DBTEL Incorporated

Financial Statements

September 30, 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 September 30, 2004 and 2003, and the related statements of operations and cash flows for the nine-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. The Company's long-term equity investment in D&B Holding Co., Ltd. Accounted for under the equity method amounting to NT$2,206,799 thousand and the related investment loss NT$619,036 thousand for the nine-month periods then ended were based on the review report by the other auditors.

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

As described in note 6 to the financial statements, the long-term equity investments accounted for under the equity method and prepayment for long-term investments amounting to NT$2,055,293 thousand and NT$4,273,224 thousand, and long-term equity investment credits amounting to NT$6,969 thousand as of September 30, 2004 and 2003, respectively, and the related investment loss of NT$102,362 thousand and investment of NT$892,627 thousand recognized for the nine-month periods ended September 30, 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".

As described in note 6 to the financial statement, the long-term equity investments in D&B Holding Co., Ltd. accounted for under the equity method amounting to NT$421,372 thousand and the related investment loss of NT$42,336 thousand for the nine-month periods ended September 30, 2004, were based on the financial statements prepared by the respective investee companies, so that other auditors of the financial statement of D&B Holding Co., Ltd issue a qualified review report. The Company's long-term equity investment as of September 30, 2004 NT$2,206,799 thousand and the related investment loss of NT$619,036 thousand for the nine-month periods ended were based on the qualified review report by other auditors.

Based on our review and the review report issued by other auditors, 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

October 27, 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

September 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)	$ 2,121,467	21	1,865,637	17
Short-term investments (note 4)	133,138	1	218,126	2
Notes receivable	-	-	157	-
Notes receivable – related parties (notes 13 and 14)	-	-	34,124	-
Accounts receivable, less allowance for doubtful accounts of $194,016 and $184,855 in 2004 and 2003, respectively	402,293	4	160,109	1
Accounts receivable – related parties (notes 13 and 14)	1,769,455	16	955,492	9
Dividends receivable (note 6)	-	-	227,200	2
Other receivables – related parties (note 14)	2,110	-	1,545,912	14
Other monetary assets – current (note 11)	17,121	-	24,716	-
Inventories (note 5)	804,016	7	334,832	3
Pledged time deposits (note 15)	84,458	1	283,721	3
Deferred income tax assets (note 11)	347,487	3	94,657	1
Other current assets (note 14)	26,107	-	65,533	1
	5,707,652	53	5,810,216	53
Long-term equity investments (note 6):				
Long-term investments under equity method	4,255,652	40	4,222,766	38
Long-term investments under cost method	40,254	-	44,374	-
Prepayment for long-term investments	6,440	-	50,458	1
	4,302,346	40	4,317,598	39
Property, plant and equipment (notes 7, 15 and 16):				
Cost:				
Land	59,992	1	59,992	1
Buildings and improvements	261,972	2	254,552	2
Machinery and equipment	573,273	5	552,485	5
Molds and equipment	58,735	1	58,735	1
Furniture and fixtures	97,305	1	75,149	1
Miscellaneous equipment	22,042	-	20,671	-
	1,073,319	10	1,021,584	10
Less: accumulated depreciation	(621,441)	(6)	(514,080)	(5)
Construction in progress and prepayments for equipment	89,225	1	23,803	-
	541,103	5	531,307	5
Other assets:				
Assets leased to others (notes 8 and 15)	147,359	1	151,880	2
Refundable deposits	3,163	-	464	-
Deferred charges (note 16)	93,722	1	69,686	1
Long-term receivables – related parties (note 14)	-	-	24,873	-
Deferred income tax assets (note 11)	30,604	-	21,072	-
	274,848	2	267,975	3
Total assets	$ 10,825,949	100	10,927,096	100

Liabilities and Stockholders' Equity	2004 Amount	%	2003 Amount	%
Current liabilities:				
Short-term loans (notes 9 and 15)	$ 1,331,547	11	801,123	7
Notes payable	57,676	1	42,421	-
Accounts payable	297,929	3	1,531,192	14
Accounts payable – related parties (note 14)	7,877	-	61,413	1
Accrued expenses	185,492	2	96,616	1
Other payable – related parties (note 14)	94,304	1	29,924	-
Other current liabilities (note 14)	113,683	1	65,716	1
	2,088,508	19	2,628,405	24
Other liabilities:				
Accrued pension cost (note 10)	118,980	1	84,293	1
Guarantee deposits received	696	-	771	-
Other liabilities – other (note 6)	6,969	-	6,969	-
Deferred credits – gains on inter-affiliate accounts (note 6)	89,790	1	89,790	1
	216,435	2	181,823	2
Total liabilities	2,304,943	21	2,810,228	26
Stockholders' equity (notes 6 and 12):				
Common stock of $10 par value; authorized 940 and 930 million shares and issued 839 and 683 million shares for 2004 and 2003, respectively	8,393,549	78	6,829,794	63
Capital surplus:				
Paid-in capital in excess of par value	2,524	-	2,524	-
Others	182,342	2	189,160	2
	184,866	2	191,684	2
Retained earnings:				
Legal surplus	629,981	6	423,037	4
Unappropriated earnings	(589,991)	(5)	917,331	8
	39,990	1	1,340,368	12
Cumulative translation adjustments	195,590	1	68,842	-
Treasury stock	(292,989)	(3)	(313,820)	(3)
Total stockholders' equity	8,521,006	79	8,116,868	74
Commitments and contingencies (notes 8, 11, 14 and 16)				
Total liabilities and stockholders' equity	$ 10,825,949	100	10,927,096	100

See accompanying notes to financial statements.

Unaudited
DBTEL Incorporated

Condensed Statements of Operations

For the nine-month periods ended September 30, 2004 and 2003
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2004 Amount	2004 %	2003 Amount	2003 %
Operating revenue (note 14):				
Gross sales	$ 5,525,496	92	4,601,238	100
Less: sales returns and allowances	24,162	-	2,841	-
	5,501,334	92	4,598,397	100
Other operating revenue	450,280	8	483	-
Total operating revenue	5,951,614	100	4,598,880	100
Operating costs (notes 10, 14 and 17)	4,694,858	79	3,761,624	81
Gross profit	1,256,756	21	837,256	19
Realized profit on inter-affiliate accounts (note 14)	17,728	-	-	-
Realized gross profit	1,274,484	21	837,256	19
Operating expenses (notes 10, 14 and 17):				
Selling expenses	294,736	5	226,764	5
Administrative expenses	302,519	5	213,143	4
Research and development expenses	571,334	10	392,405	9
	1,168,589	20	832,312	18
Operating income	105,895	1	4,944	1
Non operating income:				
Interest income	18,744	-	13,450	-
Investment income under equity method (note 6)	-	-	892,627	19
Dividend income	586	-	2,191	-
Gain on disposal of equipment	-	-	56	-
Gain on physical inventory, net	2,976	-	-	-
Exchange gain, net	17,943	-	-	-
Rental revenue (notes 8 and 14)	7,158	-	7,397	-
Recovery for devaluation of short-term investments	-	-	25,935	1
Other income	-	-	9,112	-
	47,407	-	950,768	20
Non operating expenses:				
Interest expense	35,798	1	858	-
Loss on short-term investment devaluation	27,899	-	-	-
Investment loss under equity method (note 6)	721,398	12	-	-
Exchange loss, net	-	-	33,324	1
Loss on other investment (note 6)	3,195	-	-	-
Loss on disposal of investment	4,406	-	-	-
Loss on inventory devaluation and obsolescence	29,282	-	1,503	-
Other loss (note 17)	6,112	-	4,088	-
	828,090	13	39,773	1
Income (loss) before income tax	(674,788)	(12)	915,939	20
Income tax expense (note 11)	8,349	-	106	-
Net income (loss)	$ (683,137)	(12)	915,833	20

	2004 Before income tax	2004 After income tax	2003 Before income tax	2003 After income tax
Primary earnings (loss) per share of common stock	$ (0.82)	(0.83)	1.11	1.11

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

	2004 Before income tax	2004 After income tax	2003 Before income tax	2003 After income tax
Net income (loss)	$ (674,788)	(683,137)	915,939	915,833
Primary earnings (loss) per share of common stock	$ (0.81)	(0.82)	1.10	1.10

See accompanying notes to financial statements.

Unaudited

DBTEL Incorporated

Condensed Statements of Cash Flows

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

	2004	2003
Cash flows from operating activities:		
Net income (loss)	$ (683,137)	915,833
Adjustments to reconcile net income(loss) net cash provided by (used in) operating activities:		
Depreciation	88,378	87,917
Amortization expense	33,552	24,751
Prepayments for equipment transferred to expenses	-	1,756
Loss on disposal of short-term investments	4,406	-
Reversal (recovery) on devaluation of short-term investments	27,899	(25,935)
Provision for allowance for doubtful accounts	6,895	2,256
Loss on inventory devaluation and obsolescence	29,282	1,503
Investment loss (income) under equity method, net	721,398	(892,627)
Cash dividends under equity method	227,200	-
Investment loss on capital reduction of investee	3,195	-
Realized profit on inter-affiliate accounts	(17,728)	-
Unrealized foreign exchange loss	-	50,484
Increase in notes receivable	-	(157)
Increase in notes receivable–related parties	-	(34,124)
Decrease (increase) in accounts receivable	(80,725)	278,423
Decrease (increase) in accounts receivable–related parties	(140,069)	206,729
Decrease (increase) in other receivables–related parties	1,327	(677)
Decrease (increase) in other monetary assets–current	4,702	(8,127)
Increase in inventories	(40,964)	(122,192)
Decrease in prepayments to suppliers	-	153,858
Decrease in other current assets	59,467	38,717
Net changes in deferred income tax assets and liabilities	5,311	(10,254)
Decrease in notes payable	(1,019)	(56,965)
Decrease in notes payable–related parties	(5,218)	(11,855)
Increase (decrease) in accounts payable	(1,243,872)	667,119
Increase (decrease) in accounts payable – related parties	(24,149)	28,645
Decrease in income tax payable	-	(85,937)
Increase (decrease) in accrued expenses	22,382	(11,271)
Increase (decrease) in other payable–related parties	26,524	(60,337)
Increase in other current liabilities	15,894	23,920
Increase in accrued pension cost	23,874	16,123
Net cash provided by (used in) operating activities	(935,195)	1,177,576
Cash flows from investing activities:		
Decrease (increase) in short-term investments	54,165	(44)
Increase in long-term equity investments	(96)	-
Proceeds from clearance of long-term investments	611	-
Proceeds from sale of property and equipment	-	10,023
Purchase of property and equipment	(76,516)	(23,321)
Decrease (increase) in other receivable–related parties	672,522	(853,630)
Decrease (increase) in pledged time deposits	254,834	(146,879)
Increase in other assets	(42,797)	(32,974)
Net cash provided by (used in) investing activities	862,723	(1,046,825)
Cash flows from financing activities:		
Increase in short-term loans	195,002	801,123
Decrease in guarantee deposits received	(75)	(57)
Net changes in unclaimed cash dividends	(7)	-
Proceeds from treasury stock transferred	20,349	-
Cash dividends	(168,473)	-
Net cash provided by financing activities	46,796	801,066
Effects of changes in foreign exchange rates	-	(14,550)
Net increase (decrease) in cash and cash equivalents	(25,676)	917,267
Cash and cash equivalents at beginning of period	2,147,143	948,370
Cash and cash equivalents at end of period	**$ 2,121,467**	**1,865,637**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 27,996**	**57**
Cash payments of income tax	**$ 3,181**	**108,036**
Investing and financing activities not affecting cash:		
Property and equipment transferred to other assets	**$ 1,102**	**-**
Cumulative translation adjustments on foreign long-term investments	**$ 23,282**	**(74,020)**
Net of long-term investment credits and advance payments	**$ 1,155**	**52,254**
Compensation payable to directors and supervisors	**$ 35,627**	**-**
Others:		
Increase in property and equipment	$ 70,638	21,437
Decrease in payable for equipment purchases	5,878	1,884
Cash paid for purchase of property and equipment	**$ 76,516**	**23,321**
Cash received for disposal of property and equipment		
Decrease in lease payments receivable	**$ -**	**10,023**
Cash dividends under equity method		
Decrease in dividends receivable	**$ 227,200**	**-**

See accompanying notes to financial statements.

<u>Unaudited</u>
DBTEL Incorporated

Notes to Financial Statements

September 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 822 employees on September 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 month 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.

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4) Allowance for doubtful accounts

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

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

	September 30, 2004	September 30, 2003
Petty cash	$ 923	637
Demand deposits	214,575	544,398
Checking account	54,992	5,924
Foreign currency deposits	35,252	58,459
Time deposits	1,041,684	57,621
Cash equivalents	774,041	1,198,598
	$ 2,121,467	**1,865,637**

(4) Short-term Investments

	September 30, 2004	September 30, 2003
Mutual funds	$ 25,078	25,078
Common stocks	249,588	311,071
	274,666	336,149
Less: provision for devaluation	141,528	118,023
	$ 133,138	**218,126**

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(5) Inventories

	September 30, 2004	September 30, 2003
Raw materials	$ 489,193	233,259
Work in process	190,517	84,306
Finished goods	158,160	8,680
Merchandise	1,316	7,178
Inventories-in-transit	5,669	14,068
	844,855	347,491
Less: provision for devaluation	40,839	12,659
	$ 804,016	334,832

As of September 30, 2004 and 2003, the insurance coverage for the aforementioned inventories of the Company amounted to $454,969 and $60,000, respectively.

(6) Long-term Equity Investments

	September 30, 2004			September 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	2,686,778	100.00	1,254,915	2,714,790
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	190,000	537,016	100.00	190,000	539,217
Jin Chou Investment & Development, Inc. (Jin Chou)	100.00	174,000	127,580	100.00	174,000	120,687
DBTEL Technology Co., Ltd. (DBT)	92.29	501,239	525,650	92.29	501,239	429,835
DB Networks (DBN)	93.20	371,997	377,492	93.15	371,773	416,568
Tai Yao Investment & Development, Inc. (Tai Yao)	2.00	3,000	1,136	2.00	3,000	1,669
		2,495,151	4,255,652		2,494,927	4,222,766
Cost method:						
Crownpo Technology Inc. (Formely Lizhi Electronic Engineering Co., Ltd.)	0.12	315	314	0.44	2,292	1,754
Jian Rong Investment Co., Ltd.	-	-	-	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	September 30, 2004 Percentage (%) of ownership	Cost of investment	Book value	September 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	-
Union Optronics Co., Ltd.	0.04	507	403	-	-	-
Excellence Electronic Co., Ltd.	-	6	5	-	-	-
Leadwell Cne Machines MFG Co., Ltd.	0.04	151	120	-	-	-
MAXSPEED	0.20	625	497	-	-	-
		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	(94,672)		14,984	(50,654)
		116,096	6,440		116,096	50,458
		$ 2,656,705	4,302,346		2,661,140	4,317,598
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 for under the equity method and prepayment for long-term investments amounting to $2,055,293 and $4,273,224, and long-term equity investment credits amounting to $6,969 as of September 30, 2004 and 2003, and the related investment loss of $102,362 and investment income of $892,627 recognized for the nine-month periods ended September 30, 2004 and 2003, were based on the unreviewed financial statements prepared by the respective investee companies.

The long-term equity investments in D&B Holding Co., Ltd. accounted for under the equity method amounting to $421,372 and the related investment loss of $42,336 for the nine-month periods ended September 30, 2004, were based on the financial statements prepared by the respective investee companies, so that other auditors of the financial statement of D&B Holding Co., Ltd. issued qualified review report. The Company's long-term equity investment as of September 30, 2004, amocnting to then $2,206,799 and the related investment loss of $619,036 for the nine-month periods then ended were based on the qualified review report by the other auditors.

(Continued)

All subsidiaries' holdings of the Company's stock have been recorded as treasury stock since January 1, 2002. As of September 30, 2004 and 2003, the long-term investment reductions were as follows:

Subsidiary	**September 30, 2004**	**September 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 September 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 and Union Optronics Co., Ltd. 58 thousand shares, Excellence Electronic Co., Ltd. 1 thousand share, Leadwell Cne Machines MFG Co., Ltd. 25 thousand shares, Crownpo Technology Inc. 2 thousand shares and MAXSPEED 46 thousand shares.

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 September 30, 2004, the capital stock issued was **£** 300. The prepayment for stock of the Company were $101,112 as of September 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-company accounts was $89,790.

(7) Property, Plant and Equipment

As of September 30, 2004 and 2003, insurance coverage for the property, plant and equipment was $408,166 and $462,479, respectively.

(Continued)

(8) Assets Leased to Others

	September 30, 2004	September 30, 2003
Land	$ 75,561	75,561
Property and plant	101,426	100,848
	176,987	176,409
Less: accumulated depreciation	29,628	24,529
	$ 147,359	**151,880**

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

4) In 2004 and 2003, the total rental revenues amounted to $7,158 and $7,397, respectively. The rental revenues for subsequent years are as follows:

Period	Amount
2004.10.1 ~ 2005.9.30	$ 7,075
2005.10.1 ~ 2006.9.30	1,029
2006.10.1 ~ 2007.9.30	386
	$ 8,490

(9) Short-term Loans

	September 30, 2004	September 30, 2003
Letter of credit loans	$ 470,000	-
Short-term loans	861,547	801,123
	$ 1,331,547	**801,123**

The average annual interest rate for the short-term loans ranged from 1.75% to 3.74% and from 1.68% to 2.58%, respectively, in 2004 and 2003. All the short-term loans are due in one year. As of September 30, 2004 and 2003, the unused credit facilities approximated to $2,505,973 and $555,104, respectively.

(Continued)

(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 $31,671 and $21,492, respectively. As of September 30, 2004 and 2003, the accrued pension cost was $118,980 and $84,293, respectively. The balance of the pension fund in the Central Trust of China was $82,759 and $72,955, 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	$ 3,038	10,360
Deferred income tax expense (benefit)	5,311	(10,254)
	$ 8,349	**106**

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)	$ (168,697)	228,985
Investment loss (gain)	188,365	(229,641)
Investment tax credit	(97,830)	(84,871)
Differences from tax-exempt income	19	-
Royalty revenue	(112,401)	-
Others	7,619	1,402
Valuation allowance–deferred income tax assets	191,274	84,231
	$ 8,349	**106**

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

	2004	2003
Unrealized foreign exchange gain	$ 5,125	(12,622)
Loss from inventory devaluation	(7,321)	(376)
Allowance for doubtful accounts	(1,171)	(1,782)
Unrealized profit on inter-affiliate accounts	4,432	-
Patent rights capitalized	704	178
Pension cost	(5,969)	(4,030)
Loss carryforwards	(83,933)	-
Investment tax credits	(97,830)	(75,853)
Valuation allowance–deferred income tax assets	191,274	84,231
	$ 5,311	**(10,254)**

(Continued)

Deferred income tax assets (liabilities) were as follows:

	September 30, 2004	September 30, 2003
Current:		
Deferred income tax assets	$ 99,348	94,657
Less: valuation allowance	-	-
Net deferred income tax assets	99,348	94,657
Deferred income tax liabilities	(14,890)	-
Net current deferred income tax assets	$ 84,458	94,657
Non-current:		
Deferred income tax assets	$ 370,511	175,150
Less: valuation allowance	(339,907)	(154,078)
Net deferred income tax assets	30,604	21,072
Deferred income tax liabilities	-	-
Net non-current deferred income tax assets	$ 30,604	21,072
Total deferred income tax assets	$ 469,859	269,807
Total deferred income tax liabilities	$ (14,890)	-
Valuation allowance–deferred income tax assets	$ 339,907	154,078

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

	September 30, 2004		September 30, 2003	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets (liabilities):				
Unrealized foreign exchange gain	$ (59,565)	(14,890)	1,260	317
Inventory devaluation	40,839	10,211	12,659	3,166
Allowance for doubtful accounts	170,358	42,589	171,510	42,878
Unrealized profit on inter-affiliate accounts	3,626	907	-	-
Patent rights capitalized	3,440	860	-	-
Accrued pension cost	118,980	29,745	84,293	21,072
Loss carryforwards	335,732	83,933	-	-
Investment tax credits	301,614	301,614	202,374	202,374
Valuation allowance–deferred income tax assets	(339,907)	(339,907)	(154,078)	(154,078)
		$ 115,062		115,729

(Continued)

DBTEL Incorporated

Notes to Financial Statements

Income tax refundable was as follows:

	September 30, 2004	September 30, 2003
Current income tax expense	$ 3,038	10,360
Taxes paid	(2,580)	(829)
Income tax refundable carred forward from prior years	(7,917)	(21,270)
	$ (7,459)	**(11,739)**

Income tax refundable was recorded as other monetary assets – current.

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

Expenditure Year	September 30, 2004	Year of expiration
2000	$ 23,002	2004
2001	55,457	2005
2002	178	2006
2003	124,854	2007
2004	98,123	2008
	$ 301,614	

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	September 30, 2004	Year of expiration
2004	**$ 335,732**	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 realized that than was no substantive trading and issued payment notices to the Company for totaling $75,173. The Company has appealed 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.

(Continued)

(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.

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. The issuance date was August 25, 2004. The registration procedures were completed on September 16, 2004.

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.

(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. Using the outstanding shares on September 30, 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 $1,280,990 and 214,070, respectively. The Company owned 10,000 thousand shares of treasury stock, totaling $228,288, in 2004 and 2003. This conformed with regulation of the SEL.

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

The Company's 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 September 30, 2004 and 2003, the Company's subsidiaries held 6,496 thousand and 5,304 thousand shares, respectively, of the Company's stock, whose market price was $105,882 and $127,446, 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 September 30, 2004 and 2003.

(Continued)

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.

The components of capital surplus were as follows:

	September 30, 2004	September 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.

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 for the nine-month periods ended September 30, 2004 and 2003, was 823,165 thousand shares and 822,858 thousand shares, respectively. If the shares held by the Company's subsidiaries were not recognized as treasury stock, the number of shares outstanding for the nine-month periods ended September 30, 2004 and 2003, would be 829,661 thousand shares and 829,355 thousand shares, respectively.

8) Imputation credit account and imputation tax credit ratio

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

	September 30, 2004	**September 30, 2003**
Imputation credit	$ 2,490	27,305

(Continued)

	2004 (estimated)	2003
Imputation tax credit ratio	2.17%	33.54%

The components of unappropriated earnings were as follows:

	September 30, 2004	September 30, 2003
From earnings of		
1997 and before	$ -	466
1998 and after	(589,991)	916,865
	$ (589,991)	917,331

(13) Disclosure of Financial Instruments

1) Derivatives

There was no unsettled contract as of September 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.

(Continued)

Non-derivative financial instruments:

	September 30, 2004		September 30, 2003	
	Book value	**Fair value**	**Book value**	**Fair value**
Non-derivatives:				
Financial Assets:				
Short-term investments	$ 133,138	133,138	218,126	218,126
Long-term investments (including long-term investment credits)	4,295,377	4,284,631	4,310,629	4,310,629
Off-balance-sheet financial instruments:				
Guarantees	-	669,384	-	1,315,600
Outstanding letters of credit	-	163,412	-	1,905,293
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 September 30, 2004 and 2003, the notes receivable and accounts receivable were concentrated on a few counter-parties as follows:

	September 30, 2004	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 1,740,467	80.14

	September 30, 2003	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 640,335	55.70
B	300,433	26.14

(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)
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
AGIT Technology Co., Ltd. (AGIT)	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	$ 3,246,064	59.01	3,452,276	75.07
DBD	226,134	4.11	408,696	8.89
DBE	81,770	1.49	106,327	2.31
Ares	-	-	667	0.02
	$ 3,553,968	64.61	3,967,966	86.29

In 2004 and 2003, the materials sold to DBH were priced with 12% and 25% profit margins, respectively. In 2004 and 2003, the selling price for the mobile phone sold to DBD were 83% 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	$ -	483

(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 $449,604.

(Continued)

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:

	September 30, 2004		September 30, 2003	
	Amount	**%**	**Amount**	**%**
Notes receivable:				
DBD	$ -	-	34,124	2.97
Accounts receivable:				
DBH	$ 1,740,467	80.14	640,335	55.70
DBD	488	0.02	266,309	23.17
DBE	28,500	1.31	47,168	4.10
Ares	-	-	1,680	0.12
	$ 1,769,455	81.47	955,492	83.09

3. Purchases

	2004		2003	
	Amount	**% of net purchases**	**Amount**	**% of net purchases**
DBH	$ 1,908,418	41.12	602,645	15.79
Ares	5,110	0.11	79,613	2.09
DBD	45,480	0.98	-	-
	$ 1,959,008	42.21	682,258	17.88

In 2004, the purchase prices of telephones from DBH were 87% of the Company's selling price, those of GSM mobile phones were 92.23% 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 82.53% of the Company's selling price, those of GSM mobile phones were 92.26% of the Company's selling price. In 2004, the purchase prices from DBD were determined based on DBD's cost. 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:

	September 30, 2004		September 30, 2003	
	Amount	**%**	**Amount**	**%**
Ares	**$ 7,877**	**2.05**	**61,413**	**3.76**

5. Unrealized profit on inter-affiliate transactions

The unrealized gross profit from sales to investees decreased by $17,728 in 2004. As of September 30, 2004, the unrealized profit amounted to $3,626, 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	$ 4,500	4,500
DBD	643	857
DBN	135	135
	$ 5,278	**5,492**

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

	September 30, 2004	**September 30, 2003**
Microjet	$ 1,050	3,681
DBD	85	200
DBN	-	32
	$ 1,135	**3,913**

(Continued)

(b) Rental expenses

The Company leased a plant from DBN. In 2004 and 2003, total rental expenses were $3,600. As of September 30, 2004 and 2003, the rental payable were $840 and $420, 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 September 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 nine – month periods ended September 30, 2004 and 2003, the related product development fees (recorded as research and development expenses) were $181,250 and $63,000, respectively, and royalty fees (recorded as selling expenses) were $45,082 and $121,122, respectively. As of September 30, 2004 and 2003, the product development fees payable were $56,175 and $2,100, respectively; royalty fees payable were $15,547 and $10,749, respectively, and both were recorded as other payable – related parties; prepayments for product development fees were $0 and $10,500, 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 $19,701, in 2004. As of September 30, 2004, the commission payable was $2,725.

(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:

	September 30, 2003	
	Current portion	Non-current portion (recorded as long-term receivables – related parties)
Gross lease payment receivables	$ 15,585	25,976
Less: unrealized interest income	1,624	1,103
Net lease payment receivables	**$ 13,961**	**24,873**

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.

(g) Advance payments

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

	September 30, 2004	September 30, 2003
DBH	$ -	1,514,018
Microjet	654	11,084
DBD	221	2,936
Ares	100	-
	$ 975	**1,528,038**

(Continued)

	2004	
	Maximum amount	**Period incurred**
DBH	$ 673,100	2004.1
Microjet	1,728	2004.4
DBD	221	2004.9
Fu Mao	910	2004.5
Dong Lian	317	2004.9
DBE	59,135	2004.9
AGIT	100	2004.9

	2003	
	Maximum amount	**Period incurred**
DBH	$ 1,514,018	2003.9
Microjet	11,663	2003.1
DBD	2,936	2003.9
Dui Hui	606	2003.2
Fu Mao	152	2003.6
Jin Chou	44	2003.3
DBN	2,418	2003.1
DBE	57,011	2003.9

(h) Advance payments payable

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

	September 30, 2004	**September 30, 2003**
Ares	$ 18,998	6,649
DBN	19	6
	$ 19,017	**6,655**

(Continued)

(i) Other receivables – related parties

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

	September 30, 2004	September 30, 2003
Rental receivable	$ 1,135	3,913
Net lease payment receivables (current portion)	-	13,961
Advance payments	975	1,528,038
	$ 2,110	1,545,912

(j) Other payables – related parties

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

	September 30, 2004	September 30, 2003
Rental payable	$ 840	420
Service fees payable	-	10,000
Commission payable	2,725	-
Product development fees payable	56,175	2,100
Royalty fees payable	15,547	10,749
Advance payments payable	19,017	6,655
	$ 94,304	29,924

(k) Guarantees

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

	September 30, 2004	September 30, 2003
DBH	$ 669,384	1,235,600
Microjet	-	80,000
	$ 669,384	1,315,600

(Continued)

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Notes to Financial Statements

(15) Pledged Assets

Pledged assets	Purpose	September 30, 2004	September 30, 2003
Pledged time deposits	Borrowings for purchase of material, overdrafts, and guarantees to the safety of obtaining employment for foreign employee	$ 347,487	283,721
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	150,998	156,686
Other assets:			
Assets leased to others	Borrowings for purchase of material and credit facilities for short-term borrowings	-	151,880
		$ 558,477	652,279

(16) Commitments and Contingencies

1) As of September 30, 2004 and 2003, the Company had outstanding letters of credit for purchase of material and equipment totaling approximately $163,412 and $1,905,293, 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 September 30, 2004 and 2003, the contracts amounted to $93,450 and $30,205, respectively, of which $89,225 and $23,803, 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 September 30, 2004, the contracts amounted to $42,867, of which $22,148 had been paid and recorded under deferred charges.

3) As of September 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.

(Continued)

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 Düsseldorf court in German against the Company and DBE violating patents EP 0240073, 0201126 and 0195487 that related 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.

6) 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 price of $12 per share. The Company filed the application with Financial Supervisory Commission, Executive Yuan, R.O.C, on August 27, 2004.

(17) Other

1) A summary of employment, depreciation and amortization expenses for the nine-month periods ended September 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	65,135	406,968	472,103	28,070	274,941	303,011
Labor and health insurance	4,804	24,515	29,319	2,240	19,192	21,432
Pension cost	4,441	27,230	31,671	2,026	19,466	21,492
Other employment expense	1,910	8,198	10,108	709	6,163	6,872
Depreciation expense	25,071	59,473	84,544	24,708	59,421	84,129
Amortization expense	42	33,510	33,552	64	24,687	24,751

In addition, depreciation expenses of assets leased to others amounted to $3,834 and $3,788. In 2004 and 2003, respectively, and were recorded under non-operating expenses.

(Continued)

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Notes to Financial Statements

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.