Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Six Months Ended
June 30, 2003 and 2002
Together with Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

<u>English Translation of a Report Originally Issued in Chinese</u>

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Far EasTone Telecommunications Co., Ltd.

We have audited the accompanying balance sheets of Far EasTone Telecommunications Co., Ltd. as of June 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far EasTone Telecommunications Co., Ltd. as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting for Public Company and accounting principles generally accepted in the Republic of China.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
The Republic of China

August 1, 2003

<u>Notice to Readers</u>

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

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS
JUNE 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Par Value)

	2003		2002	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 5,441,523	9	$ 3,459,842	6
Accounts and notes receivable—net of allowance for doubtful accounts of $576,483 in 2003 and $427,714 in 2002 (Note 2)	3,792,730	6	3,892,453	7
Inventories—net (Notes 2 and 4)	366,803	1	648,617	1
Prepaid expenses (Note 13)	1,794,287	3	1,469,507	2
Deferred income tax assets—current (Notes 2 and 12)	500,382	1	736,889	1
Other current assets (Note 13)	211,915	-	50,440	-
Total current assets	12,107,640	20	10,257,748	17
INVESTMENTS IN SHARES OF STOCK UNDER THE EQUITY METHOD (Notes 2 and 5)	8,085,638	13	8,243,509	14
PROPERTIES (Notes 2, 6 and 13)				
Cost				
Land	952,284	2	149,834	-
Buildings and equipment	1,442,425	2	621,418	1
Computer equipment	5,912,894	10	4,666,588	8
Operating equipment	46,871,304	76	42,330,276	71
Office equipment	771,865	1	763,438	1
Leasehold improvements	1,687,235	3	1,649,003	3
Miscellaneous equipment	54,834	-	43,701	-
Total cost	57,692,841	94	50,224,258	84
Less: Accumulated depreciation	20,847,119	34	14,128,906	24
	36,845,722	60	36,095,352	60
Construction in progress and advances related to acquisition of equipment	2,573,098	4	3,853,209	6
Net properties	39,418,820	64	39,948,561	66
OTHER ASSETS				
Properties not currently used in operations (Note 2)	93,200	-	97,000	-
Refundable deposits (Note 13)	233,801	-	389,798	1
Deferred income tax assets—noncurrent (Notes 2 and 12)	1,717,274	3	1,134,128	2
Miscellaneous (Note 2)	105,131	-	35,550	-
Total other assets	2,149,406	3	1,656,476	3
TOTAL ASSETS	$ 61,761,504	100	$ 60,106,294	100

	2003		2002	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes payable	$ 22,863	-	$ 76,460	-
Accounts payable	269,400	-	337,947	1
Payables to related parties (Note 13)	480,288	1	556,733	1
Income tax payable (Notes 2 and 12)	31,880	-	288,236	-
Accrued expenses	2,279,100	4	2,395,538	4
Dividend payable (Note 8)	2,997,540	5	1,890,000	3
Payables related to acquisition of properties	1,424,598	2	1,162,624	2
Unearned revenues (Note 2)	2,217,178	4	1,894,567	3
Current portion of long-term liabilities (Notes 6 and 7)	616,000	1	2,690,000	4
Other current liabilities (Notes 2, 6, 8 and 13)	229,716	-	320,798	1
Total current liabilities	10,568,563	17	11,612,903	19
LONG-TERM LIABILITIES—Net of current portion (Notes 2, 6 and 7)	10,632,025	17	11,719,298	20
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 10)	150,035	-	114,507	-
Guarantee deposits received	1,756,340	3	2,455,566	4
Total other liabilities	1,906,375	3	2,570,073	4
Total liabilities	23,106,963	37	25,902,274	43
STOCKHOLDERS' EQUITY				
Capital stocks—$10 par value				
Authorized—3,360,000 thousand shares				
Issued—2,305,800 thousand shares in 2003 and 1,890,000 thousand shares in 2002	23,058,000	37	18,900,000	31
To be issued—391,986 thousand shares in 2003 and 415,800 thousand shares in 2002	3,919,860	7	4,158,000	7
Capital surplus:				
Paid-in capital in excess of par value	5,944,514	10	5,967,572	10
From investments in shares of stock	29,086	-	29,086	-
Total capital surplus	5,973,600	10	5,996,658	10
Retained earnings:				
Legal reserve	1,878,488	3	1,097,646	2
Unappropriated earnings	3,821,541	6	4,048,618	7
Total retained earnings	5,700,029	9	5,146,264	9
Cumulative translation adjustments	3,052	-	3,098	-
Total stockholders' equity	38,654,541	63	34,204,020	57
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 61,761,504	100	$ 60,106,294	100

The accompanying notes are an integral part of the financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2003		2002	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 13)				
Sales of cellular phone units and accessories	$ 1,185,630	7	$ 510,503	3
Less: Sales returns and allowances	32,539	-	1,903	-
Net sales	1,153,091	7	508,600	3
Service revenues	16,567,244	93	16,328,951	97
Other	1,893	-	7,024	-
Total operating revenues	17,722,228	100	16,844,575	100
OPERATING COSTS (Notes 2, 11 and 13)				
Cost of sales	1,200,789	7	675,156	4
Cost of services	7,688,180	43	7,438,525	44
Total operating costs	8,888,969	50	8,113,681	48
GROSS PROFIT	8,833,259	50	8,730,894	52
OPERATING EXPENSES (Notes 2, 11 and 13)				
Marketing	2,992,894	17	2,691,036	16
General and administrative	1,788,131	10	1,625,441	9
Research and development	150,740	1	116,984	1
Total operating expenses	4,931,765	28	4,433,461	26
OPEATING INCOME	3,901,494	22	4,297,433	26
NONOPERATING INCOME				
Management service revenue (Note 13)	100,997	1	-	-
Interest	19,363	-	9,882	-
Foreign exchange gains—net (Note 2)	4,335	-	-	-
Reversal of allowance for losses on inventories	574	-	20,391	-
Other	7,378	-	23,412	-
Total nonoperating income	132,647	1	53,685	-
NONOPERATING EXPENSES				
Interest (Notes 2 and 6)	163,794	1	160,063	1
Equity in net loss of investees (Notes 2 and 5)	137,514	1	33,723	-
Loss on disposal of properties—net	26,160	-	10,561	-
Foreign exchange losses—net (Note 2)	-	-	7,635	-
Total nonoperating expenses	327,468	2	211,982	1

(Continued)

	2003		2002	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 3,706,673	21	$ 4,139,136	25
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 12)	(105,773)	(1)	177,207	1
NET INCOME	$ 3,812,446	22	$ 3,961,929	24

	2003		2002	
	Income Before Income Tax	**Net Income**	**Income Before Income Tax**	**Net Income**
EARNINGS PER SHARE (Note 9)				
Primary	$1.37	$1.41	$1.53	$1.47
Diluted	$1.32	$1.35	$1.53	$1.47

The accompanying notes are an integral part of the financial statements. (Concluded)

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued (Note 2)			Capital Surplus (Notes 2 and 8)			Retained Earnings (Note 8)				
	Shares (thousands)	Amount	To be Issued (Note 8)	Paid-in capital in excess of par value	From investments in shares of stock	Total	Legal reserve	Unappropriated earnings	Total	Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2003	2,305,800	$ 23,058,000	$ -	$ 5,967,572	$ 29,086	$ 5,996,658	$ 1,097,646	$ 7,895,106	$ 8,992,752	$ 3,098	$ 38,050,508
Appropriation of 2002 earnings											
Legal reserve	-	-	-	-	-	-	780,842	(780,842)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(140,551)	(140,551)	-	(140,551)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(70,276)	(70,276)	-	(70,276)
Cash dividend—13%	-	-	-	-	-	-	-	(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividend—16.9%	-	-	3,896,802	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus—0.1%	-	-	23,058	(23,058)	-	(23,058)	-	-	-	-	-
Net income for the six months ended June 30, 2003	-	-	-	-	-	-	-	3,812,446	3,812,446	-	3,812,446
Translation adjustments	-	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, JUNE 30, 2003	2,305,800	$ 23,058,000	$ 3,919,860	$ 5,944,514	$ 29,086	$ 5,973,600	$ 1,878,488	$ 3,821,541	$ 5,700,029	$ 3,052	$ 38,654,541
BALANCE, JANUARY 1, 2002	1,890,000	$ 18,900,000	$ -	$ 6,156,572	$ -	$ 6,156,572	$ 431,718	$ 6,791,418	$ 7,223,136	$ 3,904	$ 32,283,612
Appropriation of 2001 earnings											
Legal reserve	-	-	-	-	-	-	665,928	(665,928)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(119,867)	(119,867)	-	(119,867)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(59,934)	(59,934)	-	(59,934)
Cash dividend—10%	-	-	-	-	-	-	-	(1,890,000)	(1,890,000)	-	(1,890,000)
Stock dividend—21%	-	-	3,969,000	-	-	-	-	(3,969,000)	(3,969,000)	-	-
Capitalization of capital surplus—1%	-	-	189,000	(189,000)	-	(189,000)	-	-	-	-	-
Recognition of effect of change in investment ownership percentage resulting from issuance of capital stock by investee for cash	-	-	-	-	29,086	29,086	-	-	-	-	29,086
Net income for the six months ended June 30, 2002	-	-	-	-	-	-	-	3,961,929	3,961,929	-	3,961,929
Translation adjustments	-	-	-	-	-	-	-	-	-	(806)	(806)
BALANCE, JUNE 30, 2002	1,890,000	$ 18,900,000	$ 4,158,000	$ 5,967,572	$ 29,086	$ 5,996,658	$ 1,097,646	$ 4,048,618	$ 5,146,264	$ 3,098	$ 34,204,020

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,812,446	$ 3,961,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,496,501	3,070,085
Provision for doubtful accounts	181,365	89,511
Reversal of allowance for losses on inventories	(574)	(20,391)
Equity in net loss of investees	137,514	33,723
Loss on disposal of properties—net	26,160	10,561
Accrued pension cost	18,905	17,193
Deferred income taxes	(193,389)	75,895
Interest premium on convertible bonds	14,450	-
Amortization of issuance cost of convertible bonds	18,763	-
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts receivable and notes receivable	(757,518)	132,464
Inventories	289,785	102,333
Prepaid expenses	(30,541)	(765,624)
Other current assets	(146,278)	147,911
Increase (decrease) in		
Notes payable	(6,081)	47,887
Accounts payable	(319,945)	(166,212)
Payables to related parties	(179,941)	(63,158)
Income tax payable	(105,215)	(383,357)
Accrued expenses	(649,448)	34,379
Unearned revenues	166,868	875,693
Other current liabilities	31,106	(20,719)
Net cash provided by operating activities	5,804,933	7,180,103
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	-	(7,170,000)
Acquisition of properties	(3,538,172)	(2,583,578)
Proceeds from sale of properties	16,035	988
Decrease (increase) in refundable deposits	139,478	(5,362)
Increase in other assets	(100,776)	(14,850)
Net cash used in investing activities	(3,483,435)	(9,772,802)

(Continued)

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term liabilities	$ 1,271,736	$ 3,875,678
Decrease in guarantee deposits received	(235,387)	(511,069)
Bonus paid to employees and directors	(154,666)	(119,867)
Net cash provided by financing activities	881,683	3,244,742
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,203,181	652,043
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,238,342	2,807,799
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,441,523	$ 3,459,842
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	$ 192,232	$ 118,506
Income tax paid	$ 192,831	$ 487,742
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 616,000	$ 2,690,000
CASH PAID FOR ACQUISITIONS OF PROPERTIES		
Increase in properties	$ 2,842,052	$ 2,302,638
Decrease in payables related to acquisitions of properties	695,580	254,798
Decrease in long-term obligations under capital lease	540	26,142
ACTUAL CASH PAID FOR ACQUISITION OF PROPERTIES	$ 3,538,172	$ 2,583,578
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	$ 17,393	$ 2,298
Increase in receivable from properties sold	(1,358)	(1,310)
ACTUAL CASH RECEIVED FROM DISPOSAL OF PROPERTIES	$ 16,035	$ 988

The accompanying notes are an integral part of the financial statements. (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares have been traded and listed on the ROC Over-the-Counter Securities Exchange (now known as GreTai Securities Market) since December 10, 2001. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone units and accessories. The Company's principal stockholders are Far Eastern Textile Ltd. and its affiliates (the "Far Eastern Group") and the AT&T Wireless Group and its affiliates.

The Company provides wireless communications services by geographical sector under two type I licenses—GSM 900 for the northern sector and GSM 1800 for all other sectors ("GSM" means global system for mobile communications) issued by the Directorate General of Telecommunications (DGT) of the Republic of China (ROC). These licenses allow the Company to provide services for 15 years from 1997 as well as entail an annual license fee of 2% of total wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years from 1999 for a fixed annual license fee based on the amount of the Company's capital stock. In addition, the Company provides services under a type II-ISR license for 10 years from December 2001 and pays an annual license fee at 0.5% of ISR service revenues. The Company also obtained a type I-local and long-distance leased circuit license for 15 years from 2003 and pays an annual license fee at 1% of leased circuit service revenues.

The Company's employees numbered 2,149 and 2,327 as of June 30, 2003 and 2002, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines for Securities Issuers' Financial Reporting for Public Company and accounting principles generally accepted in the ROC.

The Company uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, depreciation of properties, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

The Company's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets are items expected to be converted into cash or used within one year; otherwise, the items are classified as noncurrent assets. Current liabilities are obligations expected to be settled within one year; otherwise, the liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper purchased under agreements to resell with original maturities of not more than three months are classified as cash equivalents.

Allowance for Doubtful Accounts Receivable

An allowance for doubtful accounts receivable is provided on the basis of the aging status and estimated collectibility of receivables from subscribers and other parties.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined by the moving weighted-average method.

Long-Term Investments in Shares of Stock

Long-term investments in shares of stock in which the Company exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately to the Company's share in the investee's net income or net loss. If an investee issues additional shares and the Company subscribes to these shares at a percentage different from its original equity in the investee, the resulting increase in the Company's equity in its investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Any cash dividends received are recognized as a reduction in the carrying value of the investments. Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The carrying amount of each share is recalculated on the basis of the total number of shares, including the received stock dividend.

If the current year's financial statements of less than majority-owned investees are not timely available to the Company, the equity in the net income or net loss of these investees is recognized in the succeeding year on the basis of the financial statements of the previous year.

Properties

Properties are stated at cost. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets. Major improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their service lives are depreciated over their newly estimated service lives.

Equipment under capital leases and the related liability are stated at the lower of (1) the fair value of the equipment at the start of the lease or (2) the total present value of future lease payments and the bargain purchase option.

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48
Building equipment	5-8
Computer equipment	3-5
Operating equipment	5-8
Office equipment	5
Leasehold improvements	5-48
Miscellaneous equipment	5-8

Upon retirement or other disposal (e.g., sale) of properties, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to nonoperating income or expenses.

Properties not Currently Used in Operations

Properties not currently used in operations, such as telecommunications towers, are stated at the lower of cost or net realizable value.

Revenue Recognition

Revenue is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees are accrued every month; and (c) prepaid call and Internet card services are recognized as income based upon customer usage.

The revenues from and expenses for the sale of cellular phone units and accessories are recognized when the products are delivered to and accepted by the customers because the related transaction is considered a separate earnings process from the sale of wireless services.

The amount received at the start of a bundle contract (which covers both the purchase price of a cellular phone unit and service fees for an equivalent number of minutes of traffic each month throughout the validity period of the contract) is deferred and recognized as revenue over the validity period of the contract using the straight-line method. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the start of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the start of the contract is deferred and amortized as marketing expenses over the validity period of the contract using the straight-line method.

Operating revenues are measured at fair values based on the prices negotiated between the Company and the customers. Since the future values of operating revenues resulting from receivables within one year approximate the fair values of these receivables, the fair values are not calculated.

Promotion Expenses

Commissions and cellular phone unit subsidy costs (other than those pertaining to the bundle contract mentioned above) related to the Company's promotions are treated as marketing expenses in the year when the service to a subscriber is activated.

Pension Costs

The Company has a defined benefit pension plan for all regular employees. Benefits are based on the number of service years and basic pay on the final month before retirement.

Pension costs are recognized on the basis of actuarial calculations. Gains arising from plan curtailment due to pretermination of employees' services are recognized as an adjustment to pension cost in the current period. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service of employees, respectively.

Convertible Bonds

The Company issued overseas convertible bonds at par value and without any discount or premium. The Company gave the bondholders the right to redeem the convertible bonds in cash at par value plus the interest-premium at a specific date. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized by using the interest method and should be recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. The direct and necessary costs (included in other assets—miscellaneous) of issuing convertible bonds should be amortized using the straight-line method over the same period as interest-premium.

When the bondholder exercises the conversion option, the Company uses the book-value approach. The Company should write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The common stock exchange certificate (capital stock) should be valued as the net written-off carrying amount, and the difference over the par value of the common stock exchange certificate (capital stock) should be recognized as additional paid-in capital.

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carry forwards and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred income tax assets that are not certain to be realized. Deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the classifications of the related assets and liabilities. A deferred asset or liability that cannot be related to an asset or a liability in the financial statements is classified as current or noncurrent according to the expected realization date of the temporary difference.

The tax credits or certain purchases of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in the current period’s income tax expense.

Adjustments of prior years’ tax liabilities are added to, or deducted from, the current period’s income tax expenses.

Income taxes (10%) on undistributed earnings since January 1, 1998 are recorded as expense in the year when the stockholders resolve to retain the earnings.

Foreign-Currency Transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the period of settlement.

On the balance sheet dates, the balances of foreign-currency denominated assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as follows:

a. Equity-accounted investments—as cumulative translation adjustments under stockholders' equity; and

b. Other assets and liabilities—as credits or charges to income.

Financial Derivatives

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. The amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item on the balance sheet dates and settlement dates.

Forward exchange contracts are entered into as hedges of foreign-currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the spot rates on the starting dates of the contracts (the "starting dates"). The premium or discount, which is the amount of the contract multiplied by the difference between the contracted forward rate and the spot rates on the starting dates, is deferred and then recognized as an adjustment to the carrying amounts when the hedged transactions occur. But if the contract amount exceeds the amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current period.

On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the contract amounts by the difference between the rates on the starting dates and the balance sheet dates (or the rates last used to measure a gain or loss on that contract for an earlier period), are recognized in the same way used for amortizing the premium or discount described above. Also, the receivables and payables related to the forward contracts are netted out, and the net amount is presented as an asset or a liability.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2002 have been reclassified to conform to the presentation of financial statements as of and for the six months ended June 30, 2003.

3. CASH AND CASH EQUIVALENTS

	June 30	
	2003	2002
Cash		
Cash on hand	$ 6,977	$ 7,457
Checking and demand deposits	728,424	1,097,967
Time deposit 0.92% to 1.2% interest	2,744,273	-
	3,479,674	1,105,424
Cash equivalents		
Commercial paper purchased under agreements to resell interest of 0.95% to 1.125% in 2003 and 1.4% to 1.7% in 2002	1,961,849	2,354,418
	$ 5,441,523	$ 3,459,842

4. INVENTORIES—NET

	June 30	
	2003	2002
Cellular phone units	$ 292,162	$ 306,439
SIM cards	77,897	347,772
Cellular phone accessories	4,871	6,817
	374,930	661,028
Less: Allowance for losses	8,127	12,411
	$ 366,803	$ 648,617

Inventory insurance as of June 30, 2003 was about $637,606.

5. INVESTMENT IN SHARES OF STOCK UNDER THE EQUITY METHOD

	June 30			
	2003		2002	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Yuan-Ze Telecommunications Co., Ltd.	$ 8,077,120	80.71	$ 8,233,167	80.71
E. World (Holdings) Ltd.	8,518	19.00	10,342	19.00
	$ 8,085,638		$ 8,243,509	

The Company incorporated Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze") as a wholly owned subsidiary in December 2001. Yuan-Ze obtained a 3G (third-generation wireless communications system) license in February 2002 through a bidding process and acquired additional shares of stock with an aggregate par value of $9,170,000 in March 2002. The Company subscribed to these additional shares for an aggregate par value of $7,170,000 only; thus, the Company's equity in Yuan-Ze was diluted to 80.71%.

The investment in E. World (Holdings) is accounted for by the equity method since the combined equity interests of the Far Eastern Group in E. World (Holdings) allow the Company to exercise significant influence on its operating and financial policy decisions. The amount recognized as equity in the net income or net loss of E. World (Holdings) in 2003 and 2002 is based on the net income or net loss of E. World (Holdings) in 2002 and 2001, as the financial statements of the E. World (Holdings) could not be timely obtained.

The carrying values of the foregoing investments are based on stockholders' equity as disclosed in the most current audited financial statements.

6. PROPERTIES

a. Accumulated depreciation consisted of:

	June 30	
	2003	2002
Buildings and equipment	$ 135,585	$ 80,546
Computer equipment	2,527,960	1,562,091
Operating equipment	17,155,976	11,762,044
Office equipment	392,126	270,136
Leasehold improvements	594,269	416,269
Miscellaneous equipment	41,203	37,820
	$ 20,847,119	$ 14,128,906

Depreciation expenses for the six months ended June 30, 2003 and 2002 were $3,496,352 and $3,069,748, respectively.

Property insurance as of June 30, 2003 amounted to $47,031,954.

b. The Company leases Internet equipment with software (included in operating equipment) for three years, with total lease payments amounting to $35,686. The lease agreements qualify as capital lease since (a) the present value of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) the Company has the option to buy all the leased equipment at a bargain price of NT$1.00 only. The details of the lease as of June 30, 2002 are as follows:

	June 30, 2002
Total future lease payments	$ 23,295
Less: Imputed interest expense	5,123
	18,172
Less: Lease payable within one year (included in other current liabilities)	18,172
Long-term obligations under capital lease	$ -

The Company purchased the above Internet equipment with software at the bargain price when the agreement became due in 2003.

c. Capitalized interest on properties was as follows:

	Six Months Ended June 30	
	2003	2002
Total interest expense	$ 217,799	$ 263,862
Less: Interest capitalized—3.016% to 3.91% in 2003 and 3.78% to 4.86% in 2002	54,005	103,799
Interest expense—net of amounts capitalized	$ 163,794	$ 160,063

d. Properties amounting to $5,115,030 and $11,190,369 had been pledged or mortgaged as collaterals as of June 30, 2003 and 2002, respectively.

7. LONG-TERM LIABILITIES

	June 30, 2003		
	Within One Year	Others	Total
Overseas unsecured convertible bonds	$ -	$ 3,979,575	$ 3,979,575
Interest premium—overseas unsecured convertible bonds	-	14,450	14,450
Domestic secured bonds	616,000	968,000	1,584,000
Domestic unsecured bonds—1st	-	4,200,000	4,200,000
Domestic unsecured bonds—2nd	-	1,470,000	1,470,000
	$ 616,000	$ 10,632,025	$ 11,248,025

	June 30, 2002		
	Within One Year	Others	Total
Domestic secured bonds	$ 616,000	$ 1,584,000	$ 2,200,000
Domestic unsecured bonds—1st	-	4,200,000	4,200,000
Loan—Shin Kong Life Insurance Co.	-	1,470,000	1,470,000
Commercial paper	2,074,000	3,665,298	5,739,298
Domestic unsecured bank loans	-	800,000	800,000
	$ 2,690,000	$ 11,719,298	$ 14,409,298

a. Overseas unsecured convertible bonds

These are five-year unsecured zero coupon convertible bonds issued on February 19, 2003, with total face value of US$115,000 thousand. The bonds are listed on the Luxembourg Stock Exchange. The repayment or conversion terms of the bonds are as follows:

1) Company's redemption of the bonds upon maturity at 105.114% of their face value on February 19, 2008;

2) Redemption at the option of the bondholder at 102.015% of their face value on February 19, 2005;

3) The right of each bondholder to convert the bonds into shares or global depositary receipts between March 21, 3003 and including January 20, 2008. The conversion price on June 30, 2003 was NT$35.955, subject to adjustment for shares change. As of June 30, 2003, no bonds had been converted into shares.

4) Redemption at the Company's option, at a specific price under certain conditions, starting February 19, 2006.

b. Domestic secured bonds

These are five-year secured domestic bonds issued at par value on November 30, 2000. The total face value of the bonds is $2,200,000, with each bond having a face value of $1,000 at an interest rate of 5.06%, compounded semiannually. Starting on December 1, 2002 and every six months thereafter, the Company should redeem the bonds for up to 14% to 15% of their face value.

c. Domestic unsecured bonds—1st

These are five-year unsecured domestic bonds issued at par value on February 19, 2002. The total face value of the bonds is $4,200,000, with each bond having a face value of $1,000 at 3.4% annual interest rate. Redemption is at a percentage of the face amount of the bond, as follows: Type I bond—40% in February 2006 and 60% in February 2007; and Type II bond—60% in February 2006 and 40% in February 2007.

d. Domestic unsecured bonds—2nd

These are five-year unsecured domestic bonds issued at par value on March 28, 2003. The total face value of the bonds is $1,470,000, with each bond having a face value of $1,000 at an interest rate of 2.6% in the first year and 3.2% minus USD 6 month LIBOR rate from the second year to maturity, payable semiannually. The Company should redeem the full amount when the bonds become due in 2008.

e. The loan from Shin Kong Life Insurance Co. was secured by a guarantee issued by a bank consortium. The interest rate on the loan was 5.025% as of June 30, 2002. The principal and accumulated interests on the loan were due on January 25, 2005. The Company repaid the loan on March 21, 2003 and paid a compensation charge $23,559 for early settlement.

f. Commercial paper

1) Commercial paper amounting to $5,139,298 were issued at discounts ranging from 2.32% to 2.86% as of June 30, 2002 and repaid on August 30, 2002.

2) Commercial paper amounting to $600,000, with interest of 2.3% as of June 30, 2002, was due on July 1, 2002.

g. Domestic unsecured bank loans

1) The Company took a $200,000 bank loan from First Commercial Bank an interest rate ranging from 3.38% to 3.94% as of June 30, 2002. It repaid the loan on March 7, 2003.

2) The Company took bank loans amounting to $600,000 from BNP Paribas and E.Sun Bank and repaid them on July 1, 2002. The interest on the loan was 2.91% to 3.5% as of June 30, 2002.

As of June 30, 2003, the Company had unused long-term and short-term credit lines of about $5,956,000 and $6,156,000, respectively, which are available for long-term and short-term credit facilities.

8. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, paid-in capital in excess of par value may be used to offset a deficit or transferred to capital as stock dividend within prescribed limits only.

The Company's Articles of Incorporation provide that, every year, 10% of net income less income tax and any accumulated deficit should be appropriated as legal reserve. In addition, if the Company decides to distribute dividends, 2% of the balance should be appropriated as bonuses to employees, and 1% of the final balance should be appropriated as remuneration to directors and supervisors.

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals the aggregate par value of the Company's outstanding shares. This reserve can only be used to offset a deficit, or when the reserve reaches 50% of the aggregate par value of the Company's outstanding shares, up to 50% of the reserve may be distributed as stock dividend.

The cash dividends should be at least 10% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures.

These appropriations and other allocations of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Under the integrated income tax system, noncorporate ROC-resident stockholders are allowed a tax credit for the income tax paid by the Company on earnings generated from January 1, 1998. Under this system, the Company maintains an imputation credit account (ICA) for the income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the balance shown in the ICA on the date of dividend distribution.

The appropriation and distribution of the 2002 and 2001 earnings were approved by the stockholders on May 23, 2003 and June 25, 2002, respectively.

	Appropriation and Distribution		Dividend Per Share (Dollars)	
	2002	2001	2002	2001
Legal reserve	$ 780,842	$ 665,928		
Bonus to employees	140,551	119,867		
Remuneration to directors and supervisors	70,276	59,934		
Cash dividend	2,997,540	1,890,000	$ 1.30	$ 1.00
Stock dividend	3,896,802	3,969,000	1.69	2.10

The stockholders also approved the capitalization of unappropriated earnings of $3,896,802 and paid-in capital in excess of par value of $23,058 to issue additional shares amounting to $3,919,860 (included in capital stock—to be issued). The aggregate par value of the Company's outstanding shares after the foregoing capitalization of unappropriated earnings and capital surplus increased to $26,977,860. The issuance of additional capital stock was approved by the Securities and Futures Commission and the Board of Directors set July 25, 2003 as the date when the stockholders of record will receive the additional shares.

As of June 30, 2003, the remuneration to directors and supervisors of $70,276 and cash dividend of $2,997,540 were included in other current liabilities and dividend payable, respectively.

9. EARNINGS PER SHARE

The information on earnings per share (EPS) calculation is as follows:

	Amount (Numerator)		Capital Stock	Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
Six months ended June 30, 2003					
Primary EPS					
Net income	$ 3,706,673	$ 3,812,446	2,697,786	$1.37	$1.41
The impact of dilutive potential common stocks					
Convertible bonds	(70,848)	(72,870)	62,281		
Diluted EPS					
Net income including the impact of dilutive potential common stocks	$ 3,635,825	$ 3,739,576	2,760,067	$1.32	$1.35
Six months ended June 30, 2002					
Primary and diluted EPS					
Net income	$ 4,139,136	$ 3,961,929	2,697,786	$1.53	$1.47

For the six months ended June 30, 2002, EPS retroactively adjusted for the 2001 and 2002 stock dividend declared in 2002 and 2003 decreased from $2.19 (before tax) to $1.53 and from $2.10 (after tax) to $1.47, respectively.

10. PENSION PLAN

The Company makes a monthly contribution of amounts equal to 2% of salaries and wages to a pension fund, which is administered by a pension plan committee and deposited in the committee's name in the Central Trust of China.

For the six months ended June 30, 2003 and 2002, the net pension costs were as follows:

	Six Months Ended June 30	
	2003	2002
Actuarial net pension cost	$ 33,830	$ 32,869
Deduct: Included in properties	1,328	1,367
Included in other current assets	469	156
Net pension cost (included in operating costs and expenses)	$ 32,033	$ 31,346

The Company's contributions to the fund were $15,363 and $15,676 for the six months ended June 30, 2003 and 2002, respectively. Benefit payments from the Fund were $7,611 for the six months ended June 30, 2002. Fund balances were $135,526 and $101,987 on June 30, 2003 and 2002, respectively.

11. EMPLOYEE-RELATED, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2003		
	Operating Costs	Operating Expenses	Total
Employee-related expenses			
Salaries	$ 126,783	$ 655,513	$ 782,296
Insurance	8,472	47,126	55,598
Pension	1,991	30,042	32,033
Miscellaneous	5,662	52,398	58,060
Depreciation	2,931,695	564,657	3,496,352
Amortization	-	149	149
	$ 3,074,603	$ 1,349,885	$ 4,424,488

12. INCOME TAX EXPENSE (BENEFIT)

a. Reconciliation of imputed income tax on pretax income at statutory rates to current income tax payable is as follows:

	Six Months Ended June 30	
	2003	2002
Income tax expense computed at statutory tax rate (25%)	$ 926,668	$ 1,034,784
Add (deduct) tax effects of:		
Permanent differences	(994)	(1,329)
Temporary differences	(96,236)	132,350
Tax-exempt income	(646,962)	(410,533)
Unappropriated earnings tax	17,460	110,514
Investment tax credits	(166,668)	(577,263)
Income tax payable	$ 33,268	$ 288,523

The balances of income tax payable as of June 30, 2003 and 2002 were net of the creditable income taxes of $1,388 and $287, respectively.

Net operating incomes generated from the use of switches and cell sites acquired are tax exempt, as follows:

1) Acquisitions from April 1, 1997 to December 31, 1999—exemption from January 1, 2000 to December 31, 2004;

2) Acquisitions from January 1, 2000 to June 26, 2002—exemption from June 26, 2002 to June 25, 2007.

b. Income tax expense (benefit) consisted of:

	Six Months Ended June 30	
	2003	**2002**
Income tax payable—current	$ 33,268	$ 288,523
Income tax benefit—deferred	(143,389)	(104,105)
Prior year's adjustment	3,622	(8,321)
Income tax expense on income subjected to a separate flat income tax rate of 20%	726	1,110
Income tax expense (benefit)	($ 105,773)	$ 177,207

c. Deferred income taxes assets as of June 30, 2003 and 2002 consisted of:

	June 30	
	2003	**2002**
Current		
Deferred income tax assets		
Provision for doubtful accounts	$ 499,944	$ 728,485
Employee welfare	2,250	6,750
Provision for losses on inventories	2,032	3,103
Other	114	1,080
	504,340	739,418
Deferred income tax liabilities		
Unrealized exchange gain	(3,958)	-
Receivable from insurance company	-	(2,246)
Other	-	(283)
	(3,958)	(2,529)
	$ 500,382	$ 736,889
Noncurrent		
Deferred income tax assets		
Investment tax credits	$ 1,194,776	$ 746,427
Depreciation resulting from the differences in estimated service lives of properties	391,569	309,088
Cumulative equity in the net loss of investee companies	89,399	49,943
Accrued pension cost	37,662	28,670
Accrued interest premium	3,612	-
Others	256	-
	$ 1,717,274	$ 1,134,128

d. Integrated income tax information:

	June 30	
	2003	2002
Balance of imputation credit account (ICA)	$ 203,762	$ 510,780

The estimated ratio of the ICA balance as of December 31, 2002 to unappropriated earnings as of such date was 2.58%. When the dividends from the unappropriated earnings as of December 31, 2001 were distributed in 2002, the actual ratio used was 7.4%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings will be used for allocating tax credits to each stockholder.

Deferred income tax rate for 2003 and 2002 was 25%.

The unused investment tax credits as of June 30, 2003 are summarized as follows:

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading	Purchase of automated	$ 582,722	$ 188,944	2004
Industries	equipment or technology	267,455	149,060	2005
Statute for Upgrading	Research and development	699,533	699,533	2004
Industries	expenditures	587,938	43,683	2005
		304,206	40,346	2006
Statute for Upgrading	Personnel training	41,543	41,543	2004
Industries	expenditures	19,629	19,629	2005
		12,038	12,038	2006
		$ 2,515,064	$ 1,194,776	

Income tax returns through 1999 had been examined and cleared by the tax authorities.

13. RELATED-PARTY TRANSACTIONS

The Company's related parties and relationships are as follows"

Related Party	Nature of Relationship
Yuang Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern International Leasing Corp. (FEILC)	Supervisor of the Company
Far Eastern Department Stores (FEDS)	Same chairman
Far Eastern Textile Ltd. (FETL)	Parent company of a major stockholder
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder
AT&T Corp. (AT&T)	Parent company of AWS
Far Eastern Telecom Engineering Corp. (FETEC)	Subsidiary of YDC
Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze")	Equity-accounted investee
Far Eastern Technology Developmental Foundation (FETTDF)	Company's donation to the foundation's capital over one-third

(Continued)

Related Party	Nature of Relationship
Far Eastern International Bank	Same chairman
Asia Cement Co., Ltd.	Same chairman
Oriental Union Chemical Corporation	Same chairman
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd.	Same chairman
Oriental Institute of Technology	Same chairman
Ding Ding Hotel Co., Ltd.	Same chairman
Liquid Air Far East Co., Ltd.	Its chairman is the relative of the Company's chairman
Far Eastern Apparel Co., Ltd.	Same major stockholder as that of the Company
Yuan Ding Leasing Corp.	Same major stockholder as that of the Company

The Company's significant business transactions with the above related parties were as follows:

		2003		2002	
		Amount	%	Amount	%
During the period					
Operating revenue	a.				
NCIC	b.	$ 302,986	2	$ 439,923	3
Other	n.	126	-	213	-
		$ 303,112	2	$ 440,136	3
Operating costs and expenses					
Service cost—NCIC	b.	$ 14,857	-	$ 2,194	-
Rental					
FEILC	c.	$ 63,131	9	$ 97,146	15
FETL	d.	27,665	4	28,636	5
YDC	e.	1,758	-	977	-
Other	n.	2,812	1	2,775	-
		$ 95,366	14	$ 129,534	20
Management service fee—AWS	f.	$ 24,000	100	$ 42,338	100
Trademark license fee—AT&T	g.	$ -	-	$ 17,510	100
Research and development expense					
FETTDF	h.	$ 7,967	60	$ 9,148	72
Nonoperating income					
Service revenue					
Yuan-Ze	i.	$ 100,997	100	$ -	-

(Continued)

		2003		2002	
		Amount	%	Amount	%
Acquisition of properties					
FEILC	c.	$ 1,532,506	54	$ -	-
FETEC	j.	34,597	1	488,550	21
Other	n.	-	-	28	-
		$ 1,567,103	55	$ 488,578	21
At end of period					
Prepaid expenses					
FEILC	c.	$ 1,732	-	$ 5,256	1
FETL	d.	711	-	4,266	-
FEDS	l.	538	-	2,900	-
YDC	e.	1,688	-	1,086	-
Other	n.	1,360	-	2,224	-
		$ 6,029	-	$ 15,732	1
Other current assets					
Other receivable					
Yuan-Ze	i.	$ 137,000	65	$ 26,622	53
NCIC	k.	14,469	7	-	-
AWS	f.	14,307	7	-	-
Other	n.	6,011	2	-	-
		$ 171,787	81	$ 26,622	53
Refundable deposits					
FEILC	c.	$ 6,839	3	$ 145,785	38
YDC	e.	908	-	811	-
Other	n.	244	-	186	-
		$ 7,991	3	$ 146,782	38
Payables to related parties					
FETEC	j.	$ 337,664	70	$ 342,633	62
NCIC	b. and m.	104,915	22	120,675	22
AT&T	g.	15,014	3	52,715	9
AWS	f.	-	-	21,220	4
Other	n.	22,695	5	19,490	3
		$ 480,288	100	$ 556,733	100
Other current liabilities					
Other payable—NCIC	k.	$ -	-	$ 49,807	16

The descriptions of the transactions with related parties are as follows:

a. Operating revenues (such as service revenue and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.

b. The transactions between the Company and NCIC consisted of sales to NCIC of cellular phone units and accessories and interconnection activities for NCIC's use of the Company's network. The interconnection fees paid by the Company on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to the Company are included in service cost. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction in service revenue and was included in payables to related parties.

c. The Company leased from FEILC the following: (a) its office spaces in Neihu from February 2000 to April 2003; (b) the land and mobile switch centers located in Neihu, Taichung, Tainan and Kaohsiung from February 2000 to June 2004; and (c) vehicles.

   When the contracts expire, the Company may either renew the contracts or purchase the buildings or land at the following prices:

	Purchase Price
Neihu switch center	$ 130,000
Taichung land for switch center	106,050
Tainan switch center	78,000
Kaohsiung office space	45,900
Hsinchu land for switch center	120,000

   The contract for office spaces in Neihu expired in April 2003. The board of directors approved the purchase of the land and buildings in Neihu for use as the Company's headquarters. The purchase amounted to $1,532,382 (without sales tax), based on the appraisal report from real estate brokers on February 26, 2003. The title to the land and buildings was transferred to the Company by the end of April 2003.

   Rental rates and terms are comparable to leases with third parties.

d. The Company leased from FETL several parcels of the land and building spaces for the period May 1997 to November 2014. The properties are located in Yatung Street and Renai Street in Panchao City; Yuantung Street in Chungli; and Wuku in Taipei County; and other areas in Taiwan.

e. The Company leased certain floors at The Mall for the period September 1999 to December 2005 from YDC.

f. The Company signed a service agreement with AWS in January 1997 for AWS to provide consulting services on the construction of a wireless network and business operations. The service charges were based on the actual expenses incurred by the AWS consultants and are net of any withholding taxes paid by the Company.

g. The Company signed an agreement with AT&T Corp. in June 1997 to use AT&T's trademark for marketing, advertising and promotion purposes in the ROC. The trademark fee is US$1,000 thousand if the Company has a negative net cash flow from operations before payment of the trademark fee and after deduction of capital expenditure. Otherwise, the fee is 1% of the net service revenues from wireless and internet businesses, up to US$4,500 thousand. This agreement expired in June 2002.

h. FETTDF researches telecommunications technology for the Company.

i. The Company renders management service and gives advances to Yuan-Ze for its daily operating expenditures during its development stage.

j. The Company has contracts with FETEC for the construction of telecommunications network and backbone network facilities.

k. The Company has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by third parties.

l. The Company leased from FEDS several parcels of the land and building spaces for the period July 1997 to October 2006.

m. The Company bought NCIC's telecommunications network and backbone network facilities.

n. The accounts of other related parties were less than 5% of the total of respective accounts.

14. COMMITMENTS AS OF JUNE 30, 2003

a. The Company has outstanding contracts for the acquisition of telecommunications and other equipment for $909,082.

b. The Company's outstanding letters of credit amounted to ￥110,600 thousand (equivalent to $31,997).

c. The future minimum rentals for land, office spaces and mobile switch centers under operating lease agreements for the next five years are summarized as follows:

Period	Amount
July 1, 2003 to June 30, 2004	$ 1,166,433
July 1, 2004 to June 30, 2005	1,212,157
July 1, 2005 to June 30, 2006	1,259,683
July 1, 2006 to June 30, 2007	1,309,080
July 1, 2007 to June 30, 2008	1,360,424

15. ADDITIONAL DISCLOSURES

A. Important transactions and B. Related information of its investees.

a. Financing provided: None

b. Endorsement/guarantee provided: None

c. Marketable securities and investments in shares of stock held: Schedule A

d. Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: None

e. Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: Schedule B

f. Disposal of individual real estate at prices of at least NT$100 million or 20% of the paid-in capital: None

g. Total purchase from or sale to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule C

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule D

i. Names, locations, and related information of investees on which the Company exercises significant influence: Schedule E

j. Derivative financial instruments

The Company used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rate for the six months ended June 30, 2003 and 2002. All these transactions are for nontrading purposes.

The information on interest rate swap contracts entered into by the Company is as follows:

1) Open contracts and credit risk

	June 30, 2003				
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**
Interest rate swap	$ 1,470,000	1.25%	2.60%	Half year	March 28, 2008—April 3, 2008

	June 30, 2002				
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**
Interest rate swap	$ 500,000	6.20%	1.89%	Quarterly	July 2, 2002

Reduction of interest expenses and interest expenses on these swap contracts for the six months ended June 30, 2003 and 2002 were $4,988 and $36,569, respectively.

There was no outstanding forward contract as of June 30, 2003 and 2002.

The Company placed an order for cell phones amounting to ￥1,444,814 on December 4, 2002. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into Japanese yen forward contracts. The forward contract was due on January 6, 2003, and the realized gain of $4,103 was recognized as reduction of inventory.

The Company is exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, the Company transacts only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

2) Market risk

The Company is exposed to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts.

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. Therefore, the market risk is not material.

3) Liquidity risk, cash-flow risk and future cash demand

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. The forward exchange rates are determined in advance and no additional material cash is required. Management believes that the Company has sufficient operating capital to meet cash demand.

4) The purpose of derivative financial instruments held or issued/the strategies to meet the purpose

The Company uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves the Company's paying interests at a fixed rate and receiving interests based on market rates. The Company entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The overall purpose of these contracts is to hedge the Company's exposure to cash flow risk. The Company periodically evaluates the effectiveness of the instruments.

5) The estimated fair values of financial instruments are as follows:

	June 30			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 5,441,523	$ 5,441,523	$ 3,459,842	$ 3,459,842
Accounts and notes receivable—net	3,792,730	3,792,730	3,892,453	3,892,453
Investments in shares of stock under the equity method	8,085,638	8,085,638	8,243,509	8,243,509
Refundable deposits	233,801	232,294	389,798	379,990
Financial liabilities				
Notes payable	22,863	22,863	76,460	76,460
Accounts payable	269,400	269,400	337,947	337,947
Payables to related parties	480,288	480,288	556,733	556,733
Income tax payable	31,880	31,880	288,236	288,236
Dividend payable	2,997,540	2,997,540	1,890,000	1,890,000
Payables related to acquisition of Properties	1,424,598	1,424,598	1,162,624	1,162,624
Long-term liabilities (including current portion)	11,248,025	11,636,320	14,409,298	14,334,474
Guarantee deposits received	1,756,340	1,756,340	2,455,566	2,455,566
Derivative financial instruments				
Interest rate swap	-	-	-	(4,787)

a) The carrying values of cash and cash equivalents, accounts and notes receivable, notes payable, accounts payable, payables to related parties, income tax payable, dividend payable and payables related to property acquisition reported in the balance sheets approximate the fair values because of the short maturity of these instruments.

b) The fair values of investment in shares of stock under the equity method is based on market prices or, if market prices are unavailable, on the equity in the investee's net assets.

c) Fair values of long-term liabilities are based on market prices or, if market prices are unavailable, upon present value of expected cash outflows. Discount rate is determined by rate of bank loans or corporate bonds, which the Company can obtain in similar conditions (similar maturity date).

d) Refundable deposits and guarantee deposits received—present values of future payments or receipts.

e) Fair values of derivative financial instruments—quoted market prices obtained from foreign banks and Reuters.

C. Investment in Mainland China: None.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
JUNE 30, 2003
(Amounts in Thousands of New Taiwan Dollars, Except Share Information)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee.	Investments in shares of stock under the equity method	837,000	$ 8,077,120	80.71	$ 8,077,120	Note A
	E. World (Holdings) Ltd.	Equity-method investee.	Investments in shares of stock under the equity method	1,330	$ 8,518	19.00	$ 8,518	Note B

Notes: A. Calculation was based on audited financial statements as of June 30, 2003.

B. The Company could not obtain timely the investee's financial statements and recognized a 2002 net loss in 2003.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COST OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2003
(Expressed in Thousands of New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-Party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transaction Date	Amount			
Far EasTone Telecommunications Co., Ltd.	The land and office spaces in Neihu	Feb. 26, 2003 (Note)	$1,532,382 (without sales tax)	Fully paid	Far Eastern International Leasing Corp.	Supervisor of the Company	Land—Zhao Teng Xiong Building—Metropolitan Construction	-	December 31, 1999	$1,532,530	Appraisal report: - Debenham Tie Leung $1,500,678 - China Credit Information Service, Ltd. $1,470,897	Headquarters of the Company.	-

Note: The date of the board of directors' approval to buy the land and buildings in Neihu.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2003
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable or (Payable)	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Far Eastone Telecommunications Co., Ltd.	New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman	Operating revenue	($ 302,986)	(2)	30 days	-	-	($ 64,138)	(13)

Note: The international direct dialing revenue collected by the Company for NCIC was treated as a reduction from wireless service revenues and was included in payables to related parties.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2003
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Far EasTone Telecommunications Co., Ltd.	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	$137,000	-	$ -	-	$ -	$ -

Note: Other receivable and receivable for service revenues.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX-MONTH ENDED JUNE 30, 2003
(Amounts in Thousands of New Taiwan Dollars, Except Share Information)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2003			Net Loss of the Investee	Equity in Net Loss	Note
				June 30, 2003	December 31, 2002	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	$ 8,370,000	$ 8,370,000	837,000	80.71	$ 8,077,120	$ 165,718	$ 135,736	Notes A and B
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	41,095	41,095	1,330	19.00	8,518	9,359	1,778	Notes C and D

Notes: A. Subsidiary.

B. Calculation based on audited financial statements as of June 30, 2003.

C. An equity-accounted investee of the Company.

D. The equity in net loss recognized in 2003 was based on the net loss of the investee in 2002 because the investee’s audited financial statements were not timely available.