Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Years Ended December 31, 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 December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, 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 annually for impairment instead of being amortized.

We have also audited the consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2007 and 2006 and have issued a modified unqualified opinion thereon in our report dated February 15, 2008.

February 15, 2008

Notice to Readers

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007 Amount	%	2006 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 3,614,660	4	$ 3,095,929	3
Accounts and notes receivable, net (Notes 2 and 5)	4,606,696	5	3,803,080	4
Receivables from related parties (Notes 2 and 21)	908,949	1	813,591	1
Inventories, net (Notes 2 and 6)	305,359	-	475,778	-
Prepaid expenses	507,612	1	507,836	1
Deferred income tax assets - current (Notes 2 and 16)	497,413	-	612,115	1
Other current assets	41,018	-	55,238	-
Total current assets	10,481,707	11	9,363,567	10
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 7)	43,342,778	47	37,883,330	42
PROPERTIES (Notes 2, 8 and 21)				
Cost				
Land	847,138	1	847,138	1
Buildings and equipment	1,665,947	2	1,647,956	2
Operating equipment	64,124,983	69	61,172,350	68
Computer equipment	9,769,808	10	8,902,253	10
Office equipment	826,170	1	757,878	1
Leasehold improvements	1,497,895	2	1,514,262	2
Miscellaneous equipment	228,068	-	255,937	-
Total cost	78,960,009	85	75,097,774	84
Less - accumulated depreciation	52,801,756	57	45,884,705	51
	26,158,253	28	29,213,069	33
Construction-in-progress and advances for acquisition of equipment	3,635,890	4	3,714,579	4
Net properties	29,794,143	32	32,927,648	37
INTANGIBLE ASSETS				
3G concession, net (Notes 1, 2 and 9)	8,037,772	9	8,768,479	10
OTHER ASSETS				
Rental assets, net (Notes 2 and 10)	195,965	-	198,009	-
Refundable deposits (Note 21)	261,990	1	259,136	-
Deferred income tax assets - noncurrent (Notes 2 and 16)	148,890	-	383,318	1
Other	1,191	-	2,550	-
Total other assets	608,036	1	843,013	1
TOTAL	$ 92,264,436	100	$ 89,786,037	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2007 Amount	%	2006 Amount	%
CURRENT LIABILITIES				
Notes payable	$ 39,048	-	$ 34,729	-
Accounts payable	536,913	-	545,257	1
Payables to related parties (Note 21)	1,242,860	1	1,805,198	2
Income tax payable (Notes 2 and 16)	1,153,125	1	722,585	1
Accrued expenses (Note 11)	3,739,123	4	3,223,117	3
Hedging derivative financial liabilities - current (Notes 2 and 20)	21,601	-	-	-
Payables for acquisition of properties	1,524,549	2	1,732,319	2
Guarantee deposits received - current	646,851	1	761,462	1
Unearned revenues (Note 2)	580,155	1	714,708	1
Current portion of long-term bonds payable (Note 12)	2,670,000	3	2,960,000	3
Lease payable - current (Notes 2, 13 and 21)	19,880	-	19,880	-
Other current liabilities	210,231	-	229,432	-
Total current liabilities	12,384,336	13	12,748,687	14
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Note 12)	-	-	2,670,000	3
Hedging derivative financial liabilities - noncurrent (Notes 2 and 20)	-	-	66,158	-
Lease payable - noncurrent (Notes 2, 13 and 21)	8,360	-	28,240	-
Total long-term liabilities	8,360	-	2,764,398	3
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 14)	314,804	1	288,079	1
Guarantee deposits received - noncurrent	68,970	-	58,171	-
Other	153,966	-	-	-
Total other liabilities	537,740	1	346,250	1
Total liabilities	12,930,436	14	15,859,335	18
STOCKHOLDERS' EQUITY				
Capital stock - NT$10.00 par value; authorized - 4,200,000 thousand shares; issued and outstanding - 4,033,033 thousand shares in 2007 and 3,872,663 thousand shares in 2006	40,330,334	44	38,726,630	43
Capital surplus				
Paid-in capital in excess of par value	10,964,702	12	6,510,964	7
From business combination	8,482,381	9	8,482,381	10
From long-term equity-method investments	40,187	-	10,611	-
Total capital surplus	19,487,270	21	15,003,956	17
Retained earnings				
Legal reserve	6,888,973	7	5,573,350	6
Special reserve	44,832	-	-	-
Unappropriated earnings	12,567,456	14	14,667,598	16
Total retained earnings	19,501,261	21	20,240,948	22
Other adjustments				
Cumulative translation adjustments	11,826	-	4,960	-
Unrealized gains (losses) on financial products	3,309	-	(49,792)	-
Total other adjustments	15,135	-	(44,832)	-
Total stockholders' equity	79,334,000	86	73,926,702	82
TOTAL	$ 92,264,436	100	$ 89,786,037	100

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

(With Deloitte & Touche audit report dated February 15, 2008)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 21)				
Sales of cellular phone equipment and accessories, net	$ 3,027,385	7	$ 3,209,482	8
Telecommunications service revenues	43,025,462	93	39,891,379	92
Other	119,125	-	106,656	-
Total operating revenues	46,171,972	100	43,207,517	100
OPERATING COSTS (Notes 2, 18 and 21)				
Cost of sales	3,667,094	8	3,987,778	9
Cost of telecommunications services	20,408,611	44	19,472,146	45
Total operating costs	24,075,705	52	23,459,924	54
GROSS PROFIT	22,096,267	48	19,747,593	46
OPERATING EXPENSES (Notes 2, 18 and 21)				
Marketing	8,343,787	18	6,819,463	16
General and administrative	3,204,209	7	3,261,078	7
Research and development	273,701	1	263,321	1
Total operating expenses	11,821,697	26	10,343,862	24
OPERATING INCOME	10,274,570	22	9,403,731	22
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 7)	3,353,048	7	4,984,178	12
Commission (Note 21)	152,606	1	253,408	1
Management services revenue (Note 21)	125,778	-	131,902	-
Interest (Note 21)	72,805	-	30,803	-
Rent	14,909	-	15,484	-
Other (Notes 17 and 21)	154,535	1	134,872	-
Total nonoperating income and gains	3,873,681	9	5,550,647	13
NONOPERATING EXPENSES AND LOSSES				
Losses on disposal of properties, including idle properties, net (Note 2)	402,412	1	250,046	1
Interest (Notes 2, 8 and 21)	27,545	-	93,081	-
Loss on decline in value of inventories (Note 2)	17,551	-	-	-
Other (Notes 2, 7, 18 and 21)	9,799	-	25,232	-
Total nonoperating expenses and losses	457,307	1	368,359	1

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$13,690,944	30	$14,586,019	34
INCOME TAX (Notes 2 and 16)	2,071,503	5	1,429,794	4
NET INCOME	$11,619,441	25	$13,156,225	30

	2007		2006	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 19)				
Basic	$ 3.53	$ 3.00	$ 3.77	$ 3.40

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

(With Deloitte & Touche audit report dated February 15, 2008) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 7 and 15)		Capital Surplus (Notes 2, 7 and 15)			Retained Earnings (Notes 2 and 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 Gains (Losses) on Financial Products (Notes 2, 3 and 15)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2006	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 4,101,609	$ -	$ 15,385,739	$ 2,168	$ -	$ 73,220,102
Effect of first adoption of newly issued SFASs	-	-	-	-	-	-	-	-	-	(68,978)	(68,978)
Appropriation of the 2005 earnings											
Legal reserve	-	-	-	-	-	1,471,741	-	(1,471,741)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(264,913)	-	-	(264,913)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(132,457)	-	-	(132,457)
Cash dividends - NT$3.1 per share	-	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)
Net income in 2006	-	-	-	-	-	-	-	13,156,225	-	-	13,156,225
Changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(174)	(174)
Changes in subsidiary's unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	532	532
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	18,828	18,828
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	-	2,792	-	2,792
BALANCE, DECEMBER 31, 2006	3,872,663	38,726,630	6,510,964	8,482,381	10,611	5,573,350	-	14,667,598	4,960	(49,792)	73,926,702
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 in 2007	-	-	-	-	-	-	-	11,619,441	-	-	11,619,441
Adjustment arising from changes in percentage of ownership in investees	-	-	-	-	29,576	-	-	-	-	-	29,576
Changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	19,684	19,684
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	33,417	33,417
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	-	6,866	-	6,866
Issuance of common stock to acquire an equity-method investment - NCIC	160,370	1,603,704	4,453,738	-	-	-	-	-	-	-	6,057,442
BALANCE, DECEMBER 31, 2007	4,033,033	$ 40,330,334	$ 10,964,702	$ 8,482,381	$ 40,187	$ 6,888,973	$ 44,832	$ 12,567,456	$ 11,826	$ 3,309	$ 79,334,000

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

(With Deloitte & Touche audit report dated February 15, 2008)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$11,619,441	$13,156,225
Depreciation and amortization	7,494,797	7,988,612
Amortization of 3G concession	730,707	730,707
Allowance for doubtful accounts	335,746	322,415
Provision (reversal of allowance) for losses on decline in value of inventories	17,551	(1,355)
Equity in investees' net gains	(3,353,048)	(4,984,178)
Cash dividends from equity-method investees	5,011,672	4,636,033
Losses on disposal of properties, including idle properties, net	402,412	250,046
Provision for impairment loss	6,549	-
Accrued pension cost	26,725	14,161
Deferred income taxes	337,990	75,063
Net changes in operating assets and liabilities		
Accounts and notes receivable	(1,139,362)	(352,196)
Receivables from related parties	(95,475)	(56,597)
Inventories	152,868	180,007
Prepaid expenses	224	(34,956)
Other current assets	10,667	(28,272)
Notes payable	4,319	798
Accounts payable	(8,344)	(66,427)
Payables to related parties	(562,338)	1,014,706
Income tax payable	430,540	(114,370)
Accrued expenses	511,448	(562,743)
Unearned revenues	(134,553)	(87,310)
Other current liabilities	(19,201)	(80,203)
Net cash provided by operating activities	21,781,335	22,000,166
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equity-method investments	(1,006,495)	-
Acquisition of properties	(4,995,238)	(5,402,822)
Proceeds of the disposal of properties, including idle properties	9,844	28,520
Increase in refundable deposits	(2,854)	(9,876)
Decrease in other assets	1,113	1,352
Net cash used in investing activities	(5,993,630)	(5,382,826)

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	$ -	$ (49,996)
Repayment of long-term liabilities	(2,960,000)	(3,340,000)
Decrease in guarantee deposits received	(103,812)	(165,617)
Increase in other liabilities	153,966	-
Cash dividends paid	(12,005,255)	(12,005,255)
Bonus paid to employees and remuneration paid to directors and supervisors	(353,873)	(397,370)
Net cash used in financing activities	(15,268,974)	(15,958,238)
NET INCREASE IN CASH AND CASH EQUIVALENTS	518,731	659,102
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,095,929	2,436,827
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,614,660	$ 3,095,929
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 135,138	$ 232,570
Less - interest capitalized	45,880	76,459
Interest paid, net of capitalized interest	$ 89,258	$ 156,111
Income tax paid	$ 1,302,973	$ 1,469,101
NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common stock to acquire an equity-method investment	$ 6,057,442	$ -
Current portion of long-term liabilities	$ 2,711,481	$ 2,979,880
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 4,767,588	$ 4,829,391
Decrease in payables for acquisition of properties	207,770	555,301
Decrease in lease payables	19,880	18,130
Cash paid for acquisition of properties	$ 4,995,238	$ 5,402,822
PROCEEDS OF THE DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties and idle properties	$ 6,174	$ 30,898
Decrease (increase) in receivables on properties sold	3,553	(5,022)
Decrease in receivables from related parties	117	2,644
Cash received on the disposal of properties	$ 9,844	$ 28,520

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

SUPPLEMENTARY INFORMATION ON A SUBSIDIARY ACQUISITION:

In July 2007, the Company bought 51% of Q-ware Communications Co., Ltd.'s common shares; the fair value of total assets and total liabilities at the time of acquisition was as follows:

	Amount
Cash and cash equivalents	$ 496,860
Accounts and notes receivable, net	6,212
Prepaid expenses	3,811
Other current assets	2,601
Properties, net	617,161
Advances for acquisition of equipment	7,174
Refundable deposits	12,498
Accounts payable	(5,457)
Accrued expenses	(15,103)
Unearned revenues	(2,670)
Other current liabilities	(263,066)
Other liabilities	(13,864)
	846,157
Percentage of ownership acquired	51.00%
	431,540
Goodwill	64,315
Cash payment due to merger	$ 495,855

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

(With Deloitte & Touche audit report dated February 15, 2008) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares began to be traded on the ROC Over-the-Counter (OTC) Securities Exchange (known as GreTai Securities Market) on December 10, 2001. Later, the Company's share ceased to be traded on the OTC exchange and became listed on the ROC Taiwan Stock Exchange on August 24, 2005. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of December 31, 2007, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 41.08% 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,with 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.

On July 26, 2007, the National Communications Commission (NCC) awarded the Company a license to have operations in worldwide interoperability for microwave access (WiMAX) in southern Taiwan. On August 30, 2007, the Company paid a guarantee deposit of $40,000 thousand and a minimum advance payment of $210,000 thousand for the license fee through a guarantee provided by a bank. On October 1, 2007, the Company got the NCC's permission to start preparations for the construction of WiMAX networks.

The Company had 3,410 and 3,370 employees as of December 31, 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 and cash equivalents, assets held mainly for trading and other assets to be converted into cash or consumed within 12 months after the balance sheet date. All other assets such as properties and intangible assets are classified as noncurrent. Current liabilities are obligations held for trading and those to be settled within 12 months after the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper and bonds purchased under resell agreements with original maturities of not more than three months are classified as cash equivalents. Their carrying values approximate their fair values.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to the excess of minutes of traffic included in the fixed monthly service fees) from wireless services, international simple resale services, Internet access 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 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 a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

Promotion Expenses

Commissions and cellular phone equipment subsidy costs related to the Company's promotions are treated as marketing expenses in the year when the service to a subscriber is activated.

Inventories

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

Equity-method Investments

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

On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 3 to 5 years. As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," starting on January 1, 2006, the cost of acquisition is subjected to an initial analysis. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required when there is evidence indicating that goodwill might be impaired due to an event or change in the economic environment. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to noncurrent assets proportionately to their respective fair values (except for financial assets not under the equity method, assets for disposal, deferred income tax assets and prepaid pension costs or other retirement benefit costs). If these assets are all reduced to zero, the remaining excess should be recognized as extraordinary gain. Starting on January 1, 2006, the unamortized balance of the investment cost in excess of the equity in investee's net assets is no longer amortized and is instead 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 less accumulated depreciation. 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, 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 assessed 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. A reversal of an impairment loss on goodwill is disallowed.

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, which is included in other current liabilities.

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 current year's income tax expense.

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

Income taxes (10%) on unappropriated 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

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of 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 on 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 gains or losses will be recognized as adjustments 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.

3. CHANGES IN ACCOUNTING PRINCIPLES

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

ROC SFAS No.34 - "Accounting for financial Instruments" and
ROC SFAS No. 36 - "Disclosure and Presentation of Financial Instruments"

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 $181 thousand in income before income tax for the year ended December 31, 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 $864,669 thousand in income before income tax without any cumulative changes in accounting principles and an increase of NT$0.22 in basic earnings per share after income tax for the year ended December 31, 2006.

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 year ended December 31, 2008 still could not be estimated since net income for the year ended December 31, 2008 could not be estimated.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2007	2006
Cash		
Cash on hand	$ 2,731	$ 2,786
Checking and demand deposits	763,460	584,490
	766,191	587,276
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.91%-2.00% in 2007 and 1.61%-1.65% in 2006	911,579	2,508,653
Bonds purchased under resell agreements - interest of 1.88%-1.90%	1,936,890	-
	2,848,469	2,508,653
	$ 3,614,660	$ 3,095,929

As of December 31, 2007 and 2006, foreign demand deposits were as follows:

	December 31	
	2007	2006
Belgium (US$311 thousand in 2007 and US$822 thousand in 2006)	$ 10,086	$ 26,795

5. ACCOUNTS AND NOTES RECEIVABLE

	December 31	
	2007	2006
Accounts and notes receivable	$ 5,272,338	$ 4,612,283
Less - allowance for doubtful accounts	(665,642)	(809,203)
	$ 4,606,696	$ 3,803,080

The change in allowance for doubtful accounts was as follows:

	Years Ended December 31	
	2007	2006
	Accounts Receivable	Accounts Receivable
Beginning balance	$ 809,203	$ 1,204,019
Less - bad debts written off	(659,970)	(879,891)
Add - collection after write-off	180,663	162,660
accrual of bad debt expenses	335,746	322,415
	$ 665,642	$ 809,203

6. INVENTORIES

	December 31	
	2007	2006
Cellular phone equipment	$ 241,183	$ 421,926
Costs of SIM cards and prepaid cards	33,510	50,504
Cellular phone accessories	71,496	26,560
Others	257	324
	346,446	499,314
Less - allowance for losses	41,087	23,536
	$ 305,359	$ 475,778

7. EQUITY-METHOD INVESTMENTS

	December 31			
	2007		2006	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Common stocks with no quoted market prices				
KG Telecommunications Co., Ltd.	$ 35,027,145	100.00	$ 36,124,571	100.00
New Century InfoComm Tech Co., Ltd.	6,062,000	24.51	-	-
ARCOA Communication Co., Ltd.	999,769	59.10	1,026,383	59.10
Far Eastern Electronic Toll Collection Co., Ltd.	644,856	41.18	395,686	42.66
Q-ware Communications Co., Ltd.	352,102	51.00	-	-
Far Eastern Info Service (Holding) Ltd.	138,977	100.00	134,999	100.00

(Continued)

	December 31			
	2007		2006	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
E. World (Holdings) Ltd.	$ 61,082	85.92	$ 73,717	85.92
Far EasTron Holding Ltd.	39,314	100.00	100,542	100.00
Ding Ding Integrated Marketing Services Co., Ltd.	17,300	15.00	26,790	15.00
Far EasTron Co., Ltd.	233	0.67	642	0.67
	$ 43,342,778		$ 37,883,330	

(Concluded)

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. On January 1, 2004, 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 the Ministry of Economics Affairs (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. New Century InfoComm Tech Co., Ltd. (NCIC)

The Company issued 100,637,444 and 59,732,926 common shares to exchange for 615,178,755 and 365,136,728, respectively, of NCIC's common shares after NCIC's capital reduction from Infocom Holding Company Pte Ltd. and SingTel Taiwan Limited on December 31, 2007 (the record date of the share swap). The ratio for this share swap was 1:6.11282174. The share swap was approved by the Financial Supervisory Commission under the Executive Yuan on December 26, 2007 and registered with the MOEA on January 14, 2008. After the share swap, the Company acquired about 24.51% of NCIC's issued shares.

c. ARCOA Communication Co., Ltd. ("ARCOA")

The Company bought from ARCOA's stockholders 79,353 thousand shares between February 4, 2005 and July 25, 2005 for $1,278,944 thousand. As a result, the Company owned 59.10% of ARCOA's common shares and became its parent company.

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

On February 26, 2004, Far Eastern Electronic Toll Collection Co. 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 the related negotiations and signed the project contract.

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 the TANFB was flawed and in violation of the principles of equality and promotion of public interest and stripped FETC of its "best qualified candidate" status. In response to the verdict, the TANFB announced a second bidding for the ETC project. On April 14, 2007, the TANFB announced that FETC was again the best qualified candidate. FETC then completed the ETC project negotiations and on August 22, 2007, signed the project contract with a term of 18 years and 4 months with the TANFB.

On August 11, 2006, the Company announced a proposal to withdraw from FETC by unconditionally donating its FETC stockholding to the Government. The Company's board of directors approved this proposal on August 22, 2006. However, the TANFB already replied officially to the Company not to accept the donation on August 17, 2007.

e. Q-ware Communications Co., Ltd. ("Q-ware Com.")

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

f. Equity in investees' net gains or losses

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

	Years Ended December 31			
	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.	$ 3,895,307	$ 3,895,207	$ 5,568,497	$ 5,568,404
New Century InfoComm Tech Co., Ltd.	(235,630)	-	-	-
ARCOA Communication Co., Ltd.	(44,883)	(27,259)	(245,260)	(144,937)
Far Eastern Electronic Toll Collection Co., Ltd.	(717,513)	(291,046)	(982,928)	(393,410)
Q-ware Communications Co., Ltd.	(281,868)	(143,753)	-	-
Far Eastern Info Service (Holding) Ltd.	(3,319)	(3,319)	(9,169)	(9,169)
E. World (Holdings) Ltd.	(6,606)	(5,676)	8,397	7,215
Far EasTron Holding Ltd.	(61,207)	(61,207)	(42,749)	(42,749)
Ding Ding Integrated Marketing Services Co., Ltd.	(55,304)	(9,490)	(5,935)	(890)
Far EasTron Co., Ltd.	(61,358)	(409)	(42,812)	(286)
		$ 3,353,048		$ 4,984,178

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

	December 31 2007	December 31 2006
Total assets of investees	$ 75,648,654	$ 45,668,244
Total liabilities of investees	8,305,709	6,685,086
Total net assets	$ 67,342,945	$ 38,983,158
The Company's equity in investees' net assets	$ 43,342,778	$ 37,883,330

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 financial statements as of and for the years ended December 31, 2007 and 2006 that were used as basis for calculating the carrying values of and related equity in net gains or losses of the foregoing equity-method investments had all been audited.

g. Changes in the difference between investment cost and the investee's net assets

For the years ended December 31, 2007 and 2006, the changes in the difference between investment cost and the Company's equity in its investees' net assets were as follows:

	Years Ended December 31		
	2007		2006
	Goodwill	Amortizable Assets	Goodwill
Beginning balance	$ 255,828	$ -	$ 255,828
Increase	64,315	(924,029)	-
Decrease	6,549	-	-
Ending balance	$ 313,594	$ (924,029)	$ 255,828

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

h. 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 year, their revenues and expenses generated before the acquisition dates will not be consolidated.

8. PROPERTIES

a. Changes in properties consisted of:

	Year Ended December 31, 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	-	15,459	1,665,947
Operating equipment	61,172,350	-	759,499	3,712,132	64,124,983
Computer equipment	8,902,253	1,396	15,966	882,125	9,769,808
Office equipment	757,878	-	31,905	100,197	826,170
Leasehold improvements	1,514,262	-	60,559	44,192	1,497,895
Miscellaneous equipment	255,937	-	29,188	1,319	228,068
	75,097,774	$ 3,928	$ 897,117	$ 4,755,424	78,960,009
Accumulated depreciation					
Buildings and equipment	491,151	$ 64,905	$ -	$ -	556,056
Operating equipment	37,073,499	6,106,971	483,271	-	42,697,199
Computer equipment	6,508,415	1,098,053	15,799	-	7,590,669
Office equipment	686,266	52,574	31,905	-	706,935
Leasehold improvements	1,035,271	138,160	36,793	-	1,136,638
Miscellaneous equipment	90,103	31,844	7,688	-	114,259
	45,884,705	$ 7,492,507	$ 575,456	$ -	52,801,756
	29,213,069				26,158,253
Construction in process and advances for acquisition of equipment	3,714,579	$ 4,763,660	$ 86,925	$ (4,755,424)	3,635,890
	$ 32,927,648				$ 29,794,143

	Year Ended December 31, 2006				
		Movement			
	Beginning Balance	Addition	Sale or Disposal	Reclassification	Ending Balance
Cost					
Land	$ 847,138	$ -	$ -	$ -	$ 847,138
Buildings and equipment	1,632,094	-	1,265	17,127	1,647,956
Operating equipment	57,177,639	-	798,772	4,793,483	61,172,350
Computer equipment	8,293,927	-	99,377	707,703	8,902,253
Office equipment	798,031	-	48,268	8,115	757,878
Leasehold improvements	1,471,169	-	1,786	44,879	1,514,262
Miscellaneous equipment	214,638	-	9,939	51,238	255,937
	70,434,636	$ -	$ 959,407	$ 5,622,545	75,097,774
Accumulated depreciation					
Buildings and equipment	408,865	$ 83,551	$ 1,265	$ -	491,151
Operating equipment	31,304,582	6,291,479	522,562	-	37,073,499
Computer equipment	5,265,265	1,338,141	94,991	-	6,508,415
Office equipment	650,659	83,739	48,132	-	686,266
Leasehold improvements	883,124	153,933	1,786	-	1,035,271
Miscellaneous equipment	69,087	30,955	9,939	-	90,103
	38,581,582	$ 7,981,798	$ 678,675	$ -	45,884,705
	31,853,054				29,213,069
Construction in process and advances for acquisition of equipment	4,507,945	$ 4,829,391	$ 212	$ (5,622,545)	3,714,579
	$ 36,360,999				$ 32,927,648

b. Capitalized interest on properties was as follows:

	Years Ended December 31 2007	2006
Total interest expense	$ 73,425	$ 169,540
Less - interest capitalized (included in construction in process and advances for acquisition of equipment)	45,880	76,459
Interest expense, net of amounts capitalized	$ 27,545	$ 93,081
Interest rate capitalized	1.56%-2.29%	2.09%-2.51%

9. INTANGIBLE ASSETS - 3G CONCESSION, NET

	Years Ended December 31 2007	2006
Cost	$ 10,169,000	$ 10,169,000
Accumulated amortization		
Beginning balance	1,400,521	669,814
Amortization	730,707	730,707
Ending balance	2,131,228	1,400,521
Intangible assets, net	$ 8,037,772	$ 8,768,479

10. RENTAL ASSETS, NET

	Year Ended December 31, 2007		
	Land	Buildings and Equipment	Total
Cost	$ 105,366	$ 100,136	$ 205,502
Accumulated depreciation			
Beginning balance	-	7,493	7,493
Depreciation	-	2,044	2,044
Ending balance	-	9,537	9,537
Rental assets, net	$ 105,366	$ 90,599	$ 195,965

	Year Ended December 31, 2006		
	Land	Buildings and Equipment	Total
Cost	$ 105,366	$ 100,136	$ 205,502
Accumulated depreciation			
Beginning balance	-	5,449	5,449
Depreciation	-	2,044	2,044
Ending balance	-	7,493	7,493
Rental assets, net	$ 105,366	$ 92,643	$ 198,009

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
2008	$ 14,472
2009	14,119
2010	14,232
2011	8,164
After 2011	8,604

11. ACCRUED EXPENSES

	December 31	
	2007	2006
Commission	$ 1,204,208	$ 797,305
License fee	600,581	728,236
Bonus	436,296	410,280
Value-added service fee	253,781	152,210
Universal service operation fee	185,241	171,636
Utilities	101,100	152,529
Other	957,916	810,921
	$ 3,739,123	$ 3,223,117

12. BONDS PAYABLE

	December 31, 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	1,200,000	-	1,200,000
	$ 2,670,000	$ -	$ 2,670,000

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st	$ 2,060,000	$ -	$ 2,060,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	900,000	1,200,000	2,100,000
	$ 2,960,000	$ 2,670,000	$ 5,630,000

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, 2007 and 2006, respectively.

13. LEASE PAYABLE

	December 31	
	2007	**2006**
Total future lease payments	$ 30,891	$ 52,097
Less - imputed interest expense	2,651	3,977
	28,240	48,120
Less - current portion of lease payable	19,880	19,880
Lease payable - noncurrent	$ 8,360	$ 28,240

The contracts of capital lease were summarized as follows:

			Rental Paid Years Ended December 31	
Lessor	**Properties**	**Payment Terms**	**2007**	**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

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 Standards Law or choose to be subject to the pension mechanism under the Act, with their service years accumulated before the enforcement of this Act to be retained. Those hired on or after July 1, 2005 automatically become subject to the 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 $134,253 thousand and $115,708 thousand for the years ended December 31, 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, KGEx.com Co., Ltd., 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 Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity).

d. Information about the defined benefit pension plan was as follows:

   1) Net pension cost consisted of:

	Years Ended December 31	
	2007	**2006**
Service cost	$ 30,579	$ 30,912
Interest cost	28,567	26,078
Expected return on plan assets	(11,405)	(10,851)
Amortization of net transition obligation	911	1,213
Amortization of unrecognized pension loss	11,209	6,949
Net pension cost	$ 59,861	$ 54,301

2) Reconciliation of the funded status of the plan and accrued pension cost was as follows:

	December 31	
	2007	2006
Benefit obligation		
Vested benefit obligation	$ 6,016	$ 5,840
Non-vested benefit obligation	606,646	526,397
Accumulated benefit obligation	612,662	532,237
Additional benefits based on projected and future salaries	543,716	505,043
Projected benefit obligation	1,156,378	1,037,280
Fair value of plan assets	(444,996)	(388,087)
Funded status	711,382	649,193
Unrecognized net transition obligation	(28)	(7,273)
Unrecognized pension loss	(396,550)	(353,841)
Accrued pension cost	$ 314,804	$ 288,079
Vested benefit	$ 7,465	$ 4,061

3) Actuarial assumptions were as follows:

	December 31	
	2007	2006
Discount rate used in determining present value	3.00%	2.75%
Rate of future salary increase	3.50%	3.50%
Expected rate of return on plan assets	3.00%	2.75%

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 plans 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

The amounts of the above appropriations of earnings for 2006 and 2005 were consistent with the propositions of the Company's board of directors held on April 19, 2007 and March 3, 2006, respectively. Had the above bonus to employees and directors been charged to net income in 2006 and 2005, the basic earnings per share for 2006 and 2005 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.40 to NT$3.31 and from NT$3.80 to NT$3.70, respectively.

The appropriation of the 2007 earnings of the Company had not been proposed by the board of directors as of February 15, 2008. Related information can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of December 31, 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)	21,152	317,276
GDRs transferred to common stock		(28,540)	(428,099)
Outstanding GDRs issued		3,073	46,098

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

2) On July 20, 2004, the SFB approved the Company's request to issue new common stock in the form of GDRs of US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of December 31, 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 December 31, 2007, the Company had reissued 21,152 thousand units of GDR, representing 317,276 thousand common shares.

The owners 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

To enhance the return of stockholders' equity, the Company's board of directors proposed on April 30, 2007 to reduce capital by returning $7,745,326 thousand in cash to stockholders and decreasing common stock by 774,533 thousand shares. This capital reduction was approved at the stockholders' meeting on June 12, 2007. However, since the Company issued 160,370 thousand shares to exchange for New Century InfoComm Tech Co., Ltd.'s common shares held by Infocom Holding Company Pte Ltd. and SingTel Taiwan Limited on December 31, 2007 (Note 7), there were decreases in the capital reduction ratio from 20% to 19.204715% and in the cash return per share from NT$2.00 to NT$1.9204715. The paid-in capital was $32,585,008 thousand after the capital reduction on January 15, 2008. On January 22, 2008, this capital reduction was registered with the MOEA. The Company's board of directors resolved that March 17, 2008 would be the share exchange date of the capital reduction, which had been approved by the authority.

e. Cumulative translation adjustments

Cumulative translation adjustments for the years ended December 31, 2007 and 2006 were summarized as follows:

	Years Ended December 31	
	2007	2006
Difference due to translation of foreign-currency financial statements		
Beginning balance	$ 4,960	$ 2,168
Recorded as adjustment under stockholders' equity	6,866	2,792
	$ 11,826	$ 4,960

f. Unrealized gains and losses on financial instruments

Unrealized gains and losses on financial instruments for the years ended December 31, 2007 and 2006 were summarized as follows:

	Recognized from Equity-method Investments	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Year ended December 31, 2007			
Beginning balance	$ (174)	$ (49,618)	$ (49,792)
Recorded as adjustments to stockholders' equity	19,684	(8,183)	11,501
Recognized as profit or loss	-	41,600	41,600
Ending balance	$ 19,510	$ (16,201)	$ 3,309
Year ended December 31, 2006			
Beginning balance (first time adoption of newly issued SFASs)	$ (532)	$ (68,446)	$ (68,978)
Recorded as adjustments to stockholders' equity	169	(19,999)	(19,830)
Recognized as profit or loss	226	38,827	39,053
Adjusted to hedged non-financial assets	(37)	-	(37)
Ending balance	$ (174)	$ (49,618)	$ (49,792)

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:

	Years Ended December 31	
	2007	2006
Income tax expense computed at statutory tax (25%)	$ 3,422,736	$ 3,646,505
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(443,752)	(999,461)
Equity in investees' net gains	(855,813)	(1,257,220)
Other	(15,134)	7,821
Temporary differences	(337,990)	(89,271)
Investment tax credits used	(76,000)	(199,721)
Unappropriated earnings tax (10%)	-	84,303
Income tax payable - current	1,694,047	1,192,956
Income tax expense on income subjected to a separate rate of 20%	13,068	5,536
Prior year's adjustment	26,398	156,239
Income tax expense - current	$ 1,733,513	$ 1,354,731

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

c. Income tax expense consisted of:

	Years Ended December 31	
	2007	**2006**
Income tax expense - current	$ 1,733,513	$ 1,354,731
Income tax expense - deferred		
Temporary differences	337,990	75,063
	$ 2,071,503	$ 1,429,794

d. Changes in income tax payable were as follows:

	Years Ended December 31	
	2007	**2006**
Beginning balance	$ 722,585	$ 836,955
Income tax expense - current	1,733,513	1,354,731
Income tax paid	(1,302,973)	(1,469,101)
Ending balance	$ 1,153,125	$ 722,585

e. Deferred income taxes assets were as follows:

	December 31	
	2007	**2006**
Current		
Allowance for doubtful accounts	$ 469,319	$ 594,841
Provision for losses on decline in value of inventories	10,272	5,884
Investment tax credits	26,841	3,971
Unrealized loss on financial instruments	5,400	-
Unrealized foreign exchange losses (gains), net	299	(177)
Other	12,123	11,567
	524,254	616,086
Less - valuation allowance	26,841	3,971
	$ 497,413	$ 612,115
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 34,937	$ 278,992
Accrued pension cost	88,226	81,247
Unrealized loss on financial instruments	-	16,540
Investment tax credits	-	26,841
Equity in investees' net losses	25,727	6,539
	148,890	410,159
Less - valuation allowance	-	26,841
	$ 148,890	$ 383,318

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

f. Integrated income tax information was as follows:

	December 31	
	2007	2006
Balance of imputation credit account (ICA)	$ 201,975	$ 247,789

The estimated ratio of the ICA balance as of December 31, 2007 to unappropriated earnings as of such date was 1.61%. When the dividends from the unappropriated earnings as of December 31, 2006 were distributed in 2007, the actual ratio used was 20.74%.

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 2007 earnings appropriation may be adjusted when the imputation credits are distributed. While the distribution ratio for the 2006 earnings appropriation had been determined, the actual ratio was disclosed.

g. Investment tax credits are as follows:

The unused investment tax credits of the Company as of December 31, 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	$ 26,841	$ 26,841	2008

h. The status of income tax returns is as follows:

Income tax returns through 2004 of the Company had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment of its 2000 to 2004 returns. Thus, the Company filed appeals for the reexamination of its 2000 to 2004 returns. 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 year ended December 31, 2007 was as follows:

Counter Party	Amount of Factored Accounts Receivable	Proceeds of the Factoring of Accounts Receivable
Year ended December 31, 2007		
Hui Cheng First Asset Management Co., Ltd.	$ 1,158,871	$ 26,979

18. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2007				
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	As Reductions of Operating Costs or Expenses	Total
Employee expenses					
Salaries	$ 222,947	$ 1,084,214	$ -	$ 968,037	$ 2,275,198
Pension	31,078	89,292	-	73,744	194,114
Meal	5,696	34,824	-	26,610	67,130
Employee benefit	-	46,174	-	-	46,174
Insurance	16,853	85,115	-	71,499	173,467
Miscellaneous	2,594	28,889	-	21,026	52,509
	$ 279,168	$ 1,368,508	$ -	$ 1,160,916	$ 2,808,592
Depreciation	$ 6,492,777	$ 999,730	$ 2,044	$ -	$ 7,494,551
Amortization	$ -	$ 246	$ -	$ -	$ 246

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

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 (Denominator) (in Thousand Shares)	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
Year ended December 31, 2007					
Basic EPS					
Net income	$ 13,690,944	$ 11,619,441	3,873,102	$3.53	$3.00
Year ended December 31, 2006					
Basic EPS					
Net income	$ 14,586,019	$ 13,156,225	3,872,663	$3.77	$3.40

20. FINANCIAL INSTRUMENTS

a. Fair value information

	December 31			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Equity-method investments	$ 43,342,778	$ -	$ 37,883,330	$ -
Refundable deposits	261,990	260,821	259,136	258,888
Liabilities				
Hedging derivative financial liabilities (including current portion)	21,601	21,601	66,158	66,158
Bonds payable (including current portion)	2,670,000	2,670,000	5,630,000	5,630,000
Lease payable (including current portion)	28,240	28,240	48,120	48,120
Guarantee deposits received (including current portion)	715,821	715,821	819,633	819,633

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

2) If quoted market prices are available, these are used as fair 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:

	December 31			
	Quoted Price		Estimated Price	
	2007	2006	2007	2006
Liabilities				
Hedging derivative financial liabilities (including current portion)	$ -	$ -	$ 21,601	$ 66,158

d. As of December 31, 2007 and 2006, financial assets with fair value risk from interest rate fluctuations amounted to $3,110,459 thousand and $2,767,789 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $744,061 thousand and $3,827,753 thousand, respectively. As of December 31, 2007 and 2006, financial assets with cash flow risk from interest rate fluctuations amounted to $763,460 thousand and $584,490 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 domestic quoted stocks held by KG Telecom and ARCOA 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 and ARCOA periodically evaluate 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 year ended December 31, 2006. Gains or losses on exchange rates fluctuations of the forward contracts were likely to offset the gains or losses on the hedged item. As a result, no significant exposure to market risk was 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 domestic quoted 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 December 31			Expected Year for
	Financial			Expected Year of	Realization of Gains or
Hedged Items	**Instruments Designated**	**2007**	**2006**	**Cash Flows**	**Losses**
Bonds with floating interest rates	Interest rate swap - the Company	$ (21,601)	$ (66,158)	2003-2008	2003-2008

21. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Far Eastern Textile Ltd.	Ultimate parent company
KG Telecommunications Co., Ltd. (KG Telecom)	Subsidiary
ARCOA Communication Co., Ltd. (ARCOA)	Subsidiary
Q-ware Communications Co., Ltd.	Became subsidiary since July 2007
E. World (Holdings) Ltd.	Subsidiary
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary
Far EasTron Holding Ltd.	Subsidiary
KGEx.com Co., Ltd. (KGEx)	Subsidiary of KG Telecom
KGT International Holding Co., Ltd.	Subsidiary of KG Telecom
Yuan Cing Co., Ltd.	Subsidiary of E. World (Holdings) Ltd.
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS
Far EasTron Co., Ltd.	Subsidiary of Far EasTron Holding Ltd.

(Continued)

Related Party	Relationship with the Company
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman (became equity-method investee since December 31, 2007)
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee
Iscreen Technology Ltd.	Equity-method investee
Digital United Inc.	Subsidiary of NCIC (became related party since December 31, 2007)
NTT DoCoMo Inc.	Director
Far Eastern International Leasing Corp. (FEILC)	Supervisor
Far Eastern Technology Developmental Foundation (FETTDF)	The Company’s donation is over one third of the foundation’s fund
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Yuan Ding Co.	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
Yuan-Ze University	Same chairman
Far Eastern Construction Co., Ltd.	Same ultimate parent company
Yuang Tong Investment Corporation	Same ultimate parent company
Kai Yuan International Investment Corp.	Same ultimate parent company
An-Ho Garment Corp.	Same ultimate parent company
Fu Kwok Garment Manufacturing Co.	Same ultimate parent company
Yuan Ding Investment Corporation	Same ultimate parent company
Far Eastern Polychem Industries Ltd.	Same ultimate parent company
Ding Yuan International Investment Ltd.	Same ultimate parent company
Far Eastern Polytex (Holding) Ltd.	Same ultimate parent company
Far Eastern Investment (Holding) Ltd.	Same ultimate parent company
Far Eastern General Contractor Inc.	Same ultimate parent company
Taiwan Recycling Corp.	Same ultimate parent company
Yuan Faun Ltd.	Same ultimate parent company
Far Eastern Apparel (Holding) Ltd.	Same ultimate parent company
Oriental Textile (Holding) Ltd.	Same ultimate parent company
Pacific Petrochemical (Holding) Ltd.	Same ultimate parent company
PET Far Eastern (Holding) Ltd.	Same ultimate parent company
F.E.D.P. (Holding) Ltd.	Same ultimate parent company
Pet Far Eastern (M) Sdn Bhd.	Same ultimate parent company
FETG Investment Antilles N.V.	Same ultimate parent company
Fashionline Saigon Ltd.	Same ultimate parent company
Ming Ding Corp.	Same ultimate parent company
Far Eastern Spinning Weaving and Dyeing (Suzhou) Limited	Same ultimate parent company
Far Eastern Industries (Wuxi)	Same ultimate parent company
Oriental Industries (Suzhou) Ltd.	Same ultimate parent company
Far Eastern Industries (Jiu Jiang) Ltd.	Same ultimate parent company
Oriental Petrochemical (Shanghai) Ltd.	Same ultimate parent company
Far Eastern Industries (Shanghai) Ltd.	Same ultimate parent company

(Continued)

Related Party	Relationship with the Company
Far Eastern Industries (Suzhou) Ltd.	Same ultimate parent company
Far Eastern Apparel (Suzhou) Ltd.	Same ultimate parent company
Waldorf Service B.V.	Same ultimate parent company
Shanghai Far Eastern Petrochemical Logistic Ltd.	Same ultimate parent company
Shanghai Far Eastern IT Company	Same ultimate parent company
Wu Han Far Eastern New Material Ltd.	Same ultimate parent company

(Concluded)

In addition to those disclosed in Notes 13, 14 and 18, the significant transactions with the above parties are summarized as follows:

		2007		2006	
		Amount	%	Amount	%
During the year					
Operating revenue	a.				
KG Telecom	b.	$ 2,828,152	6	$ 2,794,346	6
NCIC	c.	461,167	1	464,900	1
KGEx	d.	268,304	1	238,039	1
ARCOA	e.	142,695	-	70,356	-
Other	x.	80,358	-	32,664	-
		$ 3,780,676	8	$ 3,600,305	8
Operating costs and expenses					
Cost of telecommunications service					
KG Telecom	b.	$ 1,831,295	9	$ 1,562,707	8
ARCOA	e.	46,636	-	-	-
NCIC	c.	28,764	-	30,224	-
Other	x.	22,426	-	12,813	-
		$ 1,929,121	9	$ 1,605,744	8
Purchase					
ARCOA	e.	$ 1,071,211	29	$ 262,341	7
Rental					
FETRD	f.	$ 45,399	2	$ 52,221	2
FEILC	g.	36,897	1	36,892	2
NCIC	h.	36,680	1	15,035	1
Other	x.	26,202	1	13,725	-
		$ 145,178	5	$ 117,873	5
Research and development expenses					
FETTDF	i.	$ -	-	$ 5,020	11
Service fee					
FETI	j.	$ 133,724	60	$ 115,510	55
FCHRC	k.	49,474	22	53,898	26
Other	x.	3,356	2	1,456	-
		$ 186,554	84	$ 170,864	81

		2007		2006	
		Amount	%	Amount	%
Marketing expense					
ARCOA	e.	$ 562,727	7	$ 465,063	7
KG Telecom	l.	207,308	2	183,755	3
Other	x.	96,506	1	29,310	-
		$ 866,541	10	$ 678,128	10
Donation expense					
Yuan-Ze University	r.	$ 16,000	73	$ 16,000	75
Nonoperating income and gains					
Management services revenue					
KG Telecom	m.	$ 121,573	97	$ 123,314	93
KGEx	n.	-	-	7,500	6
Other	x.	4,205	3	1,088	1
		$ 125,778	100	$ 131,902	100
Commission					
KG Telecom	l.	$ 152,606	100	$ 253,408	100
Guarantee services revenue					
KG Telecom	o.	$ 546	-	$ -	-
FETC	p.	285	-	-	-
KGEx	o.	50	-	-	-
		$ 881	-	$ -	-
Other revenue					
ARCOA	e.	$ 3,780	2	$ -	-
FETC	q.	-	-	17,894	12
		$ 3,780	2	$ 17,894	12
Nonoperating expenses and losses					
Guarantee services expenses					
KG Telecom	o.	$ 736	-	$ -	-
Acquisition of properties					
KG Telecom	s.	$ 16,658	-	$ 1,951	-
KGEx	t.	115	-	71,373	1
Other	x.	-	-	3,655	-
		$ 16,773	-	$ 76,979	1
Disposal of properties					
KG Telecom	u.	$ 210	3	$ -	-
KGEx	v.	-	-	24,168	78
Other	x.	-	-	145	-
		$ 210	3	$ 24,313	78

		2007		2006	
		Amount	%	Amount	%
At end of year					
Receivables from related parties					
Accounts and notes receivable					
KG Telecom	b.	$ 329,351	36	$ 276,073	34
ARCOA	e.	166,627	18	100,295	12
KGEx	d.	34,750	4	41,828	5
Other	x.	16,338	2	7,315	1
		547,066	60	425,511	52
Other receivables					
KG Telecom	l. and m.	319,671	35	328,089	40
ARCOA	e.	15,021	2	12,423	2
KGEx	n.	9,883	1	4,517	1
FETC	q.	5,174	1	33,850	4
Other	x.	12,134	1	9,201	1
		361,883	40	388,080	48
		$ 908,949	100	$ 813,591	100
Refundable deposits					
DDIM	w.	$ 31,915	12	$ 25,554	10
Other	x.	8,647	4	7,674	3
		$ 40,562	16	$ 33,228	13
Payables to related parties					
KG Telecom	b., l., o. and s.	$ 789,247	64	$ 1,464,120	81
ARCOA	e.	266,558	21	229,938	13
NCIC	c. and h.	84,571	7	34,165	2
DDIM	w.	46,465	4	31,641	2
FETI	j.	25,233	2	2,280	-
Other	x.	30,786	2	43,054	2
		$ 1,242,860	100	$ 1,805,198	100
Lease payable (including current portion)					
FEILC	g.	$ 28,240	100	$ 48,120	100

Financing to related parties was as follows:

Related Party	Highest Balance Held During the Year	Ending Balance (Included in Receivables from Related Parties)	Rate (%)	Interest	Collateral
Year ended December 31, 2007					
FETC	$50,000	$ -	6.685-6.915	$2,081	$ -

Descriptions of transactions with related parties were 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 telecommunications service revenues. The interconnection fee paid by the Company on its use of KG Telecom's network and related billing processing costs were included in the cost of telecommunications services.

c. The transactions between the Company and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC's use of the Company's network and vice versa. The interconnection fees paid by the Company on its use of NCIC's fixed-line network and related billing processing costs pertaining to the interconnect services provided by NCIC to the Company were included in the cost of telecommunications services. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of telecommunications service revenues.

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

e. The revenues from the sales of cellular phone equipment and accessories to ARCOA were recognized as operating revenues. The Company 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 were settled at net amounts. The Company's purchases of cellular phone units and accessories from ARCOA were recorded as purchase and payables to related parties. The Company's sales of prepaid cards and SIM cards of mobile virtual network operator services to ARCOA were recorded as receivables from related parties - accounts and notes receivable. The airtime charged to ARCOA was recorded as telecommunications service revenues. The logistics service expenses of handset and SIM cards paid by the Company to ARCOA were recorded as cost of telecommunications services. The billing processing services provided by the Company for ARCOA's mobile virtual network services were recorded as nonoperating income and gains.

f. The Company leased 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 13).

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

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

j. The Company signed with FETI a service agreement, under which the Company paid 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 payables to related parties.

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

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

n. The Company provided management services to KGEx and the service revenues were collected monthly. The Company also gave advances to KGEx for its daily operating expenditures and the advances were recorded as receivables from related parties.

o. Under the NCC's policy effective April 1, 2007, the Company had provided performance guarantees amounting to $450,000 thousand to KG Telecom and $45,000 thousand to KGEx for prepaid cards and international direct dialing calling cards already bought by customers. KG Telecom had also provided the Company a similar guarantee amounting to $850,000 thousand. The guarantee service revenues and expenses were charged and paid on the basis of actual appropriation amounts multiplied at the agreed rate.

p. The Company provided FETC with $154,000 thousand as endorsement for its bank loans, with charges to FETC based on the agreed rate.

q. The Company contracted with FETC to implement the trouble ticket for handling ticket problems or customer complaints and the service fees were included in nonoperating income and gains. In addition, the Company gave FETC advances for its daily operating expenditures and treated as receivables from related parties.

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

s. The Company bought from KG Telecom operating equipment.

t. The Company bought from KGEx operating equipment.

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

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

w. The Company authorized DDIM to manage the accumulation and redemption of reward points for customers. The related service charges were treated as marketing expense and payables to related parties. The Company had given DDIM monthly refundable deposits, which were calculated at a fixed percentage of the unused reward points.

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

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

22. COMMITMENTS AS OF DECEMBER 31, 2007

The Company had the following significant commitments:

a. The Company was under contracts to acquire properties and cellular phone equipment for $1,166,225 thousand and $233,159 thousand, respectively.

b. The Company's outstanding letters of credit amounted to ￥470 thousand (equivalent to $136 thousand) and US$599 thousand (equivalent to $19,427 thousand).

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

Year	Amount
2008	$ 1,740,546
2009	1,808,270
2010	1,878,646
2011	1,951,779
2012	2,027,776

23. 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

3) Endorsements, guarantees or collateral directly or indirectly provided to the investees: None

4) Financings directly or indirectly provided to the investees: None

5) Other transactions that significantly impacted current year's profit or loss or financial position: None

24. SEGMENT INFORMATION

a. Industry

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

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

b. Foreign operations

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

c. Foreign revenues

The Company has no foreign revenues.

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

	Years Ended December 31			
	2007		**2006**	
	Amount	**Percentage of Operating Revenue (%)**	**Amount**	**Percentage of Operating Revenue (%)**
Company A	$ 6,649,560	14	$ 6,653,776	15

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

FINANCING PROVIDED
YEAR ENDED DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars)

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Year	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 A)	Financing Company's Financing Amount Limits (Note B)
											Item	Value		
0	Far EasTone Telecommunications Co., Ltd.	Far Eastern Electronic Toll Collection Co., Ltd.	Receivables from related parties	$ 50,000	$ -	6.685 - 6.915% (Note C)	Business relationship	$ 50,092 (Note A)	-	$ -	-	$ -	$ 50,092	$ 39,667,000

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party (Note A)	Maximum Balance for the Year (Note B)	Ending Balance (Note B)	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 A)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	$ 39,667,000	$ 450,000	$ 450,000	$ -	0.57%	$ 79,334,000
		KGEx.com Co., Ltd.	Subsidiary of KG Telecom	39,667,000	45,000	45,000	-	0.06%	79,334,000
		Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	39,667,000	154,000	-	-	-	79,334,000
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent Company	17,513,573	850,000	850,000	-	2.43%	35,027,145

Note A: The maximum total guarantee/endorsement amount were equal to the Company’s and KG Telecom’s net worth, while the limit of guarantee/endorsement amount for each receiving party should not exceed 50% of the Company’s and KG Telecom’s net worth.

Note B: The maximum balance for the year and the ending balance shown above were the amounts allowed, not the actual appropriations.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 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	December 31, 2007				Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Equity-method investments	1,332,997,916	$ 35,027,145	100.00	$ 35,027,145	Note A
	New Century InfoComm Tech Co., Ltd.	Equity-method investee	Equity-method investments	980,315,483	6,062,000	24.51	6,062,000	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	79,353,013	999,769	59.10	999,769	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	157,714,020	644,856	41.18	644,856	Note A
	Q-ware Communications Co., Ltd.	Equity-method investee	Equity-method investments	36,459,930	352,102	51.00	352,102	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	138,977	100.00	138,977	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	61,082	85.92	61,082	Note A
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	39,314	100.00	39,314	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	17,300	15.00	17,300	Note A
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	100,000	233	0.67	233	Note A
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	186,390,714	939,042	74.56	939,042	Note A
	KGT International Holding Co., Ltd.	Equity-method investee	Equity-method investments	50,000	73,972	100.00	73,972	Note A
	iScreen	Equity-method investee	Equity-method investments	4,000,000	26,534	40.00	26,534	Note A
	UNI-PRESIDENT	-	Available-for-sale financial assets - current	550,000	24,145	-	24,145	Note E
	FPC	-	Available-for-sale financial assets - current	100,000	9,110	-	9,110	Note E
	AUO	-	Available-for-sale financial assets - current	350,000	22,225	-	22,225	Note E
	FCFC	-	Available-for-sale financial assets - current	150,000	12,450	-	12,450	Note E
	ACER	-	Available-for-sale financial assets - current	400,000	25,400	-	25,400	Note E
	RT	-	Available-for-sale financial assets - current	250,000	28,125	-	28,125	Note E
	ELAN	-	Available-for-sale financial assets - current	200,000	12,720	-	12,720	Note E
	EMC	-	Available-for-sale financial assets - current	400,000	11,840	-	11,840	Note E
	FARADAY	-	Available-for-sale financial assets - current	200,000	14,500	-	14,500	Note E
	E.TON SOLAR	-	Available-for-sale financial assets - current	25,000	7,800	-	7,800	Note E
	PT TECH.	-	Available-for-sale financial assets - current	105,000	23,205	-	23,205	Note E
	SAS	-	Available-for-sale financial assets - current	70,000	18,550	-	18,550	Note E
	CHIPBOND	-	Available-for-sale financial assets - current	500,000	16,200	-	16,200	Note E
	THEIL	-	Available-for-sale financial assets - current	150,000	14,250	-	14,250	Note E
	N.P.C	-	Available-for-sale financial assets - current	65,000	14,397	-	14,397	Note E
	SOFT-WORLD	-	Available-for-sale financial assets - current	200,000	17,540	-	17,540	Note E
	MOTECH	-	Available-for-sale financial assets - current	70,000	20,825	-	20,825	Note E

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2007 Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
	Open-ended mutual funds							
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	73,960,494.25	$ 811,265	-	$ 811,265	Note B
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	196,828	-	196,828	Note B
	IBT 101 global mortgage securitization fund	-	Available-for-sale financial assets - current	4,734,489.80	48,955	-	48,955	Note B
	Private funds							
	FEA Long-Short Private Placement Fund	-	Financial assets carried at cost - noncurrent	10,000,000.00	100,000	-	-	Note C
	Fuh Hwa Value Added Strategy Fund	-	Financial assets carried at cost - noncurrent	14,866,204.20	150,000	-	-	Note C
ARCOA Communication Co., Ltd.	Stocks							
	THI consultants	-	Financial assets carried at cost - noncurrent	1,134,200	13,729	18.29	-	Note C
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets carried at cost - noncurrent	2,830,901	6,714	4.20	-	Note C
	VIBO Telecom Inc.	-	Financial assets carried at cost - noncurrent	2,000,000	20,000	0.13	-	Note C
	Web Point Co., Ltd.	-	Financial assets carried at cost - noncurrent	160,627	1,618	0.63	-	Note C
	Open-ended mutual funds							
	Pca Well Pool Fund		Available-for-sale financial assets - current	10,268,382.27	150,663	-	150,663	Note B
	Yuanta Wan Tai Bond Fund		Available-for-sale financial assets - current	8,486,961.50	120,427	-	120,427	Note B
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds carried at amortized cost - current	3,000,000.00	3,000	-	-	Note C
Far Eastern Info Service (Holding) Ltd.	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity-method investments	-	US$ 3,664,000	100.00	US$ 3,664,000	Note A
Far EasTron Holding Ltd.	Stocks							
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	14,900,000	US$ 1,198,000	99.33	US$ 1,198,000	Note A
E. World (Holdings) Ltd.	Stocks							
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$ 1,913,000	99.99	US$ 1,913,000	Note A
	Ideaculture (Cayman) Ltd.	-	Financial assets carried at cost - noncurrent	1,195,141	-	17.96	-	Note C
KGT International Holding Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	11,465,000	57,761	4.59	57,761	Note A

Note A: The calculation was based on audited financial statements as of December 31, 2007.

Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2007.

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

Note D: The carrying values of available-for-sale financial assets - current were equal to their market values as of December 31, 2007.

Note E: The calculation of domestic publicly traded stocks was based on their closing prices at the end of December 31, 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
YEAR ENDED DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Issuer/Name	Account	Related Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				The Change due to Equity-method	Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss		Share/Units	Amount
Far EasTone Telecommunications Co., Ltd.	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investments	Issuance of capital stock for cash	-	106,650,000	$ 395,686	51,064,020	$ 510,640	-	$ -	$ -	$ -	$ (261,470) (Note B)	157,714,020	$ 644,856
	Q-ware Communications Co., Ltd.	Equity-method investments	Issuance of capital stock for cash	-	-	-	36,459,930	495,855	-	-	-	-	(143,753) (Note C)	36,459,930	352,102
	New Century InfoComm Tech Co., Ltd.	Equity-method investments	Note D	-	-	-	980,315,483	6,062,000	-	-	-	-	-	980,315,483	6,062,000
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
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	Available-for-sale financial assets - current	-	-	46,468,833.40	500,000	27,491,660.85	300,000	-	-	-	-	-	73,960,494.25	800,000
ARCOA Communication Co., Ltd.	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	6,145,477.50	91,500	8,024,889.30	120,000	14,170,366.80	212,428	211,500	928	-	-	-
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,006,806.13	140,000	12,006,806.13	140,498	140,000	498	-	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,368,578.80	20,000	6,102,652.10	90,000	7,471,230.90	110,424	110,000	424	-	-	-
	Pca Well Pool Fund	Available-for-sale financial assets - current	-	-	-	-	10,268,382.27	150,000	-	-	-	-	-	10,268,382.27	150,000
	Yuanta Wan Tai Bond Fund	Available-for-sale financial assets - current	-	-	-	-	8,486,961.50	120,000	-	-	-	-	-	8,486,961.50	120,000

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

Note B: Including equity in investee’s net losses of 291,046 thousand and the effect of change in ownership percentage due to investee’s issuance of capital stock for cash amounting to 29,576 thousand.

Note C: Equity in investee’s net losses.

Note D: Issuance of common stock 160,370 thousand shares for exchange of New Century InfoComm Tech Co., Ltd.’s shares held by Infocom Holding Company Pte Ltd. and SingTel Taiwan Limited.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 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	$ (2,828,152)	(7%)	Based on agreement	-	-	Accounts receivable $ 329,351	6%
			Cost of telecommunications services	1,831,295	9%	Based on agreement	-	-	Accounts payable (138,458)	(15%)
	ARCOA Communication Co., Ltd.	Subsidiary	Sales of cellular phone equipment and accessories and telecommunications service revenues	(142,695)	-	Based on agreement	-	-	Accounts receivable 166,627	3%
			Cost of telecommunications services, marketing expenses and cost of sales	1,680,574	5%	Based on agreement	-	-	Accounts payable and accrued expense (266,558)	(6%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(268,304)	(1%)	Based on agreement	-	-	Accounts receivable 34,750	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(461,167)	(1%)	Based on agreement	-	-	Accounts receivable (Note) -	-
									Accounts payable (Note) (56,247)	(6%)
	Far Eastern Tech-info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	133,724	60%	Based on agreement	-	-	Accrued expense (25,233)	(1%)
KG Telecommunications Co., Ltd. (KG Telecom)	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,831,295)	(9%)	Based on agreement	-	-	Accounts receivable 138,458	7%
			Cost of telecommunications services	2,828,152	26%	Based on agreement	-	-	Accounts payable (329,351)	(65%)
	ARCOA Communication Co., Ltd.	Same parent company	Marketing expenses and cost of sales	379,293	12%	Based on agreement	-	-	Accounts payable and accrued expense (54,000)	(4%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(104,043)	(1%)	Based on agreement	-	-	Accounts receivable (Note) -	-
									Accounts payable (Note) (8,080)	(2%)
	KGEx.com Co., Ltd.	Subsidiary	Telecommunications service revenues	(124,909)	(1%)	Based on agreement	-	-	Accounts receivable 16,717	1%
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue, sales of cellular phone equipment and accessories and service revenues	(1,680,574)	(33%)	Based on agreement	-	-	Accounts receivable 266,558	84%
			Cost of sales	142,695	31%	Based on agreement	-	-	Accounts payable (166,627)	(33%)
	KG Telecommunications Co. Ltd.	Same parent company	Commission revenue and sales of cellular phone equipment and accessories	(379,293)	(8%)	Based on agreement	-	-	Accounts receivable 54,000	17%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications services	268,304	29%	Based on agreement	-	-	Accounts payable (34,750)	(19%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications services	124,909	14%	Based on agreement	-	-	Accounts payable (16,717)	(9%)
Far Eastern Tech-info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenue	(133,724)	(76%)	Based on agreement	-	-	Accounts receivable 25,233	93%

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

SCHEDULE F

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 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	$ 649,022	(Note A)	$ -	-	$ 400,976	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	181,648	6.83	-	-	113,188	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	789,247	(Note B)	-	-	607,308	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	266,558	6.77	-	-	179,392	-

Note A: The turnover rate was 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 was unavailable as the receivables from related parties were mainly due to collection of telecommunications bills by the Company for KG Telecom.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2007			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 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	$ 35,027,145	$ 3,895,307	$ 3,895,207	Notes A and B
	New Century InfoComm Tech Co., Ltd.	Taiwan	Type I, II telecommunications services	6,062,000	-	980,315,483	24.51	6,062,000	(235,630)	-	Notes B and C
	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	999,769	(44,883)	(27,259)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,577,140	1,066,500	157,714,020	41.18	644,856	(717,513)	(291,046)	Notes B and C
	Q-ware Communications Co., Ltd.	Taiwan	Type II telecommunications services	495,855	-	36,459,930	51.00	352,102	(281,868)	(143,753)	Notes A and B
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	138,977	(3,319)	(3,319)	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	61,082	(6,606)	(5,676)	Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	39,314	(61,207)	(61,207)	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	17,300	(55,304)	(9,490)	Notes B and C
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	233	(61,358)	(409)	Notes B and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,794	2,197,794	186,390,714	74.56	939,042	(190,346)		Notes B and D
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	73,972	(8,941)		Notes B and D
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	26,534	13,928		Notes B and E
Far Eastern Info Service (Holding) Ltd.	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer data providing service	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 3,664,000	(2,859)		Notes B and D
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	US$ 4,532,000	14,900,000	99.33	US$ 1,198,000	(61,358)		Notes B and D
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 1,913,000	7,069		Notes B and D
KGT International Holding Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$ 4,822,000	US$ 4,822,000	11,465,000	4.59	57,761	(190,346)		Notes B and D

Note A: Subsidiary.

Note B: Calculation was based on audited financial statements as of December 31, 2007.

Note C: Equity-method investee of the Company.

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

Note E: Equity-method investee of KG Telecom.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 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 December 31, 2007	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2007 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2007	Accumulated Investment in Mainland China as of December 31, 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	$81,075 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$(2,859)	$118,824 (US$3,664,000)	$ -	$92,616	$92,616	$17,366,800 (Note C)

Note A: Calculation was based on audited financial statements as of December 31, 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, MOEA on March 1, 2004.

Note D: Please refer to Note 21 for significant transactions with the investee company.