DBTEL Incorporated and Subsidiaries

Consolidated Financial Statements

June 30, 2002 and 2003

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
DBTEL Incorporated:

We have audited the consolidated balance sheets of DBTEL Incorporated (the Company) and subsidiaries (the Consolidated Companies) as of June 30, 2002 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Dialer and Business Holding Co., Ltd. and its subsidiaries and of DBTEL International (Europe) Ltd. as of and for the six-month periods ended June 30, 2002 and 2003, whose financial statements reflected total assets amounting to NT$5,661,174 thousands and NT$6,521,219 thousands, respectively, constituting 51.07% and 56.52%, respectively, of total consolidated assets, and total operating revenues amounting to NT$1,644,495 thousands and NT$3,974,762 thousands, constituting 59.07% and 82.09% of consolidated operating revenues, after eliminating inter-company transactions for the six-month periods ended June 30, 2002 and 2003, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the Republic of China Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements. Those standards and Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company and subsidiaries as of June 30, 2002 and 2003, and the results of their operations and their cash flows for the six-month periods then ended, in conformity with Republic of China generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the six-month period ended June 30, 2003, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(r) of the notes to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
September 30, 2003

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

DBTEL Incorporated and Subsidiaries

Consolidated Balance Sheets

June 30, 2002 and 2003

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

Assets	2002 NT$	2003 NT$	2003 US$
Current assets:			
Cash and cash equivalents	3,126,752	3,252,223	93,968
Short-term investments (note 3)	1,009,511	794,933	22,968
Notes receivable	1,782	350,276	10,121
Accounts receivable, less allowance for doubtful accounts of $183,043 and $ 192,331 in 2002 and 2003, respectively	720,155	664,326	19,195
Other monetary assets–current (note 12)	16,666	12,308	355
Inventories (note 4)	1,609,141	1,698,998	49,090
Pledged time deposits (note 15)	260,051	120,145	3,471
Deferred income tax assets (note 12)	192,213	117,223	3,387
Other current assets (note14)	55,926	120,100	3,470
	6,992,197	7,130,532	206,025
Long-term equity investments (notes 5 and 16)			
Long-term investment under cost method	177,739	168,509	4,869
Other monetary assets–non-current	1,718	7,129	206
Property, plant and equipment (notes 6, 15 and 16):			
Cost:			
Land	168,669	174,373	5,038
Buildings and improvements	351,358	370,720	10,711
Machinery and equipment	4,059,770	4,624,406	133,615
Molds and equipment	58,735	58,735	1,697
Furniture and fixtures	95,477	119,557	3,455
Leasehold improvements	664,114	884,534	25,557
Miscellaneous equipment	52,680	55,143	1,593
	5,450,803	6,287,468	181,666
Less: accumulated depreciation	(1,951,930)	(2,409,796)	(69,627)
Construction in progress and prepayments for equipment	118,661	48,517	1,402
	3,617,534	3,926,189	113,441
Deferred pension cost (note 10)	-	1,080	31
Other assets:			
Assets leased to others (notes 7 and 15)	33,317	35,221	1,018
Deferred charges (note 16)	69,825	96,923	2,800
Deferred income tax assets (note 12)	14,555	19,755	571
Pledged time deposits–non-current (note 15)	-	16,000	462
Other (note 10)	179,081	135,916	3,927
	296,778	303,815	8,778
Total assets	11,085,966	11,537,254	333,350

Liabilities and Stockholders' Equity	2002 NT$	2003 NT$	2003 US$
Current liabilities:			
Short-term loans (notes 8 and 15)	342,739	21,432	619
Current portion of long-term loans (notes 9 and 15)	12,154	13,005	376
Notes payable	87,181	41,635	1,203
Accounts payable	3,076,054	3,816,270	110,265
Income tax payable (note 12)	60,552	160	4
Accrued expenses	112,969	150,666	4,353
Other current liabilities	74,752	96,203	2,780
	3,766,401	4,139,371	119,600
Long-term liabilities:			
Long-term loans, less current portion (notes 9 and 15)	23,330	24,386	705
Other liabilities:			
Accrued pension cost (note 10)	58,276	89,328	2,581
Guarantee deposits received	828	771	22
Minority interest	273,046	226,606	6,548
	332,150	316,705	9,151
Total liabilities	4,121,881	4,480,462	129,456
Stockholders' equity (notes 5 and 11):			
Common stock of $10 par value; authorized 700 and 930 million shares and issued 556 and 659 million shares for 2002 and 2003, respectively	5,556,026	6,591,179	190,441
Stock dividend to be distributed	1,035,153	238,615	6,895
	6,591,179	6,829,794	197,336
Capital surplus:			
Paid-in capital in excess of par value	2,524	2,524	73
Others	131,910	189,160	5,465
	134,434	191,684	5,538
Retained earnings:			
Legal surplus	396,824	423,037	12,223
Unappropriated earnings	(137,400)	(211,491)	(6,111)
	259,424	211,546	6,112
Cumulative translation adjustments	64,588	137,596	3,976
Treasury stock	(85,540)	(313,828)	(9,068)
Total stockholders' equity	6,964,085	7,056,792	203,894
Commitments and contingencies (notes 7 and 16)			
Total liabilities and stockholders' equity	11,085,966	11,537,254	333,350

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2002 and 2003
(expressed in thousands of New Taiwan dollars and US dollars)

	2002	2003	
	NT$	NT$	US$
Cash flows from operating activities:			
Net loss	(141,598)	(212,989)	(6,154)
Adjustments to reconcile net income to net cash provided by operating activities:			
Income (loss) for minority interest	(32,276)	6,106	176
Depreciation	222,660	290,168	8,384
Amortization expense	13,335	19,289	557
Loss (gain) on disposal and obsolescence of equipment, net	(48)	16,592	479
Prepayments for equipment transferred to expenses	1,583	83	2
Gain on sale of short-term and long-term investments	(30,218)	-	-
Recovery on devaluation of short-term investments	(1,642)	(22,476)	(649)
Devaluation loss on long-term investments transferred to short-term investments	18,357	-	-
Decrease in short-term investments of subsidiary companies	164,915	-	-
Provision for allowance for doubtful accounts	-	5,271	152
Unrealized foreign currency exchange loss	71,295	31,969	924
Loss on inventory devaluation and obsolescence	1,832	56,296	1,627
Increase in notes receivable	(809)	(347,101)	(10,029)
Decrease (increase) in accounts receivable	(70,826)	827,272	23,903
Decrease in other monetary assets–current	20,304	10,178	294
Decrease (increase) in inventories	(539,934)	644,150	18,612
Decrease in other current assets	28,420	140,774	4,067
Net changes in deferred income tax assets and liabilities	(87,568)	(21,912)	(633)
Increase (decrease) in notes payable	54,396	(103,468)	(2,990)
Increase (decrease) in accounts payable	758,364	(767,029)	(22,162)
Increase (decrease) in income tax payable	59,603	(92,763)	(2,680)
Increase (decrease) in accrued expenses	21,198	(18,500)	(534)
Increase (decrease) in other current liabilities	(167,993)	17,018	492
Increase in accrued pension cost	9,056	13,610	393
Net cash flows provided by operating activities	372,406	492,538	14,231
Cash flows from investing activities:			
Decrease (increase) in short-term investments	(95,812)	10,000	289
Proceeds from sale of property and equipment	18,077	29,924	865
Purchase of property and equipment	(281,872)	(420,206)	(12,141)
Decrease in pledged time deposits	75,564	35,697	1,031
Decrease (increase) in other monetary assets–non-current	(1,049)	403	12
Decrease (increase) in other assets	18,489	(8,749)	(253)
Net cash flows used in investing activities	(266,603)	(352,931)	(10,197)
Cash flows from financing activities:			
Decrease in short-term loans	(199,324)	(4,559)	(132)
Repayment of long-term loans	(5,770)	(6,191)	(179)
Increase in long-term loans	-	14,073	407
Decrease in dividends payable	(97,360)	-	-
Net changes in unclaimed cash dividends	(1)	-	-
Increase (decrease) in guarantee deposits received	77	(57)	(2)
Increase in minority interest	-	5	-
Net cash flows provided by (used in) financing activities	(302,378)	3,271	94
Effects of changes in foreign exchange rates	31,497	(22,508)	(650)
Net increase (decrease) in cash and cash equivalents	(165,078)	120,370	3,478
Cash and cash equivalents at beginning of six-month period	3,291,830	3,131,853	90,490
Cash and cash equivalents at end of six-month period	3,126,752	3,252,223	93,968
Supplemental disclosures of cash flow information:			
Cash payments of interest	7,948	2,474	71
Cash payments of income tax	4,852	120,417	3,479
Investing and financing activities not affecting cash:			
Cumulative translation adjustments on foreign long-term investments	(79,271)	(5,266)	(152)
Capitalization of capital surplus, stock bonus to employees, and stock dividends	1,035,153	238,615	6,895
Current portion of long-term loans	12,154	13,005	376
Others:			
Increase in property and equipment	281,954	421,531	12,179
Increase in payable for equipment purchases	(82)	(1,325)	(38)
Cash paid for purchase of property and equipment	281,872	420,206	12,141
Property and equipment transferred to other assets	572	680	20
Other assets transferred to property and equipment	-	1,116	32
Decrease (increase) in short-term investments	(323,321)	10,000	289
Decrease in receivable from sale of stock	392,424	-	-
Cash received from short-term investments	69,103	10,000	289

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Consolidated Statements of Income

For the six-month periods ended June 30, 2002 and 2003
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2002	2003	
	NT$	NT$	US$
Operating revenue:			
Gross sales	$ 2,762,331	4,797,210	138,608
Less: sales returns and allowances	17,470	22,442	648
	2,744,861	4,774,768	137,960
Other operating revenue	38,922	67,078	1,938
Total operating revenue	2,783,783	4,841,846	139,898
Operating costs (note 10)	2,000,962	3,218,508	92,994
Gross profit from operations	782,821	1,623,338	46,904
Operating expenses (notes 10, 14 and 16):			
Selling expenses	293,932	932,234	26,935
Administrative expenses	335,561	479,332	13,850
Research and development expenses	284,401	352,279	10,179
	913,894	1,763,845	50,964
Operating loss	(131,073)	(140,507)	(4,060)
Non-operating income:			
Interest income	30,816	20,720	599
Dividend income	1,259	-	-
Gain on sale of investments	30,218	-	-
Gain on disposal of equipment	48	-	-
Rental revenue (note 7)	1,382	1,279	37
Recovery on devaluation of short-term investments	-	15,104	436
Other income	5,602	8,745	253
	69,325	45,848	1,325
Non-operating expenses:			
Interest expense	6,472	1,415	41
Loss on disposal of equipment	-	16,592	479
Loss on short-term investment devaluation	14,069	-	-
Foreign currency exchange loss, net	86,798	30,251	874
Loss on inventory devaluation and obsolescence	1,832	56,296	1,627
Other loss	2,803	5,009	145
	111,974	109,563	3,166
Loss before income tax and minority interest	(173,722)	(204,222)	(5,901)
Income tax expense (note 12)	152	2,661	77
Loss before minority interest	(173,874)	(206,883)	(5,978)
Income (loss) for minority interest	(32,276)	6,106	176
Net loss	$ (141,598)	(212,989)	(6,154)

	Before income tax	After income tax	Before income tax	After income tax	Before income tax	After income tax
Loss per share of common stock	$ (0.21)	(0.21)	(0.32)	(0.32)	(0.01)	(0.01)

See accompanying notes to consolidated financial statements.

DBTEL Incorporated and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2002 and 2003
(expressed in thousands of New Taiwan dollars and US dollars)

	Common stock NT$	Stock dividend to be distributed NT$	Capital surplus NT$	Retained Earnings Legal reserve NT$	Retained Earnings Unappropriated earnings NT$	Cumulative translation adjustments NT$	Treasury stock NT$	Total NT$	Total US$
New Taiwan Dollars									
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 equipemnt	-	-	(843)	-	843	-	-	-	
Appropriation of retained earnings (note 11):									
Legal reserve	-	-	-	4,598	(4,598)	-	-	-	
Stock bonus to employees	-	46,180	-	-	(46,180)	-	-	-	
Stock dividends	-	888,964	-	-	(888,964)	-	-	-	
Capitalization of capital surplus (note 11)	-	100,009	(100,009)	-	-	-	-	-	
Net loss for the period from January 1 to June 30, 2002	-	-	-	-	(141,598)	-	-	(141,598)	
Unclaimed cash dividends	-	-	(1)	-	-	-	-	(1)	
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	(79,271)	-	(79,271)	
Balance at June 30, 2002	**5,556,026**	**1,035,153**	**134,434**	**396,824**	**(137,400)**	**64,588**	**(85,540)**	**6,964,085**	
Balance at January 1, 2003	6,591,179	-	191,684	396,824	266,326	142,862	(313,828)	7,275,047	310,201
Appropriation of retained earnings (note 11):									
Legal reserve	-	-	-	26,213	(26,213)	-	-	-	-
Stock bonus to employees	-	43,880	-	-	(43,880)	-	-	-	-
Stock dividends	-	194,735	-	-	(194,735)	-	-	-	-
Net loss for the period from January 1 to June 30, 2003	-	-	-	-	(212,989)	-	-	(212,989)	(6,154)
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	(5,266)	-	(5,266)	(152)
Balance at June 30, 2003	**6,591,179**	**238,615**	**191,684**	**423,037**	**(211,491)**	**137,596**	**(313,828)**	**7,056,792**	**203,895**

See accompanying notes to consolidated financial statements.

(all amounts expressed in thousands of New Taiwan dollars and US dollars,
except where otherwise stated)

(1) Organization and Business Scopes

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

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

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

	Percentage of Ownership by the Company at June 30, 2002	2003
Dialer and Business 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
Formula Electronic Sdn. Bhd. (FE)	100.00	100.00
Nicenrich (M) Sdn. Bhd. (Nicenrich)	100.00	100.00
Ares Communication Tech, Inc. (Ares)	90.03	53.44
DB Distribution, Inc. (DBD)	100.00	100.00
DBTEL International (Europe) Limited (DBE)	100.00	100.00
Shanghai Ares Communication Tech Co., Ltd. (SACT)	100.00	100.00
DB Networks (DBN)	74.01	99.89

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

	Percentage of Ownership by the Company at June 30,	
	2002	**2003**
DBTEL Technology Co., Ltd. (DBT)	80.04	99.99
Microjet Technology Co., Ltd. (Microjet)	66.01	66.01
Shanghai Zhougu Industry Co., Ltd. (Zhougu)	-	98.03

(c) Professional investment and shareholding

	Percentage of Ownership by the Company at June 30,	
	2002	**2003**
DBTEL (BVI) Inc. (DBVI)	100.00	100.00
Ennerdale Limited (Ennerdale)	100.00	100.00
Formula Telecommunication (M) Sdn. Bhd. (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
Lih Der Investment & Development, Inc. (Lih Der)	-	100.00
Jing Young Investment & Development, Inc. (Jing Young) (Note)	100.00	-
Chang Hui Investment & Development, Inc. (Chang Hui) (Note)	100.00	-
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	100.00
DBTEL International Holding 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
Yau Tak Resource Limited (Yau Tak)	-	100.00

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

The Company and its subsidiaries had approximately 10,687 employees on June 30, 2003.

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(2) Summary of Significant Accounting Policies

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

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

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

(b) Foreign currency transactions and translations

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

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

(c) Cash equivalents

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

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(d) Short-term investments

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

(e) Allowance for doubtful accounts

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

(f) Inventories

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

(g) Long-term equity investments

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

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

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

Property, plant and equipment are stated at acquisition cost. Major additions, improvements and replacements are treated as capital expenditures. Interest expenses relating to the construction of plants and buildings and purchases of machinery and equipment are capitalized and included in the cost of related assets.

Depreciation of plant and equipment is provided for by using the straight-line method based on the estimated useful lives 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.

(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.

(k) Employee pension benefits

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

In accordance with the ROC Labor Standards Law, the Company and its subsidiaries Microjet, Ares, DBT and DBN make monthly deposits to the Central Trust of China. Starting March 2003, DBD also makes monthly deposits to the Central Trust of China.

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

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

Other subsidiaries of the Company have no pension plans.

(l) Provision for product warranties

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

(m) Revenue and cost

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

(n) Treasury stock

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

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

(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 recorded as treasury stock with no retroactive adjustment needed when recognizing gain (loss) on investment or preparing financial statements.

(o) Income tax

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

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

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

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

(p) Derivatives

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

(Continued)

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.

The number of shares outstanding for the six-month periods ended June 30, 2002 (2002) and 2003 (2003) was 677,676 thousand shares and 667,676 thousand shares, respectively.

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

The consolidated financial statements are stated in New Taiwan dollars. The translations of the 2003 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the middle spot rate provided by Bank of Taiwan on June 30, 2003, of NT$34.61 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(3) Short-term Investments

	June 30, 2002	June 30, 2003	
	NT$	NT$	US$
Mutual funds	46,311	74,102	2,141
Common stocks	1,146,964	1,095,176	31,643
	1,193,275	1,169,278	33,784
Less: provision for devaluation	183,764	374,345	10,816
	1,009,511	794,933	22,968

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

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

(4) Inventories

	June 30, 2002 NT$	June 30, 2003 NT$	June 30, 2003 US$
Raw materials	1,003,012	1,255,232	36,268
Work in process	387,050	147,209	4,253
Finished goods	250,609	310,362	8,967
Merchandise	25,587	72,706	2,101
Inventories-in-transit	2,160	11,260	325
Deferred engagement cost	-	52,936	1,530
	1,668,418	1,849,705	53,444
Less: provision for devaluation	59,277	150,707	4,354
	1,609,141	**1,698,998**	**49,090**
Insurance coverage for inventories	**1,059,650**	**1,425,329**	**41,183**

(5) Long-term Equity Investments

Investee	June 30, 2002 Percentage (%) of ownership	June 30, 2002 Cost of investment NT$	June 30, 2002 Book value NT$	June 30, 2003 Percentage (%) of ownership	June 30, 2003 Cost of investment NT$	June 30, 2003 Book value NT$	June 30, 2003 Book value US$
Cost method:							
Lizhi Electronic Engineering Co., Ltd.	4.20	26,696	26,158	4.20	26,696	26,158	756
Jian Rong Investment Co., Ltd.	2.27	2,725	2,346	2.27	1,908	1,642	47
China-America Wantai Technology Co., Ltd.	1.72	2,750	2,750	1.53	2,750	2,750	79
Hanchang Technology Co., Ltd.	3.21	32,261	32,261	3.17	38,228	38,228	1,105
Hong Yuan Communication Co., Ltd.	2.01	15,952	15,952	0.28	15,952	15,952	461
Hwa Young Co., Ltd.	2.38	17,811	17,811	2.38	17,811	17,811	515
Bao Lai Securities Co., Ltd.	14.75	52,650	52,650	14.75	52,650	52,650	1,521
Tai Yu Securities Co., Ltd.	10.00	30,000	27,180	4.90	14,700	13,318	385
China Porcelain Engineering Co., Ltd.	0.41	3,713	631	0.41	3,713	-	-
Jia Di Investment Co., Ltd.	1.77	1,226	-	1.77	1,226	-	-
		185,784	**177,739**		**175,634**	**168,509**	**4,869**

(Continued)

Ares made a cash capital injection 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 NT$57,261 in 2002.

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

All subsidiaries' holdings of the Company's stock are regarded as treasury stock. As of June 30, 2002 and 2003, the number of shares of the Company's stock held by its subsidiaries was 4,371 thousand shares and 5,149 thousand shares, respectively. The book value (equal to the original cost) was as follows:

	June 30, 2002	June 30, 2003	
Subsidiary	**NT$**	**NT$**	**US$**
DBT	83,337	83,337	2,408
Tai Yao	1,688	1,688	49
Capital	515	515	15
Total	**85,540**	**85,540**	**2,472**

(6) Property, Plant and Equipment

As of June 30, 2002 and 2003, insurance coverage for the consolidated property, plant and equipment was NT$3,546,906 and NT$3,528,457 (US$101,949), respectively.

(7) Assets Leased to Others

	June 30, 2002	June 30, 2003	
	NT$	**NT$**	**US$**
Land	24,300	23,301	673
Property and plant	11,311	14,460	418
	35,611	37,761	1,091
Less: accumulated depreciation	2,294	2,540	73
	33,317	**35,221**	**1,018**

(Continued)

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 June 30, 2002 and 2003, the insurance coverage for leased assets was NT$17,000 and NT$11,256 (US$325), respectively.

In 2002 and 2003, the total rental revenues amounted to NT$1,382 and NT$1,279 (US$37), respectively. The rental revenues for subsequent years are as follows:

Period	Amount NT$	Amount US$
2003.7.1~2004.6.30	2,127	61
2004.7.1~2005.6.30	1,203	35
	3,330	**96**

(8) Short-term Loans

	June 30, 2002 NT$	June 30, 2003 NT$	June 30, 2003 US$
Credit loans	324,200	-	-
Secured loans	18,539	21,432	619
	342,739	**21,432**	**619**
Unused credit line	**1,058,109**	**1,872,785**	**54,111**

The average annual interest rate for the short-term loans ranged from 5.00% to 6.00% and 1.72% to 6.50% for 2002 and 2003, respectively.

(Continued)

(9) Long-term Loans

Bank	Description	Period of loan	Method of repayment	Interest rate (%)	June 30, 2002 NT$	June 30, 2003 NT$	June 30, 2003 US$
International Bank of Taipei	Working capital, for which the leased equipment from related party is pledged	March 2000~ March 2005	Repayable in 48 monthly installments beginning April 2001	2002: 6.80~7.45 2003: 6.445~ 6.595	35,484	23,317	674
Chiao Tung Bank	Industrial Development Bureau, MOEA, cooperation loan, which credit line was $17,250 thousand	January 2002~ June 2007 (estimated)	Repayable in 12 quarterly installments beginning one year after the completion of products development (June 2003)	-	-	14,074	407
					35,484	37,391	1,081
Less: current portion					12,154	13,005	376
					23,330	24,386	705

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

Period	Amount NT$	Amount US$
2003.7.1~2004.6.30	13,005	376
2004.7.1~2005.6.30	16,062	464
2005.7.1~2006.6.30	5,750	166
2006.7.1~2007.6.30	2,574	75
	37,391	1,081

(10) Employee Pension Benefits

The Company and subsidiaries which have defined benefit pension plans obtained an actuarial assessment of their pension liability as of December 31, 2001 and 2002. Net pension cost recognized in 2002 and 2003 was NT$13,579 and NT$19,529 (US$564), respectively. As of June 30, 2002 and 2003, the accrued pension cost was NT$58,276 and NT$89,328 (US$2,581), respectively, the prepaid pension expenses were NT$553 and NT$1,365 (US$39), respectively, and the deferred pension cost was NT$0 and NT$1,080 (US$31), respectively. The balance of the pension fund in the Central Trust of China was NT$69,520 and NT$81,333 (US$2,350), respectively.

(Continued)

(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 NT$888,964, capital surplus of NT$100,009, and employee bonus of NT$46,180. The total amount capitalized was NT$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 NT$194,735 (US$5,627) and employee bonus of NT$43,880 (US$1,268). The total amount capitalized was NT$238,615 (US$6,895). The total number of 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.

(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	**NT$**	228,288	-	-	228,288
	US$	6,596	-	-	6,596

According to the SEL, the number of shares of treasury stock can not exceed 10% of the number of shares issued. Moreover, the total value of treasury stock can not exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. The Company owned 10,000 thousand shares of treasury stock, totaling NT$228,288, in 2003. This did not exceed the limit set by the SEL.

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

The Company's subsidiaries did not purchase or sell any shares of the Company in 2003. As of June 30, 2003, the Company's subsidiaries held 5,149 thousand shares of the Company's stock, whose book value was NT$85,540 (US$2,472) and market price was NT$86,866 (US$2,510).

(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 June 30, 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 are as follows:

	June 30, 2002	**June 30, 2003**	
	NT$	**NT$**	**US$**
Paid-in capital in excess of par value	2,524	2,524	73
Past-due dividend transferred to capital surplus	2,384	2,373	69
Excess amount of merged company's net asset value over par value of newly issued stock	331	331	9
The effects of changes in stockholders' equity of equity method investee companies	129,195	186,456	5,387
	134,434	**191,684**	**5,538**

(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 former 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%.

In accordance with 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 ratio of the distribution of 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)

(g) Imputation credit account and imputation tax credit ratio

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

	June 30, 2002 NT$	June 30, 2003 NT$	June 30, 2003 US$
Imputation credit	27,614	116,025	3,352

	2002	2003 (Estimated)
Imputation tax credit ratio	3.02%	33.54%

The components of unappropriated earnings were as follows:

	June 30, 2002 NT$	June 30, 2003 NT$	June 30, 2003 US$
From earnings of			
1997 and before	-	466	13
1998 and after	(137,400)	(211,957)	(6,124)
	(137,400)	**(211,491)**	**(6,111)**

(12) Income Tax

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

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

	June 30, 2002	June 30, 2003	
	NT$	NT$	US$
Current income tax expense	22,892	22,910	662
10% surtax on undistributed earnings	64,828	1,663	48
Deferred income tax benefit	(87,568)	(21,912)	(633)
	152	2,661	77

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

	June 30, 2002	June 30, 2003	
	NT$	NT$	US$
"Expected" income tax benefit	(43,431)	(51,056)	(1,475)
Investment loss (gain)	(448)	9,302	269
Devaluation loss on long-term investments transferred to short-term investments	4,590	-	-
Differences from tax-exempt income	(12,604)	75,259	2,174
10% surtax on undistributed earnings	64,828	1,663	48
Loss carryforwards	350	757	22
Investment tax credit	21,840	(56,526)	(1,633)
Over-accrual of prior year's income tax	(4,718)	35,092	1,014
Others	536	13,177	381
Valuation allowance–deferred income tax assets	(30,791)	(25,007)	(723)
	152	2,661	77

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

	2002	2003	
	NT$	NT$	US$
Allowance for doubtful accounts	1,992	(2,085)	(60)
Unrealized foreign exchange gain (loss)	(18,958)	(8,097)	(234)
Loss from inventory devaluation	(459)	6,138	177
Gain (loss) on long-term investments	(3,055)	(3,945)	(114)
Unrealized profit on inter-company transactions	(45,823)	-	-
Pension cost	(1,911)	(2,738)	(79)
Loss carryforwards	(28,160)	23,647	683
Investment tax credits	44,588	(9,440)	(272)
Others	(4,722)	(385)	(11)
Valuation allowance–deferred income tax assets	(31,060)	(25,007)	(723)
	(87,568)	**(21,912)**	**(633)**

Deferred income tax assets (liabilities) were as follows:

	June 30, 2002	June 30, 2003	
	NT$	NT$	US$
Current:			
Deferred income tax assets	196,639	127,000	3,670
Less: valuation allowance	(4,426)	(5,465)	(158)
Net deferred income tax assets	192,213	121,535	3,512
Deferred income tax liabilities	-	(4,312)	(125)
Net current deferred income tax assets	**192,213**	**117,223**	**3,387**
Non-current:			
Deferred income tax assets	411,362	477,286	13,791
Less: valuation allowance	(396,807)	(457,531)	(13,220)
Net deferred income tax assets	14,555	19,755	571
Deferred income tax liabilities	-	-	-
Net non-current deferred income tax assets	**14,555**	**19,755**	**571**
Total deferred income tax assets	**608,001**	**604,286**	**17,461**
Total deferred income tax liabilities	**-**	**4,312**	**125**
Valuation allowance–deferred income tax assets	**401,233**	**462,996**	**13,378**

(Continued)

DBTEL Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

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

	June 30, 2002		June 30, 2003		
	Amount NT$	Tax effect NT$	Amount NT$	Tax effect NT$	Tax effect US$
Deferred income tax assets (liabilities):					
Allowance for doubtful accounts	171,776	42,945	176,264	44,067	1,273
Inventory devaluation	59,276	14,819	38,727	9,683	280
Unrealized foreign exchange loss (gain)	11,448	2,864	(16,772)	(4,191)	(121)
Unrealized loss on long-term investments	160,852	40,212	190,180	47,545	1,374
Unrealized profit on inter-company transactions	210,727	52,682	-	-	-
Accrued pension cost	57,089	14,272	80,460	20,114	581
Loss carryforwards	786,784	196,699	612,809	153,203	4,427
Investment tax credits	242,801	242,801	326,592	326,592	9,436
Others	2,830	707	11,839	2,961	85
Valuation allowance–deferred income tax assets	-	(401,233)	-	(462,996)	(13,377)
		206,768		**136,978**	**3,958**

Income tax payable (refundable) was as follows:

	June 30, 2002	June 30, 2003	
	NT$	NT$	US$
Current income tax expense	22,892	22,910	662
10% surtax on undistributed earnings	64,828	1,663	48
Taxes paid	(4,239)	(120,359)	(3,478)
Income tax payable (refundable) balance at the beginning of the year	(28,041)	90,940	2,628
	55,440	**(4,846)**	**(140)**
Income tax refundable	(5,112)	(5,006)	(144)
Income tax payable	60,552	160	4
	55,440	**(4,846)**	**(140)**

(Continued)

Pursuant to the ROC Statute for Upgrading Industries, the Company's investment tax credits can be used to deduct one-half of the income tax payable of the same year, and the unused portion can be used over the next four years, with each year's used amount not more than one-half of the income tax payable of that year, except for the ending year, when any remaining investment tax credit can be used in full. As of June 30, 2003, the unused investment tax credits derived from the expenditure on research and development, automation equipment, and investment in essential technology business were as follows:

Expenditure year	June 30, 2003 NT$	June 30, 2003 US$	Year of expiration
1999	103,533	2,991	2003
2000	52,909	1,529	2004
2001	83,528	2,413	2005
2002	29,518	853	2006
2003	57,104	1,650	2007
	326,592	**9,436**	

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

Year loss incurred	June 30, 2003 NT$	June 30, 2003 US$	Year of expiration
1998	107,248	3,099	2003
1999	134,868	3,897	2004
2000	115,439	3,335	2005
2001	155,670	4,498	2006
2002	75,719	2,188	2007
2003	23,864	690	2008
	612,808	**17,707**	

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, DBN, Rui Dee, Wanzhou, Capital and Microjet (except 1999)
2001	DBD, Tai Yao and the Company (except 1999 and 2000)
2002	SDBE, SDI, TAI, SWB, DBE, SACT and Zhougu

(Continued)

(13) Disclosure of Financial Instruments

(a) Derivatives

There was no unsettled contract as of June 30, 2002 and 2003.

(b) Non-derivative financial instruments:

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

	June 30, 2002		June 30, 2003			
	Book value NT$	**Fair value NT$**	**Book value NT$**	**Fair value NT$**	**Book value US$**	**Fair value US$**
Financial Assets:						
Fair value equal to book value of assets	4,127,124	4,127,124	4,422,407	4,422,407	127,778	127,778
Short-term investments	1,009,511	1,009,511	794,933	794,933	22,968	22,968
Long-term investments	177,739	177,739	168,509	168,509	4,869	4,869
	5,314,374	**5,314,374**	**5,385,849**	**5,385,849**	**155,615**	**155,615**
Financial Liabilities:						
Fair value equal to book value of liabilities	3,738,599	3,738,599	4,120,262	4,120,262	119,047	119,047
Long-term loans (including current portion)	35,484	35,484	37,391	37,391	1,081	1,081
	3,774,083	**3,774,083**	**4,157,653**	**4,157,653**	**120,128**	**120,128**
Off-balance-sheet financial instruments:						
Outstanding letters of credit	-	401,519	-	700,955	-	20,253

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

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

B. Long-term equity investments were investments in non-listed companies. Since the shares of those companies are not traded openly, fair value of the investments is not available. Therefore, the book value is used as their fair value. The related book value and cost of long-term equity investments are described in note 5.

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

(Continued)

(c) Concentration of credit risk:

Concentrations of credit risk exist if the financial instrument transactions are obviously concentrated on a few counter-parties, or the counter-parties are engaged in similar business activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. As of June 30, 2002 and 2003, the consolidated notes and accounts receivable were concentrated on a few customers as follows:

	June 30, 2002	
Customer	**Amount NT$**	**% of the consolidated notes and accounts receivable**
A	138,256	19.15
B	109,266	15.14
C	96,018	13.30
D	74,097	10.26

	June 30, 2003		
	Amount		**% of the consolidated notes and accounts**
Customer	**NT$**	**US$**	**receivable**
E	138,054	3,989	13.61

(14) Related-party Transactions

(a) Name and relationship

Name	**Relationship**
Kuo, Pei-Chih	Director of the Company
Fu Mao Investment Inc. (Fu Mao)	Same chairman as the Company
Dui Hui Investment Inc. (Dui Hui)	Same chairman as the Company

(Continued)

(b) Significant transactions with related parties

i) Advance payments for the related party

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

	June 30, 2002	June 30, 2003	
	NT$	NT$	US$
Dui Hui	-	455	13
Fu Mao		152	5
Kuo Pei-Chih	3,281	-	-
	3,281	**607**	**18**

	2002	
	Maximum amount NT$	Period incurred
Kuo Pei-Chih	3,281	June 2002

	2003		
	Maximum amount NT$	US$	Period incurred
Dui Hui	606	18	February 2003
Fu Mao	152	5	June 2003

ii) Rental expenses

DBD had an operating lease contract with Fu Mao for its office premises, and the semiannually rental expenses were NT$18 (US$1) in 2002 and 2003. They were fully paid before June 30, 2002 and 2003.

(Continued)

iii) Long-term investments

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

Seller	Object	Number of shares (thousands)	Cost
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 book values of the subject companies on July 31, 2002. All relevant prices were paid in 2002, and no such transaction occurred in the six-month periods ended June 30, 2003.

(15) Pledged Assets

Pledged assets	To recure	June 30, 2002 NT$	June 30, 203 NT$	June 30, 203 US$
Pledged time deposits	Credit lines for short-term loans, guarantees, and overdrafts	260,051	136,145	3,933
Property, plant and equipment:				
Land	Credit lines for long-term and short-term loans	112,253	112,252	3,243
Buildings and plant	Credit lines for long-term and short-term loans	237,462	225,023	6,502
Machinery and equipment	Credit lines for long-term and short-term loans	62,046	55,789	1,612
Other assets–assets leased to others	Credit lines for long-term and short-term loans	33,317	35,221	1,018
		705,129	**564,430**	**16,308**

(16) Commitments and Contingencies

(a) As of June 30, 2002 and 2003, outstanding letters of credit for purchase of material and equipment totaled approximately NT$401,519 and NT$700,955 (US$20,253), respectively.

(b) For the purpose of building plants, the consolidated subsidiary DBH signed a contract with the PRC government to acquire land use rights. The Company and subsidiaries also signed other contracts with domestic and foreign companies for planning, designing and constructing several construction projects. As of June 30, 2002 and 2003, the contracts amounted to NT$97,284 and NT$36,478 (US$1,054), respectively, of which NT$75,448 and NT$27,753 (US$802), respectively, had been paid and recorded under construction in progress and prepayments for equipment.

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

	NT$	US$
2003.7.1~2004.6.30	33,402	965
2004.7.1~2005.6.30	15,190	439
2005.7.1~2006.6.30	3,017	87
	51,609	**1,491**

(d) The Company signed an "Authorization Contract on GSM Dual Band Cellular Phone Technology" with the Industrial Technology Research Institute (ITRI) in March 2000. Based on the contract, a royalty fee should be paid to ITRI from the day the Company begins its sales of GSM dual-band cellular phones to February 28, 2010, at a rate of 1% of sales. In 2002 and 2003, no such royalty fee was incurred.

(e) The Company signed a permanent patent licensing of a caller-ID system with Nortel Networks in July 1999. According to the contract, any product manufactured by implementing that system is subject to a one US dollar royalty fee per item to Nortel Networks. In 2002 and 2003, no such royalty fee was incurred.

(f) The Company signed a five-year (September 2000 to September 2005) patent licensing agreement for Numeric Signal Processor Broad-Band Built-In Solution with Shanghai Chuan-Jin Numeric Technology Ltd. through DBH. The Company paid $18,762 for patent licensing fees in September 2000. Within the period of the contract, a royalty fee ranging from 0.5 to 3 US dollars per item should be paid based on the number of products sold. As of June 30, 2003, no products had been sold.

(g) The Company's board of directors resolved in June 2002 to increase TAI's capital by providing machinery and equipment totaling US$5,874 through the Company's indirectly wholly owned subsidiary Ennerdale. The ROC Investment Commission has approved the investment. The investment has been implemented, and it was approved by the relevant PRC authority in May 2003.

(Continued)

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

(i) The Company's board of directors resolved in May 2003 to invest US$3,000 in Shanghai Beihao Industry Co., Ltd. through the Company's indirectly wholly owned subsidiary Ennerdale. The ROC Investment Commission has approved the investment, of which US$915 has been implemented.

(j) 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 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 consolidated financial statements.

(18) Subsequent Events

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. However, the issuance has not been implemented yet.

(19) Other

(a) A summary of employment, depreciation, depletion and amortization expenses for the six-month periods ended June 30, 2002 and 2003, is as follows:

	Six-month period ended June 30, 2002			Six-month period ended June 30, 2003					
Accounts / Function	Cost of goods sold NT$	Operating expenses NT$	Total NT$	Cost of goods sold NT$	Operating expenses NT$	Total NT$	Cost of goods sold US$	Operating expenses US$	Total US$
Employment expenses:									
Salary	127,553	369,590	497,143	181,553	543,103	724,656	5,246	15,692	20,938
Labor and health insurance	5,209	16,958	22,167	8,760	30,909	39,669	253	893	1,146
Pension cost	1,443	12,136	13,579	3,312	16,217	19,529	96	468	564
Other employment expense	8,323	10,528	18,851	12,175	26,424	38,599	352	763	1,115
Depreciation expense	157,589	65,071	222,660	225,262	64,906	290,168	6,509	1,875	8,384
Depletion expense	-	-	-	-	-	-	-	-	-
Amortization expense	44	13,291	13,335	5,103	14,186	19,289	147	410	557

(Continued)

(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.