DBTEL Incorporated

Financial Statements

June 30, 2004 and 2003
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
DBTEL Incorporated:

We have audited the balance sheets of DBTEL Incorporated (the Company) as of June 30, 2004 and 2003, and the related statements of operations, changes in stockholders' equity, and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of D&B Holding Co., Ltd. in 2004 and D&B Holding Co., Ltd. and of DBTEL International (Europe) Ltd. in 2003 for which the equity method was applied. The Company's long-term equity investments in these companies at June 30, 2004 and 2003, was NT$3,288,819 thousand and NT$1,184,096 thousand constituting 25.17% and 14.83% of assets, respectively, and related investment income was NT$477,450 thousand and investment loss NT$331,756 thousand constituting 84.76% of income before income tax and 155.76% of loss before income tax for the six month periods ended June 30, 2004 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, were based solely on the reports of other auditors.

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

As described in note 4(4) to the financial statement, the long-term equity investments accounted for under the equity method amounting to NT$2,127,398 thousand and long-term equity investment credits amounting to NT$6,969 thousand as of June 30, 2004, and the related investment loss of NT$25,714 thousand recognized for the six-month period ended June 30, 2004, were based on the unreviewed financial statements prepared by the respective investee companies.

In our opinion, based on our audits and the reports issued by other auditors, except for the effects on the June 30, 2004 of such adjustments, if any, as might have been determined to be necessary had we been able to examine the investees' financial statements as discussed in the preceding paragraph, the financial statements that we have audited as referred to in the first paragraph present fairly, in all material respects, the financial position of the DBTEL Incorporated as of June 30, 2004 and 2003, and the results of their operations and their cash flows for the six months then ended, in conformity with Republic of China generally accepted accounting principles and the Guidelines Governing the Preparation of Financial Report by Securities Issuers .

KPMG

August 31, 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.

DBTEL Incorporated

Condensed Balance Sheets

June 30, 2004 and 2003

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

Assets	2004 Amount	%	2003 Amount	%
Current assets:				
Cash and cash equivalents (note 3)	$ 3,192,812	25	1,217,721	15
Short-term investments (note 4)	153,581	1	212,149	3
Notes receivable – related parties (note 14)	-	-	81,931	1
Accounts receivable, less allowance for doubtful accounts of $193,286 and $187,870 in 2004 and 2003, respectively	277,826	2	238,788	3
Accounts receivable – related parties (note 14)	1,090,855	8	1,011,124	13
Dividends receivable (note 6)	-	-	227,200	3
Other receivables – related parties (note 14)	619,251	5	615,119	8
Other monetary assets – current (note 11)	29,822	-	7,374	-
Inventories (note 5)	913,748	7	95,765	1
Deferred income tax assets – current (note 11)	86,262	1	107,647	1
Pledged time deposits (notes 14 and 15)	369,487	3	101,145	1
Other current assets (note 14)	31,063	-	95,595	1
	6,764,707	52	4,011,558	50
Long-term equity investments (note 6):				
Long-term investment under equity method	5,393,946	41	3,047,504	38
Long-term investment under cost method	40,254	-	44,374	1
Prepayment for long-term investments	22,271	-	55,013	1
	5,456,471	41	3,146,891	40
Property, plant and equipment (notes 7, 15 and 16):				
Cost:				
Land	59,992	1	59,992	1
Buildings and improvements	261,972	2	253,495	3
Machinery and equipment	563,944	4	551,823	7
Molds and equipment	58,735	1	58,735	1
Furniture and fixtures	96,009	1	72,964	1
Miscellaneous equipment	22,914	-	17,295	-
	1,063,566	9	1,014,304	13
Less: accumulated depreciation	593,768	5	486,454	6
Construction in progress and prepayments for equipment	89,762	1	23,937	-
	559,560	5	551,787	7
Other assets:				
Assets leased to others (notes 8 and 15)	148,809	1	153,142	2
Refundable deposits	3,163	-	462	-
Deferred charges (note 16)	103,033	1	74,220	1
Long-term other receivable – related parties (note 14)	-	-	28,429	-
Deferred income tax assets – noncurrent (note 11)	28,800	-	19,740	-
	283,805	2	275,993	3
Total assets	$ 13,064,543	100	7,986,229	100

Liabilities and Stockholders' Equity	2004 Amount	%	2003 Amount	%
Current liabilities:				
Short-term loans (notes 9 and 15)	$ 2,041,791	15	-	-
Notes payable	36,204	-	1,132	-
Accounts payable	543,845	4	428,924	5
Accounts payable – related parties (note 14)	9,970	-	77,610	1
Accrued expenses	152,113	1	73,048	1
Other payable – related parties (note 14)	61,829	1	104,831	1
Other current liabilities (notes 11 and 14)	268,838	2	67,390	1
	3,114,590	23	752,935	9
Other liabilities:				
Accrued pension cost (note 10)	110,824	1	78,964	1
Guarantee deposits received	696	-	771	-
Other liabilities–other (note 6)	6,969	-	6,969	1
Deferred credits – gain on inter-affiliate accounts (note 6)	89,790	1	89,790	1
	208,279	2	176,494	3
Total liabilities	3,322,869	25	929,429	12
Stockholders' equity (notes 6 and 12):				
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	53	6,591,179	82
Stock dividends to be distributed	1,563,756	12	238,615	3
	8,393,550	65	6,829,794	85
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 reserve	629,981	5	423,037	5
Unappropriated earnings (accumulated deficits)	648,485	5	(211,491)	(2)
	1,278,466	10	211,546	3
Cumulative translation adjustments	177,781	1	137,596	2
Treasury stock	(292,989)	(2)	(313,820)	(4)
Total stockholders' equity	9,741,674	75	7,056,800	88
Commitments and Contingencies (notes 8, 11, 14 and 16)				
Total liabilities and stockholders' equity	$ 13,064,543	100	7,986,229	100

See accompanying notes to financial statements.

DBTEL Incorporated

Condensed Statements of Operations

For the six-month periods ended June 30, 2004 and 2003

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

	2004 Amount	%	2003 Amount	%
Operating revenue (note 14):				
Gross sales	$ 4,164,451	92	2,644,166	100
Less: sales returns and allowances	4,481	-	419	-
	4,159,970	92	2,643,747	100
Other operating revenue	374,259	8	465	-
Total operating revenue	4,534,229	100	2,644,212	100
Operating costs (notes 10, 14 and 18)	3,550,856	78	2,014,055	76
Gross profit	983,373	22	630,157	24
Realized profit on inter-affiliate accounts (note 14)	16,381	-	-	-
Realized gross profit	999,754	22	630,157	24
Operating expe nses (notes 10, 14 and 18):				
Selling expenses	209,240	5	176,218	7
Administrative expenses	193,301	4	146,796	5
Research and development expenses	441,424	10	233,536	9
	843,965	19	556,550	21
Operating income	155,789	3	73,607	3
Nonoperating income:				
Interest income	12,456	-	9,986	-
Investment income under equity method (note 6)	451,736	10	-	-
Gain on physical inventory, net	2,976	-	-	-
Exchange gain, net	12,488	-	20,447	1
Rental revenue (notes 8 and 14)	4,743	-	4,940	-
Reversal for devaluation of short-term investments	-	-	20,002	1
Other income	-	-	1,738	-
	484,399	10	57,113	2
Nonoperating expenses:				
Interest expense	21,104	-	9	-
Loss on short-term investment devaluation	13,650	-	-	-
Investment loss under equity method	-	-	339,664	13
Loss on other investment (note 6)	2,063	-	-	-
Loss on disposal of investment	7,602	-	-	-
Loss on inventory devaluation and obsolescence	27,170	1	1,503	-
Other loss	5,297	-	2,533	-
	76,886	1	343,709	13
Income (loss) before income tax	563,302	12	(212,989)	(8)
Income tax expens e (note 11)	7,963	-	-	-
Net income (loss)	$ 555,339	12	(212,989)	(8)

	Before income tax	After income tax	Before income tax	After income tax
Primary earnings (loss) per share of common stock	$ 0.68	0.67	(0.26)	(0.26)

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)	$ 563,311	555,348	(212,989)	(212,989)
Primary earnings (loss) per share of common stock	$ 0.68	0.67	(0.26)	(0.26)

See accompanying notes to financial statements.

DBTEL Incorporated

Condensed Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2004 and 2003

(expressed in thousands of New Taiwan dollars)

	Common stock	Stock dividend to be distributed	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Unappropriated earnings	Cumulative translation adjustments	Treasury stock	Total
Balance at December 31, 2002	$ 6,591,179	-	191,684	396,824	266,326	142,862	(313,820)	7,275,055
Appropriation of retained earnings (note 12):								
Legal reserve	-	-	-	26,213	(26,213)	-	-	-
Capitalization of bonus to employees	-	43,880	-	-	(43,880)	-	-	-
Stock dividends	-	194,735	-	-	(194,735)	-	-	-
Net loss for the period from January 1 to June 30, 2003	-	-	-	-	(212,989)	-	-	(212,989)
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	(5,266)	-	(5,266)
Balance at June 30, 2003	**$ 6,591,179**	**238,615**	**191,684**	**423,037**	**(211,491)**	**137,596**	**(313,820)**	**7,056,800**
Balance at December 31, 2003	$ 6,829,794	-	184,873	423,037	2,068,409	172,307	(313,820)	9,364,600
Appropriation of retained earnings (note 12):								
Legal reserve	-	-	-	206,944	(206,944)	-	-	-
Capitalization of bonus to employees	-	47,500	-	-	(47,500)	-	-	-
Stock dividends	-	1,516,256	-	-	(1,516,256)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(35,627)	-	-	(35,627)
Cash dividends	-	-	-	-	(168,473)	-	-	(168,473)
Net income for the period from January 1 to June 30, 2004	-	-	-	-	555,339	-	-	555,339
Changes in cumulative translation adjustments on foreign long-term investments	-	-	-	-	-	5,474	-	5,474
Unclaimed cash dividends	-	-	(7)	-	-	-	-	(7)
Sold of common stock of parent company by subsidiary (note 12)	-	-	9	-	-	-	10	19
Treasury stock transferred to employees (note 12)	-	-	(9)	-	(463)	-	20,821	20,349
Balance at June 30, 2004	**$ 6,829,794**	**1,563,756**	**184,866**	**629,981**	**648,485**	**177,781**	**(292,989)**	**9,741,674**

See accompanying notes to financial statements.

DBTEL Incorporated

Condensed Statements of Cash Flows

For the six-month periods ended June 30, 2004 and 2003
(expressed in thousands of New Taiwan dollars)

	2004	2003
Cash flows from operating activities:		
Net income (loss)	$ 555,339	(212,989)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	59,418	58,984
Amortization expense	23,221	13,602
Loss on disposal of short-term investments	7,602	-
Reversal (recovery) for devaluation of short-term investments	13,650	(20,002)
Provision for allowance for doubtful accounts	6,165	5,271
Loss on inventory devaluation and obsolescence	27,170	1,503
Investment loss (income) under equity method, net	(451,736)	339,664
Cash dividends under equity method	227,200	-
Investment loss on capital reduction of investee	2,063	-
Realized profit on inter-affiliate accounts	(16,381)	-
Unrealized foreign exchange loss	-	31,969
Increase in notes receivable–related parties	-	(81,931)
Decrease in accounts receivable	44,472	210,377
Decrease in accounts receivable–related parties	538,531	168,895
Decrease in other receivables – related parties	1,311	388
Decrease (increase) in other monetary assets-current	(7,999)	9,215
Decrease (increase) in inventories	(148,584)	116,875
Decrease in other current assets	54,511	162,513
Net changes in deferred income tax assets and liabilities	5,311	(21,912)
Decrease in notes payable	(22,491)	(98,254)
Decrease in notes payable – related parties	(5,218)	(11,855)
Decrease in accounts payable	(997,956)	(435,149)
Increase (decrease) in accounts payable – related parties	(22,056)	44,842
Decrease in income tax payable	-	(85,778)
Decrease in accrued expenses	(10,997)	(34,839)
Increase (decrease) in other payable-related parties	(5,951)	14,570
Increase in other current liabilities	1,229	24,876
Increase in accrued pension cost	15,718	10,794
Net cash provided by (used in) operating activities	(106,458)	211,629
Cash flows from investing activities:		
Decrease in short-term investments	45,907	-
Proceeds from clearance of long-term investments	611	-
Proceeds from sale of property and equipment	-	6,641
Purchase of property and equipment	(67,300)	(13,815)
Decrease in other receivables – related parties	56,502	83,032
Decrease in pledged time deposits	232,834	35,697
Increase in refundable deposits	(286)	-
Increase in other assets	(41,654)	(26,357)
Net cash provided by investing activities	226,614	85,198
Cash flows from financing activities:		
Increase in short-term loans	905,246	-
Decrease in guarantee deposits received	(75)	(57)
Net changes in unclaimed cash dividends	(7)	-
Proceeds from treasury stock transferred	20,349	-
Net cash provided by (used in) financing activities	925,513	(57)
Effects of changes in foreign exchange rates	-	(27,419)
Net increase in cash and cash equivalents	1,045,669	269,351
Cash and cash equivalents at beginning of period	2,147,143	948,370
Cash and cash equivalents at end of period	**$ 3,192,812**	**1,217,721**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 11,687**	**9**
Cash payments of income tax	**$ 15,216**	**107,690**
Investing and financing activities not affecting cash:		
Property and plant transferred to other assets	**$ 1,102**	**-**
Cumulative translation adjustments on foreign long-term investments	**$ 5,474**	**(5,266)**
Net of long-term investment credits and advance payments	**$ 50**	**45,084**
Compensation payable to directors and supervisors	**$ 35,627**	**-**
Cash dividend payable	**$ 168,473**	**-**
Others:		
Increase in property and equipment	$ 61,422	12,490
Decrease in equipment payable	5,878	1,325
Cash paid for purchase of property and equipment	**$ 67,300**	**13,815**
Cash received for disposal of property and equipment		
Decrease in lease payments receivable	$ -	**6,641**
Cash dividends under the equity method		
Decrease in dividends receivable	**$ 227,200**	**-**

See accompanying notes to financial statements.

DBTEL Incorporated

Notes to Financial Statements

June 30, 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 June 30, 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 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.

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.

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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.

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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.

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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.

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

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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.

(3) Cash and cash equivalents

	June 30, 2004	June 30, 2003
Petty cash	$ 933	537
Demand deposits	1,551,508	38,590
Checking deposits	81,110	6,595
Foreign currency deposits	471,228	525,921
Time deposits	1,088,033	646,078
	$ 3,192,812	**1,217,721**

(4) Short-term Investments

	June 30, 2004	June 30, 2003
Mutual funds	$ 25,078	25,078
Common stocks	255,782	311,027
	280,860	336,105
Less: provision for devaluation	127,279	123,956
	$ 153,581	**212,149**

(Continued)

DBTEL Incorporated

Notes to Financial Statements

(5) Inventories

	June 30, 2004	June 30, 2003
Raw materials	$ 528,813	42,344
Work in process	168,468	26,587
Finished goods	229,463	24,462
Merchandise	1,258	7,086
Inventories-in-transit	24,474	7,945
	952,476	108,424
Less: provision for devaluation	38,728	12,659
	$ 913,748	95,765

As of June 30, 2004 and 2003, the insurance coverage for the aforementioned inventories of the Company amounted to $454,969 and $80,329, respectively.

(6) Long-term Equity Investments

	June 30, 2004			June 30, 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	3,782,116	100.00	1,254,915	1,639,496
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	190,000	530,454	100.00	190,000	490,607
Jin Chou Investment & Development, Inc. (Jin Chou)	100.00	174,000	121,840	100.00	174,000	121,671
DBTEL Technology Co., Ltd. (DBT)	92.29	501,239	572,490	92.29	501,239	396,168
DB Networks (DBN)	93.18	371,901	386,141	93.15	371,773	398,019
Tai Yao Investment & Development, Inc. (Tai Yao)	2.00	3,000	905	2.00	3,000	1,543
		2,495,055	5,393,946		2,494,927	3,047,504
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	1,296	1,031	2.27	1,908	1,642
China-America Wantai Technology Co., Ltd.	1.01	687	687	1.53	2,750	2,750
Hanchang Technology Co., Ltd.	2.92	38,228	38,228	3.17	38,228	38,228

(Continued)

DBTEL Incorporated

Notes to Financial Statements

Investee	June 30, 2004 Percentage (%) of ownership	Cost of investment	Book value	June 30, 2003 Percentage (%) of ownership	Cost of investment	Book value
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	-
		45,458	40,254		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	(78,841)		14,984	(46,099)
		116,096	22,271		116,096	55,013
		$ 2,656,609	5,456,471		2,661,140	3,146,891
Long-term equity investment credits (recorded as other liabilities):						
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	$ 1	6,696	100.00	1	6,969

The long-term equity investments accounted for under the equity method amounting to $2,127,398, and long-term equity investment credits amounting to $6,969 as of June 30, 2004, and the related investment loss of $25,714 recognized for the six-month period ended June 30, 2004, 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 June 30, 2004 and 2003, the long-term investment reductions were as follows:

Subsidiary	June 30, 2004	June 30, 2003
DBT	$ 76,912	76,912
Ding Shun	5,522	5,526
Jin Chou	3,054	3,060
Tai Yao	34	34
	$ 85,522	85,532

Ding Shun distributed cash dividends of $803,700 to the Company in 2001. As of June 30, 2003, the dividends receivable amounted to $227,200. The amount was fully received in 2004.

China Porcelain Engineering Co., Ltd. under the cost method made a reduction of capital to cover deficits in 2004, the other investment loss on a pro rata basis was $2,063. Jian Rong Investment Co., Ltd. under the cost method made a clearance and allocated remainder property in 2004, the Company withdraw initial investment amounted to $611.

(Continued)

DBE resolved to increase capital to £4,300 in the directors' meeting in June 2001. As of June 30, 2004, the capital stock issued was £300. The prepayment for stock of the Company were $101,112 as of June 30, 2004 and 2003.

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 accounts was $89,790.

(7) Property, Plant and Equipment

As of June 30, 2004 and 2003, insurance coverage for the property, plant and equipment was $409,261 and $509,361, respectively.

(8) Assets Leased to Others

	June 30, 2004	June 30, 2003
Land	$ 75,561	75,561
Property and plant	101,589	100,848
	177,150	176,409
Less: accumulated depreciation	28,341	23,267
	$ 148,809	**153,142**

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 June 30, 2004 and 2003, the insurance coverage for leased assets was $90,067 and $47,730, respectively.

In 2004 and 2003, the total rental revenues amounted to $4,743 and $4,940, respectively. The rental revenues for subsequent years are as follows:

Period	Amount
2004.7.1 ~ 2005.6.30	$ 9,236
2005.7.1 ~ 2006.6.30	1,021
2006.7.1 ~ 2007.6.30	643
	$ 10,900

(Continued)

(9) Short-term Loans

	June 30, 2004	June 30, 2003
Short-term loans	$ 2,041,791	-

The aforementioned loans will be due within 360 days. The average annual interest rate for the short-term loans ranged from 1.71% to 3.19%. As of June 30, 2004 and 2003, the unused credit facilities approximated to $2,019,177 and $1,766,886, respectively.

(10) 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 $21,114 and $14,328, respectively. As of June 30, 2004 and 2003, the accrued pension cost was $110,824 and $78,964, respectively. The balance of the pension fund in the Central Trust of China was $81,517 and $71,120, respectively.

(11) Income Tax

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

	2004	2003
Current income tax expense	$ 2,652	21,912
Deferred income tax expense (benefit)	5,311	(21,912)
	$ 7,963	-

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)	$ 140,825	(53,248)
Investment loss (income)	(107,620)	79,915
Investment tax credit	(72,694)	(44,824)
Differences from tax-exempt income	15	1,723
Royalty revenue	(93,485)	-
Others	1,373	1,235
Valuation allowance–deferred income tax assets	139,549	15,199
	$ 7,963	-

(Continued)

DBTEL Incorporated

Notes to Financial Statements

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

	2004	2003
Unrealized foreign exchange gain	$ (948)	(7,993)
Loss from inventory devaluation	(6,793)	(376)
Allowance for doubtful accounts	(2,999)	(2,074)
Unrealized profit on inter-affiliate accounts	4,096	-
Patent rights capitalized	470	178
Pension cost	(3,930)	(2,698)
Loss carryforwards	(51,440)	-
Investment tax credits	(72,694)	(24,148)
Valuation allowance–deferred income tax assets	139,549	15,199
	$ 5,311	**(21,912)**

Deferred income tax assets (liabilities) were as follows:

	June 30, 2004	June 30, 2003
Current:		
Deferred income tax assets	$ 95,079	111,959
Less: valuation allowance	-	-
Net deferred income tax assets	95,079	111,959
Deferred income tax liabilities	(8,817)	(4,312)
Net current deferred income tax assets	**$ 86,262**	**107,647**
Non-current:		
Deferred income tax assets	$ 316,982	104,785
Less: valuation allowance	(288,182)	(85,045)
Net deferred income tax assets	28,800	19,740
Deferred income tax liabilities	-	-
Net non-current deferred income tax assets	**$ 28,800**	**19,740**
Total deferred income tax assets	**$ 412,061**	**216,744**
Total deferred income tax liabilities	**$ (8,817)**	**(4,312)**
Valuation allowance–deferred income tax assets	**$ (288,182)**	**(85,045)**

(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:

	June 30, 2004		June 30, 2003	
	Amount	**Tax effect**	**Amount**	**Tax effect**
Deferred income tax assets (liabilities):				
Unrealized foreign exchange gain	$ (35,271)	(8,817)	(17,256)	(4,312)
Inventory devaluation	38,728	9,683	12,659	3,166
Allowance for doubtful accounts	177,666	44,417	172,677	43,170
Unrealized profit on inter-affiliate accounts	4,973	1,243	-	-
Patent rights capitalized	4,378	1,094	-	-
Accrued pension cost	110,824	27,706	78,964	19,740
Loss carryforwards	205,759	51,440	-	-
Investment tax credits	276,478	276,478	150,668	150,668
Valuation allowance–deferred income tax assets	(288,182)	(288,182)	(85,045)	(85,045)
		$ 115,062		**127,387**

Income tax payable and refundable was as follows:

	June 30, 2004	**June 30, 2003**
Current income tax expense	$ 2,652	21,912
Taxes paid	(1,745)	(483)
Income tax refundable carried forward from prior years	(20,787)	(21,270)
	$ (19,880)	**159**

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

(Continued)

As of June 30, 2004, the unused investment tax credits derived from the expenditure on research and development and automation equipment were as follows:

Expenditure year	June 30, 2004	Year of expiration
2000	$ 23,002	2004
2001	55,457	2005
2002	178	2006
2003	124,854	2007
2004	72,987	2008
	$ 276,478	

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

Year	June 30, 2004	Year of expiration
2004	$ 205,759	2009

The ROC income tax authorities (RITA) have assessed the Company's income tax returns for all years through 2002. However, in assessing the 2000 income tax return, the RITA rejected the losses on disposal of long-term overseas investments for the reason that there was no substantive trading and issued payment notices to the Company for totaling $75,173. The Company will appeal for a recheck according to the Law. Based on the evaluation of the Company's management, the Company should prevail and therefore does not accrue additional tax liability.

(12) 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.

(Continued)

On June 25, 2004, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of $1,516,256 and employee bonus of $47,500. The total amount capitalized was $1,563,756. The total number of new shares of common stock issued was 156,375,600 shares. Due to the Financial Supervisory Commission, Executive Yuan, R.O.C, approved the resolution, the Company's board of directors on July 29, 2004 decided that the issuance date was August 25, 2004. As of now the registration procedures are still being processed.

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	-	912	9,088
Amount	$ 228,288	-	20,821	207,467

2003

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

In 2004, the Company's shares of treasury stock transferred to employees was 912 thousand shares and the transfer price was $20,349 that was based on the Company's "Employee stock Option Plan". The difference which is between the transfer price and the book value of the treasury stock of $472 was accounted for as capital surplus-treasury stock transaction of $9 and unappropriated earnings of $463.

According to the SEL, the number of shares of treasury stock can not exceed 10% of the number of shares issued. Moreover, the total value of treasury stock can not exceed the sum of retained earnings and realized capital surplus. In 2004 and 2003, using the outstanding shares on March 31, 2004 and 2003, as the basis for calculation, the Company can purchase a maximum of 68,298 thousand and 65,912 thousand shares in the amount of $3,312,026 and 575,633, respecrively. 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.

(Continued)

The Company's subsidiary did not purchase any shares of the Company in 2004. The Company's subsidiary sold 906 thousand shares, with a cost of $10 and sales price of $19, and gain on disposal amounted to $9 and was included in the capital surplus contra account. The Company's subsidiaries did not purchase or sell any shares of the Company in 2003. As of June 30, 2004 and 2003, the Company's subsidiaries held 5,303 thousand and 5,149 thousand shares, respectively, of the Company's stock, whose market price was $122,228 and $86,866, 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 June 30, 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:

	June 30, 2004	June 30, 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 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.

(Continued)

In accordance with the Company's former articles of incorporation, the Company operated in a high-growth industry that required it to invest capital constantly in research and development and business expansion to maintain competitiveness in the market. Retained earnings were distributed as stock dividends to the utmost to retain operating funds and then were distributed as cash dividends. The high stock dividend policy was for stock dividends (including capitalization of unappropriated earnings and of capital surplus) to be not less than 80% and cash dividends to be not more than 20%.

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

7) The number of shares outstanding which calculate earnings (loss) per share for the six-month periods ended June 30, 2004 and 2003, were both 822,858 thousand shares. If the shares held by the Company's subsidiaries were not recognized as treasury stock, the number of shares outstanding for the six-month periods ended June 30, 2004 and 2003, would be both 839,355 thousand shares.

8) Imputation credit account and imputation tax credit ratio

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

	June 30, 2004	**June 30, 2003**
Imputation credit	$ 44,611	116,025
	2004 (estimated)	**2003**
Imputation tax credit ratio	2.16%	33.54%

The components of unappropriated earnings were as follows:

	June 30, 2004	**June 30, 2003**
From earnings of		
1997 and before	$ 466	466
1998 and after	648,019	(211,957)
	$ 648,485	(211,491)

(Continued)

(13) Disclosure of Financial Instruments

1) Derivatives

There was no unsettled contract as of June 30, 2004 and 2003.

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, other monetary assets, pledged time deposits, refundable deposits and long-term other receivable – related parties; financial liabilities include short-term loans, notes and accounts payable (including those from related parties), accrued expenses, other payable – related parties, accrued pension cost, and guarantee deposits received.

2. The fair value of common stock is determined by the average daily closing price in the last month of the reporting period; the fair value of open – end mutual funds is based on the net worth of the funds on the balance sheet date.

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:

	June 30, 2004		June 30, 2003	
	Book value	**Fair value**	**Book value**	**Fair value**
Non-derivatives:				
Financial Assets:				
Short-term investments	$ 153,581	153,581	212,149	212,149
Long-term investments (including long-term investment credits)	5,449,502	5,443,203	3,139,922	3,157,246
Off-balance-sheet financial instruments:				
Guarantees	-	669,384	-	377,250
Outstanding letters of credit	-	283,235	-	700,955
Guarantee notes	-	12,000	-	-

(Continued)

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 June 30, 2004 and 2003, the notes receivable and accounts receivable were concentrated on a few counter-parties as follows:

	June 30, 2004	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 1,036,791	75.75

	June 30, 2003	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 914,246	68.67
B	138,054	10.37

(14) Related-party Transactions

1) Name and relationship

Name	Relationship
DBTEL International (Europe) Limited (DBE)	Subsidiary of the Company (100% owned)
Jin Chou Investment & Development, Inc. (Jin Chou)	Subsidiary of the Company (100% owned)
DB Networks (DBN)	Subsidiary of the Company (over 50% owned)
D & B Holding Co., Ltd. (DBH)	Investee of the Company (100% owned indirectly)
DB Distribution, Inc. (DBD)	Investee of the Company (100% owned indirectly)
Microjet Technology Co., Ltd. (Microjet)	Investee of the Company (over 50% owned indirectly)

(Continued)

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Name	Relationship
Ares Communication Tech, Inc. (Ares)	Investee of the Company (over 50% owned indirectly)
Dui Hui Investment Inc. (Dui Hui)	Same chairman as the Company
Fu Mao Investment Inc. (Fu Mao)	Same chairman as the Company
Dong Lian Investment Inc. (Dong Lian)	Same chairman as the Company

2) Significant transactions with related parties

1. Operating revenue

(a) Sales

	2004		2003	
	Amount	**% of net sales**	**Amount**	**% of net sales**
DBH	$ 2,478,613	59.58	1,958,350	74.07
DBD	225,899	5.43	142,700	5.40
DBE	79,685	1.92	71,084	2.69
	$ 2,784,197	66.93	2,172,134	82.16

In 2004 and 2003, the materials sold to DBH were priced with 12% and 41% profit margins, respectively. In 2004 and 2003, the selling price for the mobile phone sold to DBD were 85% and 80% of DBD's selling price, respectively. The selling price for the sales to other investees was the same as those to foreign customers. Sales terms for investees were open account 120 days or by offsetting amounts of accounts payable to them.

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

The Company processed products for related parties as follows:

	2004	2003
Ares	$ -	465

(Continued)

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(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 $373,943.

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:

	June 30, 2004		June 30, 2003	
	Amount	**%**	**Amount**	**%**
Notes receivable:				
DBD	$ -	-	81,931	6.15
Accounts receivable:				
DBH	$ 1,036,791	75.75	914,246	68.67
DBD	5,633	0.41	22,117	1.66
DBE	47,731	3.49	73,672	5.53
Ares	700	0.05	1,089	0.05
	$ 1,090,855	79.70	1,011,124	75.91

3. Purchases

	2004		2003	
	Amount	**% of net purchases**	**Amount**	**% of net purchases**
DBH	$ 1,570,100	43.12	431,163	23.15
Ares	4,338	0.12	72,577	3.90
DBD	41,852	1.15	-	-
	$ 1,616,290	44.39	503,740	27.05

In 2004, the purchase prices of telephones from DBH were 87% of the Company's selling price, those of GSM mobile phones were 92% 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 81.41% of the Company's selling price, those of GSM mobile phones were 98.67% of the Company's selling price. In 2004, the purchase prices from DBD were determined based on DBD's costs. The purchase prices for the purchases from other related parties were the same as those from third parties.

(Continued)

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.

4. Accounts payable

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

	June 30, 2004		June 30, 2003	
	Amount	**%**	**Amount**	**%**
Ares	$ 9,970	1.69	77,610	15.29

5. Unrealized profit on inter-affiliate transactions

The unrealized gross profit from sales to investees decreased by $16,381 in 2004. As of June 30, 2004, the unrealized profit amounted to $4,973, 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	$ 3,000	3,000
DBD	400	571
DBN	90	90
	$ 3,490	3,661

As of June 30, 2004 and 2003, receivables resulting from the aforementioned transactions were as follows:

	June 30, 2004	June 30, 2003
Microjet	$ 1,050	2,766
DBD	85	200
DBN	16	32
	$ 1,151	2,998

(Continued)

(b) Rental expenses

The Company leased a plant from DBN. In 2004 and 2003, total rental expenses were $2,400. As of June 30, 2004 and 2003, the rental payable were $420 and $840, respectively.

(c) 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 June 30, 2004 and 2003, the service fees payable were $0 and $10,000, respectively.

(d) 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 six-month periods ended June 30, 2004 and 2003, the related product development fees (recorded as research and development expenses) were $156,500 and $57,750, respectively, and royalty fees (recorded as selling expenses) were $36,968 and $76,897, respectively. As of June 30, 2004 and 2003, the product development fees payable were $38,850 and $10,500, respectively; royalty fees payable were $8,582 and $65,220, respectively, and both were recorded as other payable – related parties; prepayments for product development fees were $8,250 and $13,125, respectively, and were recorded as other current assets.

(e) 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 $11,547, in 2004. As of June 30, 2004, the commission payable was $2,264.

(Continued)

(f) 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:

	June 30, 2003	
	Current portion	**Non-current portion (recorded as long-term receivables – related parties)**
Gross lease payment receivables	$ 15,585	29,873
Less: unrealized interest income	1,798	1,444
Net lease payment receivables	$ 13,787	28,429

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

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

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Notes to Financial Statements

(g) Advance payments

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

	June 30, 2004	June 30, 2003
DBH	$ 617,101	584,348
Microjet	841	10,499
DBD	-	2,880
Dui Hui	-	455
Fu Mao	-	152
Dong Lian	158	-
	$ 618,100	598,334

	2004	
	Maximum amount	Period incurred
DBH	$ 673,100	2004.1
Microjet	1,728	2004.4
DBD	153	2004.3
Fu Mao	910	2004.5
Dong Lian	158	2004.6
DBE	58,029	2004.6

	2003	
	Maximum amount	Period incurred
DBH	$ 736,913	2003.3
Microjet	11,663	2003.1
DBD	2,880	2003.6
Dui Hui	606	2003.2
Fu Mao	152	2003.6
Jin Chou	44	2003.3
DBN	2,418	2003.1
DBE	49,840	2003.6

(Continued)

(n) Advance payments payable

Related parties paid certain expenses on behalf of the Company. As of June 30, 2004 and 2003, the payable balances were as follows:

	June 30, 2004	June 30, 2003
Ares	$ 11,713	18,265
DBN	-	6
	$ 11,713	**18,271**

(i) Other receivables – related parties

As of June 30, 2004 and 2003, other receivables resulting from the aforementioned transactions were as follows:

	June 30, 2004	June 30, 2003
Rental receivable	$ 1,151	2,998
Net lease payment receivables (current portion)	-	13,787
Advance payments	618,100	598,334
	$ 619,251	**615,119**

(j) Other payables – related parties

As of June 30, 2004 and 2003, other payables resulting from the aforementioned transactions were as follows:

	June 30, 2004	June 30, 2003
Rental payable	$ 420	840
Service fees payable	-	10,000
Commission payable	2,264	-
Product development fees payable	38,850	10,500
Royalty fees payable	8,582	65,220
Advance payments payable	11,713	18,271
	$ 61,829	**104,831**

(k) Guarantees

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

	June 30, 2004	June 30, 2003
DBH	$ 669,384	280,000
Microjet	-	97,250
	$ 669,384	**377,250**

As of June 30, 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.

(15) Pledged Assets

Pledged assets	Purpose	June 30, 2004	June 30, 2003
Pledged time deposits	Borrowings for purchase of material, guarantees, and overdrafts, and guarantees to lending bank for loans to related parties	$ 369,487	101,145
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	154,177	159,363
Other assets:			
Assets leased to others	Borrowings for purchase of material and credit facilities for short-term borrowings	-	153,142
		$ 583,656	**473,642**

(Continued)

(16) Commitments and Contingencies

1) As of June 30, 2004 and 2003, the Company had outstanding letters of credit for purchase of material and equipment totaling approximately $283,235 and $700,955, respectively.

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 June 30, 2004 and 2003, the contracts amounted to $96,641 and $27,993, respectively, of which $89,762 and $23,937, 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 June 30, 2004, the contracts amounted to $42,867, of which $22,148 had been paid and recorded under deferred charges.

3) As of June 30, 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.(Motolora) 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 patents 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 CEBIT. 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.

(17) Subsequent Events Review

In order to raise the necessary long-term capital to build up DBTEL’s global operation headquarters located in Ding-Pu High Tech Park and other related accessories and machinery. On August 23, 2004, the Company’s board of directors decided to increase capital through the issuance of 316,667 thousand shares of common stock that is expected at a par value of $12 per share. The Company will appeal to Financial Supervisory Commission, Executive Yuan, R.O.C, on August 27, 2004.

(Continued)

(18) Other

1) A summary of employment, depreciation and amortization expenses for the six-month periods ended June 30, 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	46,114	282,592	328,706	17,009	182,283	199,292
Labor and health insurance	3,281	16,396	19,677	1,492	12,829	14,321
Pension cost	3,022	18,092	21,114	1,322	13,006	14,328
Other employment expense	1,442	6,121	7,563	416	3,963	4,379
Depreciation expense	16,679	40,192	56,871	16,468	39,990	56,458
Amortization expense	30	23,191	23,221	43	13,559	13,602

In addition, depreciation expenses of assets leased to others amounted to $2,547 and $2,526, 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.