable–related parties	(13,460)	(10,133)
Increase (decrease) in accrued expenses	(39,421)	3,243
Increase in other current liabilities	9,694	3,351
Increase in accrued pension cost	5,405	3,942
Net cash flows provided by operating activities	261,774	422,075
Cash flows from investing activities:		
Increase in short-term investments	-	(259,147)
Increase in long-term equity investments	-	(12,587)
Proceeds from sale of property and equipment	3,300	8,729
Purchase of property and equipment	(4,345)	(4,629)
Increase in other receivable–related parties	(45,290)	(136,075)
Decrease (increase) in pledged time deposits	3,000	(99,405)
Increase in other assets	(4,938)	(1,309)
Net cash flows used in investing activities	(48,273)	(504,423)
Cash flows from financing activities:		
Increase (decrease) in guarantee deposits received	(57)	398
Net cash flows provided by(used in) financing activities	(57)	398
Effects of changes in foreign exchange rates	(1,313)	(6,011)
Net increase (decrease) in cash and cash equivalents	212,131	(87,961)
Cash and cash equivalents at beginning of three-month period	948,370	1,804,376
Cash and cash equivalents at end of three-month period	**$ 1,160,501**	**1,716,415**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 5**	**5**
Cash payments of income tax	**$ 214**	**711**
Investing and financing activities not affecting cash:		
Cumulative translation adjustments on foreign long-term investments	**$ 1,844**	**(2,207)**
Net of long-term investment credits and advance payments	**$ 23,853**	**-**
Others:		
Increase in property and equipment	$ 2,347	4,519
Decrease in payable for equipment purchases	1,998	110
Cash paid for purchase of property and equipment	**$ 4,345**	**4,629**
Proceeds from sale of property and equipment	$ -	5,591
Decrease in lease payments receivable	3,300	3,138
Cash received from disposal of property and equipment	**$ 3,300**	**8,729**
Cash dividends under equity method	$ -	-
Decrease in dividends receivable	-	542,140
Cash received from dividends on long-term investments	**$ -**	**542,140**

See accompanying notes to financial statements and accountants' review report.

DBTEL Incorporated

Notes to Financial Statements

March 31, 2003 and 2002
(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization and Business Scope

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 Company had approximately 595 employees on March 31, 2003.

(2) Summary of Significant Accounting Policies

The financial statements of the Company are prepared in accordance with Republic of China generally accepted accounting principles. The preparation of the financial statements is based on historical cost. A summary of significant accounting policies and valuations is as follows.

(a) Foreign currency transactions and translations

The accounts of the Company are maintained in New Taiwan 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.

(b) Cash equivalents

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

(c) 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.

(d) Allowance for doubtful accounts

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

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(e) 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. Market value of work in progress, finished goods, and merchandise is determined using the net realizable value.

(f) Long-term equity investments

Long-term equity investments in listed companies where the Company owns less than 20% of the voting shares 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.

The assets and liabilities of foreign subsidiaries are translated at the approximate market rate of exchange prevailing on the balance sheet date; 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 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.

When equity in loss of an investee exceeds carrying value accounted for by the equity method, the Company recognizes the investment loss by reducing the balance of the investment to zero, charging the excess to allowance for receivables from the investee, and recording any remainders as long-term investment credits.

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DBTEL Incorporated

Notes to Financial Statements

(g) 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 listed as follows:

Buildings and improvements: 5-45 years
Machinery and equipment: 2-15 years
Molds and equipment: 2-4 years
Furniture and fixtures: 2-8 years
Miscellaneous equipment: 2-15 years

Gains on the disposal of property, plant and equipment are recorded as non-operating income, and previously were transferred from unappropriated earnings to capital surplus, net of applicable income tax, at year-end. Effective 2001, gains on the disposal of property, plant and equipment are not transferred to capital surplus.

(h) Capital lease

For capital leases, the gross investment is recorded as the lease payment receivable at the inception of the lease. The interest rate implicit in the lease is used in determining the present value of the gross investment. When the present value of the gross investment exceeds the carrying value of the leased assets, the Company recognizes other income. The difference between the lease payment receivable and the present value of the gross investment is recorded as unrealized interest income, which is amortized to interest income over the lease term by using the interest method.

(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.

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DBTEL Incorporated

Notes to Financial Statements

(k) Employee pension benefits

In 1991, the Company 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 service years and salary upon retirement. In accordance with the ROC Labor Standards Law, the Company has made monthly deposits, equal to 3.4% of employees' total salaries, to an account with the Central Trust of China.

The Company adopted the provisions of 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 the minimum pension liability on the balance sheet date. The unrecognized net transition obligation of January 1, 1996, is amortized by using the straight-line method over 15 years, the average remaining service period of employees expected to receive the retirement benefits.

(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

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

(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.

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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.

(o) Income tax

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 charges 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.

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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.

(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. 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 for the three-month periods ended March 31, 2003 (2003) and 2002 (2002), was 643,969 thousand shares and 653,969 thousand shares, respectively. If the shares held by the Company's subsidiaries were not recognized as treasury stock, the number of shares outstanding for the three-month periods ended March 31, 2003 and 2002, would be 649,118 thousand shares and 659,118 thousand shares, respectively.

(3) The Reason for and Effect of Accounting Principle Change

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 Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock". As a result, the amount of long-term investments decreased and treasury stock increased by $85,532 and $68,906 as of March 31, 2003 and 2002, respectively. This accounting principle change had no significant impact on the financial statements.

(4) Short-term Investments

	March 31, 2003	March 31, 2002
Mutual funds	$ 25,078	25,078
Common stocks	311,027	311,369
	336,105	336,447
Less: provision for devaluation	152,470	-
	$ 183,635	336,447

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DBTEL Incorporated

Notes to Financial Statements

(5) Inventories

	March 31, 2003	March 31, 2002
Raw materials	$ 91,934	42,218
Work in process	22,679	6,409
Finished goods	38,632	4,452
Merchandise	7,086	9,140
Inventories-in-transit	59,203	27,950
	219,534	90,169
Less: provision for devaluation	11,740	10,241
	$ 207,794	79,928
Insurance coverage for inventories	$ 60,000	88,800

(6) Long-term Equity Investments

Investee	March 31, 2003 Percentage (%) of ownership	March 31, 2003 Cost of investment	March 31, 2003 Book value	March 31, 2002 Percentage (%) of ownership	March 31, 2002 Cost of investment	March 31, 2002 Book value
Equity method:						
DBTEL (BVI) Inc. (DBVI)	100.00	$ 1,254,915	1,922,597	100.00	1,254,915	1,774,286
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	190,000	473,898	100.00	190,000	549,999
Jin Chou Investment & Development, Inc. (Jin Chou)	100.00	174,000	123,792	-	-	-
DBTEL Technology Co., Ltd. (DBT)	92.29	501,239	382,178	72.34	410,594	330,111
DB Networks (DBN)	93.15	371,773	382,321	67.27	250,005	372,906
Tai Yao Investment & Development, Inc. (Tai Yao)	2.00	3,000	1,667	2.00	3,000	1,847
Chang Hui Investment & Development, Inc. (Chang Hui)	-	-	-	100.00	200,000	179,010
		2,494,927	3,286,453		2,308,514	3,208,159
Cost method:						
Lizhi Electronic Engineering Co., Ltd.	0.44	2,292	1,754	0.44	2,292	1,754
Jian Rong Investment Co., Ltd.	2.27	1,908	1,642	2.27	2,725	2,346
China-America Wantai Technology Co., Ltd.	1.53	2,750	2,750	1.72	2,750	2,750
Hanchang Technology Co., Ltd.	3.17	38,228	38,228	3.21	32,261	32,261

(Continued)

DBTEL Incorporated

Notes to Financial Statements

	March 31, 2003			March 31, 2002		
Investee	Percentage (%) of ownership	Cost of investment	Book value	Percentage (%) of ownership	Cost of investment	Book value
China Porcelain Engineering Co., Ltd.	0.41	$ 3,713	-	0.41	3,713	631
Jia Di Investment Co., Ltd.	1.77	1,226	-	1.77	1,226	-
		50,117	44,374		44,967	39,742
Prepayment for stock:						
DBTEL International (Europe) Limited (DBE)	-	$ 101,112	101,112	-	51,759	51,759
		$ 2,646,156	3,431,939		2,405,240	3,299,660
Long-term equity investment credits (recorded as other liabilities):						
DBTEL International (Europe) Limited (DBE)	100.00	$ 14,984	60,267	100.00	14,984	24,761
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	1	6,969	100.00	1	7,003
		$ 14,985	67,236		14,985	31,764

The long-term equity investments accounted for under the equity method amounting to $3,286,453 and $3,208,159, and long-term equity investment credits amounting to $67,236 and $31,764 as of March 31, 2003 and 2002, respectively, and the related investment loss of $100,762 and income of $182,349 recognized for the three-month periods ended March 31, 2003 and 2002, respectively, were based on the unreviewed financial statements prepared by the respective investee companies.

All subsidiaries' holdings of the Company's stock have been recorded as treasury stock since January 1, 2002. As of March 31, 2003 and 2002, the long-term investment reductions were as follows:

Subsidiary	March 31, 2003	March 31, 2002
DBT	$ 76,912	60,286
Ding Shun	5,526	5,526
Jin Chou	3,060	-
Chang Hui	-	3,060
Tai Yao	34	34
Total	$ 85,532	68,906

(Continued)

The Company invested in the establishment of DBVI in December 2000 with prepayments to Dialer and Business Holding Co., Ltd. of $1,254,915 (US$39,500), and recognized $50,989 cumulative translation adjustments. The investment has been implemented under the laws of the British Virgin Islands, and it was approved by the ROC Investment Commission in March 2002.

DBE resolved to increase capital to £4,300 in the directors' meeting in June 2001, and reduced its capital to offset its accumulated deficit totaling $99,892 (£2,000) in September 2001. As of March 31, 2003, the capital stock issued was £300. The prepayment for stock of the Company was $101,112 and $51,759 as of March 31, 2003 and 2002, respectively.

In 2001, Ding Shun and DBT distributed to the Company cash dividends of $803,700 and $352,640, respectively. As of March 31, 2003 and 2002, the dividends receivable amounted to $227,200.

Ares, an investee of DBT and DBN, received a cash capital injection in September 2002. DBT and DBN did not subscribe the newly issued stock on a pro rata basis. As a result, the long-term equity investments changed due to the change in the investment percentage. The Company recognized such differences as capital surplus totaling $57,261 in 2002.

Jin Chou, which was incorporated by the Company by providing Chang Hui stock on July 16, 2002, was engaged in investment. The Company was the promoter. In accordance with the ROC Company Law, assignment/transfer of the shares owned by promoters of the issuing company shall not be effected until the elapsing of the year after the incorporation registration of the issuing company. The Chang Hui stockholders' meeting resolved to dissolve the Company, and the last operating date was July 21, 2002. The dissolution was approved by the Ministry of Economic Affairs, R.O.C., and the liquidation was completed on November 11, 2002.

In 2000, the Company sold certain long-term investments accounted for by the equity method to several investee companies, including Ding Shun, Jing Young, Rui Dee, Wan Zhou and DBVI. The total sales price was $1,936,433, and unrealized gain recognized as deferred credits – gains on inter-company accounts was $89,790.

(7) Property, Plant and Equipment

As of March 31, 2003 and 2002, insurance coverage for the property, plant and equipment was $459,665 and $596,249, respectively.

(Continued)

(8) Assets Leased to Others

	March 31, 2003	March 31, 2002
Land	$ 75,561	75,561
Property and plant	100,848	95,860
	176,409	171,421
Less: accumulated depreciation	22,004	16,996
	$ 154,405	**154,425**

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 March 31, 2003 and 2002, the insurance coverage for leased assets was $47,730 and $92,000, respectively.

In 2003 and 2002, the total rental revenues amounted to $2,482 and $1,969, respectively. The rental revenues for subsequent years are as follows:

Period	Amount
2003.4.1~2004.3.31	$ 4,366
2004.4.1~2005.3.31	1,520
2005.4.1~2005.4.15	63
	$ 5,949

(9) Short-term Loans

There were no short-term loans as of March 31, 2003 and 2002.

	March 31, 2003	March 31, 2002
Unused credit line	**$ 2,064,173**	**2,775,986**

(10) Employee Pension Benefits

The Company obtained an actuarial assessment of the pension liability as of December 31, 2002 and 2001. Net pension cost recognized in 2003 and 2002 was $7,164 and $5,424, respectively. As of March 31, 2003 and 2002, the accrued pension cost was $73,575 and $52,370, respectively. The balance of the pension fund in the Central Trust of China was $71,285 and $63,050, respectively.

(11) Stockholders' Equity

(a) 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.

(b) Treasury stock

The Company purchased treasury stock in accordance with Stock Exchange Law (SEL) regulations in 2002. In 2003, 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	$ 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, paid-in capital in excess of par value, and realized capital surplus. The Company owned 10,000 thousand shares of treasury stock, totaling $228,288, in 2003. This did not exceed the limit set by the SEL. The company had no such treasury stock in 2002.

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 2003 and 2002. As of March 31, 2003 and 2002, the Company's subsidiaries held 5,149 and 4,371 thousand shares, respectively, of the Company's stock, whose market price was $79,503 and $116,927, respectively.

(Continued)

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 11(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 March 31, 2003.

(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 were as follows:

		March 31, 2003	March 31, 2002
Paid-in capital in excess of par value	$	2,524	102,533
Gain on disposal of property, plant and equipment		-	843
Past-due dividend transferred to capital surplus		2,373	2,385
Excess amount of merged company's net asset value over par value of newly issued stock		331	331
Effects of changes in stockholders' equity of equity method investee companies		186,456	129,195
	$	**191,684**	**235,287**

(Continued)

(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.

(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.

In accordance with the Company's articles of incorporation, 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%.

The Company's 2002 appropriation of earnings is subject to the board of directors and the stockholders' resolutions. After the resolution, the related information can be inquired through the Market Observation Post System.

(Continued)

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(g) Imputation credit account and imputation tax credit ratio

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

	March 31, 2003	March 31, 2002
Imputation credit	$ 2,233	27,546

	2003 (Forcast)	2002
Imputation tax credit ratio	33.53%	3.02%

The components of unappropriated earnings were as follows:

	March 31, 2003	March 31, 2002
From earnings of		
1997 and before	$ 518	-
1998 and after	175,767	1,029,517
	$ 176,285	1,029,517

(12) Income Tax

The maximum income tax rate is 25%. The components of income tax expense (benefit) were as follows:

	2003	2002
Current income tax expense	$ 3,906	-
Deferred income tax benefit	(3,906)	-
	$ -	-

(Continued)

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

	2003	2002
"Expected" income tax expense	$ (22,510)	21,605
Investment loss (gain)	27,318	(58,811)
Investment tax credit	(20,018)	(21,407)
Others	67	14
Valuation allowance–deferred income tax assets	15,143	58,599
	$ -	-

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

	2003	2002
Unrealized foreign exchange gain (loss)	$ 1,227	(3,638)
Loss from inventory devaluation	(146)	(209)
Allowance for doubtful accounts	(2,844)	332
Unrealized profit on inter-company transactions	-	(6,996)
Patent rights capitalized	178	50
Pension cost	(1,351)	(985)
Loss carryforwards	-	(25,746)
Investment tax credits	(16,113)	(21,407)
Valuation allowance–deferred income tax assets	15,143	58,599
	$ (3,906)	-

(Continued)

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Deferred income tax assets (liabilities) were as follows:

	March 31, 2003	March 31, 2002
Current:		
Deferred income tax assets	$ 104,520	108,379
Less: valuation allowance	-	-
Net deferred income tax assets	104,520	108,379
Deferred income tax liabilities	(13,532)	(11,240)
Net current deferred income tax assets	**$ 90,988**	**97,139**
Non-current:		
Deferred income tax assets	$ 103,382	141,664
Less: valuation allowance	(84,989)	(128,445)
Net deferred income tax assets	18,393	13,219
Deferred income tax liabilities	-	-
Net non-current deferred income tax assets	**$ 18,393**	**13,219**
Total deferred income tax assets	**$ 207,902**	**250,043**
Total deferred income tax liabilities	**$ 13,532**	**11,240**
Valuation allowance–deferred income tax assets	**$ 84,989**	**128,445**

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

	March 31, 2003		March 31, 2002	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets (liabilities):				
Unrealized foreign exchange gain	$ (54,135)	(13,532)	(44,965)	(11,240)
Inventory devaluation	11,740	2,936	10,242	2,561
Allowance for doubtful accounts	175,757	43,940	174,461	43,615
Unrealized profit on inter-company transactions	-	-	55,419	13,855
Patent rights capitalized	-	-	1,317	329
Accrued pension cost	73,575	18,393	52,370	13,092
Loss carryforwards	-	-	102,984	25,746
Investment tax credits	142,633	142,633	150,845	150,845
Valuation allowance–deferred income tax assets	(84,989)	(84,989)	(128,445)	(128,445)
		$ 109,381		**110,358**

(Continued)

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As of March 31, 2003, the unused investment tax credits derived from the expenditure on research and development and automation equipment were as follows:

Expenditure year	March 31, 2003	Year of expiration
1999	$ 8,979	2003
2000	54,131	2004
2001	59,505	2005
2003	20,018	2007
	$ 142,633	

Income tax payable (refundable) was as follows:

	March 31, 2003	March 31, 2002
Current income tax expense	$ 3,906	-
Taxes paid	(214)	(711)
Income tax payable (refundable) balance at the beginning of the year	85,937	(22,211)
	$ 89,629	**(22,922)**

The ROC income tax authorities have assessed the Company’ s income tax returns for all years through 1998.

(13) Disclosure of Financial Instruments

(a) Derivatives

There was no unsettled contract as of March 31, 2003 and 2002.

(b) Non-derivative financial instruments:

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

	March 31, 2003		March 31, 2002	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial Assets:				
Fair value equal to book value of assets	$ 3,534,151	3,534,151	3,165,322	3,165,322
Short-term investments	183,635	183,635	336,447	352,357
Long-term investments (including long-term investment credits)	3,364,703	3,364,703	3,267,896	3,267,896
Financial Liabilities:				
Fair value equal to book value of liabilities	998,053	998,053	309,578	309,578
Off-balance-sheet Financial Instruments:				
Guarantees	-	794,400	-	1,991,220
Outstanding letters of credit	-	69,865	-	527,517

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

i) 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 (including those from related parties), dividends receivable, other receivables – related parties, pledged time deposits, lease payment receivable, and other monetary assets – current and non-current (including interest receivable, VAT tax refundable, income tax refundable, and guarantee deposits paid); financial liabilities include notes and accounts payable (including those to related parties), accrued expenses, other payable – related parties, accrued pension cost, and guarantee deposits received.

ii) 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.

iii) The fair value of guarantees and outstanding letters of credit is equal to the contract amount.

(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 March 31, 2003 and 2002, the notes and accounts receivable were concentrated on a few customers as follows:

	March 31, 2003	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 680,117	56.31
B	276,507	22.89

	March 31, 2002	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 217,422	34.45
C	161,696	25.62

(14) Related-party Transactions

(a) Name and relationship

Name	Relationship
DBTEL International (Europe) Limited (DBE)	Subsidiary of the Company (100% owned)
Dialer and Business Holding Co., Ltd. (DBH)	Investee of the Company (100% owned indirectly)
DB Networks (DBN)	Subsidiary of the Company (over 50% owned)
Microjet Technology Co., Ltd. (Microjet)	Investee of the Company (over 50% owned indirectly)
DB Distribution, Inc. (DBD)	Investee of the Company (100% owned indirectly)

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Name	Relationship
Ares Communication Tech, Inc. (Ares)	Investee of the Company (over 50% owned indirectly)
Formula Electronic Sdn. Bhd. (FE)	Investee of the company (100% owned indirectly)
Jin Chou Investment & Development, Inc. (Jin Chou)	Subsidiary of the Company (100% owned)

(b) Significant transactions with related parties

i) Sales

	2003		2002	
	Amount	% of net sales	Amount	% of net sales
DBH	$ 770,490	62.02	218,744	35.14
DBD	73,677	5.93	14,626	2.35
DBE	10,634	0.85	-	-
Ares	-	-	125	0.02
	$ 854,801	68.80	233,495	37.51

In 2003 and 2002, the materials sold to DBH were priced with 40% and 18% profit margins, respectively. The selling price for the sales to other investees was the same as those to foreign customers. Sales terms for investees were open account 120 days or by offsetting amounts of accounts payable to them.

(Continued)

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ii) Notes and accounts receivable

	March 31, 2003		March 31, 2002	
	Amount	**%**	**Amount**	**%**
Notes receivable:				
DBD	$ 45,777	99.91	6,597	100.00
Accounts receivable:				
DBH	$ 680,117	58.53	217,947	34.89
DBD	31,585	2.72	14,595	2.34
DBE	16,984	1.46	-	-
Ares	700	0.06	131	0.02
	$ 729,386	62.77	232,673	37.25

iii) Purchases

	2003		2002	
	Amount	**% of net purchases**	**Amount**	**% of net purchases**
DBH	$ 358,655	36.60	332,155	61.43
Ares	43,290	4.42	-	-
	$ 401,945	41.02	332,155	61.43

In 2003, the purchase prices of telephones from DBH were 79.05% of the Company's selling price, and those of GSM mobile phones were almost equivalent to the Company's selling price. In 2002, the purchase prices of telephones were 86.8%~87.3% of the Company's selling price, and those of materials were determined based on DBH's costs. The purchase prices for the purchases from other investees were the same as those from other companies.

Payment terms for investees were open account 120 days or by offsetting amounts of accounts receivable. In addition, parts of the purchases amounts could be prepaid by the Company.

iv) Accounts payable

	March 31, 2003		March 31, 2002	
	Amount	**%**	**Amount**	**%**
Ares	$ 47,986	7.80	-	-

(Continued)

v) Unrealized profit on inter-company transactions

The unrealized gross profit from sales to investees and unrealized gain from selling property and equipment to investees increased by $27,983 in 2002. As of March 31, 2002, the unrealized profit amounted to $55,419, recorded as other current liabilities. The unrealized profit was not significant in 2003.

vi) Other transactions

(i) Property and equipment transactions

The Company sold equipment to related parties at book value as follows:

Related Party	2002 Object	Proceed
DBH	Machinery, furniture and fixtures, and computer software	$ 5,628

The receivables resulting from the above transaction were received in 2002. There was no such transaction in 2003.

(ii) Processing fees (recorded as other operating revenue)

The Company processed products for related parties as follows:

	2003	2002
Ares	$ 94	-
Microjet	-	703
	$ 94	**703**

As of March 31, 2003 and 2002, receivables resulting from the aforementioned transactions were as follows:

	March 31, 2003	March 31, 2002
Ares	$ 99	-
Microjet	-	738
	$ 99	**738**

(Continued)

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Notes to Financial Statements

(iii) Rental revenues

The Company leased part of its plant and office to related parties, and related rental revenues were as follows:

	2003	2002
Microjet	$ 1,500	1,500
DBD	286	90
DBN	45	45
	$ 1,831	**1,635**

As of March 31, 2003 and 2002, receivables resulting from the aforementioned transactions were as follows:

	March 31, 2003	March 31, 2002
Microjet	$ 3,545	2,682
DBD	300	94
DBN	47	16
	$ 3,892	**2,792**

(iv) Rental expenses

The Company leased a plant from DBN. In 2003 and 2002, total rental expenses were $1,200. As of March 31, 2003 and 2002, the rental payable were $840 and $0, respectively.

(v) Service fees

In 2000, DBE provided services for the Company in aspects of survey and development for the European market. The Company incurred such fees amounting to $10,000, which were not paid as of March 31, 2003 and 2002.

(Continued)

(vi) Product development fees and royalty fees

The Company entered into a one-year agreement with Ares in 2002, and then a one-year extension upon the expiration of the agreement. Ares designed various new mobile phones for the Company. In 2003, the related product development fees (recorded as research and development expenses) were $31,500, and royalty fees (recorded as selling expenses) were $13,289. As of March 31, 2003, the product development fees payable were $40,163, royalty fees payable were $20,489, both recorded as other payable – related parties, and prepayments for product development fees were $26,250, recorded as other current assets. There was no such transaction in 2002.

(vii) Lease payment receivables

The lease payment receivables resulting from a capital lease in which the Company leased machinery and equipment to related parties were as follows:

	March 31, 2003		March 31, 2002	
	Current portion	**Non-current portion (recorded as long-term receivables – related parties)**	**Current portion**	**Non-current portion (recorded as long-term receivables – related parties)**
Gross lease payment receivables	$ 15,585	33,769	15,585	49,355
Less: unrealized interest income	1,969	1,828	2,631	3,797
Net lease payment receivables	**$ 13,616**	**31,941**	**12,954**	**45,558**

Lessee	**Period**	**Transfer of ownership**	**Method of repayment**
Microjet	June 1, 2001~ May 31, 2006	At the end of the lease term, the ownership of the leased assets will transfer to Microjet unconditionally without guaranteed residual value	monthly

(Continued)

(viii) Advance payments

Advance payments made by the Company for related parties to purchase materials and equipment and pay certain expenditures were as follows:

	March 31, 2003	March 31, 2002
DBH	$ 736,913	127,136
Microjet	8,982	7,700
DBD	2,160	-
Jin Chou	44	-
FE	-	20
DBN	-	2,430
	$ 748,099	**137,286**

	2003	
	Maximum amount	**Period incurred**
DBH	$ 736,913	March 2003
Microjet	11,663	January 2003
DBD	2,160	March 2003
Jin Chou	44	March 2003
DBN	2,418	January 2003
DBE	28,609	March 2003

	2002	
	Maximum amount	**Period incurred**
DBH	$ 259,099	February 2002
Microjet	7,700	March 2002
FE	20	March 2002
DBN	2,430	March 2002

(Continued)

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(ix) Advance payments payable

Related parties paid certain expenses on behalf of the Company. As of March 31, 2003 and 2002, the payable balances were as follows:

	March 31, 2003
Ares	$ 5,304
DBN	5
	$ 5,309

There was no such transaction in 2002.

(x) Salary expenses

In 2002, the Company paid salaries of $35 to DBD for using its employees' services. As of March 31, 2002, the salaries payable were $37, recorded as other payables–related parties. There was no such transaction in 2003.

(xi) Other receivables – related parties

As of March 31, 2003 and 2002, other receivables resulting from the aforementioned transactions were as follows:

	March 31, 2003	March 31, 2002
Processing fees receivable	$ 99	738
Rental receivable	3,892	2,792
Net lease payment receivables (current portion)	13,616	12,954
Advance payments	748,099	137,286
	$ 765,706	**153,770**

(Continued)

(xii) Other payables – related parties

As of March 31, 2003 and 2002, other payables resulting from the aforementioned transactions were as follows:

	March 31, 2003	March 31, 2002
Rental payable	$ 840	-
Service fees payable	10,000	10,000
Product development fees payable	40,163	-
Royalty fees payable	20,489	-
Advance payments payable	5,309	-
Salaries payable	-	37
	$ 76,801	**10,037**

(xiii) Guarantees

The Company provided guarantees for related parties were as follows:

	March 31, 2003	March 31, 2002
DBH	$ 646,750	1,941,220
Microjet	147,250	50,000
	$ 794,000	**1,991,220**

As of March 31, 2003 and 2002, the Company provided certificates of time deposits for Microjet amounting to $17,250 and $164,500, respectively, as a guarantee for part of its short-term credit lines.

(Continued)

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Notes to Financial Statements

(15) Pledged Assets

Pledged assets	Purpose	March 31, 30, 2003	March 31, 30, 2002
Pledged time deposits	Credit lines for short-term loans, guarantees, and overdrafts, and guarantees to lending bank for loans to related parties	$ 133,842	357,991
Property, plant and equipment:			
Land	Credit lines for long-term and short-term loans	59,992	59,992
Buildings and plant	Credit lines for long-term and short-term loans	162,493	172,656
Other assets–assets leased to others	Credit lines for long-term and short-term loans	154,405	154,425
		$ 510,732	**745,064**

(16) Commitments and Contingencies

(a) As of March 31, 2003 and 2002, outstanding letters of credit for purchase of material and equipment totaled approximately $69,865 and $527,514, respectively.

(b) For the purpose of building plants and purchasing machinery, the Company signed contracts with domestic companies for planning, designing and constructing several construction projects. As of March 31, 2003 and 2002, the contracts amounted to $20,363 and $0, respectively, of which $19,402 and $0, respectively, had been paid and recorded under construction in progress and prepayments for equipment.

(c) 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. In 2003 and 2002, no such royalty fee was incurred.

(d) 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 2003 and 2002, no such royalty fee was incurred.

(Continued)

(e) 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 March 31, 2003, no products had been sold.

(f) The Company's board of directors resolved in June 2002 to increase Tianjin Ares Industry Co., Ltd.'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.

(g) The Company's board of directors resolved in October 2002 to increase Shanghai DBTEL Industry Co., Ltd.'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.

(h) 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 April 4, 2003, the federal District Court overruled Motorola's objections. The management of the Company has analyzed this litigation and does not believe it will result in any material effects to the financial statements.

(17) Other

(a) A summary of employment, depreciation, and amortization expenses for the three-month periods ended March 31, 2003 and 2002, is as follows:

	Three-month period ended March 31, 2003			Three-month period ended March 31, 2002		
Function **Accounts**	**Cost of goods sold**	**Operating expenses**	**Total**	**Cost of goods sold**	**Operating expenses**	**Total**
Employment expenses:						
Salary	5,420	89,996	95,416	4,970	109,980	114,950
Labor and health insurance	769	6,532	7,301	811	4,514	5,325
Pension cost	667	6,497	7,164	479	4,945	5,424
Other employment expense	212	1,930	2,142	144	1,168	1,312
Depreciation expense	8,230	20,123	28,353	8,847	19,186	28,033
Amortization expense	21	6,256	6,277	22	5,180	5,202

(Continued)

In addition, depreciation expenses of assets leased to others amounted to $1,261 and $1,224, and were recorded under non-operating expenses in 2003 and 2002, respectively.

(b) 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.