Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Six Months Ended June 30, 2007 and 2006 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") as of June 30, 2007 and 2006, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As stated in Note 7 to the financial statements, the financial statements of certain equity-method investees, with investment carrying values of NT$1,687,192 thousand and NT$2,209,224 thousand as of June 30, 2007 and 2006, respectively, had not been audited. The Company's equity of NT$233,817 thousand and NT$317,917 thousand in the losses of these investees was included in the net incomes of the six months ended June 30, 2007 and 2006, respectively. Related information on the Company's investment as shown in Note 24 to the financial statements, was not audited either.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some of the Company's equity-method investees as described in the preceding paragraph been audited, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Company as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, on January 1, 2006, the Company adopted the newly issued 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 tested for impairment annually instead of being amortized.

We have also audited the consolidated financial statements of the Company and subsidiaries as of and for the six months ended June 30, 2007 and 2006 and have issued a qualified opinion thereon in our report dated July 27, 2007.

July 27, 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
JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)

	2007		2006	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 6,940,034	8	$ 4,949,039	5
Accounts and notes receivable, net (Notes 2 and 5)	4,082,297	4	3,637,377	4
Accounts and notes receivable from related parties, net (Notes 2, 5 and 21)	738,382	1	740,110	1
Dividends receivable (Note 7)	5,011,672	5	4,636,033	5
Inventories, net (Notes 2 and 6)	365,128	-	655,409	1
Prepaid expenses	502,201	1	470,026	-
Deferred income tax assets - current (Notes 2 and 16)	516,362	1	587,133	-
Refundable deposits - current (Note 23)	67,500	-	-	-
Other current assets	7,795	-	16,229	-
Total current assets	18,231,371	20	15,691,356	16
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2, 7 and 23)	35,015,411	38	35,473,143	37
PROPERTIES (Notes 2, 8 and 21)				
Cost				
Land	847,138	1	847,138	1
Buildings and equipment	1,659,787	2	1,639,829	2
Operating equipment	63,058,021	68	58,390,961	61
Computer equipment	9,232,114	10	8,629,303	9
Office equipment	782,780	1	804,737	1
Leasehold improvements	1,523,160	1	1,512,236	2
Miscellaneous equipment	228,800	-	236,488	-
Total cost	77,331,800	83	72,060,692	76
Less - accumulated depreciation	49,470,395	53	42,266,749	44
	27,861,405	30	29,793,943	32
Construction in progress and advances for acquisition of equipment	2,403,066	2	4,067,800	4
Net properties	30,264,471	32	33,861,743	36
INTANGIBLE ASSETS				
3G concession, net (Notes 1, 2 and 9)	8,403,126	9	9,133,832	10
OTHER ASSETS				
Rental assets, net (Notes 2 and 10)	196,987	-	199,031	-
Refundable deposits (Note 21)	254,329	-	255,186	-
Deferred income tax assets - noncurrent (Notes 2 and 16)	260,333	1	465,957	1
Other	1,785	-	4,359	-
Total other assets	713,434	1	924,533	1
TOTAL	$ 92,627,813	100	$ 95,084,607	100

	2007		2006	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Hedging derivative financial liabilities - current (Notes 2 and 3)	$ 18,204	-	$ -	-
Notes payable	39,077	-	35,678	-
Accounts payable	430,742	-	540,814	1
Accounts and notes payable to related parties (Note 21)	1,510,191	2	1,219,894	1
Income tax payable (Notes 2 and 16)	862,295	1	643,430	1
Accrued expenses (Note 13)	3,359,421	4	3,315,761	3
Dividends payable (Note 15)	12,005,255	13	12,005,255	13
Payables for acquisition of properties	1,000,011	1	948,334	1
Guarantee deposits received - current	695,672	1	839,990	1
Unearned revenues (Notes 2 and 21)	672,868	1	727,455	1
Current portion of long-term bonds payable (Note 11)	2,370,000	2	2,960,000	3
Lease payable - current (Notes 2, 12 and 21)	19,880	-	4,180	-
Other current liabilities (Note 15)	453,602	-	416,760	-
Total current liabilities	23,437,218	25	23,657,551	25
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Note 11)	1,200,000	1	3,570,000	4
Hedging derivative financial liabilities - noncurrent (Notes 2 and 3)	32,295	-	88,405	-
Lease payable - noncurrent (Notes 2, 12 and 21)	8,360	-	43,940	-
Total long-term liabilities	1,240,655	1	3,702,345	4
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 14)	302,069	1	282,657	-
Guarantee deposits received - noncurrent	68,223	-	53,180	-
Total other liabilities	370,292	1	335,837	-
Total liabilities	25,048,165	27	27,695,733	29
STOCKHOLDERS' EQUITY				
Capital stock - NT$10 par value				
Authorized - 4,200,000 thousand shares				
Issued and outstanding - 3,872,663 thousand shares	38,726,630	42	38,726,630	41
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	7
From business combination	8,482,381	9	8,482,381	9
From long-term equity-method investments	10,611	-	10,611	-
Total capital surplus	15,003,956	16	15,003,956	16
Retained earnings				
Legal reserve	6,888,973	7	5,573,350	6
Special reserve	44,832	-	-	-
Unappropriated earnings	6,914,607	8	8,154,686	8
Total retained earnings	13,848,412	15	13,728,036	14
Other adjustments				
Cumulative translation adjustments	9,248	-	1,272	-
Unrealized loss on financial instruments	(8,598)	-	(71,020)	-
Total other adjustments	650	-	(69,748)	-
Total stockholders' equity	67,579,648	73	67,388,874	71
TOTAL	$ 92,627,813	100	$ 95,084,607	100

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

(With Deloitte & Touche audit report dated July 27, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 21)				
Sales of cellular phone equipment and accessories, net	$ 1,422,169	7	$ 1,661,355	8
Telecommunications service revenues	20,588,786	93	19,885,221	92
Other	56,106	-	55,409	-
Total operating revenues	22,067,061	100	21,601,985	100
OPERATING COSTS (Notes 2, 18 and 21)				
Cost of sales	1,760,434	8	2,034,306	9
Cost of telecommunications services	10,017,894	46	9,536,216	44
Total operating costs	11,778,328	54	11,570,522	53
GROSS PROFIT	10,288,733	46	10,031,463	47
OPERATING EXPENSES (Notes 2, 18 and 21)				
Marketing	3,734,277	17	3,483,324	16
General and administrative	1,705,306	8	1,802,750	8
Research and development	137,554	-	114,334	1
Total operating expenses	5,577,137	25	5,400,408	25
OPERATING INCOME	4,711,596	21	4,631,055	22
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 7)	2,116,563	10	2,582,221	12
Commission (Note 21)	94,873	1	127,041	1
Management services revenue (Note 21)	65,980	-	66,310	-
Interest (Note 21)	35,932	-	19,396	-
Other (Notes 17 and 21)	63,286	-	50,823	-
Total nonoperating income and gains	2,376,634	11	2,845,791	13
NONOPERATING EXPENSES AND LOSSES				
Loss on disposal of properties, net (Note 2)	101,801	1	14,719	-
Interest (Notes 2 and 8)	16,709	-	43,544	-
Loss on decline in value of inventories (Note 2)	14,450	-	11,246	-
Impairment loss on idle properties (Note 2)	-	-	60,000	1
Other (Notes 2, 7 and 18)	8,529	-	8,041	-
Total nonoperating expenses and losses	141,489	1	137,550	1

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 6,946,741	31	$ 7,339,296	34
INCOME TAX (Notes 2 and 16)	980,149	4	695,983	3
NET INCOME	$ 5,966,592	27	$ 6,643,313	31

	2007		2006	
	Income Before Income Tax	**After Income Tax**	**Income Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 19)				
Basic	$ 1.79	$ 1.54	$ 1.90	$ 1.72

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

(With Deloitte & Touche audit report dated July 27, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding		Capital Surplus (Note 15)			Retained Earnings (Note 15)			Other Adjustments		
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Long-term Equity-method Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Notes 2 and 15)	Unrealized Gain or Loss on Financial Instruments (Notes 2, 3 and 15)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2007	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
Appropriation of the 2006 earnings											
Legal reserve	-	-	-	-	-	1,315,623	-	(1,315,623)	-	-	-
Special reserve	-	-	-	-	-	-	44,832	(44,832)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(235,915)	-	-	(235,915)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(117,958)	-	-	(117,958)
Cash dividends - NT$3.1 per share	-	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)
Net income for the six months ended June 30, 2007	-	-	-	-	-	-	-	5,966,592	-	-	5,966,592
Changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	29,451	29,451
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	11,743	11,743
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	-	4,288	-	4,288
BALANCE, JUNE 30, 2007	3,872,663	$ 38,726,630	$6,510,964	$8,482,381	$10,611	$6,888,973	$44,832	$ 6,914,607	$9,248	$ (8,598)	$ 67,579,648
BALANCE, JANUARY 1, 2006	3,872,663	$ 38,726,630	$6,510,964	$8,482,381	$10,611	$4,101,609	$ -	$ 15,385,739	$2,168	$ -	$ 73,220,102
Adjustment of adopting newly announced and revised Statements of Financial Accounting Standards	-	-	-	-	-	-	-	-	-	(68,978)	(68,978)
Appropriation of 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 for the six months ended June 30, 2006	-	-	-	-	-	-	-	6,643,313	-	-	6,643,313
Changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(4,716)	(4,716)
Changes in subsidiary's unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	532	532
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	2,142	2,142
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	-	(896)	-	(896)
BALANCE, JUNE 30, 2006	3,872,663	$ 38,726,630	$6,510,964	$8,482,381	$10,611	$5,573,350	$ -	$ 8,154,686	$1,272	$ (71,020)	$ 67,388,874

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

(With Deloitte & Touche audit report dated July 27, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,966,592	$ 6,643,313
Depreciation and amortization	3,746,697	3,908,764
Amortization of 3G concession	365,353	365,354
Allowance for doubtful accounts	280,363	249,960
Provision for losses on decline in value of inventories	14,450	11,246
Losses on obsolescence of inventories	-	4,630
Equity in investees' net gains	(2,116,563)	(2,582,221)
Losses on disposal of properties, net	101,801	14,719
Provision for impairment loss	6,549	-
Provision for impairment loss on idle properties	-	60,000
Accrued pension cost	13,990	8,739
Deferred income taxes	214,822	22,967
Net changes in operating assets and liabilities		
Accounts and notes receivable	(539,527)	(114,038)
Accounts and notes receivable from related parties	55,260	16,795
Inventories	96,200	(16,855)
Prepaid expenses	5,635	2,854
Other current assets	43,944	6,145
Notes payable	4,348	1,747
Accounts payable	(114,515)	(70,870)
Accounts and notes payable to related parties	(295,007)	429,402
Income tax payable	139,710	(193,525)
Accrued expenses	136,304	(470,099)
Unearned revenues	(41,840)	(74,563)
Other current liabilities	106,212	(25,332)
Net cash provided by operating activities	8,190,778	8,199,132
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(1,938,355)	(2,839,172)
Proceeds of the disposal of properties, including idle properties	5,494	3,513
Increase in refundable deposits	(62,693)	(5,926)
Decrease in other assets	534	1,654
Net cash used in investing activities	(1,995,020)	(2,839,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	-	(49,996)
Repayments of long-term liabilities	(2,060,000)	(2,440,000)
Decrease in guarantee deposits received	(55,738)	(92,080)
Bonus paid to employees	(235,915)	(264,913)
Cash used in financing activities	(2,351,653)	(2,846,989)

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 3,844,105	$ 2,512,212
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,095,929	2,436,827
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,940,034	$ 4,949,039
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS INFORMATION		
Interest paid	$ 93,485	$ 171,134
Less - interest capitalized	24,377	46,250
Interest paid, net of capitalized interest	$ 69,108	$ 124,884
Income tax paid	$ 625,617	$ 866,541
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 2,408,084	$ 2,964,180
Reclassification of properties into idle properties	$ -	$ 60,000
Cash dividend receivable from subsidiary	$ 5,011,672	$ 4,636,033
Declaration of cash dividend	$ 12,005,255	$ 12,005,255
Declaration of remuneration to directors and supervisors	$ 117,958	$ 132,457
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 1,186,167	$ 1,481,756
Decrease in payables for acquisition of properties	732,308	1,339,286
Decrease in lease payable	19,880	18,130
Cash paid for acquisition of properties	$ 1,938,355	$ 2,839,172
PROCEEDS OF DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties and idle properties	$ 2,099	$ 1,210
Decrease (increase) in receivables on properties sold	3,499	(430)
Decrease (increase) in accounts and notes receivable from related parties	(104)	2,733
Cash received on disposal of properties	$ 5,494	$ 3,513

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

(With Deloitte & Touche audit report dated July 27, 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 June 30, 2007, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 42.78% 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 1% 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.

The Company merged with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom") on May 2, 2005. 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 3,313 and 3,387 employees as of June 30, 2007 and 2006, 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 cash or cash equivalents as well as other assets to be converted into cash or consumed within 12 months after the balance sheet date. All other assets such as property, equipment and intangible assets are classified as noncurrent. 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 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 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 cost 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.

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 related to the Company's promotions are treated as marketing expenses in the period when the service to a subscriber is activated.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined using the weighted-average method. Losses on disposal of inventory are evaluated on the basis of the changes in marketing strategy. Losses on decline in value of inventory are evaluated on the basis of market demand and should be recognized when the net realizable value is lower than the cost.

Equity-method Investments

Long-term investments in which the Company owns at least 20% of investees' common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method.

On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 3 to 5 years. As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," starting on January 1, 2006, the cost of acquisition is subjected to an initial analysis. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead 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 subjected 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 is credited to capital surplus. If the subscription results in a decrease in the Company's equity in an investee's net assets, capital surplus is debited. If capital surplus is not enough for debiting purposes, the difference 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 period 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.

Idle Properties

Properties not currently used in operations are transferred to idle properties at the lower of net book value or fair value, with difference charged to nonoperating expenses. However, starting on January 1, 2006, based on related regulations, depreciation of idle properties is calculated using the straight-line method over the estimated useful lives of the properties.

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, idle properties, 3G concession, and equity-method investments) exceeds their recoverable amount, and this impairment loss should be charged to current income. For investees which the Company exercises significant influence but not control, the recoverable amount is calculated based on investee’s individual investment value. For investees which the Company has control, the recoverable amount is accessed under the consideration of taking the consolidated financial statement as a whole. 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.

To test for impairment, goodwill should be allocated to each of the cash-generating units that are expected to benefit from the synergies of the combinations. A cash-generating unit should be tested for impairment at least annually by comparing the carrying amount of the unit with its recoverable amount. If the carrying amount exceeds the recoverable amount of the unit, the impairment loss is allocated to reduce the carrying amount of the unit in the following order: (a) reduce the carrying amount of any goodwill allocated to the unit; and (b) reduce the carrying amounts of other assets of the unit proportionally. An impairment loss recognized on goodwill cannot 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.

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 investments are accounted for as a reduction of the current period's income tax expense.

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

Income taxes (10%) on undistributed earnings generated 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 period 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 period. 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.

The above prevailing exchange rates are based on the average of bid and ask rates of principal correspondent banks.

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 of liabilities.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2006 have been reclassified to be consistent with the presentation of financial statements as of and for the six months ended June 30, 2007.

3. CHANGES IN ACCOUNTING PRINCIPLES

a. First time adoption of the newly announced Statements and related revisions of previously issued Statements.

   <u>ROC SFAS No.34 - “Accounting for financial Instruments” and ROC SFAS No.36 - “Disclosure and Presentation of Financial Instruments.”</u>

   On January 1, 2006, the Company adopted the new ROC SFAS No. 34 - “Accounting for Financial Instruments” and No. 36 - “Disclosure and Presentation of Financial Instruments” and related revised Statements.

   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 subsidiary	532
	$ 68,978

The accounting change resulted in an increase of $4,716 thousand in net income before income tax expense for the six months ended June 30, 2006.

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."

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 annually instead of being amortized. The adoption of the revised Statements resulted in an increase of $432,382 thousand in net income before income tax expense without any cumulative changes in accounting principles and an increase of NT$0.11 in basic earnings per share after income tax for the six months ended June 30, 2006.

b. Newly announced Statement or accounting pronouncement with future effectiveness

Under an issuance from the Accounting Research and Development Foundation of the Republic of China in March 2007, remuneration to directors and supervisors and bonus to employees should be treated as expense rather than earnings distribution. This treatment should be applied to financial statements for the fiscal year beginning on or after January 1, 2008.

However, the effect of this new issuance on the financial statements as of and for the six months ended June 30, 2008 still could not be estimated since net income for the six months ended June 30, 2008 could not be estimated.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2007	2006
Cash		
Cash on hand	$ 2,741	$ 7,971
Checking and demand deposits	954,333	514,489
	957,074	522,460
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.75%-1.98% in 2007 and 1.47%-1.52% in 2006	5,982,960	4,426,579
	$ 6,940,034	$ 4,949,039

As of June 30, 2007 and 2006, foreign demand deposits were as follows:

	June 30	
	2007	2006
Belgium (US$308 thousand in 2007 and US$188 thousand in 2006)	$ 10,121	$ 6,086

5. ACCOUNTS AND NOTES RECEIVABLE

	June 30	
	2007	2006
Accounts and notes receivable	$ 4,906,498	$ 4,732,663
Less - allowance for doubtful accounts	(824,201)	(1,095,286)
	$ 4,082,297	$ 3,637,377

The change in allowance for doubtful accounts was as follows:

	Six Months Ended June 30		
	2007		2006
	Accounts Receivable	Accounts and Notes Receivable from Related Parties	Accounts Receivable
Beginning balance	$ 809,203	$ -	$ 1,204,019
Less - bad debts written off	(337,684)	-	(430,734)
Add - collection after write-off	92,372	-	72,041
accrual of bad debt expenses	260,310	20,053	249,960
	$ 824,201	$ 20,053	$ 1,095,286

6. INVENTORIES

	June 30	
	2007	2006
Cellular phone equipment	$ 332,461	$ 605,357
SIM cards and prepaid cards	44,001	56,654
Cellular phone accessories	26,376	28,107
Others	276	1,428
	403,114	691,546
Less - allowance for losses	37,986	36,137
	$ 365,128	$ 655,409

7. EQUITY-METHOD INVESTMENTS

	June 30			
	2007		2006	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Common stocks with no quoted market prices				
KG Telecommunications Co., Ltd.	$ 33,465,647	100.00	$ 33,428,198	100.00
ARCOA Communication Co., Ltd.	987,845	59.10	1,136,643	59.10
Far Eastern Electronic Toll Collection Co., Ltd.	257,717	42.66	530,675	42.66
Far Eastern Info Service (Holding) Ltd.	141,018	100.00	151,189	100.00
Far EasTron Holding Ltd.	78,473	100.00	125,316	100.00
E. World (Holdings) Ltd.	58,498	85.92	71,656	85.92
Ding Ding Integrated Marketing Services Co., Ltd.	25,718	15.00	28,658	15.00
Far EasTron Co., Ltd.	495	0.67	808	0.67
	$ 35,015,411		$ 35,473,143	

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. 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.

c. Far Eastern Electronic Toll Collection Co., Ltd.

On February 26, 2004, Far Eastern Electronic Toll Collection Co. ("FETC", originally known as "Far Eastern Consortium", which was established by the Company, TECO Electric & Machinery Co., Ltd., SYSTEX Corporation (former 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. On April 14, 2007, TANFB announced that FETC was again the best qualified candidate. Up to date, FETC completed its system function testing and was renegotiating the ETC project contract with TANFB.

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 stockholding 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 depending on the Government’s response.

d. Equity in investees’ net gains or losses

Equity in investees’ net gains (losses) consisted of:

	Six Months Ended June 30			
	2007		2006	
	Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)
KG Telecommunications Co., Ltd.	$ 2,323,397	$ 2,323,297	$ 2,876,666	$ 2,876,573
ARCOA Communication Co., Ltd.	(64,358)	(38,538)	(58,680)	(34,677)
Far Eastern Electronic Toll Collection Co., Ltd.	(323,416)	(137,969)	(671,323)	(258,421)
Far Eastern Info Service (Holding) Ltd.	1,992	1,992	10,535	10,535
Far EasTron Holding Ltd.	(22,109)	(22,109)	(17,939)	(17,939)
E. World (Holdings) Ltd.	(10,347)	(8,891)	6,159	5,292
Ding Ding Integrated Marketing Services Co., Ltd.	(9,883)	(1,072)	6,522	978
Far EasTron Co., Ltd.	(22,097)	(147)	(17,890)	(120)
		$ 2,116,563		$ 2,582,221

The net asset values of the equity-method investees were as follows:

	June 30	
	2007	2006
Total assets of investees	$ 46,841,957	$ 48,137,745
Total liabilities of investees	10,963,464	11,294,995
Total net assets	$ 35,878,493	$ 36,842,750
The Company’s equity in investees’ net assets	$ 35,015,441	$ 35,473,143

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 equity-method investment except those of KG Telecom and ARCOA are based on unaudited financial statements as of June 30, 2007 and 2006. In addition, the financial statements of certain equity-method investment of KG Telecom and ARCOA as of June 30, 2007 and 2006 were unaudited. The Company and subsidiaries' investments in certain equity-method investees, which were based on unaudited financial statements, were $1,687,192 thousand and $2,209,224 thousand as of June 30, 2007 and 2006, respectively, and their equity in their investees' net losses were $233,817 thousand and $317,917 thousand for the six months ended June 30, 2007 and 2006, respectively.

e. Changes in goodwill

In the six months ended June 30, 2007 and 2006, the difference between investment cost and the Company's equity in its investees' net assets, which was treated as goodwill, were as follows:

	Six Months Ended June 30	
	2007	**2006**
Beginning balance	$ 255,828	$ 255,828
Increase	-	-
Decrease	6,549	-
Ending balance	$ 249,279	$ 255,828

The impairment loss of $6,549 thousand on goodwill was included in nonoperating expenses and losses - other.

f. Dividends receivable

The appropriation and distribution of KG Telecom's 2006 and 2005 earnings were approved by the board of directors (also represented as stockholders' meeting) on June 29, 2007 and March 3, 2006, respectively. The Board of Directors decided to distribute cash dividends of $5,011,672 thousand and $4,636,033 thousand effective July 30, 2007 and June 19, 2006, respectively.

g. Consolidation

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

8. PROPERTIES

a. Changes in properties consisted of:

	Six Months Ended June 30, 2007				
		Movement			
	Beginning Balance	Addition	Sale or Disposal	Reclassification	Ending Balance
Cost					
Land	$ 847,138	$ -	$ -	$ -	$ 847,138
Buildings and equipment	1,647,956	2,532	-	9,299	1,659,787
Operating equipment	61,172,350	37,446	217,946	2,066,171	63,058,021
Computer equipment	8,902,253	1,397	15,454	343,918	9,232,114
Office equipment	757,878	-	3,357	28,259	782,780
Leasehold improvements	1,514,262	-	-	8,898	1,523,160
Miscellaneous equipment	255,937	-	5,637	(21,500)	228,800
	75,097,774	$ 41,375	$ 242,394	$ 2,435,045	77,331,800
Accumulated depreciation					
Buildings and equipment	491,151	$ 35,301	$ -	$ -	526,452
Operating equipment	37,073,499	3,048,180	135,336	-	39,986,343
Computer equipment	6,508,415	545,811	15,425	-	7,038,801
Office equipment	686,266	27,368	3,356	-	710,278
Leasehold improvements	1,035,271	72,856	-	-	1,108,127
Miscellaneous equipment	90,103	15,928	5,637	-	100,394
	45,884,705	$ 3,745,444	$ 159,754	$ -	49,470,395
	29,213,069				27,861,405
Construction in process and advances for acquisition of equipment	3,714,579	$ 1,144,792	$ 21,260	$ (2,435,045)	2,403,066
	$ 32,927,648				$ 30,264,471

	Six Months Ended June 30, 2006					
		Movement				
	Beginning Balance	Addition	Sale or Disposal	Reclassification	Reclassified as Idle Properties	Ending Balance
Cost						
Land	$ 847,138	$ -	$ -	$ -	$ -	$ 847,138
Buildings and equipment	1,632,094	-	-	7,735	-	1,639,829
Operating equipment	57,177,639	-	26,459	1,490,574	(250,793)	58,390,961
Computer equipment	8,293,927	-	9,455	344,831	-	8,629,303
Office equipment	798,031	-	1,249	7,955	-	804,737
Leasehold improvements	1,471,169	-	-	41,067	-	1,512,236
Miscellaneous equipment	214,638	-	7,889	29,739	-	236,488
	70,434,636	$ -	$ 45,052	$ 1,921,901	$ (250,793)	72,060,692
Accumulated depreciation						
Buildings and equipment	408,865	$ 44,078	$ -	$ -	$ -	452,943
Operating equipment	31,304,582	3,056,797	10,666	-	(190,793)	34,159,920
Computer equipment	5,265,265	664,652	9,455	-	-	5,920,462
Office equipment	650,659	47,113	1,113	-	-	696,659
Leasehold improvements	883,124	77,421	-	-	-	960,545
Miscellaneous equipment	69,087	15,022	7,889	-	-	76,220
	38,581,582	$ 3,905,083	$ 29,123	$ -	$ (190,793)	42,266,749
	31,853,054					29,793,943
Construction in process and advances for acquisition of equipment	4,507,945	$ 1,481,756	$ -	$ (1,921,901)	$ -	4,067,800
	$ 36,360,999					$ 33,861,743

b. Capitalized interest on properties was as follows:

	Six Months Ended June 30	
	2007	2006
Total interest expense	$ 41,086	$ 89,794
Less - interest capitalized (included in construction in process and advances for acquisition of equipment)	24,377	46,250
Interest expense, net of amounts capitalized	$ 16,709	$ 43,544
Interest rate capitalized	1.65-2.29%	2.22%-2.51%

9. INTANGIBLE ASSETS - 3G CONCESSION, NET

	Six Months Ended June 30	
	2007	2006
Cost	$ 10,169,000	$ 10,169,000
Accumulated amortization		
Beginning balance	1,400,521	669,814
Amortization	365,353	365,354
Ending balance	1,765,874	1,035,168
Intangible assets, net	$ 8,403,126	$ 9,133,832

10. RENTAL ASSETS, NET

	Six Months Ended June 30, 2007		
	Land	Buildings and Equipment	Total
Cost	$ 105,366	$ 100,136	$ 205,502
Accumulated depreciation			
Beginning balance	-	7,493	7,493
Depreciation	-	1,022	1,022
Ending balance	-	8,515	8,515
Rental assets, net	$ 105,366	$ 91,621	$ 196,987

	Six Months Ended June 30, 2006		
	Land	Buildings and Equipment	Total
Cost	$ 105,366	$ 100,136	$ 205,502
Accumulated depreciation			
Beginning balance	-	5,449	5,449
Depreciation	-	1,022	1,022
Ending balance	-	6,471	6,471
Rental assets, net	$ 105,366	$ 93,665	$ 199,031

Rental assets are offices 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
July 1, 2007 to December 31, 2007	$ 7,135
2008	14,517
2009	13,256
2010	8,912
2011	7,393
After 2011	5,404

11. BONDS PAYABLE

	June 30, 2007		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 2nd	$ 1,470,000	$ -	$ 1,470,000
Domestic unsecured bonds - 3rd	900,000	1,200,000	2,100,000
	$ 2,370,000	$ 1,200,000	$ 3,570,000

	June 30, 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	2,100,000	3,000,000
	$ 2,960,000	$ 3,570,000	$ 6,530,000

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 $2,060,000 thousand and $2,140,000 thousand on February 19, 2007 and 2006, respectively.

b. Domestic unsecured bonds - 2nd

These are five-year domestic unsecured bonds issued at par value from March 28 to April 3, 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.

12. LEASE PAYABLE

	June 30 2007	June 30 2006
Total future lease payments	$ 31,555	$ 52,097
Less - imputed interest expense	3,315	3,977
	28,240	48,120
Less - current portion of lease payable	19,880	4,180
Lease payable - noncurrent	$ 8,360	$ 43,940

The contracts of capital lease were summarized as follows:

Lessor	Properties	Payment Terms	Rental Paid Six Months Ended June 30 2007	Rental Paid Six Months Ended June 30 2006
Far Eastern International Leasing Corp.	Computer equipment	July 2004 - June 2009 $15,414 thousand annually	$ 15,414	$ 15,414
Far Eastern International Leasing Corp.	Computer equipment	March 2006 - February 2011 $5,063 thousand annually	5,063	5,063
			$ 20,477	$ 20,477

13. ACCRUED EXPENSES

	June 30 2007	June 30 2006
Commission	$ 902,455	$ 673,066
License fee	316,067	388,798
Universal Service Operation fee	258,636	308,855
Bonus	247,353	264,659
Value-added service fee	205,848	176,082
Frequency fee	205,020	204,833
Utilities	163,306	134,396
Maintenance fee	125,812	173,738
Other	934,924	991,334
	$ 3,359,421	$ 3,315,761

14. 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. Based on the Act, rate of monthly contributions by the Company to the employees' individual pension fund accounts starting on July 1, 2005 is at 6% of monthly wages and salaries. The pension cost under the defined contribution plan amounted to $65,403 thousand and $57,367 thousand for the six months ended June 30, 2007 and 2006, respectively.

c. The Company has a defined benefit pension plan for all regular employees required under Labor Standards 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.

   The Company (including KG Telecom, Far EasTron Co., Ltd. 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. The pension cost under the defined benefit plan amounted to $30,074 thousand and $27,151 thousand for the six months ended June 30, 2007 and 2006, respectively.

15. 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 2006 and 2005 earnings were approved by the stockholders on June 12, 2007 and May 26, 2006, respectively.

	Appropriation and Distribution		**Dividend Per Share (Dollars)**	
	2006	**2005**	**2006**	**2005**
Legal reserve	$ 1,315,623	$ 1,471,741		
Special reserve	44,832	-		
Bonus to employees - cash	235,915	264,913		
Remuneration to directors and supervisors	117,958	132,457		
Cash dividend	12,005,255	12,005,255	$ 3.10	$ 3.10

As of June 30, 2007, directors and supervisors' remuneration of $117,958 thousand had been included in other current liabilities, and cash dividend of $12,005,255 thousand had been included in dividend payable. The effective date of the appropriation of cash dividend will be July 30, 2007.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of June 30, 2007 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)	20,067	301,008
GDRs transferred to common stock		(27,614)	(414,215)
Outstanding GDRs issued		2,914	43,714

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

2) On July 20, 2004, the SFB approved the Company's request to issue new common stock in the form of GDRs of US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of June 30, 2007, 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 re-issuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of June 30, 2007, the Company had reissued 20,067 thousand units of GDR, representing 301,008 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.

d. Capital reduction

In order to enhance stockholders' equities and increase the efficiency of capital structure, the Company's board of directors proposed on April 30, 2007 to reduce capital by returning $7,745,326 thousand in cash to stockholders. The capital reduction was further approved by the stockholders' meeting on June 12, 2007. The capital reduction plan involved the cancellation of 20% of paid-in capital, or 774,533 thousand shares at around NT$2.00 per share. Paid-in capital after the capital reduction would be $30,981,304 thousand. The actual amount of paid-in capital after capital reduction, reduction percentage, and the cash returned per share will be calculated by the number of outstanding shares on the record date of capital reduction if the outstanding shares are affected by the Company's subsequent capital increase or other matters before the record date of capital reduction. As of July 27, 2007, the date of the accompanying auditors' report, this capital reduction had not been approved by the Financial Supervisory Commission under the Executive Yuan.

e. Cumulative translation adjustments

Cumulative translation adjustments for the six months ended June 30, 2007 and 2006 were summarized as follows:

	Six Months Ended June 30	
	2007	**2006**
Difference due to translation of foreign-currency financial statements		
Beginning balance	$ 4,960	$ 2,168
Recorded as adjustment under stockholders' equity	4,288	(896)
	$ 9,248	$ 1,272

f. Unrealized losses on financial instruments

Unrealized losses on financial instruments for the six months ended June 30, 2007 and 2006 were summarized as follows:

	Recognized from Equity-method Investments	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Six months ended June 30, 2007			
Beginning balance	$ (174)	$ (49,618)	$ (49,792)
Recorded as adjustments to stockholders' equity	29,451	(8,973)	20,478
Recognized as profit or loss	-	20,716	20,716
Ending balance	$ 29,277	$ (37,875)	$ (8,598)
Six months ended June 30, 2006			
Beginning balance (first time adoption of newly issued SFASs)	$ (532)	$ (68,446)	$ (68,978)
Recorded as adjustments to stockholders' equity	(4,387)	(15,626)	(20,013)
Recognized as profit or loss	383	17,768	18,151
Adjusted to hedged non-financial assets	(180)	-	(180)
Ending balance	$ (4,716)	$ (66,304)	$ (71,020)

16. 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 were as follows:

	Six Months Ended June 30	
	2007	2006
Income tax expense computed at statutory tax (25%)	$ 1,736,685	$ 1,834,824
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(220,243)	(608,971)
Equity in investees' net gains	(536,393)	(646,083)
Other	(8,036)	(4,601)
Temporary differences	(214,822)	(37,177)
Investment tax credits used	(25,000)	(109,061)
Unappropriated earnings tax (10%)	-	84,303
Income tax payable - current	732,191	513,234
Income tax expense on income subjected to a separate rate of 20%	6,738	3,543
Prior year's adjustment	26,398	156,239
Income tax expense - current	$ 765,327	$ 673,016

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:

	Six Months Ended June 30	
	2007	2006
Income tax expense - current	$ 765,327	$ 673,016
Income tax expense - deferred		
Temporary differences	214,822	22,967
	$ 980,149	$ 695,983

d. Changes in income tax payable is as follows:

	Six Months Ended June 30	
	2007	2006
Beginning balance	$ 722,585	$ 836,955
Income tax expense - current	765,327	673,016
Income tax paid	(625,617)	(866,541)
Ending balance	$ 862,295	$ 643,430

e. Deferred income taxes assets were as follows:

	June 30	
	2007	2006
Current		
Allowance for doubtful accounts	$ 495,333	$ 576,471
Provision for losses on decline in value of inventories	9,496	9,034
Investment tax credits	3,971	-
Unrealized foreign exchange losses (gains), net	87	(192)
Other	11,446	1,820
	520,333	587,133
Less - valuation allowance	3,971	-
	$ 516,362	$ 587,133
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 148,369	$ 347,480
Accrued pension cost	83,912	80,485
Unrealized loss on financial instruments	12,624	22,101
Investment tax credits	26,841	30,812
Equity in investees' net losses (gains)	15,428	(4,109)
Impairment loss on idle properties	-	15,000
Other	-	5,000
	287,174	496,769
Less - valuation allowance	26,841	30,812
	$ 260,333	$ 465,957

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

f. Integrated income tax information was as follows:

	June 30	
	2007	**2006**
Balance of imputation credit account (ICA)	$ 3,024,064	$ 245,549

Estimated ratio of the ICA balance for the Company as of December 31, 2006 to unappropriated earnings as of such date was 20.62%. When the dividend from the unappropriated earnings as of December 31, 2005 was distributed in 2006, the actual ratios used was 16.18%.

Based on the Income Tax Law, the imputation tax credits distributed to each stockholder are based on the ICA balance as of the date of dividend distribution. Thus, the estimated creditable ratio for the 2006 earnings appropriation may be adjusted when the imputation credits are distributed. While the distribution ratio for the 2005 earnings appropriation has been determined, the actual ratio is disclosed.

g. Investment tax credits are as follows:

The unused investment tax credits of the Company as of June 30, 2007 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	

h. Status of income tax returns is as follows:

Income tax returns through 2004 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment of its 2000 to 2004 returns. Thus, in 2006, the Company filed appeals for the reexamination of its 2000 and 2002 returns and will file appeals for the reexamination of its 2003 to 2004 returns in September 2007. Nevertheless, the Company accrued the related tax.

17. FACTORING OF NONPERFORMING ACCOUNTS RECEIVABLE

The Company wrote off certain overdue/nonperforming accounts receivables. Under agreements signed in March 2007, The Company factored these receivables, i.e., sold them without recourse, to an asset management company. Thus, the Company was no longer responsible for collecting these receivables.

Related information for the six months ended June 30, 2007 was as follows:

Counter Party	Amount of Factored Accounts Receivable	Proceeds of the Factoring of Accounts Receivable
Hui Cheng First Asset Management Co., Ltd.	$ 1,158,871	$ 26,979

18. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2007				
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	As Reductions of Operating Costs or Expenses	Total
Employee expenses					
Salaries	$ 99,319	$ 544,000	$ -	$ 484,211	$ 1,127,530
Pension	15,338	43,387	-	36,752	95,477
Meal	2,629	17,145	-	13,544	33,318
Employee benefit	-	22,088	-	-	22,088
Insurance	7,775	41,715	-	35,748	85,238
Miscellaneous	1,180	16,452	-	11,027	28,659
	$ 126,241	$ 684,787	$ -	$ 581,282	$ 1,392,310
Depreciation	$ 3,233,151	$ 512,293	$ 1,022	$ -	$ 3,746,466
Amortization	$ -	$ 231	$ -	$ -	$ 231

	Six Months Ended June 30, 2006				
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	As Reductions of Operating Costs or Expenses	Total
Employee expenses					
Salaries	$ 123,047	$ 508,935	$ -	$ 493,278	$ 1,125,260
Pension	13,035	38,714	-	32,769	84,518
Meal	2,864	17,260	-	14,535	34,659
Employee benefits	-	21,603	-	-	21,603
Insurance	8,347	41,554	-	37,427	87,328
Miscellaneous	1,720	15,897	-	12,630	30,247
	$ 149,013	$ 643,963	$ -	$ 590,639	$ 1,383,615
Depreciation	$ 3,223,630	$ 681,453	$ 1,022	$ -	$ 3,906,105
Amortization	$ -	$ 2,659	$ -	$ -	$ 2,659

The Company provided management services to certain equity-method investees (Note 21). The employee expenses were charged on the basis of agreed-upon terms and recorded as reductions of operating costs or expenses.

19. EARNINGS PER SHARE (EPS)

	Amount (Numerator)		Common Stock	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
Six months ended June 30, 2007					
Basic EPS					
Net income	$ 6,946,741	$ 5,966,592	3,872,663	$1.79	$1.54
Six months ended June 30, 2006					
Basic EPS					
Net income	$ 7,339,296	$ 6,643,313	3,872,663	$1.90	$1.72

20. FINANCIAL INSTRUMENTS

a. Fair value information

	June 30			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Equity-method investments	$ 35,015,411	$ -	$ 35,473,143	$ -
Refundable deposits (including current portion)	321,829	321,386	255,186	254,910
Liabilities				
Hedging derivative financial liabilities (including current portion)	(50,499)	(50,499)	(88,405)	(88,405)
Bonds payable (including current portion)	3,570,000	3,570,000	6,530,000	6,503,858
Lease payable (including current portion)	28,240	28,240	48,120	48,120
Guarantee deposits received (including current portion)	763,895	763,895	893,170	893,170

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

1) Cash and cash equivalents, accounts and notes receivable, accounts and notes receivable from related parties, dividends receivable, notes payable, accounts payable, accounts and notes payable to related parties, dividends payable 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 values of derivative instruments. Otherwise, the fair values are evaluated by the Company using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers). These estimations and assumptions are available to the Company.

   The Company uses the long-term interest rate quotations of Reuters (or Bloomberg) to calculate the fair value of each interest rate swap based on the net cash flow.

3) The fair values 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, refundable deposits and guarantee deposits received are measured at the present values of expected cash flows, which are discounted at the interest rates for bank loans with similar maturities.

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

	June 30			
	Quoted Price		**Estimated Price**	
	2007	**2006**	**2007**	**2006**
Liabilities				
Hedging derivative financial liabilities (including current portion)	$ -	$ -	$ (50,499)	$ (88,405)

d. As of June 30, 2007 and 2006, financial assets with fair value risk from interest rate fluctuations amounted to $6,304,789 thousand and $4,681,765 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $1,692,135 thousand and $4,801,290 thousand, respectively. As of June 30, 2007 and 2006, financial assets with cash flow risk from interest rate fluctuations amounted to $1,004,333 thousand and $514,489 thousand, respectively, while the financial liabilities with cash flow risk from interest rate fluctuations were $2,670,000 thousand 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.

Fair values of mutual funds and publicly traded stocks held by KG Telecom, a wholly owned subsidiary of the Company, are determined at their quoted prices in an active market; thus, market price fluctuations would result in changes in the fair values of these investments. However, since KG Telecom periodically evaluates the performance of these investments, market risk is expected to be immaterial.

ARCOA entered into forward contracts to hedge its exposure to exchange rate fluctuations on firm commitments for the six months ended June 30, 2006. Gains or losses on exchange rates fluctuations of the forward contracts are likely to offset the gains or losses on the hedged item. As a result, no significant exposure to market risk is anticipated.

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 loss 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 possessed equity-method investments with no quoted prices in an active market; thus, it might face liquidity risks.

KG Telecom invested in publicly traded stocks and 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. ARCOA entered into forward contracts, for which settlement is at predetermined exchange rates; thus, ARCOA did not have material liquidity risk.

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 June 30			
Hedged Items	**Financial Instruments Designated**	**2007**	**2006**	**Expected Year of Cash Flows**	**Expected Year for Realization of Gains or Losses**
Bonds with floating interest rates	Interest rate swap - the Company	$ (50,499)	$ (88,405)	2003-2008	2003-2008

21. 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
ARCOA Communication Co., Ltd. (ARCOA)	Subsidiary
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.	Subsidiary of E. World (Holdings) Ltd.
Far EasTron Holding Ltd.	Subsidiary
Far EasTron Co., Ltd.	Subsidiary of Far EasTron Holding Ltd.

(Continued)

Related Party	Relationship with the Company
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
Oriental Institute of Technology	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

(Concluded)

In addition to those disclosed in Notes 12, 14, 18 and 22, the significant transactions with the above parties are summarized as follows:

		2007		2006	
		Amount	%	Amount	%
During the period					
Operating revenue	a.				
KG Telecom	b.	$ 1,381,860	6	$ 1,393,988	6
ARCOA	c.	280,986	1	16,328	-
NCIC	d.	141,804	1	217,406	1
KGEx	e.	141,084	1	112,080	1
Other	s.	33,515	-	10,683	-
		$ 1,979,249	9	$ 1,750,485	8
Operating costs and expenses					
Cost of telecommunications service					
KG Telecom	b.	$ 882,011	9	$ 760,969	8
ARCOA	c.	17,968	-	-	-
NCIC	d.	5,817	-	13,437	-
Other	s.	8,681	-	3,874	-
		$ 914,477	9	$ 778,280	8
Purchase					
ARCOA	c.	$ 500,420	28	$ 39,857	2
Rental					
FETRD	f.	$ 24,573	2	$ 26,315	2
FEILC	g.	18,811	2	18,432	2
NCIC	h.	17,786	1	7,496	1
Other	s.	11,535	1	6,387	-
		$ 72,705	6	$ 58,630	5

		2007		2006	
		Amount	%	Amount	%
Research and development expenses					
FETTDF	i.	$ -	-	$ 397	12
Service fee					
FETI	j.	$ 67,551	61	$ 58,668	51
FCHRC	k.	24,502	22	28,494	25
Other	s.	1,237	1	-	-
		$ 93,290	84	$ 87,162	76
Marketing expense					
ARCOA	c.	$ 250,611	7	$ 184,245	5
KG Telecom	l.	101,645	3	103,575	3
Other	s.	36,194	-	14,520	-
		$ 388,450	10	$ 302,340	8
Reductions of employee expenses					
FETC	m.	$ 1,140	-	$ 2,515	-
Nonoperating income and gains					
Management services revenue					
KG Telecom	n.	$ 60,566	92	$ 61,975	93
KGEx	o.	3,750	6	3,750	6
Other	s.	1,664	2	585	1
		$ 65,980	100	$ 66,310	100
Commissions					
KG Telecom	l.	$ 94,873	100	$ 127,041	100
Other revenue					
ARCOA	c.	$ 1,908	3	$ -	-
FETC	m.	-	-	16,449	32
		$ 1,908	3	$ 16,449	32
Acquisition of properties					
KG Telecom	p.	$ 1,812	-	$ -	-
Other	s.	114	-	76	-
		$ 1,926	-	$ 76	-
Disposal of properties					
KG Telecom	q.	$ 210	-	$ -	-

		2007		2006	
		Amount	%	Amount	%
At end of period					
Accounts and notes receivable from related parties, net					
KG Telecom	b., l., n., and q.	$ 454,101	61	$ 501,166	68
ARCOA	c.	145,862	20	135,727	18
FETC	m.	79,926	11	18,014	2
KGEx	e. and o.	56,221	8	65,407	9
Other	s.	22,325	3	19,796	3
		758,435	103	740,110	100
Less - allowance for doubtful accounts	m.	(20,053)	(3)	-	-
		$ 738,382	100	$ 740,110	100
Refundable deposits					
DDIM	r.	$ 24,007	10	$ 17,970	7
Other	s.	8,646	3	8,500	3
		$ 32,653	13	$ 26,470	10
Accounts and notes payable to related parties					
KG Telecom	b., l. and p.	$ 1,095,766	73	$ 1,082,923	89
ARCOA	c.	248,769	16	18,543	2
NCIC	d. and h.	78,229	5	37,880	3
DDIM	r.	29,863	2	35,624	3
FETI	j.	19,318	1	3,148	-
Other	s.	38,246	3	41,776	3
		$ 1,510,191	100	$ 1,219,894	100
Unearned revenues					
FETC	m.	$ 1,487	-	$ 1,487	-
Lease payable (including current portion)					
FEILC	g.	$ 28,240	100	$ 48,120	100

Financing to related parties is as follows:

Related Party	Highest Balance Held During the Period	Ending Balance (Included in Accounts and Notes Receivables from Related Parties)	Rate (%)	Interest	Collateral
Six months ended June 30, 2007					
FETC	$50,000	$50,000	6.685-6.715	$1,028	$71,850

Descriptions of transactions with related parties are as follows:

a. Operating revenues (such as service revenues, revenues from sales of cellular phone equipments, 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 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 purchase 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. The airtime charged to ARCOA is recorded as telecommunications service revenues. The logistics service expense of handset and SIM cards paid by the Company to ARCOA is recorded as cost of the telecommunications. The billings services provided by the Company for ARCOA's mobile virtual network are recorded as nonoperating income and gains.

d. 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.

e. 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.

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 12).

h. The Company leases from NCIC the office space in Neihu, telecommunications network and backbone network facilities under operating lease contracts.

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

j. The Company signed with FETI a service agreement, under which the Company will pay FETI for its service provided to the Company. Advances to FETI, which were to be settled at net amounts against the fee paid, were recorded as a reduction of accounts and notes payable to related parties.

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

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

m. 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. In addition, the Company gave FETC advances for its daily operating expenditures, which were included in accounts and notes receivable from related parties. Moreover, the Company has provided personnel support for FETC's daily operation, and related charges to FETC were recorded as reductions of the Company's personnel expenses. For the six months ended June 30, 2007, the Company provided an allowance of $20,053 thousand for doubtful accounts for the receivables from FETC based on the Company's allowance provision policy.

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

o. The Company provides management services to KGEx and the service revenues are collected monthly. The Company also gives advances to KGEx for its daily operating expenditures and the advances are recorded as accounts and notes receivable from related parties.

p. The Company bought from KG Telecom operating equipment.

q. The Company had sold properties to KG Telecom. The properties were sold at net book value and the proceeds amounted to $210 thousand.

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

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

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

22. COMMITMENTS AS OF JUNE 30, 2007

The Company had the following significant commitments:

a. The Company was under contracts to acquire properties and cellular phone equipment for $838,800 thousand and $376,506 thousand, respectively.

b. The Company's outstanding letters of credit amounted to ￥38,400 thousand (equivalent to $10,230 thousand).

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

Year	Amount
From July 1, 2007 to December 31, 2007	$ 866,675
2008	1,800,864
2009	1,871,025
2010	1,943,936
2011	2,019,706
From January 1, 2012 to June 30, 2012	1,049,224

d. The Company provided a $99,000 thousand guarantee for FETC's bank loan. FETC had obtained a bank loan under this guarantee.

e. On April 19, 2007, the Company's board of directors approved the provision of a guarantee to KG Telecom so that KG Telecom can give the performance bond required by the National Communications Commission (NCC) for telecom product (service) coupon issuers. KG Telecom also provided a similar guarantee to the Company. The maximum amount of guarantee that the Company provided to KG Telecom is $450,000 thousand, while the maximum amount KG Telecom provided to the Company is $850,000 thousand. In addition, the Company also provided a guarantee to KG Telecom's subsidiary, KGEx.com, for a maximum amount of $45,000 thousand. These guarantee contracts were signed and effective on July 25, 2007.

23. SUBSEQUENT EVENTS

In addition to those disclosed in Notes 7 and 22, subsequent events are summarized as follows:

a. On February 14, 2007, the board of directors of the Company approved a cooperation plan with Q-ware System Inc. to operate WiFly business and other businesses agreed upon by both. After obtaining the authorities' approval of this agreement on July 2, 2007, the Company subscribed for 36,460 thousand newly issued shares (NT$13.60 per share) of Q-ware Communications Co., Ltd. ("Q-ware Com.") as a specific person for $495,855 thousand. On July 3, 2007, Q-ware System Inc. spun off its WiFly business, with a net worth of $349,301 thousand, to Q-ware Com and received 34,930 new shares of Q-ware Com. as the proceeds. After the completion of this spin-off, the Company owned approximately 51% of Q-ware Com.'s common stock and became its parent company.

b. On July 26, 2007, the NCC awarded a Worldwide Interoperability for Microwave Access (WiMAX) license to the Company for the southern region of Taiwan. Under related requirements, the Company should pay the guarantee deposit of $40,000 thousand and a minimum advance payment of $210,000 thousand for the license fee within 30 days after receiving official notice from the NCC. The original deposit of $40,000 thousand (included in refundable deposits - current) will be returned to the Company without interest after the guarantee deposit is deposited to the NCC.

24. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

a. Important transactions and b. Information on the Company's investees.

1) Financing provided: Schedule A

2) Endorsement/guarantee provided: Schedule B

3) Marketable securities and investments held: Schedule C

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 D

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 E

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

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

10) Derivative financial instruments of investees: Note 20

c. 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 H

2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 21

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

FINANCING PROVIDED
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Type of Financing	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrowing Company (Note 1)	Financing Company's Financing Amount Limits (Note 2)
											Item	Value		
0	Far EasTone Telecommunications Co., Ltd.	Far Eastern Electronic Toll Collection Co., Ltd.	Accounts and notes receivable from related parties	$ 50,000	$ 50,000	6.685 - 6.715% (Note 3)	Business relationship	$ 50,092 (Note 1)	-	$ -	Operation equipment	$ 71,850	$ 50,092	$ 33,789,824

Note 1: The amount of financing provided for business relationship is limited to the transaction amounts. The transaction amounts is the higher amount within the latest two years at the time of agreement.

Note 2: The maximum total financing providing amount should not exceed 50% of the Company's net worth of most current audited or reviewed financial statements.

Note 3: Calculation based on the floating rate on 1-year time deposit of Taiwan Bank plus 4.5% risk premium.

SCHEDULE B

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party (Note)	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)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd.	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	$33,789,824	$154,000	$99,000	$ -	0.15%	$67,579,648

Note: The maximum total guarantee/endorsement amount equals the Company's net worth, while the limit of guarantee/endorsement amount for each receiving party should not exceed 50% of the Company's net worth.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
JUNE 30, 2007
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Equity-method investments	1,332,997,916	$ 33,465,647	100.00	$ 33,465,647	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	79,353,013	987,845	59.10	987,845	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	106,650,000	257,717	42.66	257,717	Note B
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	141,018	100.00	141,018	Note B
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	78,473	100.00	78,473	Note B
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	58,498	85.92	58,498	Note B
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	25,718	15.00	25,718	Note B
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	100,000	495	0.67	495	Note B
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	186,390,714	1,016,115	74.56	1,016,115	Note B
	KGT International Holding Co., Ltd.	Equity-method investee	Equity-method investments	50,000	78,856	100.00	78,856	Note B
	iScreen	Equity-method investee	Equity-method investments	4,000,000	24,276	40.00	24,276	Note B
	CSRC	-	Available-for-sale financial assets - current	200,000	7,380	-	7,380	Note G
	AUO	-	Available-for-sale financial assets - current	400,000	22,400	-	22,400	Note G
	PAHSCO	-	Available-for-sale financial assets - current	200,000	7,820	-	7,820	Note G
	S.C.P.C.	-	Available-for-sale financial assets - current	500,000	15,000	-	15,000	Note G
	OPTO TECH	-	Available-for-sale financial assets - current	300,000	8,370	-	8,370	Note G
	ZYXEL	-	Available-for-sale financial assets - current	175,000	10,605	-	10,605	Note G
	BIOTEQUE	-	Available-for-sale financial assets - current	538,000	24,748	-	24,748	Note G
	PONTEX	-	Available-for-sale financial assets - current	300,000	4,260	-	4,260	Note G
	PSC	-	Available-for-sale financial assets - current	100,000	3,830	-	3,830	Note G
	Wei Chuan	-	Available-for-sale financial assets - current	400,000	11,060	-	11,060	Note G
	CMO	-	Available-for-sale financial assets - current	400,000	15,600	-	15,600	Note G
	N.P.C	-	Available-for-sale financial assets - current	40,000	8,020	-	8,020	Note G
	WNC	-	Available-for-sale financial assets - current	100,000	9,500	-	9,500	Note G
	KEY Ware	-	Available-for-sale financial assets - current	250,000	4,612	-	4,612	Note G
	Wintek Corp.	-	Available-for-sale financial assets - current	200,000	7,100	-	7,100	Note G
	APEC	-	Available-for-sale financial assets - current	200,000	13,500	-	13,500	Note G
	Epistar	-	Available-for-sale financial assets - current	75,000	10,088	-	10,088	Note G
	Faraday	-	Available-for-sale financial assets - current	30,000	3,945	-	3,945	Note G
	Inotera	-	Available-for-sale financial assets - current	400,000	16,620	-	16,620	Note G
	SSFC	-	Available-for-sale financial assets - current	600,000	7,320	-	7,320	Note G
	Chipbond	-	Available-for-sale financial assets - current	200,000	9,410	-	9,410	Note G
	Hopax	-	Available-for-sale financial assets - current	100,000	3,500	-	3,500	Note G

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Elaser	-	Available-for-sale financial assets - current	300,000	$ 13,260	-	$ 13,260	Note G
	PhytoHealth	-	Available-for-sale financial assets - current	40,000	2,420	-	2,420	Note G
	Open-ended mutual funds							
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	46,468,833.40	505,520	-	505,520	Note C
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	192,158	-	192,158	Note C
	Sheng Hua 101 global mortgage securitization fund	-	Available-for-sale financial assets - current	4,734,489.80	50,091	-	50,091	Note C
	Private funds							
	FEA Long-Short Private Placement Fund	-	Financial assets carried at cost - noncurrent	10,000,000.00	100,000	-	-	Note D
	Fuh Hwa Value Added Strategy Fund	-	Financial assets carried at cost - noncurrent	14,866,204.20	150,000	-	-	Note D
ARCOA Communication Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Equity-method investments	4,975,000	6,026	33.17	6,026	Note B
	THI consultants	-	Financial assets carried at cost - noncurrent	1,134,200	13,729	18.29	-	Note D
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets carried at cost - noncurrent	2,830,901	6,714	4.20	-	Note D
	VIBO Telecom Inc.	-	Financial assets carried at cost - noncurrent	2,000,000	20,000	0.13	-	Note D
	Web Point Co., Ltd.	-	Financial assets carried at cost - noncurrent	160,627	1,618	0.63	-	Note D
	Open-ended mutual funds							
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	4,018,660.10	60,291	-	60,291	Note C
	ING Taiwan Income Fund	-	Financial assets at fair value through profit or loss - current	1,263,463.79	20,156	-	20,156	Note C
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	1,713,135.47	20,001	-	20,001	Note C
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds carried at amortized cost - current	3,000,000.00	3,000	-	-	Note D
Far Eastern Info Service (Holding) Ltd. (Note E)	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity-method investments	-	US$ 3,802,000	100.00	US$ 3,802,000	Note B
Far EasTron Holding Ltd. (Note E)	Stocks							
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	14,900,000	US$ 2,371,000	99.33	US$ 2,371,000	Note B
E. World (Holdings) Ltd. (Note E)	Stocks							
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$ 1,792,000	99.99	US$ 1,792,000	Note B
	Ideaculture (Cayman) Ltd.	-	Financial assets carried at cost - noncurrent	1,195,141	-	17.96	-	Note D
KGT International Holding Co., Ltd. (Note E)	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	11,465,000	62,502	4.59	62,502	Note B

(Continued)

Note A: Calculation was based on audited financial statements as of June 30, 2007.

Note B: Calculation was based on unaudited financial statements as of June 30, 2007.

Note C: The market values of open-ended mutual funds were calculated at their net asset values as of June 30, 2007.

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

Note E: Information was based on unaudited financial statements as of June 30, 2007.

Note F: Carrying value of available-for-sale financial assets - current and financial assets at fair value through profit or loss - current were equal to market values as of June 30, 2007.

Note G: Calculation of domestic publicly traded stocks were based on the closing price at the end of June 30, 2007.

(Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2007
(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.	Fuh Hwa Value Added Strategy Fund	Financial assets carried at cost - noncurrent	-	-	-	$ -	14,866,204.20	$ 150,000	-	$ -	$ -	$ -	14,866,204.20	$ 150,000
ARCOA Communication Co., Ltd.	ING Taiwan Income Fund	Financial assets at fair value through profit or loss - current	-	-	6,145,477.50	91,500	6,031,083.40	90,000	8,157,900.80	121,899	121,500	399	4,018,660.10	60,000

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

Purchaser (Seller) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable or (Payable)	
			Purchase (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	Telecommunications service revenues	$ (1,381,860)	(6%)	Based on agreement	-	-	Accounts receivable $ 266,082	5%
			Cost of telecommunications services	882,011	9%	Based on agreement	-	-	Accounts payable (79,767)	(11%)
	ARCOA Communication Co., Ltd.	Subsidiary	Sales of cellular phone equipment and accessories	(280,986)	(1%)	Based on agreement	-	-	Accounts receivable 143,131	3%
			Cost of telecommunications services, marketing expenses and cost of sales	768,999	5%	Based on agreement	-	-	Accounts payable and accrued expense (248,769)	(6%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(141,084)	(1%)	Based on agreement	-	-	Accounts receivable 52,518	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(141,804)	(1%)	Based on agreement	-	-	Accounts receivable (Note) -	-
									Accounts payable (Note) (36,521)	(5%)
KG Telecommunications Co., Ltd. (KG Telecom)	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(882,011)	(8%)	Based on agreement	-	-	Accounts receivable 79,767	3%
			Cost of telecommunications services	1,381,860	25%	Based on agreement	-	-	Accounts payable (266,082)	(59%)
	ARCOA Communication Co., Ltd.	Same parent company	Marketing expenses and cost of sales	205,047	12%	Based on agreement	-	-	Accounts payable and accrued expense (55,975)	(3%)
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue, sales of cellular phone equipment and accessories and service revenues	(768,999)	(33%)	Based on agreement	-	-	Accounts receivable 248,769	63%
			Cost of sales	280,986	15%	Based on agreement	-	-	Accounts payable (143,131)	(41%)
	KG Telecommunications Co. Ltd.	Same parent company	Commission revenue and sales of cellular phone equipment and accessories	(205,047)	(10%)	Based on agreement	-	-	Accounts receivable 55,975	20%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications services	141,084	31%	Based on agreement	-	-	Accounts payable (52,518)	(33%)

Note: All interconnect revenues, costs and collection of international direct dial revenues between the Company and NCIC were settled at net amounts and were included in accounts and notes payable to related parties.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ACCOUNTS AND NOTES RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2007
(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	$ 454,101	(Note A)	$ -	-	$ 229,587	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	145,862	4.38	-	-	109,553	-
KG Telecommunications Co., Ltd. (KG Telecom)	Far EasTone Telecommunications Co., Ltd.	Parent company	1,095,766	(Note B)	-	-	920,852	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	248,769	6.43	-	-	179,031	-

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

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

SCHEDULE G

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2007			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				June 30, 2007	December 31, 2006	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	Type I telecommunications services	$ 29,629,139	$ 29,629,139	1,332,997,916	100.00	$ 33,465,647	$ 2,323,397	$ 2,323,297	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	Type II telecommunications services, sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	987,845	(64,358)	(38,538)	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	257,717	(323,416)	(137,969)	Notes C and D
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	141,018	1,992	1,992	Notes A and D
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	78,473	(22,109)	(22,109)	Notes A and D
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	58,498	(10,347)	(8,891)	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	25,718	(9,883)	(1,072)	Notes C and D
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	495	(22,097)	(147)	Notes D and E
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,794	2,197,794	186,390,714	74.56	1,016,115	(86,972)	-	Notes D and E
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	78,856	(4,057)	-	Notes D and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	24,276	8,068	-	Notes D and F
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	6,026	-	-	Notes D and F
Far Eastern Info Service (Holding) Ltd. (Note G)	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer data providing service	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 3,802,000	2,232	-	Notes D and E
Far EasTron Holding Ltd. (Note G)	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	US$ 4,532,000	14,900,000	99.33	US$ 2,371,000	(22,097)	-	Notes D and E
E. World (Holdings) Ltd. (Note G)	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 1,792,000	3,923	-	Notes D and E
KGT International Holding Co., Ltd. (Note G)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$ 4,822,000	US$ 4,822,000	11,465,000	4.59	62,502	(86,972)	-	Notes D and E

Note A: Subsidiary.

Note B: Calculation was based on audited financial statements as of June 30, 2007.

Note C: Equity-method investee of the Company.

Note D: Calculation was based on unaudited financial statements as of June 30, 2007.

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

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

Note G: Information was based on unaudited financial statements as of June 30, 2007.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2007
(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, 2007	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2007	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2007 (Note A)	Accumulated Inward Remittance of Earnings as of June 30, 2007	Accumulated Investment in Mainland China as of June 30, 2007	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$82,150 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$2,232	$124,934 (US$3,802,000)	$ -	$92,616	$92,616	$15,015,930 (Note C)

Note A: Calculation based on unaudited financial statements as of June 30, 2007.

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 21 for significant transactions with the investee company.