Far EasTone Telecommunications Co., Ltd.

Financial Statements for the
Six Months Ended June 30, 2006 and 2005 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") as of June 30, 2006 and 2005, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The financial statements supporting the Company's investments in certain equity-method investees, with carrying values of NT$2,209,224 thousand and NT$1,715,226 thousand as of June 30, 2006 and 2005, respectively, had not been audited. The Company's equity of NT$317,917 thousand and NT$86,412 thousand in the losses of these investees, which was included in the net incomes for the six months ended June 30, 2006 and 2005, respectively, as described in Note 6 and other information on the Company's investments as described in Note 20 to the financial statements were also based on these equity-method investees' unaudited financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some of the Company's equity-method investees as described in the preceding paragraph been audited, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Company as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, starting on January 1, 2006, the Company adopted the newly announced ROC Statements of Financial Accounting Standards (“Statements” or SFAS) No. 34 - “Accounting for Financial Instruments” and No. 36 - “Disclosure and Presentation of Financial Instruments” and related revisions of other Statements. In addition, based on the revised ROC SFAS No. 25 - “Business Combinations - Accounting Treatment under the Purchase Method,” goodwill should be subjected to impairment test annually instead of being amortized.

As disclosed in Note 6 to the financial statements, on August 11, 2006, the Company has proposed to withdraw from Far Eastern Toll Collection Co., Ltd. (“FETC”) by unconditionally donating their holdings in FETC to the Government. This proposal will become effective upon approval by the board of directors in the nearest future.

Also, we have audited the consolidated financial statements of the Company and subsidiaries as of and for the six months ended June 30, 2006 and 2005 and have issued a qualified opinion thereon in our report dated August 11, 2006.

August 11, 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
JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 4,949,039	5	$ 9,516,772	9
Accounts and notes receivable, net of allowance for doubtful accounts of $1,551,951 thousand in 2006 and $1,148,026 thousand in 2005 (Note 2)	3,637,377	4	3,544,443	3
Receivables from related parties (Notes 2 and 17)	740,110	1	1,010,761	1
Dividends receivable	4,636,033	5	3,745,191	4
Inventories, net (Notes 2 and 5)	655,409	1	500,877	-
Prepaid expenses (Note 2)	470,026	-	909,433	1
Deferred income tax assets - current (Notes 2 and 13)	587,133	-	657,916	1
Other current assets	16,229	-	69,654	-
Total current assets	15,691,356	16	19,955,047	19
LONG-TERM INVESTMENTS				
Equity method investments (Notes 2, 6 and 19)	35,473,143	37	34,896,710	34
PROPERTIES (Notes 2, 7 and 17)				
Cost				
Land	847,138	1	847,138	1
Buildings and equipment	1,639,829	2	1,620,377	2
Operating equipment	58,455,366	61	50,590,282	50
Computer equipment	8,768,519	9	7,507,499	7
Office equipment	804,737	1	780,967	1
Leasehold improvements	1,512,236	2	1,447,659	1
Miscellaneous equipment	32,867	-	46,527	-
Total cost	72,060,692	76	62,840,449	62
Less - accumulated depreciation	42,266,749	44	34,774,350	34
	29,793,943	32	28,066,099	28
Construction in progress and advances for acquisition of equipment	4,067,800	4	8,407,730	8
Net properties	33,861,743	36	36,473,829	36
INTANGIBLE ASSETS				
3G concession, net (Notes 1 and 2)	9,133,832	10	9,864,539	10
OTHER ASSETS				
Rental assets, net (Notes 2 and 8)	199,031	-	201,075	-
Refundable deposits	255,186	-	238,165	-
Deferred income tax assets - noncurrent (Notes 2 and 13)	465,957	1	524,403	1
Other	4,359	-	12,089	-
Total other assets	924,533	1	975,732	1
TOTAL	$ 95,084,607	100	$ 102,165,857	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes payable	$ 35,678	-	$ 36,002	-
Accounts payable	540,814	1	654,061	1
Payables to related parties (Note 17)	1,219,894	1	605,659	1
Income tax payable (Notes 2 and 13)	643,430	1	157,353	-
Accrued expenses	3,315,761	3	2,962,991	3
Dividends payable (Note 12)	12,005,255	13	11,617,989	11
Payables for acquisition of properties	948,334	1	1,812,307	2
Guarantee deposits received - current	839,990	1	1,037,396	1
Unearned revenues (Notes 2 and 17)	727,455	1	1,094,184	1
Long-term loans - current (Notes 7 and 10)	-	-	1,460,000	2
Bonds payable - current (Notes 2, 7 and 9)	2,960,000	3	2,470,000	2
Lease payable - current (Notes 2, 7 and 17)	4,180	-	14,750	-
Other current liabilities (Note 12)	416,760	-	262,445	-
Total current liabilities	23,657,551	25	24,185,137	24
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Notes 2, 7 and 9)	3,570,000	4	6,530,000	6
Long-term loans (Notes 7 and 10)	-	-	4,789,788	5
Hedging derivative financial liabilities - noncurrent	88,405	-	-	-
Lease payable - noncurrent (Notes 2, 7 and 17)	43,940	-	44,250	-
Total long-term liabilities	3,702,345	4	11,364,038	11
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 11)	282,657	-	278,263	-
Guarantee deposits received - noncurrent	53,180	-	43,911	-
Total other liabilities	335,837	-	322,174	-
Total liabilities	27,695,733	29	35,871,349	35
STOCKHOLDERS' EQUITY				
Capital stocks - $10 par value				
Authorized - 4,200,000 thousand shares				
Issued and outstanding - 3,872,663 thousand shares	38,726,630	41	38,726,630	38
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	7
From business combination	8,482,381	9	8,482,381	8
From long-term equity-method investments	10,611	-	6,224	-
Total capital surplus	15,003,956	16	14,999,569	15
Retained earnings				
Legal reserve	5,573,350	6	4,101,609	4
Unappropriated earnings	8,154,686	8	8,471,674	8
Total retained earnings	13,728,036	14	12,573,283	12
Other adjustments				
Cumulative translation adjustments	1,272	-	(4,974)	-
Unrealized loss on financial product	(71,020)	-	-	-
Total other adjustments	(69,748)	-	(4,974)	-
Total stockholders' equity	67,388,874	71	66,294,508	65
TOTAL	$ 95,084,607	100	$ 102,165,857	100

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

(With Deloitte & Touche audit report dated August 11, 2006)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 17)				
Sales of cellular phone equipment and accessories, net	$ 1,661,355	8	$ 1,927,349	9
Telecommunications service revenues	19,885,221	92	19,398,827	91
Other	55,409	-	11,135	-
Total operating revenues	21,601,985	100	21,337,311	100
OPERATING COSTS (Notes 2, 14 and 17)				
Cost of sales	2,034,306	9	2,230,268	10
Cost of telecommunications services	9,536,216	44	8,287,782	39
Total operating costs	11,570,522	53	10,518,050	49
GROSS PROFIT	10,031,463	47	10,819,261	51
OPERATING EXPENSES (Notes 2, 14 and 17)				
Marketing	3,483,324	16	2,767,102	13
General and administrative	1,802,750	8	1,658,616	8
Research and development	114,334	1	156,667	1
Total operating expenses	5,400,408	25	4,582,385	22
OPERATING INCOME	4,631,055	22	6,236,876	29
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 6)	2,582,221	12	2,120,840	10
Commission (Note 17)	127,041	1	137,027	1
Management services revenue (Note 17)	66,310	-	36,551	-
Interest	19,396	-	25,745	-
Other (Note 17)	50,823	-	45,833	-
Total nonoperating income and gains	2,845,791	13	2,365,996	11
NONOPERATING EXPENSES AND LOSSES				
Impairment loss on properties not currently used in operations (Note 2)	60,000	1	-	-
Interest (Notes 2 and 7)	43,544	-	87,148	-
Loss on disposal of properties, net (Note 2)	14,719	-	-	-
Loss on decline in value of inventories (Note 2)	11,246	-	5,448	-
Other (Notes 14)	8,041	-	3,613	-
Total nonoperating expenses and losses	137,550	1	96,209	-

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX EXPENSE	$ 7,339,296	34	$ 8,506,663	40
INCOME TAX (Notes 2 and 13)	695,983	3	703,326	3
NET INCOME	$ 6,643,313	31	$ 7,803,337	37

	2006		2005	
	Income Before Income Tax	**After Income Tax**	**Income Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 15)				
Basic	$ 1.90	$ 1.72	$ 2.20	$ 2.02
Diluted	$ 1.90	$ 1.72	$ 2.20	$ 2.02

Following is the pro forma financial information (after income tax) on the assumption that the Company adopted the newly announced ROC Statements of Financial Accounting Standards on January 1, 2005 (Note 3).

	2006	2005
PRO FORMA NET INCOME	$ 6,643,313	$ 8,245,004
PRO FORMA EARNINGS PER SHARE		
Basic	$1.72	$2.13
Diluted	$1.72	$2.13

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

(With Deloitte & Touche audit report dated August 11, 2006) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 2 and 12)		Capital Surplus (Notes 2 and 12)			Retained Earnings (Notes 2 and 12)		Other Adjustments		
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Investments in Shares of Stock	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gain or Loss on Financial Product (Notes 2 and 16)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2006	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 4,101,609	$ 15,385,739	$ 2,168	$ -	$ 73,220,102
Adjustment of adopting newly announced and revised Statements of Financial Accounting Standards	-	-	-	-	-	-	-	-	(68,978)	(68,978)
Appropriation of 2005 earnings										
Legal reserve	-	-	-	-	-	1,471,741	(1,471,741)	-	-	-
Bonus to employees	-	-	-	-	-	-	(264,913)	-	-	(264,913)
Remuneration to directors and supervisors	-	-	-	-	-	-	(132,457)	-	-	(132,457)
Cash dividends - $3.1 per share	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	6,643,313	-	-	6,643,313
Changes in unrealized loss on available-for-sale financial assets from subsidiary	-	-	-	-	-	-	-	-	(4,716)	(4,716)
Changes in unrealized loss on cash flow hedge from subsidiary	-	-	-	-	-	-	-	-	532	532
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	2,142	2,142
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	(896)	-	(896)
BALANCE, JUNE 30, 2006	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 5,573,350	$ 8,154,686	$ 1,272	$ (71,020)	$ 67,388,874
BALANCE, JANUARY 1, 2005	3,842,311	$ 38,423,115	$ 6,023,801	$ 8,482,381	$ -	$ 2,697,301	$ 14,069,797	$ 15,671	$ -	$ 69,712,066
Conversion of overseas convertible bonds into common stock	30,352	303,515	487,163	-	-	-	-	-	-	790,678
Appropriation of 2004 earnings										
Legal reserve	-	-	-	-	-	1,404,308	(1,404,308)	-	-	-
Bonus to employees	-	-	-	-	-	-	(252,775)	-	-	(252,775)
Remuneration to directors and supervisors	-	-	-	-	-	-	(126,388)	-	-	(126,388)
Stock dividends - $3 per share	-	-	-	-	-	-	(11,617,989)	-	-	(11,617,989)
Net income for the six months ended June 30, 2005	-	-	-	-	-	-	7,803,337	-	-	7,803,337
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	6,224	-	-	-	-	6,224
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	(20,645)	-	(20,645)
BALANCE, JUNE 30, 2005	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 6,224	$ 4,101,609	$ 8,471,674	$ (4,974)	$ -	$ 66,294,508

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

(With Deloitte & Touche audit report dated August 11, 2006)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,643,313	$ 7,803,337
Depreciation and amortization	3,908,764	3,498,793
Amortization of 3G concession	365,354	121,784
Provision for doubtful accounts	249,960	285,459
Provision for losses on decline in value of inventories	11,246	5,448
Loss on obsolescence of inventories	4,630	146
Equity in investees' net gains	(2,582,221)	(2,120,840)
Losses (gains) on disposal of properties and properties not currently used in operations, net	14,719	(1,077)
Impairment loss on properties not currently used in operations	60,000	-
Accrued pension cost	8,739	51,955
Deferred income taxes	22,967	542,439
Interest premium on convertible bonds	-	1,070
Other	-	1,179
Net changes in operating assets and liabilities		
Accounts and notes receivable	(114,038)	(337,328)
Receivables from related parties	16,795	(105,793)
Inventories	(16,855)	58,965
Prepaid expenses	2,854	569,304
Other current assets	6,145	87,564
Notes payable	1,747	(5,330)
Accounts payable	(70,870)	272,916
Payables to related parties	429,402	285,775
Income tax payable	(193,525)	155,897
Accrued expenses	(470,099)	(399,212)
Unearned revenues	(74,563)	(563,765)
Other current liabilities	(25,332)	(136,363)
Net cash provided by operating activities	8,199,132	10,072,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equity method investments	-	(1,415,446)
Acquisition of properties	(2,839,172)	(2,057,016)
Proceeds from sales of properties and properties not currently used in operations	3,513	4,529
Decrease (increase) in refundable deposits	(5,926)	13,804
Decrease in other assets	1,654	3,501
Net cash used in investing activities	(2,839,931)	(3,450,628)

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	$ (49,996)	$ -
Decrease in short-term loans	-	(2,919,209)
Proceeds from long-term debts	-	6,249,788
Repayments of long-term liabilities	(2,440,000)	(3,330,000)
Decrease in guarantee deposits received	(92,080)	(139,014)
Bonus paid to employees and directors	(264,913)	(252,775)
Net cash used in financing activities	(2,846,989)	(391,210)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,512,212	6,230,485
CASH RECEIVED ON MERGER WITH YUAN-ZE TELECOMMUNICATIONS CO., LTD.	-	20,856
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,436,827	3,265,431
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,949,039	$ 9,516,772
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS INFORMATION		
Interest paid	$ 171,134	$ 201,918
Less - capitalized interest	46,250	59,710
Interest paid , net of capitalized interest	$ 124,884	$ 142,208
Income tax paid	$ 866,539	$ 4,988
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 2,964,180	$ 3,944,750
Reclassification of properties into properties not currently used in operations	$ 60,000	$ -
Reclassification of properties into rental assets	$ -	$ 11,109
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
Cash dividend receivable from subsidiary	$ 4,636,033	$ 3,745,191
Declaration of cash dividend payable	$ 12,005,255	$ 11,617,989
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 1,481,756	$ 1,068,592
Decrease in payables for acquisition of properties	1,339,286	988,424
Decrease in lease payable	18,130	-
Actual cash paid for acquisition of properties	$ 2,839,172	$ 2,057,016

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Proceeds from selling properties and properties not currently used in operations	$ 1,210	$ 1,640
Increase in receivables from properties sold	(430)	(5,367)
Decrease in receivables from related parties	2,733	8,256
Actual cash received from disposal of properties and properties not currently used in operations	$ 3,513	$ 4,529

SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

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

	Amount
Cash and cash equivalents	$ 157,224
Financial assets at fair value through profit or loss - current	662,800
Accounts and notes receivable, net	310,974
Inventories, net	627,274
Prepaid expenses	40,892
Other current assets	118,338
Equity-method investments	19,811
Financial assets measured at holding cost - noncurrent	49,332
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term 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 due to merger	$ 888,946

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

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 and cash equivalents	$ 20,856
Prepaid expenses	164,294
Other current assets	92,994
Construction in progress and advances for acquisition of equipment	6,298,125
Refundable deposits	9
3G Concession, net	9,986,323
Other assets	2,152
	$16,564,753
Short-term loans	$ 2,250,000
Commercial paper payable	669,209
Payables to related parties	126,864
Accrued expenses	38,636
Payables for acquisition of properties	1,249,715
Long-term loans	3,000,000
	$ 7,334,424

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

(With Deloitte & Touche audit report dated August 11, 2006) (Concluded)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares began to be traded on the ROC Over-the-Counter (OTC) Securities Exchange (known as GreTai Securities Market) on December 10, 2001. Later, the Company's share ceased to be traded on the OTC exchange and became listed on the ROC Taiwan Stock Exchange on 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. As of June 30, 2006, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 44.91% of the Company's shares. Since the Company's chief executive officer is appointed by Far Eastern Textile's 99.99% subsidiary, Far Eastern Textile has control over the Company's finances, operations and personnel affairs. Thus, Far Eastern Textile 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 island-wide ("GSM" means "global system for mobile communications") issued by the Directorate General of Telecommunications (DGT) of the ROC. These licenses allow the Company to provide services for 15 years from 1997, for an annual license fee of 2% of total 2G wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years from 1999 for a fixed annual license fee based on the Company's paid-in capital. In addition, the Company provides services under a type II-ISR license for 10 years from December 2001 and pays an annual license fee of 0.5% of ISR service revenues. The Company is further licensed to provide local/domestic long-distance land cable leased circuit services for 15 years from January 2003, for 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 issued to Yuan-Ze Telecom a 3G license, which is valid through December 31, 2018. Through the completion of the merger with Yuan-Ze Telecom, the Company became licensed to provide 3G wireless communications service and began commercial operations on July 13, 2005.

The Company had 3,387 and 3,497 employees as of June 30, 2006 and 2005, 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, product warranty reserve, 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 ROC. 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 are unrestricted cash or cash equivalents as well as other assets to be converted into cash or consumed within 12 months after the balance sheet date. Current liabilities are obligations to be settled within 12 months after the balance sheet date. 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. Their carrying values approximate their fair values.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to the 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; (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 equipment and accessories are recognized when the products are delivered to and accepted by the customers. This sale 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 validity period of the contract using the straight-line method. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the 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 using the pro forma interest rate method.

An allowance for doubtful accounts is provided on the basis of the aging of the receivables, customers' credit, prevailing economic development and estimated collectibility of receivables from subscribers and other parties.

Promotion Expenses

Commissions and cellular phone equipment 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.

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 on the basis of the changes in marketing strategy. Losses on decline in value of inventory are evaluated on the basis of market demand and should be recognized when the net realizable value is lower than the cost.

Equity Method Investments

Long-term investments 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. On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 3 to 5 years.

As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long Term Investments in Equity Securities," starting on January 1, 2006, the cost of acquisition is subjected to an initial analysis. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead be tested annually for impairment. An impairment test is also required when there is evidence indicating that goodwill might be impaired because of an event or change in the economic environment. When the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to noncurrent assets proportionately to their respective fair values (except for financial assets not under the equity method, assets for disposal, deferred income tax assets and prepaid pension costs or other retirement benefit costs). If these assets are all reduced to zero value, the remaining excess should be recognized as extraordinary gain. Starting on January 1, 2006, the unamortized balance of the investment cost in excess of the equity in investee's net assets is no longer amortized and is instead subject to the same accounting treatment as that for goodwill; the negative goodwill previously acquired should be amortized over the remaining estimated economic lives.

Properties and Rental Assets

Properties and rental assets are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major additions, renewals and 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 initially estimated service life years are depreciated over their newly estimated service lives.

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

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48
Building equipment	5-8
Operating equipment	5-8
Computer equipment	3-5
Office equipment	5
Leasehold improvements	5-10
Miscellaneous equipment	5-8

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

3G Concession

The 3G concession, which was stated at cost, is amortized on a straight-line basis from January 24, 2005, the issuance date of the concession license, until the license expiry date on December 31, 2018.

Properties not Currently Used in Operations

Properties not currently used in operations are stated at the lower of book value or net realizable value, with the difference charged to current income. Starting from January 1, 2006, based on certain regulations, the depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, properties not currently used in operations, 3G concession, goodwill, deferred charges and equity-method investment) exceed their recoverable amount, and this impairment loss should be charged to current income. The accumulated impairment loss of an asset recognized in prior years can be reversed if, later on, the estimate of the asset's recoverable amount later has changed so as to increase the recoverable amount. Then, the asset's carrying amount can be increased to its recoverable amount; however, the recoverable amount should not exceed the carrying amount that would have been after the deduction of depreciation or amortization if it had not been impaired. An impairment loss recognized on goodwill can not be reversed.

Deferral of Unrealized Intercompany Profit

The entire gains or losses from the Company's sales of products to its subsidiaries are deferred and included in deferred income. In addition, the Company classifies deferred income as current or noncurrent on the basis of the length of the gain realization period.

The Company defers gains or loss on its product sales in proportion to ownership percentages for sales to equity-method investees that are not majority owned.

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.

All of the deferred gains and losses are realized on the subsequent sale of related items to third parties.

Pension Costs

The Company has two types of pension plans: defined benefit and defined contribution. Under the defined benefit pension plan, pension costs are recognized on the basis of actuarial calculations. Under the defined contribution pension plan, the Company should make monthly contributions to employees' individual pension accounts at a fixed percentage of monthly salaries and wages and recognize these contributions as pension cost.

Convertible Bonds

Before December 31, 2005, the Company issued overseas convertible bonds at par value 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 cost of issuing convertible bonds should be amortized by the straight-line method over the period between the issuance date and the redemption date at the option of the bondholders.

When the bondholder exercises the conversion option, the Company uses the book-value approach. Under this 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

The inter-period and intra-period allocation methods are used for income taxes. Deferred income tax assets are recognized for the tax effects of deductible temporary differences, 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 for financial reporting. 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, personnel training expenses and investments in shares of stock are accounted for as a reduction of the current period's income tax expense.

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

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

The Income Basic Tax Act (the "IBT Act"), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The effect of the IBT Act on the Company's income tax is not material.

Foreign Currency Transactions and Translation of Foreign-currency Financial Statements

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

On the balance sheet dates, the balances of nonmonetary foreign-currency-denominated assets and liabilities evaluated at fair value, such as equity instruments, are restated at the prevailing exchange rates, and the resulting differences are recorded as adjustment to stockholders' equity or as profit or loss in the current period. Financial assets and liabilities carried at cost are stated at historical exchange rates; while equity-method investments are recorded as cumulative translation adjustments under stockholders' equity.

Hedging Derivative Financial Instruments

Hedging derivative financial instruments are measured at fair value. The changes in fair value of the instruments are debited or charged to either stockholders' equity or current income depending on the hedged items.

Hedge Accounting

Hedge accounting involves the recognition of the offsetting effects on profit or loss of changes in fair values of the hedging instrument and the hedged item.

Derivative instruments held by the Company are for cash flow hedge purposes. Under the cash flow hedge, the gains or losses from the changes in fair values of the hedging instruments are recognized under stockholders' equity and are recognized as current income if the hedged forecast transaction affects net gains or losses. If hedging would give rise to a nonfinancial asset or liability, the gain or loss will be recognized as the adjustment to the original cost or carrying amount of the hedged asset or liability. If a recognized adjustment to stockholders' equity results in irreversible losses, these losses should be immediately charged to current income.

The Company uses interest rate swaps to hedge cash flow risk from interest rate fluctuations on its obligations with floating interest rates.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified to be consistent with the presentation of financial statements as of and for the six months ended June 30, 2006.

3. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Company adopted the new ROC Statements of Financial Accounting Standards ("Standards") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revised Statements.

a. Effects of the first-time adoption of the new announcement and revised Statements

The Company reclassified derivative instruments and made the following adjustments from assets or liabilities to stockholders' equity for derivative instruments under the cash flow hedge:

	As Adjustments to Stockholders' Equity (After Tax)
Hedging derivative financial liabilities	$ 68,446
Hedging derivative financial liabilities from subsidiary	532
	$ 68,978

The accounting change resulted in an increase of $4,716 thousand in income before income tax expense.

b. Other information on adopting the new announcement and revision of Statements

Differences in accounting policies on the valuation of the Company's financial instruments for the six months ended June 30, 2006 are summarized as follows:

Interest rate swap

The contract (notional) amounts of interest rate swap agreements, which are entered into as hedges of interest rate risks, are not recognized in the financial statements because these agreements do not require the settlement of these 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.

The Company adopted new standards as required by the revised ROC Financial Accounting Standards No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements"; No. 5 - "Long-term Investments in Equity Securities"; and No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method." These revisions stated that the difference between the cost of an investment and the amount of the underlying equity in net assets of an investee should no longer be amortized. If the difference is goodwill, it should be tested for impairment loss periodically instead of being amortized. This accounting change resulted in an increase of $432,382 thousand in income before income tax expense without any cumulative changes in accounting principles and an increase of $0.11 in basic earnings per share after income tax.

4. CASH AND CASH EQUIVALENTS

	June 30 2006	June 30 2005
Cash		
Cash on hand	$ 7,971	$ 8,360
Checking and demand deposits	514,489	1,082,032
Certificate of deposits - interest of 1.2%	-	20,000
	522,460	1,110,392
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.47%-1.52% in 2006 and 1.00%-1.23% in 2005	4,426,579	2,956,380
Bonds purchased under resell agreements - interest of 1.00%-1.33%	-	5,450,000
	4,426,579	8,406,380
	$ 4,949,039	$ 9,516,772

As of June 30, 2005, the Company had no certificate of deposits with maturity periods exceeding one year.

As of June 30, 2006 and 2005, foreign demand deposits were as follows:

	June 30 2006	June 30 2005
Belgium (US$188 thousand in 2006 and US$232 thousand in 2005)	$ 6,086	$ 7,336

5. INVENTORIES

	June 30 2006	June 30 2005
Cellular phone equipment	$ 605,357	$ 461,626
SIM cards and prepaid card	56,654	40,182
Cellular phone accessories	28,107	19,463
Others	1,428	4,992
	691,546	526,263
Less - allowance for losses	36,137	25,386
	$ 655,409	$ 500,877

6. EQUITY METHOD INVESTMENTS

	June 30			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Common stocks with no quoted market prices				
KG Telecommunications Co., Ltd.	$ 33,428,198	100.00	$ 32,599,955	100.00
ARCOA Communication Co., Ltd.	1,136,643	59.10	1,172,389	55.37
Far Eastern Electronic Toll Collection Co., Ltd.	530,675	42.66	922,923	42.66
Far Eastern Info Service (Holding) Ltd.	151,189	100.00	121,541	100.00
Far EasTron Holding Ltd.	125,316	100.00	-	-
E. World (Holdings) Ltd.	71,656	85.92	47,336	85.92
Ding Ding Integrated Marketing Services Co., Ltd.	28,658	15.00	32,566	15.00
Far EasTron Co., Ltd.	808	0.67	-	-
	$ 35,473,143		$ 34,896,710	

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

KG Telecom, formerly Yuan Ho Telecommunications Co., Ltd., was incorporated in the ROC on September 25, 2003, is a wholly owned subsidiary of the Company. After its incorporation, KG Telecom merged with the former KG Telecommunications Co., Ltd. (the "former KGT") through a two-step merger agreement. The merger was completed on May 20, 2004 after the registration of the shares with MOEA.

The former KGT provides wireless communications services under a type I license - GSM1800 for the northern region of Taiwan issued by the DGT. The license allows the former KGT to provide services for 15 years from 1997, with an annual license fee at 2% of total wireless communications service revenues. Moreover, the merger of former KGT with TUNTEX (with a license of 2G to provide wireless communications service under a type I license - GSM1800 for the central and southern region of Taiwan issued by the DGT) is effective from January 1, 2000. Thus, the former KGT provided island-wide 2G wireless communications services under a type I license - GSM1800. The DGT also issued the former KGT a type I license, allowing it to provide local/domestic long distance land cable leased circuit services for 15 years from September 2000, with an annual license fee of 1% of leased circuit service revenues.

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 the DGT on March 16, 2005 and by OTC exchange on April 19, 2005. The date of the merger was May 2, 2005.

The following pro forma financial information presents the combined financial information of the Company and Yuan-Ze Telecom as of and for the six months ended June 30, 2005, assuming that the Company merged with Yuan-Ze Telecom on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	Six Months Ended June 30, 2005
Current assets	$ 19,955,047
Properties, net	36,473,829
Current liabilities	24,185,137
Operating revenue	21,337,311
Income before income tax	8,506,663
Net income	7,803,337
Earnings per share	2.02

The pro forma combined financial information are presented for illustrative purposes only. That is, as mentioned above, 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. However, this information does not show the future financial position or results of operations of the Company and Yuan-Ze Telecom.

c. ARCOA Communication 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.

The following pro forma financial information presents the combined financial information of the Company and ARCOA as of and for the six months ended June 30, 2005. This information is based on the assumption that the Company bought the majority interest of ARCOA on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	Six Months Ended June 30, 2005
Current assets	$ 21,386,213
Properties, net	36,985,354
Current liabilities	24,840,912
Operating revenue	23,649,867
Income before income tax	8,491,610
Net income	7,787,847
Earnings per share	2.01

The pro forma combined financial information are presented for illustrative purposes only. That is, this information does not necessarily show the financial position and results of operations under the assumption that the Company bought the majority interest of ARCOA on January 1, 2005 nor does it show the Company’s future financial position or results of operations.

d. Far Eastern Electronic Toll Collection Co., Ltd. (“FETC”)

On February 26, 2004, Far Eastern Electronic Toll Collection Co. (FETC) was selected by the Taiwan Area National Freeway Bureau (TANFB) as the candidate best qualified for its “Private Participation in the Electronic Toll Collection BOT Project” (“ETC”).” On April 27, 2004, FETC and the TANFB completed the negotiations and signed the project contract. This 20-year contract covers both the construction and operation of the ETC system. Upon completion of the ETC system construction on February 10, 2006, the TANFB cleared FETC for testing system operations. Later, the Ministry of Transportation and Communications (MOTC) cleared FETC to do the operational testing.

On February 24, 2006, however, the Taipei High Administrative Court announced its decision to revoke the status of FETC as the candidate best qualified for the ETC project. Then, on August 3, 2006, the Supreme Administrative Court ruled that the original screening process conducted by TANFB was flawed and in violation of the principles of equality and public interest and stripped FETC of its "best qualified candidate" status. Thus, FETC must now compete for the project with two other bidders on an equal footing. As of August 11, 2006, the bidding process has not yet in progress.

The original intention behind the Company’s investment into FETC was to create the first intelligent transportation system in Taiwan and to maximize national economic efficiency. Nevertheless, since the foundation of the FECT, it has been under political attack and suffered from untruthful media accusation. FETC was, therefore, affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, Far Eastern Textile Co., Ltd. (the Company’s ultimate parent company) announced a proposal for the Company and the affiliates of Far Eastern Textile Group to withdraw from FETC by unconditionally donating their FETC shareholding to the Government, so that the Government will be able to plan the future for ETC operation on a brand new basis and further enhance domestic transportation efficiency and national competitiveness. This proposal will become effective upon approval by the board of directors in the nearest future.

e. 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) allow the Company to exercise significant influence on these investees’ 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 is only 15% and 0.67%, respectively.

The equity in investees’ net gains or losses recognized in the financial statements was based on the audited financial statements of the following investees: KG Telecom and ARCOA as of and for the six months ended June 30, 2006; KG Telecom, ARCOA and FETC as of and for the six months ended June 30, 2005.

The financial statements of certain equity-method investments of KG Telecom and ARCOA as of June 30, 2006 and 2005 were unaudited. The Company and subsidiaries’ investments in certain equity-method investees, which were based on unaudited financial statements, were $2,209,224 thousand and $1,715,226 thousand as of June 30, 2006 and 2005, respectively, and their equity in their investees’ net losses were $317,917 thousand and $86,412 thousand for the six months ended June 30, 2006 and 2005, respectively.

f. Consolidation

Starting in 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 (except KG Satellite, KG Telecom's 66.33% subsidiary, which resolved to liquidate itself on July 11, 2005), as required by the revised ROC SFAS No. 7 - "Consolidated Financial Statements." All significant intercompany accounts and transactions have been eliminated in the consolidation. For subsidiaries acquired during the period, their revenues and expenses generated before the acquisition dates will not be consolidated.

g. Goodwill

In the six months ended June 30, the difference between investment cost and its equity in its investees' net assets, which was treated as goodwill, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Goodwill	$ 255,828	$ -	$ -	$ 255,828

7. PROPERTIES

a. Accumulated depreciation consisted of:

	June 30	
	2006	2005
Buildings and equipment	$ 452,943	$ 364,877
Operating equipment	34,179,282	28,353,125
Computer equipment	5,951,577	4,611,395
Office equipment	696,659	602,949
Leasehold improvements	960,545	804,136
Miscellaneous equipment	25,743	37,868
	$ 42,266,749	$ 34,774,350

b. The Company leases computer equipment from Far Eastern International Leasing Corporation under a contract valid from July 2004 to June 2009, with annual lease payments of $15,414 thousand. The amount paid for the leased properties at the start of the lease was $73,750 thousand, the market price of new equipment of $138,716 thousand less $64,966 thousand, the amount of equipment exchanged. The total lease payments made were $77,068 thousand. The lease agreement qualifies as a 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 75% or more of the estimated economic life of the leased assets.

The Company leases another computer equipment from Far Eastern International Leasing Corporation from March 2006 to February 2011, with annual lease payments of $5,063 thousand. The total lease payments made were $25,313 thousand. The lease agreement qualifies as a 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 75% or more of the estimated economic life of the leased assets.

The details of the lease as of June 30, 2006 and 2005 are as follows:

	June 30	
	2006	2005
Total future lease payments	$ 52,097	$ 61,654
Less - imputed interest expense	3,977	2,654
	48,120	59,000
Less - current portion of lease payable	4,180	14,750
Long-term lease payable	$ 43,940	$ 44,250

c. Capitalized interest on properties was as follows:

	Six Months Ended June 30	
	2006	2005
Total interest expense	$ 89,794	$ 146,858
Less - interest capitalized - 2.22%-2.51% in 2006 and 2.32%-2.73% in 2005	46,250	59,710
Interest expense, net of amounts capitalized	$ 43,544	$ 87,148

d. Properties amounting to $3,498,432 thousand had been pledged or mortgaged as collaterals as of June 30, 2005.

8. RENTAL ASSETS, NET

	June 30	
	2006	2005
Cost		
Land	$ 105,366	$ 105,366
Buildings	100,136	100,136
	205,502	205,502
Less - accumulated depreciation		
Buildings	6,471	4,427
	$ 199,031	$ 201,075

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

Period	Amount
July 1, 2006 to December 31, 2006	$ 7,199
2007	12,642
2008	8,148
2009	8,346
2010	8,551
After 2011	6,932

9. BONDS PAYABLE

	June 30, 2006		
	Due Within One Year	Due After One Year	Total
Bonds			
Domestic unsecured bonds - 1st	$ 2,060,000	$ -	$ 2,060,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	900,000	2,100,000	3,000,000
	$ 2,960,000	$ 3,570,000	$ 6,530,000

	June 30, 2005		
	Due Within One Year	Due After One Year	Total
Bonds			
Domestic secured bonds	$ 330,000	$ -	$ 330,000
Domestic unsecured bonds - 1st	2,140,000	2,060,000	4,200,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	-	3,000,000	3,000,000
	$ 2,470,000	$ 6,530,000	$ 9,000,000

a. 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. The Company already repaid $2,140,000 thousand on February 19, 2006.

b. 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.

c. 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 semiannually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

d. 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 made the final payment on these bonds on November 30, 2005.

10. LONG-TERM LOANS

	June 30, 2005		
	Due Within One Year	Due After One Year	Total
Unsecured bank loans	$ -	$ 1,930,000	$ 1,930,000
Secured bank loans	1,460,000	1,460,000	2,920,000
Commercial paper payable	-	1,399,788	1,399,788
	$ 1,460,000	$ 4,789,788	$ 6,249,788

a. Unsecured bank loans

The Company had bank loans with annual interest rates of 1.7% to 1.9%, which were fully repaid by the Company on July 5, 2005. Under a revolving credit agreement, the loan is made available for the Company through November 2006.

b. Secured bank loans

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

c. Commercial paper payable

Commercial paper had variable interest rates of 1.35% to 1.40% as of June 30, 2005, which were fully repaid by the Company on July 5, 2005. Under revolving credit agreements, banks guaranteed the commercial paper to be reissued by the Company through June 23, 2007.

11. PENSION PLAN

a. 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. Those hired on or after July 1, 2005 automatically become subject to the pension mechanism under the Act.

b. Under the Act, the Company has a defined contribution pension plan. Since July 1, 2005, the Company has made monthly contributions to the employees’ individual pension accounts in the Bureau of Labor Insurance at 6% of employees’ salaries and wages. The pension cost under the defined contribution plan was $57,367 thousand for the six months ended June 30, 2006.

c. The Company has a defined benefit pension plan under the Labor Standards Law (the “Law”). Under this pension plan, employees can accumulate two base points 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 points.

   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 the respective committees’ names in the Central Trust of China.

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

Fund changes were as follows:

	Six Months Ended June 30	
	2006	**2005**
Beginning balance	$ 340,092	$ 291,970
Contribution	18,412	21,678
Interest	4,815	-
Payment	(3,797)	-
Ending balance	$ 359,522	$ 313,648

Accrued pension costs were as follows:

	June 30	
	2006	**2005**
Beginning balance	$ 273,918	$ 226,308
Pension cost	27,151	73,633
Contribution	(18,412)	(21,678)
Ending balance	$ 282,657	$ 278,263

12. 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 that arising from business combination) may be used to offset a deficit or transferred to capital as a stock dividend, with the transfer to be made 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 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 plan to improve financial structure.

A regulation issued by the Securities and Futures Bureau requires the setting aside from the unappropriated earnings of a special reserve equal to any debit balance of an account under stockholders' equity. The balance of this special reserve is adjusted on the basis of the debit balance of the stockholders' equity account at period-end.

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. Legal reserve may be used to offset a deficit. When the reserve exceeds 50% of the Company's paid-in capital, the excess may be distributed as follows: (a) if the Company has no earnings, the excess may be declared as dividends or bonus; and (b) if the Company has no deficit, only the excess portion that is over 25% of the Company's paid-in capital may be declared as stock dividends.

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, non-corporate ROC-resident stockholders are allowed tax credits 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 2005 and 2004 earnings were approved by the stockholders on May 26, 2006 and May 20, 2005, respectively.

	Appropriation and Distribution		**Dividend Per Share (Dollars)**	
	2005	**2004**	**2005**	**2004**
Legal reserve	$ 1,471,741	$ 1,404,308		
Bonus to employees - cash	264,913	252,775		
Remuneration to directors and supervisors	132,457	126,388		
Cash dividend	12,005,255	11,617,989	$ 3.10	$ 3.00

As of June 30, 2006, directors and supervisors' remuneration of $132,457 thousand had been included in other current liabilities, and cash dividend of $12,005,255 thousand had been included in dividend payable. The effective date of these appropriations was June 19, 2006.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of June 30, 2006 were as follows:

		GDRs (in Thousand Units)	**Equivalent 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)	13,483	202,241
GDRs transferred to common stock		(20,873)	(313,099)
Outstanding GDRs issued		3,071	46,063

1) On June 1, 2004, the Securities and Futures Bureau (SFB) approved the Company's request to sell to foreign investors 150,000 thousand shares of the Company's common stock in the form of 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 per unit.

2) On July 20, 2004, the SFB approved the Company's request to issue new common stock in the form of GDRs of US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of June 30, 2006, 165 thousand units of GDRs have been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common shares.

3) In 2004, the Company issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represented 4,448 thousand common shares.

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. Thus, as of June 30, 2006, the Company had reissued 13,483 thousand GDR units, representing 202,241 thousand common shares.

GDR owners have the same rights as holders of common stock, except that the GDR owners should exercise, through a depositary trust company, the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations:

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

13. INCOME TAX

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

	June 30	
	2006	**2005**
Income tax expense computed at statutory tax (25%)	$ 1,834,814	$ 2,126,656
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(608,971)	(732,580)
Equity in investees' net gains	(646,083)	(526,693)
Realized investment loss	-	(145,319)
Other	(4,591)	(1,487)
Temporary differences	(37,177)	628
Undistributed earnings tax (10%)	84,303	-
Less - investment tax credits	(109,061)	(564,616)
Income tax expense - current	$ 513,234	$ 156,589

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

b. Income tax expense consisted of:

	Six Months Ended June 30	
	2006	2005
Income tax expense - current	$ 513,234	$ 156,589
Income tax expense - deferred	22,967	542,439
Prior year's adjustment	156,239	2
Income tax expense on income subjected to a separate rate of 20%	3,543	4,296
Income tax expense	$ 695,983	$ 703,326

c. Deferred income taxes assets, net as of June 30, 2006 and 2005 were as follows:

	June 30	
	2006	2005
Current		
Provision for doubtful accounts	$ 576,471	$ 518,415
Provision for losses on inventories	9,034	6,346
Unrealized foreign exchange gains, net	(192)	(2,699)
Investment tax credits	-	165,779
Other	1,820	-
	587,133	687,841
Less - valuation allowance	-	29,925
	$ 587,133	$ 657,916
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 347,480	$ 397,943
Accrued pension cost	80,485	75,965
Unrealized loss on financial products	22,101	-
Impairment loss on properties not currently used in operations	15,000	30,598
Investment tax credits	30,812	8,573
Cumulative equity in the net losses (gains) of investees	(4,109)	1,651
Losses on disposal of properties	-	13,246
Other	5,000	5,000
	496,769	532,976
Less - valuation allowance	30,812	8,573
	$ 465,957	$ 524,403

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

d. Integrated income tax information is as follows:

	June 30	
	2006	2005
Balance of imputation credit account (ICA)	$ 245,549	$ 12,903

When the dividends from the unappropriated earnings as of December 31, 2005 and 2004 were distributed in 2006 and 2005, the actual ratios used were 16.18% and 8.75%, respectively.

e. Investment tax credits were as follows:

The unused investment tax credits of the Company as of June 30, 2006 are summarized as follows:

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 3,971	$ 3,971	2007
	Purchase of automated equipment or technology	26,841	26,841	2008
		$ 30,812	$ 30,812	

f. Status of income tax returns was as follows:

On the basis of their examination of the Company's income tax returns through 2002, the tax authorities assessed an additional tax on the Company's income tax returns for 2000 to 2002. The Company filed an appeal for the reexamination of these returns; nevertheless, it accrued the related tax. Income tax returns through 2003 of Yuan-Ze Telecom had been examined and cleared by the tax authorities.

14. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2006				
	Operating Costs	Operating Expenses	Nonoperating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 123,047	$ 508,935	$ -	$ 645,880	$ 1,277,862
Pension	13,035	38,714	-	32,769	84,518
Meal	2,864	17,260	-	18,178	38,302
Employee benefit	-	21,603	-	-	21,603
Insurance	8,347	41,554	-	47,806	97,707
Miscellaneous	1,720	15,897	-	17,246	34,863
	$ 149,013	$ 643,963	$ -	$ 761,879	$ 1,554,855
Depreciation	$ 3,223,630	$ 681,453	$ 1,022	$ -	$ 3,906,105
Amortization	$ -	$ 2,659	$ -	$ -	$ 2,659

	Six Months Ended June 30, 2005				
	Operating Costs	Operating Expenses	Nonoperating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 131,454	$ 494,542	$ -	$ 533,295	$ 1,159,291
Pension	7,411	29,481	-	30,857	67,749
Meal	3,297	15,337	-	15,711	34,345

(Continued)

	Six Months Ended June 30, 2005				
	Operating Costs	**Operating Expenses**	**Nonoperating Expenses And Losses**	**Included in Reduction of Operating Costs and Expenses**	**Total**
Employee benefit	$ -	$ 24,766	$ -	$ 55	$ 24,821
Insurance	9,075	35,738	-	38,176	82,989
Miscellaneous	1,410	12,775	-	6,024	20,209
	$ 152,647	$ 612,639	$ -	$ 624,118	$ 1,389,404
Depreciation	$ 2,896,119	$ 601,637	$ 1,010	$ -	$ 3,498,766
Amortization	$ -	$ 27	$ -	$ -	$ 27

(Concluded)

The Company provided management services to equity-method investees (Note 17). The employee expenses were charged on the basis of agreed-upon terms and recorded as a reduction of operating costs and expenses.

15. EARNINGS PER SHARE

Earnings per share (EPS) calculation was as follows:

	Amount (Numerator)		Common Stock (Denominator) (In Thousand Shares)	Earnings Per Share (NT$)	
	Income Before Income Tax	**Net Income**		**Income Before Income Tax**	**Net Income**
Six months ended June 30, 2006					
Basic EPS					
Net income	$ 7,339,296	$ 6,643,313	3,872,663	$1.90	$1.72
Six months ended June 30, 2005					
Basic EPS					
Net income	$ 8,506,663	$ 7,803,337	3,869,468	$2.20	$2.02
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,063	3,195		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 8,508,912	$ 7,805,400	3,872,663	$2.20	$2.02

16. FINANCIAL INSTRUMENTS

a. The fair values of financial instruments were as follows:

	June 30			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Financial assets				
Equity method investments	$ 35,473,143	$ -	$ 34,896,710	$ -
Refundable deposits	255,186	254,910	238,165	237,236
Financial liabilities				
Bonds payable (including current portion)	6,530,000	6,503,858	9,000,000	9,235,837
Lease payable (including current portion)	48,120	48,120	59,000	59,000
Long-term loans (including current portion)	-	-	6,249,788	6,249,788
Guarantee deposits received (including current portion)	893,170	893,170	1,081,307	1,081,307
Derivative financial instruments				
Interest rate swap	(88,405)	(88,405)	-	(77,831)

The Company adopted ROC Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments" on January 1, 2006. Thus, some derivatives were not included in the financial statements in 2005 (Note 3).

b. The methods and assumptions used for estimating the fair values of financial instruments were as follows:

1) Cash and cash equivalents, notes and accounts receivable, receivables from related parties, dividend receivable, notes payable, accounts payable, payables to related parties, dividend payable and payables for acquisition of properties, which are not shown among the financial instruments in the table above, are recorded at their carrying values because of the short maturities of these instruments.

2) If quoted market prices of derivative instruments are available, these are used as market value of derivatives. Otherwise, the market value is evaluated by the Company using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers) to value the derivatives. These estimation and assumptions are available to the Company.

   The Company uses the exchange quotations of the Reuters (or the Associated Press) to calculate fair value of each interest rate swap based on the net cash flow.

3) The market prices of unlisted equity-method investments cannot be reasonably estimated since the quoted market prices are not available.

4) Fair values of bonds payable, lease payable, long-term loans, refundable deposits and guarantee deposits received are measured at the present values of expected cash flows, which are discounted at the interest rates for bank loans with similar maturities.

c. The fair values of financial assets and financial liabilities, which were determined at their quoted prices in an active market or at estimated prices, were as follows:

	June 30			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Derivative financial instruments				
Interest rate swap	$ -	$ -	$ (88,405)	$ (77,831)

d. As of June 30, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $4,681,765 thousand and $8,664,545 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $4,801,290 thousand and $7,470,307 thousand, respectively. As of June 30, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $514,489 thousand and $1,112,032 thousand, respectively, while financial liabilities with cash flow risk from interest rate fluctuations amounted to $2,670,000 thousand and $8,919,788 thousand, respectively.

e. Financial risks

1) Market risk

The Company 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 the effects of interest rate and exchange rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

2) Credit risk

The Company and its subsidiaries are exposed to credit risk on counter-parties' default on contracts. The Company's and its subsidiaries' maximum exposure to credit risk is equal to book value. The Company conducts transactions only with selected financial institutions and corporations with good credit ratings. Thus, management does not anticipate any material losses resulting from default on contracts.

3) Liquidity risk

The Company, KG Telecom and ARCOA have sufficient operating capital to meet cash demand. Thus, the Company, KG Telecom and ARCOA do not have liquidity risk.

The Company entered into interest rate swaps to hedge cash flow risks. The interest rate swap contracts are settled at net amounts; thus, and the expected cash demand is not significant. On the other hand, the Company invested in equity instruments with no quoted prices in an active market; thus, these investments could expose the Company to material liquidity risks.

KG Telecom invested in mutual funds that have quoted prices in an active market and could be sold immediately at prices close to fair value. However, KG Telecom also invested in domestic private fund and equity instruments with no quoted prices in an active market; thus, these investments could expose KG Telecom to material liquidity risks.

KG Telecom entered into cross-currency swaps to hedge cash flow risks. Due to the simultaneous cash inflow and outflow on cross-currency swap contracts, the aggregate net cash flow is expected to be insignificant.

ARCOA invested in mutual funds that have quoted prices in an active market and can be sold immediately at prices close to fair values. However, ARCOA also invested in financial bonds and equity instruments with no quoted prices in an active market; thus, these investments could expose ARCOA to material liquidity risks.

4) Cash-flow risk from interest fluctuations

The Company has long-term liabilities with on floating interest rates. As a result, the effective interest rates for the loans will change as the market interest rates change. Thus, for every 1% increase of market interest rate, the cash outflow increased by $26,700 thousand and $89,198 thousand as of June 30, 2006 and 2005, respectively.

f. Cash flow hedge

The Company uses interest rate swaps to hedge overall fluctuations of interest rates and future cash flows.

KG Telecom uses cross-currency swaps to hedge overall fluctuations of interest rates, exchange rates and future cash flows.

	Designated Hedging Instruments				
		Fair Value June 30			Expected Period of Realizing
	Financial			Expected Period of	Gains or
Hedged Items	**Instruments Designated**	**2006**	**2005**	**Cash Flows**	**Losses**
Bonds with floating interest rates	Interest rate swap - the Company	$ (88,405)	$ (77,831)	2003-2008	2003-2008
Foreign-currency denominated liabilities with floating interest rates	Cross currency swap - KG Telecom	-	(6,203)	2001-2005	2001-2005

In the six months ended June 30, 2006, changes in unrealized gains and losses on financial products were as follows:

	Six Months Ended June 30, 2006
The Company	
As adjustments to stockholders' equity	$ 2,142
ARCOA	
As adjustments to stockholders' equity	$ 557
Recognized as profit or loss	648
Recognized under hedged nonfinancial asset	(305)
	$ 900

17. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Yuan Ding Co.	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern Textile Ltd.	Ultimate parent company
KG Telecommunications Co., Ltd. (KG Telecom)	Subsidiary
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)
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze Telecom)	Subsidiary (merged with the Company in May 2005)
ARCOA Communication Co., Ltd. (ARCOA)	Subsidiary since February 2005
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Cing Co., Ltd. (formerly E. World Ltd. Taiwan)	Subsidiary of E. World
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 is over one third of the foundation's fund
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd.	Same chairman
Asia Cement Co., Ltd.	Same chairman
Far Eastern International Bank	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Yuan-Ze University	Same chairman
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee
NTT DoCoMo Inc.	Director
Far Eastern International Leasing Corp. (FEILC)	Supervisor
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to those disclosed in Notes 7, 14 and 19, the significant transactions with the above parties are summarized as follows:

		2006		2005	
		Amount	%	Amount	%
During the period					
Operating revenue	a.				
KG Telecom	b.	$ 1,393,988	6	$ 1,144,865	6
NCIC	c.	217,406	1	375,985	2
KGEx	d.	112,080	1	72,691	-
ARCOA	e.	16,328	-	58,299	-
Other	s.	10,683	-	2,414	-
		$ 1,750,485	8	$ 1,654,254	8

(Continued)

		2006		2005	
		Amount	%	Amount	%
Operating costs and expenses					
Cost of telecommunications service					
KG Telecom	b.	$ 760,969	8	$ 540,704	7
NCIC	c.	13,437	-	18,874	-
Other	s.	3,874	-	172	-
		$ 778,280	8	$ 559,750	7
Cost of sales					
ARCOA	e.	$ 39,857	2	$ 2,407	-
Rental					
FETRD	f.	$ 26,315	2	$ 25,874	3
FEILC	g.	18,432	2	23,009	3
NCIC	h.	7,496	1	6,807	1
Other	s.	6,387	-	5,349	-
		$ 58,630	5	$ 61,039	7
Research and development expenses					
FETTDF	i.	$ 397	12	$ 9,993	61
Service fee					
FETI	j.	$ 58,668	51	$ 73,399	65
FCHRC	k.	28,494	25	25,592	23
		$ 87,162	76	$ 98,991	88
Marketing expense					
ARCOA	e.	$ 184,245	5	$ 183,509	7
KG Telecom	l.	103,575	3	50,950	2
Other	s.	14,520	-	3,075	-
		$ 302,340	8	$ 237,534	9
Nonoperating income and gains					
Management services revenue					
KG Telecom	m.	$ 61,975	93	$ 26,081	71
KGEx	n.	3,750	6	3,750	10
Yuan-Ze Telecom	o.	-	-	6,720	19
Other	s.	585	1	-	-
		$ 66,310	100	$ 36,551	100
Commissions					
KG Telecom	l.	$ 127,041	100	$ 137,027	100
Other revenue					
FETC	p.	$ 16,449	32	$ -	-

(Continued)

		2006		2005	
		Amount	%	Amount	%
Acquisition of properties					
NTT DoCoMo	q.	$ -	-	$ 18,765	2
At end of period					
Receivables from related parties					
KG Telecom	b., l. and m.	$ 501,166	68	$ 968,603	96
ARCOA	e.	135,727	18	1,298	-
KGEx	d. and n.	65,407	9	27,634	3
Other	s.	37,810	5	13,226	1
		$ 740,110	100	$ 1,010,761	100
Payables to related parties					
KG Telecom	l.	$ 1,082,923	89	$ 433,643	72
NCIC	c.	37,880	3	36,609	6
DDIM	r.	35,624	3	5,645	-
ARCOA	e.	18,543	2	82,339	14
FETI	j.	3,148	-	15,860	3
Other	s.	41,776	3	31,563	5
		$ 1,219,894	100	$ 605,659	100
Unearned revenues					
FETC	p.	$ 1,487	-	$ -	-
Other	s.	2,722	-	-	-
		$ 4,209	-	$ -	-
Lease payable (including current portion)					
FEILC	g.	$ 48,120	100	$ 59,000	100

(Concluded)

Descriptions of transactions with related parties are 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 were 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 vice versa. The interconnection fees 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 related billing processing costs were included in the cost of telecommunications services.

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 and vice versa. The interconnection fees paid by the Company on its use of NCIC's fixed-line network and related billing processing costs charged by NCIC to the Company were included in the cost of telecommunications services. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of service revenue and was included in payables to related parties.

d. The interconnection fees paid by KGEx for its use of the Company's network and related services provided by the Company to KGEx were included in telecommunications service 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 the telecommunications service revenue and were settled at net amounts based on related agreements.

e. The revenues from the sales of cellular phone equipment and accessories to ARCOA are recognized as operating revenues. The Company has agreed to pay to ARCOA handset subsidies and commissions (included in marketing expenses) because of ARCOA's promotion of the Company's SIM card numbers; these payments are settled at net amounts. The Company's purchases of cellular phone units and accessories from ARCOA are recorded as cost of sales and payables to related parties.

f. 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 on Yatung Street and Renai Street in Panchao City; Wuku in Taipei County; and other locations in Taiwan.

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

   When the related contracts expire, the Company is entitled to renew the contracts or to buy the buildings or land at the following prices:

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

   The Company leases from FEILC computer equipment, under capital lease agreements, with annual lease payments of $20,477 thousand (Note 7).

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

i. FETTDF provides telecommunications technology researches and training to the Company.

j. 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.

k. The Company has contracts with FCHRC for manpower dispatching services, under which the Company pays service charges for FCHRC's providing the Company with temporary or specific personnel.

l. 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.

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

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

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

p. The Company was engaged by FETC to implement the trouble ticket system. The fees collected were based on the terms of the related contract and were treated as unearned revenues, which were recognized using the percentage of construction completion method. Moreover, the Company gave FETC advances for its daily operating expenditures, and these advances will be collected at various times depending on the cash balances of FETC.

q. NTT DoCoMo Inc. does 3G construction of wireless facilities and system integration and renders related operational services to the Company. Since the related expenditures refer to facility construction, it is then capitalized.

r. The Company authorized DDIM to manage the accumulation and redemption of reward points for customers. The related service charges were treated as marketing expense and payables to related parties.

s. 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.

18. COMMITMENTS AS OF JUNE 30, 2006

The Company had the following significant commitments:

a. The Company were under contracts to acquire properties and cellular phone equipment for $680,490 thousand and $437,226 thousand, respectively.

b. The Company’s outstanding letters of credit amounted to ￥17,658 thousand (equivalent to $4,965 thousand).

c. Future payments for the rental of land, buildings and cell sites are summarized as follows:

Period	Amount
From July 1, 2006 to December 31, 2006	$ 814,110
2007	1,659,849
2008	1,724,342
2009	1,791,358
2010	1,860,996
From January 1, 2011 to June 30, 2011	948,242

19. SUBSEQUENT EVENT

In addition to Note 6, the Company's subsequent event as of June 30, 2006 is as follows:

On May 26, 2006, the Company's board of directors authorized the Chairman, by the end of Year 2006 and with the amount under $500,000 thousand, to determine on behalf of the Company to provide endorsements/guarantees to its investee, Far Eastern Electronic Toll Collection Co., Ltd. ("FETC"), in accordance with the Company's "Procedure for Making Endorsements and Guarantees." On July 25, 2006, the Company provided a $154,000 thousand guarantee for FETC's bank loan and it is to be ratified by the board of directors in the nearest future.

20. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

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 of investees: Note 16

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 17.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
JUNE 30, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Equity method investments	1,332,997,916.00	$ 33,428,198	100.00	$ 33,428,198	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity method investments	79,353,013.00	1,136,643	59.10	1,136,643	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity method investments	106,650,000.00	530,675	42.66	530,675	Note B
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity method investments	1,200.00	151,189	100.00	151,189	Note B
	Far EasTron Holding Ltd.	Equity-method investee	Equity method investments	4,486,988.00	125,316	100.00	125,316	Note B
	E. World (Holdings) Ltd.	Equity-method investee	Equity method investments	6,014,622.00	71,656	85.92	71,656	Note B
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity method investments	4,500,000.00	28,658	15.00	28,658	Note B
	Far EasTron Co., Ltd.	Equity-method investee	Equity method investments	100,000.00	808	0.67	808	Note B
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity method investments	260,915,000.00	1,173,125	74.55	1,173,125	Note B
	KGT International Holding Co., Ltd.	Equity-method investee	Equity method investments	50,000.00	87,946	100.00	87,946	Note B
	iScreen	Equity-method investee	Equity method investments	4,000,000.00	20,418	40.00	20,418	Note B
	Mutual funds							
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	195,240	-	195,240	Note C
	FEA Long-Short Private Placement Fund	-	Financial assets measured at holding cost - noncurrent	10,000,000.00	100,000	-	100,000	Note C
ARCOA Communication Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Equity method investments	4,975,000.00	5,704	33.17	5,704	Note B
	THI Consultants Inc.	Equity-method investee	Equity method investments	1,060,000.00	13,729	22.22	13,729	Note B
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,830,901.00	6,714	4.20	10,167	Note D
	Taiwan Fixed Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,100,000.00	21,000	0.03	22,854	Note D
	VIBO Telecom Inc.	-	Financial assets measured at holding cost - noncurrent	2,000,000.00	20,000	0.13	17,106	Note D
	Web Point Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	160,627.00	1,618	0.75	1,606	Note D

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Mutual funds							
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,192,599.40	$ 91,515	-	$ 91,515	Note C
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	5,288,464.21	70,014	-	70,014	Note C
	Jih Sun Bond Fund	-	Financial assets at fair value through profit or loss - current	5,165,523.51	70,018	-	70,018	Note C
	Fuhwa Bond Fund	-	Financial assets at fair value through profit or loss - current	4,725,395.57	60,022	-	60,022	Note C
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	2,576,412.10	30,008	-	30,008	Note C
	Capital Money Market	-	Financial assets at fair value through profit or loss - current	1,107,346.10	15,006	-	15,006	Note C
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds measured at amortized cost - current	3,000,000.00	3,000	-	3,000	Note C
Far Eastern Info Service (Holding) Ltd. (Note E)	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity method investments	-	US$ 4,165,000	100.00	US$ 4,165,000	Note B
Far EasTron Holding Ltd. (Note E)	Stocks							
	Far EasTron Co., Ltd.	Equity-method investee	Equity method investments	14,900,000.00	US$ 3,848,000	99.33	US$ 3,848,000	Note B
E. World (Holdings) Ltd. (Note E)	Stocks							
	Yuan Cing Co., Ltd. (former E. World Ltd. Taiwan)	Equity-method investee	Equity method investments	19,349,994.00	US$ 1,631,000	99.99	US$ 1,631,000	Note B
	Ideaculture (Cayman) Ltd.	-	Financial assets measured at holding cost - noncurrent	1,195,141.00	US$ 431,000	17.96	US$ 134,000	Note D
KGT International Holding Co., Ltd. (Note E)	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity method investments	16,051,000.00	71,944	4.59	71,944	Note B

Note A: Calculation was based on audited financial statements as of June 30, 2006.

Note B: Calculation was based on unaudited financial statements as of June 30, 2006.

Note C: The market values of open-ended mutual funds were calculated at their net asset values as of June 30, 2006 while that of bonds was based on cost.

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

Note E: Information was based on unaudited financial statements as of June 30, 2006.

Note F: Carrying value of available-for-sale financial assets - current and financial assets at fair value through profit or loss - current were equal to market values as of June 30, 2006.

(Concluded)

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
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss	Share/Units	Amount
KG Telecommunications Co., Ltd.	FEA Long-Short Private Placement Fund	Financial assets measured at holding cost - noncurrent	-	-	-	$ -	10,000,000.00	$ 100,000	-	$ -	$ -	$ -	10,000,000.00	$ 100,000
ARCOA Communication Co., Ltd.	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	10,334,101.90	151,500	12,408,920.10	183,000	16,550,422.60	243,803	243,000	803	6,192,599.40	91,500
	Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,584,836.29	20,000	9,460,641.67	120,000	6,320,082.39	80,078	80,000	78	4,725,395.57	60,000
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,351,904.81	150,000	6,063,440.60	80,159	80,000	159	5,288,464.21	70,000
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,079,318.13	150,000	5,913,794.62	80,109	80,000	109	5,165,523.51	70,000

Note: Except for the disposal price, other amounts were their respective investment costs.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars)

Purchaser (Seller) 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 service revenues	$ (1,393,988)	(6%)	Based on agreement	-	-	Accounts receivable	$ 259,466	5%
			Cost of telecommunications service	760,969	8%	Based on agreement	-	-	Accounts payable	(34,782)	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	224,102	4%	Based on agreement	-	-	Accounts payable and accrual expense	(57,061)	(1%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(112,080)	(1%)	Based on agreement	-	-	Accounts receivable	56,383	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(217,406)	(1%)	Based on agreement	-	-	Accounts receivable (Note)	-	-
									Accounts payable (Note)	(13,890)	(2%)
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(760,969)	(6%)	Based on agreement	-	-	Accounts receivable	34,782	1%
			Cost of telecommunications service	1,393,988	23%	Based on agreement	-	-	Accounts payable	(259,466)	(46%)
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(224,102)	10%	Based on agreement	-	-	Accounts receivable	57,061	48%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications service	112,080	64%	Based on agreement	-	-	Accounts payable	(56,383)	(34%)

Note: All interconnect revenues, costs and collection of international direct dial revenues between Far EasTone and NCIC were settled at net amounts and were included in payables to related parties.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2006
(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	$ 501,166	(Note A)	$ -	-	$ 280,558	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	135,727	8.12	-	-	97,405	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,082,923	(Note B)	-	-	851,675	-

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 the Company.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				June 30, 2006	December 31, 2005	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	$ 33,428,198	$ 2,876,666	$ 2,876,573	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	Manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,136,643	(58,680)	(34,677)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,066,500	1,066,500	106,650,000	42.66	530,675	(671,323)	(258,421)	Notes C and D
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	151,189	10,535	10,535	Notes A and D
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	125,316	(17,939)	(17,939)	Notes A and D
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	71,656	6,159	5,292	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	28,658	6,522	978	Notes C and D
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	808	(17,890)	(120)	Notes D and E
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,652	2,197,652	260,915,000	74.55	1,173,125	(73,264)		Notes D and E
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	87,946	(2,863)		Notes D and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,418	(1,329)		Notes D and F
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	5,704	506		Notes D and F
	THI Consultants Inc.	Taiwan	Construction consulting	13,700	13,700	1,060,000	22.22	13,729	-		Notes D and F
Far EasTron Holding Ltd. (Note G)	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	US$ 4,532,000	14,900,000	99.33	US$ 3,848,000	(17,890)		Notes D and E
Far Eastern Info Service (Holding) Ltd. (Note G)	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer service providing	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 4,165,000	10,854		Notes D and E
E. World (Holdings) Ltd. (Note G)	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 1,631,000	6,190		Notes D and E
KGT International Holding Co., Ltd. (Note G)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$ 4,822,000	US$ 4,822,000	16,051,000	4.59	71,944	(73,264)		Notes D and E

Notes:
A. Subsidiary.

B. Calculation based on audited financial statements as of June 30, 2006.

C. Equity-method investee of the Company.

D. Calculation based on unaudited financial statements as of June 30, 2006.

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

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

G. Information based on unaudited financial statements as of June 30, 2006.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2006
(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, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of June 30, 2006	Accumulated Investment in Mainland China as of June 30, 2006	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	$80,925 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$10,854	$134,821 (US$4,165,000)	$ -	$92,616	$92,616	$26,955,550 (Note C)

Note A: Calculation based on unaudited financial statements as of June 30, 2006.

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

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

Note D: Please refer to Note 17 for significant transactions with the investee company.