Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Years Ended December 31, 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 December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, regulations related to financial accounting standards stated in Business Accounting Law, and Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, starting on January 1, 2006, the Company adopted the newly released 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 previously issued 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.

Also, we have audited the consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2006 and 2005 and have issued a modified unqualified opinion thereon in our report dated February 6, 2007.

February 6, 2007

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

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS
DECEMBER 31, 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)	$ 3,095,929	3	$ 2,436,827	3
Accounts and notes receivable, net of allowance for doubtful accounts of $809,203 in 2006 and $1,204,019 in 2005 (Note 2)	3,803,080	4	3,773,299	4
Accounts and notes receivable from related parties (Notes 2 and 18)	813,591	1	759,638	1
Inventories, net (Notes 2 and 5)	475,778	-	654,430	1
Prepaid expenses (Note 2)	507,836	1	472,880	-
Deferred income tax assets - current (Notes 2 and 14)	612,115	1	560,730	-
Other current assets	55,238	-	21,944	-
Total current assets	9,363,567	10	8,679,748	9
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2, 6, 19 and 20)	37,883,330	42	37,532,567	41
PROPERTIES (Notes 2, 7 and 18)				
Cost				
Land	847,138	1	847,138	1
Buildings and equipment	1,647,956	2	1,632,094	2
Operating equipment	61,172,350	68	57,177,639	61
Computer equipment	8,902,253	10	8,293,927	9
Office equipment	757,878	1	798,031	1
Leasehold improvements	1,514,262	2	1,471,169	2
Miscellaneous equipment	255,937	-	214,638	-
Total cost	75,097,774	84	70,434,636	76
Less - accumulated depreciation	45,884,705	51	38,581,582	42
	29,213,069	33	31,853,054	34
Construction-in-progress and advances for acquisition of equipment	3,714,579	4	4,507,945	5
Net properties	32,927,648	37	36,360,999	39
INTANGIBLE ASSETS				
3G concession, net (Notes 1 and 2)	8,768,479	10	9,499,186	10
OTHER ASSETS				
Rental assets, net (Notes 2 and 8)	198,009	-	200,053	-
Refundable deposits (Note 18)	259,136	-	249,260	-
Deferred income tax assets - noncurrent (Notes 2 and 14)	383,318	1	493,226	1
Other	2,550	-	8,672	-
Total other assets	843,013	1	951,211	1
TOTAL	$ 89,786,037	100	$ 93,023,711	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Commercial paper payable (Note 9)	$ -	-	$ 49,996	-
Notes payable	34,729	-	33,931	-
Accounts payable	545,257	1	611,684	1
Accounts and notes payable to related parties (Note 18)	1,805,198	2	790,492	1
Income tax payable (Notes 2 and 14)	722,585	1	836,955	1
Accrued expenses	3,223,117	3	3,785,860	4
Payables for acquisition of properties	1,732,319	2	2,287,620	3
Guarantee deposits received - current	761,462	1	934,840	1
Unearned revenue (Notes 2 and 18)	714,708	1	802,018	1
Current portion of long-term bond payable (Notes 7 and 10)	2,960,000	3	3,040,000	3
Lease payable - current (Notes 2, 7 and 18)	19,880	-	19,150	-
Other current liabilities	229,432	-	309,635	-
Total current liabilities	12,748,687	14	13,502,181	15
LONG-TERM LIABILITIES , NET OF CURRENT PORTION				
Bonds payable (Notes 7 and 10)	2,670,000	3	5,630,000	6
Long-term bank loans (Notes 7 and 11)	-	-	300,000	-
Hedging derivative financial liabilities - noncurrent (Notes 2 and 3)	66,158	-	-	-
Lease payable - noncurrent (Notes 2, 7 and 18)	28,240	-	47,100	-
Total current liabilities	2,764,398	3	5,977,100	6
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 12)	288,079	1	273,918	-
Guarantee deposits received - noncurrent	58,171	-	50,410	-
Total other liabilities	346,250	1	324,328	-
Total liabilities	15,859,335	18	19,803,609	21
STOCKHOLDERS' EQUITY				
Capital stock - NT$10.00 par value; authorized - 4,200,000 thousand shares; issued and outstanding - 3,872,663 thousand shares	38,726,630	43	38,726,630	42
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	7
From business combination	8,482,381	10	8,482,381	9
From long-term equity-method investments	10,611	-	10,611	-
Total capital surplus	15,003,956	17	15,003,956	16
Retained earnings				
Legal reserve	5,573,350	6	4,101,609	4
Unappropriated earnings	14,667,598	16	15,385,739	17
Total retained earnings	20,240,948	22	19,487,348	21
Other adjustments				
Cumulative translation adjustments	4,960	-	2,168	-
Unrealized losses on financial products	(49,792)	-	-	-
Total other adjustments	(44,832)	-	2,168	-
Total stockholders' equity	73,926,702	82	73,220,102	79
TOTAL	$ 89,786,037	100	$ 93,023,711	100

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

(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 18)				
Sales of cellular phone equipment and accessories, net	$ 3,209,482	8	$ 3,450,964	8
Telecommunications service revenues	39,891,379	92	39,602,474	92
Other	106,656	-	96,238	-
Total operating revenues	43,207,517	100	43,149,676	100
OPERATING COSTS (Notes 2, 15 and 18)				
Cost of sales	3,987,778	9	4,271,472	10
Cost of telecommunications services	19,472,146	45	17,621,476	41
Total operating costs	23,459,924	54	21,892,948	51
GROSS PROFIT	19,747,593	46	21,256,728	49
OPERATING EXPENSES (Notes 2, 15 and 18)				
Marketing	6,819,463	16	6,184,325	14
General and administrative	3,261,078	7	3,385,675	8
Research and development	263,321	1	301,403	1
Total operating expenses	10,343,862	24	9,871,403	23
OPERATING INCOME	9,403,731	22	11,385,325	26
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 6)	4,984,178	12	4,524,170	11
Commission (Note 18)	253,408	1	290,712	1
Management services revenue (Note 18)	131,902	-	139,709	-
Interest	30,803	-	35,366	-
Other (Note 18)	150,356	-	58,730	-
Total nonoperating income and gains	5,550,647	13	5,048,687	12
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2 and 7)	93,081	-	176,102	-
Losses on disposal of properties, including idle properties, net (Note 2)	250,046	1	2,402	-
Other (Notes 15 and 18)	25,232	-	11,144	-
Total nonoperating expenses and losses	368,359	1	189,648	-

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 14,586,019	34	$ 16,244,364	38
INCOME TAX (Notes 2 and 14)	1,429,794	4	1,526,962	4
NET INCOME	$ 13,156,225	30	$ 14,717,402	34

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 16)				
Basic	$ 3.77	$ 3.40	$ 4.20	$ 3.80
Diluted	$ 3.77	$ 3.40	$ 4.20	$ 3.80

The pro forma financial information (after income tax) had the newly issued Statements of Financial Accounting Standards Nos. 34 and 36 been adopted on January 1, 2005 is as follows (Note 3):

	2006	**2005**
PRO FORMA NET INCOME	$ 13,156,225	$ 15,615,663
PRO FORMA EARNINGS PER SHARE (NT$)		
Basic	$3.40	$4.03
Diluted	$3.40	$4.03

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

(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 2 and 13)		Capital Surplus (Notes 2 and 13)			Retained Earnings (Notes 2 and 13)		Other Adjustments		
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Long-term Equity-method Investments	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gains (Losses) on Financial Products (Notes 2, 3 and 17)	Total Stockholders' Equity
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 the 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)
Cash dividends - NT$3.0 per share	-	-	-	-	-	-	(11,617,989)	-	-	(11,617,989)
Net income in 2005	-	-	-	-	-	-	14,717,402	-	-	14,717,402
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	10,611	-	-	-	-	10,611
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	(13,503)	-	(13,503)
BALANCE, DECEMBER 31, 2005	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 due to accounting changes (Note 3)	-	-	-	-	-	-	-	-	(68,978)	(68,978)
Appropriation of the 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 - NT$3.1 per share	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)
Net income in 2006	-	-	-	-	-	-	13,156,225	-	-	13,156,225
Equity in changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(174)	(174)
Equity in changes in subsidiary's unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	532	532
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	18,828	18,828
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	2,792	-	2,792
BALANCE, DECEMBER 31, 2006	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 5,573,350	$ 14,667,598	$ 4,960	$ (49,792)	$ 73,926,702

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

(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,156,225	$ 14,717,402
Depreciation and amortization	7,988,612	7,329,672
Amortization of 3G concession	730,707	487,137
Allowance for doubtful accounts	322,415	551,386
Provision (reversal of allowance) for losses on decline in value of inventories	(1,355)	4,953
Losses on obsolescence of inventories	4,799	1,133
Equity in investees' net gains	(4,984,178)	(4,524,170)
Cash dividends from equity-method investees	4,636,033	3,745,191
Losses on disposal of properties, including idle properties, net	250,046	2,402
Accrued pension cost	14,161	66,824
Deferred income taxes	75,063	670,802
Interest premium on convertible bonds	-	1,070
Other	-	1,179
Net changes in operating assets and liabilities		
Accounts and notes receivable	(352,196)	(832,111)
Accounts and notes receivable from related parties	(56,597)	147,935
Inventories	175,208	(89,854)
Prepaid expenses	(34,956)	1,000,631
Other current assets	(28,272)	100,089
Notes payable	798	(7,401)
Accounts payable	(66,427)	230,539
Accounts and notes payable to related parties	1,014,706	470,608
Income tax payable	(114,370)	835,499
Accrued expenses	(562,743)	404,443
Unearned revenues	(87,310)	(855,931)
Other current liabilities	(80,203)	37,215
Net cash provided by operating activities	22,000,166	24,496,643
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equity-method investments	-	(1,606,444)
Acquisition of properties	(5,402,822)	(5,296,979)
Proceeds of the sales of properties, including idle properties	28,520	9,125
Decrease (increase) in refundable deposits	(9,876)	2,709
Decrease in other assets	1,352	6,922
Net cash used in investing activities	(5,382,826)	(6,884,667)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	(49,996)	(619,213)
Decrease in short-term bank loans	-	(2,250,000)
Proceeds of long-term liabilities	-	6,549,788
Repayment of long-term liabilities	(3,340,000)	(9,909,788)

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
Decrease in guarantee deposits received	$ (165,617)	$ (235,071)
Bonus paid to employees and directors	(397,370)	(379,163)
Cash dividends paid	(12,005,255)	(11,617,989)
Net cash used in financing activities	(15,958,238)	(18,461,436)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	659,102	(849,460)
CASH RECEIVED ON MERGER WITH YUAN-ZE TELECOMMUNICATIONS CO., LTD.	-	20,856
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,436,827	3,265,431
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,095,929	$ 2,436,827
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 232,570	$ 283,643
Less - interest capitalized	76,459	105,369
Interest paid, net of capitalized interest	$ 156,111	$ 178,274
Income tax paid	$ 1,469,103	$ 6,461
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 2,979,880	$ 3,059,150
Reclassification of properties into rental assets	$ -	$ 11,109
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 4,829,391	$ 4,791,118
Decrease in payables for acquisition of properties	555,301	513,111
Decrease (increase) in lease payables	18,130	(7,250)
Cash paid for acquisition of properties	$ 5,402,822	$ 5,296,979
PROCEEDS OF THE DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties, including idle properties	$ 30,898	$ 3,656
Increase in receivables on properties sold	(5,022)	(182)
Decrease in receivable from related parties	2,644	5,651
Cash received on disposal of properties	$ 28,520	$ 9,125

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

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

	Amount
Cash 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 carried at cost - noncurrent	49,332
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term bank loans	(282,586)
Notes payable	(78,354)
Accounts payable	(358,125)
Accrued expenses	(174,836)
Unearned revenues	(64,120)
Other current liabilities	(28,814)
Long-term liabilities	(50,188)
Other liabilities	(8,843)
	1,723,145
Percentage of ownership acquired	55.37%
	954,135
Goodwill	254,811
Cash consideration of the merger	1,208,946
Less: Decrease in restricted assets	320,000
Cash payment due to merger	$ 888,946

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 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 values of total assets and total liabilities upon completion of the merger were as follows:

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

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

(With Deloitte & Touche audit report dated February 6, 2007) (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 December 31, 2006, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 42.83% 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 DGT of the ROC. These licenses allow the Company to provide services for 15 years from 1997, with 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 also 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 3,370 and 3,471 employees as of December 31, 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, Business Accounting Law, Guidelines Governing Business Accounting 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. Property and equipment, intangible assets and those not classified as current assets are noncurrent assets. Current liabilities are obligations to be settled within 12 months after the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper and bonds purchased under resell agreements 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 year 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 tested annually for impairment. An impairment test is also required when there is evidence indicating that goodwill might be impaired due to an event or change in the economic environment. If 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, 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.

An increase in the Company's proportionate share in the net assets of its investee resulting from its subscription for additional shares of stock issued by the investee at a rate different from its existing equity ownership in the investee's net assets, capital surplus is debited. If capital surplus is not enough for debiting purposes, the different is debited to unappropriated earnings.

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 year are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their initially estimated service lives are depreciated over their newly estimated service lives.

Equipment covered by capital lease agreements 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 and 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 assets, 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.

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, 3G concession, 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 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 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 issuance costs of convertible bonds are classified as deferred charges and should be amortized by the straight-line method over the year 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 and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred income tax assets that are not certain to be realized. Deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the classifications of the related assets and liabilities 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 equity-method investments are accounted for as a reduction of the current year's income tax expense.

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

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

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 year of settlement.

On the balance sheet dates, the balances of nonmonetary foreign-currency denominated assets and liabilities are 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 year. Financial assets and liabilities measured at holding 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 values of these 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 recognized adjustments to stockholders' equity result 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of financial statements as of and for the year ended December 31, 2006.

3. CHANGES IN ACCOUNTING PRINCIPLES

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

The effects of the accounting changes are summarized as follows:

a. Reclassification of financial assets and liabilities

   On the basis of the accounting changes, the Company reclassified derivative instruments for cash flow hedge as adjustments to stockholders' equity.

The effects of the first time adoption of the Statements are as follows:

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

The accounting change resulted in an increase of $181 thousand in net income before income tax expense.

b. Other information on the accounting changes

The following accounting policy was being used by the Company before adopting SFAS Nos. 34 and 36:

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 such notional amounts. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

The Company adopted new Statement as required by the revised ROC SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS 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. The adoption of the revised Statements resulted in an increase of $864,669 thousand in net income before income tax expense without any cumulative changes in accounting principles and an increase of NT$0.22 in basic earnings per share after income tax for the year ended December 31, 2006.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash		
Cash on hand	$ 2,786	$ 8,195
Checking and demand deposits	584,490	881,510
	587,276	889,705
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.61%-1.65% in 2006 and 1.40%-1.48% in 2005	2,508,653	1,497,122
Bonds purchased under resell agreements - interest of 1.59%	-	50,000
	2,508,653	1,547,122
	$ 3,095,929	$ 2,436,827

As of December 31, 2006 and 2005, foreign demand deposits were as follows:

	December 31	
	2006	**2005**
Belgium (US$822 thousand in 2006 and US$175 thousand in 2005)	$ 26,795	$ 5,733

5. INVENTORIES

	December 31	
	2006	**2005**
Cellular phone equipment	$ 421,926	$ 575,412
SIM cards and prepaid cards	50,504	82,555
Cellular phone accessories	26,560	16,362
Others	324	4,992
	499,314	679,321
Less - allowance for losses	23,536	24,891
	$ 475,778	$ 654,430

6. EQUITY-METHOD INVESTMENTS

	December 31			
	2006		**2005**	
	Carrying Value	**% of Owner-ship**	**Carrying Value**	**% of Owner-ship**
Common stocks with no quoted market prices				
KG Telecommunications Co., Ltd.	$ 36,124,571	100.00	$ 35,192,374	100.00
ARCOA Communication Co., Ltd.	1,026,383	59.10	1,171,320	59.10
Far Eastern Electronic Toll Collection Co., Ltd.	395,686	42.66	789,096	42.66
Far Eastern Info Service (Holding) Ltd.	134,999	100.00	141,174	100.00
Far EasTron Holding Ltd.	100,542	100.00	143,331	100.00
E. World (Holdings) Ltd.	73,717	85.92	66,664	85.92
Ding Ding Integrated Marketing Services Co., Ltd.	26,790	15.00	27,680	15.00
Far EasTron Co., Ltd.	642	0.67	928	0.67
	$ 37,883,330		$ 37,532,567	

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

KG Telecom, formerly Yuan Ho Telecommunications Co., Ltd., was incorporated in the ROC on September 25, 2003. It 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 2G 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 2G 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 year ended December31, 2005, assuming that the Company merged with Yuan-Ze Telecom on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	Year Ended December 31, 2005
Current assets	$ 8,679,748
Properties, net	36,360,999
Current liabilities	13,502,181
Operating revenue	43,149,676
Income before income tax	16,244,364
Net income	14,717,402
Earnings per share	3.80

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 merged with Yuan-Ze Telecom on January 1, 2005 nor does it 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 between February 4, 2005 and July 25, 2005 for $1,278,944 thousand. As a result, the Company owned 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 year ended December 31, 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)

	Year Ended December 31, 2005
Current assets	$ 10,346,705
Properties, net	36,874,925
Current liabilities	14,496,109
Operating revenue	47,849,485
Income before income tax	16,228,971
Net income	14,701,571
Earnings per share	3.80

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.

On February 26, 2004, Far Eastern Electronic Toll Collection Co. ("FETC", which is originally known as "Far Eastern Consortium" established by the Company, TECO Electric & Machinery Co., Ltd., Systex Corporation and MiTAC Inc.) was selected by the Taiwan Area National Freeway Bureau ("the TANFB") as the best qualified candidate for its "Private Participation in the Electronic Toll Collection BOT Project" ("ETC Project")." On April 27, 2004, FETC and the TANFB completed 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 ("the MOTC") gave its official clearance for 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 best qualified candidate 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. On December 5, 2006, in response to the verdict, the TANFB announced a second bidding for the ETC Project. On December 25, 2006, FETC applied to TANFB to participate in the second bidding. As of February 6, 2007, the date of the accompanying auditors' report, the bidding was still in progress.

The original intention behind the Company's investment in 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 thus affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, the Company announced a proposal to withdraw from FETC by unconditionally donating its 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. The Company's board of directors approved this proposal on August 22, 2006. The donation will be made depends on the Government's response.

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 are only 15% and 0.67%, respectively.

The carrying values of the foregoing investments accounted for by equity method are based on audited financial statements as of December 31, 2006 and 2005. For the year ended December 31, 2006 and 2005, the equity in investees' net gains were $4,984,178 thousand and $4,524,170 thousand, respectively.

f. Consolidation

Effective January 2005, investees in which the Company directly or indirectly holds more than 50% of voting rights or de facto control (except KG Satellite, KG Telecom's 66.33% subsidiary, which resolved to liquidate itself on July 11, 2005) are included in the consolidated financial statements in accordance with the amendments to the ROC Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements." All significant intercompany accounts and transactions have been eliminated in the consolidation. For subsidiaries acquired during the year, their revenues and expenses generated before the acquisition dates will not be consolidated.

g. Goodwill

For the year ended December 31, 2006, the difference between investment cost and its equity in its investees' net assets, which was treated as goodwill, is as follows:

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

7. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2006	2005
Buildings and equipment	$ 491,151	$ 408,865
Operating equipment	37,073,499	31,304,582
Computer equipment	6,508,415	5,265,265
Office equipment	686,266	650,659
Leasehold improvements	1,035,271	883,124
Miscellaneous equipment	90,103	69,087
	$ 45,884,705	$ 38,581,582

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 net of the market price of new equipment of $138,716 thousand less the equipment changed amounting to $64,966 thousand. The total lease payments 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 equal to 75% or more of the estimated economic life of the leased assets.

   The Company leases another computer equipment from Far Eastern International Leasing Corporation under a contract valid from March 2006 to February 2011, with annual lease payments of $5,063 thousand. The total lease payments 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 equal to 75% or more of the estimated economic life of the leased assets.

   The details of the lease as of December 31, 2006 and 2005 are as follows:

	December 31	
	2006	**2005**
Total future lease payments	$ 52,097	$ 71,553
Less - imputed interest expense	3,977	5,303
	48,120	66,250
Less - current portion of lease payable	19,880	19,150
Long-term lease payable	$ 28,240	$ 47,100

c. Capitalized interest on properties was as follows:

	Year Ended December 31	
	2006	**2005**
Total interest expense	$ 169,540	$ 281,471
Less - interest capitalized (included in construction in process and advances for acquisition of equipment)	76,459	105,369
Interest expense, net of amounts capitalized	$ 93,081	$ 176,102
Interest rate capitalized	2.09%-2.51%	2.32%-2.73%

d. Properties amounting to $3,107,935 thousand had been pledged or mortgaged as collaterals as of December 31, 2005.

8. RENTAL ASSETS, NET

	December 31	
	2006	2005
Cost		
Land	$ 105,366	$ 105,366
Buildings	100,136	100,136
	205,502	205,502
Less - accumulated depreciation		
Buildings	7,493	5,449
	$ 198,009	$ 200,053

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:

Year	Amount
2007	$ 13,952
2008	13,993
2009	12,576
2010	8,037
After 2010	9,783

9. COMMERCIAL PAPER PAYABLE

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

10. BONDS PAYABLE

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Bonds payable			
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	1,200,000	2,100,000
	$ 2,960,000	$ 2,670,000	$ 5,630,000

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st	$ 2,140,000	$ 2,060,000	$ 4,200,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	900,000	2,100,000	3,000,000
	$ 3,040,000	$ 5,630,000	$ 8,670,000

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. The Company already repaid $900,000 thousand on December 12, 2006.

11. LONG-TERM BANK LOANS

As of December 31, 2005, the Company had unsecured bank loans with annual interest rates of 1.60% to 1.64%, which were due on January 4, 2006. Under a revolving agreement, the bank loan has been made available for the Company through November 2007 instead.

12. 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 subject to the Labor Standards Law before June 30, 2005 were allowed to choose to remain subject to the pension mechanism under the Labor Standard 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 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 salaries and wages. The pension cost under the defined contribution plan was $115,708 thousand and $56,683 thousand for the years ended December 31, 2006 and 2005, respectively.

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 (including 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:

1) Net pension cost consists of:

	2006	2005
Service cost	$ 30,912	$ 72,875
Interest cost	26,078	22,624
Expected return on pension assets	(10,851)	(9,994)
Amortization of net transition obligation	1,213	1,213
Amortization of unrecognized pension loss	6,949	4,363
Net pension cost	$ 54,301	$ 91,081

2) Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	December 31	
	2006	2005
Benefit obligation		
Vested benefit obligation	$ 5,840	$ 5,919
Non-vested benefit obligation	526,397	440,167
Accumulated benefit obligation	532,237	446,086
Additional benefits based on projected and future salaries	505,043	423,168
Projected benefit obligation	1,037,280	869,254
Fair value of plan assets	(388,087)	(340,092)
Funded status	649,193	529,162
Unrecognized net transition obligation	(7,273)	(8,486)
Unrecognized pension loss	(353,841)	(246,758)
Accrued pension cost	$ 288,079	$ 273,918
Vested benefit amounts were as follows:	$ 4,061	$ 7,415

3) Actuarial assumptions were as follows:

	2006	2005
Discount rate used in determining present value	2.75%	3.00%
Rate of salary increase	3.50%	3.50%
Expected return on plan assets	2.75%	3.00%

13. 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 less 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 year-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, noncorporate 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

Had the above bonus to employees and directors been charged to net income in 2005 and 2004, the basis earnings per share for 2005 and 2004 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.80 to NT$3.70 and from NT$3.75 to NT$3.65, respectively.

The appropriation of the 2006 earnings of the Company had not been approved by the board of directors as of January 22, 2007. Related information can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of December 31, 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)	19,907	298,607
GDRs transferred to common stock		(26,577)	(398,651)
Outstanding GDRs issued		3,791	56,877

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 December 31, 2006, 165 thousand units of GDRs had 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, GDRs reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2006, the Company had reissued 19,907 thousand GDR units, representing 298,607 thousand common shares.

The owner of GDR 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.

14. INCOME TAX

a. 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.

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

	December 31	
	2006	2005
Income tax expense computed at statutory tax (25%)	$ 3,646,505	$ 4,061,091
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(999,461)	(1,262,477)
Equity in investees' net gains	(1,257,220)	(1,117,170)
Other	7,821	(152,808)
Temporary differences	(89,271)	8,118
Unappropriated earnings tax (10%)	84,303	-
Less - investment tax credits	(199,721)	(700,469)
Income tax payable - current	1,192,956	836,285
Prepaid income tax	(600,647)	(530)
Accrued income tax payable in administrative remedy	130,276	1,200
Income tax payable	$ 722,585	$ 836,955

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.

c. Income tax expense consisted of:

	Years Ended December 31	
	2006	2005
Income tax expense - current	$ 1,192,956	$ 836,285
Income tax expense - deferred	75,063	670,802
Prior year's adjustment	156,239	14,200
Income tax expense on income subjected to a separate rate of 20%	5,536	5,675
Income tax expense	$ 1,429,794	$ 1,526,962

d. Deferred income taxes assets (liabilities) were as follows:

	December 31	
	2006	2005
Current		
Provision for doubtful accounts	$ 594,841	$ 557,028
Provision for losses on decline in value of inventories	5,884	6,223
Investment tax credits	3,971	-
Unrealized foreign exchange gains, net	(177)	(2,521)
Other	11,567	-
	616,086	560,730
Less - valuation allowance	3,971	-
	$ 612,115	$ 560,730

(Continued)

	December 31	
	2006	2005
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 278,992	$ 359,941
Accrued pension cost	81,247	89,078
Unrealized loss on financial products	16,540	-
Investment tax credits	26,841	-
Equity in investees' net losses (gains)	6,539	(4,637)
Losses on disposal of properties	-	13,246
Impairment loss on idle properties	-	30,598
Other	-	5,000
	410,159	493,226
Less - valuation allowance	26,841	-
	$ 383,318	$ 493,226

(Concluded)

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

e. Integrated income tax information was as follows:

	December 31	
	2006	2005
Balance of imputation credit account (ICA)	$ 247,789	$ 59,684

The estimated ratio of the ICA balance as of December 31, 2006 to undistributed earnings as of such date was 1.69%. When the dividends from the unappropriated earnings as of December 31, 2005 were distributed in 2006, the actual ratios used were 16.18%.

Based on the Income Tax Law, the imputation tax credits allocated to each stockholder are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation, which the Company had calculated in consideration of current year's income tax expenses, may be adjusted when the imputation credits are distributed. On the other hand, the creditable ratio for the 2005 earnings appropriation has been determined, and the actual ratio is disclosed.

f. Investment tax credits were as follows:

The unused investment tax credits of the Company as of December 31, 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	

g. Status of income tax returns are as follows:

Income tax returns of the Company through 2002 had been examined by the tax authorities. The tax authorities assessed an additional tax on the Company's income tax returns for 2000 to 2002. The Company had filed an appeal for the reexamination of above-mentioned returns and accrued the related tax thereof. Income tax returns of Yuan-Ze Telecom through 2005 had been examined and cleared by the tax authorities.

15. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2006				
	Operating Costs	**Operating Expenses**	**Nonoperating Expenses And Losses**	**As Reduction of Operating Costs and Expenses**	**Total**
Employee expenses					
Salaries	$ 255,116	$ 971,701	$ -	$ 981,072	$ 2,207,889
Pension	26,726	80,325	-	62,958	170,009
Meal	5,900	34,393	-	28,482	68,775
Employee benefit	-	43,203	-	-	43,203
Insurance	17,617	88,121	-	77,238	182,976
Miscellaneous	9,531	30,270	-	23,101	62,902
	$ 314,890	$ 1,248,013	$ -	$ 1,172,851	$ 2,735,754
Depreciation	$ 6,682,216	$ 1,299,582	$ 2,044	$ -	$ 7,983,842
Amortization	$ -	$ 4,770	$ -	$ -	$ 4,770

	Year Ended December 31, 2005				
	Operating Costs	**Operating Expenses**	**Nonoperating Expenses And Losses**	**As Reduction of Operating Costs and Expenses**	**Total**
Employee expenses					
Salaries	$ 193,510	$ 865,533	$ -	$ 1,119,255	$ 2,178,298
Pension	10,854	59,346	-	77,564	147,764
Meal	4,545	31,326	-	32,632	68,503
Employee benefits	-	43,047	-	61	43,108
Insurance	12,964	75,716	-	82,754	171,434
Miscellaneous	17,925	33,412	-	22,800	74,137
	$ 239,798	$ 1,108,380	$ -	$ 1,335,066	$ 2,683,244
Depreciation	$ 6,026,987	$ 1,300,630	$ 2,032	$ -	$ 7,329,649
Amortization	$ -	$ 23	$ -	$ -	$ 23

The Company provided management services to certain equity-method investees (Note 18). The employee expenses were charged on the basis of agreed-upon terms and recorded as a reduction of operating costs and expenses.

16. EARNINGS PER SHARE

	Amount (Numerator)		Common Stock	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
2006					
Basic EPS					
Net income	$ 14,586,019	$ 13,156,255	3,872,663	$3.77	$3.40
2005					
Basic EPS					
Net income	$ 16,244,364	$ 14,717,402	3,871,066	$4.20	$3.80
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,038	1,597		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 16,246,613	$ 14,719,440	3,872,663	$4.20	$3.80

17. FINANCIAL INSTRUMENTS

a. Fair value information:

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Equity-method investments	$ 37,883,330	$ -	$ 37,532,567	$ -
Refundable deposits	259,136	258,888	249,260	248,486
Liabilities				
Bonds payable (including current portion)	5,630,000	5,630,000	8,670,000	8,932,267
Lease payable (including current portion)	48,120	48,120	66,250	66,250
Long-term bank loans (including current portion)	-	-	300,000	300,000
Guarantee deposits received (including current portion)	819,633	819,633	985,250	985,250
Derivative Instruments				
Hedging derivative financial liabilities - noncurrent	(66,158)	(66,158)	-	(91,261)

The Company adopted ROC SFAS 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. Methods and assumptions used for estimating the fair values of financial instruments were as follows:

1) Cash and cash equivalents, notes and accounts receivable, accounts and notes receivables from related parties, commercial paper payable, notes payable, accounts payable, accounts and notes payables to related parties and payables for acquisition of properties, excluded from the financial instruments mentioned in the table above, are recorded at their carrying values because of the short maturities of these instruments.

2) If quoted market prices are available, these are used as fair value of derivatives. Otherwise, the fair 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 fair value of equity-method investments with no quoted market prices cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost.

4) Fair values of bonds payable, lease payable, long-term bank 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:

	December 31			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Liabilities				
Hedging derivative financial liabilities - noncurrent	$ -	$ -	$ (66,158)	$ (91,261)

d. As of December 31, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $2,767,789 thousand and $1,796,382 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $3,827,753 thousand and $7,401,496 thousand, respectively. As of December 31, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $584,490 thousand and $881,510 thousand, respectively, while the year-end amounts of the financial liabilities with cash flow risk from interest rate fluctuations were $2,670,000 each.

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.

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 and its subsidiaries have sufficient operating capital to meet cash requirement. Thus, the Company and its subsidiaries 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, the expected cash demand is not significant. However, the Company also made equity-method investments with no quoted prices in an active market; thus, it might face liquidity risks.

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

ARCOA invested in mutual funds that have quoted prices in an active market and can be sold immediately at prices close to their 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 liquidity risks.

4) Cash flow risk from interest fluctuations

The Company and subsidiaries have short-term and long-term liabilities with floating interest rates. As a result, the effective interest rates on these loans will change as the market interest rates change.

f. Cash flow hedge

The Company used interest rate swaps to hedge overall cash flow fluctuations on its liabilities:

	Designated Hedging Instruments				
		Fair Value December 31			Expected Year for
Hedged Items	Financial Instruments Designated	2006	2005	Expected Year of Cash Flows	Realization of Gains or Losses
Bonds with floating interest rates	Interest rate swap - the Company	$ (66,158)	$ (91,261)	2003-2008	2003-2008
Firm commitments	Forward contracts - ARCOA	-	(900)	2006	2006

Unrealized gains or losses on financial products

In 2006, the changes in unrealized gains and losses on financial products were as follows:

	Year Ended December 31, 2006
The Company	
As adjustments to stockholders' equity	$ (19,999)
Recognized as profit or loss	38,827
	$ 18,828
ARCOA	
As adjustments to stockholders' equity	$ 581
Recognized as profit or loss	319
	$ 900

18. 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.	Subsidiary
Yuan Cing Co., Ltd. (formerly E. World Ltd. Taiwan)	Subsidiary of E. World (Holdings) Ltd.
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, 15 and 19, the significant transactions with the above parties are summarized as follows:

		2006		2005	
		Amount	%	Amount	%
During the year					
Operating revenue	a.				
KG Telecom	b.	$ 2,794,346	6	$ 2,520,762	6
NCIC	c.	464,900	1	714,604	2
KGEx	d.	238,039	1	177,702	-
ARCOA	e.	70,356	-	99,517	-
Other	v.	32,664	-	10,846	-
		$ 3,600,305	8	$ 3,523,431	8

(Continued)

		2006		2005	
		Amount	%	Amount	%
Operating costs and expenses					
Cost of telecommunications service					
KG Telecom	b.	$ 1,562,707	8	$ 1,206,382	7
NCIC	c.	30,224	-	38,516	-
Other	v.	12,813	-	2,734	-
		$ 1,605,744	8	$ 1,247,632	7
Cost of sales					
ARCOA	e.	$ 262,341	7	$ 19,845	-
Rental					
FETRD	f.	$ 52,221	2	$ 52,405	3
FEILC	g.	36,892	2	44,245	2
Other	v.	28,760	1	24,959	1
		$ 117,873	5	$ 121,609	6
Research and development expenses					
FETTDF	h.	$ 5,020	11	$ 11,968	60
Service fee					
FETI	i.	$ 115,510	55	$ 148,268	64
FCHRC	j.	53,898	26	55,287	23
Other	v.	1,456	-	-	-
		$ 170,864	81	$ 203,555	87
Marketing expense					
ARCOA	e.	$ 465,063	7	$ 466,927	8
KG Telecom	k.	183,755	3	155,371	3
Other	v.	29,310	-	15,798	-
		$ 678,128	10	$ 638,096	11
Reductions of employee expenses					
FETC	o.	$ 11,392	-	$ 5,909	-
Nonoperating income and gains					
Management services revenue					
KG Telecom	l.	$ 123,314	93	$ 125,489	90
KGEx	m.	7,500	6	7,500	5
Yuan-Ze Telecom	n.	-	-	6,720	5
Other	v.	1,088	1	-	-
		$ 131,902	100	$ 139,709	100
Commissions					
KG Telecom	k.	$ 253,408	100	$ 290,712	100

(Continued)

		2006 Amount	2006 %	2005 Amount	2005 %
Other revenue					
FETC	o.	$ 17,894	12	$ 26,782	46
Nonoperating expense and losses					
Donation expense (including in nonoperating expense and losses)					
Yuan-Ze University	p.	$ 16,000	100	$ -	-
Acquisition of properties					
KGEx	q.	$ 71,373	1	$ -	-
NCIC	r.	2,675	-	54,794	1
KG Telecom	s.	1,951	-	25,691	1
FEILC	g.	-	-	22,000	-
Other	v.	980	-	17,057	-
		$ 76,979	1	$ 119,542	2
Disposal of properties					
KGEx	t.	$ 24,168	78	$ -	-
Other	v.	145	-	-	-
		$ 24,313	78	$ -	-
At end of year					
Accounts and notes receivable from related parties					
KG Telecom	b. and l.	$ 604,162	74	$ 611,732	81
ARCOA	e.	112,718	14	8,488	1
KGEx	d. and m.	46,345	6	46,435	6
FETC	o.	34,000	4	23,014	3
Other	v.	16,366	2	69,969	9
		$ 813,591	100	$ 759,638	100
Refundable deposits					
DDIM	u.	$ 25,554	10	$ 9,066	4
Other	v.	7,674	3	8,098	4
		$ 33,228	13	$ 17,164	8
Accounts and notes payable to related parties					
KG Telecom	b., k. and s.	$ 1,464,120	81	$ 503,615	64
ARCOA	e.	229,938	13	168,308	21
DDIM	u.	31,641	2	29,740	4
Other	v.	79,499	4	88,829	11
		$ 1,805,198	100	$ 790,492	100

(Continued)

		2006 Amount	2006 %	2005 Amount	2005 %
Unearned revenues					
FETC	o.	$ -	-	$ 17,401	2
Lease payable (including current portion)					
FEILC	g.	$ 48,120	100	$ 66,250	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 pertaining to the interconnect services provided 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.

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 accounts and notes receivable 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 accounts and notes payable to related parties. The Company's sales of prepaid cards and SIM cards of mobile virtual network operator services to ARCOA are recorded as accounts and notes receivable from 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. FETTDF provides telecommunications technology researches and training programs to the Company.

i. The Company signed with FETI a service agreement, under which the Company will pay FETI service charges. Moreover, the advances to FETI were treated as accounts and notes receivable from related parties and were settled at net amount against the fees paid.

j. 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 demands.

k. 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 accounts and notes payable to related parties.

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

m. 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.

n. 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.

o. In June 2005, the Company contracted FETC to implement the trouble ticket system for handling ticket problems or customers' complaints. The fees collected were based on the terms of the related contract and were treated as unearned revenues. Unearned revenues were recognized using the percentage of construction completion method. Moreover, the Company gave FETC advances for its daily operating expenditures, and the repayment for these advances will be collected at various times depending on the cash balances of FETC. Moreover, the Company has provided personnel support for FETC's daily operation, and related charges to FETC were recorded as reductions to related personnel expenses.

p. The Company made a donation to Yuan-Ze University for further intergration and development of telecommunications business and personnel.

q. The Company bought KGEx's telecommunications equipment.

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

s. The Company bought from KG Telecom operating and computer equipment as well as store decoration.

t. The Company had sold properties to KGEx. The properties were sold at net book value and the proceeds were amounted to $24,168 thousand.

u. In March 2005, 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 accounts and notes payable to related parties. The Company had given DDIM monthly refundable deposits, which were calculated at a fixed percentage of the unused reward points.

v. 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.

19. COMMITMENTS AS OF DECEMBER 31, 2006

The Company had the following significant commitments:

a. The Company was under contracts to acquire properties and cellular phone equipment for $778,782 thousand and $699,862 thousand, respectively.

b. The Company’s outstanding letters of credit amounted to US$1,971 thousand (equivalent to $64,251 thousand) and ￥94,462 thousand (equivalent to $25,892 thousand).

c. Payments for the rentals of land, buildings and cell sites for future years are summarized as follows:

Year	**Amount**
2007	$ 1,580,238
2008	1,641,505
2009	1,705,165
2010	1,771,312
2011	1,840,042

d. On July 25, 2006, the Company provided a $154,000 thousand guarantee for FETC’s bank loan. As of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

e. On December 27, 2006, the Company’s board of directors had approved to provide financial support to FETC within the amount of $50,000 thousand for its use of participating in the second round bidding for “Private Participation in the Electronic Toll Collection BOT Project” and its daily operations. As of December 31, 2006, the Company had not yet provided any financing to FETC.

20. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

a. Important transactions and B. Related information of the Company’s investees.

1) Financing provided: Note 19

2) Endorsement/guarantee provided: Schedule A

3) Marketable securities and investments in shares of stock held: Schedule B

4) Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Schedule C

5) Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: None

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

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule E

9) Names, locations, and related information of investees on which the Company exercises significant influence: Schedule F

10) Derivative financial instruments of investees: Note 17

b. Investment in Mainland China:

1) 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 G

2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 18

21. SEGMENT INFORMATION

a. Industry

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

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

b. Foreign operations.

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

c. Foreign revenues

The Company has no foreign revenues.

d. A customer accounting for at least 10% of the Company's total operating revenues is as follows:

	Years Ended December 31			
	2006		**2005**	
	Amount	**Percentage of Operating Revenue (%)**	**Amount**	**Percentage of Operating Revenue (%)**
Company A	$ 6,653,776	15	$ 7,207,952	17

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party (Note 2)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Total Guarantee/ Endorsement Allowed to Be Provided by the Guarantor/Endorser (Note 2)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd. ("Far EasTone")	Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee	$73,926,702	$154,000 (Note 1)	$154,000 (Note 1)	$ -	0.21%	$147,853,404

Note 1: Represents the actual amount of guarantee provided, as of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

Note 2: The maximum total guarantee/endorsement amount equals 200% of Far EasTone's net worth, while the limit of guarantee/endorsement amount for each receiving party should not exceed 100% of Far EasTone's net worth.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 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	December 31, 2006				Highest Shares/ Units Held during the Year	Note
				Shares	Carrying Value (Note D)	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	$ 36,124,571	100.00	$ 36,124,571	1,332,997,916	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	79,353,013	1,026,383	59.10	1,026,383	79,353,013	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	106,650,000	395,686	42.66	395,686	106,650,000	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	134,999	100.00	134,999	1,200	Note A
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	100,542	100.00	100,542	4,486,988	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	73,717	85.92	73,717	6,014,622	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	26,790	15.00	26,790	4,500,000	Note A
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	100,000	642	0.67	642	100,000	Note A
KG Telecommunications Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	186,390,714	1,084,619	74.56	1,084,619	260,915,000	Note A
	KGT International Holding Co., Ltd.	Equity-method investee	Equity-method investments	50,000	82,913	100.00	82,913	50,000	Note A
	iScreen	Equity-method investee	Equity-method investments	4,000,00	20,998	40.00	20,998	4,000,000	Note A
	Mutual funds								
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	46,468,833.40	501,752	-	501,752	46,468,833.40	Note B
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	198,030	-	198,030	20,000,000.00	Note B
	FEA Long-Short Private Placement Fund	-	Financial assets measured at holding cost - noncurrent	10,000,000.00	100,000	-	-	10,000,000.00	Note C
ARCOA Communication Co., Ltd.	Stocks								
	Hi Information Co., Ltd.	Equity-method investee	Equity-method investments	4,975,000	6,026	33.17	6,026	4,975,000	Note D
	THI consultants	-	Financial assets measured at holding cost - noncurrent	1,134,200	13,729	18.29	-	1,134,200	Note C
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,830,901	6,714	4.20	-	2,830,901	Note C
	Taiwan Fixed Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,100,000	21,000	0.03	-	2,100,000	Note C
	VIBO Telecom Inc.	-	Financial assets measured at holding cost - noncurrent	2,000,000	20,000	0.13	-	2,000,000	Note C

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Highest Shares/ Units Held during the Year	Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value		
	Web Point Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	160,627	$ 1,618	0.63	$ -	160,627	Note C
	Mutual funds								
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,145,477.50	91,507	-	91,507	10,334,101.90	Note B
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	1,263,463.79	20,002	-	20,002	1,268,568.67	Note B
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	1,368,578.80	20,001	-	20,001	1,368,578.80	Note B
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	1,098,619.40	15,002	-	15,002	1,120,850.10	Note B
	Bonds								
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds measured at amortized cost - current	3,000,000.00	3,000	-	-	3,000,000.00	Note C
Far Eastern Info Service (Holding) Ltd.	Share certificates								
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity-method investments	-	US$ 3,641,000	100.00	US$ 3,641,000	-	Note A
Far EasTron Holding Ltd.	Stocks								
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	14,900,000	US$ 3,063,000	99.33	US$ 3,063,000	14,900,000	Note A
E. World (Holdings) Ltd.	Stocks								
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$ 1,686,000	99.99	US$ 1,686,000	19,349,994	Note A
	Ideaculture (Cayman) Ltd.	-	Financial assets measured at holding cost - noncurrent	1,195,141	US$ 431,000	17.96	-	1,195,141	Note D
KGT International Holding Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	11,465,000	66,490	4.59	66,490	16,051,000	Note A

Note A: Calculation was based on audited financial statements as of December 31, 2006.

Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2006 while that of bonds was based on cost.

Note C: Calculation was based on cost because the security did not have a quoted price in an active market.

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

Note E: 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 December 31, 2006.

(Concluded)

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
YEAR ENDED DECEMBER 31, 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
	FEA Taiwan - Bond Security Investment Trust Fund	Available-for-sale financial assets - current	-	-	-	-	46,468,833.40	500,000	-	-	-	-	46,468,833.40	500,000
ARCOA Communication Co., Ltd.	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	10,334,101.90	151,500	24,723,665.80	366,000	28,912,290.20	427,492	426,000	1,492	6,145,477.50	91,500
	CITC Cash Reserves	Financial assets measured at holding cost - noncurrent	-	-	1,729,340.90	20,000	7,748,879.60	90,000	9,478,220.50	110,177	110,000	177	-	-
	Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,584,836.29	20,000	14,169,410.86	180,000	15,754,247.15	200,391	200,000	391	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,862,319.11	170,000	12,862,319.11	170,459	170,000	459	-	-
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,079,318.13	150,000	11,079,318.13	150,294	150,000	294	-	-

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
YEAR ENDED DECEMBER 31, 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	$ (2,794,346)	(6%)	Based on agreement	-	-	Accounts receivable $ 276,073	5%
			Cost of telecommunications service	1,562,707	8%	Based on agreement	-	-	Accounts payable (43,960)	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	727,404	3%	Based on agreement			Accounts payable and accrual expense (229,938)	(6%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(238,039)	(1%)	Based on agreement	-	-	Accounts receivable 41,828	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(464,900)	(1%)	Based on agreement	-	-	Accounts receivable (Note) -	-
									Accounts payable (Note) (14,081)	(2%)
	Far Eastern Tech-info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	115,510	55%	Based on agreement	-	-	Accrual expense (2,280)	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,562,707)	(6%)	Based on agreement	-	-	Accounts receivable 43,960	2%
			Cost of telecommunications service	2,794,346	24%	Based on agreement	-	-	Accounts payable (276,073)	(52%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(135,218)	(1%)	Based on agreement	-	-	Accounts receivable 6,843	-
	ARCOA Communication Co., Ltd.	Same parent company	Marketing expenses and cost of sales	194,308	5%	Based on agreement	-	-	Accounts payable and accrual expense (37,450)	(2%)
	KGEx.com Co., Ltd.	Subsidiary company	Telecommunications service revenues	(141,202)	(1%)	Based on agreement	-	-	Accounts receivable 19,508	1%
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(727,404)	(11%)	Based on agreement	-	-	Accounts receivable 229,938	61%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue and sales	(208,960)	(5%)	Based on agreement	-	-	Accounts receivable 37,450	10%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications service	238,039	23%	Based on agreement	-	-	Accounts payable (41,828)	(29%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications service	141,202	14%	Based on agreement	-	-	Accounts payable (19,508)	(13%)

(Continued)

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
	New Century InfoComm Tech Co., Ltd.	Same chairman of ultimate parent company	Cost of telecommunications service	$167,071	16%	Based on agreement	-	-	Accounts payable	($15,294)	(10%)
Far Eastern Tech-info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenues	(115,510)	(69%)	Based on agreement	-	-	Accounts receivable	2,280	4%

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

(Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	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	$ 604,162	(Note A)	$ -	-	$ 32,364	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	112,718	13.28	-	-	-	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,464,210	(Note B)	-	-	460,908	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	229,938	4.44	-	-	182	-

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
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 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	$ 36,124,571	$ 5,568,497	$ 5,568,404	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	Type II telecommunications services, manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,026,383	(245,260)	(144,937)	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	395,686	(982,928)	(393,410)	Notes B and C
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	134,999	(9,169)	(9,169)	Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	100,542	(42,749)	(42,749)	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	73,717	8,397	7,215	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	26,790	(5,935)	(890)	Notes B and C
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	642	(42,812)	(286)	Notes B and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,794	2,197,652	186,390,714	74.56	1,084,619	(192,174)		Notes B and D
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	82,913	(7,897)		Notes B and D
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,998	250		Notes B and E
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	6,026	11,250		Notes E and F
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	US$ 4,532,000	14,900,000	99.33	US$ 3,063,000	(42,812)		Notes B and D
Far Eastern Info Service (Holding) Ltd.	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer service providing	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 3,641,000	(8,811)		Notes B and D
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 1,686,000	8,371		Notes B and D
KGT International Holding Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$ 4,822,000	US$ 4,822,000	11,465,000	4.59	66,490	(192,174)		Notes B and D

Notes:
A. Subsidiary.

B. Calculation based on audited financial statements as of December 31, 2006.

C. Equity-method investee of the Company.

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

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

F. Calculation was based on the most current financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 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 December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2006	Accumulated Investment in Mainland China as of December 31, 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	$81,488 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$(8,811)	$118,678 (US$3,641,000)	$ -	$92,616	$92,616	$16,285,340 (Note C)

Note A: Calculation based on audited financial statements as of December 31, 2006.

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

Note C: Based on the limit stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued by the ROC Investment Commission on March 1, 2004.

Note D: Please refer to Note 18 for significant transactions with the investee company.