DBTEL Incorporated

Financial Statements

September 30, 2003 and 2002

(With Accountants' Review Report Thereon)

Independent Accountants' Review Report

The Board of Directors
DBTEL Incorporated:

We have reviewed the accompanying balance sheets of DBTEL Incorporated (the Company) as of September 30, 2003 and 2002, and the related statements of income 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.

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

As described in note 6 to the financial statements, the long-term equity investments accounted for under the equity method amounting to $4,222,766 thousand and $3,144,811 thousand, and long-term equity investment credits amounting to $57,623 thousand and $62,795 thousand as of September 30, 2003 and 2002, respectively, and the related investment income of $892,627 thousand and loss of $175,036 thousand recognized for the nine-month periods ended September 30, 2003 and 2002, respectively, were based on the financial statements prepared by the respective investee companies, which were not reviewed in accordance with Republic of China Statement of Auditing Standards No. 36, "The Review of Financial Statements".

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

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

Taipei, Taiwan (the Republic of China)
October 8, 2003

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

Unaudited

DBTEL Incorporated

Balance Sheets

September 30, 2003 and 2002

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

Assets	2003 Amount	%	2002 Amount	%
Current assets:				
Cash and cash equivalents	$ 1,865,637	17	903,445	10
Short-term investments (note 4)	218,126	2	220,949	3
Notes receivable	157	-	-	-
Notes receivable – related parties (note 14)	34,124	-	9,427	-
Accounts receivable, less allowance for doubtful accounts of $184,855 and $182,599 in 2003 and 2002, respectively	160,109	1	326,481	4
Accounts receivable – related parties (note 14)	955,213	9	1,402,889	16
Dividends receivable (note 6)	227,200	2	227,200	3
Other receivables – related parties (note 14)	1,546,191	14	964,822	11
Other monetary assets – current (note 12)	18,838	-	14,403	-
Inventories (note 5)	334,832	3	125,231	1
Pledged time deposits (notes 14 and 15)	283,721	3	178,802	2
Prepayments to suppliers	3,891	-	457	-
Deferred income tax assets (note 12)	94,657	1	152,850	2
Other current assets (note 14)	67,520	1	64,727	1
	5,810,216	53	4,591,683	53
Long-term equity investments (notes 3, 6, 14 and 16)				
Long-term investments under equity method	4,222,766	38	3,144,811	36
Long-term investments under cost method	44,374	-	45,005	-
Prepayment for long-term investments	101,112	1	84,013	1
	4,368,252	39	3,273,829	37
Other monetary assets – non-current	464	-	461	-
Property, plant and equipment (notes 7, 14, 15 and 16):				
Cost:				
Land	59,992	1	59,992	1
Buildings and improvements	254,552	2	249,210	3
Machinery and equipment	552,485	5	530,090	6
Molds and equipment	58,735	1	58,735	1
Furniture and fixtures	75,149	1	66,965	1
Miscellaneous equipment	20,671	-	17,129	-
	1,021,584	10	982,121	12
Less: accumulated depreciation	(514,080)	(5)	(405,944)	(5)
Construction in progress and prepayments for equipment	23,803	-	39,736	-
	531,307	5	615,913	7
Other assets:				
Assets leased to others (notes 8 and 15)	151,880	2	154,784	2
Deferred charges (note 16)	69,686	1	46,462	1
Long-term receivables – related parties (note 14)	21,072	-	15,013	-
Deferred income tax assets (note 12)	24,873	-	38,834	-
	267,511	3	255,093	3
Total assets	**$ 10,977,750**	**100**	**8,736,979**	**100**

Liabilities and Stockholders' Equity	2003 Amount	%	2002 Amount	%
Current liabilities:				
Short-term loans (notes 9 and 15)	$ 801,123	7	-	-
Notes payable	42,421	-	47,565	1
Accounts payable	1,531,192	14	639,335	7
Accounts payable – related parties (note 14)	61,413	1	15,148	-
Income tax payable (note 12)	-	-	93,777	1
Accrued expenses	96,616	1	116,073	1
Other payable – related parties (note 14)	29,924	-	59,203	1
Other current liabilities (note 14)	65,716	1	235,651	3
	2,628,405	24	1,206,752	14
Other liabilities:				
Accrued pension cost (note 10)	84,293	1	59,944	-
Guarantee deposits received	771	-	828	-
Other (note 6)	57,623	1	62,795	1
Deferred credits – gains on inter-company accounts (note 6)	89,790	1	89,790	1
	232,477	3	213,357	2
Total liabilities	2,860,882	27	1,420,109	16
Stockholders' equity (notes 3, 6 and 11):				
Common stock of $10 par value; authorized 930 and 700 million shares and issued 683 and 659 million shares for 2003 and 2002, respectively	6,829,794	62	6,591,178	76
Capital surplus:				
Paid-in capital in excess of par value	2,524	-	2,524	-
Others	189,160	2	201,076	2
	191,684	2	203,600	2
Retained earnings:				
Legal surplus	423,037	4	396,824	4
Unappropriated earnings	917,331	8	66,880	1
	1,340,368	12	463,704	5
Cumulative translation adjustments	68,842	-	143,895	2
Treasury stock	(313,820)	(3)	(85,507)	(1)
Total stockholders' equity	8,116,868	73	7,316,870	84
Commitments and contingencies (notes 8, 14 and 16)				
Total liabilities and stockholders' equity	**$ 10,977,750**	**100**	**8,736,979**	**100**

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

Unaudited

DBTEL Incorporated

Statements of Income

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

	2003 Amount	%	2002 Amount	%
Operating revenue (note 14):				
Gross sales	$ 4,601,238	100	3,849,505	100
Less: sales returns and allowances	2,841	-	12,153	-
	4,598,397	100	3,837,352	100
Other operating revenue	483	-	4,548	-
Total operating revenue	4,598,880	100	3,841,900	100
Operating costs (notes 10, 14 and 17)	3,761,624	81	2,730,002	71
Gross profit	837,256	19	1,111,898	29
Unrealized gain on inter-company transactions (note 14)	-	-	(166,559)	(4)
Net gross profit	837,256	19	945,339	25
Operating expenses (notes 10, 14 and 17):				
Selling expenses	226,764	5	105,052	3
Administrative expenses	213,143	4	218,034	6
Research and development expenses	392,405	9	313,612	8
	832,312	18	636,698	17
Operating income	4,944	1	308,641	8
Non-operating income:				
Interest income	13,450	-	25,580	1
Investment income under equity method (note 6)	892,627	19	-	-
Dividend income	2,191	-	2,573	-
Gain on disposal of equipment	56	-	73	-
Gain on sale of investments	-	-	23,013	1
Foreign currency exchange gain	9,205	-	19,417	1
Rental revenue (notes 8 and 14)	7,397	-	7,248	-
Recovery on devaluation of short-term investments	25,935	1	-	-
Other income	9,112	-	2,909	-
	959,973	20	80,813	3
Non-operating expenses:				
Interest expense	858	-	79	-
Loss on short-term investment devaluation	-	-	85,596	2
Investment loss under equity method (note 6)	-	-	175,036	5
Foreign currency exchange loss	42,529	1	-	-
Loss on inventory devaluation and obsolescence	1,503	-	1,930	-
Other loss (note 17)	4,088	-	3,751	-
	48,978	1	266,392	7
Income before income tax	915,939	20	123,062	4
Income tax expense (note 12)	106	-	60,380	2
Net income	$ 915,833	20	62,682	2

	Before income tax	After income tax	Before income tax	After income tax
Earnings per share of common stock (expressed in New Taiwan dollars)	$ 1.37	1.37	0.18	0.09

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

	Before income tax	After income tax	Before income tax	After income tax
Net income	$ 915,939	915,833	123,062	62,682
Earnings per share of common stock (expressed in New Taiwan dollars)	$ 1.36	1.36	0.18	0.09

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

Unaudited

DBTEL Incorporated

Statements of Cash Flows

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

	2003	2002
Cash flows from operating activities:		
Net income	$ 915,833	62,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	87,917	86,825
Amortization expense	24,751	15,928
Prepayments for equipment and other assets transferred to expenses	1,756	1,583
Loss on inventory devaluation and obsolescence	1,503	1,930
Investment loss (income) under equity method, net	(892,627)	175,036
Cash dividends under equity method	-	542,140
Unrealized gain on inter-company transactions	-	166,486
Loss (recovery) on devaluation of short-term investments	(25,935)	85,596
Market price recovery of long-term investments transferred to other income	-	(114)
Gain on sale of short-term investments	-	(23,013)
Provision for allowance for doubtful accounts	2,256	-
Unrealized foreign currency exchange loss (gain)	50,484	(49,994)
Increase in notes receivable	(157)	-
Increase in notes receivable–related parties	(34,124)	(8,643)
Decrease in accounts receivable	278,423	106,774
Decrease (increase) in accounts receivable–related parties	206,858	(1,284,805)
Increase in other receivables–related parties	(806)	(691)
Decrease (increase) in other monetary assets–current	(3,062)	10,576
Increase in inventories	(122,192)	(28,836)
Decrease in prepayments to suppliers	153,858	2,269
Decrease (increase) in other current assets	33,650	(62,328)
Net changes in deferred income tax assets and liabilities	(10,254)	(57,505)
Increase (decrease) in notes payable	(56,965)	37,669
Decrease in notes payable–related parties	(11,855)	-
Increase in accounts payable	667,119	573,697
Increase in accounts payable – related parties	28,645	15,148
Increase (decrease) in income tax payable	(85,937)	93,777
Increase (decrease) in other payable–related parties	(60,337)	39,033
Increase (decrease) in accrued expenses	(11,271)	36,809
Increase in other current liabilities	23,920	4,796
Increase in accrued pension cost	16,123	11,516
Net cash flows provided by operating activities	1,177,574	554,341
Cash flows from investing activities:		
Increase in short-term investments	(44)	(259,126)
Increase in long-term equity investments	-	(259,002)
Returns from capital reduction of long-term investments	-	818
Proceeds from sale of property and equipment	10,023	18,169
Purchase of property and equipment	(23,321)	(84,092)
Increase in other receivable–related parties	(853,630)	(929,044)
Decrease (increase) in pledged time deposits	(146,879)	74,624
Increase in other monetary assets–non-current	-	(144)
Increase in other assets	(32,972)	(11,253)
Net cash flows used in investing activities	(1,046,823)	(1,449,050)
Cash flows from financing activities:		
Increase in short-term loans	801,123	-
Increase (decrease) in guarantee deposits received	(57)	77
Cash paid for past-due dividends	-	(6)
Net cash flows provided by financing activities	801,066	71
Effects of changes in foreign exchange rates	(14,550)	(6,293)
Net increase (decrease) in cash and cash equivalents	917,267	(900,931)
Cash and cash equivalents at beginning of nine-month period	948,370	1,804,376
Cash and cash equivalents at end of nine-month period	**$ 1,865,637**	**903,445**
Supplemental disclosures of cash flow information:		
Cash payments of interest	**$ 57**	**79**
Cash payments of income tax	**$ 108,036**	**1,897**
Investing and financing activities not affecting cash:		
Property and equipment transferred to other assets	**$ -**	**1,714**
Cumulative translation adjustments on foreign long-term investments	**$ (74,020)**	**36**
Effects of change in long-term equity investments due to change in investment percentage	**$ -**	**69,170**
Net of long-term investment credits and advance payments	**$ 52,254**	**-**
Capitalization of capital surplus, stock bonus to employees, and stock dividends	**$ 238,615**	**1,035,153**
Others:		
Increase in property and equipment	$ 21,437	84,979
Decrease (increase) in payable for equipment purchases	1,884	(887)
Cash paid for purchase of property and equipment	**$ 23,321**	**84,092**
Proceeds from sale of property and equipment	$ -	15,266
Decrease in lease payments receivable	10,023	9,535
Increase in receivable from sale of property and equipment (recorded as other receivables–related parties)	-	(6,632)
Cash received from disposal of property and equipment	**$ 10,023**	**18,169**
Cash dividends under equity method	$ -	-
Decrease in dividends receivable	-	542,140
Cash received from dividends on long-term investments	**$ -**	**542,140**

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

(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 674 employees on September 30, 2003.

(2) Summary of Significant Accounting Policies

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

(a) Foreign currency transactions and translations

The accounts of the Company are maintained in New Taiwan dollars. Foreign exchange transactions, except forward exchange contracts, are recorded at the exchange rates prevailing at the transaction dates. The assets and liabilities denominated in foreign currency are translated at the exchange rate of the balance sheet date. The resulting realized or unrealized gain or loss on foreign currency exchange from the settlement or translation are recorded as non-operating income or expenses.

(b) Cash equivalents

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

(c) Short-term investments

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

(d) Allowance for doubtful accounts

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

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(e) Inventories

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

(f) Long-term equity investments

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

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

The assets and liabilities of foreign subsidiaries are translated at the approximate market rate of exchange prevailing on the balance sheet date; stockholders' equity accounts are translated at historical exchange rates with the exception that retained earnings at the beginning of the year are carried forward from the last year-end; dividends are translated at the approximate market rate of exchange prevailing on the date of declaration; and income and expense accounts are translated at the average rates of exchange prevailing during the year. The related adjustments are included in the cumulative foreign currency translation adjustments in the stockholders' equity section, and recognized as income or loss at the time of disposal of the foreign subsidiaries.

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

(Continued)

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

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

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

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

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

(h) Capital lease

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

(i) Assets leased to others

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

(j) Deferred charges

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

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(k) Employee pension benefits

In 1991, the Company established an employee retirement plan providing for lump-sum retirement benefits to employees who meet retirement requirements. The pension payment is calculated based on the service years and salary upon retirement. In accordance with the ROC Labor Standards Law, the Company has made monthly deposits, equal to 3.4% of employees' total salaries, to an account with the Central Trust of China.

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions". The end of the fiscal year is used as the measurement date for the completion of the actuarial assessment. The amount of the accumulated benefit obligation over the pension plan assets is recognized as the minimum pension liability on the balance sheet date. The unrecognized net transition obligation of January 1, 1996, is amortized by using the straight-line method over 15 years, the average remaining service period of employees expected to receive the retirement benefits.

(l) Provision for product warranties

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

(m) Revenue

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

(n) Treasury stock

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

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

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

(o) Income tax

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

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

The Company charges the 10% surtax on undistributed earnings to current income tax expense in the year of earnings distribution following a resolution at the shareholders’ meeting.

(p) Derivatives

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

Premiums for options are recorded at cost. Premiums for hedging-purpose options are accounted for as assets or liabilities which are amortized per month over the life of the contract period and are remeasured at market prices at the balance sheet date. For premiums to hedge existing asset or liability risks, any unrealized gain or loss should be recognized in the current period; for premiums to hedge expected transaction risk, any unrealized gain or loss is deferred until it is realized, and then becomes an adjustment to the transaction price. Premiums for speculation-purpose options should be recorded in the income statement and remeasured using the lower-of-cost-or-market-price method monthly, while any unrealized gain or loss should be recognized in the current period.

(Continued)

(q) Earnings per common share

Earnings per common share are computed by dividing earnings after income tax by the weighted-average number of common shares outstanding during the year. Earnings per common share are adjusted retroactively by stock dividends distributed from retained earnings or capital surplus. Furthermore, if the base date of the capital increase for a stock dividend is before the issuance date of the financial statements, the earnings per common share shall be adjusted retroactively.

The number of shares outstanding for the nine-month periods ended September 30, 2003 (2003) and 2002 (2002), was 667,676 thousand shares and 677,676 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, 2003 and 2002, would be 672,979 thousand shares and 682,979 thousand shares, respectively.

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

In accordance with the regulations of the Securities and Futures Commission, ROC Ministry of Finance (SFC), on January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock". As a result, the amount of long-term investments decreased and treasury stock increased by $85,532 and $85,507 as of September 30, 2003 and 2002, respectively. This accounting principle change had no significant impact on the financial statements.

(4) Short-term Investments

	September 30, 2003	September 30, 2002
Mutual funds	$ 25,078	25,078
Common stocks	311,071	311,370
	336,149	336,448
Less: provision for devaluation	118,023	115,499
	$ 218,126	**220,949**

DBTEL Incorporated

Notes to Financial Statements

(5) Inventories

	September 30, 2003	September 30, 2002
Raw materials	$ 233,259	118,342
Work in process	84,306	363
Finished goods	8,680	9,858
Merchandise	7,178	7,197
Inventories-in-transit	14,068	-
	347,491	135,760
Less: provision for devaluation	12,659	10,529
	$ 334,832	125,231
Insurance coverage for inventories	$ 60,000	88,800

(6) Long-term Equity Investments

	September 30, 2003			September 30, 2002		
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	2,714,790	100.00	1,254,915	1,688,462
Ding Shun Investment & Development, Inc. (Ding Shun)	100.00	190,000	539,217	100.00	190,000	490,739
Jin Chou Investment & Development, Inc. (Jin Chou)	100.00	174,000	120,687	100.00	174,000	127,908
DBTEL Technology Co., Ltd. (DBT)	92.29	501,239	429,835	92.26	501,099	418,477
DB Networks (DBN)	93.15	371,773	416,568	92.28	367,693	417,588
Tai Yao Investment & Development, Inc. (Tai Yao)	2.00	3,000	1,669	2.00	3,000	1,637
		2,494,927	4,222,766		2,490,707	3,144,811
Cost method:						
Lizhi Electronic Engineering Co., Ltd.	0.44	2,292	1,754	0.44	2,292	1,754
Jian Rong Investment Co., Ltd.	2.27	1,908	1,642	2.27	1,908	1,642
China-America Wantai Technology Co., Ltd.	1.53	2,750	2,750	1.53	2,750	2,750
Hanchang Technology Co., Ltd.	3.17	38,228	38,228	3.17	38,228	38,228
China Porcelain Engineering Co., Ltd.	0.41	3,713	-	0.41	3,713	631
Jia Di Investment Co., Ltd.	1.77	1,226	-	1.77	1,226	-
		50,117	44,374		50,117	45,005

(Continued)

DBTEL Incorporated

Notes to Financial Statements

Investee	September 30, 2003 Percentage (%) of ownership	Cost of investment	Book value	September 30, 2002 Percentage (%) of ownership	Cost of investment	Book value
Prepayment for stock:						
DBTEL International (Europe) Limited (DBE)	-	$ 101,112	101,112	-	84,013	84,013
		$ 2,646,156	**4,368,252**		**2,624,837**	**3,273,829**
Long-term equity investment credits (recorded as other liabilities):						
DBTEL International (Europe) Limited (DBE)	100.00	$ 14,984	50,654	100.00	14,984	55,826
DBTEL Holding Inc., Cayman Islands (DBC)	100.00	1	6,969	100.00	1	6,969
		$ 14,985	**57,623**		**14,985**	**62,795**

The long-term equity investments accounted for under the equity method amounting to $4,222,766 and $3,144,811, and long-term equity investment credits amounting to $57,623 and $62,795 as of September 30, 2003 and 2002, respectively, and the related investment income of $892,627 and loss of $175,036 recognized for the nine-month periods ended September 30, 2003 and 2002, respectively, were based on the unreviewed financial statements prepared by the respective investee companies.

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

Subsidiary	**September 30, 2003**	**September 30, 2002**
DBT	$ 76,912	76,887
Ding Shun	5,526	5,526
Jin Chou	3,060	3,060
Tai Yao	34	34
Total	**$ 85,532**	**85,507**

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

DBTEL Incorporated

Notes to Financial Statements

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, 2003, the capital stock issued was ￡300. The prepayment for stock of the Company was $101,112 and $84,013 as of September 30, 2003 and 2002, respectively.

Ding Shun distributed cash dividends of $803,700 to the Company in 2001. As of September 30, 2003 and 2002, the dividends receivable amounted to $227,200.

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

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

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

(7) Property, Plant and Equipment

As of September 30, 2003 and 2002, insurance coverage for the property, plant and equipment was $462,479 and $595,829, respectively.

(8) Assets Leased to Others

	September 30, 2003	September 30, 2002
Land	$ 75,561	75,561
Property and plant	100,848	98,698
	176,409	174,259
Less: accumulated depreciation	24,529	19,475
	$ 151,880	**154,784**

(Continued)

The major terms of the lease contracts are as follows:

(a) The contract period is 1 to 3 years.

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

(c) As of September 30, 2003 and 2002, the insurance coverage for leased assets was $47,730 and $92,000, respectively.

In 2003 and 2002, the total rental revenues amounted to $7,397 and $7,248, respectively. The rental revenues for subsequent years are as follows:

Period	**Amount**
2003.10.1~2004.9.30	$ 9,072
2004.10.1~2005.6.30	6,180
	$ 15,252

(9) Short-term Loans

	September 30, 2003	**September 30, 2002**
Loans for materials purchases	**$ 801,123**	**-**
Unused credit line	**$ 555,104**	**1,826,544**

The above loans are due within one year. The average annual interest rate for the short-term loans ranged from 1.68% to 2.58%.

(10) Employee Pension Benefits

The Company obtained an actuarial assessment of the pension liability as of December 31, 2002 and 2001. Net pension cost recognized in 2003 and 2002 was $21,492 and $16,272, respectively. As of September 30, 2003 and 2002, the accrued pension cost was $84,293 and $59,944, respectively. The balance of the pension fund in the Central Trust of China was $72,955 and $66,324, respectively.

(Continued)

(11) Stockholders' Equity

(a) Issuance of common stock

On June 27, 2002, the Company's stockholders' meeting resolved to issue new stock by capitalizing unappropriated earnings of $888,964, capital surplus of $100,009, and employee bonus of $46,180. The total amount capitalized was $1,035,153. The total number of shares of common stock issued was 103,515,257 shares. The issuance date was August 28, 2002. The registration procedures were completed on September 19, 2002.

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 shares of common stock issued was 23,861,535 shares. The issuance date was August 28, 2003. The registration procedures were completed on September 18, 2003.

(b) Treasury stock

The Company purchased treasury stock in accordance with Stock Exchange Law (SEL) regulations in 2002. In 2003, the change in the Company's treasury stock was as follows:

Unit: Thousands of shares

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

According to the SEL, the number of shares of treasury stock can not exceed 10% of the number of shares issued. Moreover, the total value of treasury stock can not exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. The Company owned 10,000 thousand shares of treasury stock, totaling $228,288, in 2003. This did not exceed the limit set by the SEL. The company had no such treasury stock in 2002.

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

The Company's subsidiaries did not purchase or sell any shares of the Company in 2003. As of September 30, 2003 and 2002, the Company's subsidiaries held 5,304 and 5,149 thousand shares, respectively, of the Company's stock, whose market price was $127,446 and $108,441, respectively.

(Continued)

In accordance with the regulations of the SFC, on January 1, 2002, the Company's subsidiaries recorded their shareholding of the Company as treasury stock. If the market price of the Company's stock is lower than the book value recorded as investments by the subsidiaries at the end of the year, the Company should calculate the unrealized loss on short-term or long-term investments on a pro rata basis. Then, the Company ought to provide a special reserve of equal amount for the unrealized loss. Such special reserve can not be distributed as dividends. Subsequently, if a reversal for devaluation of the Company's stock held by the subsidiaries occurs, the Company can reverse the portion of the special reserve on a pro rata basis. If the Company's stock were recorded as short-term investments by the subsidiaries, the maximum amount for reversal would be the balance of provision for devaluation of short-term investments on January 1, 2002. The provision or reversal of special reserve previously stated should be treated together with other stockholders' equity contra accounts as described in note 11(e). Accordingly, the amount of the stockholders' equity contra account stated in the financial statements may be different from the amount to be provided or reversed for special reserve. The regulations had no impact on the Company's special reserve as of September 30, 2003.

(c) Capital surplus

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

The components of capital surplus were as follows:

	September 30, 2003	September 30, 2002
Paid-in capital in excess of par value	$ 2,524	2,524
Past-due dividend transferred to capital surplus	2,373	2,379
Excess amount of merged company's net asset value over par value of newly issued stock	331	331
Effects of changes in stockholders' equity of equity method investee companies	186,456	198,366
	$ 191,684	**203,600**

(Continued)

(d) Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. Legal reserve can only be used to offset deficits and cannot be distributed as cash dividends. Up to one-half of legal reserve can be converted to share capital when it reaches an amount equal to one-half of issued share capital.

(e) Special reserve

Since 2000 in accordance with SFC regulations, in addition to the legal reserve retained, the Company should appropriate a special reserve from current year's earnings after tax or prior years' unappropriated earnings in an amount equal to any deduction amounts included in current year stockholders' equity. However, if any such deduction amounts are eliminated, an equal amount of special reserve can be reversed back to the unappropriated earnings account and be available for distribution of dividends.

(f) Distribution of retained earnings and dividend policy

In accordance with the Company's articles of incorporation, after payment of corporate income tax, offsetting prior year's deficits, and appropriation of legal reserve and special reserve, the Company's annual net income is subject to distribution as follows:

- prescribed dividends at no more than 10% of share capital
- at least 3% of remaining income after prescribed dividends as employee bonus
- 3% of remaining income after prescribed dividends as directors' and supervisors' remuneration

The remainder can be distributed pursuant to a resolution of the stockholders' meeting.

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

(Continued)

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 ratio of the distribution of retained earnings and cash dividends is resolved by the board of directors. The dividend policy is for cash dividends to be not less than 10%. However, this could be adjusted by the agreement of the Company's stockholders.

(g) Imputation credit account and imputation tax credit ratio

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

	September 30, 2003	September 30, 2002
Imputation credit	$ 27,305	87
	2003	**2002**
Imputation tax credit ratio	33.54%	3.02%

The components of unappropriated earnings were as follows:

	September 30, 2003	September 30, 2002
From earnings of		
1997 and before	$ 466	466
1998 and after	916,865	66,414
	$ 917,331	66,880

(12) Income Tax

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

	2003	2002
Current income tax expense	$ 10,360	59,621
10% surtax on undistributed earnings	-	58,264
Deferred income tax benefit	(10,254)	(57,505)
	$ 106	60,380

(Continued)

DBTEL Incorporated

Notes to Financial Statements

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

	2003	2002
"Expected" income tax expense	$ 228,985	30,765
Investment loss (gain)	(229,641)	59,405
Investment tax credit	(84,871)	(18,249)
10% surtax on undistributed earnings	-	58,264
Others	1,402	41
Valuation allowance–deferred income tax assets	84,231	(69,846)
	$ 106	**60,380**

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

	2003	2002
Unrealized foreign exchange gain (loss)	$ (12,622)	12,499
Loss from inventory devaluation	(376)	(280)
Allowance for doubtful accounts	(1,782)	3,101
Unrealized profit on inter-company transactions	-	(41,622)
Patent rights capitalized	178	150
Pension cost	(4,030)	(2,879)
Investment tax credits	(75,853)	41,372
Valuation allowance–deferred income tax assets	84,231	(69,846)
	$ (10,254)	**(57,505)**

(Continued)

DBTEL Incorporated

Notes to Financial Statements

Deferred income tax assets (liabilities) were as follows:

	September 30, 2003	September 30, 2002
Current:		
Deferred income tax assets	$ 94,657	180,227
Less: valuation allowance	-	-
Net deferred income tax assets	94,657	180,227
Deferred income tax liabilities	-	(27,377)
Net current deferred income tax assets	**$ 94,657**	**152,850**
Non-current:		
Deferred income tax assets	$ 175,150	15,013
Less: valuation allowance	(154,078)	-
Net deferred income tax assets	21,072	15,013
Deferred income tax liabilities	-	-
Net non-current deferred income tax assets	**$ 21,072**	**15,013**
Total deferred income tax assets	**$ 269,807**	**195,240**
Total deferred income tax liabilities	**$ -**	**27,377**
Valuation allowance–deferred income tax assets	**$ 154,078**	**-**

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

	September 30, 2003		September 30, 2002	
	Amount	**Tax effect**	**Amount**	**Tax effect**
Deferred income tax assets (liabilities):				
Unrealized foreign exchange loss (gain)	$ 1,260	317	(109,511)	(27,377)
Inventory devaluation	12,659	3,166	10,529	2,632
Allowance for doubtful accounts	171,510	42,878	163,385	40,846
Unrealized profit on inter-company transactions	-	-	193,922	48,481
Patent rights capitalized	-	-	910	229
Accrued pension cost	84,293	21,072	59,944	14,986
Investment tax credits	202,374	202,374	88,066	88,066
Valuation allowance–deferred income tax assets	(154,078)	(154,078)	-	-
		$ 115,729		**167,863**

(Continued)

DBTEL Incorporated

Notes to Financial Statements

As of September 30, 2003, the unused investment tax credits derived from the expenditure on research and development and automation equipment were as follows:

Expenditure year	September 30, 2003	Year of expiration
1999	$ 7,047	2003
2000	54,132	2004
2001	59,505	2005
2002	178	2006
2003	81,512	2007
	$ 202,374	

Income tax payable (refundable) was as follows:

	September 30, 2003	September 30, 2002
Current income tax expense	$ 10,360	59,621
10% surtax on undistributed earnings	-	58,264
Taxes paid	(108,036)	(1,897)
Income tax payable (refundable) balance at the beginning of the year	85,937	(22,211)
	$ (11,739)	**93,777**

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

(13) Disclosure of Financial Instruments

(a) Derivatives

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

(Continued)

(b) Non-derivative financial instruments:

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

	September 30, 2003		September 30, 2002	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial Assets:				
Fair value equal to book value of assets	$ 5,126,305	5,126,305	4,066,764	4,066,764
Short-term investments	218,126	218,126	220,949	220,949
Long-term investments (including long-term investment credits)	4,310,629	4,310,629	3,211,034	3,211,034
Financial Liabilities:				
Fair value equal to book value of liabilities	2,647,753	2,647,753	1,031,873	1,031,873
Off-balance-sheet Financial Instruments:				
Guarantees	-	1,315,600	-	518,019
Outstanding letters of credit	-	1,905,293	-	617,926

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

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

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

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

(c) Concentration of credit risk:

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

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

	September 30, 2002	
Customer	**Amount**	**% of the notes and accounts receivable**
A	$ 1,369,643	78.77

(14) Related-party Transactions

(a) Name and relationship

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

(Continued)

Name	Relationship
Formula Electronic Sdn. Bhd. (FE)	Investee of the company (100% owned indirectly)
Jin Chou Investment & Development, Inc. (Jin Chou)	Subsidiary of the Company (100% owned)
Dui Hui Investment Inc. (Dui Hui)	Same chairman as the Company
Fu Mao Investment Inc. (Fu Mao)	Same chairman as the Company
Yu Tai Investment Inc. (Yu Tai)	Director of the Company
Li Yu Investment Inc. (Li Yu)	Director of the Company

(b) Significant transactions with related parties

i) Sales

	2003		2002	
	Amount	% of net sales	Amount	% of net sales
DBH	$ 3,452,276	75.07	2,533,563	66.02
DBD	408,696	8.89	65,441	1.71
DBE	106,327	2.31	-	-
Ares	667	0.02	202	-
	$ 3,967,966	86.29	2,599,206	67.73

In 2003 and 2002, the materials sold to DBH were priced with 25% and 65% profit margins, respectively. The selling price for the sales to DBD was 80% of DBD's selling price in 2003 and was the same as DBD's sales to foreign customers in 2002. The selling price for the sales to other investees was the same as those to foreign customers. Sales terms for investees were open account 120 days or by offsetting amounts of accounts payable to them.

(Continued)

DBTEL Incorporated

Notes to Financial Statements

ii) Notes and accounts receivable

	September 30, 2003		September 30, 2002	
	Amount	**%**	**Amount**	**%**
Notes receivable:				
DBD	$ 34,124	2.97	9,427	0.54
Accounts receivable:				
DBH	$ 640,335	55.70	1,369,643	78.77
DBD	266,309	23.17	33,246	1.91
DBE	47,168	4.10	-	-
Ares	1,401	0.12	-	-
	$ 955,213	83.09	1,402,889	80.68

iii) Purchases

	2003		2002	
	Amount	**% of net purchases**	**Amount**	**% of net purchases**
DBH	$ 602,645	15.79	1,083,874	39.98
Ares	79,613	2.09	14,486	0.53
	$ 682,258	17.88	1,098,360	40.51

In 2003, the purchase prices of telephones from DBH were 82.53% of the Company's selling price, those of GSM mobile phones were 92.26% of the Company's selling price, and those of materials were determined based on DBH's costs. In 2002, the purchase prices of telephones were 87.85% of the Company's selling price, those of GSM mobile phones were 94.51% of the Company's selling price, and those of materials were determined based on DBH's costs. The purchase prices for the purchases from other investees were the same as those from other companies.

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

iv) Accounts payable

	September 30, 2003		September 30, 2002	
	Amount	**%**	**Amount**	**%**
Ares	$ 61,413	3.76	15,148	2.30

(Continued)

v) Unrealized profit on inter-company transactions

The unrealized gross profit from sales to investees and unrealized gain from selling property and equipment to investees increased by $166,486 in 2002. As of September 30, 2002, the unrealized profit amounted to $193,922, recorded as other current liabilities. The unrealized profit was not significant in 2003.

vi) Other transactions

(i) Property and equipment transactions

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

Related Party	2002 Object	Proceed
DBH	Machinery, furniture and fixtures, and computer software	$ 11,575
DBD	Furniture and fixtures	117
Ares	Machinery and computer software	6,316

As of September 30, 2002, receivables resulting from the above transactions were as follows:

	September 30, 2002
Ares	$ 6,632

There was no such transaction in 2003.

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

The Company processed products for related parties as follows:

	2003	2002
Ares	$ 483	975
Microjet	-	3,154
	$ 483	4,129

As of September 30, 2003 and 2002, receivables resulting from the aforementioned transactions were as follows:

	September 30, 2003	September 30, 2002
Ares	$ 279	431
Microjet	-	674
	$ 279	**1,105**

(iii) Rental revenues

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

	2003	2002
Microjet	$ 4,500	4,500
DBD	857	531
DBN	135	135
	$ 5,492	**5,166**

As of September 30, 2003 and 2002, receivables resulting from the aforementioned transactions were as follows:

	September 30, 2003	September 30, 2002
Microjet	$ 3,681	1,970
DBD	200	200
DBN	32	16
	$ 3,913	**2,186**

(iv) Rental expenses

The Company leased a plant from DBN. In 2003 and 2002, total rental expenses were $3,600. As of September 30, 2003 and 2002, the rental payable were $420 and $820, respectively.

(v) Service fees

In 2000, DBE provided services for the Company in aspects of survey and development for the European market. The Company incurred such fees amounting to $10,000, which were not paid as of September 30, 2003 and 2002.

(Continued)

(vi) Product development fees and royalty fees

The Company entered into a one-year agreement with Ares in 2002, and then a one-year extension upon the expiration of the agreement. Ares designed various new mobile phones for the Company. In 2003 and 2002, the related product development fees (recorded as research and development expenses) were $63,000 and $27,750, respectively, and royalty fees (recorded as selling expenses) were $121,122 and $26,832, respectively. As of September 30, 2003 and 2002, the product development fees payable were $2,100 and $16,932, respectively, royalty fees payable were $10,749 and $26,548, respectively, both recorded as other payable – related parties, and prepayments for product development fees were $10,500 and $23,625, respectively, recorded as other current assets.

(vii) Lease payment receivables

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

	September 30, 2003		**September 30, 2002**	
	Current portion	**Non-current portion (recorded as long-term receivables – related parties)**	**Current portion**	**Non-current portion (recorded as long-term receivables – related parties)**
Gross lease payment receivables	$ 15,585	25,976	15,585	41,562
Less: unrealized interest income	1,624	1,103	2,304	2,728
Net lease payment receivables	**$ 13,961**	**24,873**	**13,281**	**38,834**

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

(Continued)

DBTEL Incorporated

Notes to Financial Statements

(viii) 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, 2003	September 30, 2002
DBH	$ 1,514,018	932,374
Microjet	11,084	6,694
DBD	2,936	-
DBN	-	2,430
DBE	-	76
Jin Chou	-	44
	$ 1,528,038	941,618

	2003	
	Maximum amount	Period incurred
DBH	$ 1,514,018	September 2003
Microjet	11,663	January 2003
DBD	2,936	September 2003
Dui Hui	606	February 2003
Fu Mao	152	June 2003
Jin Chou	44	March 2003
DBN	2,418	January 2003
DBE	57,011	September 2003

	2002	
	Maximum amount	Period incurred
DBH	$ 932,374	September 2002
Microjet	8,672	June 2002
DBN	2,430	September 2002
DBE	76	September 2002
Jin Chou	44	September 2002
FE	20	March 2002

(Continued)

(ix) Advance payments payable

Related parties paid certain expenses on behalf of the Company. As of September 30, 2003 and 2002, the payable balances were as follows:

	September 30, 2003	September 30, 2002
Ares	$ 6,649	4,866
DBN	6	-
	$ 6,655	**4,866**

(x) Salary expenses

In 2002, the Company paid salaries of $35 to DBD for using its employees' services. As of September 30, 2002, the salaries payable were $37, recorded as other payables–related parties. There was no such transaction in 2003.

(xi) Other receivables – related parties

As of September 30, 2003 and 2002, other receivables resulting from the aforementioned transactions were as follows:

	September 30, 2003	September 30, 2002
Receivable from sale of property and equipment	$ -	6,632
Processing fees receivable	279	1,105
Rental receivable	3,913	2,186
Net lease payment receivables (current portion)	13,961	13,281
Advance payments	1,528,038	941,618
	$ 1,546,191	**964,822**

DBTEL Incorporated

Notes to Financial Statements

(xii) Other payables – related parties

As of September 30, 2003 and 2002, other payables resulting from the aforementioned transactions were as follows:

	September 30, 2003	September 30, 2002
Rental payable	$ 420	820
Service fees payable	10,000	10,000
Salaries payable	-	37
Product development fees payable	2,100	16,932
Royalty fees payable	10,749	26,548
Advance payments payable	6,655	4,866
	$ 29,924	**59,203**

(xiii) Long-term equity investments

In 2002, the Company purchased long-term equity investments from related parties as follows:

Seller	Object	Number of shares (thousands)	Cost
Fu Mao	Shares of DBT	9,714	90,505
Fu Mao	Shares of DBN	1,720	18,472
Yu Tai	Shares of DBN	5,120	54,977
Li Yu	Shares of DBN	2,816	30,237
			194,191

The purchase prices for the transactions listed above were based on the book values of the subject companies on July 31, 2002. All relevant prices were paid in 2002. There was no such transaction in 2003.

(xiv) Guarantees

The Company provided guarantees for related parties were as follows:

	September 30, 2003	September 30, 2002
DBH	$ 1,235,600	386,750
Microjet	80,000	131,269
	$ 1,315,600	**518,019**

(Continued)

As of September 30, 2003 and 2002, the Company provided certificates of time deposits for Microjet amounting to $0 and $17,250, respectively, as a guarantee for part of its short-term credit lines.

(15) Pledged Assets

Pledged assets	Purpose	September 30, 2003	September 30, 2002
Pledged time deposits	Loans for materials purchases land credit lines for short-term loans, guarantees, and overdrafts, and guarantees to lending bank for loans to related parties	$ 283,721	178,802
Property, plant and equipment:			
Land	Loans for materials purchases and credit lines for long-term and short-term loans	59,992	59,992
Buildings and plant	Loans for materials purchases and credit lines for long-term and short-term loans	156,686	166,615
Other assets–assets leased to others	Loans for materials purchases and credit lines for long-term and short-term loans	151,880	154,784
		$ 652,279	560,193

(16) Commitments and Contingencies

(a) As of September 30, 2003 and 2002, outstanding letters of credit for purchase of material and equipment totaled approximately $1,905,293 and $617,926, respectively.

(b) For the purpose of building plants and purchasing machinery, the Company signed contracts with domestic and foreign companies for planning, designing and constructing several construction projects. As of September 30, 2003 and 2002, the contracts amounted to $30,205 and $45,665, respectively, of which $23,803 and $39,736, 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, 2003, the contracts amounted to $29,072, of which $7,920 had been paid and recorded under deferred charges.

(Continued)

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

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

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

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

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

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

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

(Continued)

(j) A board of directors' meeting on August 12, 2003, approved the Company to issue a Euro Convertible Bond of up to US$ 60 million, which will be used for capital expenditure, mainly to construct the building for the Company's headquarters, which will serve all research and development, marketing, and administrative functions. The ROC SFC approved the issuance in September 2003. However, the issuance has not been implemented yet.

(17) Other

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

Function	Nine-month period ended September 30, 2003			Nine-month period ended September 30, 2002		
Accounts	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Employment expenses:						
Salary	28,070	274,941	303,011	20,708	280,351	301,059
Labor and health insurance	2,240	19,192	21,432	2,134	14,631	16,765
Pension cost	2,026	19,466	21,492	1,517	14,755	16,272
Other employment expense	709	6,163	6,872	1,174	4,768	5,942
Depreciation expense	24,708	59,421	84,129	25,535	57,587	83,122
Depletion expense	-	-	-	-	-	-
Amortization expense	64	24,687	24,751	65	15,863	15,928

In addition to, depreciation expenses of assets leased to others amounted to $3,788 and $3,703, and were recorded under non-operating expenses in 2003 and 2002, respectively.

(b) Reclassification

Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 presentation for comparative purposes. These reclassifications do not have significant impact on the presentation of the financial statements.