DBTEL Incorporated

Financial Statements

March 31, 2004 and 2003
(With Independent Auditors' Review Report Thereon)

Independent Auditors' Review Report

The Board of Directors
DBTEL Incorporated:

We have reviewed the accompanying balance sheets of DBTEL Incorporated (the Company) as of March 31, 2004 and 2003, and the related statements of operations 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 5 to the financial statements, the long-term equity investments accounted for under the equity method amounting to NT$5,383,424 thousand and NT$3,327,298 thousand, and long-term equity investment credits amounting to NT$6,969 thousand as of March 31, 2004 and 2003, and the related investment income of NT$499,697 thousand and investment loss of NT$100,762 thousand recognized for the three-month periods ended March 31, 2004 and 2003, 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.

KPMG

April 21, 2004

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

Unaudited

DBTEL Incorporated

Condensed Balance Sheets

March 31, 2004 and 2003

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

Assets	2004 Amount	%	2003 Amount	%
Current assets:				
Cash and cash equivalents	$ 2,112,434	15	1,160,501	14
Short-term investments (note 3)	248,621	2	183,635	2
Notes receivable	-	-	40	-
Notes receivable – related parties (note 13)	-	-	45,777	1
Accounts receivable, less allowance for doubtful accounts of $190,255 and $189,732 in 2004 and 2003, respectively	466,291	3	432,552	5
Accounts receivable – related parties (note 13)	2,645,461	19	729,485	9
Dividends receivable (note 5)	227,200	2	227,200	3
Other receivables – related parties (note 13)	4,128	-	765,607	9
Other monetary assets – current (note 10)	44,074	-	6,744	-
Inventories (note 4)	1,034,528	7	207,794	2
Prepayments to suppliers	7,767	-	38,510	-
Deferred income tax assets – current (note 10)	93,587	1	90,988	1
Pledged time deposits (notes 13 and 14)	640,321	5	133,842	2
Other current assets (note 13)	52,799	-	103,621	1
	7,577,211	54	4,126,296	49
Long-term equity investments (note 5):				
Long-term investments under equity method	5,333,107	39	3,286,453	39
Long-term investments under cost method	42,928	-	44,374	1
Prepayment for long-term investments	50,317	1	40,845	1
	5,426,352	40	3,371,672	41
Property, plant and equipment (notes 6, 14 and 15):				
Cost:				
Land	59,992	-	59,992	1
Buildings and improvements	259,561	2	252,910	3
Machinery and equipment	555,765	4	549,640	7
Molds and equipment	58,735	-	58,735	1
Furniture and fixtures	91,204	1	70,288	1
Miscellaneous equipment	22,632	-	17,130	-
	1,047,889	7	1,008,695	13
Less: accumulated depreciation	(564,914)	(4)	(458,346)	(6)
Construction in progress and prepayments for equipment	70,011	1	19,402	-
	552,986	4	569,751	7
Other assets:				
Assets leased to others (notes 7, 13 and 14)	149,620	1	154,405	2
Refundable deposits	2,902	-	462	-
Deferred charges (note 15)	89,663	1	60,126	1
Long-term receivables – related parties (note 13)	-	-	31,941	-
Deferred income tax assets – noncurrent (note 10)	27,143	-	18,393	-
	269,328	2	265,327	3
Total assets	$ 13,825,877	100	8,333,046	100

Liabilities and Stockholders' Equity	2004 Amount	%	2003 Amount	%
Current liabilities:				
Short – term loans (notes 8 and 14)	$ 2,140,181	16	-	-
Notes payable	34,478	-	74,192	1
Accounts payable	977,635	7	566,633	7
Accounts payable – related parties (note 13)	20,487	-	47,986	-
Income tax payable (note 10)	-	-	89,629	1
Accrued expenses	203,252	1	68,466	1
Other payable – related parties (note 13)	60,366	-	76,801	1
Other current liabilities (note 13)	81,256	1	51,376	1
	3,517,655	25	975,083	12
Other liabilities:				
Accrued pension cost (note 9)	103,258	1	73,575	1
Guarantee deposits received	771	-	771	-
Other liabilities – other (note 5)	6,969	-	6,969	-
Deferred credits – gains on inter-affiliate accounts (note 5)	89,790	1	89,790	1
	200,788	2	171,105	2
Total liabilities	3,718,443	27	1,146,188	14
Stockholders' equity (notes 5 and 11):				
Common stock of $10 par value; authorized both 930 million shares and issued 683 and 659 million shares in 2004 and 2003, respectively	6,829,794	49	6,591,179	79
Capital surplus:				
Paid-in capital in excess of par value	2,524	-	2,524	-
Others	182,342	1	189,160	2
	184,866	1	191,684	2
Retained earnings:				
Legal surplus	423,037	3	396,824	5
Unappropriated earnings	2,886,465	21	176,285	2
	3,309,502	24	573,109	7
Cumulative translation adjustments	97,092	1	144,706	2
Treasury stock	(313,820)	(2)	(313,820)	(4)
Total stockholders' equity	10,107,434	73	7,186,858	86
Commitments and contingencies (notes 7, 12, 13 and 15)				
Total liabilities and stockholders' equity	$ 13,825,877	100	8,333,046	100

See accompanying notes to financial statements.

Unaudited

DBTEL Incorporated

Condensed Statements of Operations

For the three-month periods ended March 31, 2004 and 2003

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

	2004 Amount	%	2003 Amount	%
Operating revenue (note 13):				
Gross sales	$ 2,852,387	92	1,242,386	100
Less: sales returns and allowances	4,198	-	104	-
	2,848,189	92	1,242,282	100
Other operating revenue	249,923	8	94	-
Total operating revenue	3,098,112	100	1,242,376	100
Operating costs (notes 9, 13 and 16)	2,455,786	79	974,559	79
Gross profit	642,326	21	267,817	21
Realized profit on inter-affiliate accounts (note 13)	15,847	-	-	-
Realized gross profit	658,173	21	267,817	21
Operating expenses (notes 9, 13 and 16):				
Selling expenses	100,961	3	65,718	5
Administrative expenses	87,052	3	69,812	6
Research and development expenses	202,339	7	117,219	9
	390,352	13	252,749	20
Operating income	267,821	8	15,068	1
Nonoperating income:				
Interest income	5,058	-	6,603	1
Investment income under equity method (note 5)	499,697	16	-	-
Exchange gain, net	35,625	1	-	-
Rental revenue (notes 7 and 13)	2,329	-	2,482	-
Recovery for devaluation of short-term investments	27,881	1	-	-
Other income	-	-	22	-
	570,590	18	9,107	1
Nonoperating expenses:				
Interest expense	9,435	-	5	-
Loss on short-term investment devaluation	-	-	8,512	1
Investment loss under equity method (note 5)	-	-	100,762	8
Exchange loss, net	-	-	3,090	-
Loss on inventory devaluation and obsolescence	-	-	584	-
Other loss (note 16)	4,275	-	1,263	-
	13,710	-	114,216	9
Income (loss) before income tax	824,701	26	(90,041)	(7)
Income tax expense (note 10)	6,645	-	-	-
Net income (loss)	$ 818,056	26	(90,041)	(7)

	Before income tax	After income tax	Before income tax	After income tax
Primary earnings (loss) per share of common stock	$ 1.24	1.23	(0.13)	(0.13)

Proforma data for not treating DBTEL Incorporated's stock purchased by its subsidiaries as treasury stock:

	Before income tax	After income tax	Before income tax	After income tax
Net income (loss)	$ 824,701	818,056	(90,041)	(90,041)
Primary earnings (loss) per share of common stock	$ 1.23	1.22	(0.13)	(0.13)

See accompanying notes to financial statements.

Unaudited

DBTEL Incorporated

Condensed Statements of Cash Flows

For the three-month periods ended March 31, 2004 and 2003
(expressed in thousands of New Taiwan dollars)

	2004	2003
Cash flows from operating activities:		
Net income (loss)	$ 818,056	(90,041)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	29,290	29,614
Amortization expense	10,737	6,277
Investment loss (income) under equity method, net	(499,697)	100,762
Reversal (recovery) on devaluation of short-term investments	(27,881)	8,512
Provision for allowance for doubtful accounts	3,134	7,133
Realized profit on inter-affiliate accounts	(15,847)	-
Unrealized foreign exchange gain	-	(4,911)
Loss on inventory devaluation and obsolescence	-	584
Increase in notes receivable	-	(40)
Increase in notes receivable–related parties	-	(45,777)
Decrease (increase) in accounts receivable	(140,962)	17,659
Decrease (increase) in accounts receivable–related parties	(1,016,075)	458,287
Decrease (increase) in other receivables–related parties	455	(605)
Decrease (increase) in other monetary assets–current	(22,251)	9,034
Decrease (increase) in inventories	(242,194)	5,765
Decrease in prepayments to suppliers	2,666	119,239
Decrease (increase) in other current assets	22,342	(2,451)
Net changes in deferred income tax assets and liabilities	(357)	(3,906)
Decrease in notes payable	(24,217)	(25,194)
Decrease in notes payable–related parties	(5,218)	(11,855)
Decrease in accounts payable	(564,166)	(297,440)
Increase (decrease) in accounts payable – related parties	(11,539)	15,218
Increase in income tax payable	-	3,692
Increase (decrease) in accrued expenses	44,058	(39,421)
Decrease in other payable–related parties	(7,414)	(13,460)
Increase in other current liabilities	16,741	9,694
Increase in accrued pension cost	8,152	5,405
Net cash provided by (used in) operating activities	(1,622,187)	261,774
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	3,300
Purchase of property and equipment	(35,484)	(4,345)
Decrease (increase) in other receivable–related parties	672,528	(45,290)
Decrease (increase) in pledged time deposits	(38,000)	3,000
Increase in refundable deposits	(25)	-
Increase in other assets	(15,169)	(4,938)
Net cash provided by (used in) investing activities	583,850	(48,273)
Cash flows from financing activities:		
Increase in short-term loans	1,003,636	-
Net changes in unclaimed cash dividends	(8)	-
Decrease in guarantee deposits received	-	(57)
Net cash provided by (used in) financing activities	1,003,628	(57)
Effects of changes in foreign exchange rates	-	(1,313)
Net increase (decrease) in cash and cash equivalents	(34,709)	212,131
Cash and cash equivalents at beginning of period	2,147,143	948,370
Cash and cash equivalents at end of period	**$ 2,112,434**	**1,160,501**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 2,701**	**5**
Cash payments of income tax	**$ 743**	**214**
Investing and financing activities not affecting cash:		
Cumulative translation adjustments on foreign long-term investments	**$ (75,214)**	**1,844**
Net of long-term investment credits and advance payments	**$ 3**	**23,853**
Others:		
Increase in property and equipment	$ 30,078	2,347
Decrease in payable for equipment purchases	5,406	1,998
Cash paid for purchase of property and equipment	**$ 35,484**	**4,345**
Cash received for disposal of property and equipment:		
Decrease in lease payments receivable	**$ -**	**3,300**

See accompanying notes to financial statements.

Notes to Financial Statements

March 31, 2004 and 2003
(all amounts expressed in thousands of New Taiwan dollars, except where otherwise stated)

(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 908 employees on March 31, 2004.

(2) Summary of Significant Accounting Policies

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

1) 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 on 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.

2) Cash equivalents

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

3) 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.

4) Allowance for doubtful accounts

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

(Continued)

5) 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.

6) 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 other than temporary, the investment is written down to reflect the market value and the resulting loss is recognized in the period of such a write-down. Stock dividends are not recognized as income but treated as an increase in the number of shares held. When sold, cost is determined by the weighted-average method.

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.

(Continued)

DBTEL Incorporated

Notes to Financial Statements

7) Property, plant and equipment, and related depreciation

Property, plant and equipment are stated at acquisition cost. Major additions, improvements and replacements are treated as capital expenditures. Maintenance and repairs are regarded as period expenditures. Interest expenses relating to the construction of plants and buildings and purchases of machinery and equipment are capitalized and included in the cost of related assets. Depreciation of plant and equipment is provided for by using the straight-line method based on the estimated useful lives listed as follows:

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

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

8) 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.

9) Assets leased to others

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

10) Deferred charges

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

(Continued)

11) 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.

12) 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.

13) Revenue

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

14) Treasury stock

The Company uses the cost method to account for treasury stock according to the provisions of 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.

(Continued)

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

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

15) 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.

16) Derivatives

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

(Continued)

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

17) Earnings (loss) per common share

Earnings (loss) per common share are computed by dividing earnings (loss) after income tax by the weighted-average number of common shares outstanding during the year. Earnings (loss) per common share are adjusted retroactively by stock dividends resulting 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 which calculate earnings (loss) per share for the three-month periods ended March 31, 2004 and 2003, were both 667,676 thousands shares. 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, 2004 and 2003, would be both 672,979 thousands shares.

(3) Short-term Investments

	March 31, 2004	March 31, 2003
Mutual funds	$ 25,078	25,078
Common stocks	309,292	311,027
	334,370	336,105
Less: provision for devaluation	85,749	152,470
	$ 248,621	**183,635**

(4) Inventories

	March 31, 2004	March 31, 2003
Raw materials	$ 522,799	91,934
Work in process	134,564	22,679
Finished goods	326,190	38,632
Merchandise	40	7,086
Inventories-in-transit	62,492	59,203
	1,046,085	219,534
Less: provision for devaluation	11,557	11,740
	$ 1,034,528	**207,794**

(Continued)

DBTEL Incorporated

Notes to Financial Statements

As of March 31, 2004 and 2003, the insurance coverage for the aforementioned inventories of the Company amounted to $454,969 and $60,000, respectively.

(5) Long-term Equity Investments

	March 31, 2004			March 31, 2003		
Investee	Percentage (%) of ownership	Cost of investment	Book value	Percentage (%) of ownership	Cost of investment	Book value
Equity method:						
DBTEL (BVI) Inc. (DBVI)	100.00	$ 1,254,915	3,640,688	100.00	1,254,915	1,922,597
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	190,000	572,416	100.00	190,000	473,898
Jin Chou Investment & Development, Inc. (Jin Chou)	100.00	174,000	96,055	100.00	174,000	123,792
DBTEL Technology Co., Ltd. (DBT)	92.29	501,239	581,578	92.29	501,239	382,178
DB Networks (DBN)	93.18	371,901	441,060	93.15	371,773	382,321
Tai Yao Investment & Development, Inc. (Tai Yao)	2.00	3,000	1,310	2.00	3,000	1,667
		2,495,055	5,333,107		2,494,927	3,286,453
Cost method:						
Crownpo Technology Inc. (Formely Lizhi Electronic Engineering Co., Ltd.)	0.11	308	308	0.44	2,292	1,754
Jian Rong Investment Co., Ltd.	2.27	1,908	1,642	2.27	1,908	1,642
China-America Wantai Technology Co., Ltd.	1.53	2,750	2,750	1.53	2,750	2,750
Hanchang Technology Co., Ltd.	2.92	38,228	38,228	3.17	38,228	38,228
China Porcelain Engineering Co., Ltd.	0.41	3,713	-	0.41	3,713	-
Jia Di Investment Co., Ltd.	1.77	1,226	-	1.77	1,226	-
		48,133	42,928		50,117	44,374
Prepayment for stock:						
DBTEL International (Europe) Limited (DBE)	100.00	101,112	101,112	100.00	101,112	101,112
Less: long-term equity investment credits	-	14,984	(50,795)	-	14,984	(60,267)
		116,096	50,317		116,096	40,845
		$ 2,659,284	5,426,352		2,661,140	3,371,672

(Continued)

DBTEL Incorporated

Notes to Financial Statements

Investee	March 31, 2004 Percentage (%) of ownership	Cost of investment	Book value	March 31, 2003 Percentage (%) of ownership	Cost of investment	Book value
Long-term equity investment credits (recorded as other liabilities):						
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	$ 1	6,969	100.00	1	6,969

The long-term equity investments accounted for under the equity method amounting to $5,383,424 and $3,327,298, and long-term equity investment credits amounting to $6,969 as of March 31, 2004 and 2003, and the related investment income of $499,697 and investment loss of $100,762 recognized for the three-month periods ended March 31, 2004 and 2003, 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, 2004 and 2003, the long-term investment reductions were as follows:

Subsidiary	March 31, 2004	March 31, 2003
DBT	$ 76,912	76,912
Ding Shun	5,526	5,526
Jin Chou	3,060	3,060
Tai Yao	34	34
	$ 85,532	85,532

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, 2004, the capital stock issued was £ 300. The prepayment for stock of the Company were both $101,112 as of March 31, 2004 and 2003.

Ding Shun distributed cash dividends of $803,700 to the Company in 2001. As of March 31, 2004 and 2003, the dividends receivable amounted to $227,200.

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-affiliate account was $89,790.

(Continued)

(6) Property, Plant and Equipment

As of March 31, 2004 and 2003, insurance coverage for the property, plant and equipment was $400,849 and $459,665, respectively.

(7) Assets Leased to Others

	March 31, 2004	March 31, 2003
Land	$ 75,561	75,561
Property and plant	101,126	100,848
	176,687	176,409
Less: accumulated depreciation	27,067	22,004
	$ 149,620	**154,405**

The major terms of the lease contracts are as follows:

1) The contract period is 1 to 3 years.

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

3) As of March 31, 2004 and 2003, the insurance coverage for leased assets was $74,578 and $47,730, respectively.

4) In 2004 and 2003, the total rental revenues amounted to $2,329 and $2,482, respectively. The rental revenues for subsequent years are as follows:

Period	Amount
2004.4.1 ~ 2005.3.31	$ 9,598
2005.4.1 ~ 2006.3.31	2,778
2006.4.1 ~ 2007.3.31	850
	$ 13,226

(8) Short-term Loans

	March 31, 2004	March 31, 2003
Short-term loans	**$ 2,140,181**	**-**

(Continued)

The aforementioned loans will be due within 180 days. The average annual interest rate for the short-term loans ranged from 1.70% to 2.57%. As of March 31, 2004 and 2003, the unused credit facilities approximated to $1,438,803 and $2,064,173, respectively.

(9) Employee Pension Benefits

The Company obtained an actuarial assessment of the pension liability as of December 31, 2003 and 2002. Net pension cost recognized in 2004 and 2003 was $10,557 and $7,164, respectively. As of March 31, 2004 and 2003, the accrued pension cost was $103,258 and $73,575, respectively. The balance of the pension fund in the Central Trust of China was $78,525 and $71,285, respectively.

(10) Income Tax

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

	2004	2003
Current income tax expense	$ 7,002	3,906
Deferred income tax benefit	(357)	(3,906)
	$ 6,645	-

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:

	2004	2003
"Expected" income tax expense (benefit)	$ 206,175	(22,510)
Investment loss (income)	(131,894)	27,318
Investment tax credit	(34,178)	(20,018)
Royalty revenue	(62,481)	-
Others	(134)	67
Valuation allowance–deferred income tax assets	29,157	15,143
	$ 6,645	-

(Continued)

DBTEL Incorporated

Notes to Financial Statements

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

	2004	2003
Unrealized foreign exchange gain (loss)	$ (5,521)	1,227
Loss from inventory devaluation	-	(146)
Allowance for doubtful accounts	1,483	(2,844)
Unrealized profit on inter-affiliate accounts	3,962	-
Patent rights capitalized	235	178
Pension cost	(2,038)	(1,351)
Investment tax credits	(27,635)	(16,113)
Valuation allowance–deferred income tax assets	29,157	15,143
	$ (357)	**(3,906)**

Deferred income tax assets (liabilities) were as follows:

	March 31, 2004	March 31, 2003
Current:		
Deferred income tax assets	$ 97,831	104,520
Less: valuation allowance	-	-
Net deferred income tax assets	97,831	104,520
Deferred income tax liabilities	(4,244)	(13,532)
Net current deferred income tax assets	**$ 93,587**	**90,988**
Non-current:		
Deferred income tax assets	$ 204,933	103,382
Less: valuation allowance	(177,790)	(84,989)
Net deferred income tax assets	27,143	18,393
Deferred income tax liabilities	-	-
Net non-current deferred income tax assets	**$ 27,143**	**18,393**
Total deferred income tax assets	**$ 302,764**	**207,902**
Total deferred income tax liabilities	**$ 4,244**	**13,532**
Valuation allowance–deferred income tax assets	**$ 177,790**	**84,989**

(Continued)

DBTEL Incorporated

Notes to Financial Statements

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

	March 31, 2004		March 31, 2003	
	Amount	**Tax effect**	**Amount**	**Tax effect**
Deferred income tax assets (liabilities):				
Unrealized foreign exchange gain	$ (16,980)	(4,244)	(54,135)	(13,532)
Inventory devaluation	11,557	2,890	11,740	2,936
Allowance for doubtful accounts	159,740	39,935	175,757	43,940
Unrealized profit on inter-affiliate accounts	5,507	1,377	-	-
Patent rights capitalized	5,316	1,329	-	-
Accrued pension cost	103,258	25,814	73,575	18,393
Investment tax credits	231,419	231,419	142,633	142,633
Valuation allowance–deferred income tax assets	(177,790)	(177,790)	(84,989)	(84,989)
		$ **120,730**		**109,381**

Income tax payable (refundable) was as follows:

	March 31, 2004	**March 31, 2003**
Current income tax expense	$ 7,002	3,906
Taxes paid	(743)	(214)
Income tax payable (refundable) carried forward from prior years	(7,316)	85,937
	$ (1,057)	**89,629**

Income tax payable and refundable was recorded as other current liabilities and other monetary assets – current, respectively.

(Continued)

As of March 31, 2004, the unused investment tax credits derived from the expenditure on research and development and automation equipment were as follows:

Expenditure year	March 31, 2004	Year of expiration
2000	$ 17,861	2004
2001	59,505	2005
2002	178	2006
2003	119,697	2007
2004	34,178	2008
	$ 231,419	

The ROC income tax authorities (RITA) have assessed the Company's income tax returns for all years through 2001, except 1999 and 2000.

(11) Stockholders' Equity

1) Issuance of common stock

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

2) Treasury stock

The Company purchased treasury stock in accordance with Stock Exchange Law (the SEL) in 2004 and 2003. The change in the Company's treasury stock was as follows:

Unit: Thousands of shares

2004

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

2003

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

(Continued)

According to the SEL, the number of shares of treasury stock can not exceed 10% of the number of shares issued. Moreover, total value of treasury stock can not exceed the sum of retained earnings and realized capital surplus. In 2004 and 2003, using the outstanding shares on December 31, 2003 and 2002, as the basis for calculation, the Company can purchase a maximum of 68,298 thousand and 65,912 thousand shares in the amount of $2,493,970 and 665,674, respectively. The Company owned 10,000 thousand shares of treasury stock, totaling $228,288, in 2004 and 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 2004 and 2003. As of March 31, 2004 and 2003, the Company's subsidiaries held 5,304 thousand and 5,149 thousand shares, respectively, of the Company's stock, whose market price was $258,994 and $79,503, respectively.

In accordance with the regulations of the SFC, on January 1, 2002, the Company's subsidiaries recorded their shareholding of the Company as treasury stock. If the market price of the Company's stock is lower than the book value recorded as investments by the subsidiaries at the end of the year, the Company should calculate the unrealized loss on short-term or long-term investments on a pro rata basis. Then, the Company ought to provide a special reserve of equal amount for the unrealized loss. Such special reserve can not be distributed as dividends. Subsequently, if a reversal for devaluation of the Company's stock held by the subsidiaries occurs, the Company can reverse the portion of the special reserve on a pro rata basis. If the Company's stock were recorded as short-term investments by the subsidiaries, the maximum amount for reversal would be the balance of provision for devaluation of short-term investments on January 1, 2002. The provision or reversal of special reserve previously stated should be treated together with other stockholders' equity contra accounts as described in note 12.(5). 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, 2004 and 2003.

3) Capital surplus

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

(Continued)

The components of capital surplus were as follows:

	March 31, 2004	March 31, 2003
Paid-in capital in excess of par value	$ 2,524	2,524
Past-due dividend transferred to capital surplus	2,365	2,373
Excess amount of merged company's net asset value over par value of its newly issued stock	331	331
The effects of changes in stockholders' equity of investee companies accounted for by equity method	179,646	186,456
	$ 184,866	**191,684**

4) Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of issued 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.

5) Special reserve

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

6) Distribution of retained earnings and dividend policy

In accordance with the Company's articles of incorporation, after payment of corporate income tax, offsetting prior years' 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

(Continued)

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 required it to invest capital constantly in research and development and business expansion to maintain competitiveness in the market. Retained earnings were distributed as stock dividends to the utmost to retain operating funds and then were distributed as cash dividends. The high stock dividend policy was for stock dividends (including capitalization of unappropriated earnings and of capital surplus) to be not less than 80% and cash dividends to be not more than 20%.

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

7) Imputation credit account and imputation tax credit ratio

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

	March 31, 2004	March 31, 2003
Imputation credit	$ 29,351	2,233

	2004 (estimated)	2003
Imputation tax credit ratio	2.07%	33.54%

The components of unappropriated earnings were as follows:

	March 31, 2004	March 31, 2003
From earnings of		
1997 and before	$ 466	466
1998 and after	2,885,999	175,819
	$ 2,886,465	176,285

(Continued)

(12) Disclosure of Financial Instruments

1) Derivatives

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

The contract amount and maturity date were as follows:

	March 31, 2004
Nominal principal for purchase contract	USD 34,500
Fair value – gain	$ 20,661

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

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

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

As of March 31, 2004, the Company had forward exchange contracts that will create US$ 34,500 cash-out flow and NT$1,159,440 cash-in flow in April or May 2004, respectively. The Company maintains sufficient working capital; therefore, no future cash demands risk is expected.

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

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

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

(Continued)

3. Long-term equity investment were investments in non-listed companies. Since the shares of those companies are not traded openly, fair value of the investments is not available. Therefore, the equity value or the book value is used as their fair value.

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

Non-derivative financial instruments:

	March 31, 2004		March 31, 2003	
	Book value	**Fair value**	**Book value**	**Fair value**
Non-derivatives:				
Financial Assets:				
Short-term investments	$ 248,621	248,621	183,635	183,635
Long-term investments (including long-term investment credits)	5,419,383	5,414,155	3,364,703	3,364,703
Off-balance-sheet financial instruments:				
Guarantees	-	731,276	-	794,000
Outstanding letters of credit	-	656,596	-	69,865
Guarantee notes	-	12,000	-	-

3) 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, 2004 and 2003, the notes receivable and accounts receivable were concentrated on a few counter-parties as follows:

	March 31, 2004	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 2,552,732	82.04

(Continued)

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

(13) Related-party Transactions

1) Name and relationship

Name	Relationship
DBTEL International (Europe) Limited (DBE)	Subsidiary of the Company (100% owned)
D & B 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)
Ares Communication Tech, Inc. (Ares)	Investee of the Company (over 50% owned indirectly)
Jin Chou Investment & Development, Inc. (Jin Chou)	Subsidiary of the Company (100% owned)
Fu Mao Investment Inc. (Fu Mao)	Same chairman as the Company

(Continued)

2) Significant transactions with related parties

1. Operating revenue

(a) Sales

	2004		2003	
	Amount	% of net sales	Amount	% of net sales
DBH	$ 1,663,693	53.70	770,490	62.02
DBD	219,164	7.07	73,677	5.93
DBE	49,996	1.61	10,634	0.85
	$ 1,932,853	**62.38**	**854,801**	**68.80**

In 2004 and 2003, the materials sold to DBH were priced with 12% and 40% profit margins, respectively. The selling price for the sales to DBD was 85% of DBD's selling price in 2004 and was the same as DBD's sales to foreign customers in 2003. 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.

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

The Company processed products for related parties as follows:

	2004	2003
Ares	**$ -**	**94**

(c) Royalty revenue (recorded as other operating revenue)

In 2004, the Company authorized DBH to use its own branded cellular software, and related royalty revenue was $249,923.

(Continued)

DBTEL Incorporated

Notes to Financial Statements

2. Notes and accounts receivable

Notes and accounts receivable from related parties as a result of the aforementioned sales, processing fees and royalty revenue were as follows:

	March 31, 2004		March 31, 2003	
	Amount	**%**	**Amount**	**%**
Notes receivable:				
DBD	$ -	-	45,777	3.79
Accounts receivable:				
DBH	$ 2,552,732	82.04	680,117	56.31
DBD	32,652	1.05	31,585	2.61
DBE	59,377	1.91	16,984	1.41
Ares	700	0.02	799	0.07
	$ 2,645,461	85.02	729,485	60.40

3. Purchases

	2004		2003	
	Amount	**% of net purchases**	**Amount**	**% of net purchases**
DBH	$ 918,675	34.86	358,655	36.60
Ares	2,011	0.07	43,290	4.42
	$ 920,686	34.93	401,945	41.02

In 2004, the purchase prices of telephones from DBH were 87% of the Company's selling price, those of GSM mobile phones were 92.37% of the Company's selling price, and those of materials were determined based on DBH's costs. In 2003, the purchase prices of telephones were 79.05% of the Company's selling price, those of GSM mobile phones were almost equivalent to the Company's selling price. The purchase prices for the purchases from other related parties were the same as those from third parties.

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.

(Continued)

4. Accounts payable

Accounts payable resulting from the aforementioned purchase transactions were as follows:

	March 31, 2004		March 31, 2003	
	Amount	**%**	**Amount**	**%**
Ares	$ 20,487	1.98	47,986	7.80

5. Unrealized profit on inter-affiliate accounts

The unrealized gross profit from sales to investees and unrealized gross profit from disposal of asset decreased by $15,847 in 2004. As of March 31, 2004, the unrealized profit amounted to $5,507, and was recorded as other current liabilities. The unrealized profit was not significant in 2003.

6. Other transactions

(a) Rental revenues

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

	2004	**2003**
Microjet	$ 1,500	1,500
DBD	157	286
DBN	45	45
	$ 1,702	1,831

As of March 31, 2004 and 2003, receivables resulting from the aforementioned transactions were as follows:

	March 31, 2004	**March 31, 2003**
Microjet	$ 1,575	3,545
DBD	85	300
DBN	32	47
	$ 1,692	3,892

(Continued)

(b) Management tee revenues

The Company assisted DBN to build account system and related management revenues in the fourth quarter of 2003. As of March 31, 2004, the management fee receivable was $315.

(c) Rental expenses

The Company leased a plant from DBN. In 2004 and 2003, total rental expenses were $1,200. As of March 31, 2004 and 2003, the rental payable were $420 and $840, respectively.

(d) 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. As of March 31, 2004 and 2003, the service fees payable were $0 and $10,000, respectively.

(e) 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. For the three-month periods ended March 31, 2004 and 2003, the related product development fees (recorded as research and development expenses) were $68,000 and $31,500, respectively, and royalty fees (recorded as selling expenses) were $28,798 and $13,289, respectively. As of March 31, 2004 and 2003, the product development fees payable were $27,988 and $40,163, respectively; royalty fees payable were $29,515 and $20,489, respectively, and both were recorded as other payable – related parties; prepayments for product development fees were $41,250 and $26,250, respectively, and were recorded as other current assets.

(f) Commission

In 2004, the Company authorized to DBD to introduce the domestic business of mobile phone. The Company shall pay to DBD commission to 3% of the gross revenue, total commission was $2,315, in 2004. As of March 31, 2004, the commission payable was $2,430.

There was no such transaction in 2003.

(Continued)

(g) 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	
	Current portion	**Non-current portion (recorded as long-term receivables – related parties)**
Gross lease payment receivables	$ 15,585	33,769
Less: unrealized interest income	1,969	1,828
Net lease payment receivables	**$ 13,616**	**31,941**

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

Micorjet fully settled the lease payment in advance in October 2003.

(Continued)

(h) 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, 2004	March 31, 2003
DBH	$ -	736,913
Microjet	1,362	8,982
DBD	153	2,160
Jin Chou	-	44
Fu Mao	606	-
	$ 2,121	748,099

	2004 Maximum amount	2004 Period incurred
DBH	$ 673,100	2004.1
Microjet	1,542	2004.2
DBD	153	2004.3
Fu Mao	606	2004.3
DBE	57,982	2004.3

	2003 Maximum amount	2003 Period incurred
DBH	$ 736,913	2003.3
Microjet	11,663	2003.1
DBD	2,160	2003.3
Jin Chou	44	2003.3
DBN	2,418	2003.1
DBE	28,609	2003.3

(Continued)

(i) Advance payments payable

Related parties paid certain expenses on behalf of the Company. As of March 31, 2004 and 2003, the payable balances were as follows:

	March 31, 2004	March 31, 2003
Ares	$ -	5,304
DBN	13	5
	$ 13	**5,309**

(j) Other receivables – related parties

As of March 31, 2004 and 2003, other receivables resulting from the aforementioned transactions were as follows:

	March 31, 2004	March 31, 2003
Rental receivable	$ 1,692	3,892
Management fee receivable	315	-
Net lease payment receivables (current portion)	-	13,616
Advance payments	2,121	748,099
	$ 4,128	**765,607**

(k) Other payables – related parties

As of March 31, 2004 and 2003, other payables resulting from the aforementioned transactions were as follows:

	March 31, 2004	March 31, 2003
Rental payable	$ 420	840
Service fees payable	-	10,000
Product development fees payable	27,988	40,163
Royalty fees payable	29,515	20,489
Advance payments payable	13	5,309
Commission payable	2,430	-
	$ 60,366	**76,801**

(Continued)

(l) Guarantees

The Company provided guarantees for related parties. Details were as follows:

	March 31, 2004	March 31, 2003
DBH	$ 731,276	646,750
Microjet	-	147,250
	$ 731,276	794,000

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

(14) Pledged Assets

Pledged assets	Purpose	March 31, 2004	March 31, 2003
Pledged time deposits	Borrowings for purchase of material, guarantees, and overdrafts, and guarantees to lending bank for loans to related parties	$ 640,321	133,842
Property, plant and equipment:			
Land	Borrowings for purchase of material and credit facilities for short-term borrowings	59,992	59,992
Buildings and plant	Borrowings for purchase of material and credit facilities for short-term borrowings	164,435	162,493
Other assets:			
Assets leased to others	Borrowings for purchase of material and credit facilities for short-term borrowings	-	154,405
		$ 864,748	510,732

(15) Commitments and Contingencies

1) As of March 31, 2004 and 2003, the Company had outstanding letters of credit for purchase of material and equipment totaling approximately $656,596 and $69,865, respectively.

(Continued)

2) For the purpose of refurbishing plants and purchasing machinery, the Company signed contracts with the domestic and foreign companies for planning, designing and constructing several construction projects. As of March 31, 2004 and 2003, the contracts amounted to $120,590 and $20,363, respectively, of which $70,011 and $19,402, respectively, had been paid and recorded under construction in progress and prepayments for equipment. The Company signed contracts with foreign companies for purchasing computer software used by itself. As of March 31, 2004, the contracts amounted to $43,699, of which $22,148 had been paid and recorded under deferred charges.

3) As of March 31, 2004, the Company signed guarantee notes of $12,000, in order to apply for subsidy on the industry development plan granted by Ministry of Economic Affairs.

4) On May 9, 2002, Motorola Inc. (Motorola) filed a lawsuit with the District Court for the District of Illinois against the Company and DBH for manufacturing mobile phones in violation of the OEM contract and in breach of the confidentiality agreement. Motorola also requested the Company suspend mobile phone sales and manufacturing for six months. On July 19, 2002, the District Court for the District of Illinois adjudged the accusation invalid. Motorola has filed an appeal with the federal District Court. On March 31, 2003, the District Court officially rejected Motorola's request. The management of the Company has analyzed this litigation and does not believe it will result in any material effects to the financial statements.

5) On March 19 and 22, 2004, Philips Intellectual Property and Standards GmbH and Koninklijke Philips Electronics N.V. filed a lawsuit with the Dusseldorf court in German against the Company and DBE violating partents EP 0240073, 0201126 and 0195487 that related to GSM system, respectively. Philips requested to compensate EUR$6 million and injected the Company and DBE to sell mobile phones at CEDIT. The management of the Company has analyzed that the possibility which Philips wins the lawsuit is less, and does not believe it will result in any material effects to the financial statement.

(Continued)

(16) Other

1) A summary of employment, depreciation and amortization expenses for the three-month periods ended March 31, 2004 and 2003, is as follows:

Function / Accounts	2004 Cost of goods sold	2004 Operating expenses	2004 Total	2003 Cost of goods sold	2003 Operating expenses	2003 Total
Employment expenses:						
Salary	25,886	126,247	152,133	5,420	89,996	95,416
Labor and health insurance	1,578	7,631	9,209	769	6,532	7,301
Pension cost	1,555	9,002	10,557	667	6,497	7,164
Other employment expense	830	3,448	4,278	212	1,930	2,142
Depreciation expense	8,288	19,729	28,017	8,230	20,123	28,353
Amortization expense	15	10,722	10,737	21	6,256	6,277

In addition, depreciation expenses of assets leased to others amounted to $1,273 and $1,261, respectively, in 2004 and 2003, and were recorded under non-operating expenses.

2) Reclassification

Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation for comparison purposes. These reclassifications do not have significant impact on the presentation of the financial statements.