Far EasTone Telecommunications Co., Ltd.

Financial Statements for the
Six Months Ended June 30, 2005 and 2004 and
Independent Auditors' Report

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. ("the Company") as of June 30, 2005 and 2004, 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.

Except for the matter described in the next paragraph, we conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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.

We were unable to obtain audited financial statements supporting the Company's investments in certain equity-method investees with carrying values of NT$1,715,226 thousand and NT$1,731,363 thousand as of June 30, 2005 and 2004, respectively; the Company's equity of NT$86,412 thousand and NT$125,790 thousand in the losses of these investees, which was included in the net incomes for the six months ended June 30, 2005 and 2004, respectively, as described in Note 5; and the related information of the Company's investments as described in Note 16 to the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of some of the Company's equity-method investees as described in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Company as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the six months 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 the Company and subsidiaries as of and for the six months ended June 30, 2005 and 2004 and have issued a qualified opinion thereon in our report dated July 30, 2005.

July 30, 2005

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.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS
JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

	2005		2004	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 9,516,772	9	$ 3,955,549	4
Accounts and notes receivable, net of allowance for doubtful accounts of $1,148,026 thousand in 2005 and $886,755 thousand in 2004 (Note 2)	3,544,443	3	3,870,131	4
Receivables from related parties (Notes 2 and 14)	1,010,761	1	675,401	1
Dividend receivable (Note 5)	3,745,191	4	-	-
Inventories, net (Notes 2 and 4)	500,877	-	519,105	1
Prepaid expenses (Notes 2 and 14)	909,433	1	1,886,710	2
Deferred income tax assets - current (Notes 2 and 13)	657,916	1	1,001,769	1
Other current assets (Note 5)	69,654	-	54,406	-
Total current assets	19,955,047	19	11,963,071	13
INVESTMENTS IN SHARES OF STOCK UNDER THE EQUITY METHOD (Notes 2, 5 and 14)	34,896,710	34	42,286,532	47
PROPERTIES (Notes 2, 6 and 14)				
Cost				
Land	847,138	1	852,980	1
Buildings and equipment	1,620,377	2	1,606,107	2
Operating equipment	50,590,282	50	49,504,970	55
Computer equipment	7,507,499	7	6,520,039	7
Office equipment	780,967	1	773,931	1
Leasehold improvements	1,447,659	1	1,371,567	1
Miscellaneous equipment	46,527	-	50,122	-
Total cost	62,840,449	62	60,679,716	67
Less - accumulated depreciation	34,774,350	34	27,998,417	31
	28,066,099	28	32,681,299	36
Construction in progress and advances for acquisition of equipment	8,407,730	8	1,976,195	2
Net properties	36,473,829	36	34,657,494	38
INTANGIBLE ASSETS				
3G concession, net (Notes 1 and 2)	9,864,539	10	-	-
OTHER ASSETS				
Rental assets, net (Notes 2, 6 and 7)	201,075	-	191,942	-
Refundable deposits (Note 14)	238,165	-	251,375	1
Deferred income tax assets - noncurrent (Notes 2 and 13)	524,403	1	974,310	1
Other (Note 2)	12,089	-	97,080	-
Total other assets	975,732	1	1,514,707	2
TOTAL	$ 102,165,857	100	$ 90,421,804	100

	2005		2004	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes payable	$ 36,002	-	$ 37,362	-
Accounts payable	654,061	1	574,325	1
Payables to related parties (Note 14)	605,659	1	231,660	-
Income tax payable (Notes 2 and 13)	157,353	-	-	-
Accrued expenses	2,962,991	3	3,071,243	4
Dividend payable (Note 9)	11,617,989	11	4,748,620	5
Payables related to acquisition of properties	1,812,307	2	1,177,796	1
Guarantee deposits received - current	1,037,396	1	1,261,582	2
Unearned revenues (Note 2)	1,094,184	1	2,084,491	2
Current portion of long-term liabilities (Notes 2, 6, 8 and 14)	3,944,750	4	4,556,520	5
Other current liabilities (Notes 2 and 9)	262,445	-	342,002	-
Total current liabilities	24,185,137	24	18,085,601	20
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 6, 8 and 14)				
Long-term bonds payable	6,530,000	6	9,000,000	10
Long-term debts payable	4,789,788	5	3,420,000	4
Long-term lease payable	44,250	-	-	-
Total long-term liabilities	11,364,038	11	12,420,000	14
OTHER LIABILITIES				
Accrued pension cost (Note 2)	278,263	-	202,045	-
Guarantee deposits received - noncurrent	43,911	-	44,231	-
Total other liabilities	322,174	-	246,276	-
Total liabilities	35,871,349	35	30,751,877	34
STOCKHOLDERS' EQUITY				
Capital stocks - $10 par value				
Authorized - 4,200,000 thousand shares				
Issued - 3,872,663 thousand shares in 2005 and 3,391,871 thousand shares in 2004	38,726,630	38	33,918,714	37
Capital stocks to be issued - 339,187 thousand shares in 2004	-	-	3,391,872	4
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	4,123,900	5
From business combination	8,482,381	8	8,482,381	9
From investments in shares of stock	6,224	-	-	-
Total capital surplus	14,999,569	15	12,606,281	14
Retained earnings				
Legal reserve	4,101,609	4	2,697,301	3
Unappropriated earnings	8,471,674	8	7,055,889	8
Total retained earnings	12,573,283	12	9,753,190	11
Cumulative translation adjustments	(4,974)	-	(130)	-
Total stockholders' equity	66,294,508	65	59,669,927	66
TOTAL	$ 102,165,857	100	$ 90,421,804	100

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

(With Deloitte & Touche audit report dated July 30, 2005)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2005		2004	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 14)				
Sales of cellular phone equipment and accessories, net	$ 1,927,349	9	$ 1,404,773	7
Telecommunication service revenues	19,398,827	91	18,261,912	93
Other	11,135	-	9,967	-
Total operating revenues	21,337,311	100	19,676,652	100
OPERATING COSTS (Notes 2, 11, 12 and 14)				
Cost of sales	2,230,268	11	1,476,016	8
Cost of telecommunication services	8,287,782	40	8,109,627	41
Total operating costs	10,518,050	51	9,585,643	49
GROSS PROFIT	10,819,261	49	10,091,009	51
OPERATING EXPENSES (Notes 2, 11, 12 and 14)				
Marketing	2,767,102	13	2,945,842	15
General and administrative	1,658,616	8	1,841,524	9
Research and development	156,667	1	149,914	1
Total operating expenses	4,582,385	22	4,937,280	25
OPERATING INCOME	6,236,876	27	5,153,729	26
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 5)	2,120,840	13	2,200,261	11
Commission (Note 14)	137,027	1	18,818	-
Management service revenue (Note 14)	36,551	-	39,078	-
Interest	25,745	-	7,484	-
Gain from sales of nonperforming accounts receivable	-	-	88,351	1
Other	45,833	-	41,564	-
Total nonoperating income and gains	2,365,996	14	2,395,556	12
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 6 and 16)	87,148	-	182,517	1
Loss on decline in value of inventories	5,448	-	7,398	-
Loss on disposal of properties, net	-	-	8,546	-
Other (Notes 7 and 12)	3,613	-	65,489	-
Total nonoperating expenses and losses	96,209	-	263,950	1

(Continued)

	2005		2004	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX EXPENSE	$ 8,506,663	41	$ 7,285,335	37
INCOME TAX EXPENSE (Notes 2 and 13)	703,326	3	256,167	1
NET INCOME	$ 7,803,337	38	$ 7,029,168	36

	2005		2004	
	Income Before Income Tax	**Net Income**	**Income Before Income Tax**	**Net Income**
EARNINGS PER SHARE (Note 10)				
Basic	$ 2.20	$ 2.02	$ 1.95	$ 1.88
Diluted	$ 2.20	$ 2.02	$ 1.89	$ 1.82

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

(With Deloitte & Touche audit report dated July 30, 2005) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued (Notes 2, 8 and 9)		Capital Stock to be Issued (Note 9)	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 Business Combination	From Investments in Shares of Stock	Total	Legal Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2005	3,842,311	$ 38,423,115	$ -	$ 6,023,801	$ 8,482,381	$ -	$ 14,506,182	$ 2,697,301	$ 14,069,797	$ 16,767,098	$ 15,671	$ 69,712,066
Conversion of overseas convertible bonds into common stock	30,352	303,515	-	487,163	-	-	487,163	-	-	-	-	790,678
Appropriation of 2004 earnings												
Legal reserve	-	-	-	-	-	-	-	1,404,308	(1,404,308)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	(252,775)	(252,775)	-	(252,775)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(126,388)	(126,388)	-	(126,388)
Cash dividend - $3 per share	-	-	-	-	-	-	-	-	(11,617,989)	(11,617,989)	-	(11,617,989)
Net income for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	7,803,337	7,803,337	-	7,803,337
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	-	6,224	6,224	-	-	-	-	6,224
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	(20,645)	(20,645)
BALANCE, JUNE 30, 2005	3,872,663	$ 38,726,630	$ -	$ 6,510,964	$ 8,482,381	$ 6,224	$ 14,999,569	$ 4,101,609	$ 8,471,674	$ 12,573,283	$ (4,974)	$ 66,294,508
BALANCE, JANUARY 1, 2004	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
Conversion of overseas convertible bonds into common stock	562	5,622	-	10,997	-	-	10,997	-	-	-	-	16,619
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880
Appropriation of 2003 earnings												
Legal reserve	-	-	-	-	-	-	-	818,813	(818,813)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)
Cash dividend - $1.4 per share	-	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)
Stock dividend - 4.6%	-	-	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Capitalization of capital surplus - 5.4%	-	-	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	7,029,168	7,029,168	-	7,029,168
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	(3,182)	(3,182)
BALANCE, JUNE 30, 2004	3,391,871	$ 33,918,714	$ 3,391,872	$ 4,123,900	$ 8,482,381	$ -	$ 12,606,281	$ 2,697,301	$ 7,055,889	$ 9,753,190	$ (130)	$ 59,669,927

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

(With Deloitte & Touche audit report dated July 30, 2005)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,803,337	$ 7,029,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,498,793	3,628,492
Amortization of 3G concession	121,784	-
Provision for doubtful accounts	285,459	378,845
Provision for losses on decline in value of inventories	5,448	7,398
Equity in investees' net gains	(2,120,840)	(2,200,261)
Losses (gains) on disposal of properties and properties not currently used in operations, net	(1,077)	8,546
Accrued pension cost	51,955	32,767
Deferred income taxes	542,439	230,549
Interest premium on convertible bonds	1,070	19,327
Unrealized exchange gains on overseas convertible bonds	-	(24,045)
Other	1,179	(4,096)
Net changes in operating assets and liabilities		
Accounts and notes receivable	(337,328)	(513,699)
Receivables from related parties	(105,793)	(486,227)
Inventories	59,111	274,597
Prepaid expenses	569,304	(217,718)
Other current assets	87,564	(11,122)
Notes payable	(5,330)	6,692
Accounts payable	272,916	(468,881)
Payables to related parties	285,775	7,021
Income tax payable	155,897	(24,083)
Accrued expenses	(399,212)	436,116
Unearned revenues	(563,765)	224,803
Other current liabilities	(136,363)	98,694
Net cash provided by operating activities	10,072,323	8,432,883
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	(1,415,446)	(516,788)
Acquisition of properties	(2,057,016)	(1,330,358)
Proceeds from sales of properties and properties not currently used in operation	4,529	78,928
Decrease (increase) in refundable deposits	13,804	(9,657)
Decrease in other assets	3,501	47,655
Net cash used in investing activities	(3,450,628)	(1,730,220)

(Continued)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	$ (2,919,209)	$ (100,000)
Proceeds from long-term debts	6,249,788	3,420,000
Repayments of long-term liabilities	(3,330,000)	(5,205,307)
Decrease in guarantee deposits received	(139,014)	(247,778)
Bonus paid to employees and directors	(252,775)	(147,387)
Repurchase of treasury stock	-	(3,334,798)
Net cash used in financing activities	(391,210)	(5,615,270)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,230,485	1,087,393
CASH RECEIVED ON MERGER WITH YUAN-ZE TELECOMMUNICATIONS CO., LTD.	20,856	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,265,431	2,868,156
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 9,516,772	$ 3,955,549
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS INFORMATION		
Interest paid (excluding capitalized interest)	$ 142,208	$ 191,633
Income tax paid	$ 4,988	$ 50,396
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 3,944,750	$ 4,556,520
Reclassification of properties into rental assets	$ 11,109	$ 192,908
Conversion of overseas convertible bonds into common stock and capital surplus	$ 790,678	$ 16,619
Cash dividend receivable from subsidiary	$ 3,745,191	$ -
Declaration of cash dividend payable	$ 11,617,989	$ 4,748,620
ISSUANCE OF NEW STOCK AND REISSUANCE OF TREASURY STOCK IN EXCHANGE FOR INVESTMENTS IN SHARES OF STOCK		
Common stock	$ -	$ 6,935,232
Capital surplus from business combination	-	8,482,381
Repurchase of treasury stock	-	3,334,798
Decrease in unappropriated earnings	-	(821,733)
	$ -	$ 17,930,678
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 1,068,592	$ 699,378
Decrease in payables for acquisition of properties	988,424	630,980
Actual cash paid for acquisition of properties	$ 2,057,016	$ 1,330,358
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Total amount of properties and properties not currently used in operations sold	$ 1,640	$ 9,842
Decrease (increase) in receivables from properties sold	(5,367)	116
Decrease in receivables from related parties	8,256	68,970
Actual cash received from disposal of properties and properties not currently used in operations	$ 4,529	$ 78,928

(Continued)

SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

In February 2005, the Company brought 55.37% of Arcoa Communications Co., Ltd.'s common shares; the fair value of total assets and total liabilities at the time of common share acquisition was as follows:

	Amount
Cash	$ 157,224
Short-term investments, net	662,800
Accounts and notes receivable, net	310,974
Inventories, net	627,274
Prepaid expenses	40,892
Other current assets	118,338
Investments in shares of stock	69,143
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term bank loans	(282,586)
Notes payable	(78,354)
Accounts payable	(358,125)
Accrued expenses	(174,836)
Unearned revenues	(64,120)
Other current liabilities	(28,814)
Long-term liabilities	(50,188)
Other liabilities	(8,843)
	1,723,145
Percentage of ownership acquired	55.37%
	954,135
Goodwill	254,811
Cash consideration of the merger and issurance cost	1,208,946
Less: Decrease in restricted assets	320,000
Cash payment due to merger	$ 888,946

On May 2, 2005, the Company completed the merger with Yuan-Ze Telecommunications Co., Ltd.; the fair value of total assets and total liabilities upon completion of the merger was as follows:

	Amount
Cash	$ 20,856
Prepaid expenses	164,294
Other current assets	92,994
Construction in progress and advances related to acquisition of equipment	6,298,125
Refundable deposits	9
3G Concession, net	9,986,323
Other assets	2,152
	$ 16,564,753

(Continued)

	Amount
Short-term bank loans	$ 2,919,209
Payables to related parties	126,864
Accrued expenses	38,636
Payables related to acquisition of properties	1,249,715
Long-term debts payables	3,000,000
	$ 7,334,424

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

(With Deloitte & Touche audit report dated July 30, 2005) (Concluded)

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 (“OTC”) Securities Exchange (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 equipment and accessories. Affiliates of Far Eastern Textile Co., Ltd. are the major stockholders of the Company.

The Company provides wireless communications services by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 for all island-wide (“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 beginning in 1997, with an annual license fee of 2% of total second-generation wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide internet services for 10 years beginning in 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 beginning in December 2001 and pays an annual license fee of 0.5% of ISR service revenues and is licensed to provide local/domestic long-distance land cable leased circuit services for 15 years beginning in January 2003 with an annual license fee of 1% of leased circuit service revenues.

To integrate the telecommunications business and enhance the Company’s operational efficiency, the Company’s Board of Directors approved the Company’s merger with Yuan-Ze Telecommunications Co., Ltd. (“Yuan-Ze Telecom”), its wholly owned subsidiary, on February 24, 2005. The merger was completed on May 2, 2005, with the Company as the survivor company.

In 2002, Yuan-Ze Telecom received from the DGT the 3G (third-generation wireless communications system) concession, with a bidding price of 10,169,000 thousand, included in intangible assets-3G concession. On January 24, 2005, the DGT has officially issued to Yuan-Ze Telecom a 3G license, which is valid through December 31, 2018. Through the completion of the merger with Yuan-Ze Telecom, the Company became licensed to provide 3G wireless communications service and began commercial operations on July 13, 2005.

The Company had 3,497 and 3,454 employees as of June 30, 2005 and 2004, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports for Securities Issuers and accounting principles generally accepted in the ROC. In preparing financial estimates in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, allowance for losses on inventories, depreciation and amortization, impairment losses on tangible and intangible assets, income taxes and pension cost. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

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

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash or cash equivalents 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 and bonds purchased under resell agreements and 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 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 using the weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in companies in which the Company owns at least 20% of investees' common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately to the Company's share in the investees' net income or net loss. The difference between the cost of the investment and the Company's equity in the investees' net assets is amortized over three to five years. An impairment loss should be recognized whenever the carrying amount of those investments in shares of stock exceeds their recoverable amount, and this impairment loss should be charged to current income. 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 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 investees' net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Costs of investments sold are determined using the weighted-average method.

Properties and Rental Properties

Properties and rental properties are stated at cost. Depreciation expense is computed using 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 life years are depreciated over their newly estimated service lives.

An impairment loss should be recognized whenever the carrying amount of properties, rental properties and properties not currently used in operation exceeds their recoverable amount, and this impairment loss should be charged to current income. An impairment loss recognized in prior years could be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

Equipment under capital leases and the related liability are stated at the lower of (1) the fair value of the equipment at the beginning 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
Operating equipment	5-8
Computer equipment	3-5
Office equipment	5
Leasehold improvements	5-10
Miscellaneous equipment	5-8

Upon retirement or other disposal (e.g., sale) of properties and rental 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.

3G Concession

The 3G concession will be amortized on a straight-line basis from January 24, 2005, the date the license was granted, through the license expiry date (December 31, 2018).

3G concession are reviewed for impairment whenever circumstances indicate that the carrying value has fallen below the recoverable value of an asset. If the recoverable amount is less than the carrying value of the assets, the impairment loss should be charged to current income. An impairment loss recognized in prior years may be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

Properties not Currently Used in Operations

Properties not currently used in operations (included in other assets - other), such as telecommunications equipment expected to be retired or disposed, are stated at the lower of net book value or net realizable value and are reviewed for impairment whenever the carrying value may not be recoverable. An impairment loss should be recognized whenever the carrying amount exceeds their recoverable amount.

Deferral of Unrealized Intercompany Profit

The entire gains from the Company's sales of products to its subsidiaries are deferred and included as deferred income until the gains are realized through the subsequent sale of the related items to third parties. In addition, the Company classifies the deferred income as current or noncurrent on the basis of the length of the gain realization period.

The Company defers its gain or loss on its product sales in proportion to ownership percentages for sales to other equity-method investees. These gains and losses are realized upon subsequent sale of products to third parties.

The Company defers its gains or losses on the subsidiaries' sales of products to the Company or on the sale among subsidiaries in proportion to its equity in the subsidiaries until the gains or losses are realized through the subsequent sale of the related items to third parties.

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) fixed monthly service fees and leased-circuit service revenues are accrued each month; and (b) 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 equipments and accessories are recognized when the products are delivered to and accepted by the customers as the related transaction is considered a separate earnings process from the sale of wireless services.

The amount received at the start of a bundled 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 beginning of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the beginning 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 recalculated based on the pro forma interest rate method.

Promotion Expenses

Commissions and cellular phone equipments 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 period when the service to a subscriber is activated.

Distinction Between Capital Expenditures and Expenses

Expenditure is capitalized whenever it increases the future service potential of a fixed asset and the amount is material while others (e.g., costs of merchandise sold or services rendered) are expensed as incurred.

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. 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, is amortized using the interest method and is 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 - other) of issuing convertible bonds is amortized using the straight-line method over the same period as the interest-premium.

When the bondholder exercises the conversion option, the Company uses the book-value approach. The Company will write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The amount of capital stock is valued as the net carrying amount that is written off, and the amount in excess of the par value of capital stock is recognized as additional paid-in capital.

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences 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.

Tax credits earned for 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 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-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.

3. CASH AND CASH EQUIVALENTS

	June 30	
	2005	**2004**
Cash		
Cash on hand	$ 8,360	$ 7,589
Checking and demand deposits	1,082,032	1,428,148
Time deposits - interest of 1.2% in 2005 and 1.00%-1.23% in 2004	20,000	772,341
	1,110,392	2,208,078
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.00%-1.23% in 2005 and 0.925%-0.965% in 2004	2,956,380	1,747,471
Bonds purchased under resell agreements - interest of 1.00%-1.33%	5,450,000	-
	8,406,380	1,747,471
	$ 9,516,772	$ 3,955,549

4. INVENTORIES

	June 30	
	2005	**2004**
Cellular phone equipment	$ 461,626	$ 464,537
SIM cards	40,182	49,540
Cellular phone accessories	24,455	25,818
	526,263	539,895
Less - allowance for losses	25,386	20,790
	$ 500,877	$ 519,105

Inventory insurance as of June 30, 2005 amounted to approximately $797,181 thousand.

5. INVESTMENTS IN SHARES OF STOCK

	June 30			
	2005		2004	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method				
KG Telecommunications Co., Ltd.	$ 32,599,955	100.00	$ 32,014,888	100.00
ARCOA Communications Co., Ltd.	1,172,389	55.37	-	-
Far Eastern Electronic Toll Collection Co., Ltd.	922,923	42.66	471,918	45.00
Far Eastern Info Service (Holding) Ltd.	121,541	100.00	-	-
E. World (Holdings) Ltd.	47,336	85.92	49,988	85.92
Ding Ding Integrated Marketing Services Co., Ltd.	32,566	15.00	-	-
Yuan-Ze Telecommunications Co., Ltd.	-	-	9,749,738	100.00
	$ 34,896,710		$ 42,286,532	

a. KG Telecommunications Co., Ltd. (KG Telecom)

On October 7, 2003, the Company signed a definitive merger agreement with KG Telecommunications Co., Ltd. (the "former KGT"). The merger agreement was submitted to the special stockholders' meetings of the Company, Yuan-Ho Telecommunications Co., Ltd. and the former KGT on November 25, 2003. The merger agreement with the former KGT provided for the transaction to occur in two steps (the "Combination"). To facilitate the combination with the former KGT, the Company formed a new wholly owned subsidiary in September 2003 called Yuan Ho Telecommunications Co., Ltd. ("Yuan-Ho"), which also was a party to the merger agreement. In connection with the first step of the Combination, Yuan-Ho issued 526,431 thousand shares for total proceeds of $11,698,461 thousand.

In the first step of the transaction, the former KGT merged with and into Yuan-Ho with Yuan-Ho as the survivor company. The first step was completed and effective on January 1, 2004.

As consideration for this step of the transaction, the former KGT stockholders became entitled to receive cash of $6.72, together with 0.46332 of one share of common stock of Yuan-Ho, for each the former KGT share that they owned, representing aggregate consideration to all the former KGT stockholders of $11,698,461 thousand in cash and 806,567 thousand shares of common stock of Yuan-Ho. Subsequent to completion of the first step of the transaction, Yuan-Ho obtained approval from the Department of Commerce, Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. ("KG Telecom ") and the former KGT no longer existed as a corporate entity. In addition, the capital of KG Telecom increased to $13,329,979 thousand and the equity of KG Telecom owned by the Company was temporarily diluted to 39.49%. The other principal stockholders of KG Telecom were the original stockholders of the former KGT and held 60.51% ownership as of January 1, 2004.

In the second step, the Company swapped shares with KG Telecom. The stockholders of KG Telecom received one share of the Company stock in exchange for each KG Telecom share owned. The share swap agreement was submitted to the special stockholders' meetings of the Company and KG Telecom on February 18, 2004. On April 29, 2004, stockholders of KG Telecom received an aggregate of 806,567 thousand shares in the amounting to $17,930,678 thousand (Note 9). KG Telecom became a wholly owned subsidiary of the Company.

Upon completion of the second step of the transaction, the Company accounted for the merger with KG Telecom as a wholly-owned subsidiary. The Company established control of KG Telecom as of January 1, 2004 as the Company held the majority of the board seats of KG Telecom, significant consideration had been paid and other elements of control had been established. As such, the Company recognized 100% of its investment income beginning January 1, 2004.

The appropriation and distribution of the 2004 earnings of KG Telecom were approved by the Board of Directors (authorized representative for stockholders) on April 7, 2005. The Board of Directors decided to distribute cash dividends of $3,745,191 thousand effective on July 25, 2005. The cash dividend receivable from KG Telecom was recorded as dividend receivable as of June 30, 2005.

b. Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze Telecom)

On February 24, 2005, the Board of Directors of the Company approved the Company's merger with Yuan-Ze Telecom, with the Company as the survivor company. The merger was been approved by DGT on March 16, 2005 and by OTC on April 19, 2005. The date of the merger was May 2, 2005. On March 25, 2005, Yuan-Ze Telecom's Board of Directors, the authorized representative of the stockholders, approved a capital reduction, effective March 28, 2005, to offset a deficit. The capital reduction amounted to $779,860 thousand, representing 7.5203% of Yuan-Ze Telecom's total paid-in capital. After the capital reduction, the paid-in capital of Yuan-Ze Telecom reduced to $9,590,140 thousand.

The following pro forma financial information presents the combined balance sheet and statement of income of the Company and Yuan-Ze Telecom as of and for the six months ended June 30, 2005 and 2004, respectively, assuming that the Company merged with Yuan-Ze Telecom on January 1, 2005 and 2004 is as follows:

(In Thousands, Except EPS)

	Six Months Ended June 30	
	2005	**2004**
Current assets	$ 19,955,047	$ 11,878,645
Properties, net	36,473,829	37,497,571
Current liabilities	24,185,137	18,955,182
Operating revenue	21,337,311	19,676,652
Income before income tax	8,506,663	7,285,335
Net income	7,803,337	7,029,168
EPS	2.02	1.88

The pro forma combined balance sheet and statement of income are presented for illustrative purposes only. That is, this information merely shows the financial position and results of operations under the assumption that the Company merged with Yuan-Ze Telecom on January 1, 2005 and 2004; this information also does not show the future financial position or results of operations of the Company and Yuan-Ze Telecom.

c. ARCOA Communications Co., Ltd. (ARCOA)

Between February 4, 2005 and March 24, 2005, the Company brought from ARCOA's stockholders 74,353 thousand shares for $1,208,946 thousand. As a result, the Company acquired 55.37% of ARCOA's common shares and became its parent company.

On December 24, 2004, the Company made a deposit to an escrow account with Citibank which was restricted and transferred to the original stockholders of ARCOA as part of the purchase price upon signed agreement. The $30,000 thousand deposit balance as of June 30, 2005 was fully transferred as final payment on July 28, 2005.

The following pro forma financial information presents the combined balance sheet and statement of income of the Company and ARCOA as of and for the six months ended June 30, 2005 and 2004, respectively. The pro forma financial information is based on the assumption that the Company brought the majority interest of ARCOA on January 1, 2005 and 2004.

(In Thousands, Except EPS)

	Six Months Ended June 30	
	2005	**2004**
Current assets	$ 21,386,213	$ 12,721,966
Properties, net	36,985,354	35,053,921
Current liabilities	24,840,912	18,931,399
Operating revenue	23,649,867	22,202,831
Income before income tax	8,491,610	7,305,556
Net income	7,787,847	7,044,266
EPS	2.01	1.89

The pro forma combined balance sheet and statement of income are presented for illustrative purposes only. This information is not necessarily indicative of the financial position and results of operations that might have under the assumption as if the Company had purchased the majority interest of ARCOA on January 1, 2005 and 2004, nor is it necessarily indicative of future financial position or results of operations of the Company and ARCOA.

d. Equity in investees' net gains or losses

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM") allows the Company to exercise significant influence on its operating and financial policy decisions, the investment in DDIM is accounted for by the equity method even though the Company's equity in DDIM is 15%.

The equity in investees' net gains or losses recognized in financial statements was based on the audited financial statements of the following investees: KG Telecom, ARCOA and Far Eastern Electronic Toll Collection Co., Ltd. as of and for the period ended June 30, 2005; KG Telecom and Yuan-Ze Telecom as of and for the period ended June 30, 2004.

The financial statements of certain equity-method investments of KG Telecom and ARCOA as of June 30, 2005 and 2004 were unaudited. The Company and subsidiaries' investments in certain equity-method investees, which were based on unaudited financial statements, were $1,715,226 thousand and $1,731,363 thousand as of June 30, 2005 and 2004, respectively. The equity in the losses of those companies of $86,412 thousand and $125,790 thousand was included in the net income for the six months ended June 30, 2005 and 2004, respectively.

e. Consolidation

Starting from January 2005, the consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries and entities in which the Company has controlling interests, as required by revised ROC GAAP SFAS No. 7 - "Consolidated Financial Statements." All significant intercompany accounts and transactions have been eliminated in consolidation. For subsidiaries acquired during the period, their revenues and expenses generated before the acquisition date will not be consolidated.

The consolidated financial statements prior to and for 2004 include the accounts of the Company and its direct and indirect subsidiaries with total assets or total operating revenues that are individually at least 10% or collectively at least 30% of the unconsolidated total assets or operating revenues of the Company. The consolidated financial statements as of and for the six months ended June 30, 2004 include the accounts of the Company, KG Telecom and Yuan-Ze Telecom.

6. PROPERTIES

a. Accumulated depreciation consisted of:

	June 30	
	2005	**2004**
Buildings and equipment	$ 364,877	$ 279,661
Operating equipment	28,353,125	22,872,775
Computer equipment	4,611,395	3,650,870
Office equipment	602,949	503,619
Leasehold improvements	804,136	651,825
Miscellaneous equipment	37,868	39,667
	$ 34,774,350	$ 27,998,417

Depreciation expenses for the six months ended June 30, 2005 and 2004 were $3,497,756 thousand and $3,627,486 thousand, respectively.

Insurance for property and rental assets amounted to $35,669,783 thousand as of June 30, 2005.

The Company leases computer equipment from Far Eastern International Leasing Corporation under a five year lease with annual lease payments of $15,414 thousand. The amount paid for the leased properties at the inception of the lease was $73,750 thousand net of the market price of new equipment of $138,716 thousand less equipment exchanged value of $64,966 thousand. The total lease payments were $77,068 thousand. The lease agreements qualify as capital lease since (a) the present value of the future lease payments plus the bargain purchase price under the lease agreement exceeds 90% of the fair value of the leased assets, and (b) the lease term is equal to 75% or more of the estimated economic life of the leased assets. The details of the lease as of June 30, 2005 are as follows:

	June 30, 2005
Total future lease payments	$ 61,654
Less - imputed interest expense	2,654
	59,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	14,750
Long-term lease payable	$ 44,250

c. Capitalized interest on properties was as follows:

	Six Months Ended June 30	
	2005	**2004**
Total interest expense	$ 146,858	$ 211,042
Less - interest capitalized 2.32%-2.73% in 2005 and 2.16%-2.58% in 2004	59,710	28,525
Interest expense, net of amounts capitalized	$ 87,148	$ 182,517

d. Properties amounting to $3,498,432 thousand and $4,279,425 thousand had been pledged or mortgaged as collateral as of June 30, 2005 and 2004, respectively.

7. RENTAL ASSETS, NET

	June 30	
	2005	**2004**
Cost		
Land	$ 105,366	$ 99,524
Buildings	100,136	94,672
	205,502	194,196
Less - accumulated depreciation		
Buildings	4,427	2,254
	$ 201,075	$ 191,942

Depreciation expenses for the six months ended June 30, 2005 and 2004 were $1,010 thousand and $966 thousand (included in nonoperating expenses and losses - other).

Rental properties are offices that are intended to be used as operating premises for future business expansion. The rental agreements will expire on various dates through February 2013. Future rental income is summarized as follows:

Period	**Amount**
July 2005 to June 2006	$ 12,956
July 2006 to June 2007	12,580
July 2007 to June 2008	12,680
July 2008 to June 2009	6,815
July 2009 and on	18,695

8. LONG-TERM LIABILITIES

	June 30, 2005		
	Due Within One Year	Due After One Year	Total
Bonds			
Domestic secured bonds	$ 330,000	$ -	$ 330,000
Domestic unsecured bonds - 1st	2,140,000	2,060,000	4,200,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	-	3,000,000	3,000,000
	2,470,000	6,530,000	9,000,000
Long-term debt			
Unsecured bank loans	-	1,930,000	1,930,000
Secured bank loans	1,460,000	1,460,000	2,920,000
Commercial paper	-	1,399,788	1,399,788
	1,460,000	4,789,788	6,249,788
Long-term lease payable	14,750	44,250	59,000
	$ 3,944,750	$ 11,364,038	$ 15,308,788

	June 30, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ 3,865,520	$ -	$ 3,865,520
Interest premium - overseas unsecured convertible bonds	53,000	-	53,000
Domestic secured bonds	638,000	330,000	968,000
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
	4,556,520	9,000,000	13,556,520
Long-term debt			
Unsecured bank loans	-	500,000	500,000
Secured bank loans	-	2,920,000	2,920,000
	-	3,420,000	3,420,000
	$ 4,556,520	$ 12,420,000	$ 16,976,520

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) The 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) Each bondholder has the right to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The last conversion price was NT$27.94.

As of June 30, 2005, convertible bonds amounting to US$115,000 thousand had been converted into 142,167 thousand shares of common stock (including 165 thousand units of Global Depositary Receipts representing 2,473 thousand shares of common stock).

4) At any time on or after February 19, 2006 and prior to February 19, 2008, the Company may redeem the Bonds in whole, in part or from time to time at a specific price under certain conditions. In addition, the Company may redeem the Bonds in whole, but not in part, if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled or converted.

b. Domestic secured bonds

These are five-year domestic secured bonds issued at par value on November 30, 2000. The total face value of the bonds is $2,200,000 thousand, with face value of $1,000 thousand and 5.06% interest, compounded semiannually. Starting on November 30, 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 thousand, with face value of $1,000 thousand 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

These are five-year domestic unsecured bonds issued at par value on March 28, 2003. The total face value of the bonds is $1,470,000 thousand, with a face value of $1,000 thousand 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 thousand, with a face value of $5,000 thousand 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 semi-annually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

f. Unsecured bank loans

As of June 30, 2005 and 2004, the Company had bank loans at annual interest rates of 1.7% to 1.9% and 1.45%, which were fully repaid by the Company on July 5, 2005 and July 2, 2004, respectively. The loan is guaranteed by banks and the guarantee is effective until November 2006.

g. Commercial paper

Commercial paper had variable interest rates of 1.35% to 1.40% as of June 30, 2005. Under revolving credit agreements, banks guaranteed the commercial paper to be reissued by the Company through June 23, 2007.

h. Secured bank loans

The Company obtained secured bank loans from a consortium of banks with interest rates of 2.202% and 1.944% as of June 30, 2005 and 2004, respectively. Under a revolving credit agreement, the secured bank loan is made available for the Company through February 2007. Starting on August 4, 2004, the maximum amount of secured loan that can be made available under the agreement decreases by 16% to 17% every six months.

i. Long-term lease payable

The Company entered into capital lease agreements on computer equipment with Far Eastern International Leasing Corp. in July 2004. The annual lease payments were $15,414 thousand (Note 6).

Under the terms of restriction of long-term loan contracts, the Company must meet certain financial conditions such that total liabilities must less than 125% of the Company's net assets and tangible assets should not be less than $18,900,000 thousand. Apart from the foregoing financial conditions, there were no other restrictions on the Company for its long-term and short-term credit facilities.

As of June 30, 2005, the Company had unused long-term and short-term credit lines of approximately $615,000 thousand and $8,600,000 thousand, respectively.

9. STOCKHOLDERS' EQUITY

a. Capital surplus

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

b. Appropriation of earnings and dividend policy

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, 1% to 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.

At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 50% 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 or the plan for improving financial structure.

A regulation issued by the Securities and Futures Bureau requires a special reserve be made from the unappropriated earnings, equivalent to the debit balance of any account shown in stockholders' equity. The special reserve is allowed to be appropriated to the extent that the debit balance of such accounts is reversed.

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.

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 2004 and 2003 earnings was approved by the stockholders on May 20, 2005 and June 30, 2004, respectively, as follows.

	Appropriation and Distribution		**Dividend Per Share (Dollars)**	
	2004	**2003**	**2004**	**2003**
Legal reserve	$ 1,404,308	$ 818,813		
Bonus to employees - cash	252,775	147,387		
Remuneration to directors and supervisors	126,388	73,693		
Cash dividend	11,617,989	4,748,620	$ 3.00	$ 1.40
Stock dividend	-	1,560,261	-	0.46

As of June 30, 2005, remuneration to directors and supervisors amounting to $126,388 thousand was included in other current liabilities; cash dividend amounting to $11,617,989 thousand was included in dividend payable. The effective date of these appropriations was July 26, 2005.

c. Issuance of new stock for business combination

Under the Enterprise Mergers and Acquisitions Law No. 12, the Company entered into an agreement with a dissenting stockholder (Bai Yang Investment Co., Ltd.) on April 16, 2004 to repurchase 113,044 thousand shares for $3,334,798 thousand. The difference between the fair value and the repurchase price of the treasury stock of $821,733 thousand was recorded as a reduction to unappropriated earnings.

The Company issued 693,523 thousand new shares (included in capital stock and capital surplus - from business combination in the amount of $6,935,232 thousand and $8,482,381 thousand, respectively, amounting to $15,417,613 thousand) and reissued the 113,044 thousand shares held as treasury stock in order to satisfy the consideration to the stockholders of KG Telecom for the remaining ownership and completed the share swap for 806,567 thousand shares in the amount of $17,930,678 thousand (Note 5).

d. Global depositary receipts

Information on the Company's Global Depositary Receipts (GDRs) as of June 30, 2005 is as follows:

		GDRs (in Thousand Units)	**Representing Common Stock (in Thousand Shares)**
Initial offering	a	10,000	150,000
Converted from overseas unsecured convertible bonds	b	165	2,473
Issued for capital increase	c	296	4,448
Reissued within authorized units	d	11,077	166,160
GDRs transferred to common stock		(14,668)	(220,034)
Outstanding GDRs issued		6,870	103,047

1) On June 1, 2004, the Securities and Futures Bureau (SFB) approved the Company's request to sell 150,000 thousand shares of the Company's common stock in the form of GDRs to foreign investors representing 10,000 thousand units of GDRs. One GDR unit represents 15 shares of the Company's common stock. The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US$13.219.

2) On July 20, 2004, the SFB approved the Company's request to issue new common stock in the form of GDRs of US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of June 30, 2004, 165 thousand units of GDRs have been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand shares of common stock.

3) The Company issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represent 4,448 thousand shares of common stock.

4) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, reissuance of GDRs is allowed up to the aggregate amount previously approved by the SFB. Accordingly, the Company has reissued 11,077 thousand units of GDRs representing 166,160 thousand shares of common stock.

The owners of GDRs have the same rights as holders of common stock except that the GDR owners should exercise the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations through the Depositary Trust Company:

1) Exercise voting rights;
2) Transfer the GDRs into common stocks; and
3) Receive dividends and exercise preemptive rights or other rights and interests.

10. EARNINGS PER SHARE

	For the Six Months Ended June 30			
	2005		2004	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
Basic EPS	$ 2.20	$ 2.02	$ 1.95	$ 1.88
Diluted EPS	$ 2.20	$ 2.02	$ 1.89	$ 1.82

Earnings per share (EPS) calculation is as follows:

	Amount (Numerator)		Common Stock (Denominator) (in Thousand Shares)	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
Six months ended June 30, 2005					
Basic EPS					
Net income	$ 8,506,663	$ 7,803,337	3,869,468	$2.20	$2.02
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,063	3,195		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 8,508,912	$ 7,805,400	3,872,663	$2.20	$2.02
Six months ended June 30, 2004					
Basic EPS					
Net income	$ 7,285,335	$ 7,029,168	3,730,749	$1.95	$1.88
Effect of potential dilutive common stock					
Convertible bonds	20,272	19,559	141,623		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 7,305,607	$ 7,048,727	3,872,372	$1.89	$1.82

11. PENSION PLAN

a. The Company and KG Telecom (with 3 employees) accrue pension cost, separately, on the basis of actuarial calculations, and make monthly contributions, at 2% of salaries and wages, to each pension fund, which is administered by each pension plan committee and deposited in each company's Committee's name in the Central Trust of China.

b. Net pension costs were as follows:

	Six Months Ended June 30	
	2005	2004
Actuarial net pension cost	$ 76,094	$ 53,683
Less: Included in properties	7,770	1,669
Included in receivables from related parties	575	512
Included in reduction of operating costs and expenses (Note 14)	30,857	22,521
Net pension cost (included in operating costs and expenses)	$ 36,892	$ 28,981

c. The Company's contributions to the Fund were $21,678 thousand and $20,786 thousand for the six months ended June 30, 2005 and 2004, respectively. Fund balances were $313,648 thousand and $173,255 thousand as of June 30, 2005 and 2004, respectively.

d. The Labor Pension Act (the "Act") will take effect on July 1, 2005. This Act provides for defined contribution plans featuring a portable pension. Employees can choose to remain subject to the pension mechanism under the Labor Standards Law, or choose to be subject to the pension mechanism under the Act with their service years accumulated before the enforcement of this Act to be retained. Under the Act, the employer's monthly rate of contribution to the pension fund should be at least 6% of the employees' monthly wages.

12. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2005				
	Operating Costs	Operating Expenses	Nonoperating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 131,454	$ 494,542	$ -	$ 533,295	$ 1,159,291
Pension	7,411	29,481	-	30,857	67,749
Meal	3,297	15,337	-	15,711	34,345
Employee benefits	-	24,766	-	55	24,821
Insurance	9,075	35,738	-	38,176	82,989
Miscellaneous	1,410	12,775	-	6,024	20,209
Depreciation	2,896,119	601,637	1,010	-	3,498,766
Amortization	-	27	-	-	27
	$ 3,048,766	$ 1,214,303	$ 1,010	$ 624,118	$ 4,888,197

	Six Months Ended June 30, 2004				
	Operating Costs	Operating Expenses	Nonoperating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 135,649	$ 680,178	$ -	$ 573,690	$ 1,389,517
Pension	5,611	23,370	-	22,521	51,502
Meal	3,285	17,031	-	15,459	35,775
Employee benefits	-	9,848	-	-	9,848
Insurance	8,173	37,628	-	37,190	82,991
Miscellaneous	1,300	16,546	-	11,999	29,845
Depreciation	2,991,101	636,385	966	-	3,628,452
Amortization	-	40	-	-	40
	$ 3,145,119	$ 1,421,026	$ 966	$ 660,859	$ 5,227,970

Since 2004, the Company has provided management services to equity-method investees (Note 14). The employee expenses were charged on the basis of agreed-upon terms and recorded as a reduction of operating costs and expenses.

13. INCOME TAX

a. Reconciliation of income tax expense based on income before income tax at statutory income tax rates to income tax expense - current is as follows:

	June 30	
	2005	**2004**
Income tax expense computed at statutory tax (25%)	$ 2,126,656	$ 1,821,334
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(732,580)	(1,162,963)
Equity in investees' net losses	(526,693)	(557,389)
Realized investment losses	(145,319)	-
Other	(1,487)	2,305
	(1,406,079)	(1,718,047)
Temporary differences		
Realized loss on disposal of properties	(5,500)	-
Depreciation resulting from the differences in estimated service lives of properties	(38,003)	37,189
Unrealized foreign exchange loss, net	13,880	15,254
Accrued pension cost	12,980	8,224
Provision of doubtful accounts	25,000	22,500
Accrued interest premium	(3,660)	4,809
Equity in investees' net loss (gain)	(3,517)	52
Unrealized (realized) losses on properties not currently used in operations	(1,902)	10,938
Other	1,350	1,878
	628	100,844
Undistributed earnings tax (10%)	-	123,949
Less - investment tax credits	(564,616)	(328,080)
Income tax expense - current	$ 156,589	$ -

The balance of income tax payable as of June 30, 2005 was net of $436 thousand of the Company's creditable income taxes plus the accrual of income tax payable of $1,200 thousand for the year not yet examined and cleared by the tax authorities.

Net operating income generated from the use of switches and cell sites acquired during the period April 1, 1997 to December 31, 1999 are exempt from income tax for the period January 1, 2000 to December 31, 2004.

Net operating income generated from the use of switches and cell sites acquired during the period January 1, 2000 to June 26, 2002 was exempt from income tax for the period June 26, 2002 to June 25, 2007.

b. Income tax expense consisted of:

	Six Months Ended June 30	
	2005	2004
Income tax expense - current	$ 156,589	$ -
Income tax expense - deferred	542,439	230,549
Prior year's adjustment	2	25,572
Income tax expense on income subjected to a separate rate of 20%	4,296	46
Income tax expense	$ 703,326	$ 256,167

c. Deferred income taxes assets (liabilities) as of June 30, 2005 and 2004 consisted of:

	June 30	
	2005	2004
Current		
Provision for doubtful accounts	$ 518,415	$ 676,040
Investment tax credits	165,779	583,637
Unrealized foreign exchange gain, net	(2,699)	(7,548)
Losses on decline in value of inventories	6,346	5,197
	687,841	1,257,326
Less - valuation allowance	29,925	255,557
	$ 657,916	$ 1,001,769
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 397,943	$ 467,227
Investment tax credits	8,573	422,582
Accrued pension cost	75,965	51,210
Accrued interest premium	-	13,394
Losses on disposal of properties	13,246	-
Provision for losses on properties not currently used in operations	30,598	10,937
Cumulative equity in the net loss of investees	1,651	8,960
Other	5,000	-
	532,976	974,310
Less - valuation allowance	8,573	-
	$ 524,403	$ 974,310

The tax rate used in calculating deferred income tax was 25%.

d. Integrated income tax information:

	June 30	
	2005	2004
Balance of imputation credit account (ICA)	$ 12,903	$ 55,939

Actual ratio of the ICA balance as of June 30, 2005 to unappropriated earnings as of such date was 8.75%. When the dividends from the unappropriated earnings as of June 30, 2004 were distributed in 2004, the actual ratio used was 0.68%.

e. Investment tax credits information:

The unused investment tax credits as of June 30, 2005 are summarized as follows:

Regulatory Basis of Investment Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 587,938	$ 8,268	2005
		302,096	14,763	2006
		28,866	6,894	2007
Statute for Upgrading Industries	Purchase of automated equipment or technology	3,971	3,971	2007
		4,602	4,602	2008
		200,000	135,854	2009
		$ 1,127,473	$ 174,352	

f. Status of income tax returns:

Income tax returns through 1999 and for 2002 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	Relationship with the Company
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 Textile Ltd. (FETL)	Same chairman
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
KG Telecommunications Co., Ltd. (KG Telecom)	Subsidiary
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze Telecom)	Subsidiary (merged with the Company in May 2005)
ARCOA Communications Co., Ltd. (ARCOA)	Subsidiary since February 2005
Far Eastern Technology Developmental Foundation (FETTDF)	The Company's donation to the foundation's capital is over one third of FETTDF's fund
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Asia Cement Co., Ltd. (ACC)	Same chairman
U-Ming Marine Transport Corp. (UMMT)	Same chairman
Far Eastern Info Service (Holding) Ltd. (Bermuda) (FEIS)	Subsidiary since August 2004
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS since August 2004
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Sing Co., Ltd. (former E.World Ltd. Taiwan)	Subsidiary of E. World
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee
Yuan Ding Investment Co., Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same major stockholders

(Continued)

Related Party	Relationship with the Company
Yuan-Ze University	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same major stockholders
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FEDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT
Far Eastern International Bank	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company 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 stockholders
Yuan Ding Leasing Corp.	Same major stockholders
Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee
KGEx.com (KGEx)	Subsidiary of KG Telecom
KGT International Holdings	Subsidiary of KG Telecom
KG Satellite	Subsidiary of KG Telecom
Taipei Metro Properties Management	Same major stockholders
NTT DoCoMo Inc.	Director of the Company
Bai Yang Investment Co., Ltd.	Its chairman is the relative of the Company's chairman
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same major stockholders

In addition to those disclosed in Notes 6 and 9, the significant transactions with the above parties are summarized as follows:

		2005		2004	
		Amount	%	Amount	%
During the period					
Operating revenue	a.				
KG Telecom	b.	$ 1,144,865	6	$ 439,319	2
NCIC	c.	375,985	2	361,398	2
KGEx	s.	72,691	-	46,393	-
ARCOA	e.	58,299	-	-	-
Other	u.	2,414	-	4,798	-
		$ 1,654,254	8	$ 851,908	4
Operating costs and expenses					
Telecommunication service cost					
KG Telecom	b.	$ 540,704	7	$ 402,627	5
NCIC	c.	18,874	-	661	-
FETEC	d.	-	-	12,799	-
Other	u.	172	-	1,373	-
		$ 559,750	7	$ 417,460	5

(Continued)

		2005		2004	
		Amount	%	Amount	%
Cost of sales					
ARCOA	e.	$ 2,407	-	$ -	-
Rental					
FETRD	f.	$ 25,874	3	$ 25,390	4
FEILC	g.	23,009	3	26,485	4
NCIC	h.	6,807	1	23,360	3
Other	u.	5,349	-	7,218	1
		$ 61,039	7	$ 82,453	12
Research and development expenses					
FETTDF	i.	$ 9,993	61	$ 6,926	70
Service fee					
FETI	j.	$ 73,399	65	$ 62,805	59
FCHRC	k.	25,592	23	40,606	38
		$ 98,991	88	$ 103,411	97
Marketing expense					
ARCOA	e.	$ 183,509	7	$ -	-
KG Telecom	o.	50,950	2	4,024	-
Other	u.	3,075	-	-	-
		$ 237,534	9	$ 4,024	-
Nonoperating income and gains					
Management service revenue					
KG Telecom	l.	$ 26,081	71	$ 31,367	80
Yuan-Ze Telecom	m.	6,720	19	7,711	20
KGEx	n.	3,750	10	-	-
		$ 36,551	100	$ 39,078	100
Commissions					
KG Telecom	o.	$ 137,027	100	$ 18,818	100
Acquisition of investments in shares of stock					
FETIH	p.	$ -	-	$ 12,531	-
OIHP	p.	-	-	12,531	-
YTI	p.	-	-	12,531	-
FEDSD	p.	-	-	4,195	-
		$ -	-	$ 41,788	-

(Continued)

		2005		2004	
		Amount	**%**	**Amount**	**%**
Acquisition of properties					
NTT DoCoMo Inc.	t.	$ 18,765	2	$ -	-
FETEC	r.	2,912	-	18,569	3
NCIC	q.	-	-	76,602	11
		$ 21,677	2	$ 95,171	14
At end of period					
Receivables from related parties					
KG Telecom	b. and l.	$ 968,603	96	$ 422,613	63
KGEx	n. and s.	27,634	3	1,906	-
FETI	j.	-	-	8,972	1
Yuan-Ze Telecom	m.	-	-	208,894	31
Other	u.	14,524	1	33,016	5
		$ 1,010,761	100	$ 675,401	100
Prepaid expenses					
NCIC	h.	$ 4,333	-	$ 6,190	1
Other	u.	6,638	1	4,523	-
		$ 10,971	1	$ 10,713	1
Refundable deposits					
FEILC	g.	$ 4,590	2	$ 6,390	3
NCIC	h.	1,779	1	1,779	1
Other	u.	655	-	920	-
		$ 7,024	3	$ 9,089	4
Payables to related parties					
KG Telecom	o.	$ 433,643	72	$ 53,158	23
ARCOA	e.	82,339	14	-	-
NCIC	c. and q.	36,609	6	107,260	46
FETI	j.	15,860	3	-	-
FETEC	d. and r.	1,836	-	36,482	16
Other	u.	35,372	5	34,760	15
		$ 605,659	100	$ 231,660	100
Long-term lease payable (including current portion)					
FEILC	g.	$ 59,000	100	$ -	-

Other information on transactions with related parties is as follows:

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

b. The transactions between the Company and KG Telecom consisted of the interconnection activities for KG Telecom's use of the Company's network and via versa. The interconnection fee received from KG Telecom for its use of the Company's network are included in service revenue. The interconnection fee paid by the Company on its use of KG Telecom's network and billing processing costs pertaining to the interconnection service are included in service cost.

c. 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 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 of service revenue and was included in payables to related parties.

d. The Company signed a network maintenance contract with FETEC for maintaining the Company's telecommunications network and backbone network facilities.

e. The revenue from and expenses for the sales of cellular phone equipment and accessories to ARCOA are recognized as operating revenues and cost of sales, respectively. The Company have agreed to pay to ARCOA handset subsidies and commissions (included in marketing expenses) due to the promotion of the Company's SIM card numbers and advances for the costs of handsets purchased at net amounts.

f. The Company leases from FETRD several buildings and parcels of land under contracts with terms ranging from September 2003 to November 2013. The properties are located in Yatung Street and Renai Street in Panchao City; Wuku in Taipei County; and other locations in Taiwan.

g. Under operating lease agreements, the Company leased from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung; (b) the land and mobile switch centers located in Neihu, Taichung and Hsinchu from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either the Company or FEILC inform each other to cancel the contracts.

   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
Hsinchu land for switch center	120,000

   The Company leases from FEILC computer equipment, under a five year lease from July 2004 to June 2009, with annual lease payments of $15,414 thousand (Note 6).

h. The Company leases from NCIC the telecommunications network and office space in Neihu under contracts with terms ranging from September 2003 to September 2008.

i. FETTDF researches telecommunications technology and provides training programs for the Company.

j. The Company signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed upon with the Company. Also, the advances to FETI were treated as receivables from related parties, and were settled in the net amount against the fees paid.

k. The Company has contracts with FCHRC for manpower dispatching service. The service charges were based upon the services provided by FCHRC for temporary or specific personnel supplies.

l. The Company provides management services and advances KG Telecom for its daily operating expenditures. The service revenue and advances are collected monthly.

m. The Company provides management services and advances Yuan-Ze Telecom for its daily operating expenditures. The service revenue and advances are collected monthly.

n. The Company provides management services to KGEX and the service revenues are collected annually.

o. The Company and KG Telecom have agreed to receive or pay handset subsidies and commissions due to the promotion of opposite SIM card numbers and advances for the costs of handsets purchased for each other in the net amount. Bills collected on behalf of KG Telecom were included in payables to related parties.

p. In June 2004, the Company purchased 4,685 thousand shares for $41,788 thousand, representing ownership of 66.92% of E. World from FETIH, OIHP, FEDSD and YTI.

q. The Company purchased NCIC's telecommunications network and backbone network facilities.

r. The Company signs contracts with FETEC for the construction of telecommunications network and backbone network facilities.

s. The international direct dialing revenue collected by the Company for KGEx through call-by-call selection service was treated as a reduction of service revenue and was included in payables to related parties. The interconnection fees paid by the Company on its use of KGEx's network and billing processing costs pertaining to the interconnection services provided by KGEx to the company are included in service cost.

t. NTT DoCoMo Inc. does 3G constructions of wireless facilities and system integration, and renders related operating services to the Company. Since the related expenditures refers to facility construction, it is capitalized.

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

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

15. COMMITMENTS AS OF JUNE 30, 2005

a. The Company had outstanding contracts to acquire properties for $1,788,132 thousand.

b. The Company's outstanding letters of credit amounted to ￥1,108,056 thousand (equivalent to $317,347 thousand).

c. Payment for the rental of land, buildings and cell sites for the next five years is summarized as follows:

Period	**Amount**
July 1, 2005 to June 30, 2006	$ 1,259,487
July 1, 2006 to June 30, 2007	1,307,955
July 1, 2007 to June 30, 2008	1,358,304
July 1, 2008 to June 30, 2009	1,410,607
July 1, 2009 and on	1,464,942

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 NT$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: None

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 rates for the six months ended June 30, 2005 and 2004. All these transactions were for nontrading purposes.

Derivative contracts entered into by the Company were as follows:

1) Open contracts and credit risk

Type of Transaction	June 30, 2005						
	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap	$ 2,670,000	1.25-1.95%	0-2.54%	Every 6 months	March 28, 2008 - December 19, 2008	$ (77,831)	$ -

Type of Transaction	June 30, 2004						
	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap	$ 2,670,000	1.25-1.95%	2.04-3.41%	Every 6 months	March 28, 2008 - December 19, 2008	$ 65,612	$ 65,612

The related losses of the Company on these swap contracts for the six months ended June 30, 2005 were $2,599 thousand and gains for the six months ended June 30, 2004 were $19,271 thousand, which were recorded as interest expense or as a reduction of interest expense.

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 contracts to hedge the effect of fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. 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. Management believes that the Company have sufficient operating capital to meet cash demand.

4) The purpose of derivative financial instruments held or issued

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 interest at a fixed rate and receiving interest based on market rates. The 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 fair values of financial instruments are as follows:

	June 30			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 9,516,772	$ 9,516,772	$ 3,955,549	$ 3,955,549
Accounts and notes receivable, net	3,544,443	3,544,443	3,870,131	3,870,131
Receivables from related parties	1,010,761	1,010,761	675,401	675,401
Dividend receivable	3,745,191	3,745,191	-	-
Restricted assets (included in other current assets - other)	30,000	30,000	-	-
Investments in shares of stock	34,896,710	34,896,710	42,286,532	42,286,532
Refundable deposits	238,165	237,236	251,375	250,259
Financial liabilities				
Notes payable	36,002	36,002	37,362	37,362
Accounts payable	654,061	654,061	574,325	574,325
Payables to related parties	605,659	605,659	231,660	231,660
Dividend payable	11,617,989	11,617,989	4,748,620	4,748,620
Payables related to acquisition of properties	1,812,307	1,812,307	1,177,796	1,177,796
Long-term liabilities (including current portion)	15,308,788	15,544,625	16,976,520	17,232,507
Guarantee deposits received (including current portion)	1,081,307	1,081,307	1,305,813	1,305,813
Derivative financial instruments				
Interest rate swap	-	(77,831)	-	65,612

a) The carrying values of cash and cash equivalents, accounts and notes receivable, receivables from related parties, dividend receivable, restricted assets, notes payable, accounts payable, payables to related parties, dividend payable and payables related to acquisition of properties are recorded at their carrying values due to the short maturity of these instruments.

b) The fair values of investments in shares of stock are recorded at market price or, if market prices are unavailable, on the investees' net assets.

c) Long-term liabilities are recorded at 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 with similar maturity dates.

d) Refundable deposits and guarantee deposits received are recorded at the present values of future payments or receipts.

e) Fair values of derivative financial instruments are recorded at the quoted market prices obtained from banks.

KG Telecom used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the six months ended June 30, 2005 and 2004. All of these transactions are for nontrading purposes.

The information on interest rate swap contracts and cross currency swap contracts entered into by KG Telecom is as follows:

1) Open contracts and credit risk

There were no outstanding interest rate swap contracts as of June 30, 2005.

	June 30, 2004						
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**	**Fair Value**	**Credit Risk**
Interest rate swap	$ 1,300,000	3.38-6.33%	0.965-0.981%	Every 3 months	July 12, 2004 - May 20, 2005	$ (30,617)	$ -

	June 30, 2005			
Type of Transaction	**Notional Amount**	**Carrying Value**	**Fair Value**	**Credit Risk**
Cross currency swap	US$ 4,067 thousand	$ -	$ (6,203)	$ -

	June 30, 2004			
Type of Transaction	**Notional Amount**	**Carrying Value**	**Fair Value**	**Credit Risk**
Cross currency swap	US$ 50,799 thousand	$ -	$ (11,201)	$ -

The related losses of KG Telecom on the swap contracts for the six months ended June 30, 2005 were $16,556 thousand, recorded as interest expense of $7,923 thousand and foreign exchange loss of $8,633 thousand.

The related losses of KG Telecom on the swap contracts for the six months ended June 30, 2004 were $44,997 thousand, recorded as interest expense of $32,058 thousand and foreign exchange loss of $12,939 thousand.

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

2) Market risk

KG Telecom entered into interest rate swap contracts 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.

KG Telecom entered into cross currency swap contracts to hedge its exposure to exchange rate and interest rate fluctuations on bank loans dominated in foreign currency. 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. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is not expected to be significant. Thus, no additional material cash is required.

4) The purpose of derivative financial instruments held or issued

KG Telecom uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves KG Telecom's paying interests at a fixed rate and receiving interests based on market rates. KG Telecom entered into cross currency swap contracts to hedge the effects of exchange rate and interest rate fluctuations on bank loans denominated in foreign currency, particularly for KG Telecom's exposure to cash flow risk. KG Telecom periodically evaluates the effectiveness of the instruments.

ARCOA purchased certain derivative instruments to earn interest, i.e., for trading purposes for the six months ended June 30, 2005.

Derivative financial contracts entered into by ARCOA were as follows:

1) Open contracts and credit risk

	June 30, 2005			
Type of Transaction	**Carrying Value**	**Notional Amount**	**Credit Risk**	**Transactor's Location**
Interest-linked				
Structured deposits	$ 10,000	$ 10,000	$ 10,112	Taiwan

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

2) Market risk

Based on ARCOA's policy, ARCOA sets up stop loss target price for trading derivative financial instruments and periodically evaluates it to prevent it from affecting its operating activities.

ARCOA monitors interest-linked deposits and the market risk is expected to be within the reasonable range.

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

The notional amount of interest-linked deposits is paid at the contract date and no addition cash is required unless the contract is cancelled before the contract expires.

The cancellation requires ARCOA to reimburse the loss and related bank charges incurred. ARCOA maintains and monitors the net position it owns and the cash-flow risk is expected to be not material.

4) The purpose of derivative financial instruments held or issued

ARCOA uses interest-linked structured deposits to earn interest. Therefore, the interest-linked structured deposits are highly-correlated to interest rates.

5) The related gains, and account of ARCOA on interest-linked derivative financial instruments are as follows:

	June 30, 2005
Pledged time deposits	$10,000

	Six Months Ended June 30, 2005
Interest income - interest-linked structured deposits	$190

C. Investment in Mainland China:

a. Investee company name, the description of the primary business activity and products, issued capital, nature of the relationship, capital inflow or outflow, ownership interest, gain or loss on investment, amounts received on investment, and the limitation on investment: Schedule F;

b. Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 14.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	June 30, 2005				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,332,997,916.00	$ 32,599,955	100.00	$ 32,599,955	Note A
	ARCOA Communications Co., Ltd.	Equity-method investee	Investments in shares of stock	74,353,013.00	1,172,389	55.37	1,172,389	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	106,650,000.00	922,923	42.66	922,923	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	121,541	100.00	121,541	Note B
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	47,336	85.92	47,336	Note B
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	32,566	15.00	32,566	Note B
E. World (Holdings) Ltd. (Note E)	Stocks							
	Yuan Sing Co., Ltd. (former E. World Ltd. Taiwan)	Equity-method investee	Investments in shares of stock	19,349,994.00	US$ 709,000	99.99	US$ 709,000	Note B
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US$ 431,000	17.96	US$ 143,000	Note D
Far Eastern Info Service (Holding) Ltd. (Note E)	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Investments in shares of stock	-	US$ 3,151,000	100.00	US$ 3,151,000	Note B
ARCOA Communications Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Investments in shares of stock	4,975,000.00	4,899	33.17	4,899	Note B
	THI Consultants Inc.	Equity-method investee	Investments in shares of stock	1,000,000.00	14,109	22.22	14,109	Note B
	Chunghwa Int'l Communication Network Co., Ltd.	-	Investments in shares of stock	2,830,901.00	6,714	4.20	8,409	Note B
	Taiwan Fixed Network Co., Ltd.	-	Investments in shares of stock	2,100,000.00	21,000	0.03	23,199	Note D
	VIBO Telecom Inc.	-	Investments in shares of stock	2,000,000.00	20,000	0.20	17,082	Note D
	Web Point Co., Ltd.	-	Investments in shares of stock	300,000.00	1,618	0.75	1,618	Note D
	Mutual funds - open-ended	-						
	Fuhwa Advantage Bond Fund	-	Short-term investments	5,869,348.31	60,000	-	60,000	Note C
	Fuhwa Bond Fund	-	Short-term investments	3,988,194.94	50,000	-	50,000	Note C
	The High-Yield Fund	-	Short-term investments	705,815.92	10,000	-	10,000	Note C
	Fuh-Hwa Bond Fund	-	Short-term investments	9,782,908.20	127,800	-	127,800	Note C
	CITC Cash Reserves	-	Short-term investments	6,268,337.06	72,000	-	72,000	Note C
	CITC Safe Income Fund	-	Short-term investments	11,104,693.50	161,500	-	161,500	Note C

(Continued)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	June 30, 2005				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Short-term investments	3,000,000.00	$ 3,000	-	$ 3,000	Note C
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Investments in shares of stock	260,851,000.00	1,276,126	74.53	1,276,126	Notes B and F
	KGT International Holding Co., Ltd.	Equity-method investee	Investments in shares of stock	50,000.00	93,620	100.00	93,620	Note B
	KG Satellite Co., Ltd.	Equity-method investee	Investments in shares of stock	9,950,000.00	78,983	66.33	78,983	Note B
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	46,046	40.00	46,046	Note B
	Mutual funds - open-ended							
	Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,879.00	290,000	-	292,358	Note C
KGT International Holding Co., Ltd. (Note E)	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Investments in shares of stock	16,051,000.00	78,261	4.59	78,261	Note B
KGEx.com Co., Ltd. (Note E)	Mutual funds - open-ended							
	Invesco Bond Fund	-	Short-term investments	2,399,429.62	35,000	-	35,000	Note C
KG Satellite Co., Ltd. (Note E)	Mutual funds - open-ended							
	Phoenix Fund	-	Short-term investments	1,377,042.20	20,225	-	20,361	Note C
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,261	Note C
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,667	Note C

Note A: Calculation was based on audited financial statements as of June 30, 2005.

Note B: Calculation was based on unaudited financial statements as of June 30, 2005.

Note C: Open-ended mutual funds were calculated at the net asset value of mutual funds as of June 30, 2005, while bonds were based on the cost.

Note D: Calculation was based on the most current financial statements.

Note E: Information was based on unaudited financial statements as of June 30, 2005.

Note F: Pledged as collateral for bank loans were 89,700 thousand shares.

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
SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquired		Disposed				The Change due to Equity Method	Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss		Share/Units	Amount
Far EasTone Telecommunications Co., Ltd.	ARCOA Communications Co., Ltd.	Equity-method investee	Original stockholders of ARCOA	-	-	$ -	74,353,013.00	$ 1,208,946	-	$ -	$ -	$ -	$ (36,557)	74,353,013.00	$ 1,172,389
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Issuance of capital stock for cash	-	54,000,000.00	433,544	52,650,000.00	526,500	-	-	-	-	(37,121) (Note C)	106,650,000.00	922,923
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Equity-method investee	Original stockholders of Taiwan Cement	Note A	175,931,000.00	898,944	84,920,000.00	437,762	-	-	-	-	(60,580)	260,851,000.00	1,276,126
ARCOA Communications Co., Ltd. (Note B)	Fuhwa Advantage Bond Fund	Short-term investments	-	-	9,849,887.71	100,000	15,688,190.67	160,000	19,668,730.07	200,589	200,000	589	-	5,869,348.31	60,000
	Fuh-Hwa Bond Fund	Short-term investments	-	-	9,858,600.80	127,800	19,606,498.70	255,600	19,682,191.30	256,587	255,600	987	-	9,782,908.20	127,800
	CITC Cash Reserves	Short-term investments	-	-	11,866,277.70	135,500	15,184,420.96	174,000	20,782,361.60	238,323	237,500	823	-	6,268,337.06	72,000
	CITC Safe Income Fund	Short-term investments	-	-	11,197,858.90	161,500	22,260,704.90	323,000	22,353,870.30	324,352	323,000	1,352	-	11,104,693.50	161,500
	Fuhwa Fund	Short-term investments	-	-	6,750,675.07	84,000	7,991,557.76	100,000	10,754,037.89	134,458	134,000	458	-	3,988,194.94	50,000

Note A: Leslie Koo is the authorized representative of KG Telecommunications Co., Ltd.

Note B: The beginning balance was carried from ARCOA Communications Co., Ltd. as it became the subsidiary of the Company since February 2005.

Note C: Including equity in investee’s net losses of $43,345 thousand and the effect of change in ownership percentage due to investees’ issuance of capital stock for cash amounting to $6,224 thousand.

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
SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)

Purchase (Sale) of Goods	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.	KG Telecommunications Co., Ltd.	Subsidiary	Telecommunication service revenue	$(1,144,865)	(6%)	Conducted as agreed terms	-	-	Accounts receivable (Note A) $637,214	12%
			Cost of telecommunication services	540,704	7%	Conducted as agreed terms	-	-	Accounts payable (Note A) -	-
	ARCOA Communications Co., Ltd.	Subsidiary	Marketing expenses	183,509	7%	Conducted as agreed terms	-	-	Accrued expense (82,339)	(3%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunication service revenue	(375,985)	(2%)	Conducted as agreed terms	-	-	Accounts receivable (Note B) 8,868 Accounts payable (Note B) (8,291)	- (1%)
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunication service revenue	(540,704)	(4%)	Conducted as agreed terms	- -	- -	Accounts receivable (Note A) -	-
			Cost of telecommunication services	1,144,865	19%	Conducted as agreed terms			Accounts payable (Note A) (637,214)	(56%)
	ARCOA Communications Co., Ltd.	Same parent company	Marketing expenses	126,081	7%	Conducted as agreed terms	-	-	Accrued expense (57,028)	(3%)
ARCOA Communications Co., Ltd	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue	(183,509)	(30%)	Conducted as agreed terms	-	-	Accounts receivable 82,339	31%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue	(126,081)	(20%)	Conducted as agreed terms	-	-	Accounts receivable 57,028	21%

Note A: Telecommunication service revenue and cost of telecommunication services between the Company and KG Telecom were settled at net amounts and were included in the Company’s receivables from related parties and KG Telecom’s payable to related parties.

Note B: All revenues and costs between the Company and NCIC were settled at full amount except interconnection revenues and costs and were included in receivables from related parties and payables to related parties, respectively.

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, 2005
(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.	KG Telecommunications Co., Ltd.	Subsidiary	$ 968,603	(Note A)	$ -	-	$ 85,107	$ -
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	433,643	(Note B)	-	-	25,841	-

Note A: The turnover rate is unavailable as the receivables from related parties were mainly due to the advances in operating expenditures to KG Telecom.

Note B: The turnover rate is unavailable as the receivables from related parties were mainly due to the collection of telecommunication bills by the Company.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2005			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				June 30, 2005	December 31, 2004	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	$ 25,878,053	$ 29,623,244	1,332,997,916	100.00	$ 33,599,955	$ 2,558,830	$ 2,558,755	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	(Note H)	10,370,000	-	-	-	(359,811)	(359,811)	Notes A and B
	ARCOA Communications Co., Ltd.	Taiwan	Sale and manufacturing of communication products and office equipment	1,208,946	-	74,353,013	55.37	1,172,389	(36,978)	(36,557)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,066,500	540,000	106,650,000	42.66	922,923	(96,321)	(43,345)	Notes B and C
	Far Eatern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	121,541	20,541	13,547	Notes A and D
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	47,336	3,555	521	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	32,566	(57,759)	(12,270)	Note C and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	2,197,072	1,759,310	260,851,000	74.53	1,276,126	(81,852)		Notes D and E
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	93,620	(3,930)		Notes D and E
	KG Satellite Co., Ltd.	Taiwan	TYPE I telecommunications services	99,500	99,500	9,950,000	66.33	78,983	(6,442)		Notes D and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	46,046	(11,283)		Notes D and F
ARCOA Communications Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	4,899	1,883		Notes D and F
	THI Consultants Inc.	Taiwan	Construction consulting	13,700	13,700	1,000,000	22.22	14,109	4,092		Notes D and F
KGT International Holdings (Note G)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	US$ 4,822,000	US$ 4,822,000	16,051,000	4.59	78,261	(81,852)		Notes D and E
E. World (Holdings) Ltd. (Note G)	Yuan Sing Co., Ltd. (former E. World Ltd. Taiwan)	Taiwan	Computer software, data processing and network information providing services	193,500	193,500	19,349,994	99.99	US$ 709,000	3,602		Notes D and E
Far Eatern Info Service (Holding) Ltd. (Note G)	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 3,151,000	20,541		Notes D and E

Notes:
A. Subsidiary.

B. Calculation was based on audited financial statements as of June 30, 2005.

C. Equity-method investee of the Company.

D. Calculation was based on unaudited financial statements as of June 30, 2005.

E. Subsidiary of KG Telecom, E. World (Holdings) or Far Eastern Info Service (Holding).

F. Equity-method investee of KG Telecom or ARCOA.

G. Information was based on unaudited financial statements as of June 30, 2005.

H. Merged with the Company on May 2, 2005.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2005	Accumulated Inward Remittance of Earnings as of June 30, 2005	Accumulated Investment in Mainland China as of June 30, 2005	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$79,050 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$20,541	$99,635 (US$3,151,000)	$ -	$92,616	$92,616	$26,517,803 (Note C)

Note A: Calculation of investment gain (loss) was based on unaudited financial statements as of June 30, 2005

Note B: The Company made the investment through a company registered in a third region.

Note C: Equal to 40% of the Company’s net asset value.

Note D: Significant transactions with the investee company (Note 14).