Far EasTone Telecommunications Co., Ltd.

Financial Statements as of December 31, 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.

English Translation of a Report Originally Issued in Chinese

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 December 31, 2003 and 2002 and the related statements of income, changes in stockholders' equity and cash flows for the years 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 Rules Governing Auditing and Certification 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 December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Also, we have audited the consolidated financial statements of Far EasTone Telecommunications Co., Ltd. and subsidiaries as of December 31, 2003 and 2002 and have issued an unqualified opinion.

February 3, 2004

Notice to Readers

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
DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2003 Amount	2003 %	2002 Amount	2002 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 2,868,156	4	$ 2,238,342	4
Accounts receivable—net of allowance for doubtful accounts of $586,957 in 2003 and $328,990 in 2002 (Note 2)	3,735,277	5	3,216,577	6
Inventories—net (Notes 2 and 4)	801,100	1	656,014	1
Prepaid expenses (Notes 2 and 14)	1,668,992	2	1,756,628	3
Other receivables—related parties (Note 14)	258,144	1	23,662	-
Deferred income tax assets—current (Notes 2 and 13)	1,392,724	2	605,195	1
Other current assets (Note 16)	43,400	-	40,617	-
Total current assets	10,767,793	15	8,537,035	15
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 5)				
Equity method	21,576,987	30	8,223,198	14
Prepayment for investments	65,000	-	-	-
	21,641,987	30	8,223,198	14
PROPERTIES (Notes 2, 6 and 14)				
Cost				
Land	952,504	1	153,004	-
Buildings and equipment	1,698,803	3	640,102	1
Computer equipment	6,284,316	9	5,525,062	10
Operating equipment	48,644,499	68	45,244,432	77
Office equipment	772,482	1	776,534	1
Leasehold improvements	1,331,900	2	1,687,886	3
Miscellaneous equipment	54,834	-	54,802	-
Total cost	59,739,338	84	54,081,822	92
Less—accumulated depreciation	24,388,503	34	17,386,742	30
	35,350,835	50	36,695,080	62
Construction in progress and advances related to acquisition of equipment	2,446,063	3	3,424,993	6
Net properties	37,796,898	53	40,120,073	68
OTHER ASSETS				
Properties not currently used in operations—net (Note 2)	87,500	-	89,800	-
Refundable deposits (Note 14)	241,718	1	373,279	1
Deferred income tax assets—noncurrent (Notes 2 and 13)	813,904	1	1,419,072	2
Miscellaneous (Note 2)	82,479	-	30,385	-
Total other assets	1,225,601	2	1,912,536	3
TOTAL ASSETS	$ 71,432,279	100	$ 58,792,842	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2003 Amount	2003 %	2002 Amount	2002 %
CURRENT LIABILITIES				
Short-term debts (Note 7)	$ 100,000	-	$ -	-
Notes payable	30,670	-	28,944	-
Accounts payable	1,043,206	1	665,068	1
Payables to related parties (Note 14)	224,639	-	660,229	1
Income tax payable (Notes 2 and 13)	24,083	-	137,095	-
Accrued expenses	2,635,127	4	2,852,825	5
Payables related to acquisition of properties	1,808,776	3	2,120,178	4
Guarantee deposits received—current	1,502,750	2	-	-
Unearned revenues (Note 2)	1,859,688	3	2,050,310	4
Current portion of long-term liabilities (Notes 6 and 8)	1,226,000	2	616,000	1
Other current liabilities (Notes 2, 6 and 14)	169,615	-	142,989	-
Total current liabilities	10,624,554	15	9,273,638	16
LONG-TERM LIABILITIES—NET OF CURRENT PORTION				
Long-term bonds payable (Notes 2, 6 and 8)	13,270,436	19	5,476,000	9
Long-term debts payable (Notes 6 and 8)	4,286,942	6	3,869,839	7
Total long-term liabilities	17,557,378	25	9,345,839	16
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 11)	169,278	-	131,130	-
Guarantee deposits received—noncurrent	50,841	-	1,991,727	3
Total other liabilities	220,119	-	2,122,857	3
Total liabilities	28,402,051	40	20,742,334	35
STOCKHOLDERS' EQUITY				
Capital stocks—$10 par value				
Authorized—3,360,000 thousand shares				
Issued—2,697,786 thousand shares in 2003 and 2,305,800 thousand shares in 2002	26,977,860	38	23,058,000	39
Capital surplus				
Paid-in capital in excess of par value	5,944,514	8	5,967,572	10
From investments in shares of stock	29,086	-	29,086	-
Total capital surplus	5,973,600	8	5,996,658	10
Retained earnings				
Legal reserve	1,878,488	3	1,097,646	2
Unappropriated earnings	8,197,228	11	7,895,106	14
Total retained earnings	10,075,716	14	8,992,752	16
Cumulative translation adjustments	3,052	-	3,098	-
Total stockholders' equity	43,030,228	60	38,050,508	65
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 71,432,279	100	$ 58,792,842	100

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 INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2003		2002	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 14)				
Sales of cellular phone equipment and accessories	$ 2,597,873	7	$ 1,628,644	5
Less—sales returns and allowances	52,122	-	3,395	-
Net sales	2,545,751	7	1,625,249	5
Service revenues	34,515,474	93	32,845,381	95
Other	5,938	-	7,405	-
Total operating revenues	37,067,163	100	34,478,035	100
OPERATING COSTS (Notes 2, 11 and 14)				
Cost of sales	2,822,662	8	2,124,536	6
Cost of services	15,787,793	42	15,056,810	44
Total operating costs	18,610,455	50	17,181,346	50
GROSS PROFIT	18,456,708	50	17,296,689	50
OPERATING EXPENSES (Notes 2, 11 and 14)				
Marketing	6,106,191	16	5,657,771	16
General and administrative	3,582,399	10	3,448,265	10
Research and development	317,452	1	274,333	1
Total operating expenses	10,006,042	27	9,380,369	27
OPERATING INCOME	8,450,666	23	7,916,320	23
NONOPERATING INCOME				
Management service revenue (Note 14)	181,996	1	20,952	-
Interest (Note 14)	42,920	-	16,841	-
Foreign exchange gains—net (Note 2)	38,469	-	-	-
Reversal of allowance for losses on inventories (Note 2)	-	-	33,039	-
Other (Note 14)	40,533	-	103,481	-
Total nonoperating income	303,918	1	174,313	-
NONOPERATING EXPENSES AND LOSSES				
Equity in investees' net losses (Notes 2 and 5)	344,626	1	54,034	-
Interest (Notes 2, 6 and 16)	316,164	1	304,193	1
Other	4,691	-	58,524	-
Total nonoperating expenses losses	665,481	2	416,751	1

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	2003 Amount	2003 %	2002 Amount	2002 %
INCOME BEFORE INCOME TAX BENEFIT	$ 8,089,103	22	$ 7,673,882	22
INCOME TAX BENEFIT (Notes 2 and 13)	99,030	-	134,535	1
NET INCOME	$ 8,188,133	22	$ 7,808,417	23

	2003 Income Before Income Tax	2003 Net Income	2002 Income Before Income Tax	2002 Net Income
EARNINGS PER SHARE (Note 10)				
Primary	$ 3.00	$ 3.04	$ 2.84	$ 2.89
Diluted	$ 2.92	$ 2.95	$ 2.84	$ 2.89

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 YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued		Capital Surplus (Notes 2 and 9)			Retained Earnings (Note 9)			Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
	Shares (thousands)	Amount	Paid-in capital in excess of par value	From investments in shares of stock	Total	Legal reserve	Unappropriated earnings	Total		
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)
Stock dividends—21%	396,900	3,969,000	-	-	-	-	(3,969,000)	(3,969,000)	-	-
Cash dividends—10%	-	-	-	-	-		(1,890,000)	(1,890,000)	-	(1,890,000)
Capitalization of capital surplus—1%	18,900	189,000	(189,000)	-	(189,000)	-	-	-	-	-
Effect of change in ownership percentage due to investee's issuance of capital stock for cash	-	-	-	29,086	29,086	-	-	-	-	29,086
Net income in 2002	-	-	-	-	-	-	7,808,417	7,808,417	-	7,808,417
Translation adjustments	-	-	-	-	-	-	-	-	(806)	(806)
BALANCE, DECEMBER 31, 2002	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 dividends—13%	-	-	-	-	-		(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividends—16.9%	389,680	3,896,802	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus—0.1%	2,306	23,058	(23,058)	-	(23,058)	-	-	-	-	-
Net income in 2003	-	-	-	-	-	-	8,188,133	8,188,133	-	8,188,133
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, DECEMBER 31, 2003	2,697,786	$ 26,977,860	$ 5,944,514	$ 29,086	$ 5,973,600	$ 1,878,488	$ 8,197,228	$ 10,075,716	$ 3,052	$ 43,030,228

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,188,133	$ 7,808,417
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	7,070,353	6,364,881
Provision for doubtful accounts	416,689	132,058
Provision (reversal of allowance) for losses on inventories	4,691	(33,039)
Equity in investees' net losses	344,626	54,034
Loss (gain) on disposal of properties—net	(8,379)	42,675
Accrued pension cost	38,148	33,816
Deferred income taxes	(182,361)	(77,355)
Interest premium on convertible bonds	33,886	-
Amortization of issuance cost of convertible bonds	43,329	-
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts receivable	(935,389)	765,793
Inventories	(149,777)	102,947
Prepaid expenses	87,636	(1,062,954)
Other receivables—related parties	(157,066)	124,115
Other current assets	(2,791)	14,482
Increase (decrease) in		
Notes payable	1,726	371
Accounts payable	378,138	160,909
Payables to related parties	(435,590)	40,338
Income tax payable	(113,012)	(534,498)
Accrued expenses	(217,698)	491,666
Unearned revenues	(190,622)	1,031,436
Other current liabilities	41,280	(133,259)
Net cash provided by operating activities	14,255,950	15,326,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	(13,698,461)	(7,170,000)
Prepayment for investments	(65,000)	-
Acquisition of properties	(5,222,208)	(5,135,792)
Proceeds from sale of properties	96,570	2,538
Decrease in refundable deposits	131,561	11,157
Increase in other assets	(95,634)	-
Net cash used in investing activities	(18,853,172)	(12,292,097)

(Continued)

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debts	$ 100,000	$ -
Increase (decrease) in long-term debts	1,027,103	(4,771,781)
Proceeds from issuance of long-term bonds	7,760,550	4,200,000
Bonus paid to employees and directors	(224,941)	(167,504)
Cash dividends paid	(2,997,540)	(1,890,000)
Decrease in guarantee deposits received	(438,136)	(974,908)
Net cash provided by (used in) financing activities	5,227,036	(3,604,193)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	629,814	(569,457)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,238,342	2,807,799
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,868,156	$ 2,238,342
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	$ 219,524	$ 182,030
Income tax paid	$ 196,343	$ 493,980
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 1,226,000	$ 616,000
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 4,910,266	$ 5,794,774
Decrease (increase) in payables related to acquisition of properties	311,402	(702,756)
Decrease in capital lease obligations	540	43,774
CASH PAID FOR ACQUISITION OF PROPERTIES	$ 5,222,208	$ 5,135,792
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	$ 173,978	$ 3,736
Increase in receivables from properties sold	(77,408)	(1,198)
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	$ 96,570	$ 2,538

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND OPERATIONS

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 services, 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"). In October 2002, other principal stockholders, the AT&T Wireless Group and its affiliates transferred to third parties all the Company stocks they owned.

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, with an annual license fee at 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 paid-in capital. 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. In addition, the Company is licensed to provide type I-local/domestic long-distance land cable leased-circuit services for 15 years from January 2003, with an annual license fee at 1% of leased circuit service revenues.

The Company had 2,366 and 2,294 employees as of December 31, 2003 and 2002, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC.

The Company uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, depreciation, 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 include non-restricted cash or cash equivalent as well as items expected to be converted into cash or used within one year. Current liabilities are obligations expected to be settled within one year. All other assets and 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

An allowance for doubtful accounts is provided on the basis of a review of the 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.

Investments in Shares of Stock

Investments in shares of stock in which the Company owns at least 20% of investees' common stocks or 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 acquires these shares at a percentage different from its current 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 of 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.

The carrying values of the investments with no quoted market price is reduced to recognize the other than temporary decline in its value, with the corresponding losses charged to current income.

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
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 expense.

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, international simple resale 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 and leased-circuit service revenues 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 service 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 value of these receivables, the fair values are not recalculated based on the pro forma interest rate method.

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 years in service 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 year. 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 on 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 amount of the common stock exchange certificate (capital stock) should be valued as the net written-off carrying amount, and the amount in excess of 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 for certain purchases of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction of the current year's income tax expense.

Adjustments of prior years' tax liabilities are added to, or deducted from, the current year'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 year 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-method 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. On the balance sheet dates or settlement dates, 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.

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 commitment when the hedged transactions occur. But if the contract amount exceeds the foreign-currency 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 year.

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 year ended December 31, 2002 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2003.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2003	2002
Cash		
Cash on hand	$ 7,334	$ 7,221
Checking and demand deposits	1,312,659	563,548
Time deposits—interest of 0.65% to 1.12%	1,548,163	-
	2,868,156	570,769
Cash equivalents		
Commercial paper purchased under agreements to resell—interest of 1.375% to 1.950%	-	1,667,573
	$ 2,868,156	$ 2,238,342

4. INVENTORIES—NET

	December 31	
	2003	2002
Cellular phone units	$ 754,715	$ 493,002
SIM cards	47,827	164,348
Cellular phone accessories	11,950	7,365
	814,492	664,715
Less: Allowance for losses	13,392	8,701
	$ 801,100	$ 656,014

Inventory insurance as of December 31, 2003 amounted to about $525,478.

5. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2003		2002	
	Carrying Value	% of Owner-Ship	Carrying Value	% of Owner-Ship
Equity method				
Yuan-Ho Telecommunications Co., Ltd.	$11,698,382	100.00	$ -	-
Yuan-Ze Telecommunications Co., Ltd.	9,870,087	100.00	8,212,856	80.71
E. World (Holdings) Ltd.	8,518	19.00	10,342	19.00
	21,576,987		8,223,198	
Prepayment for investments				
Far Eastern Electronic Toll Collection Co., Ltd.- Preparatory Office	65,000		-	
	$21,641,987		$ 8,223,198	

On October 7, 2003, the Company signed a merger agreement with Yuan-Ho Telecommunications Co., Ltd. (it obtained approval from the Department of Commerce under the Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. (the "new KGT") on January 19, 2004) and KG Telecommunications Co., Ltd. (the "former KGT"). The agreement was approved by the three companies' stockholders on November 25, 2003. The merger involves two steps. The first step is to merge the former KGT with the new KGT, with the new KGT as the surviving company. On January 1, 2004, the new KGT paid $11,698,461 in cash and issued 806,567 thousands of new shares to the stockholders of the former KGT. (In 2003, the Company incorporated the new KGT as a wholly owned subsidiary, and the new KGT issued 526,431 thousand shares amounting to $11,698,461 for the purpose of merger with the former KGT.) After the first-step merger, the capital of the new KGT increased to $13,329,979 and the equity of the new KGT owned by the Company will be temporarily diluted to 39.49%. Another principal stockholders of the new KGT will be the original stockholders of the former KGT with ownership of 60.51% as of January 1, 2004. The issuance of new shares for capital increase relating to the merger was approved by MOEA on January 19, 2004.

The second step is for the Company to swap shares with the new KGT. Then, the stockholders of the new KGT will exchange 1 share of the Company for 1 share of the new KGT. The share swap agreement will be submitted to the special stockholders' meetings of the Company and of the new KGT on February 18, 2004 and the proposed date of the share swap is April 29, 2004.

After the completion of the two-step merger, the new KGT will be a wholly owned subsidiary of the Company.

Under the merger agreement, the Company and the new KGT delivered all the 526,431 thousand shares and the cash consideration of $11,698,461 on January 1, 2004 to the specified custodian to ensure the implementation of the two-step merger. On the date of the share swap, these shares and cash proceeds will be returned to the Company and the stockholders of the former KGT, respectively.

In March 2002, a subsidiary, Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze), obtained a 3G (third-generation wireless communications system) concession in February 2002 through a bidding process and acquired additional shares of stock with an aggregate par value of $9,170,000. The Company subscribed for a portion of these shares (aggregate par value of $7,170,000), thus diluting its equity to 80.71%. For the integration of the telecommunications business and operation efficiency, the Company bought all the other shares of Yuan-Ze from other stockholders for $2,000,000 on December 16, 2003. Thus, Yuan-Ze became a wholly owned subsidiary of the Company.

On December 22, 2003, the Company's Board of Directors approved the merger of the Company with Yuan-Ze, with the Company as the surviving company. The proposed date for the merger is May 10, 2004.

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) allows the Company to exercise significant influence on its operating and financial policy decisions. The amounts recognized as equity in the net income or net loss of E. World (Holdings) in 2003 and 2002 were based on the net income or net loss of E. World (Holdings) in 2002 and 2001, respectively, because the financial statements of E. World (Holdings) could not be timely obtained.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, the Company and third parties will incorporate a joint venture, named Far Eastern Electronic Toll Collection Co., Ltd. Under the joint venture agreement, the Company contributed capital of $65,000, recorded as prepayment for investments in 2003.

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

6. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2003	**2002**
Buildings and equipment	$ 237,761	$ 105,147
Computer equipment	3,063,835	2,008,678
Operating equipment	20,015,576	14,392,327
Office equipment	449,549	333,993
Leasehold improvements	578,898	507,200
Miscellaneous equipment	42,884	39,397
	$24,388,503	$17,386,742

Depreciation amounted to $7,070,142 in 2003 and $6,364,020 in 2002.

Property insurance as of December 31, 2003 amounted to about $32,768,259.

b. The Company leased internet equipment with software (included in operating equipment) for three years, with total lease payments amounting to $35,686. The lease agreement qualified as a capital lease since (a) the value in 2000 of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) the Company had the option to buy all the leased equipment at a bargain price of NT$1.00 dollar only. The details of the lease as of December 31, 2002 are as follows:

	December 31, 2002
Total future lease payments	$ 5,452
Less—imputed interest expense	4,912
	540
Less—current portion of lease payable (included in other current liabilities)	540
Long-term obligations under capital lease	$ -

The Company bought the internet equipment with software at the bargain price when the agreement expired in 2003.

c. Capitalized interest on properties was as follows:

	2003	2002
Total interest expense	$ 409,856	$ 479,238
Less—interest capitalized—interest at 2.48%-3.91% in 2003 and 3.76%-4.86% in 2002	93,692	175,045
Interest expense—net of amounts capitalized	$ 316,164	$ 304,193

d. Properties amounting to $4,669,921 and $10,288,389 had been pledged or mortgaged as collaterals as of December 31, 2003 and 2002, respectively.

7. SHORT-TERM DEBTS

The Company took unsecured bank loans at 1.4% interest, which are due in July 2004.

8. LONG-TERM LIABILITIES

	December 31, 2003		
	Due Within One Year	Due after One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ -	$ 3,906,550	$ 3,906,550
Interest premium—overseas unsecured convertible bonds	-	33,886	33,886
Domestic secured bonds	616,000	660,000	1,276,000
Domestic unsecured bonds—1st	-	4,200,000	4,200,000
Domestic unsecured bonds—2nd	-	1,470,000	1,470,000
Domestic unsecured bonds—3rd	-	3,000,000	3,000,000
	616,000	13,270,436	13,886,436
Long-tem debts			
Commercial paper	610,000	686,942	1,296,942
Unsecured bank loans	-	300,000	300,000
Secured bank loans	-	3,300,000	3,300,000
	610,000	4,286,942	4,896,942
	$ 1,226,000	$17,557,378	$18,783,378

	December 31, 2002		
	Due Within One Year	Due After One Year	Total
Bonds			
Domestic unsecured bonds	$ -	$ 4,200,000	$ 4,200,000
Domestic secured bonds	616,000	1,276,000	1,892,000
	616,000	5,476,000	6,092,000
Long-term debts			
Loan—Shin Kong Life Insurance Co.	-	1,470,000	1,470,000
Commercial paper	-	1,599,839	1,599,839
Unsecured bank loans	-	200,000	200,000
Secured bank loans	-	600,000	600,000
	-	3,869,839	3,869,839
	$ 616,000	$ 9,345,839	$ 9,961,839

a. Overseas unsecured convertible bonds

Five-year unsecured zero coupon convertible bonds, with total face value of US$115,000 thousand, were issued on February 19, 2003. 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;

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, 2003 and January 20, 2008. The conversion price on December 31, 2003 was NT$30.73, subject to adjustment for shares change. As of December 31, 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

Five-year domestic secured bonds were issued at par value on November 30, 2000. The total face value of the bonds is $2,200,000, with face value of $1,000 and 5.06% interest, 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

Five-year domestic unsecured bonds were issued at par value on February 19, 2002. The total face value of the bonds is $4,200,000, with face value of $1,000 at 3.4% annual interest. 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

Five-year domestic unsecured bonds were issued at par value on March 28, 2003. The total face value of the bonds is $1,470,000, with face value of $1,000 and interest rate of 2.6% in the first year and 3.2% minus USD six-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. Domestic unsecured bonds—3rd

Three-year, four-year and five-year domestic unsecured bonds were issued at par value on December 12, 2003. The total face value of the bonds is $3,000,000, with face value of $5,000 and annual interest rates of 1.83% (three-year bonds) and 1.92% (four-year bonds). The interest rate for five-year bonds is 5.2% minus USD six-month LIBOR rate if the LIBOR rate is greater than 1.05%; otherwise, the interest is at the LIBOR rate plus 1%, payable semiannually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

f. Commercial paper

1) Commercial paper within one-year maturity bears variable interest rates ranging from (a) 0.90% to 0.95%, which amounted to $1,296,942 as of December 31, 2003, and (b) 1.95% to 2.15%, which amounted to $999,893 as of December 31, 2002. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by the Company through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will decrease by 14% to 15% every six months.

2) Commercial paper amounting to $599,946, with interest of 1.5% to 1.7% as of December 31, 2002, was repaid in January 2003. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by the Company through June 25, 2004.

g. Domestic unsecured bank loans

As of December 31, 2003, the Company had a $300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

As of December 31, 2002, the Company had bank loans of $200,000 at 2.90% to 3.33% interest. The loan is repayable starting in 2004 and every six months thereafter, with each payment equal to 16.5% to 17.0% of the principal; the final payment is due on May 17, 2007. The Company repaid this loan in March 2003.

h. Domestic secured bank loans

The Company had a loan from a consortium of banks, with interest rates at 1.982% and 2.641% as of December 31, 2003 and 2002, respectively. The loan is guaranteed by a consortium of banks, and the guarantee is effective until February 4, 2007. Starting on August 4, 2004, the maximum amount that the Company can borrow will be decreased by 16% to 17% of the principal every six months.

i. 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 4.725% as of December 31, 2002. The principal and accumulated interests on the loan will be due on January 25, 2005. The Company repaid the loan on March 21, 2003 and paid a compensation charge of $23,559 for early settlement.

As of December 31, 2003, the Company had unused long-term and short-term credit lines of about $1,034,000 and $12,100,000, respectively, which are available for long-term and short-term credit facilities.

9. 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 remaining balance should be appropriated as bonuses to employees, and 1% of the remaining 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 Company's paid-in capital. The reserve can only be used to offset a deficit, or when the reserve reaches 50% of the Company's paid-in capital up to 50% of the reserve can 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 of the 2002 and 2001 earnings was approved by the stockholders on May 23, 2003 and June 25, 2002, respectively.

	Appropriation		Dividend Per Share (Dollars)	
	2002	2001	2002	2001
Legal reserve	$ 780,842	$ 665,928		
Bonus to employees—cash	140,551	119,867		
Remuneration to directors and supervisors—cash	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

Had the above bonus to employees and directors been charged to net income in 2002 and 2001, the primary earnings per share for 2002 and 2001 (after tax), based on the weighted-average number of outstanding shares of 2,305,800 and 1,890,000 thousand, respectively, would have decreased from NT$3.39 to NT$3.29 and from NT$3.52 to NT$3.43, respectively.

The appropriation of the 2003 earnings of the Company had not been approved by the board of directors and stockholders as of February 3, 2004, the issuance date of the independent auditors' report. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

10. EARNINGS PER SHARE

The numerators and denominators used in earnings per share (EPS) calculation were as follows:

	Amount (Numerator)		Capital Stock (Denominator) (in Thousand Shares)	Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
For the year ended December 31, 2003					
Primary EPS					
Net income	$ 8,089,103	$ 8,188,133	2,697,786	$3.00	$3.04
Effect of dilutive potential common stocks					
Convertible bonds	77,215	78,160	101,323		
Diluted EPS					
Net income, including the effect of dilutive potential common stocks	$ 8,166,318	$ 8,266,293	2,799,109	$2.92	$2.95
For the year ended December 31, 2002					
Primary and diluted EPS					
Net income	$ 7,673,882	$ 7,808,417	2,697,786	$2.84	$2.89

For the year ended December 31, 2002, the earnings per share retroactively adjusted for the 2002 stock dividend declared in 2003 decreased from $3.33 (before tax) to $2.84 and from $3.39 (after tax) to $2.89.

11. PENSION PLAN

The Company makes monthly contributions, at 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.

Certain information on the pension plan is as follows:

a. Pension cost consisted of:

	2003	2002
Service cost	$ 63,200	$ 61,395
Interest cost	8,880	8,689
Expected return on pension assets	(4,752)	(5,463)
Amortization	1,213	676
Net pension cost	$ 68,541	$ 65,297

b. Net pension costs of 2003 and 2002 were as follows:

	2003	2002
Actuarial net pension cost	$ 68,541	$ 65,297
Less: Included in properties	2,501	2,775
Included in other receivables—related parties	346	231
Net pension cost (included in operating costs and expenses)	$ 65,694	$ 62,291

c. Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	December 31	
	2003	2002
Benefit obligation		
Vested benefit obligation	$ 2,915	$ 2,692
Non-vested benefit obligation	172,459	123,532
Accumulated benefit obligation	175,374	126,224
Additional benefits based on projected and future salaries	153,442	127,481
Projected benefit obligation	328,816	253,705
Fair value of plan assets	(152,469)	(120,163)
Unfunded projected benefit obligation	176,347	133,542
Unrecognized net transition obligation	(10,912)	(12,125)
Unrecognized pension gain	3,843	9,713
Accrued pension cost	$ 169,278	$ 131,130

	2003	2002
d. Vested benefit amounts were as follows:	$ 3,507	$ 3,374

(Continued)

e. Actuarial assumptions were as follows:

	2003	2002
Discount rate used in determining present value	3.25%	3.50%
Future salary increase rate	3.25%	3.50%
Expected rate of return on plan asset	3.25%	3.50%

f. Fund changes were as follows:

	December 31	
	2003	2002
Beginning balance	$ 120,163	$ 93,922
Contributions	30,393	31,481
Earnings	1,913	2,371
Payments	-	(7,611)
Ending balance	$ 152,469	$ 120,163

12. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	2003		
	Operating Costs	Operating Expenses	Total
Employee expenses			
Salaries	$ 231,995	$ 1,305,637	$ 1,537,632
Insurance	15,200	94,395	109,595
Pension	3,571	62,123	65,694
Miscellaneous	10,432	102,982	113,414
Depreciation	5,935,882	1,134,260	7,070,142
Amortization	-	211	211
	$ 6,197,080	$ 2,699,608	$ 8,896,688

13. INCOME TAX BENEFIT

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

	2003	2002
Income tax expense computed at statutory tax rate (25%)	$ 2,022,276	$ 1,918,470
Add (deduct) tax effects of		
Permanent differences	87,356	(1,472)
Temporary differences	119,342	48,430
Tax-exempt income	(2,060,530)	(1,431,780)
Unappropriated earnings tax	17,460	110,001
Investment tax credits	(159,264)	(506,131)
Income tax payable	$ 26,640	$ 137,518

The balances of income tax payable as of December 31, 2003 and 2002 were net of creditable income taxes of $2,557 and $423, respectively.

Net operating income 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 benefit consisted of:

	2003	2002
Income tax payable—current	$ 26,640	$ 137,518
Income tax benefit—deferred	(133,954)	(267,355)
Prior year's adjustment	5,214	(6,780)
Income tax expense on income subjected to a separate flat income Tax rate of 20%	3,070	2,082
Income tax benefit	($ 99,030)	($ 134,535)

c. Deferred income tax assets and liabilities as of December 31, 2003 and 2002 consisted of:

	December 31	
	2003	2002
Current		
Investment tax credits	$ 937,424	$ -
Provision for doubtful accounts	718,225	597,971
Employee welfare expense	-	4,500
Provision for losses on inventories	3,348	2,160
Unrealized exchange loss (gain)	(22,802)	548
Other	-	16
	1,636,195	605,195
Valuation allowance	(243,471)	-
	$ 1,392,724	$ 605,195
Noncurrent		
Investment tax credits	$ 321,421	$ 983,597
Depreciation resulting from the differences in estimated service lives of properties	432,008	348,175
Accrued pension cost	42,986	32,280
Accrued interest premium	8,562	-
Cumulative equity in the net loss of investees	8,927	55,020
	$ 813,904	$ 1,419,072

d. Integrated income tax information is as follows:

	2003	2002
Balance of imputation credit account (ICA)	$ 3,534	$ 11,951

The estimated ratio of the ICA balance as of December 31, 2003 to unappropriated earnings as of such date was 0.04%. When the dividends from the unappropriated earnings as of December 31, 2002 were distributed in 2003, the actual ratio used was 2.58%.

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 based on the prevailing ICA balance 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 December 31, 2003 are summarized as follows:

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 582,722	$ 196,348	2004
		267,455	149,060	2005
		57,442	57,442	2007
Statute for Upgrading Industries	Research and development expenditures	699,533	699,533	2004
		587,938	43,592	2005
		304,206	39,660	2006
Statute for Upgrading Industries	Personnel training expenditures	41,543	41,543	2004
		19,629	19,629	2005
		12,038	12,038	2006
		$ 2,572,506	$ 1,258,845	

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

14. RELATED-PARTY TRANSACTIONS

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

Related Party	Nature of Relationship
Yuan 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 Co., Ltd. (FEDS)	Same chairman
Far Eastern Textile Co., Ltd. (FETL)	Parent company of a major stockholder
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
AT&T Corp. (AT&T)	Parent company of AWS and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
Yuan-Ho Telecommunications Co., Ltd. (Yuan-Ho)	Subsidiary
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze)	Subsidiary
Far Eastern Technology Developmental Foundation (FETTDF)	Company's donation to the foundation's capital is over one third
Far Eastern Electronic Toll Collection Co., Ltd.-Preparatory Office (FETETC)	Will be an equity-method investee after it is established
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same major stockholder as that of the Company
Far Eastern International Bank	Same chairman
Asia Cement Co., Ltd.	Same chairman

(Continued)

Related Party	Nature of Relationship
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
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same major stockholder as that of the Company
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
E.World (Holdings) Ltd.	Equity-method investee
Taipei Metro Properties Management	Same major stockholder as that of the Company

The Company's significant business transactions with the above parties are summarized as follows:

		2003		2002	
		Amount	%	Amount	%
During the year					
Operating revenues	a				
NCIC	b	$ 695,687	2	$ 683,115	2
Other	s	8,845	-	1,101	-
		$ 704,532	2	$ 684,216	2
Operating costs and expenses					
Service cost					
NCIC	b	$ 53,824	-	$ 3,328	-
Rental					
FEILC	c	$ 91,305	7	$ 189,063	14
FETL	d	54,895	4	56,238	4
YDC	e	2,092	-	2,383	-
FEDS	o	1,917	-	1,820	-
Other	s	3,639	-	3,971	1
		$ 153,848	11	$ 253,475	19
Management service fee					
AWS	f	$ 59,215	100	$ 82,166	100
Trademark license fee					
AT&T	g	$ -	-	$ 13,530	100
Research and development expense					
FETTDF	h	$ 22,971	66	$ 49,905	84
Service fee					
FETI	i	$ 66,418	99	$ -	-
Nonoperating income					
Management service revenue					
Yuan-Ze	j	$ 181,996	100	$ 20,952	100

(Continued)

		2003 Amount	2003 %	2002 Amount	2002 %
Interest income					
Yuan-Ze	j	$ -	-	$ 454	1
Gain on disposal of properties					
NCIC	k	$ 64,646	772	$ -	-
Rental revenue					
NCIC	l	$ 3,663	9	$ 3,887	3
Other income					
NCIC	k	$ 7,400	18	$ -	-
Acquisition of properties					
FEILC	c	$ 1,532,506	31	$ -	-
FETEC	m	73,576	1	780,673	14
NCIC	n	-	-	66,528	1
Other	s	-	-	28	-
		$ 1,606,082	32	$ 847,229	15
At end of year					
Prepaid expenses					
FEDS	o	$ 1,159	-	$ 475	-
YDC	e	1,030	-	776	-
FETL	d	753	-	738	-
FEILC	c	-	-	1,078	-
Other	s	1,339	-	618	-
		$ 4,281	-	$ 3,685	-
Other receivables－related parties					
Yuan-Ze	j	$ 70,838	27	$ 15,524	66
NCIC	k and p	87,768	34	-	-
FETI	i	17,410	7	-	-
Yuan-Ho	q	70,777	28	-	-
FETETC	r	11,189	4	-	-
AWS	f	-	-	8,138	34
Other	s	162	-	-	-
		$ 258,144	100	$ 23,662	100
Refundable deposits					
FEILC	c	$ 6,390	3	$ 145,785	39
YDC	e	908	-	832	-
Other	s	219	-	215	-
		$ 7,517	3	$ 146,832	39

(Continued)

		2003 Amount	2003 %	2002 Amount	2002 %
Payables to related parties					
FETEC	m	$ 169,986	76	$ 464,438	70
NCIC	b	24,864	11	151,389	23
FETL	d	14,508	6	-	-
AT&T	g	-	-	15,014	2
Other	s	15,281	7	29,388	5
		$ 224,639	100	$ 660,229	100
Other current liabilities					
Other payable					
NCIC	p	$ -	-	$ 11,609	8

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

a. Operating revenues (such as service revenues 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 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 service provided by NCIC to the Company are included in service cost. The international direct dialing revenue collected by the Company for NCIC is treated as a reduction of service revenue and is included in payables to related parties.

c. Under operating lease agreements, the Company rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung under a contract with a term from February 2000 to June 2004; (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu from November 1999 to June 2004; and (c) vehicles.

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

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

   The contract on renting 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 amounting to $1,532,382 (without sales tax) was determined 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.

d. The Company leases from FETL several parcels of the land and building spaces under contracts with terms from May 1997 to November 2014. The properties are located on Yatung Street and Renai Street in Panchao City; Yuantung Street in Chungli; and Wuku in Taipei County and other locations in Taiwan.

e. The Company leased certain floors at The Mall from 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 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 signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed on with the Company. The advances to FETI were treated as other receivable and were collected depending on FETI's financial status.

j. The Company renders management service and gives advances to Yuan-Ze for its daily operating expenditures during its development stage. In addition, the Company provided short-term financing to Yuan-Ze for its 3G license fee payment. The related details are as follows:

2002			
Highest Balance	**Balance as of December 31**	**Interest Rate**	**Total Interest Income**
$2,074,000	$ -	4.2%	$454

k. The board of directors approved to sell HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC. The selling price of the HUB and related operating equipment was $154,805 and related service charge was $7,770, with both amounts including sales tax. As of December 31, 2003, the Company still had a receivable of $77,416 from NCIC. The gains on disposal of properties and service charge for the management of the building were $64,646 and $7,400, respectively, which were treated as nonoperating income.

l. NCIC leases the Company's telecommunication switch centers under an agreement starting from January 2002 and expiring in March 2004.

m. The Company has contracts with FETEC for constructing telecommunications network and backbone network facilities.

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

o. The Company leases from FEDS several parcels of land as well as building spaces under contracts starting from July 1997 and expiring in October 2006.

p. In 2002, 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.

q. The Company gives advances to Yuan-Ho for its daily operating expenditures during its preparatory stage. The advances will be collected depending on Yuan-Ho's financial status.

r. The Company gives advances to FETETC for its daily operating expenditures during its development stage. The advances will be collected depending on FETETC's financial status.

s. Accounts of other related parties were less than 5% of respective accounts.

All the above rental rates and terms are comparable to leases with third parties.

15. COMMITMENTS AS OF DECEMBER 31, 2003

a. The Company has outstanding contracts to acquire properties for $652,516.

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

Year	Amount
2004	$ 1,220,044
2005	1,268,446
2006	1,318,141
2007	1,369,792
2008	1,423,478

c. The Company's outstanding letters of credit amounted to ¥1,206,567 thousand (equivalent to $383,447).

16. ADDITIONAL DISCLOSURES

A. Important transactions and B. Related information of the Company's 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 $100 million or 20% of the paid-in capital: Schedule B.

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

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 $100 million or 20% of the paid-in capital: Schedule D.

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.

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

j. Derivative financial transactions

The Company used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2003 and 2002. All these transactions were for nontrading purposes.

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

1) Open contracts and credit risk

Following are the Company's outstanding interest rate swap contracts as of December 31, 2003:

	December 31, 2003				
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity**
Interest rate swap	$ 370,000	1.25%	2.60%	Half year	March 28, 2008
	300,000	1.25%	2.60%	Half year	March 31, 2008
	300,000	1.25%	2.60%	Half year	April 1, 2008
	300,000	1.25%	2.60%	Half year	April 2, 2008
	200,000	1.25%	2.60%	Half year	April 3, 2008
	200,000	1.91%	3.96%	Half year	December 12, 2008
	200,000	1.91%	3.97%	Half year	December 15, 2008
	200,000	1.91%	3.98%	Half year	December 16, 2008
	200,000	1.91%	3.98%	Half year	December 17, 2008
	200,000	1.91%	3.98%	Half year	December 18, 2008
	200,000	1.91%	3.98%	Half year	December 19, 2008

There was no outstanding interest rate swap contract as of December 31, 2002.

The related gains and losses (recorded as reductions of interest expenses and interest expenses, respectively) on these swap contracts for the years ended December 31, 2003 and 2002 were $9,420 and $36,674, respectively.

	December 31, 2002			
Type of Transaction	**Notional Amount (Thousands)**	**Market Value**	**Credit Risk**	**Maturity**
Forward contracts (buying yen, selling New Taiwan dollar)	¥ 372,980	$ 109,209	$ 4,637	January 6, 2003

There was no outstanding forward contract as of December 31, 2003.

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The realized exchange loss for the year ended December 31, 2002 was $5,390.

In 2002, the Company placed an order for cell phones amounting to ¥1,444,814 thousand. 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 on this commitment 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 entered into interest rate swap contract to hedge its exposure to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

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, particularly, for the Company's exposure to cash flow risk. The Company periodically evaluates the effectiveness of the instruments.

5) Financial statement presentation

Forward Contracts (Buying JPY, Selling TWD)	December 31, 2002
Forward contracts receivable—foreign currencies	$ 109,171
Premium on forward contracts	112
Forward contracts payable	(104,646)
Net receivable on forward contracts (included in other current assets)	$ 4,637

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

	December 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 2,868,156	$ 2,868,156	$ 2,238,342	$ 2,238,342
Accounts receivable—net	3,735,277	3,735,277	3,216,577	3,216,577
Other receivables—related parties	258,144	258,144	23,662	23,662
Investments in shares of stocks	21,641,987	21,641,987	8,223,198	8,223,198
Refundable deposits	241,718	240,218	373,279	365,848

(Continued)

	December 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities				
Short-term debts	$ 100,000	$ 100,000	$ -	$ -
Notes payable	30,670	30,670	28,944	28,944
Accounts payable	1,043,206	1,043,206	665,068	665,068
Payables to related parties	224,639	224,639	660,229	660,229
Nonderivative financial instruments				
Payables related to acquisitions of properties	$ 1,808,776	$ 1,808,776	$ 2,120,178	$ 2,120,178
Guarantee deposits received—current	1,502,750	1,502,750	-	-
Long-term bonds payable (including current portion)	13,886,436	14,116,574	6,092,000	6,511,069
Long-term debts (including current portion)	4,896,942	4,896,942	3,869,839	3,863,072
Guarantee deposits received—noncurrent	50,841	50,841	1,991,727	1,991,727
Derivative financial instruments				
Forward contract	-	-	4,637	4,637
Interest rate swap	-	19,723	-	-

The bases for estimating fair values of financial instruments were as follows:

a) The carrying values of cash and cash equivalents, accounts receivable, other receivables—related parties, short-term debts, notes payable, accounts payable, payables to related parties and payables related to acquisitions of properties—carrying values reported in the balance sheets because of the short maturity of these instruments;

b) The fair value of investments in shares of stock—the equity in the investees' net assets;

c) Long-term bonds payable and long-term debts—market prices or, if market prices are unavailable, upon present value of expected cash outflows, which is discounted at the interest rates for bank loans or corporate bonds with similar maturity dates.

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.

17. INDUSTRY SEGMENT INFORMATION

a. Industry

The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services. No segment information is provided since the revenues from wireless communications services account for more than 90% of the Company's total revenues.

b. Foreign operations.

The Company has no revenue-generating unit that operates outside the ROC.

c. Foreign revenues

The Company has no foreign revenues.

d. Net sales to customers representing at least 10% of the Company's total net sales were as follows:

	2003		2002	
	Amount	**Percentage of Operating Revenue (%)**	**Amount**	**Percentage of Operating Revenue (%)**
Company A	$ 7,139,284	19	$ 7,935,692	23

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2003
(Amount in Thousands of New Taiwan Dollars, Except Share Information)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	Yuan-Ho Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	526,431	$ 11,698,382	100.00	$ 11,698,382	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000	9,870,087	100.00	9,870,087	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	1,330	8,518	19.00	8,518	Note B

Notes: A. Calculation was based on audited 2003 financial statements.

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Type and Name of Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Investment Loss Under Equity Method	Ending Balance		Gain (Loss) on Disposal
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares	Amount		Shares (Thousands)	Amount	
Far EasTone Telecommunications Co., Ltd.	Yuan-Ho Telecommunications Co., Ltd.	Investments in shares of stock	Issuance of capital stock (for cash)	-	-	$ -	526,431	$ 11,698,461	-	$ -	($ 79)	526,431	$ 11,698,382	$ -
	Yuan-Ze Telecommunications Co., Ltd.	Investments in shares of stock	Teco Electric and Machinery Co., Ltd. Opto-Electronics Technology Co., Ltd. TECOM Co., Ltd.	-	837,000	8,212,856	200,000	2,000,000	-	-	(342,769)	1,037,000	9,870,087	-

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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.	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 reports: - 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 YEAR ENDED DECEMBER 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable or (Payable)	
		Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
New Century InfoComm Tech Co., Ltd. (NCIC)	The same chairman as that of the Company	Operating revenue	($695,687)	(2)	30 days	-	-	($24,864)	(11)

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 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 December 31, 2003			Net Loss of the Investee	Equity in Net Loss	Note
				December 31, 2003	December 31, 2002	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	Yuan-Ho Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	$11,698,461	$ -	526,431	100.00	$ 11,698,382	$ 79	$ 79	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	10,370,000	8,370,000	1,037,000	100.00	9,870,087	305,797	342,769	Note A
	E. World (Holdings) Ltd.	British Cayman Island	Investment	41,095	41,095	1,330	19.00	8,518	9,359	1,778	Notes B and C

Notes:
A. Subsidiary.

B. Equity method investee of the Company

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