Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Years Ended December 31, 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 December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Also, we have audited the consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2005 and 2004 and have issued a modified unqualified opinion thereon in our report dated February 10, 2006.

February 10, 2006

<u>*Notice to Readers*</u>

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

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
DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2005 Amount	2005 %	2004 Amount	2004 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 2,436,827	3	$ 3,265,431	4
Accounts and notes receivable, net of allowance for doubtful accounts of $1,204,019 in 2005 and $1,031,681 in 2004 (Note 2)	3,773,299	4	3,492,574	4
Receivables from related parties (Notes 2 and 15)	759,638	1	1,018,656	1
Inventories, net (Notes 2 and 4)	654,430	1	570,662	1
Prepaid expenses (Note 2)	472,880	-	1,309,217	1
Deferred income tax assets - current (Notes 2 and 12)	560,730	-	1,144,315	1
Other current assets	21,944	-	28,857	-
Total current assets	8,679,748	9	10,829,712	12
INVESTMENTS IN SHARES OF STOCK (Notes 2, 5, 15 and 17)				
Equity method	37,532,567	41	44,030,365	49
PROPERTIES (Notes 2, 6 and 15)				
Cost				
Land	847,138	1	852,980	1
Buildings and equipment	1,632,094	2	1,610,106	2
Operating equipment	57,234,290	61	49,829,862	56
Computer equipment	8,411,143	9	6,798,060	8
Office equipment	798,031	1	777,069	1
Leasehold improvements	1,471,169	2	1,412,350	1
Miscellaneous equipment	40,771	-	49,405	-
Total cost	70,434,636	76	61,329,832	69
Less - accumulated depreciation	38,581,582	42	31,475,181	35
	31,853,054	34	29,854,651	34
Construction in progress and advances for acquisition of equipment	4,507,945	5	2,761,889	3
Net properties	36,360,999	39	32,616,540	37
INTANGIBLE ASSETS				
3G concession, net (Notes 1 and 2)	9,499,186	10	-	-
OTHER ASSETS				
Rental assets, net (Notes 2 and 7)	200,053	-	190,976	-
Refundable deposits	249,260	-	251,960	-
Deferred income tax assets - noncurrent (Notes 2 and 12)	493,226	1	580,443	1
Restricted assets (Note 5)	-	-	350,000	1
Other (Note 2)	8,672	-	17,904	-
Total other assets	951,211	1	1,391,283	2
TOTAL	$ 93,023,711	100	$ 88,867,900	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2005 Amount	2005 %	2004 Amount	2004 %
CURRENT LIABILITIES				
Commercial paper payable (Note 8)	$ 49,996	-	$ -	-
Notes payable	33,931	-	41,332	-
Accounts payable	611,684	1	381,145	1
Payable to related parties (Note 15)	790,492	1	298,452	-
Income tax payable (Notes 2 and 12)	836,955	1	1,456	-
Accrued expenses	3,766,646	4	3,323,567	4
Payables for acquisition of properties	2,287,620	3	1,551,016	2
Guarantee deposits received - current	934,840	1	1,178,692	1
Unearned revenue (Notes 2 and 15)	802,018	1	1,657,949	2
Current portion of long-term liabilities (Notes 2, 6, 9 and 15)	3,059,150	3	1,467,618	2
Other current liabilities	309,635	-	272,420	-
Total current liabilities	13,482,967	15	10,173,647	12
LONG-TERM LIABILITIES - NET OF CURRENT PORTION (Notes 2, 6, 9 and 15)				
Long-term bonds payable	5,630,000	6	8,670,000	10
Long-term debts payable	300,000	-	-	-
Long-term lease payable - noncurrent	47,100	-	44,250	-
Total long-term liabilities	5,977,100	6	8,714,250	10
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 10)	293,132	-	226,308	-
Guarantee deposits received - noncurrent	50,410	-	41,629	-
Total other liabilities	343,542	-	267,937	-
Total liabilities	19,803,609	21	19,155,834	22
STOCKHOLDER'S EQUITY				
Capital stock - $10 par value; authorized - 4,200,000 thousand shares; issued - 3,872,663 thousand shares in 2005 and 3,842,311 thousand shares in 2004	38,726,630	42	38,423,115	43
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,023,801	7
From business combination	8,482,381	9	8,482,381	9
From investments in shares of stock	10,611	-	-	-
Total capital surplus	15,003,956	16	14,506,182	16
Retained earnings				
Legal reserve	4,101,609	4	2,697,301	3
Unappropriated earnings	15,385,739	17	14,069,797	16
Total retained earnings	19,487,348	21	16,767,098	19
Other adjustments				
Cumulative translation adjustments	2,168	-	15,671	-
Total stockholders' equity	73,220,102	79	69,712,066	78
TOTAL	$ 93,023,711	100	$ 88,867,900	100

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2005		2004	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 15)				
Sales of cellular phone equipment and accessories, net	$ 3,463,811	8	$ 3,146,300	8
Telecommunications services revenue	39,659,834	92	37,061,787	92
Other	26,031	-	21,394	-
Total operating revenues	43,149,676	100	40,229,481	100
OPERATING COSTS (Notes 2, 13 and 15)				
Cost of sales	4,271,472	10	3,469,782	9
Cost of telecommunications services	17,621,476	41	16,225,352	40
Total operating costs	21,892,948	51	19,695,134	49
GROSS PROFIT	21,256,728	49	20,534,347	51
OPERATING EXPENSES (Notes 2, 13 and 15)				
Marketing	6,184,325	14	5,358,327	13
General and administrative	3,385,675	8	3,827,524	10
Research and development	301,403	1	301,902	1
Total operating expenses	9,871,403	23	9,487,753	24
NET OPERATING INCOME	11,385,325	26	11,046,594	27
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 5)	4,524,170	11	3,796,571	10
Commission (Note 15)	290,712	1	126,408	1
Management services revenue (Note 15)	139,709	-	79,187	-
Interest	35,366	-	15,913	-
Foreign exchange gains, net	-	-	78,059	-
Gain from sales of nonperforming accounts receivable	-	-	77,646	-
Other	58,730	-	54,271	-
Total nonoperating income and gains	5,048,687	12	4,228,055	11
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 6 and 17)	176,102	-	337,070	1
Losses on disposal of properties and properties not currently used in operations, net (Notes 2 and 15)	2,402	-	189,214	1
Provision for losses on properties not currently used in operations (Note 2)	-	-	130,000	-
Other (Notes 7 and 13)	11,144	-	65,736	-
Total nonoperating expenses and losses	189,648	-	722,020	2

(Continued)

	2005 Amount	2005 %	2004 Amount	2004 %
INCOME BEFORE INCOME TAX EXPENSE	$ 16,244,364	38	$ 14,552,629	36
INCOME TAX EXPENSE (Notes 2 and 12)	1,526,962	4	509,553	1
NET INCOME	$ 14,717,402	34	$ 14,043,076	35

	2005 Income Before Income Tax	2005 Net Income	2004 Income Before Income Tax	2004 Net Income
EARNINGS PER SHARE (Note 14)				
Basic	$ 4.20	$ 3.80	$ 3.88	$ 3.75
Diluted	$ 4.20	$ 3.80	$ 3.74	$ 3.61

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Common Stock Issued (Notes 2 and 11)		Capital Surplus (Notes 2 and 11)				Retained Earnings (Notes 2 and 11)			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, 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
Issuance of new stock and reissuance of treasury stock in exchange for investments in shares of stock	693,523	6,935,232	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)
Appropriation of the 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%	156,026	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Capitalization of capital surplus - 5.4%	183,161	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-
Net income in 2004	-	-	-	-	-	-	-	14,043,076	14,043,076	-	14,043,076
Conversion of overseas convertible bonds into common stock	111,815	1,118,151	1,910,898	-	-	1,910,898	-	-	-	-	3,029,049
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	12,619	12,619
BALANCE, DECEMBER 31, 2004	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 the 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 - $3.0 per share	-	-	-	-	-	-	-	(11,617,989)	(11,617,989)	-	(11,617,989)
Net income in 2005	-	-	-	-	-	-	-	14,717,402	14,717,402	-	14,717,402
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	10,611	10,611	-	-	-	-	10,611
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	(13,503)	(13,503)
BALANCE, DECEMBER 31, 2005	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 15,003,956	$ 4,101,609	$ 15,385,739	$ 19,487,348	$ 2,168	$ 73,220,102

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,717,402	$ 14,043,076
Depreciation and amortization	7,329,672	7,281,538
Amortization of 3G concession	487,137	-
Provision for doubtful accounts	551,386	771,479
Losses on disposal of inventory	1,133	2,458
Provision for losses on decline in value of inventories	4,953	6,546
Equity in investees' net gains	(4,524,170)	(3,796,571)
Cash dividends from equity-method investees	3,745,191	-
Losses on disposal of properties and properties not currently used in operations, net	2,402	189,214
Provision for losses on properties not currently used in operations	-	130,000
Accrued pension cost	66,824	79,994
Deferred income taxes	670,802	481,870
Interest premium on convertible bonds	1,070	34,297
Unrealized exchange gains on overseas convertible bonds	-	(56,508)
Other	1,179	(63,757)
Net changes in operating assets and liabilities		
Accounts and notes receivable	(832,111)	(528,776)
Receivables from related parties	147,935	(852,480)
Inventories	(89,854)	221,434
Prepaid expenses	1,000,631	359,775
Other current assets	100,089	13,440
Notes payable	(7,401)	10,662
Accounts payable	230,539	(662,061)
Payables to related parties	470,608	73,813
Income tax payable	835,499	(22,627)
Accrued expenses	404,443	688,440
Unearned revenues	(855,931)	(201,739)
Other current liabilities	37,215	102,805
Net cash provided by operating activities	24,496,643	18,306,322
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	(1,606,444)	(654,404)
Acquisition of properties	(5,296,979)	(2,747,231)
Proceeds from sales of properties and properties not currently used in operations	9,125	94,774
Decrease (increase) in refundable deposits	2,709	(10,242)
Increase in restricted assets	-	(350,000)
Decrease in other assets	6,922	8,766
Net cash used in investing activities	(6,884,667)	(3,658,337)

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	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	$ (2,250,000)	$ (100,000)
Decrease in commercial paper payable	(619,213)	-
Increase in long-term liabilities	6,549,788	3,420,000
Repayment of long-term liabilities	(9,909,788)	(8,932,942)
Payment of bonus to employees and remuneration to directors	(379,163)	(221,080)
Cash dividends paid	(11,617,989)	(4,748,620)
Decrease in guarantee deposits received	(235,071)	(333,270)
Repurchase of treasury stock	-	(3,334,798)
Net cash used in financing activities	(18,461,436)	(14,250,710)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(849,460)	397,275
CASH RECEIVED ON MERGER WITH YUAN-ZE TELECOMMUNICATIONS CO., LTD.	20,856	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,265,431	2,868,156
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,436,827	$ 3,265,431
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	$ 178,274	$ 323,273
Income tax paid	$ 6,461	$ 51,622
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 3,059,150	$ 1,467,618
Reclassification of properties as rental assets	$ 11,109	$ 192,908
Conversion of overseas convertible bonds into common stock and capital surplus	$ 790,678	$ 3,029,049
ISSUANCE OF NEW STOCK AND REISSUANCE OF TREASURY STOCK IN EXCHANGE FOR INVESTMENTS IN SHARES OF STOCK		
Common stock	$ -	$ 6,935,232
Capital surplus - paid-in capital in excess of par value	-	8,482,381
Issuance of treasury stock	-	3,334,798
Decrease in unappropriated earnings	-	(821,733)
	$ -	$ 17,930,678
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 4,791,118	$ 2,548,471
Decrease in payables for acquisition of properties	513,111	257,760
Increase in capital lease payables	(7,250)	(59,000)
Actual cash paid for acquisition of properties	$ 5,296,979	$ 2,747,231
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Total amount of properties sold	$ 3,656	$ 24,667
Decrease (increase) in receivables from properties sold	(182)	1,103
Decrease in receivables from related parties	5,651	69,004
Actual cash received from disposal of properties and properties not currently used in operations	$ 9,125	$ 94,774

(Continued)

SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

In February 2005, the Company bought 55.37% of Arcoa Communications Co., Ltd.'s common shares; the fair value of total assets and total liabilities at the time of 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	1,208,946
Less: Decrease in restricted assets	320,000
Cash payment for 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	$ 2,250,000
Commercial paper payable	669,209
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. (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 and become listed on the ROC Taiwan Stock Exchange since August 24, 2005. The Company provides wireless communications, leased circuit, internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. Far Eastern Textile Co., Ltd. is the ultimate parent company of the Company.

The Company provides 2G (second-generation 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 2G 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 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 services and began commercial operations on July 13, 2005.

The Company had 3,471 and 3,465 employees as of December 31, 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 statements 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, provision for losses on decline in value of inventories, depreciation and amortization, impairment loss on tangible and intangible assets, provision for losses on properties not currently used in operations, 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 to be converted into cash or used within one year. Current liabilities are obligations 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. The book value of cash equivalents approximates to the market value.

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. Losses on disposal of inventory are evaluated based on the changes of marketing strategy; losses on decline in value of inventory are evaluated based on the demand of the market.

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. Any cash dividends received are recognized as a reduction in the carrying value of the investments. 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. If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Group's equity in its investee' s net assets is credited to capital surplus. Any decrease in the Group'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. 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.

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.

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

Properties, Rental Properties and Properties not Currently Used in Operations

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 operations 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, rental properties and properties not currently used in operations, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to nonoperating income or expenses.

Properties not currently used in operations (included in other assets - other), such as telecommunications equipment and related computer equipment expected to be retired or disposed of, are stated at the lower of net book value or net realizable value.

3G Concession

The 3G concession is recorded at the original cost and amortized on a straight-line basis from January 24, 2005, the grant date of the concession license, until the license expiry date on December 31, 2018.

3G concession is 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 amortization) had no impairment loss been recognized in prior years.

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.

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.

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. Other expenditures are expensed as incurred.

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.

Pension Costs

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

Under the defined contribution pension plan, monthly payments should be made based on a fixed percentage of the actual salary paid to the employees, which are recognized as pension cost.

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 of issuing convertible bonds are amortized using the straight-line method over the same period as interest-premium.

When the bondholder exercises the conversion option, the Company uses the book-value approach. The Company will write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The capital stock is valued at its carrying value net of the amounts 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 year's income tax expense.

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

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

Foreign Currency Transactions

Foreign currency transactions (except forward contracts) 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 prevailing foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the year of settlement.

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

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

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

Financial Derivatives

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

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

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

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2004 have been reclassified to be consistent with the presentation of financial statements as of and for the year ended December 31, 2005.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2005	**2004**
Cash		
Cash on hand	$ 8,195	$ 8,445
Checking and demand deposits	881,510	1,174,649
Time deposits - interest of 2.35%-2.53%	-	554,407
	889,705	1,737,501
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.40%-1.48% in 2005 and 1.085%-1.100% in 2004	1,497,122	1,527,930
Bonds purchased under resell agreements - interest of 1.59%	50,000	-
	1,547,122	1,527,930
	$ 2,436,827	$ 3,265,431

4. INVENTORIES, NET

	December 31	
	2005	2004
Cellular phone equipments	$ 575,412	$ 523,060
SIM cards	82,555	31,246
Cellular phone accessories	16,362	31,068
Others	4,992	5,226
	679,321	590,600
Less - allowance for losses	24,891	19,938
	$ 654,430	$ 570,662

5. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2005		2004	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method				
KG Telecommunications Co., Ltd.	$ 35,192,374	100.00	$ 33,786,566	100.00
ARCOA Communications Co., Ltd.	1,171,320	59.10	-	-
Far Eastern Electronic Toll Collection Co., Ltd.	789,096	42.66	433,544	45.00
Far EasTron Holding Ltd.	143,331	100.00	-	-
Far Eastern Info Service (Holding) Ltd.	141,174	100.00	109,846	100.00
E. World (Holdings) Ltd.	66,664	85.92	65,433	85.92
Ding Ding Integrated Marketing Services Co., Ltd.	27,680	15.00	44,836	15.00
Far EasTron Co., Ltd.	928	0.67	-	-
Yuan-Ze Telecommunications Co., Ltd.	-	-	9,590,140	100.00
	$ 37,532,567		$ 44,030,365	

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 amount of $17,930,678 thousand (Note 11). 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.

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 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 year ended December 31, 2005 and 2004, respectively, assuming that the Company merged with Yuan-Ze Telecom on January 1, 2005 and 2004:

(In Thousands, Except EPS)

	For the Year Ended December 31	
	2005	**2004**
Current assets	$ 8,679,748	$ 10,849,399
Properties, net	36,360,999	38,194,674
Current liabilities	13,482,967	14,213,220
Operating revenue	43,149,676	40,229,481
Income before income tax	16,244,364	14,552,629
Net income	14,717,402	14,043,076
EPS	3.80	3.75

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)

The Company bought from ARCOA's stockholders 79,353 thousand shares for $1,278,944 thousand. As a result, the Company acquired 59.10% of ARCOA's common shares and became its parent company.

On December 24, 2004, the Company made a deposit of $350,000 thousand to an escrow account with Citibank which was restricted and transferred to the original stockholders of ARCOA as part of the consideration for the purchase upon signed agreement.

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 year ended December 31, 2005 and 2004, respectively. The pro forma financial information is based on the assumption that the Company bought the majority interest of ARCOA on January 1, 2005 and 2004.

(In Thousands, Except EPS)

	For the Year Ended December 31	
	2005	**2004**
Current assets	$ 10,346,705	$ 11,369,848
Properties, net	36,874,925	33,049,898
Current liabilities	14,476,895	11,002,688
Operating revenue	47,849,485	45,219,468
Income before income tax	16,228,971	14,465,040
Net income	14,701,571	13,955,915
EPS	3.80	3.72

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") and Far EasTron Co., Ltd. ("Far EasTron") allows the Company to exercise significant influence on its operating and financial policy decisions, the investments in DDIM and Far EasTron are accounted for by the equity method even though the Company's equity in DDIM and Far EasTron are 15% and 0.67%, respectively.

The carrying values of the foregoing investments accounted for by the equity method are based on audited financial statements as of December 31, 2005 and 2004. For the year ended December 31, 2005 and 2004, the equity in investees', net gains were $4,524,170 thousand and $3,796,571 thousand, 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 year 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 year ended December 31, 2004 include the accounts of the Company, KG Telecom and Yuan-Ze Telecom.

6. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2005	2004
Buildings and equipment	$ 408,865	$ 321,109
Operating equipment	31,320,365	25,606,547
Computer equipment	5,285,696	4,228,465
Office equipment	650,659	552,836
Leasehold improvements	883,124	726,318
Miscellaneous equipment	32,873	39,906
	$ 38,581,582	$ 31,475,181

b. 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 Company leases another computer equipment (included in construction in progress) from Far Eastern International Leasing Corporation from March 2006 to February 2011 with annual lease payment of $5,063 thousand. The total lease payments were $25,313 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 December 31, 2005 and 2004 are as follows:

	December 31	
	2005	2004
Total future lease payments	$ 71,553	$ 61,654
Less - imputed interest expense	5,303	2,654
	66,250	59,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	19,150	14,750
Long-term lease payable	$ 47,100	$ 44,250

c. Capitalized interest on properties was as follows:

	For the Years Ended December 31	
	2005	2004
Total interest expense	$ 281,471	$ 394,152
Less - interest capitalized - 2.32%-2.73% in 2005 and 2.16%-2.73% in 2004	105,369	57,082
Interest expense, net of amounts capitalized	$ 176,102	$ 337,070

d. Properties amounting to $3,107,935 thousand and $3,888,928 thousand had been pledged or mortgaged as collateral as of December 31, 2005 and 2004, respectively.

7. RENTAL ASSETS, NET

	December 31	
	2005	2004
Cost		
Land	$ 105,366	$ 99,524
Buildings	100,136	94,672
	205,502	194,196
Less - accumulated depreciation		
Buildings	5,449	3,220
	$ 200,053	$ 190,976

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
2006	$ 12,957
2007	11,207
2008	6,955
2009	7,138
2010 and thereafter	14,388

8. COMMERCIAL PAPER PAYABLE

The Company issued commercial paper that was guaranteed by financial institutions. The obligations were discounted at 1.28% and were fully repaid on January 3, 2006.

9. LONG-TERM LIABILITIES

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Bonds			
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	900,000	2,100,000	3,000,000
	3,040,000	5,630,000	8,670,000
Long-term debt			
Unsecured bank loans	-	300,000	300,000
Long-term lease payable	19,150	47,100	66,250
	$ 3,059,150	$ 5,977,100	$ 9,036,250

	December 31, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ 778,227	$ -	$ 778,227
Interest premium - overseas unsecured convertible bonds	14,641	-	14,641
Domestic secured bonds	660,000	-	660,000
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
	1,452,868	8,670,000	10,122,868
Long-term lease payable	14,750	44,250	59,000
	$ 1,467,618	$ 8,714,250	$ 10,181,868

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.

   Convertible bonds had all 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) before March 2005.

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. The company repaid all the bonds due on November 30, 2005.

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

The Company had bank loans at annual interest rates of 1.60% to 1.64%, which were fully repaid by the Company on January 4, 2006. The loan is guaranteed by banks and the guarantee is effective until November 2007.

g. Long-term lease payable

The Company entered into capital lease agreements on computer equipment with Far Eastern International Leasing Corp. in December 2005 and July 2004. The annual lease payments were $5,063 thousand and $15,414 thousand, respectively (Note 6).

As of December 31, 2005, the Company had unused long-term and short-term credit lines of approximately $8,090,000 thousand and $5,912,920 thousand, respectively.

10. PENSION PLAN

The Labor Pension Act (the “Act”) took effect on July 1, 2005. This Act provides for a defined contribution plan 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. Employees entered after July 1, 2005 can only choose to be subject to the pension mechanism under the Act.

The Company has a defined benefit pension plan under the Labor Standards Law. Under this pension plan, employees can accumulate two base point for every service year within the first 15 service years and one base point for every service year thereafter. Employees can accumulate up to 45 base point.

Under the Law, the Company, KG Telecom, Far EasTron and Yuan Cing Co., Ltd. accrue pension costs individually on the basis of actuarial calculations and make monthly contributions at 2% of salaries and wages to each company's pension fund, which is administered by each company's pension plan committee and deposited in each company's Committee's name in the Central Trust of China.

Under the Act, the Company has a defined contribution pension plan. Starting on July 1, 2005, the Company makes monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance at 6% of employees' salaries. The pension cost under the defined contribution plan was $56,683 thousand from July 2005 to December 2005.

Additional information on the defined benefit pension plan is as follows:

a. Net pension cost consisted of:

	2005	2004
Service cost	$ 72,875	$ 109,133
Interest cost	22,624	18,498
Expected return on pension assets	(9,994)	(6,348)
Amortization of net transition obligation	1,213	1,213
Amortization of unrecognized pension loss	4,363	-
Net pension cost	$ 91,081	$ 122,496

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

	December 31	
	2005	2004
Benefit obligation		
Vested benefit obligation	$ 5,919	$ 3,080
Non-vested benefit obligation	440,167	326,676
Accumulated benefit obligation	446,086	329,756
Additional benefits based on projected and future salaries	423,168	326,406
Projected benefit obligation	869,254	656,162
Fair value of plan assets	(340,092)	(291,970)
Unfunded projected benefit obligation	529,162	364,192
Unrecognized net transition obligation	(8,486)	(9,699)
Unrecognized pension loss	(246,758)	(128,185)
Accrued pension cost	$ 273,918	$ 226,308
Vested benefit amounts were as follows:	$ 7,415	$ 3,591

	2005	2004
Actuarial assumptions were as follows:		
Discount rate used in determining present value	3.00%	3.25%
Future salary increase rate	3.50%	3.50%
Expected rate of return on plan asset	3.00%	3.25%

11. 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 or exceeds the Company's paid-in capital. Legal reserve may be capitalized and when it reaches 50% of the paid-in capital, the aggregate of it in excess of 50% of the paid-in capital may be paid as dividends and bonuses if there is no surplus earnings; alternatively the aggregate up to a half of 50% of the paid-in capital of legal reserve should be retained and the rest may be capitalized if there is no deficits.

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 approved by the stockholders on May 20, 2005 and June 30, 2004, respectively, was 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 - cash	126,388	73,693		
Cash dividend	11,617,989	4,748,620	$ 3.00	$ 1.40
Stock dividend	-	1,560,261	-	0.46

Had the above bonus to employees and directors been charged to net income in 2004 and 2003, the primary earnings per share for 2004 and 2003 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.75 to NT$3.65 and from NT$3.04 to NT$2.95, respectively.

The appropriation of the 2005 earnings of the Company had not been approved by the board of directors and stockholders as of February 10, 2006. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

c. Issuance of new stock for business combination

Under the Enterprise Mergers and Acquisitions Law paragraph 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 December 31, 2005 is as follows:

		GDRs (in Thousand Units)	Representing Common Stock (in Thousand Shares)
Initial offering	1)	10,000	150,000
Converted from overseas unsecured convertible bonds	2)	165	2,473
Issued for capital increase	3)	296	4,448
Reissued within authorized units	4)	11,681	175,218
GDRs transferred to common stock		(18,598)	(278,982)
Outstanding GDRs issued		3,544	53,157

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 December 31, 2005, 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 11,681 thousand units of GDRs representing 175,218 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.

12. 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:

	December 31	
	2005	2004
Income tax expense computed at statutory tax (25%)	$ 4,061,091	$ 3,638,157
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(1,262,477)	(2,458,203)
Equity in investees' net gains	(1,117,170)	(951,017)
Other	(152,808)	15,875
Temporary differences	8,118	147,036
Undistributed earnings tax (10%)	-	123,949
Less - investment tax credits	(700,469)	(515,797)
Income tax expense - current	$ 836,285	$ -

The balance of income tax payable as of December 31, 2005 was net of $530 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.

The balance of income tax payable as of December 31, 2004 was the accrual of income tax payable of $1,456 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 was 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:

	For the Years Ended December 31	
	2005	2004
Income tax expense - current	$ 836,285	$ -
Income tax expense - deferred	670,802	481,870
Prior year's adjustment	14,200	27,028
Income tax expense on income subjected to a separate rate of 20%	5,675	655
Income tax expense	$ 1,526,962	$ 509,553

c. Deferred income taxes assets (liabilities) as of December 31, 2005 and 2004 consisted of:

	December 31	
	2005	2004
Current		
Provision for doubtful accounts	$ 557,028	$ 679,959
Provision for losses on inventories	6,223	4,984
Unrealized foreign exchange losses (gains), net	(2,521)	6,224
Investment tax credits	-	878,994
	560,730	1,570,161
Less - valuation allowance	-	425,846
	$ 560,730	$ 1,144,315
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 359,941	$ 435,946
Accrued pension cost	89,078	63,017
Provision for losses on properties not currently used in operations	30,598	32,500
Unrealied loss on disposal of properties	13,246	40,152
Cumulative equity in the net loss (gain) of investee	(4,637)	5,168
Accrued interest premium	-	3,660
Other	5,000	-
	$ 493,226	$ 580,443

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

d. Integrated income tax information:

	December 31	
	2005	2004
Balance of imputation credit account (ICA)	$ 59,684	$ 57,916

The estimated ratio of the ICA balance as of December 31, 2005 to undistributed earnings as of such date was 0.39%. When the dividends from the unappropriated earnings as of December 31, 2004 were distributed in 2005, the actual ratio used was 8.75%.

e. Status of income tax returns:

Income tax returns through 2000 and for 2002 had been examined and cleared by the tax authorities. The tax authorities assessed an additional tax of $28,395 thousand on the Company's income tax return for 2000. The Company had filed an appeal for the reexamination of the above-mentioned return.

13. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Year Ended December 31, 2005				
	Operating Costs	**Operating Expenses**	**Nonoperating Expenses And Losses**	**Included in Reduction of Operating Costs and Expenses**	**Total**
Employee expenses					
Salaries	$ 193,510	$ 865,533	$ -	$ 1,119,255	$ 2,178,298
Pension	10,854	59,346	-	65,405	135,605
Meal	4,545	31,326	-	32,632	68,503
Employee benefits	-	43,047	-	61	43,108
Insurance	12,964	75,716	-	82,754	171,434
Miscellaneous	17,925	33,412	-	22,800	74,137
	$ 239,798	$ 1,108,380	$ -	$ 1,322,907	$ 2,671,085
Depreciation	$ 6,026,987	$ 1,300,630	$ 2,032	$ -	$ 7,329,649
Amortization	$ -	$ 23	$ -	$ -	$ 23

	For the Year Ended December 31, 2004				
	Operating Costs	**Operating Expenses**	**Nonoperating Expenses And Losses**	**Included in Reduction of Operating Costs and Expenses**	**Total**
Employee expenses					
Salaries	$ 262,445	$ 1,184,483	$ -	$ 1,086,993	$ 2,533,921
Pension	12,589	51,660	-	52,842	117,091
Meal	5,836	33,019	-	29,984	68,839
Employee benefits	-	20,110	-	-	20,110
Insurance	17,596	80,931	-	74,764	173,291
Miscellaneous	4,057	45,574	-	37,067	86,698
	$ 302,523	$ 1,415,777	$ -	$ 1,281,650	$ 2,999,950
Depreciation	$ 5,998,075	$ 1,281,465	$ 1,932	$ -	$ 7,281,472
Amortization	$ -	$ 66	$ -	$ -	$ 66

The Company has provided management services to equity-method investees (Note 15). The employee expenses were charged on the basis of agreed-upon terms and recorded as a reduction of operating costs and expenses.

14. EARNINGS PER SHARE

	For the Years Ended December 31 (NT$)			
	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
Basic EPS	$ 4.20	$ 3.80	$ 3.88	$ 3.75
Diluted EPS	$ 4.20	$ 3.80	$ 3.74	$ 3.61

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
For the year ended December 31, 2005					
Basic EPS					
Net income	$ 16,244,364	$ 14,717,402	3,871,066	$4.20	$3.80
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,038	1,597		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 16,246,613	$ 14,719,440	3,872,663	$4.20	$3.80
For the year ended December 31, 2004					
Basic EPS					
Net income	$ 14,552,629	$ 14,043,076	3,748,089	$3.88	$3.75
Effect of potential dilutive common stock					
Convertible bonds	(62,776)	(60,578)	124,574		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 14,489,853	$ 13,982,498	3,872,663	$3.74	$3.61

15. 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)	Ultimate parent company
Far Eastern Telecom Engineering Corp. (FETEC)	Subsidiary of YDC

(Continued)

Related Party	Relationship with the Company
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 Info Service (Holding) Ltd. (Bermuda)	Subsidiary since August 2004
Far EasTron Holding Ltd.	Subsidiary
Far EasTron Co., Ltd.	Subsidiary of Far EasTron Holding Ltd.
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 Polychem Industries Ltd. (FETPI)	Same chairman
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS since August 2004
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Ding Investment Co., Ltd. (YDI)	Same ultimate parent company
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same ultimate parent company
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
Far Eastern Geant Company Ltd.	Same chairman
Oriental Union Chemical Corporation	Same chairman
Yuan Cing Co., Ltd. (former E.World Ltd. Taiwan)	Subsidiary of E. World
Oriental Institute of Technology	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Yuan-Ze University	Same chairman
Ding Ding Hotel Co., Ltd.	Subsidiary of YDC
Liquid Air Far East Co., Ltd.	Investee of YDI
Far Eastern Apparel Co., Ltd.	Subsidiary of YDI
Yuan Ding Leasing Corp.	Subsidiary of YDI
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee
KGEx.com Co., Ltd. (KGEx)	Subsidiary of KG Telecom
KGT International Holding Co., Ltd.	Subsidiary of KG Telecom
KG Satellite Co., Ltd.	Subsidiary of KG Telecom (dissolved in July 2005)
Taipei Metro Properties Management	Subsidiary of YDC
NTT DoCoMo Inc.	Director of the Company
Bai Yang Investment Co., Ltd.	Same chairman
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to those disclosed in Notes 6 and 11, the significant transactions with the above parties are summarized as follows:

		2005		2004	
		Amount	**%**	**Amount**	**%**
During the year					
Operating revenue	a.				
KG Telecom	b.	$ 2,520,762	6	$ 949,203	3
NCIC	c.	714,604	2	634,227	2
KGEx	d.	177,702	-	95,274	-
ARCOA	e.	99,517	-	-	-
Other	x.	10,846	-	9,161	-
		$ 3,523,431	8	$ 1,687,865	5
Operating costs and expenses					
Telecommunications services cost					
KG Telecom	b.	$ 1,206,382	7	$ 825,143	5
FETEC	f.	-	-	20,995	-
Other	x.	41,250	-	5,732	-
		$ 1,247,632	7	$ 851,870	5
Cost of sales					
ARCOA	e.	$ 19,845	-	$ -	-
Rental					
FETRD	g.	$ 52,405	3	$ 50,301	3
FEILC	h.	44,245	2	54,451	3
NCIC	i.	14,529	1	24,761	1
Other	x.	10,430	-	11,905	1
		$ 121,609	6	$ 141,418	8
Research and development expenses					
FETTDF	j.	$ 11,968	60	$ 20,232	78
Service fee					
FETI	k.	$ 148,268	64	$ 138,216	59
FCHRC	l.	55,287	23	43,653	18
		$ 203,555	87	$ 181,869	77
Marketing expense					
ARCOA	e.	$ 466,927	8	$ -	-
KG Telecom	m.	155,371	3	27,426	1
Other	x.	15,798	-	-	-
		$ 638,096	11	$ 27,426	1

(Continued)

		2005		2004	
		Amount	%	Amount	%
Nonoperating income and gains					
Management services revenue					
KG Telecom	n.	$ 125,489	90	$ 62,844	79
KGEx	o.	7,500	5	7,500	10
Yuan-Ze Telecom	p.	6,720	5	8,843	11
		$ 139,709	100	$ 79,187	100
Commissions					
KG Telecom	m.	$ 290,712	100	$ 126,408	100
Gain on disposal of properties					
NCIC	q.	$ -	-	$ 811	-
Acquisition of investments in shares of stock					
FETPI	r.	$ -	-	$ 92,616	14
FETIH	s.	-	-	12,531	2
OIHP	s.	-	-	12,531	2
YTI	s.	-	-	12,531	2
FEDSD	s.	-	-	4,195	1
		$ -	-	$ 134,404	21
Acquisition of properties					
NCIC	t.	$ 54,794	1	$ 158,398	6
KG Telecom	u.	25,691	1	43,068	2
FEILC	h.	22,000	-	73,750	3
FETEC	v.	15,649	-	82,435	3
Other	x.	1,408	-	627	-
		$ 119,542	2	$ 358,278	14
At end of year					
Receivables from related parties					
KG Telecom	b. m. and n.	$ 611,732	81	$ 845,798	83
KGEx	d. and o.	46,435	6	-	-
NCIC	c. and q.	24,691	3	21,815	2
FETC	w.	23,014	3	-	-
Yuan-Ze Telecom	p.	-	-	118,927	12
Other	x.	53,766	7	32,116	3
		$ 759,638	100	$ 1,018,656	100

(Continued)

		2005 Amount	%	2004 Amount	%
Payables to related parties					
KG Telecom	m. and u.	$ 503,615	64	$ 54,198	18
ARCOA	e.	168,308	21	-	-
NCIC	c. and t.	22,332	3	144,032	48
FEILC	h.	6,038	1	30,049	10
FETEC	f. and v.	3,556	-	40,259	14
Other	x.	86,643	11	29,914	10
		$ 790,492	100	$ 298,452	100
Unearned revenues					
FETC	w.	$ 17,401	2	$ -	-
Long-term lease payable (including current portion)					
FEILC	h.	$ 66,250	100	$ 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 equipments 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 were 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 were included in telecommunications services 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 were included in telecommunications services cost. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of services revenue and was included in payables to related parties.

d. The interconnection fees paid by KGEx on its use of the Company's network and billing processing costs pertaining to the interconnection services provided by the Company to KGEx were included in telecommunications services revenue and receivables from related parties. The international direct dialing revenues collected by the Company for KGEx through call-by-call selection service were treated as a reduction of telecommunications services revenue and were settled at net amounts based on related agreements.

e. The revenue from and expenses for the sales of cellular phone equipments 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 signed a network maintenance contract with FETEC for maintaining the Company's telecommunications network and backbone network facilities.

g. The Company leases from FETRD several building spaces and parcels of land under contracts with terms 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.

h. Under operating lease agreements, the Company leased from FEILC the following: (a) its office spaces in 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 informs 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 February 2011, with annual lease payments of $20,477 thousand (Note 6).

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

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

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

l. 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.

m. 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.

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

o. The Company provides management services to KGEx and the service revenues are collected monthly. The Company advances KGEx for its daily operating expenditures and the advances are collected at various times based on the cash balances of KGEx.

p. The Company provides management services and advances Yuan-Ze Telecom for its daily operating expenditures before April 2005. The service revenue and advances are collected monthly.

q. The advances for the construction and joint use of telecommunications network and backbone network facilities between the Company and NCIC and receivables from sales of properties to NCIC were included in receivables from related parties. The proceeds and the gains on disposal of properties for the year ended December 31, 2004 are $8,011 and $811, respectively.

r. The Company purchased 100% ownership of Far Eastern Info Service (Holding) Ltd. in the amount of $92,616 on August 30, 2004. As a result, The Company acquired 100% ownership of FETI indirectly.

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

t. The Company bought NCIC's telecommunications network and backbone network facilities.

u. The Company purchased operating and computer equipment from KG Telecom.

v. The Company signed contracts with FETEC for the construction of telecommunications network and backbone network facilities.

w. For the year ended December 31, 2005, the Company provided consulting services to FETC on the setup of its IVR system and the planning of VPS (Vehicle Position System) of the electronic toll collection system. The Company also authorizes FETC to use the Company's trouble ticket system. The fees collected were based on the terms of the related contract and were treated as unearned revenues. The revenues will be settled at net amount and will be treated as service revenues after the construction is transferred to Yuan Cing Co., Ltd and completed. Moreover, the advances to FETC by the Company for the years ended December 31, 2005 and 2004 for its daily operating expenditures will be collected at various times based on the cash balances of FETC.

x. 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.

16. COMMITMENTS AS OF DECEMBER 31, 2005

The Company had the following significant commitments:

a. The Company had outstanding contracts to acquire properties for $531,814 thousand.

b. The Company's outstanding letters of credit amounted to ￥694,137 thousand (equivalent to $196,043 thousand).

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

Period	**Amount**
2006	$ 1,546,991
2007	1,606,981
2008	1,669,314
2009	1,734,081
2010 and thereafter	1,801,380

17. 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 year ended December 31, 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	December 31, 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%	0-0.55%	Every 6 months	March 28, 2008 - December 19, 2008	$ (91,261)	$ -

Type of Transaction	December 31, 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%	1.004%-2.540%	Every 6 months	March 28, 2008 - December 19, 2008	$ (62,401)	$ -

The related losses of the Company on these swap contracts for the year ended December 31, 2005 were $14,643 thousand and gains for the year ended December 31, 2004 were $29,680 thousand, which were recorded as interest expense or as a reduction of interest expense.

The Company had no outstanding forward contracts as of December 31, 2005 and 2004, respectively.
The Company had no forward transactions for the year ended December 31, 2005.The related gains of the Company on forward contracts for the year ended December 31, 2004 were $770 thousand, and were recorded as a reduction of inventory.

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

2) Market risk

The Company entered into interest rate swap contracts to hedge the effect of foreign currency fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

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

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

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

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 Company entered into forward exchange contract to hedge the effect of exchange rate fluctuations on firm commitments. The overall purpose of these contracts is to hedge the Company's exposure to cash flow risk. The Company periodically evaluates the effectiveness of the instruments.

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

	December 31			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 2,436,827	$ 2,436,827	$ 3,265,431	$ 3,265,431
Accounts and notes receivable, net	3,773,299	3,773,299	3,492,574	3,492,574
Receivables from related parties	759,638	759,638	1,018,656	1,018,656
Investments in shares of stock	37,532,567	37,532,567	44,030,365	44,030,365
Refundable deposits	249,260	248,486	251,960	251,104
Financial liabilities				
Commercial paper payable	49,996	49,996	-	-
Notes payable	33,931	33,931	41,332	41,332
Accounts payable	611,684	611,684	381,145	381,145
Payables to related parties	790,492	790,492	298,452	298,452
Payables related to acquisition of properties	2,287,620	2,287,620	1,551,016	1,551,016
Long-term liabilities (including current portion)	9,036,250	9,298,517	10,181,868	10,334,628
Guarantee deposits received (including current portion)	985,250	985,250	1,220,321	1,220,321
Derivative financial instruments				
Interest rate swap	-	(91,261)	-	(62,401)

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

a) The fair values of cash and cash equivalents, accounts and notes receivable, receivables from related parties, commercial paper payable, notes payable, accounts payable, payables to related parties 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 equity in 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 year ended December 31, 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 December 31, 2005.

	December 31, 2004						
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**	**Fair Value**	**Credit Risk**
Interest rate swap	$ 1,000,000	3.38-4.50%	1.193%	Every 3 months	May 20, 2005	$ (13,192)	$ -

There were no outstanding cross currency swap contracts as of December 31, 2005.

	December 31, 2004			
Type of Transaction	**Notional Amount**	**Carrying Value**	**Fair Value**	**Credit Risk**
Cross currency swap	US$ 40,238 thousand	$ -	$ (108,370)	$ -

The related losses of KG Telecom on the swap contracts for the year ended December 31, 2005 were $11,708 thousand, record as interest expense of $8,208 thousand and foreign exchange loss of$3,500 thousand.

The related losses of KG Telecom on the swap contracts for the year ended December 31, 2004 were $143,452 thousand, recorded as interest expense of $51,033 thousand and foreign exchange loss of $92,419 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 the effect of 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 used certain derivative financial instruments to hedge overall fluctuations on exchange rates for in 2005. All of these transactions are for nontrading purposes.

The forward contracts entered into by ARCOA were as follows:

1) Open contracts and credit risk

	December 31, 2005			
Type of Transaction	**Notional Amount**	**Fair Value**	**Credit Risk**	**Maturity Date**
Forward	US$ 1,370 thousand	$ (900)	$ -	January 9, 2006 - February 21, 2006

ARCOA had no forward contracts in 2004.

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

2) Market risk

ARCOA entered into forward contracts to hedge its exposure to exchange rate fluctuations on firm commitments denominated by foreign currency. Therefore, the market risk is not material.

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

The forward exchange rates are fixed, and no additional material cash is required.

4) The purpose of derivative financial instruments held or issued

ARCOA uses forward contracts for nontrading purposes, i.e., to hedge the effects of exchange rate fluctuations on firm commitments denominated in foreign currency and minimize cash flow risk. ARCOA periodically evaluates the effectiveness of the instruments.

5) Disclosure in the financial statements

Forward Contracts	**December 31, 2005**
Receivables from forward contracts	$ 45,005
Premium on forward contracts	(193)
Payables from forward contracts	(45,712)
Net payable from forward contracts (included in other current liabilities)	$ (900)

The related losses of ARCOA on the forward contracts for the year ended December 31, 2005 were $18 thousand.

ARCOA used other derivative instruments to earn interest, i.e., for trading purposes for the year ended December 31, 2005, as follows:

1) Open contracts and credit risk

	December 31, 2005			
Type of Transaction	**Carrying Value**	**Notional Amount**	**Credit Risk**	**Transactor's Location**
Interest-linked structured deposits	$ 10,000	$ 10,000	$ 9,972	Taiwan

ARCOA is exposed to credit risk if counter-parties default on contracts. 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

Under its policy, ARCOA sets up a stop-loss target price for trading derivative financial instruments and periodically evaluates it to prevent it from affecting company operations.

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 on the contract date and no additional 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 immaterial.

4) The purpose of derivative financial instruments held or issued

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

5) The related gains and accounts of ARCOA on interest-linked derivative financial instruments were as follows:

	December 31, 2005
Pledged time deposits	$10,000

	For the Year Ended December 31, 2005
Interest income - interest-linked structured deposits	$370

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 15.

18. INDUSTRY SEGMENT INFORMATION

a. Industry

The Company includes the telecommunications services department and cellular phone equipment sales department. The Telecommunications services department is the primary department since the revenues and identifiable assets from telecommunications services for more than 90% of the Company’s total revenues and identifiable assets.

The primary department provides wireless communications, international simple resale (ISR), leased circuit and Internet services.

b. Foreign operations.

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

c. Foreign revenues

The Company has no foreign revenues.

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

	For the Years Ended December 31			
	2005		2004	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	$ 7,207,952	17	$ 7,327,691	18

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 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	$ 35,192,374	100.00	$ 35,192,374	Note A
	ARCOA Communications Co., Ltd.	Equity-method investee	Investments in shares of stock	79,353,013.00	1,171,320	59.10	1,171,320	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	106,650,000.00	789,096	42.66	789,096	Note A
	Far EasTron Holding Ltd.	Equity-method investee	Investments in shares of stock	4,486,988.00	143,331	100.00	143,331	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	141,174	100.00	141,174	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	66,664	85.92	66,664	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	27,680	15.00	27,680	Note A
	Far EasTron Co., Ltd.	Equity-method investee	Investments in shares of stock	100,000.00	928	0.67	928	Note A
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Investments in shares of stock	260,915,000.00	1,227,742	74.55	1,227,742	Note A
	KGT International Holding Co., Ltd.	Equity-method investee	Investments in shares of stock	50,000.00	90,809	100.00	90,809	Note A
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	20,949	40.00	20,949	Note A
	Mutual funds							
	JF (Taiwan) European Bond Fund	-	Short-term investments	20,000,000.00	199,956	-	199,956	Note B
ARCOA Communications Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Investments in shares of stock	4,975,000.00	5,537	33.17	5,537	Note A
	THI Consultants Inc.	Equity-method investee	Investments in shares of stock	1,060,000.00	14,128	22.22	14,128	Note A
	Chunghwa Int’l Communication Network Co., Ltd.	-	Investments in shares of stock	2,830,901.00	6,714	4.20	9,291	Note C
	Taiwan Fixed Network Co., Ltd.	-	Investments in shares of stock	2,100,000.00	21,000	0.03	22,280	Note C
	VIBO Telecom Inc.	-	Investments in shares of stock	2,000,000.00	20,000	0.13	16,691	Note C
	Web Point Co., Ltd.	-	Investments in shares of stock	160,627.00	1,618	0.75	1,606	Note C
	Mutual funds							
	Fuhwa Bond Fund	-	Short-term investments	1,584,836.29	20,000	-	20,001	Note B
	CITC Cash Reserves	-	Short-term investments	1,729,340.90	20,000	-	20,001	Note B
	CITC Safe Income Fund	-	Short-term investments	10,334,101.90	151,500	-	151,507	Note B
	CITC High Yield Fund	-	Short-term investments	1,120,850.10	15,000	-	15,064	Note B
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Short-term investments	3,000,000.00	3,000	-	3,000	Note B

(Continued)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTron Holding Ltd.	Stocks							
	Far EasTron Co., Ltd.	Equity-method investee	Investments in shares of stock	14,900,000.00	US$ 4,335,000	99.33	US$ 4,335,000	Note A
Far Eastern Info Service (Holding) Ltd.	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Investments in shares of stock	-	US$ 3,789,000	100.00	US$ 3,789,000	Note A
E. World (Holdings) Ltd.	Stocks							
	Yuan Cing Co., Ltd. (former E. World Ltd. Taiwan)	Equity-method investee	Investments in shares of stock	19,349,994.00	US$ 1,416,000	99.99	US$ 1,416,000	Note A
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US$ 431,000	17.96	US$ 143,000	Note C
KGT International Holding Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Investments in shares of stock	16,051,000.00	75,303	4.59	75,303	Note A

Note A: Calculation was based on audited financial statements as of December 31, 2005.

Note B: Open-ended mutual funds were calculated at the net asset value of mutual funds as of December 31, 2005 while bonds were based on the cost.

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

SCHEDULE B

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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	-	-	$ -	79,353,013.00	$ 1,278,944	-	$ -	$ -	$ -	$ (107,624)	79,353,013.00	$ 1,171,320
	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	-	-	-	-	(170,948) (Note C)	106,650,000.00	789,096
	Far EasTron Holding Ltd.	Equity-method investee	Issuance of capital stock	-	-	-	4,486,988.00	150,000	-	-	-	-	(6,669) (Note D)	4,486,988.00	143,331
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Equity-method investee	Original stockholders of Taiwan Cement	Note A	175,931,000.00	898,944	84,984,000.00	438,342	-	-	-	-	(109,544)	260,915,000.00	1,227,742
	Far Eastern Alliance Taiwan Bond Fund	Short-term investments	-	-	27,573,879.00	290,000	-	-	27,573,879.00	292,807	290,000	2,807	-	-	-
	JF (Taiwan) European Bond Fund	Short-term investments	-	-	-	-	20,000,000.00	200,000	-	-	-	-	-	20,000,000.00	200,000
ARCOA Communications Co., Ltd. (Note B)	Fuhwa Advantage Bond Fund	Short-term investments	-	-	9,849,887.71	100,000	19,588,650.93	200,000	29,438,538.64	300,772	300,000	772	-	-	-
	Fuhwa Fund	Short-term investments	-	-	6,750,675.07	84,000	14,345,567.22	180,000	19,511,406.00	244,781	244,000	781	-	1,584,836.29	20,000
	Fuh-Hwa Bond Fund	Short-term investments	-	-	9,858,600.80	127,800	25,555,338.70	333,600	35,413,939.50	463,014	461,400	1,614	-	-	-
	CITC Cash Reserves	Short-term investments	-	-	11,866,277.70	135,500	23,161,375.66	266,000	33,298,312.46	382,765	381,500	1,265	-	1,729,340.90	20,000
	CITC Safe Income Fund	Short-term investments	-	-	11,197,858.90	161,500	43,656,526.40	636,000	44,520,283.40	648,606	646,000	2,606	-	10,334,101.90	151,500
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Equity-method investee	Issuance of capital stock for cash	-	-	-	14,900,000.00	US$ 4,532,000	-	-	-	-	US$ (197,000)	14,900,000.00	US$ 4,335,000

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 Far EasTone since February, 2005.

Note C: Including equity in investee's net losses of $177,171 thousand and the effect of change in ownership percentage due to investees' issuance of capital stock for cash amounting to $6,223 thousand.

Note D: Including equity in investee's net losses of $6,349 thousand and cumulative translation adjustment of $320 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
FOR THE YEAR ENDED DECEMBER 31, 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	Telecommunications services revenue	$(2,520,762)	(6%)	Conducted as agreed terms	-	-	Accounts receivable (Note A) $257,934	5%
			Cost of telecommunications services	1,206,382	7%	Conducted as agreed terms	-	-	Accounts payable (Note A) -	-
	ARCOA Communications Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	486,772	8%	Conducted as agreed terms	-	-	Accounts payable and accrued expense (168,308)	(4%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications services revenue	(714,604)	(2%)	Conducted as agreed terms	-	-	Accounts receivable (Note B) 22,483	-
									Accounts payable (Note B) (4,146)	(1%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications services revenue	(177,702)	-	Conducted as agreed terms	-	-	Accounts receivable 36,166	1%
	Far Eastern Tech-Info Ltd. (Shanghai)	Subsidiary of FEIS	Professional fee	148,268	64%	Conducted as agreed terms	-	-	Accrued expense (4,459)	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications services revenue	(1,206,382)	(4%)	Conducted as agreed terms	-	-	Accounts receivable (Note A) -	-
			Cost of telecommunications services	2,520,762	18%	Conducted as agreed terms	-	-	Accounts payable (Note A) (257,934)	(42%)
	ARCOA Communications Co., Ltd.	Same parent company	Marketing expenses and cost of sales	274,703	7%	Conducted as agreed terms	-	-	Accounts payable and accrued expense (65,467)	(3%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications services revenue	(274,194)	(1%)	Conducted as agreed terms	-	-	Accounts receivable (Note B) 6,843	-
									Accounts payable (Note B) (6,169)	(1%)
	KGEX.com Co., Ltd.	Subsidiary	Telecommunications services revenue	(172,563)	(1%)	Conducted as agreed terms	-	-	Accounts receivable 23,501	1%
ARCOA Communications Co., Ltd	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(486,772)	(9%)	Conducted as agreed terms	-	-	Accounts receivable 168,308	42%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue and sales	(274,703)	(5%)	Conducted as agreed terms	-	-	Accounts receivable 65,467	16%
KGEx.com Co., Ltd	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications services	177,702	21%	Conducted as agreed terms	-	-	Accounts payable (36,166)	(21%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications services	172,563	20%	Conducted as agreed terms	-	-	Accounts payable (23,501)	(13%)

(Continued)

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 Eastern Tech-Info (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Other revenue	$ (148,268)	(83%)	Conducted as agreed terms	-	-	Accounts receivable $ 4,459	10%

Note A: Telecommunications services revenue and cost of telecommunications services between Far EasTone and KG Telecom were settled at net amounts and were included in Far EasTone's receivables from related parties and KG Telecom's payables to related parties.

Note B: All revenues and costs between Far EasTone 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.

SCHEDULE D

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
DECEMBER 31, 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	$ 611,732	(Note A)	$ -	-	$ 428,495	$ -
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	503,615	(Note B)	-	-	204,437	-
ARCOA Communications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	168,308	4.56	-	-	32,244	-

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 collection of telecommunications bills by Far EasTone.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2005			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2005	December 31, 2004	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	$ 29,629,139	$ 29,629,139	1,332,997,916	100.00	$ 35,192,374	$ 5,151,174	$ 5,151,174	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	(Note F)	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	1,278,944	-	79,353,013	59.10	1,171,320	(108,070)	(107,624)	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	789,096	(435,207)	(177,171)	Notes B and C
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	-	4,486,988	100.00	143,331	(6,349)	(6,349)	Notes A and B
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	141,174	38,648	26,471	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	66,664	27,714	19,096	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	27,680	(93,785)	(17,156)	Notes B and C
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	-	100,000	0.67	928	(10,873)	(4,460)	Notes A and B
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,652	1,759,310	260,915,000	74.55	1,227,742	(146,345)		Notes B and D
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	90,809	(6,740)		Notes B and D
	KG Satellite Co., Ltd.	Taiwan	TYPE I telecommunications services	(Note H)	99,500	-	-	-	(6,458)		Notes B and D
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,949	(17,280)		Notes B and E
ARCOA Communications Co., Ltd. (Note G)	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	5,537	3,803		Notes B and E
	THI Consultants Inc.	Taiwan	Construction consulting	13,700	13,700	1,060,000	22.22	14,128	5,195		Notes B and E
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	-	14,900,000	99.33	US$ 4,335,000	(10,873)		Notes A and B
Far Eastern Info Service (Holding) Ltd.	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$ 3,789,000	39,258		Notes B, and D
E. World (Holdings) Ltd.	Yuan Cing 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$ 1,416,000	27,788		Notes B and D
KGT International Holding Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$ 4,822,000	US$ 4,822,000	16,051,000	4.59	75,303	(146,345)		Notes B and D

Notes:

A. Subsidiary.

B. Calculation was based on audited financial statements as of December 31, 2005.

C. Equity-method investee of Far EasTone.

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

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

F. Merged with Far EasTone on May 2, 2005.

G. The beginning balance was carried from ARCOA Communications Co., Ltd. as it became the subsidiary of Far EasTone since February 2005.

H. Dissolved on July 2005.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 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 December 31, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2005 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2005	Accumulated Investment in Mainland China as of December 31, 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	$82,125 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$39,258	$124,469 (US$3,789,000)	$ -	$92,616	$92,616	$29,288,041 (Note C)

Note A: Calculation was based on audited financial statements as of December 31, 2005

Note B: Far EasTone made the investment through a company registered in a third region.

Note C: Equal to 40% of Far EasTone's net asset value.

Note D: Significant transaction with the investee company (Note 15).