

Far Eastone Telecommunications Co. Ltd.

Balance Sheets

September 30, 2002 and 2001

(In Thousands of New Taiwan Dollars, Except Par Value)

| | <u>2002</u> | | <u>2001</u> | | | <u>2002</u> | | <u>2001</u> | |
|---|------------------|-----------|------------------|-----------|--|------------------|-----------|------------------|-----------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> | | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| ASSETS | | | | | LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| CURRENT ASSETS | | | | | CURRENT LIABILITIES | | | | |
| Cash and cash equivalents | \$1,378,351 | 2 | \$785,699 | 2 | Short-term bank loans | \$ - | - | \$650,000 | 1 |
| Note receivable and Accounts receivable – net of allowance for doubtful accounts of \$363,004 in 2002 and \$1,366,083 in 2001 | 3,382,598 | 6 | 5,421,706 | 11 | Notes payable | 78,463 | - | 69,395 | - |
| Inventories – net | 607,692 | 1 | 629,730 | 1 | Accounts payable | 395,230 | 1 | 472,882 | 1 |
| Prepaid expenses | 1,873,417 | 3 | 787,224 | 1 | Payables to related parties | 441,335 | 1 | 453,382 | 1 |
| Other current assets | <u>924,923</u> | <u>2</u> | <u>630,157</u> | <u>1</u> | Income tax payable | 388,622 | 1 | 483,578 | 1 |
| Total Current Assets | <u>8,166,981</u> | <u>14</u> | <u>8,254,516</u> | <u>16</u> | Accrued expenses | 2,464,648 | 4 | 2,375,988 | 5 |
| | | | | | Payables related to acquisitions of property and equipment | 1,433,592 | 3 | 1,400,216 | 3 |
| INVESTMENTS IN SHARES OF STOCK | <u>8,241,187</u> | <u>14</u> | <u>25,184</u> | - | Unearned revenue | 2,355,086 | 4 | 823,528 | 2 |
| | | | | | Current portion of long-term liabilities | 1,260,000 | 2 | 1,752,000 | 3 |
| PROPERTY AND EQUIPMENT | | | | | Other current liabilities | <u>702,961</u> | <u>1</u> | <u>140,780</u> | - |
| Cost | | | | | Total Current Liabilities | <u>9,519,937</u> | <u>17</u> | <u>8,621,749</u> | <u>17</u> |
| Land | 151,834 | - | 128,574 | - | | | | | |
| Buildings and equipment | 630,571 | 1 | 526,158 | 1 | LONG-TERM LIABILITIES | <u>9,385,427</u> | <u>16</u> | <u>8,110,924</u> | <u>16</u> |
| Computer equipment | 5,035,567 | 9 | 3,169,415 | 6 | | | | | |
| Telecommunication network facilities and equipment | 43,455,490 | 76 | 37,821,593 | 75 | OTHER LIABILITIES | | | | |
| Office equipment | 774,765 | 1 | 584,281 | 1 | Accrued pension cost | 123,049 | - | 72,561 | - |
| Leasehold improvement | 1,659,565 | 3 | 1,288,692 | 3 | Guarantee deposits received | 2,193,883 | 4 | 3,252,947 | 7 |
| Miscellaneous equipment | <u>54,802</u> | - | <u>46,630</u> | - | Long-term obligations under capital lease | - | - | <u>22,680</u> | - |

| | | | | | | | | | |
|--|---------------------|------------|---------------------|------------|--|---------------------|------------|---------------------|------------|
| Total cost | 51,762,594 | 90 | 43,565,343 | 86 | Total Other Liabilities | <u>2,316,932</u> | 4 | <u>3,348,188</u> | 7 |
| Less - accumulated depreciation | <u>15,730,637</u> | <u>27</u> | <u>9,651,320</u> | <u>19</u> | | | | | |
| | 36,031,957 | 63 | 33,914,023 | 67 | Total Liabilities | <u>21,222,296</u> | <u>37</u> | <u>20,080,861</u> | <u>40</u> |
| Construction in progress and advances related to acquisitions of equipment | <u>3,311,804</u> | <u>6</u> | <u>6,930,052</u> | <u>14</u> | | | | | |
| Net Property and Equipment | <u>39,343,761</u> | <u>69</u> | <u>40,844,075</u> | <u>81</u> | STOCKHOLDERS' EQUITY | | | | |
| | | | | | Capital stocks – \$10 par value | | | | |
| | | | | | Authorized – 3,360,000 thousand shares | | | | |
| | | | | | Issued – 2,305,800 thousand shares in 2002 and 1,890,000 thousand shares in 2001 | <u>23,058,000</u> | <u>40</u> | <u>18,900,000</u> | <u>37</u> |
| OTHER ASSETS | | | | | Capital surplus | | | | |
| Properties not currently used in operations – net | 95,100 | - | 58,700 | - | Capital in excess of par value | 5,967,572 | 11 | 6,156,572 | 12 |
| Refundable deposits | 392,016 | 1 | 385,900 | 1 | Share in capital surplus of an equity-accounted investee | <u>29,086</u> | - | - | - |
| Deferred income taxes | 1,009,352 | 2 | 1,082,586 | 2 | Total capital surplus | <u>5,996,658</u> | <u>11</u> | <u>6,156,572</u> | <u>12</u> |
| Miscellaneous | <u>30,839</u> | - | <u>24,663</u> | - | Retained earnings | | | | |
| Total Other Assets | <u>1,527,307</u> | <u>3</u> | <u>1,551,849</u> | <u>3</u> | Legal reserve | 1,097,646 | 2 | 431,718 | 1 |
| | | | | | Unappropriated earnings | <u>5,901,538</u> | <u>10</u> | <u>5,102,569</u> | <u>10</u> |
| | | | | | Total retained earnings | <u>6,999,184</u> | <u>12</u> | <u>5,534,287</u> | <u>11</u> |
| | | | | | Cumulative translation adjustments | <u>3,098</u> | - | <u>3,904</u> | - |
| | | | | | Total Stockholders' Equity | <u>36,056,940</u> | <u>63</u> | <u>30,594,763</u> | <u>60</u> |
| TOTAL ASSETS | <u>\$57,279,236</u> | <u>100</u> | <u>\$50,675,624</u> | <u>100</u> | TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$57,279,236</u> | <u>100</u> | <u>\$50,675,624</u> | <u>100</u> |

FAR EASTONE TELECOMMUNICATIONS CO., LTD
STATEMENT OF INCOME
For the Period Ended September 30, 2002 and 2001

(In Thousands of New Taiwan Dollars, Except Per Share)

| | 2002 | | 2001 | |
|---|--------------------|---------------|--------------------|---------------|
| | Amount | % | Amount | % |
| Operating Revenue | | | | |
| Sales of Equipment | \$1,006,149 | 4 | \$2,562,337 | 10 |
| Less- Sales Returns and Allowances | <u>3,395</u> | - | <u>528</u> | - |
| Net Sales | 1,002,754 | 4 | 2,561,809 | 10 |
| Service Revenue | 24,665,495 | 96 | 24,282,622 | 90 |
| Other Revenue | <u>7,036</u> | - | <u>7,964</u> | - |
| Total Operating Revenue | <u>25,675,285</u> | <u>100</u> | <u>26,852,395</u> | <u>100</u> |
| | | | | |
| OPERATING COST | | | | |
| Cost of Sales | 997,223 | 4 | 2,570,650 | 10 |
| Cost of Services | <u>11,373,303</u> | <u>44</u> | <u>9,667,460</u> | <u>36</u> |
| Total Operating Cost | <u>12,370,526</u> | <u>48</u> | <u>12,238,110</u> | <u>46</u> |
| | | | | |
| GROSS PROFIT | <u>13,304,759</u> | <u>52</u> | <u>14,614,285</u> | <u>54</u> |
| | | | | |
| OPERATING EXPENSES | | | | |
| Marketing | 4,461,631 | 18 | 5,436,418 | 20 |
| General and Administrative | 2,401,052 | 9 | 4,170,442 | 16 |
| Research and Development | <u>170,926</u> | <u>1</u> | <u>111,397</u> | - |
| Total Operating Expenses | <u>7,033,609</u> | <u>28</u> | <u>9,718,257</u> | <u>36</u> |
| | | | | |
| INCOME FROM OPERATIONS | <u>6,271,150</u> | <u>24</u> | <u>4,896,028</u> | <u>18</u> |
| | | | | |
| NON-OPERATING INCOME | | | | |
| Interest | 15,243 | - | 20,852 | - |
| Reversal of allowance for losses on inventories | 34,255 | - | 25,277 | - |
| Foreign Exchange Gains-net | - | - | 58,421 | - |
| Other | <u>81,177</u> | <u>1</u> | <u>138,156</u> | <u>1</u> |
| Total Non-operating Income | <u>130,675</u> | <u>1</u> | <u>242,706</u> | <u>1</u> |
| | | | | |
| NON-OPERATING EXPENSES | | | | |
| Interest | \$238,873 | 1 | \$184,449 | 1 |
| Investment loss recognized under equity method | 36,045 | - | 19,816 | - |
| Other | <u>51,704</u> | - | <u>98,614</u> | - |
| Total Non-Operating Expenses | <u>326,622</u> | <u>1</u> | <u>302,879</u> | <u>1</u> |
| | | | | |
| INCOME BEFORE INCOME TAX | 6,075,203 | 24 | 4,835,855 | 18 |
| | | | | |
| INCOME TAX EXPENSE (GAIN) | <u>260,354</u> | <u>1</u> | <u>-134,580</u> | -1 |
| | | | | |
| NET INCOME | <u>\$5,814,849</u> | <u>23</u> | <u>\$4,970,435</u> | <u>19</u> |
| | | | | |
| EARNING PER SHARE | Before | After | Before | After |
| Earning per share | <u>\$2.63</u> | <u>\$2.52</u> | <u>\$2.10</u> | <u>\$2.16</u> |

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CASH FLOWS
For the Periods Ended September 30, 2002 and 2001
(In Thousands of New Taiwan Dollars)

| CASH FLOWS FROM OPERATING ACTIVITIES | 2002 | 2001 |
|--|--------------|--------------|
| Net income | \$ 5,814,849 | \$ 4,970,435 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 4,695,696 | 3,598,018 |
| Provision for doubtful accounts | 148,311 | 1,403,037 |
| Reversal of allowance for losses on inventories | (34,255) | (25,277) |
| Investment loss recognized under equity method | 36,045 | 19,816 |
| Loss on disposal of property and equipment | 27,747 | 6,202 |
| Accrued pension cost | 25,735 | 13,202 |
| Deferred income taxes | 71,359 | (633,582) |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in | | |
| Notes receivable and accounts receivable | 583,519 | 60,637 |
| Inventories | 157,122 | 195,205 |
| Prepaid expenses | (1,200,025) | (280,711) |
| Other current assets | 139,102 | 457,325 |
| Increase (decrease) in | | |
| Notes payable | 49,890 | 35,406 |
| Accounts payable | (108,929) | (384,463) |
| Payable to related parties | (178,556) | (168,233) |
| Income tax payable | (282,971) | 184,506 |
| Accrued expenses | 103,489 | (1,265,298) |
| Unearned revenue | 1,336,212 | 72,865 |
| Other current liabilities | (111,447) | (7,519) |
| Net Cash Provided by Operating Activities | 11,272,893 | 8,251,571 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease in short-term investments | - | 34,800 |
| Return of deposit on subscription | - | 41,096 |
| Acquisitions of investments in shares of stock | (7,170,000) | - |
| Acquisitions of property and equipment | (3,348,437) | (10,542,780) |
| Proceeds from sales of property and equipment | 1,694 | 6,150 |
| Increase in refundable deposits | (7,580) | (63,234) |
| Decrease (increase) in other assets | 19,903 | 10,394 |
| Net Cash Used in Investing Activities | (10,504,420) | (10,513,574) |

(Forward)

| | | |
|---|---------------------|----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | \$ - | \$ 650,000 |
| Decrease in long-term liabilities | 111,807 | 1,225,246 |
| Bonus paid to employees, directors and supervisors | (167,504) | (3,636) |
| Cash dividend paid to shareholders | (1,369,472) | - |
| Decrease in guarantee deposits | (772,752) | (872,178) |
| Net Cash Provided by Financing Activities | <u>(2,197,921)</u> | <u>999,432</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (1,429,448) | (1,262,571) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>2,807,799</u> | <u>2,048,270</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 1,378,351</u> | <u>\$ 785,699</u> |
| SUPPLEMENTARY INFORMATION | | |
| Interest paid (excluding capitalized interest) | \$ 120,531 | \$ 142,095 |
| Income tax paid | <u>\$ 488,628</u> | <u>\$ 307,102</u> |
| NON-CASH FINANCING ACTIVITIES | | |
| Current portion of long-term liabilities | <u>\$ 1,260,000</u> | <u>\$ 1,752,000</u> |
| CASH PAID FOR ACQUISITIONS OF PROPERTY AND EQUIPMENT | | |
| Increase in property and equipment | \$ 3,338,465 | \$ 10,490,101 |
| Decrease (increase) in payables related to acquisitions of property and equipment | (16,170) | 26,997 |
| Decrease in long-term obligations under capital lease | <u>26,142</u> | <u>25,682</u> |
| Actual cash paid for acquisitions of property and equipment | <u>\$ 3,348,437</u> | <u>\$ 10,542,780</u> |
| PROCEEDS FROM DISPOSAL OF PROPERTY AND EQUIPMENT | | |
| Total amount of property and equipment sold | \$ 2,477 | \$ 6,150 |
| Increase in receivable from properties sold | <u>(783)</u> | - |
| Actual cash received from disposal of property and equipment | <u>\$ 1,694</u> | <u>\$ 6,150</u> |