Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Years Ended December 31, 2008 and 2007 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, 2008 and 2007, 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, 2008 and 2007, 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.

We have also audited the consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2008 and 2007 and have issued an unqualified opinion thereon in our report dated February 18, 2009.

February 18, 2009

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, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)

	2008		2007	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 504,561	-	$ 3,614,660	4
Accounts and notes receivable, net (Notes 2 and 5)	4,892,726	6	4,606,696	5
Receivables from related parties, net (Notes 2 and 23)	868,018	1	908,949	1
Inventories, net (Notes 2 and 6)	451,304	-	305,359	-
Prepaid expenses	510,144	1	507,612	1
Deferred income tax assets - current (Notes 2 and 18)	564,882	1	497,413	-
Restricted assets - current (Note 2)	72,446	-	113,259	-
Other current assets	8,345	-	41,018	-
Total current assets	7,872,426	9	10,594,966	11
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 7)	39,857,195	47	43,342,778	47
PROPERTIES (Notes 2, 8 and 23)				
Cost				
Land	852,980	1	847,138	1
Buildings and equipment	1,702,916	2	1,665,947	2
Operating equipment	68,210,280	80	64,124,983	69
Computer equipment	10,740,442	13	9,769,808	10
Office equipment	828,579	1	826,170	1
Leasehold improvements	1,514,714	2	1,497,895	2
Miscellaneous equipment	309,379	-	228,068	-
Total cost	84,159,290	99	78,960,009	85
Less: Accumulated depreciation	59,362,204	70	52,801,756	57
	24,797,086	29	26,158,253	28
Construction-in-progress and prepayments for equipment	4,615,782	5	3,635,890	4
Net properties	29,412,868	34	29,794,143	32
INTANGIBLE ASSETS				
3G concession, net (Notes 1, 2 and 9)	7,307,065	9	8,037,772	9
OTHER ASSETS				
Rental assets, net (Notes 2 and 10)	183,248	-	195,965	-
Refundable deposits (Note 23)	281,340	-	261,990	1
Deferred income tax assets - noncurrent (Notes 2 and 18)	446,207	1	148,890	-
Other	-	-	1,191	-
Total other assets	910,795	1	608,036	1
TOTAL	$ 85,360,349	100	$ 92,377,695	100

	2008		2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Note 11)	$ 1,150,000	1	$ -	-
Commercial paper payable (Note 12)	350,000	-	-	-
Notes payable	45,409	-	39,048	-
Accounts payable	1,890,300	2	1,576,516	2
Payables to related parties (Note 23)	1,302,187	2	1,242,860	1
Income tax payable (Notes 2 and 18)	2,157,733	3	1,153,125	1
Accrued expenses (Note 13)	2,867,041	3	2,699,520	3
Hedging derivative financial liabilities - current (Notes 2 and 22)	-	-	21,601	-
Payables for acquisition of properties	1,859,201	2	1,524,549	2
Guarantee deposits received - current	568,608	1	646,851	1
Unearned revenues (Note 2)	758,027	1	580,155	-
Current portion of long-term bonds payable (Note 14)	-	-	2,670,000	3
Lease payable - current (Notes 2, 15 and 23)	4,180	-	19,880	-
Other current liabilities (Note 17)	207,394	-	210,231	-
Total current liabilities	13,160,080	15	12,384,336	13
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Lease payable - noncurrent (Notes 2, 15 and 23)	4,180	-	8,360	-
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	346,328	-	314,804	1
Guarantee deposits received - noncurrent	79,724	-	68,970	-
Deferred revenue (Note 2)	397,944	1	267,225	-
Other	75,891	-	-	-
Total other liabilities	899,887	1	650,999	1
Total liabilities	14,064,147	16	13,043,695	14
STOCKHOLDERS' EQUITY				
Capital stock - NT$10.00 par value; authorized - 4,200,000 thousand shares; issued and outstanding - 3,258,501 thousand shares in 2008 and 4,033,033 thousand shares in 2007	32,585,008	38	40,330,334	44
Capital surplus				
Additional paid-in capital - share issuance in excess of par value	10,964,702	13	10,964,702	12
From business combination	8,482,381	10	8,482,381	9
From long-term equity-method investments	40,266	-	40,187	-
Total capital surplus	19,487,349	23	19,487,270	21
Retained earnings				
Legal reserve	8,050,917	10	6,888,973	7
Special reserve	-	-	44,832	-
Unappropriated earnings	11,194,668	13	12,567,456	14
Total retained earnings	19,245,585	23	19,501,261	21
Other adjustments				
Cumulative translation adjustments	28,464	-	11,826	-
Unrealized gains (losses) on financial instruments	(50,204)	-	3,309	-
Total other adjustments	(21,740)	-	15,135	-
Total stockholders' equity	71,296,202	84	79,334,000	86
TOTAL	$ 85,360,349	100	$ 92,377,695	100

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 23)				
Sales of cellular phone equipment and accessories, net	$ 3,230,915	6	$ 3,027,385	7
Telecommunications service revenues	47,904,182	93	43,025,462	93
Other	206,382	1	119,125	-
Total operating revenues	51,341,479	100	46,171,972	100
OPERATING COSTS (Notes 2, 20 and 23)				
Cost of sales	3,668,036	7	3,667,094	8
Cost of telecommunications services	21,840,897	43	20,408,611	44
Total operating costs	25,508,933	50	24,075,705	52
GROSS PROFIT	25,832,546	50	22,096,267	48
OPERATING EXPENSES (Notes 2, 20 and 23)				
Marketing	9,210,674	18	8,343,787	18
General and administrative	3,501,722	7	3,204,209	7
Research and development	149,026	-	273,701	1
Total operating expenses	12,861,422	25	11,821,697	26
OPERATING INCOME	12,971,124	25	10,274,570	22
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 7)	88,449	-	3,353,048	7
Government grant (Note 2)	74,217	-	21,583	-
Management services revenue (Note 23)	70,391	-	125,778	1
Commission (Note 23)	44,590	-	152,606	1
Interest (Note 23)	35,665	-	72,805	-
Reversal of loss on decline in value of inventories (Note 2)	14,208	-	-	-
Rent	14,857	-	14,909	-
Gain from sale of nonperforming accounts receivable (Note 19)	-	-	26,979	-
Other (Note 23)	94,694	1	105,973	-
Total nonoperating income and gains	437,071	1	3,873,681	9

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Loss on disposal of properties, net (Note 2)	$ 209,209	-	$ 402,412	1
Impairment loss (Notes 2 and 7)	20,000	-	6,549	-
Interest (Notes 2, 8 and 23)	8,348	-	27,545	-
Loss on decline in value of inventories (Note 2)	-	-	17,551	-
Other (Notes 2 and 20)	42,816	-	3,250	-
Total nonoperating expenses and losses	280,373	-	457,307	1
INCOME BEFORE INCOME TAX	13,127,822	26	13,690,944	30
INCOME TAX (Notes 2 and 18)	2,967,075	6	2,071,503	5
NET INCOME	$ 10,160,747	20	$ 11,619,441	25

	2008		2007	
	Income Before Income Tax	After Income Tax	Income Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	$ 3.99	$ 3.09	$ 3.53	$ 3.00
Diluted	$ 3.99	$ 3.09	$ 3.53	$ 3.00

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 7 and 17)		Capital Surplus (Notes 2 and 17)			Retained Earnings (Notes 2, 3 and 17)			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 17)	Unrealized Gains (Losses) on Financial Instruments (Notes 2 and 17)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2007	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 5,573,350	$ -	$ 14,667,598	$ 4,960	$ (49,792)	$ 73,926,702
Appropriation of the 2006 earnings											
Legal reserve	-	-	-	-	-	1,315,623	-	(1,315,623)	-	-	-
Special reserve	-	-	-	-	-	-	44,832	(44,832)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(235,915)	-	-	(235,915)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(117,958)	-	-	(117,958)
Cash dividends - NT$3.1 per share	-	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)
Net income 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
Capital reduction - NT$1.9204715 per share	(774,532)	(7,745,326)	-	-	-	-	-	-	-	-	(7,745,326)
Appropriation of the 2007 earnings											
Legal reserve	-	-	-	-	-	1,161,944	-	(1,161,944)	-	-	-
Special reserve	-	-	-	-	-	-	(44,832)	44,832	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(210,047)	-	-	(210,047)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(105,023)	-	-	(105,023)
Cash dividends - NT$3.1 per share	-	-	-	-	-	-	-	(10,101,353)	-	-	(10,101,353)
Net income in 2008	-	-	-	-	-	-	-	10,160,747	-	-	10,160,747
Adjustments to change in equity-method investees' stockholders' equity	-	-	-	-	79	-	-	-	-	-	79
Changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(69,714)	(69,714)
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	16,201	16,201
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	-	16,638	-	16,638
BALANCE, DECEMBER 31, 2008	3,258,501	$ 32,585,008	$ 10,964,702	$ 8,482,381	$ 40,266	$ 8,050,917	$ -	$ 11,194,668	$ 28,464	$ (50,204)	$ 71,296,202

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,160,747	$ 11,619,441
Depreciation and amortization	7,285,685	7,494,797
Amortization of 3G concession	730,707	730,707
Allowance for doubtful accounts	511,800	335,746
Provision (reversal of provision) for loss on decline in value of inventories	(14,208)	17,551
Equity in investees' net gains	(88,449)	(3,353,048)
Cash dividends from equity-method investees	3,505,651	5,011,672
Loss on disposal of properties, net	209,209	402,412
Provision for impairment loss	20,000	6,549
Accrued pension cost	31,524	26,725
Deferred income taxes	(370,186)	337,990
Net changes in operating assets and liabilities		
Accounts and notes receivable	(797,830)	(1,139,362)
Receivables from related parties	40,931	(95,475)
Inventories	(131,737)	152,868
Prepaid expenses	(1,355)	224
Other current assets	32,791	10,667
Notes payable	6,361	4,319
Accounts payable	313,784	(20,823)
Payables to related parties	59,327	(562,338)
Income tax payable	1,004,608	430,540
Accrued expenses	167,521	523,927
Unearned revenues	177,872	(134,553)
Other current liabilities	(13,989)	(19,201)
Net cash provided by operating activities	22,840,764	21,781,335
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equity-method investments	(4,616)	(1,006,495)
Acquisition of properties	(6,712,453)	(4,995,238)
Proceeds of the disposal of properties	12,762	9,844
Increase in refundable deposits	(19,350)	(2,854)
Decrease (increase) in restricted assets	40,813	(113,259)
Decrease in other assets	-	1,113
Net cash used in investing activities	(6,682,844)	(6,106,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank loans	1,150,000	-
Increase in commercial paper payable	350,000	-
Repayments of long-term liabilities	(2,670,000)	(2,960,000)
Decrease in guarantee deposits received	(67,489)	(103,812)

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
Increase in deferred revenue	$ 130,719	$ 267,225
Cash dividends paid	(10,101,353)	(12,005,255)
Bonus paid to employees and remuneration paid to directors and supervisors	(314,570)	(353,873)
Capital reduction	(7,745,326)	-
Net cash used in financing activities	(19,268,019)	(15,155,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,110,099)	518,731
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,614,660	3,095,929
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 504,561	$ 3,614,660
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 57,871	$ 135,138
Less: Interest capitalized	44,347	45,880
Interest paid, net of capitalized interest	$ 13,524	$ 89,258
Income tax paid	$ 2,332,653	$ 1,302,973
NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common stock to acquire an equity-method investment	$ -	$ 6,057,442
Current portion of long-term liabilities	$ 4,180	$ 2,711,481
Declaration of remuneration to directors and supervision	$ 500	$ -
Reclassification of rental assets into properties	$ 10,692	$ -
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 7,113,768	$ 4,767,588
Decrease (increase) in payables for acquisition of properties	(334,652)	207,770
Decrease in lease payable	19,880	19,880
Increase in other current liabilities	(10,652)	-
Increase in other liabilities - other	(75,891)	-
Cash paid for acquisition of properties	$ 6,712,453	$ 4,995,238
PROCEEDS OF DISPOSAL OF PROPERTIES		
Total amount of sold properties	$ 12,880	$ 6,174
Decrease (increase) in receivables from properties sold	(118)	3,553
Decrease in receivables from related parties	-	117
Cash received from the disposal of properties	$ 12,762	$ 9,844

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FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(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. (Concluded)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. (the “Company”) was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. The Company’s shares began to be traded on the ROC Over-the-Counter (OTC) Securities Exchange (known as GreTai Securities Market) on December 10, 2001. Later, the Company’s share ceased to be traded on the OTC exchange and became listed on the ROC Taiwan Stock Exchange on August 24, 2005. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of December 31, 2008, Far Eastern Textile Co., Ltd. (“Far Eastern Textile”) and its affiliates directly and indirectly owned 40.59% of the Company’s shares. Since the Company’s chief executive officer is appointed by Far Eastern Textile’s 99.99% subsidiary, Far Eastern Textile has control over the Company’s finances, operations and personnel affairs. Thus, Far Eastern Textile is the ultimate parent company of the Company.

The Company provides 2G (second-generation wireless communications services) by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 island-wide (“GSM” means “global system for mobile communications”) - issued by the DGT of the ROC. These licenses allow the Company to provide services for 15 years from 1997, with an annual license fee of 2% of total 2G wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years from 1999 for a fixed annual license fee based on the Company’s paid-in capital. In addition, the Company provides services under a type II-ISR license for 10 years from December 2001 and pays an annual license fee of 1% of ISR service revenues. The Company is also licensed to provide local/domestic long-distance land cable leased circuit services for 15 years from January 2003 for 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 region of 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 3,779 and 3,410 employees as of December 31, 2008 and 2007, 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, asset retirement obligation, product warranty reserve, income taxes, pension cost and, bonus to employees and remuneration to directors and supervisors. 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 and recharge 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.

Government Grant

When received, the government grant is included in the restricted assets and in deferred revenue at the same time. The restricted asset is recognized as cash or cash equivalent when the Company uses the grant under the terms of the related agreement. The deferred revenue is recognized as follows: (1) if the grant is related to depreciable assets, it should be recognized as revenue over the asset economic lives in proportion to the depreciation expenses for these assets; or (2) if the grant is related to income, the grant amount should be deducted from the related expense when the revenue is realized.

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 acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. 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.

Since November 2008, the Company estimates and capitalizes the costs of dismantling, removing properties and restoring the cellular site on which they are located and to record these costs as properties and accrued asset retirement cost.

Useful lives are estimated as follows:

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

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

3G Concession

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

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, 3G concession, and equity-method investments) exceeds their recoverable amount, and this impairment loss should be charged to current income. For investees which the Company has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing. 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the presentation of the financial statements as of and for the year ended December 31, 2008.

3. CHANGE IN ACCOUNTING PRINCIPLE

In March 2007, the Accounting Research and Development Foundation (ARDF) issued Interpretation No. 2007-052 that requires companies to recognize bonuses to employees and remunerations to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in a decrease of $205,266 thousand in net income and a decrease of NT$0.06 in basic earnings per share after income tax for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash		
Cash on hand	$ 2,766	$ 2,731
Demand deposits	493,956	753,003
Checking deposits	7,839	10,457
	504,561	766,191
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.91%-2.00%	-	911,579
Bonds purchased under resell agreements - interest of 1.88%-1.90%	-	1,936,890
	-	2,848,469
	$ 504,561	$ 3,614,660

As of December 31, 2008 and 2007, foreign demand deposits were as follows:

	December 31	
	2008	2007
Belgium (US$616 thousand in 2008 and US$311 thousand in 2007)	$ 20,205	$ 10,086

5. ACCOUNTS AND NOTES RECEIVABLE, NET

	December 31	
	2008	2007
Accounts and notes receivable	$ 5,596,442	$ 5,272,338
Less: Allowance for doubtful accounts	(703,716)	(665,642)
	$ 4,892,726	$ 4,606,696

The change in allowance for doubtful accounts was as follows:

	Years Ended December 31	
	2008	2007
Beginning balance	$ 665,642	$ 809,203
Deduct: Bad debts written off	(683,329)	(659,970)
Add: Collection after write-off	209,603	180,663
Accrual of bad debt expenses	511,800	335,746
	$ 703,716	$ 665,642

6. INVENTORIES

	December 31	
	2008	2007
Cellular phone equipment	$ 357,195	$ 241,183
SIM cards and prepaid cards	30,416	33,510
Cellular phone accessories	25,742	28,459
Others	64,830	43,294
	478,183	346,446
Less: Allowance for losses	26,879	41,087
	$ 451,304	$ 305,359

7. EQUITY-METHOD INVESTMENTS

	December 31			
	2008		2007	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Common stocks with no quoted market prices				
KG Telecommunications Co., Ltd.	$ 32,475,440	100.00	$ 35,027,145	100.00
New Century InfoComm Tech Co., Ltd.	5,490,024	24.51	6,062,000	24.51
ARCOA Communication Co., Ltd.	1,039,987	59.78	999,769	59.10
Far Eastern Electronic Toll Collection Co., Ltd.	408,729	41.18	644,856	41.18
Q-ware Communications Co., Ltd.	190,370	51.00	352,102	51.00
Far Eastern Info Service (Holding) Ltd.	153,851	100.00	138,977	100.00
E. World (Holdings) Ltd.	67,305	85.92	61,082	85.92
Far EasTron Holding Ltd.	25,575	100.00	39,314	100.00
Ding Ding Integrated Marketing Services Co., Ltd.	5,744	15.00	17,300	15.00
ADCast Interactive Marketing Co., Ltd.	170	0.40	-	
Far EasTron Co., Ltd.	-	-	233	0.67
	$ 39,857,195		$ 43,342,778	

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. As of December 31, the Company owned 59.78% (80,276 thousand shares) of ARCOA's common stock.

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

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.

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. Far EasTron Co., Ltd. ("Far EasTron") and ADCast Interactive Marketing Co., Ltd. ("ADCast")

To enhance the Company's market share of Internet advertisements and integrate the Company's resources, the stockholders of Far EasTron resolved on April 21, 2008 for Far EasTron to have a share swap with ADCast Interactive Marketing Co., Ltd. ("ADCast"), a subsidiary of New Century InfoComm Tech Co., Ltd., with ADCast as the survivor entity. After ADCast's capital reduction, Far EasTron's stockholders will receive 1 share of ADCast for every 4.8526 shares of Far EasTron. However, in their special meeting on August 29, 2008, Far EasTron's stockholders revised the share swap ratio to 5.4490:1. In addition, Far EasTron's board of directors resolved to have September 3, 2008 as the merger date. The share swap was completed on September 30, 2008 after the related registration with the Taipei City Government. After the share swap, the Company and Far EasTron Holding owned 0.40% and 60.52% of ADCast's common stock, respectively.

g. Equity in investees' net gains or losses

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

	Years Ended December 31			
	2008		2007	
	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.	$ 1,013,276	$ 1,013,206	$ 3,895,307	$ 3,895,207
New Century InfoComm Tech Co., Ltd.	(2,800,811)	(567,440)	(235,630)	-
ARCOA Communication Co., Ltd.	61,190	35,600	(44,883)	(27,259)
Far Eastern Electronic Toll Collection Co., Ltd.	(594,577)	(236,127)	(717,513)	(291,046)
Q-ware Communications Co., Ltd.	(277,906)	(141,732)	(281,868)	(143,753)
Far Eastern Info Service (Holding) Ltd.	4,730	4,730	(3,319)	(3,319)
E. World (Holdings) Ltd.	6,626	5,693	(6,606)	(5,676)
Far EasTron Holding Ltd.	(13,862)	(13,862)	(61,207)	(61,207)
Ding Ding Integrated Marketing Services Co., Ltd.	(91,562)	(11,556)	(55,304)	(9,490)
ADCast Interactive Marketing Co., Ltd.	(3,320)	9	-	-
Far EasTron Co., Ltd.	(10,846)	(72)	(61,358)	(409)
		$ 88,449		$ 3,353,048

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM"), Far EasTron Co., Ltd. ("Far EasTron") and ADCast Interactive Marketing Co., Ltd. ("ADCast") allow the Company to exercise significant influence on these investees' operating and financial policy decisions, the investments in DDIM, Far EasTron and ADCast are accounted for by the equity method even though the Company's equity in DDIM, Far EasTron and ADCast are only 15%, 0.67% and 0.40%, respectively.

Except for the financial statements of Far EasTron as of and for the year ended December 31, 2008, the financial statements as of and for the years ended December 31, 2008 and 2007 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. The Company believes that, had the financial statement of Far EasTron been audited, any adjustments would have had no material effect on the Company's financial statements.

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

For the years ended December 31, 2008 and 2007, 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			
	2008		2007	
	Goodwill	Amortizable Assets	Goodwill	Amortizable Assets
Beginning balance	$ 313,594	$ (924,029)	$ 255,828	$ -
Increase	-	-	64,315	(924,029)
Decrease	24,717	115,356	6,549	-
Ending balance	$ 288,877	$ (808,673)	$ 313,594	$ (924,029)

i. Consolidation

The consolidated financial statements as of December 31, 2008 and 2007 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, 2008				
		Movement			
	Beginning Balance	Addition	Sale or Disposal	Reclassifi-cation	Ending Balance
Cost					
Land	$ 847,138	$ -	$ -	$ 5,842	$ 852,980
Buildings and equipment	1,665,947	-	181	37,150	1,702,916
Operating equipment	64,124,983	98,018	792,187	4,779,466	68,210,280
Computer equipment	9,769,808	-	43,371	1,014,005	10,740,442
Office equipment	826,170	-	1,741	4,150	828,579
Leasehold improvements	1,497,895	-	28,311	45,130	1,514,714
Miscellaneous equipment	228,068	86,543	5,232	-	309,379
	78,960,009	$ 184,561	$ 871,023	$ 5,885,743	84,159,290
Accumulated depreciation					
Buildings and equipment	556,056	$ 54,052	$ 114	$ 613	610,607
Operating equipment	42,697,199	5,893,960	656,908	-	47,934,251
Computer equipment	7,590,669	1,162,994	43,371	-	8,710,292
Office equipment	706,935	27,693	1,698	-	732,930
Leasehold improvements	1,136,638	114,822	16,488	-	1,234,972
Miscellaneous equipment	114,259	30,125	5,232	-	139,152
	52,801,756	$ 7,283,646	$ 723,811	$ 613	59,362,204
	26,158,253				24,797,086
Construction-in-progress and prepayments for equipment	3,635,890	$ 6,929,207	$ 74,877	$ (5,874,438)	4,615,782
	$ 29,794,143				$ 29,412,868

	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

(Continued)

	Year Ended December 31, 2007				
		Movement			
	Beginning Balance	Addition	Sale or Disposal	Reclassification	Ending Balance
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-progress and prepayments for equipment	3,714,579	$ 4,763,660	$ 86,925	$ (4,755,424)	3,635,890
	$ 32,927,648				$ 29,794,143

(Concluded)

In November 2008, the ARDF issued Interpretation No. 2008-340 that required the Company to estimate and to capitalize the costs of dismantling and removing properties and restoring the cellular site on which they are located and to record the costs as properties and accrued asset retirement cost. This accounting change resulted in an increase in properties of NT$86,543 thousand as of December 31, 2008; however, the adoption had no significant influence in the current year's income.

b. Capitalized interest on properties was as follows:

	Years Ended December 31	
	2008	2007
Total interest expense	$ 52,695	$ 73,425
Less: Interest capitalized (included in construction-in-progress and prepayments for equipment)	44,347	45,880
Interest expense, net of amounts capitalized	$ 8,348	$ 27,545
Interest rate capitalized	1.56%-2.39%	1.56%-2.29%

9. 3G CONCESSION, NET

	Years Ended December 31	
	2008	2007
Cost	$ 10,169,000	$ 10,169,000
Accumulated amortization		
Beginning balance	2,131,228	1,400,521
Amortization	730,707	730,707
Ending balance	2,861,935	2,131,228
Intangible assets, net	$ 7,307,065	$ 8,037,772

10. RENTAL ASSETS, NET

	Year Ended December 31, 2008		
	Land	Buildings and Equipment	Total
Cost			
Beginning balance	$ 105,366	$ 100,136	$ 205,502
Reclassification	(5,842)	(5,463)	(11,305)
Ending balance	99,524	94,673	194,197
Accumulated depreciation			
Beginning balance	-	9,537	9,537
Depreciation	-	2,025	2,025
Reclassification	-	(613)	(613)
Ending balance	-	10,949	10,949
Rental assets, net	$ 99,524	$ 83,724	$ 183,248

	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

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
2009	$ 11,050
2010	11,212
2011	8,381
2012	2,271
2013	379

11. SHORT-TERM BANK LOANS

	December 31	
	2008	2007
Unsecured bank loans - interest of 1.95%-2.20%	$ 1,150,000	$ -

12. COMMERCIAL PAPER PAYABLE

The Company issued the commercial paper with discounted rate at 1.838% and was fully repaid on January 16, 2009.

13. ACCRUED EXPENSES

	December 31	
	2008	2007
Commission	$ 1,240,667	$ 1,395,045
Bonus	523,314	436,296
Bonus to employees and remuneration to directors and supervisors	273,688	-
Advertisement	146,608	104,145
Utilities	92,372	101,100
Maintenance fee	71,061	80,859
Billing processing fee	67,758	41,441
Other	451,573	540,634
	$ 2,867,041	$ 2,699,520

14. 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

a. Domestic unsecured bonds - 2nd

These are five-year unsecured domestic bonds issued at par value from March 28, 2003 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 already repaid all of the bonds payable by April 3, 2008.

b. 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 all of the bonds payable by December 18, 2008.

15. LEASE PAYABLE

	December 31			
	2008		2007	
Total future lease payments	$	9,685	$	30,891
Less: Imputed interest expense		1,325		2,651
		8,360		28,240
Less: Current portion of lease payable		4,180		19,880
Lease payable - noncurrent	$	4,180	$	8,360

The contracts of capital lease were summarized as follows:

Lessor	Properties	Payment Terms	Rental Paid Years Ended December 31 2008	2007
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

16. PENSION PLAN

a. The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, 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 $114,843 thousand and $134,253 thousand for the years ended December 31, 2008 and 2007, respectively.

b. 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., 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).

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

1) Net pension cost consisted of:

	Years Ended December 31	
	2008	2007
Service cost	$ 31,253	$ 30,579
Interest cost	34,609	28,567
Expected return on plan assets	(13,849)	(11,405)
Amortization of net transition obligation	911	911
Amortization of unrecognized pension loss	12,762	11,209
Net pension cost	$ 65,686	$ 59,861

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

	December 31	
	2008	2007
Benefit obligation		
Vested benefit obligation	$ 5,605	$ 6,016
Non-vested benefit obligation	612,900	606,646
Accumulated benefit obligation	618,505	612,662
Additional benefits based on projected and future salaries	633,737	543,716
Projected benefit obligation	1,252,242	1,156,378
Fair value of plan assets	(493,002)	(444,996)
Funded status	759,240	711,382
Unrecognized net transition asset (obligation)	883	(28)
Unrecognized prior service cost	27,891	-
Unrecognized pension loss	(441,686)	(396,550)
Accrued pension cost	$ 346,328	$ 314,804
Vested benefit	$ 7,752	$ 7,465

3) Actuarial assumptions were as follows:

	December 31	
	2008	2007
Discount rate used in determining present value	2.75%	3.00%
Rate of future salary increase	3.50%	3.50%
Expected rate of return on plan assets	2.75%	3.00%

17. STOCKHOLDERS' EQUITY

a. Capital surplus

Under government regulations, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares and that arising from business combination) may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

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.

The bonus to employees of NT$182,459 thousand and the remuneration to directors and supervisors of NT$91,229 thousand, which representing 2% and 1% of net income (net of the bonus to employees and remuneration to directors and supervisors) less 10% legal reserve and special reserve, respectively, was recognized for the year ended December 31, 2008. The amounts were estimated based on past experiences. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of the stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

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.

Legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Company's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

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, Far EasTone 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 2007 and 2006 earnings were approved by the stockholders on June 5, 2008 and June 12, 2007, respectively.

	Appropriation and Distribution		**Dividend Per Share (Dollars)**	
	2007	**2006**	**2007**	**2006**
Legal reserve	$ 1,161,944	$ 1,315,623		
Special reserve	(44,832)	44,832		
Bonus to employees - cash	210,047	235,915		
Remuneration to directors and supervisors	105,023	117,958		
Cash dividend	10,101,353	12,005,255	$ 3.10	$ 3.10

There was no difference in the appropriation and distribution of the 2007 and 2006 earnings proposed by the board of directors on April 22, 2008 and April 19, 2007, respectively. Had the above bonus to employees and directors been charged to net income in 2007 and 2006, the basic earnings per share for 2007 and 2006 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.00 to NT$2.92 and from NT$3.40 to NT$3.31, respectively.

As of December 31, 2008 directors and supervisors' remuneration of $500 thousand of the Company had been included in other current liabilities.

Information on the bonus to employees, and remuneration to directors and supervisors can be accessed through the Market Observation Post System website of the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of December 31, 2008 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
Net decrease due to capital increase or capital reduction	3)	(362)	(5,426)
Reissued within authorized units	4)	21,723	325,838
GDRs transferred to common stock		(29,455)	(441,832)
Outstanding GDRs issued		2,071	31,053

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, 2008, 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 represent 4,448 thousand common shares. Furthermore, in 2008, the Company cancelled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represent 9,874 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, 2008, the Company had reissued 21,723 thousand units of GDR, representing 325,838 thousand common shares.

The owners of GDRs 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' equities, 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 774,532 thousand shares. The capital reduction was approved by the stockholders' meeting on June 12, 2007. The capital reduction ratio was 19.204715% and the cash return per share was around NT$1.9204715. Paid-in capital after the capital reduction was $32,585,008 thousand. The Company's board of directors resolved January 15, 2008 as the record date of the capital reduction. On January 22, 2008, this capital reduction was registered with the MOEA. The authority also approved March 17, 2008 as the share exchange date of the capital reduction. The foregoing payable amounts due to the capital reduction were fully paid on March 28, 2008.

e. Cumulative translation adjustments

Cumulative translation adjustments for the years ended December 31, 2008 and 2007 were summarized as follows:

	Years Ended December 31	
	2008	**2007**
Difference due to translation of foreign-currency financial statements		
Beginning balance	$ 11,826	$ 4,960
Recorded as adjustment under stockholders' equity	16,638	6,866
	$ 28,464	$ 11,826

f. Unrealized gains and losses on financial instruments

Unrealized gains and losses on financial instruments for the years ended December 31, 2008 and 2007 were summarized as follows:

	Recognized from Equity-method Investments	**Unrealized Gain (Loss) on Cash Flow Hedge**	**Total**
Year ended December 31, 2008			
Beginning balance	$ 19,510	$ (16,201)	$ 3,309
Recorded as adjustments to stockholders' equity	(69,714)	3,209	(66,505)
Recognized as profit or loss	-	12,992	12,992
Ending balance	$ (50,204)	$ -	$ (50,204)
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

18. INCOME TAX

a. 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	
	2008	2007
Income tax expense computed at statutory tax (25%)	$ 3,281,956	$ 3,422,736
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	-	(443,752)
Equity in investees' net gains	(253,284)	(855,813)
Other	64,734	(15,134)
Temporary differences	370,186	(337,990)
Investment tax credits used	(160,000)	(76,000)
Unappropriated earnings tax (10%)	8,591	-
Income tax payable - current	3,312,183	1,694,047
Income tax expense on income subjected to a separate rate of 20%	4,530	13,068
Prior year's adjustment	20,548	26,398
Income tax expense - current	$ 3,337,261	$ 1,733,513

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

b. Income tax expense consisted of:

	Years Ended December 31	
	2008	2007
Income tax expense - current	$ 3,337,261	$ 1,733,513
Income tax expense - deferred		
Temporary differences	(370,186)	337,990
	$ 2,967,075	$ 2,071,503

c. Changes in income tax payable were as follows:

	Years Ended December 31	
	2008	2007
Beginning balance	$ 1,153,125	$ 722,585
Income tax expense - current	3,337,261	1,733,513
Income tax paid	(2,332,653)	(1,302,973)
Ending balance	$ 2,157,733	$ 1,153,125

d. Deferred income taxes assets were as follows:

	December 31			
	2008		2007	
Current				
Deferred income tax assets				
Allowance for doubtful accounts	$	542,142	$	469,319
Provision for loss on decline in value of inventories		6,720		10,272
Investment tax credits		-		26,841
Unrealized loss on financial instruments		-		5,400
Other		16,020		12,422
		564,882		524,254
Less: Valuation allowance		-		26,841
	$	564,882	$	497,413
Noncurrent				
Deferred income tax assets				
Equity in investees' net losses	$	615,100	$	25,727
Accrued pension cost		89,754		88,226
Depreciation resulting from the differences in estimated service lives of properties		34,792		34,937
Unrealized loss on investments in shares of stock		1,637		-
		741,283		148,890
Less: Valuation allowance		295,076		-
	$	446,207	$	148,890

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

e. Integrated income tax information was as follows:

	December 31			
	2008		2007	
Balance of imputation credit account (ICA)	$	264,186	$	201,975

The estimated ratio of the ICA balance as of December 31, 2008 to unappropriated earnings as of such date was 2.36%. When the dividends from the unappropriated earnings as of December 31, 2007 were distributed in 2008, the actual ratio used was 25.53%.

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.

f. 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.

19. 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

20. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2008				
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	As Reductions of Operating Costs or Expenses	Total
Employee expenses					
Salaries	$ 445,398	$ 1,620,941	$ -	$ 562,717	$ 2,629,056
Pension	46,678	84,245	-	49,606	180,529
Meal	8,854	46,100	-	15,982	70,936
Employee benefit	-	51,329	-	-	51,329
Insurance	25,990	116,359	-	44,809	187,158
Miscellaneous	3,793	30,257	-	17,218	51,268
	$ 530,713	$ 1,949,231	$ -	$ 690,332	$ 3,170,276
Depreciation	$ 6,384,578	$ 899,068	$ 2,025	$ -	$ 7,285,671
Amortization	$ -	$ 14	$ -	$ -	$ 14

	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

The Company provided management services to certain equity-method investees (Note 23). The employee expenses were charged on the basis of agreed-upon terms and recorded as reductions of operating costs or expenses.

To enhance their competency, the Company, New Century InfoComm Tech Co., Ltd. and Digital United Inc. made a strategic business alliance to integrate the resources of their marketing departments and operating management departments and to support each other's human resources. The related employee revenues and expenses were charged and paid on the basis of agreed-upon terms and recorded as nonoperating income and operating cost or expense.

21. EARNINGS PER SHARE (EPS)

	Amount (Numerator)		Common Stock	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
Year ended December 31, 2008					
Basic EPS					
Net income	$ 13,127,822	$ 10,160,747	3,288,127	$3.99	$3.09
Effect of dilutive potential common stock					
Bonus to employees	-	-	4,892		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 13,127,822	$ 10,160,747	3,293,019	$3.99	$3.09
Year ended December 31, 2007					
Basic EPS					
Net income	$ 13,690,944	$ 11,619,441	3,873,102	$3.53	$3.00

The ARDF issued Interpretation No. 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

22. FINANCIAL INSTRUMENTS

a. Fair value information

	December 31			
	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Equity-method investments	$ 39,857,195	$ 39,857,195	$ 43,342,778	$ 43,342,778
Refundable deposits	281,340	281,196	261,990	260,821
Liabilities				
Hedging derivative financial liabilities - current	-	-	21,601	21,601
Bonds payable	-	-	2,670,000	2,670,000
Lease payable (including current portion)	8,360	8,360	28,240	28,240
Guarantee deposits received (including current portion)	648,332	648,332	715,821	715,821

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, restricted assets, short-term bank loans, commercial paper payable, 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 will be measured by net worth of investees or their respective carrying values.

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	
	2008	2007	2008	2007
Liabilities				
Hedging derivative financial liabilities - current	$ -	$ -	$ -	$ 21,601

d.

Risk of interest rate change	December 31 2008 Financial Assets	December 31 2008 Financial Liabilities	December 31 2007 Financial Assets	December 31 2007 Financial Liabilities
Fair value risk	$ 281,340	$ 2,156,692	$ 3,110,459	$ 744,061
Cash flow risk	566,402	-	866,262	2,670,000

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 fair values of mutual funds held by 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.

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.

4) Cash flow risk from interest fluctuations

The Company and subsidiaries have partial 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						
		Notional Amount		Fair Value			Expected Year for
	Financial Instruments	December 31		December 31		Expected Year of	Realization of Gains or
Hedged Items	**Designated**	**2008**	**2007**	**2008**	**2007**	**Cash Flows**	**Losses**
Bonds with floating interest rate	Interest rate swap - the Company	$ -	$ 2,670,000	$ -	$ (21,601)	2003-2008	2003-2008

23. RELATED-PARTY TRANSACTIONS

a. 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. (Q-ware)	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 (dissolved in May 27, 2008)
Yuan Cing Co., Ltd.	Subsidiary of E. World (Holdings) Ltd.
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS
ADCast Interactive Marketing Co., Ltd. (ADCast)	Subsidiary of NCIC (became subsidiary since September 2008)
Far EasTron Co., Ltd.	Subsidiary of Far EasTron Holding Ltd. (merged with ADCast and dissolved since September 2008)
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 Corporation	Equity-method investee of KG Telecom
Digital United Inc. (DU)	Subsidiary of NCIC (became related party since December 31, 2007)
Information Security Service Digital United, Inc.	Subsidiary of Digital United Inc. (became related party since December 31, 2007)
NTT DoCoMo Inc.	Director
Far Eastern International Leasing Corp. (FEILC)	Supervisor
Far Eastern Apparel Co., Ltd.	Same ultimate parent company

(Continued)

Related Party	Relationship with the Company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company
Far Eastern Resource Development Co., Ltd. (FETRD)	Same ultimate parent company
Yuan Ding Co.	Same chairman
Far Eastern Department Stores Co., Ltd.	Same chairman
Asia Cement Co., Ltd.	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
Oriental Resources Development Limited (Former 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
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
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. (former Wu Han Far Eastern Industrial Trading Ltd.)	Same ultimate parent company
Far Eastern (China) Investment Limited	Same ultimate parent company
Sino Belgium (Holding) Limited.	Same ultimate parent company
Sino Belguim (Suzhou) Limited	Same ultimate parent company
Fashionline Saigon Ltd.	Same ultimate parent company
Suzhou An He Appared Ltd.	Same ultimate parent company

(Concluded)

b. In addition to those disclosed in other notes, the significant transactions with the above parties are summarized as follows:

		2008		2007	
		Amount	**%**	**Amount**	**%**
During the year					
Operating revenue	1)				
KG Telecom	2)	$ 3,007,573	6	$ 2,828,152	6
NCIC	3)	773,982	2	461,167	1
ARCOA	4)	245,153	-	142,695	-
KGEx	5)	208,035	-	268,304	1
NTT DoCoMo Inc.	6)	114,572	-	76,962	-
Other	21)	2,734	-	3,396	-
		$ 4,352,049	8	$ 3,780,676	8
Operating costs and expenses					
Cost of telecommunications service					
KG Telecom	2)	$ 1,658,786	8	$ 1,831,295	9
NCIC	3)	102,144	1	28,764	-
ARCOA	4)	57,345	-	46,636	-
Other	21)	46,777	-	22,426	-
		$ 1,865,052	9	$ 1,929,121	9
Purchase					
ARCOA	4)	$ 1,583,993	43	$ 1,071,211	29
Rental					
FETRD	7)	$ 45,266	2	$ 45,399	2
NCIC	8)	40,357	1	36,680	1
FEILC	9)	40,324	1	36,897	1
Other	21)	18,801	1	26,202	1
		$ 144,748	5	$ 145,178	5
Service fee					
FETI	10)	$ 146,383	57	$ 133,724	60
FCHRC	11)	51,865	20	49,474	22
Other	21)	4,042	2	3,356	2
		$ 202,290	79	$ 186,554	84
Marketing expense					
ARCOA	4)	$ 588,370	6	$ 562,727	7
KG Telecom	12)	192,714	2	207,308	2
DDIM	13)	128,396	2	96,194	1
Other	21)	20,981	-	312	-
		$ 930,461	10	$ 866,541	10
Donation expense					
Yuan-Ze University	14)	$ -	-	$ 16,000	73

		2008		2007	
		Amount	%	Amount	%
Nonoperating income and gains					
Management services revenue					
KG Telecom	15)	$ 63,124	90	$ 121,573	97
NCIC	15)	3,475	5	-	-
DU	15)	1,336	2	-	-
Other	21)	2,456	3	4,205	3
		$ 70,391	100	$ 125,778	100
Commission					
KG Telecom	12)	$ 44,590	100	$ 152,606	100
Guarantee services revenue					
KG Telecom	16)	$ 1,348	2	$ 546	1
KGEx	16)	114	-	50	-
FETC	17)	-	-	285	-
		$ 1,462	2	$ 881	1
Other revenue					
Q-ware	18)	$ 11,212	12	$ -	-
ARCOA	4)	3,861	4	3,780	4
		$ 15,073	16	$ 3,780	4
Nonoperating expenses and losses					
Guarantee services expenses					
KG Telecom	16)	$ 2,242	27	$ 736	-
Acquisition of properties					
NCIC	19)	$ 45,620	1	$ -	-
KG Telecom	19)	3,003	-	16,658	-
Other	21)	23,318	-	115	-
		$ 71,941	1	$ 16,773	-
Disposal of properties					
KG Telecom	20)	$ -	-	$ 210	3
At end of year					
Receivables from related parties					
Accounts and notes receivable					
KG Telecom	2)	$ 398,046	46	$ 329,351	36
ARCOA	4)	174,080	20	166,627	18
KGEx	5)	40,953	5	34,750	4
Other	21)	43,789	5	16,338	2
		656,868	76	547,066	60

		2008		2007	
		Amount	%	Amount	%
Other receivables					
NCIC	15)	$ 83,506	10	$ 2,385	-
KG Telecom	12), 15) and 16)	62,329	7	319,671	35
DU	15)	29,467	3	-	-
Other	21)	35,848	4	39,827	5
		211,150	24	361,883	40
		$ 868,018	100	$ 908,949	100
Refundable deposits					
DDIM	13)	$ 32,500	11	$ 31,915	12
Other	21)	10,355	4	8,647	4
		$ 42,855	15	$ 40,562	16
Payables to related parties					
KG Telecom	2), 12), 15) and 16)	$ 841,906	65	$ 789,247	64
NCIC	3), 8) and 19)	184,160	14	84,571	7
ARCOA	4)	142,182	11	266,558	21
DDIM	13)	58,309	4	46,465	4
FETI	10)	16,797	1	25,233	2
Other	21)	58,833	5	30,786	2
		$ 1,302,187	100	$ 1,242,860	100
Lease payable (including current portion)					
FEILC	9)	$ 8,360	100	$ 28,240	100

Financing to related parties was as follows:

Related Party	Highest Balance Held During the Year	Ending Balance	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:

1) Operating revenues (such as service revenues, revenues from sales of cellular phone equipment, accessories and leased-circuit revenue) from related parties were based on normal service rates, selling prices and collection terms.

2) 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.

3) The transactions between the Company and NCIC consisted of 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.

4) 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. 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.

5) 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.

6) The Company provided international roaming services to the customers of NTT DoCoMo Inc. The service revenues were treated as telecommunications service revenues.

7) 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.

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

9) 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. Some of these contracts will be automatically renewed unless either the Company or FEILC informs the other party of contract nonrenew.

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 15).

10) 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.

11) 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.

12) 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 payables to related parties.

13) 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.

14) The Company made a donation to Yuan-Ze University for further integration and development of telecommunications business and personnel.

15) The Company provided management services and advances to KG Telecom, NCIC and DU for its daily operating expenditures.

16) 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.

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

18) The Company provided call center service for Q-ware's clients and charged service fee.

19) The Company bought from KG Telecom and NCIC operating equipment.

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

21) 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.

c. Compensation of directors, supervisors and management personnel:

	Years Ended December 31	
	2008	**2007**
Salary and bonus	$ 95,874	$ 105,082
Remuneration paid from distribution of earnings	91,229	105,023
Bonus paid from distribution of earnings	17,137	20,722
Operation allowance of directors	7,264	7,588
	$ 211,504	$ 238,415

The compensation of directors, supervisors and management personnel for the years ended December 31, 2008 and 2007 included the estimated and actual bonuses appropriated from the 2008 and 2007 earnings, for which were approved by stockholders in their annual meetings held in 2009 and 2008, respectively. Related details are shown in the Company's 2008 and 2007 annual reports.

24. COMMITMENTS AS OF DECEMBER 31, 2008

In addition to those disclosed in Note 23, the Company had the following significant commitments:

a. The Company was under contracts to acquire properties and cellular phone equipment for $1,259,185 thousand and $69,920 thousand, respectively.

b. The Company's outstanding letters of credit amounted to US$1,398 thousand (equivalent to $45,854 thousand).

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

Year	**Amount**
2009	$ 2,042,578
2010	2,121,957
2011	2,204,441
2012	2,290,153
2013	2,379,219

25. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

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

1) Financing provided: None

2) Endorsement/guarantee provided: Schedule A

3) Marketable securities and investments held: Schedule B

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

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

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

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

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

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

10) Derivative financial instruments of investees: None

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 G

2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 23

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

26. 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			
	2008		2007	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	$ 6,909,796	13	$ 6,649,560	14

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Counter-party		Limits on Endorsement/ Guarantee Amount Provided to Each Counter-party (Note A)	Maximum Balance for the Year (Note B)	Ending Balance (Note B)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Financial Statement	Maximum Total Endorsement/ Guarantee Allowed to Be Provided by the Endorser/ Guarantor (Note A)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	$ 35,648,101	$ 450,000	$ 450,000	$ -	0.63%	$ 71,296,202
		KGEx.com Co., Ltd.	Subsidiary of KG Telecom	35,648,101	45,000	45,000	-	0.06%	71,296,202
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent Company	16,237,720	850,000	850,000	-	2.62%	32,475,440

Note A: The maximum total endorsement/guarantee amount were equals the Company's and KG Telecom's net worth, while the limit of endorsement/guarantee amount for each counter-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, 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer/Name of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2008				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	$ 32,475,440	100.00	$ 32,475,440	Notes A and C
	New Century InfoComm Tech Co., Ltd.	Equity-method investee	Equity-method investments	980,315,483	5,490,024	24.51	5,490,024	Notes A and C
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	80,276,314	1,039,987	59.78	1,039,987	Notes A and C
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	157,714,020	408,729	41.18	408,729	Notes A and C
	Q-ware Communications Co., Ltd	Equity-method investee	Equity-method investments	36,459,930	190,370	51.00	190,370	Notes A and C
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	153,851	100.00	153,851	Notes A and C
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	67,305	85.92	67,305	Notes A and C
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	25,575	100.00	25,575	Notes A and C
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	5,744	15.00	5,744	Notes A and C
	ADCast Interactive Marketing Co., Ltd.	Equity-method investee	Equity-method investments	18,351	170	0.40	170	Notes A and C
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	198,136,425	890,885	79.25	890,885	Notes A and C
	iScreen Corporation	Equity-method investee	Equity-method investments	4,000,000	28,765	40.00	28,765	Notes A and C
	ADCast Interactive Marketing Co., Ltd.	Equity-method investee	Equity-method investments	368,519	3,414	8.16	3,414	Notes A and C
	GREATWALL	-	Available-for-sale financial assets - current	270,369	6,813	-	6,813	Note E
	TYG	-	Available-for-sale financial assets - current	350,000	3,955	-	3,955	Note E
	EVERLIGHT	-	Available-for-sale financial assets - current	100,000	4,320	-	4,320	Note E
	AUO	-	Available-for-sale financial assets - current	300,000	7,410	-	7,410	Note E
	HTC	-	Available-for-sale financial assets - current	18,000	5,886	-	5,886	Note E
	ACER	-	Available-for-sale financial assets - current	100,000	4,260	-	4,260	Note E
	SONIX	-	Available-for-sale financial assets - current	200,000	6,880	-	6,880	Note E
	CHINESEGAMER	-	Available-for-sale financial assets - current	50,000	4,725	-	4,725	Note E
	SZS	-	Available-for-sale financial assets - current	45,000	3,690	-	3,690	Note E
	INNOLUX	-	Available-for-sale financial assets - current	200,000	4,850	-	4,850	Note E
	PT TECH.	-	Available-for-sale financial assets - current	70,000	3,913	-	3,913	Note E
	GET	-	Available-for-sale financial assets - current	75,000	7,200	-	7,200	Note E
	S.W.	-	Available-for-sale financial assets - current	100,000	3,480	-	3,480	Note E
	CSRC	-	Available-for-sale financial assets - current	130,000	4,199	-	4,199	Note E
	N.P.C	-	Available-for-sale financial assets - current	19,000	1,311	-	1,311	Note E
	FTC	-	Available-for-sale financial assets - current	70,000	5,404	-	5,404	Note E
	FOXLINK	-	Available-for-sale financial assets - current	120,000	4,320	-	4,320	Note E
	TCC	-	Available-for-sale financial assets - current	200,000	5,390	-	5,390	Note E
	FPC	-	Available-for-sale financial assets - current	100,000	4,360	-	4,360	Note E

(Continued)

Holding Company Name	Type and Issuer/Name of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2008				Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	
	CMT	-	Available-for-sale financial assets - current	100,000	$ 5,060	-	$ 5,060	Note E
	CSC	-	Available-for-sale financial assets - current	207,500	4,793	-	4,793	Note E
	DELTA	-	Available-for-sale financial assets - current	100,000	6,350	-	6,350	Note E
	Yuanta Group	-	Available-for-sale financial assets - current	400,000	5,880	-	5,880	Note E
	UMT	-	Available-for-sale financial assets - current	50,000	4,025	-	4,025	Note E
	CHT	-	Available-for-sale financial assets - current	181,500	9,710	-	9,710	Note E
	PAHSCO	-	Available-for-sale financial assets - current	180,000	5,778	-	5,778	Note E
	FFHC	-	Available-for-sale financial assets - current	150,000	2,588	-	2,588	Note E
	UNIMICRON	-	Available-for-sale financial assets - current	280,000	3,808	-	3,808	Note E
	Alpha	-	Available-for-sale financial assets - current	100,000	1,895	-	1,895	Note E
	CyberLink	-	Available-for-sale financial assets - current	25,000	2,913	-	2,913	Note E
	MOTECH	-	Available-for-sale financial assets - current	90,000	6,966	-	6,966	Note E
	LITE-ON IT	-	Available-for-sale financial assets - current	600,750	7,930	-	7,930	Note E
	GIANT	-	Available-for-sale financial assets - current	52,500	3,827	-	3,827	Note E
	U-MING	-	Available-for-sale financial assets - current	1,047,000	41,147	-	41,147	Note E
	ACC	-	Available-for-sale financial assets - current	3,449,000	98,124	-	98,124	Note E
	HWACOM		Available-for-sale financial assets - current	60,000	1,233	-	1,233	Note E
	TSMT		Available-for-sale financial assets - current	160,000	3,560	-	3,560	Note E
	PVI		Available-for-sale financial assets - current	130,000	1,898	-	1,898	Note E
	OUCC		Available-for-sale financial assets - current	500,000	6,900	-	6,900	Note E
	<u>Open-ended mutual funds</u>							
	Deutsche Far Eastern DWS Taiwan Bond Security Investment Trust Fund (Former Far Eastern Alliance Taiwan Bond Security Investment Trust Fund)	-	Available-for-sale financial assets - current	73,960,494.25	824,268	-	824,268	Note B
	JPM (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	196,462	-	196,462	Note B
	Deutsche Far Eastern DWS Taiwan Thematic Fund	-	Available-for-sale financial assets - current	10,000,000.00	77,200	-	77,200	Note B
	<u>Private funds</u>							
	Fuh Hwa Value Added Strategy Fund	-	Financial assets carried at cost - noncurrent	14,866,204.20	150,000	-	150,000	Note C
ARCOA Communication Co., Ltd.	<u>Stocks</u>							
	THI consultants	-	Financial assets carried at cost - noncurrent	1,213,594	13,729	18.32	13,729	Note C
	Chunghwa Int’l Communication Network Co., Ltd.	-	Financial assets carried at cost - noncurrent	2,086,854	6,714	4.12	6,714	Note C
	VIBO Telecom Inc.	-	Financial assets carried at cost - noncurrent	840,000	8,400	0.04	8,400	Note C
	Web Point Co., Ltd.	-	Financial assets carried at cost - noncurrent	160,627	1,618	0.63	1,618	Note C
	<u>Open-ended mutual funds</u>							
	Yuanta Wan Tai Bond Fund	-	Available-for-sale financial assets - current	2,096,201.70	30,246	-	30,246	Note B
	ING Taiwan Bond Fund	-	Available-for-sale financial assets - current	1,946,497.28	30,293	-	30,293	Note B
	PCA Well Pool Fund	-	Available-for-sale financial assets - current	6,969,144.50	90,187	-	90,187	Note B
	Prudential Financial Bond Fund	-	Available-for-sale financial assets - current	5,969,159.60	90,049	-	90,049	Note B
	UPAMC Great China Fund	-	Available-for-sale financial assets - current	5,667,328.00	90,311	-	90,311	Note B

(Continued)

Holding Company Name	Type and Issuer/Name of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2008				Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds carried at amortized cost - current	3,000,000.00	$ 3,000	-	$ 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$ 4,078,000	100.00	US$ 4,078,000	Notes A and C
Far EasTron Holding Ltd.	Stocks							
	ADCast Interactive Marketing Co., Ltd.	Equity-method investee	Equity-method investments	2,734,446	US$ 772,000	60.52	US$ 772,000	Notes A and C
E. World (Holdings) Ltd.	Stocks							
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$ 2,112,000	99.99	US$ 2,112,000	Notes A and C

Note A: The calculation was based on audited financial statements as of December 31, 2008.

Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2008.

Note C: The financial assets carried at cost, bonds carried at amortized cost and equity-method investments without quoted prices were measured by net worth of investees or their respective carrying values.

Note D: The carrying value of available-for-sale financial assets - current were equal to market values as of December 31, 2008.

Note E: The calculation of domestic publicly traded stocks were based on the closing price at the end of December 31, 2008.

(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, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or (Loss)	Share/Units	Amount
ARCOA Communication Co., Ltd.	Pca Well Pool Fund	Available-for-sale financial assets - current	-	-	11,840,116.17	$ 150,000	17,943,657.00	$ 230,000	22,814,628.67	$ 291,238	$ 290,000	$ 1,238	6,969,144.50	$ 90,000
	Yuanta Wan Tai Bond Fund	Available-for-sale financial assets - current	-	-	8,486,961.50	120,000	10,511,710.10	150,000	16,902,469.90	242,197	240,000	2,197	2,096,201.70	30,000
KG Telecommunications Co., Ltd.	FPC	Available-for-sale financial assets - current	-	-	100,000	9,158	1,350,000	108,749	1,350,000	110,570	112,462	(1,892)	100,000	5,445
	Deutsche Far Eastern DWS Taiwan Thematic Fund	Available-for-sale financial assets - current	-	-	-	-	10,000,000.00	100,000	-	-	-	-	10,000,000.00	100,000

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2008
(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	$ (3,007,573)	(6%)	Based on agreement	-	-	Accounts receivable $ 398,046	6%
			Cost of telecommunications services	1,658,786	8%	Based on agreement	-	-	Accounts payable (139,326)	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Sales of cellular phone equipment and accessories and telecommunications service revenue	(245,153)	-	Based on agreement	-	-	Accounts receivable 174,080	3%
			Cost of telecommunications services, marketing expenses and cost of sales	2,229,708	6%	Based on agreement	-	-	Accounts payable and accrued expense (142,182)	(3%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(208,305)	-	Based on agreement	-	-	Accounts receivable 40,953	1%
	New Century InfoComm Tech Co., Ltd.	Equity-method investee	Telecommunications service revenues	(773,982)	(2%)	Based on agreement	-	-	Accounts receivable (Note) -	-
			Cost of telecommunication services	102,144	-	Based on agreement	-	-	Accounts payable (Note) (134,600)	(6%)
	NTT DoCoMo Inc.	Director	Telecommunications service revenues	(114,572)	-	Based on agreement	-	-	Accounts receivable 25,810	-
	Ding Ding Integrated Marketing Co., Ltd.	Equity-method investee	Marketing fee	128,396	1%	Based on agreement	-	-	Accrued expense (58,309)	2%
	Far Eastern Tech-Info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	146,383	57%	Based on agreement	-	-	Accrued expense (16,797)	(1%)
KG Telecommunications Co., Ltd. (KG Telecom)	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,658,786)	(13%)	Based on agreement	-	-	Accounts receivable 139,326	10%
			Cost of telecommunications services	3,007,573	33%	Based on agreement	-	-	Accounts payable (398,046)	(44%)
	ARCOA Communication Co., Ltd.	Same parent company	Cost of telecommunications services, marketing expenses and cost of sales	533,013	5%	Based on agreement	-	-	Accounts payable and accrued expense (33,450)	(2%)
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue, sales of cellular phone equipment and accessories and service revenues	(2,229,708)	(38%)	Based on agreement	-	-	Accounts receivable 142,182	67%
			Purchase and cost of telecommunications services	245,153	5%	Based on agreement	-	-	Accounts payable (174,080)	(41%)
	KG Telecommunications Co. Ltd.	Same parent company	Commission revenue and sales of cellular phone equipment and accessories	(533,013)	(9%)	Based on agreement	-	-	Accounts receivable 33,450	16%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications services	208,035	18%	Based on agreement	-	-	Accounts payable (40,953)	(21%)
	New Century InfoComm Tech Co., Ltd.	Equity-method investee	Telecommunications service revenues	(277,667)	(27%)	Based on agreement			Accounts receivable 37,317	18%
Far Eastern Tech-Info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenue	(146,383)	(84%)	Based on agreement	-	-	Accounts receivable 16,797	62%

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2008
(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	$ 460,375	(Note A)	$ -	-	$ 270,734	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	178,036	9.60	-	-	130,063	-
KG Telecommunications Co., Ltd. (KG Telecom)	Far EasTone Telecommunications Co., Ltd.	Parent company	841,906	(Note B)	-	-	648,164	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	142,182	10.91	-	-	98,290	-

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, 2008
(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, 2008			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2008	December 31, 2007	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	$ 32,475,440	$ 1,013,276	$ 1,013,206	Notes A and B
	New Century InfoComm Tech Co., Ltd.	Taiwan	Type I, II telecommunications services	6,062,000	6,062,000	980,315,483	24.51	5,490,024	(2,800,811)	(567,440)	Notes B and C
	ARCOA Communication Co., Ltd.	Taiwan	Type II telecommunications services, sales of communications products and office equipment	1,283,560	1,278,944	80,276,314	59.78	1,039,987	61,190	35,600	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,577,140	1,577,140	157,714,020	41.18	408,729	(594,577)	(236,127)	Notes B and C
	Q-ware Communications Co., Ltd.	Taiwan	Type II telecommunications services	495,855	495,855	36,459,930	51.00	190,370	(277,906)	(141,732)	Notes A and B
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	153,851	4,730	4,730	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	67,305	6,626	5,693	Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	25,575	(13,862)	(13,862)	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	5,744	(91,562)	(11,556)	Notes B and C
	ADCast Interactive Marketing Co., Ltd. (Note G)	Taiwan	Internet advertisements and marketing	1,000	-	18,351	0.40	170	(3,320)	9	Notes B and E
	Far EasTron Co., Ltd. (Note G)	Taiwan	Internet service	-	1,000	-	-	-	(10,846)	(72)	Notes D and E
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd. (Note H)	Taiwan	Type II telecommunications services	2,355,649	2,197,794	198,136,425	79.25	890,885	(135,428)		Notes B and E
	KGT International Holding Co., Ltd. (Note H)	British Virgin Islands	Investment	-	93,976	-	-	-	(4,596)		Notes D and E
	iScreen Corporation	Taiwan	Information service	100,000	100,000	4,000,000	40.00	28,765	5,362		Notes B and F
	ADCast Interactive Marketing Co., Ltd.	Taiwan	Internet advertisements and marketing	3,652	-	368,519	8.16	3,414	(3,320)		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$ 4,078,000	282		Notes B and E
Far EasTron Holding Ltd.	ADCast Interactive Marketing Co., Ltd. (Note G)	Taiwan	Internet advertisements and marketing	US$ 4,532,000	-	2,734,446	60.52	US$ 772,000	(3,320)		Notes B and E
	Far EasTron Co., Ltd. (Note G)	Taiwan	Internet service	-	US$ 4,532,000	-	-	-	(10,846)		Notes D and E
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 2,112,000	7,252		Notes B and E
KGT International Holding Co., Ltd. (Note H)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	-	US$ 4,822,000	-	-	-	(135,428)		Notes B and E

Note A: Subsidiary.

Note B: The calculation was based on audited financial statements as of December 31, 2008.

Note C: Equity-method investee of the Company.

Note D: The calculation was based on unaudited financial statements as of December 31, 2008.

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

Note F: Equity-method investee of KG Telecom.

Note G: Far EasTron was dissolved on September 3, 2008 upon its merger with ADCast. Thus, Far EasTron’s common shares owned by the Company and Far EasTron Holding were swapped into ADCast’s common shares.

Note H: KGTI was dissolved on May 27, 2008 and completed its liquidation on August 21, 2008. KGTI’s holding of the common shares of KGEx.com was distributed to KG Telecom after the liquidation.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2008
(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, 2008	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2008 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2008	Accumulated Investment in Mainland China as of December 31, 2008	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$82,000 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$282	$133,758 (US$4,078,000)	$ -	$92,616	$92,616	$42,777,721 (Note C)

Note A: The calculation was based on audited financial statements as of December 31, 2008.

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

Note C: Based on the limit, which is 60% of the Company's net worth, as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA, ROC.

Note D: Please refer to Note 23 for significant transactions with the investee company.