Far EasTone Telecommunications Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of
March 31, 2003 and 2004
Together with Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. and subsidiaries ("the Company") as of March 31, 2003 and 2004, and the related consolidated statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with Statement on Auditing Standards No. 36—"Review of Financial Statement" in the Republic of China, which consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the Republic of China.

Our review also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented for the convenience of the readers.

April 29, 2004

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 review such financial statements are those generally accepted and applied in the Republic of China.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
MARCH 31, 2003 AND 2004
(In Thousands of New Taiwan Dollars or U.S. Dollars, Except Par Value)

ASSETS	2003	2004	
	NT$	NT$	US$ (Note 3)
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$ 4,147,768	$ 2,680,115	$ 81,216
Short-term investments (Notes 2 and 6)	-	75,505	2,288
Notes and accounts receivable—net of allowance for doubtful accounts of NT$496,704 in 2003 and NT$1,319,258 (US$39,978) in 2004 (Notes 2 and 20)	3,541,343	6,450,532	195,470
Inventories—net (Notes 2 and 7)	454,817	1,132,056	34,305
Prepaid expenses (Notes 2 and 20)	1,823,573	2,515,149	76,217
Other receivables—related parties (Note 20)	-	127,718	3,870
Deferred income tax assets—current (Notes 2 and 19)	621,183	1,751,134	53,065
Other current assets (Notes 2, 13 and 14)	45,551	192,361	5,829
Total current assets	10,634,235	14,924,570	452,260
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 8)			
Equity method	8,564	1,751,869	53,087
Cost method	-	3,000	91
Total investments in shares of stock	8,564	1,754,869	53,178
PROPERTIES (Notes 2, 9, 20 and 21)			
Cost			
Land	153,004	1,050,281	31,827
Buildings and equipment	649,344	2,071,649	62,777
Computer equipment	5,833,499	8,891,362	269,435
Operating equipment	46,130,852	85,876,310	2,602,312
Office equipment	775,202	798,115	24,185
Leasehold improvements	1,690,676	1,386,418	42,013
Miscellaneous equipment	54,802	333,492	10,106
Total cost	55,287,379	100,407,627	3,042,655
Less—accumulated depreciation	19,106,934	37,459,115	1,135,124
	36,180,445	62,948,512	1,907,531
Construction in progress and advances related to acquisition of equipment	2,792,950	4,456,269	135,038
Net properties	38,973,395	67,404,781	2,042,569
INTANGIBLE ASSETS			
3G concession (Notes 2 and 11)	10,169,000	10,169,000	308,152
Goodwill—net (Note 2)	-	11,667,286	353,554
Total intangible assets	10,169,000	21,836,286	661,706
OTHER ASSETS			
Deferred income taxes assets—noncurrent (Notes 2 and 19)	1,427,052	1,078,713	32,688
Refundable deposits (Note 20)	375,295	424,979	12,878
Rental assets—net (Notes 2 and 10)	-	192,425	5,831
Miscellaneous (Notes 2 and 21)	216,324	337,058	10,214
Total other assets	2,018,671	2,033,175	61,611
TOTAL ASSETS	$ 61,803,865	$ 107,953,681	$ 3,271,324

LIABILITIES AND STOCKHOLDERS' EQUITY	2003	2004	
	NT$	NT$	US$ (Note 3)
CURRENT LIABILITIES			
Short-term debts (Note 12)	$ -	$ 1,300,264	$ 39,402
Commercial paper payable (Notes 13 and 21)	-	1,708,933	51,786
Notes payable	16,432	146,692	4,445
Accounts payable	173,856	1,517,415	45,982
Payables to related parties (Note 20)	515,915	169,027	5,122
Income tax payable (Notes 2 and 19)	168,985	970,300	29,403
Accrued expenses	2,489,302	5,403,783	163,751
Payables related to acquisitions of properties	1,714,037	2,160,137	65,459
Guarantee deposits received—current	-	1,850,067	56,063
Unearned revenues (Note 2)	2,139,772	2,579,258	78,159
Current portion of long-term liabilities (Notes 9, 14 and 21)	616,000	9,035,162	273,793
Other current liabilities (Notes 1, 2, 9 and 20)	160,853	3,666,748	111,114
Total current liabilities	7,995,152	30,507,786	924,479
LONG-TERM LIABILITIES—Net of current portion			
Long-term bonds payable (Notes 2, 14, and 21)	10,146,198	10,350,000	313,636
Long-term debts payable (Notes 14 and 21)	-	5,804,964	175,908
Total long-term liabilities	10,146,198	16,154,964	489,544
OTHER LIABILITIES			
Accrued pension cost (Note 2)	140,736	186,920	5,664
Guarantee deposits received—noncurrent	1,858,693	130,381	3,951
Other liabilities	-	17,129	519
Minority interest	1,949,303	-	-
Total other liabilities	3,948,732	334,430	10,134
Total liabilities	22,090,082	46,997,180	1,424,157
STOCKHOLDERS' EQUITY (Notes 1, 2, 15, and 23)			
Capital stock—$10 par value			
Authorized—3,504,353 thousand shares			
Issued—2,305,800 thousand shares in 2003 and 2,697,786 thousand shares in 2004	23,058,000	26,977,860	817,511
Capital stock to be issued—693,523 thousand shares	-	6,935,232	210,159
Capital surplus			
Paid-in capital in excess of par value	5,967,572	14,426,895	437,179
From investments in shares of stock	29,086	29,086	881
Total capital surplus	5,996,658	14,455,981	438,060
Retained earnings			
Legal reserve	1,097,646	1,878,488	56,924
Unappropriated earnings	9,558,381	10,705,995	324,424
Total retained earnings	10,656,027	12,584,483	381,348
Cumulative translation adjustments	3,098	2,945	89
Total stockholders' equity	39,713,783	60,956,501	1,847,167
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 61,803,865	$ 107,953,681	$ 3,271,324

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2004
(In Thousands of New Taiwan Dollars or U.S. Dollars, Except Per Share Amounts)

	2003	2004	
	NT$	NT$	US$ (Note 3)
OPERATING REVENUES (Notes 2 and 20)			
Sales of cellular phone equipment and accessories	$ 635,959	$ 1,012,449	$ 30,680
Less—sales returns and allowances	-	8,000	242
Net sales	635,959	1,004,449	30,438
Service revenues	8,141,839	15,157,015	459,304
Other	620	4,732	143
Total operating revenues	8,778,418	16,166,196	489,885
OPERATING COSTS (Notes 2, 17, 18 and 20)			
Cost of sales	603,917	1,084,772	32,872
Cost of services	3,910,222	6,744,276	204,372
Total operating costs	4,514,139	7,829,048	237,244
GROSS PROFIT	4,264,279	8,337,148	252,641
OPERATING EXPENSES (Notes 2, 17 and 18)			
Marketing	1,629,548	2,516,207	76,249
General and administrative	808,010	1,696,116	51,397
Research and development	73,678	95,792	2,903
Total operating expenses	2,511,236	4,308,115	130,549
OPERATING INCOME	1,753,043	4,029,033	122,092
NONOPERATING INCOME AND GAINS			
Foreign exchange gains—net (Note 2)	1,853	60,803	1,843
Interest	5,756	6,551	198
Reversal of allowance for losses on inventories (Note 2)	1,686	-	-
Other	2,268	82,390	2,497
Total nonoperating income and gains	11,563	149,744	4,538
NONOPERATING EXPENSES AND LOSSES			
Interest (Note 9)	90,782	204,098	6,185
Equity in investees' net losses (Notes 2 and 8)	1,778	63,955	1,938
Loss on disposal of properties	12,236	5,780	175
Other (Note 18)	-	26,607	807
Total nonoperating expenses and losses	104,796	300,440	9,105

(Continued)

	2003	2004	
	NT$	NT$	US$ (Note 3)
CONSOLIDATED INCOME BEFORE INCOME TAX EXPENSE	$ 1,659,810	$ 3,878,337	$ 117,525
INCOME TAX EXPENSE (Notes 2 and 19)	8,436	547,837	16,601
CONSOLIDATED INCOME BEFORE MINORITY INTEREST	1,651,374	3,330,500	100,924
MINORITY INTEREST	11,901	-	-
NET INCOME	$ 1,663,275	$ 3,330,500	$ 100,924

	2003		2004			
	Income Before Income Tax	Net Income	Income Before Income Tax		Net Income	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
CONSOLIDATED EARNINGS PER SHARE (Note 16)						
Primary	$ 0.62	$ 0.62	$ 1.02	$ 0.03	$ 0.98	$ 0.03
Diluted	$ 0.62	$ 0.62	$ 0.99	$ 0.03	$ 0.95	$ 0.03

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2004
(In Thousands of New Taiwan Dollars or U.S. Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income	$ 1,663,275	$ 3,330,500	$ 100,924
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	(11,901)	-	-
Depreciation and amortization	1,741,859	3,108,792	94,206
Provision for doubtful accounts	86,590	423,985	12,848
Provision (reversal of allowance) for losses on inventories	(1,686)	3,470	105
Equity in investee's net losses	1,778	63,955	1,938
Loss on disposal of properties—net	12,236	5,780	175
Accrued pension cost	9,606	17,642	535
Deferred income taxes	(23,968)	302,675	9,172
Interest premium on convertible bonds	4,523	8,584	260
Unrealized exchange gains on overseas convertible bonds	(6,785)	(108,512)	(3,288)
Amortization of issuance cost of convertible bonds	5,710	13,063	396
Changes in operating assets and liabilities			
Decrease (increase) in			
Notes and accounts receivable	(411,356)	469,722	14,234
Inventories	202,883	(113,732)	(3,446)
Prepaid expenses	(61,076)	(293,295)	(8,888)
Other receivables—related parties	(36,018)	(11,191)	(339)
Other current assets	(1,784)	(13,224)	(401)
Increase (decrease) in			
Notes payable	(12,512)	(114,419)	(3,467)
Accounts payable	(415,489)	50,286	1,523
Payables to related parties	(100,158)	(57,507)	(1,742)
Income tax payable	31,890	242,596	7,352
Accrued expenses	(442,395)	(272,814)	(8,267)
Unearned revenues	89,462	(58,963)	(1,787)
Other current liabilities	17,864	15,417	467
Net cash provided by operating activities	2,342,548	7,012,810	212,510
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in short-term investments	-	3,318,142	100,550
Acquisition of investments in shares of stock	-	(475,000)	(14,394)
Acquisition of properties	(1,021,461)	(1,824,848)	(55,298)
Proceeds from sales of properties	5,915	298	9
Increase in refundable deposits	(1,932)	(8,448)	(256)
Decrease (increase) in other assets	(100,062)	46,440	1,407
Net cash provided by (used in) investing activities	(1,117,540)	1,056,584	32,018

(Continued)

	2003 NT$	2004 NT$	2004 US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term debts	$ -	($ 949,736)	($ 28,780)
Decrease in commercial paper payable	-	(1,234,498)	(37,409)
Decrease in capital lease obligations	-	(400,000)	(12,121)
Decrease in long-term debts	(3,869,839)	(9,125,969)	(276,544)
Increase in long-term bonds payable	4,672,460	-	-
Increase in long-term debts	-	690,000	20,909
Decrease in guarantee deposits received	(133,034)	(277,065)	(8,396)
Decrease in other liabilities	-	(19,694)	(597)
Cash consideration of the merger	-	(11,698,461)	(354,499)
Net cash provided by (used in) financing activities	669,587	(23,015,423)	(697,437)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,894,595	(14,946,029)	(452,909)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,253,173	14,568,654	441,474
CASH AND CASH EQUIVALENTS DUE TO MERGE WITH KG TELECOMMUNICATIONS CO., LTD.	-	3,057,490	92,651
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,147,768	$ 2,680,115	$ 81,216
SUPPLEMENTARY INFORMATION			
Interest paid (excluding capitalized interest)	$ 158,394	$ 218,093	$ 6,609
Income tax paid	$ 514	$ 2,719	$ 82
NONCASH FINANCING ACTIVITIES			
Current portion of long-term liabilities	$ 616,000	$ 9,035,162	$ 273,793
Reclassification of properties into rental assets	$ -	$ 192,908	$ 5,846
CASH PAID FOR ACQUISITION OF PROPERTIES			
Increase in properties	$ 615,320	$ 991,785	$ 30,054
Decrease in payables related to acquisition of properties	406,141	833,063	25,244
CASH PAID FOR ACQUISITION OF PROPERTIES	$ 1,021,461	$ 1,824,848	$ 55,298
PROCEEDS FROM DISPOSAL OF PROPERTIES			
Total amount of properties sold	$ 7,027	$ 8,990	$ 272
Increase in receivables from properties sold	(1,112)	(8,692)	(263)
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	$ 5,915	$ 298	$ 9

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

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd., ("Far EasTone") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. Far EasTone's shares have been traded and listed on the ROC Over-the-Counter Securities Exchange (now known as GreTai Securities Market) since December 10, 2001. Far EasTone provides wireless communications, leased-circuit services, Internet and international simple resale (ISR) services and also sells cellular phone units and accessories. Far Eastern Textile Co., Ltd. is the ultimate parent company of Far EasTone. In October 2003, the other principal stockholders, the AT&T Wireless Group and its affiliates, transferred to Far Eastern Textile Co., Ltd. and its affiliate ("Far Eastern Group") all the Far EasTone stock owned. Therefore, Far Eastern Group directly or indirectly owned 76.44% of Far EasTone's shares. But after the completion of the two-step merger with KG Telecommunications Co., Ltd., Far Eastern Group directly or indirectly owned 57.48% of Far EasTone's shares.

Far EasTone provides wireless communications services by geographical sector under two type I licenses—GSM 900 for the northern region of Taiwan and GSM 1800 for island—wide ("GSM" means global system for mobile communications)—issued by the Directorate General of Telecommunications (the "DGT") of the Republic of China (ROC). These licenses allow Far EasTone to provide services for 15 years from 1997, with an annual license fee at 2% of total wireless communications service revenues.

The DGT also issued to Far EasTone a type II license, allowing it to provide internet services for 10 years from 1999 for a fixed annual license fee based on the amount of Far EasTone's paid-in capital. In addition, Far EasTone provides services under a type II-ISR license for 10 years from December 2001 and pays an annual license fee at 0.5% of ISR service revenues and is licensed to provide local/domestic long distance land cable leased-circuit services for 15 years from January 2003, with an annual license fee at 1% of leased-circuit service revenues.

Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) started preparing for its establishment on January 1, 2001 and was incorporated in the ROC on December 5, 2001 as Far EasTone's wholly owned subsidiary. Yuan-Ze received permission from the DGT to start its preparatory activities for the construction of 3G (third—generation wireless communications system) network on March 15, 2002. In March 2002, Yuan-Ze issued additional shares of stock of NT$9,170,000 for cash and Far EasTone subscribed for a portion of these shares (aggregate par value of NT$7,170,000), thus diluting its equity to 80.71%. For the purpose of integration of the telecommunications business and operational efficiency, Far EasTone bought all the other shares of Yuan-Ze from other stockholders for NT$2,000,000 on December 16, 2003. Thus, Yuan-Ze became a wholly owned subsidiary of Far EasTone.

On December 22, 2003, the Board of Directors of both companies approved the merger of Far EasTone with Yuan-Ze, with Far EasTone as the surviving company. The proposed date for completion of the merger is May 10, 2004. Yuan-Ze engages in providing 3G wireless communications and sale of telecommunications equipment. As of March 31, 2003, Yuan-Ze was still in its development stage.

On October 7, 2003, Far EasTone signed a definitive merger agreement with KG Telecom. KG Telecom was incorporated in the Republic of China on June 27, 1997 and began commercial operations in January 1998. It provides wireless communications, leased-circuit services and also sells cellular phone units and accessories.

KG Telecom provides wireless communications services under a island-wide type I license—GSM 1800 issued by the DGT. The license allows KG Telecom to provide services for 15 years from 1997, with an annual license fee at 2% of total wireless communications service revenues. The DGT also issued KG Telecom 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 at 1% of leased-circuit service revenues.

The merger agreement with KG Telecom provided for the transaction to occur in two steps (the "Combination"). To facilitate the combination with KG Telecom, Far EasTone formed a new wholly owned subsidiary in September 2003 called Yuan Ho Telecommunications Co., Ltd. ("Yuan-Ho"), which also was a party to the merger agreement. Yuan-Ho engages in providing wireless communications and sale of telecommunications equipment. In connection with the first step of the Combination, Yuan-Ho issued 526,431 thousand shares for total proceeds of NT$11,698,461 (US$354,499).

In the first step of the transaction, KG Telecom merged with and into Yuan-Ho with Yuan-Ho as the surviving company. The first step was completed and effective on January 1, 2004.

As consideration for this step of the transaction, KG Telecom shareholders became entitled to receive cash of NT$6.72 (US$0.20), together with 0.46332 of one share of common stock of Yuan-Ho, for each KG Telecom share that they owned, representing aggregate consideration to all KG Telecom shareholders of NT$11,698,461 (US$354,499) in cash and 806,567 thousand shares of common stock of Yuan-Ho This merger consideration was held in escrow for KG Telecom shareholders pending completion of the second step of the transaction. Subsequent to completion of the first step of the transaction, Yuan-Ho obtained approval from the Department of Commerce, Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. ("KGT") and the former KG Telecom (the "former KGT") no longer existed as a corporate entity. In addition, the capital of KGT increased to NT$13,329,979 and the equity of KGT owned by Far EasTone was temporarily diluted to 39.49%. The other principal shareholders of KGT are the original shareholders of the former KGT and held 60.51% ownership as of January 1, 2004.

Under the Enterprise Mergers and Acquisitions Law No. 12 Far EasTone entered into an agreement with a dissenting shareholder (By Yang Investment Co., Ltd) on April 16, 2004 to repurchase 113,044 thousand shares for NT$3,334,798 (US$101,054) which was paid on April 26, 2004. The difference between the fair value and the repurchase price of the treasury stock of NT$821,733 (US$24,901) was recorded as a reduction to unappropriated earnings.

In the second step of the transaction, former KGT shareholders became entitled to receive one share of Far EasTone stock in exchange for each KGT share owned, representing an aggregate of 806,567 thousand of Far EasTone shares in the amount of NT$17,930,678 (US$543,354). In order to satisfy this consideration to former KGT shareholders, Far EasTone issued 693,523 thousand new shares (included in capital stock to be issued and paid-in capital in excess of par value in the amount NT$6,935,232 (US$210,158) and NT$8,482,381 (US$257,042), respectively, amounting to NT$15,417,613 (US$467,200)) and reissued the 113,044 thousand shares held as treasury stock. The share swap agreement was approved by the shareholders of the two companies on February 18, 2004 and by the OTC and SFC on March 29, 2004 and April 8, 2004, respectively. The second step of the transaction was completed on April 29, 2004. As a result, the shareholders of the former KGT hold approximately 24% ownership in Far EasTone.

Upon completion of the second step of the transaction, Far EasTone accounted for the merger with KGT as a wholly-owned subsidiary. Far EasTone established control of KGT as of January 1, 2004 as Far EasTone held the majority of the board seats of KGT, significant consideration had been paid and other elements of control had been established. As such, Far EasTone recognized 100% of its investment income beginning January 1, 2004.

The transaction will be accounted for as a purchase with a total estimated purchase price of NT$29,832,639 (US$904,019) which includes Far EasTone common stock valued at NT$17,930,678 (US$543,354) based on the average closing prices for the trading days (September 29, 2003 to October 3, 2003) around the announcement date (October 7, 2003) of the Combination, a cash payment of NT$11,698,461 (US$354,499) and estimated direct transaction costs of NT$203,500 (US$6,166).

Under the purchase method of accounting, the total estimated purchase price is allocated to the net tangible and intangible assets acquired based on their estimated fair values as of the date of the completion of the Combination. Based on Far EasTone management's preliminary valuation, the preliminary estimated purchase price was allocated as follows:

	Amount
Cash and cash equivalents	$ 3,057,490
Short-term investments—net	3,393,647
Accounts receivables—net	3,601,008
Inventories—net	220,694
Prepaid expenses	409,319
Other current assets	917,945
Investments in shares of stock	1,273,517
Properties—net	30,061,042
Goodwill	11,865,037
Refundable deposits	174,795
Other assets	290,346
Short-term debts	(2,150,000)
Commercial paper payable	(2,453,844)
Notes and accounts payable	(654,364)
Income tax payable	(703,621)
Accrued expenses	(2,835,260)
Payables related to acquisitions of properties	(276,270)
Unearned revenues	(778,534)
Current portion of long-term liabilities	(3,822,170)
Other current liabilities	(679,587)
Long-term liabilities	(10,870,475)
Other liabilities	(208,076)
Total purchase price	$ 29,832,639

Far EasTone, Yuan-Ze and KGT (the "Group") had 2,228 and 3,483 employees as of March 31, 2003 and 2004, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to accounting principles generally accepted in the ROC.

The Group uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, allowances for losses on properties not currently used in operations, depreciation, amortization, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

The significant accounting policies of the Group are summarized as follows:

Consolidation

The consolidated financial statements include the accounts of Far EasTone and its direct and indirect subsidiaries with individual total assets or total operating revenues exceeding 10% of the unconsolidated total assets or operating revenues of Far EasTone. Other subsidiaries are also consolidated if their combined total assets or operating revenues exceeds 30% of the unconsolidated total assets or operating revenues of Far EasTone but individually exceeds 3% of those of Far EasTone. All significant intercompany accounts and transactions are eliminated in consolidation.

The consolidated financial statements as of and for the three months ended March 31, 2003 include the accounts of Far EasTone and Yuan-Ze. The consolidated financial statements as of and for the three months ended March 31, 2004 include the accounts of Far EasTone, Yuan-Ze and KGT.

Current and Noncurrent Assets and Liabilities

Current assets include non-restricted cash or cash equivalent as well as items expected to be converted into cash or used within one year. Current liabilities are obligations expected to be settled within one year. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Bonds and commercial paper purchased under agreements to resell with original maturities of not more than three months are classified as cash equivalents.

Short-term Investments

Short-term investments are carried at the lower of aggregate cost or market value. An allowance for loss is provided and charged to income for the current period when the aggregate carrying value of the investments exceeds the total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income.

The costs of short-term investments sold are determined by the moving-weighted-average method.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided on the basis of the estimated collectibility of receivables from subscribers and other parties.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined by the moving-weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in which the Group owns at least 20% of investees' common stock or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is carried at cost on the acquisition date. Any cash dividends received are recognized as a reduction in the carrying value of the investments. The investment carrying values are then adjusted proportionately to the Group's share in the investee's net income or net loss. The difference between the cost of the investment and the Group's equity in the investee's net assets is amortized over twenty years. If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Group's equity in its investee's net assets is credited to capital surplus. Any decrease in the Group's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings. If the current year's financial statements of less than majority-owned investees are not timely available to the Group, the equity in the net income or net loss of these investees is recognized in the succeeding year on the basis of the financial statements of the previous year.

Other investments are accounted for by the cost method. Such investments are carried at cost less an allowance for an other than temporary decline in the value of unlisted stock. These allowances are charged to current income. Cash dividends received are accounted for as dividend income.

Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The carrying amount of each share is recalculated on the basis of the total number of shares, including the received stock dividend.

Costs of investments sold are determined by the moving-weighted-average method.

Properties and Rental Properties

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

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

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48-55
Building equipment	5-10
Computer equipment	3-5
Operating equipment	7-15
Office equipment	5-10
Leasehold improvements	5-15
Miscellaneous equipment	3-8

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

3G Concession

The 3G concession will be amortized on a straight-line basis from the date operations commence through the date the license expires.

Goodwill

Goodwill derived from merging with the former KGT is amortized by the straight-line method over 15 years.

Deferred Charges

Deferred charges (included in other assets—miscellaneous), which consist mainly of base station wiring, are amortized using the straight-line method over three to five years.

Properties not Currently Used in Operations

Properties not currently used in operations (included in other assets—miscellaneous), such as telecommunications equipment, are stated at the lower of cost or net realizable value.

Revenue Recognition

Revenue is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, international simple resale services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) fixed monthly service fees and leased-circuit service revenues are accrued each month; and (b) prepaid call and Internet card services are recognized as income based upon customer usage.

The revenues from and expenses for the sale of cellular phone units and accessories are recognized when the products are delivered to and accepted by the customers as the related transaction is considered a separate earnings process from the sale of wireless services.

The amount received at the start of a bundled contract (which covers both the purchase price of a cellular phone unit and service fees for an equivalent number of minutes of traffic each month throughout the validity period of the contract) is deferred and recognized as revenue over the service period of the contract using the straight-line method. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the beginning of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the beginning of the contract is deferred and amortized as marketing expense over the period of the contract using the straight-line method.

Operating revenues are measured at fair values based on the prices negotiated between the Group 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 based on the pro forma interest rate method.

Promotion Expenses

Commissions and cellular phone unit subsidy costs (other than those pertaining to the bundle contract mentioned above) related to the Group's promotions, are treated as marketing expenses in the period when the service to a subscriber is activated.

Pension Costs

Far EasTone and KGT have a defined benefit pension plan for all regular employees. Benefits are based on the number of service years and basic pay on the final month before retirement. Yuan-Ze does not have a pension plan.

Pension costs are recognized on the basis of actuarial calculations. Gains arising from plan curtailment due to pre-termination of employees' services are recognized as an adjustment to pension cost in the current period. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service of employees, respectively.

Convertible Bonds

The Group issued overseas convertible bonds at par value and without any discount or premium. The Group gave the bondholders the right to redeem the convertible bonds in cash at par value plus the interest-premium on a specific date. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, is amortized using the interest method and is recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. The direct and necessary costs (included in other assets—miscellaneous) of issuing convertible bonds is amortized using the straight-line method over the same period as the interest-premium.

When the bondholder exercises the conversion option, the Group uses the book-value approach. The Group will write-off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The amount of capital stock is valued as the net carrying amount that is written off, and the amount in excess of the par value of capital stock is recognized as additional paid-in capital.

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carry forwards 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. 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.

Deferred income tax liabilities derived from the temporary differences of carrying amounts and the tax base of long-term investments are not recognized if it is expected that the foreign subsidiary will not distribute its earnings in the future and the difference will be permanent.

The tax credits for certain purchases of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction of the current period’s income tax expense.

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

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

Foreign Currency Transactions

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

On the balance sheet dates, the balances of foreign-currency denominated assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as follows:

a. Equity-method investments—as cumulative translation adjustments under stockholders’ equity; and

b. Other assets and liabilities—as credits or charges to income.

Financial Derivatives

The notional amounts of interest rate swap agreements are not recognized in the financial statements as these agreements do not require the settlement of such notional amounts. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

Cross currency swap contracts, which are intended for hedging purposes, are recorded at the spot rates on the starting dates of the contracts (the "starting dates"). The net interest upon each settlement is recorded as an adjustment to the revenue or expense associated with the items being hedged.

Forward exchange contracts are entered into as hedges of foreign-currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the spot rates on the starting dates. The premium or discount, which is the amount of the contract multiplied by the difference between the contracted forward rates and the spot rates on the starting dates, is deferred and then recognized as an adjustment to the commitment when the hedged transactions occur. However, if the contract amount exceeds the foreign-currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current period.

On the balance sheet date, the gains or losses on the contracts, computed by multiplying the contract amount by the difference between the rates on the starting dates and the balance sheet dates (or the rates last used to measure a gain or loss on that contract for an earlier period), are recognized in the same way used for amortizing the premium or discount described above. Also, the receivables and payables related to the forward contracts are netted out, and the net amount is presented as an asset or a liability.

3. U.S. DOLLAR AMOUNTS

The Group maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented have been translated from New Taiwan dollars at the noon buying rate in New York City for cable transfers in New Taiwan dollars as certified for customs purposes by the Federal Reserve Bank of New York as of March 31, 2004, which was NT$33.00 to US$1.00. The convenience translations should not be construed as a representations that the New Taiwan dollar amounts have been, or could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information presents the combined balance sheet and statement of income of Far EasTone, Yuan-Ze, and KGT as of March 31, 2003 and for the three-months ended March 31, 2003. The unaudited pro forma financial information is presented to give effect to the Combination as if it had occurred on January 1, 2003.

(In Thousands, Except Per Share Data)

	Amount
Current assets	$ 17,453,147
Properties-net	71,804,310
Current liabilities	28,445,727
Operating revenue	14,179,680
Depreciation	2,901,015
Amortization	233,806
Interest expense	283,568
EBITDA(operating income plus depreciation and amortization)	5,449,594
Income before income tax	2,034,136

Net income	1,894,527
EPS (based on weighted-average number of shares outstanding for 3,391,309 thousands)	0.56

The unaudited pro forma combined balance sheet and statement of income are presented for illustrative purposes only. This information is not necessarily indicative of the financial position and results of operations that might have occurred had the formation of the KGT and the above mentioned Combination occurred on January 1, 2003, nor is it necessarily indicative of future financial position or results of operations of Far EasTone and subsidiaries.

5. CASH AND CASH EQUIVALENTS

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Cash			
Cash on hand	$ 7,158	$ 8,082	$ 245
Checking and demand deposits	449,245	1,294,532	39,228
Time deposits—interest of 1.13% to 1.29% in 2003 and 1.0% to 1.1% in 2004	2,991,365	1,228,466	37,227
	3,447,768	2,531,080	76,700
Cash equivalents			
Bonds purchased under agreements to resell—interest of 0.915%	700,000	-	-
Commercial paper purchased under agreements to resell—interest of 0.915%	-	149,035	4,516
	$ 4,147,768	$ 2,680,115	$ 81,216

6. SHORT-TERM INVESTMENTS

	March 31, 2004 (Unaudited)	
	NT$	US$ (Note 3)
Open-ended mutual funds	$ 75,505	$ 2,288
Market value	$ 75,905	$ 2,300

The market value of open-ended mutual funds was based on the net asset value as of March 31 2004.

7. INVENTORIES—NET

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Cellular phone units	$ 341,182	$1,086,560	$ 32,926
SIM cards	116,555	49,928	1,513
Cellular phone accessories	4,095	17,280	524
	461,832	1,153,768	34,963
Less—allowance for losses	7,015	21,712	658
	$ 454,817	$ 1,132,056	$ 34,305

8. INVESTMENT IN SHARES OF STOCK

	March 31 (Unaudited)				
	2003		2004		
	NT$	% of Owner-ship	NT$	US$ (Note 3)	% of Owner-ship
Equity method					
KGEx.com	$ -	-	$ 932,905	$ 28,270	50.27
Far Eastern Electronic Toll Collection Co., Ltd.—Preparatory Office	-	-	499,562	15,138	45.00
KGT International Holdings	-	-	149,900	4,542	100.00
KG Satellite		-	85,760	2,599	66.33
iScreen	-	-	75,006	2,273	40.00
E World (Holdings) Ltd.	8,564	19.00	8,236	250	19.00
Koo's Group AGC Holdings	-	-	500	15	50.00
	8,564		1,751,869	53,087	
Cost method					
YesMobile Taiwan	-	-	3,000	91	0.5
	$ 8,564		$ 1,754,869	$ 53,178	

The investment in E. World (Holdings) is accounted for by the equity method since the combined equity interests of the Far Eastern Group in E. World (Holdings) allows the Group to exercise significant influence on its operating and financial policy decisions. The amounts recognized as equity in the net income or net loss of E. World (Holdings) in 2003 and 2004 were based on the actual net income or net loss of E. World (Holdings) in 2002 and 2003, respectively, as the financial statements of E. World (Holdings) could not be obtained timely. The carrying values of the investment in E. World (Holdings) are based on stockholders' equity as disclosed in the most current audited financial statements.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications (MOTC) has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, Far EasTone and third parties incorporated Far Eastern Electronic Toll Collection Co., Ltd. ("FETETC") on April 17, 2004. MOTC selected FETETC through public appraisal and signed the contract on April 27, 2004.

The equities in net assets of the foregoing investments accounted for by the equity method except E. World (Holdings) are determined based on unaudited financial statements. The management believes that even if the financial statements are reviewed, the possibilities of effect on the financial statements presented are not material.

9. PROPERTIES

a. Accumulated depreciation consisted of:

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Buildings and equipment	$ 117,465	$ 285,160	$ 8,641
Computer equipment	2,260,410	4,105,428	124,407
Operating equipment	15,771,093	31,710,077	960,911

(Continued)

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Office equipment	$ 365,487	$ 489,804	$ 14,843
Leasehold improvements	552,220	650,438	19,710
Miscellaneous equipment	40,259	218,208	6,612
	$ 19,106,934	$ 37,459,115	$ 1,135,124

b. Far EasTone leases internet equipment with software (included in operating equipment) under a three year lease, with total lease payments amounting to NT$35,686. The lease agreements qualify as a capital lease since (a) the present value of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) Far EasTone has the option to buy all the leased equipment at a bargain price of NT$1.00 only. The details of the lease as of March 31, 2003 were as follows:

	March 31, 2003 (Unaudited)
	NT$
Total future lease payments	$ 5,452
Less—imputed interest expense	4,912
	540
Less—current portion of lease payable (included in other current liabilities)	540
Long-term obligations under capital lease	$ -

Far EasTone bought the internet equipment with software at the bargain price when the agreement expired in 2003.

c. Capitalized interest on properties was as follows:

	For the Three Months Ended March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Total interest expense	$ 122,297	$ 225,118	$ 6,822
Less—interest capitalized—interest at 1.3548% to 3.9108% in 2003 and 1.3332% to 2.5840% in 2004	31,515	21,020	637
Interest expense—net of amounts capitalized	$ 90,782	$ 204,098	$ 6,185

10. RENTAL PROPERTIES—NET

	March 31, 2004 (Unaudited)	
	NT$	US$ (Note 3)
Cost		
Land	$ 99,524	$ 3,016
Buildings	94,672	2,869
	194,196	5,885
Less—accumulated depreciation		
Buildings	1,771	54
	$ 192,425	$ 5,831

Rental properties are offices which are intended to be used as operating premises for future business expansion. The rental agreements will expire at various dates through February 2013. Future rentals are summarized as follows:

Period	Amount
April 2004 to March 2005	$ 9,883
April 2005 to March 2006	9,963
April 2006 to March 2007	10,138
April 2007 to March 2008	10,319
April 2008 to March 2009	10,505

11. 3G CONCESSION

Yuan-Ze paid guarantee deposits of $1,000,000 to bid for the third-generation wireless communications concession (3G concession) in 2001. The guarantee deposits were treated as part of the 3G concession on March 11, 2002 when the bidding process for the 3G concession was completed. On March 15, 2003, Yuan-Ze received the 3G concession from the DGT. Yuan-Ze is then required to obtain a network construction permit from the DGT. Once the network construction is complete, it may apply for a 3G license from the MOTC. The 3G license is valid through December 31, 2018. Yuan-Ze will amortize the 3G concession on a straight-line basis from the date operations commence through the date the license expires.

12. SHORT-TERM DEBTS

These are unsecured bank loans at interest of 1.30% to 1.75%, which are due in May 2004.

13. COMMERCIAL PAPER PAYABLE

The Group issued commercial paper guaranteed by financial institutions, which is due within one year. The obligations were discounted at the rate of 1.1% to 1.7%, and repaid on April 26, 2004.

14. LONG-TERM LIABILITIES

	March 31, 2003 (Unaudited)		
	Due Within One Year	Due After One Year	Total
Domestic unsecured bonds—1st	$ -	$ 4,200,000	$ 4,200,000
Overseas unsecured convertible bonds	-	3,995,675	3,995,675
Interest premium—overseas unsecured convertible bonds	-	4,523	4,523
Domestic secured bonds—FET	616,000	1,276,000	1,892,000
Domestic unsecured bonds—2nd	-	670,000	670,000
	$ 616,000	$ 10,146,198	$ 10,762,198

	March 31, 2004 (Unaudited)			
	Due Within One Year	Due After One Year	Total NT$	Total US$ (Note 3)
Bonds				
Overseas unsecured convertible bonds	$ 3,798,038	$ -	$ 3,798,038	$ 115,092
Interest premium—overseas unsecured convertible bonds	42,470	-	42,470	1,287
Domestic secured bonds—Far EasTone	616,000	660,000	1,276,000	38,667
Domestic secured bonds—KGT	990,000	1,020,000	2,010,000	60,909
Domestic unsecured bonds—1st	-	4,200,000	4,200,000	127,273
Domestic unsecured bonds—2nd	-	1,470,000	1,470,000	44,545
Domestic unsecured bonds—3rd	-	3,000,000	3,000,000	90,909
	5,446,508	10,350,000	15,796,508	478,682
Long-term debts				
Commercial paper—Far EasTone	655,000	344,572	999,572	30,290
Commercial paper—KGT	410,000	1,154,666	1,564,666	47,414
Secured bank loans—KGT	2,523,654	2,965,726	5,489,380	166,345
Secured bank loans—Yuan-Ze	-	1,340,000	1,340,000	40,606
	3,588,654	5,804,964	9,393,618	284,655
	$ 9,035,162	$ 16,154,964	$ 25,190,126	$ 763,337

a. Overseas unsecured convertible bonds

Five-year unsecured zero coupon convertible bonds, with total face value of US$115,000 thousand, were issued on February 19, 2003 by Far EasTone. The bonds are listed on the Luxembourg Stock Exchange. The repayment or conversion terms of the bonds are as follows:

1) Far EasTone's redemption of the bonds upon maturity at 105.114% of their face value;

2) Redemption at the option of the bondholder at 102.015% of their face value on February 19, 2005;

3) The right of each bondholder to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The conversion price on March 31, 2003 was NT$30.73 (US$0.93), subject to adjustment for shares change.

   As of March 31, 2004, convertible bonds amounting to US$500 thousand had been converted into 562 thousand shares of common stock which was issued on April 13, 2004 and is in the process of registration by the MOEA.

4) Redemption at Far EasTone's option, at a specific price under certain conditions, starting February 19, 2006.

b. Domestic secured bonds—Far EasTone

Five-year domestic secured bonds were issued at par value on November 30, 2000 by Far EasTone. The total face value of the bonds is NT$2,200,000 (US$66,667), with face value of NT$1,000 and 5.06% interest, compounded semiannually. Starting on December 1, 2002 and every six months thereafter, Far EasTone should redeem the bonds for up to 14% to 15% of their face value.

c. Domestic secured bonds—KGT

Five-year domestic secured bonds were issued at par value on August 4, 2000 by KGT. The total face value of the bonds is NT$3,000,000 (US$90,909), with face value of NT$1,000 and 5.37% interest, compounded annually. Starting on August 4, 2003 and every year thereafter KGT should redeem the bonds for up to 33% to 34% of their face value.

d. Domestic unsecured bonds—1st

Five-year domestic unsecured bonds were issued at par value on February 19, 2002 by Far EasTone. The total face value of the bonds is NT$4,200,000 (US$127,273), with face value of NT$1,000 at 3.4% annual interest. Redemption is at a percentage of the face amount of the bond, as follows: Type I bond—40% in February 2006 and 60% in February 2007; and Type II bond—60% in February 2006 and 40% in February 2007.

e. Domestic unsecured bonds—2nd

Five-year domestic unsecured bonds were issued at par value on March 28, 2003 by Far EasTone. The total face value of the bonds is NT$1,470,000 (US$44,545), with face value of NT$1,000 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. Far EasTone should redeem the full amount when the bonds become due in 2008.

f. Domestic unsecured bonds—3rd

Three-year, four-year and five-year domestic unsecured bonds were issued at par value by Far EasTone on December 12, 2003. The total face value of the bonds is NT$3,000,000 (US$90,909), with face value of NT$5,000 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 semi-annually. Far EasTone should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

g. Commercial paper—Far EasTone

Commercial paper within one-year maturity bears variable interest rates of 1.485%, which amounted to NT$999,572 (US$30,309) as of March 31, 2004. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by Far EasTone through August 30, 2005. Starting in 2002, the maximum amount of commercial paper that can be issued under the agreement will decrease by 14% to 15% every six months.

h. Commercial paper—KGT

1) Under a revolving credit agreement, a consortium of banks has guaranteed commercial paper of NT$322,666 (US$9,778) to be reissued by KGT through December 21, 2005. The commercial paper bears variable interest rates that range from 1.79% to 2.70% as of March 31, 2004.

2) Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of NT$1,242,000(US$37,636) to be reissued by KGT until June 2007. The commercial paper bears variable interest rates of 1.53 % to 1.968 % as of March 31, 2004. Starting in 2002, the maximum amount of commercial paper that can be reissued under the agreement will decrease every six months.

i. Secured bank loans—KGT

1) KGT obtained a loan, amounting to NT$2,142,800 (US$64,933), from a consortium of banks at 2.463% interest rate, payable quarterly as of March 31, 2004. The loan is payable, starting in August 2002 and every six months thereafter, at equal installments of the principal with the final payment due in August 2005.

2) KGT obtained a loan, amounting to US$11,959 (equivalent to NT$394,946), from a consortium of banks at 1.9325% interest rate, payable quarterly as of March 31,2004. The loan is secured and payable, starting in August 2002 and every six months thereafter, at equal installments of the principal with the final payment due in August 2005.

3) KGT obtained a loan, amounting to US$44,864 (equivalent to NT$1,481,634), from a consortium of banks at 2.1247% interest rate, payable monthly as of March 31,2004. The loan is secured and payable, starting in June 2003 and every six months thereafter, at equal installments of the principal with the final payment due in June 2007.

4) KGT obtained a secured bank loan, amounting to NT$120,000 (US$3,636), at 2.5% interest rate, payable monthly as of March 31, 2004. The loan is payable in two installments of NT$60,000 (US$1,818) on January 2005 and April 2005, respectively.

5) KGT obtained a loan, amounting to NT$1,350,000 (US$40,909), from a consortium of banks at 2.1453% interest rate, payable quarterly as of March 31,2004. The loan is secured and payable, starting in February, 2005 and every three months thereafter, at equal installments of the principal with the final payment due in November 2005.

j. Secured bank loans—Yuan-Ze

Yuan-Ze obtained a loan, amounting to NT$1,340,000 (US$40,606), from a consortium of banks at 1.8985% to 1.9429% interest rate as of March 31, 2004. The loan will be due on April 28, 2004. The loan is guaranteed by a consortium of banks and the guarantee is effective until April 16, 2006.

15. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, paid-in capital in excess of par value may be used to offset a deficit or transferred to capital as stock dividend within prescribed limits only.

Far EasTone's Articles of Incorporation provide that, every year, 10% of net income less income tax and any accumulated deficit should be appropriated as legal reserve. In addition, if Far EasTone decides to distribute dividends, 2% of the remaining balance should be appropriated as bonuses to employees, and 1% of the remaining balance should be appropriated as remuneration to directors and supervisors.

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals Far EasTone's paid-in capital. The reserve can only be used to offset a deficit, or when the reserve reaches 50% of Far EasTone's paid-in capital, up to 50% of the reserve can be distributed as stock dividend.

The cash dividends should be at least 10% 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.

These appropriations and other allocations of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Under the integrated income tax system, noncorporate ROC-resident stockholders are allowed a tax credit for the income tax paid by Far EasTone 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 2002 and 2003 earnings was approved by the stockholders and board of directors on May 23, 2003 and April 12, 2004, respectively.

	Appropriation			Dividend Per Share (Dollars)		
	2002	2003		2002	2003	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Legal reserve	$ 780,842	$ 818,813	$ 24,813			
Bonus to employees—cash	140,551	147,387	4,466			
Remuneration to directors and supervisors—cash	70,276	73,694	2,233			
Cash dividend	2,997,540	4,748,620	143,898	$ 1.30	$ 1.40	$ 0.04
Stock dividend	3,896,802	1,560,261	47,281	1.69	0.46	0.01

The board of directors also approved the capitalization of unappropriate earnings of NT$1,560,261 (US$47,281) and capital surplus-paid in capital in excess of par value of NT$1,831,611 (US$55,503). As mentioned in the Note 1, on April 29, 2004 Far EasTone issued an additional 693,523 thousand shares including the reissuance of the treasury stock of 113,044 thousand shares as part of the consideration paid to the original shareholders of the former KGT.

The aggregate par value of Far EasTone's outstanding capital stock after the foregoing stock dividend, capitalization of capital surplus and issuance of new shares for the conversion of convertible bonds and Combination increased to NT$37,310,585 (US$1,130,624).

The appropriation of the 2003 earnings of Far EasTone has not yet been approved by the stockholders as of April 29, 2004. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

16. CONSOLIDATED EARNINGS PER SHARE

	Amount (Numerator) Income Before Income Tax NT$	Amount (Numerator) Net Income NT$	Capital Stock (Denominator) (in Thousand Shares)	Earnings Per Share (Dollars) Income Before Income Tax NT$	Earnings Per Share (Dollars) Net Income NT$
For the three months ended March 31, 2003 (unaudited)					
Consolidated primary EPS					
Consolidated net income	$ 1,671,711	$ 1,663,275	2,697,786	$ 0.62	$ 0.62
Effect of dilutive potential common stock					
Convertible bonds	10,233	10,181	15,804		
Consolidated diluted EPS					
Consolidated net income, including the effect of dilutive potential common stock	$ 1,681,944	$ 1,673,456	2,713,590	$ 0.62	$ 0.62

	Amount (Numerator) Income Before Income Tax NT$	Amount (Numerator) Income Before Income Tax US$ (Note 3)	Amount (Numerator) Net Income NT$	Amount (Numerator) Net Income US$ (Note 3)	Capital Stock (Denominator) (in Thousand Shares)	Earnings Per Share (Dollars) Income Before Income Tax NT$	Earnings Per Share (Dollars) Income Before Income Tax US$ (Note 3)	Earnings Per Share (Dollars) Net Income NT$	Earnings Per Share (Dollars) Net Income US$ (Note 3)
For the three months ended March 31, 2004 (unaudited)									
Consolidated primary EPS									
Consolidated net income	$ 3,451,295	$ 104,585	$ 3,330,500	$ 100,924	3,391,309	$ 1.02	$ 0.03	$ 0.98	$ 0.03
Effect of dilutive potential common stock									
Convertible bonds	21,647	656	20,889	633	129,310				
Consolidated diluted EPS									
Consolidated net income, including the effect of dilutive potential common stock	$ 3,472,942	$ 105,241	$ 3,351,389	$ 101,557	3,520,619	$ 0.99	$ 0.03	$ 0.95	$ 0.03

For the three months ended March 31, 2003, the consolidated earnings per share retroactively adjusted for the 2002 stock dividend declared in 2003 decreased from NT$0.73 (before tax) to NT$0.62 and from NT$0.72 (after tax) to NT$0.62.

17. PENSION PLAN

Both Far EasTone and KGT make a monthly contribution, at 2% of salaries and wages, to a pension fund (“the Fund”) that is administered by a pension plan committee and deposited in the Committee’s name in the Central Trust of China. As of March 31, 2003 and 2004, Yuan-Ze has no regular employees and pension plan.

Net pension cost of Far EasTone and KGT were as follows:

	March 31 (Unaudited) 2003 NT$	2004 NT$	2004 US$ (Note 3)
Actuarial net pension cost	$ 17,025	$ 25,846	$ 783
Less: Included in properties	908	94	3
Included in other receivables—related parties	61	317	9
Net pension cost (included in operating costs and expenses)	$ 16,056	$ 25,435	$ 771

For the three months ended March 31, 2003 and 2004, contributions to the Fund amounted to NT$7,419 and NT$8,204 (US$249), respectively.

18. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Three Months Ended March 31, 2003 (Unaudited)		
	Operating Costs	Operating Expenses	Total
	NT$	NT$	NT$
Employee expenses			
Salaries	$ 58,656	$ 314,486	$ 373,142
Insurance	1,161	26,051	27,212
Pension	924	15,132	16,056
Miscellaneous	2,773	25,230	28,003
Depreciation	1,511,415	229,970	1,741,385
Amortization	-	474	474
	$ 1,574,929	$ 611,343	$ 2,186,272

	For the Three Months Ended March 31, 2004 (Unaudited)				
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Employee expenses					
Salaries	$ 130,627	$ 514,111	$ -	$ 644,738	$ 19,538
Insurance	7,896	24,788	-	32,684	990
Pension	5,484	19,951	-	25,435	771
Miscellaneous	11,567	35,039	-	46,606	1,412
Depreciation	2,495,959	384,061	483	2,880,503	87,288
Amortization	29,669	198,620	-	228,289	6,918
	$ 2,681,202	$ 1,176,570	$ 483	$ 3,858,255	$ 116,917

19. INCOME TAX

a. The reconciliation of income tax expense based on income before income tax at statutory income tax rate to income tax expense—current is as follows:

	For the Three Months Ended March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Income tax expense computed at statutory tax rate (25%)	$ 417,928	$ 1,251,044	$ 37,910
Add (deduct) tax effects of			
Permanent differences	(225)	(260,467)	(7,893)
Temporary differences	56,207	137,306	4,161
Tax-exempt income	(409,458)	(511,273)	(15,493)
Investment tax credits	(32,226)	(371,479)	(11,257)
Income tax expense—current	$ 32,226	$ 245,131	$ 7,428

As of March 31, 2003 and 2004, Yuan-Ze generated a net loss and had no taxable income.

Net operating income generated from the use of switches and cell sites acquired during the period April 1, 1997 to December 31, 1999 are exempt from income tax for the period January 1, 2000 to December 31, 2004.

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

b. Income tax expense consisted of:

	For the Three Months Ended March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Income tax expense—current	$ 32,226	$ 245,131	$ 7,428
Income tax benefit—deferred	(23,968)	302,675	9,172
Income tax expense on income subjected to a separate rate of 20%	178	31	1
Income tax expense	$ 8,436	$ 547,837	$ 16,601

c. Deferred income tax assets (liabilities) as of March 31, 2003 and 2004 consisted of:

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Current			
Deferred income tax assets			
Investment tax credits	$ -	$ 818,167	$ 24,793
Provision for doubtful accounts	615,643	1,230,254	37,280
Employee welfare expense	3,375	-	-
Unrealized foreign exchange gain	-	(17,202)	(521)
Other	2,165	6,553	199
	621,183	2,037,772	61,751
Less: Valuation allowance	-	286,638	8,686
	$ 621,183	$ 1,751,134	$ 53,065
Noncurrent			
Investment tax credits	$ 951,371	$ 836,254	$ 25,341
Depreciation resulting from the differences in estimated service lives of properties	370,568	497,571	15,078
Cumulative equity in the net loss of investee companies	69,300	8,951	271
Accrued pension cost	34,682	41,690	1,263
Accrued interest premium	1,131	10,989	333
Loss carryforwards	28,379	137,282	4,160
Other	86	64	2
	1,455,517	1,532,801	46,448
Less: Valuation allowance	28,465	454,088	13,760
	$ 1,427,052	$ 1,078,713	$ 32,688

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

d. Integrated income tax information:

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Far EasTone	$ 12,156	$ 4,352	$ 132
Yuan-Ze	$ 130	$ 132	$ 4
KGT	$ -	$ 436,818	$ 13,237

The ratio of the ICA balance of Far EasTone, on the dividend distribution date in 2003 to the balance of the undistributed earnings as of December 31, 2002 was 2.58%. The ratio of Far EasTone's ICA balance on the dividend distribution date in 2004 to the balance of the undistributed earnings as of December 31, 2003 was 0.05%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings based on the prevailing ICA balance will be used by Far EasTone and KGT for allocating tax credits to each Far EasTone's and KGT's stockholder. Yuan-Ze has no unappropriated earnings as of March 31, 2004. Therefore, the ICA balance of Yuan-Ze will be accumulated until a future date of dividend distribution.

The unused investment tax credits as of March 31, 2004 are summarized as follows:

Far EasTone

Statutes	Items	Total Investment Tax Credits		Unused Investment Tax Credits		Year of Expiry
		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 582,722	$ 17,658	$ 70,000	$ 2,121	2004
		267,455	8,105	149,060	4,517	2005
		57,442	1,740	57,442	1,740	2007
Statute for Upgrading Industries	Research and development expenditures	699,533	21,198	699,533	21,198	2004
		587,938	17,816	43,592	1,321	2005
		304,206	9,218	39,660	1,202	2006
Statute for Upgrading Industries	Personnel training expenditures	41,543	1,259	41,543	1,259	2004
		19,629	595	19,629	595	2005
		12,038	365	12,038	365	2006
		$2,572,506	$ 77,954	$1,132,497	$ 34,318	

Yuan-Ze

Statutes	Items	Total Investment Tax Credits		Unused Investment Tax Credits		Year of Expiry
		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 396	$ 12	$ 396	$ 12	2007

Year of Expiry	Loss Carryforwards NT$	US$ (Note 3)
2006	$ 36,132	$ 1,095
2007	10,118	307
2008	76,408	2,315
2009	14,604	443
	$ 137,262	$ 4,160

KGT

Statutes	Items	Total Investment Tax Credits NT$	US$ (Note 3)	Unused Investment Tax Credits NT$	US$ (Note 3)	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 380,762	$ 11,538	$ 7,091	$ 215	2004
		395,144	11,974	54,705	1,658	2005
		254,687	7,718	206,081	6,245	2006
		55,561	1,684	55,561	1,683	2007
Statute for Upgrading Industries	Investment in shares of stock	351,862	10,662	198,090	6,003	2007
		$ 1,438,016	$ 43,576	$ 521,528	$ 15,804	

Year of Expiry	Loss Carryforwards NT$	US$ (Note 3)
2008	$ 20	$ -

Income tax returns through 1999 of Far EasTone had been examined and cleared by the tax authorities.

Income tax returns through 2001 of Yuan-Ze had been examined and cleared by the tax authorities.

Income tax returns through 2001 of the former KGT except 1999 and 2000 had been examined and cleared by the tax authorities.

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group’s related parties and relationships are as follows:

Related Party	Nature of Relationship
Yuan Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EasTone
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Yuan Ding Investment Co., Ltd	Same chairman
Far Eastern Textile Co., Ltd. (FETL)	Ultimate parent company

(Continued)

Related Party	Nature of Relationship
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
AT&T Corp. (AT&T)	Parent company of AWS and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
Far Eastern Technology Developmental Foundation (FETTDF)	Far EasTone's donation to the foundation's capital over one third
Far Eastern Electronic Toll Collection Co., Ltd. - Preparatory Office (FETETC)	Will be an equity-method investee after it is established
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same major stockholder as that of Far EasTone
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern International Bank	Same chairman
Asia Cement Co., Ltd.	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far EasTone Geant Company Ltd	Same chairman
E. World Ltd.	Same chairman
Oriental Institute of Technology	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Ding Ding Hotel Co., Ltd.	Same chairman
Liquid Air Far East Co., Ltd.	Its chairman is the relative of Far EasTone's chairman
Far Eastern Apparel Co., Ltd.	Same major stockholder as that of Far EasTone
Yuan Ding Leasing Corp.	Same major stockholder as that of Far EasTone
E.World (Holdings) Ltd.	Equity-method investee of the Far Eastern Group
Taipei Metro Properties Management	Same major stockholder as that of Far EasTone
Yue Ding Industry Co., Ltd.	Director of Far EasTone
Yue-Li Investment Corporation	Director of Far EasTone
Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation	Director of Far EasTone
Asia Investment Corporation	Supervisor of Far EasTone
By Yang Investment. Co., Ltd	Its chairman is the relative of Far EasTone's chairman
Ding Yuan International Investment Co., Ltd.	Same ultimate parent company
Kai Yuan International Investment Co., Ltd.	Same ultimate parent company
An Ho Garment Co., Ltd.	Same ultimate parent company
Yuan Tong Investment Co., Ltd.	Same ultimate parent company
KGT International Holdings	Same ultimate parent company
Koo's Group AGL Holdings	Same ultimate parent company
KG Satellite (KGS)	Subsidiary of KGT
KGEx.Com (KGEX)	Subsidiary of KGT
iScreen	Equity-method investee of KGT

In addition to Note 1, the significant transactions with the above parties are summarized as follows:

		2003 (Unaudited)	2004 (Unaudited)	
		NT$	NT$	US$ (Note 3)
During the three months period				
Operating revenue	a.			
NCIC	b.	$ 152,657	$ 318,947	$ 9,665
KGEX	c	-	85,034	2,577
Other	q.	77	381	11
		$ 152,734	$ 404,362	$ 12,253
Operating cost and expenses				
Service cost				
NCIC	b.	$ 1,774	$ 628	$ 19
KGEX	d.	-	18,230	552
		$ 1,774	$ 18,858	$ 571
Rental				
FEILC	e.	$ 43,914	$ 14,771	$ 448
FETRD	f	-	12,925	392
FETL	g.	13,898	1,353	41
NCIC	h.	-	1,238	37
Other	r.	1,452	1,707	52
		$ 59,264	$ 31,994	$ 970
Management service fee—AWS	i.	$ 12,000	$ -	$ -
Research and development expense				
FETTDF	j.	$ 3,002	$ 3,106	$ 94
Service fee				
FETI	k.	$ 1,768	$ 17,092	$ 518
Acquisition of properties				
NCIC	l.	$ -	$ 12,215	$ 370
FETEC	m.	29,071	10,054	305
		$ 29,071	$ 22,269	$ 675
At end of period				
Accounts receivable				
KGEX	c.	$ -	$ 16,633	$ 504
NCIC	b.	-	5,575	169
Other	r.	-	1,461	44
		$ -	$ 23,669	$ 717

(Continued)

		2003 (Unaudited) NT$	2004 (Unaudited) NT$	US$ (Note 3)
Prepaid expenses				
NCIC	h.	$ -	$ 6,688	$ 203
FEILC	e.	2,330	-	-
FETL	g.	434	802	24
Other	r.	1,906	2,649	80
		$ 4,670	$ 10,139	$ 307
Other receivable—related parties				
NCIC	n. and o.	$ -	$ 87,118	$ 2,640
FETETC	p.	-	19,590	594
FETI	k.	-	8,554	259
KGEX	q.	-	5,840	177
KGS	q.	-	1,364	41
Others	r.	-	5,252	159
		$ -	$ 127,718	$ 3,870
Refundable deposits				
FEILC	e.	$ 145,785	$ 6,390	$ 194
NCIC	h.	-	1,779	54
Other	r.	1,047	1,163	35
		$ 146,832	$ 9,332	$ 283
Payable to related parties				
FETEC	m.	$ 357,082	$ 71,134	$ 2,156
FETRD	f.	-	21,086	639
NCIC	b.	121,285	25,407	770
FETTDF	j.	10,016	9,698	294
KGEX	d.	-	20,970	635
Other	r.	27,532	20,732	628
		$ 515,915	$ 169,027	$ 5,122
Other current liabilities				
Other payable—NCIC	o.	$ 23,613	$ -	$ -

The descriptions of the transactions with related parties are as follows:

a. Operating revenues (such as service revenues and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.

b. The transactions between the Group and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC's use of the Group's network. The interconnection fees paid by the Group on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection service provided by NCIC to the Group are included in service cost. The international direct dialing revenue collected by the Group for NCIC is treated as a reduction of service revenue and is included in payables to related parties.

c. The transactions between KGT and KGEX are interconnection activities for KGEX's use of KGT's network and were included in accounts receivable.

d. KGT signed a network maintenance contract with KGEX for maintaining the KGT's telecommunications network and backbone network facilities. The contract expired in March 2004.

e. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung under a contract with a term from February 2000 to June 2004; (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu from November 1999 to June 2004; and (c) vehicles.

   When the related contracts expire, Far EasTone may either renew the contracts or buy the buildings or land at the following prices:

	Purchase Price	
	NT$	**US$ (Note 3)**
Neihu switch center	$ 130,000	$ 3,825
Taichung land for switch center	106,050	3,120
Tainan office space	78,000	2,295
Kaohsiung office space	45,900	1,350
Xinzhu land for switch center	120,000	3,530

   The lease contract on the office spaces in Neihu expired in April 2003. The board of directors approved the purchase of the land and buildings in Neihu for use as Far EasTone's headquarters on February 26, 2003. The purchase of NT$1,532,382 (US$45,083) (without sales tax) was determined based on the appraisal report from real estate brokers. The title to the land and buildings was transferred to Far EasTone by the end of April 2003.

f. Far EasTone leases from FETRD several parcels of the land and building spaces under contracts with term from September 2003 to November 2013. The properties are located in Yatung street and Renai Street in Panchao City; and Wuku in Taipei County and other locations in Taiwan.

g. Far EasTone leases from FETL several parcels of the land and building spaces under contracts with term from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli and other locations in Taiwan.

h. Far EasTone leases from NCIC the office building under contracts with term from February 2004 to February 2005.

i. Far EasTone signed a service agreement with AWS in January 1997 for AWS to provide consulting services on the construction of a wireless network and business operations. The service charges were based on the actual expenses incurred by the AWS consultants and are net of any withholding taxes paid by Far EasTone.

j. FETTDF researches telecommunications technology for Far EasTone.

k. Far EasTone signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed to with Far EasTone. The advances to FETI were treated as an other receivable and were collected at various times based on the cash balances of FETI.

l. Far EasTone purchased NCIC's telecommunications network and backbone network facilities.

m. Far EasTone and Yuan-Ze have contracts with FETEC for constructing telecommunications network and backbone network facilities.

n. Far EasTone sold HUB and related operating equipment to NCIC. As of March 31, 2004, Far EasTone had a receivable of NT$85,828 (US$2,601) from NCIC and was recorded as other receivable.

o. Far EasTone has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by third parties.

p. Far EasTone gives advances to FETETC for its daily operating expenditures during its preparatory stage. The advances will be collected at various times based on the cash balances of FETETC.

q. KGT gives advances to KGEX and KGS for their daily operating expenditures. The advances are collected at various times based on the cash balances of KGEX and KGS.

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

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

21. ASSETS PLEDGED OR MORTGAGED

The assets pledged or mortgaged are used as collateral for customs duties, long-term and short-term debts and bonds as follows:

	March 31 (Unaudited)		
	2003	2004	
	NT$	NT$	US$ (Note 3)
Time deposits (included in other assets-miscellaneous)	$ -	$ 34,309	$ 1,040
Properties—net	9,837,398	26,483,194	802,521
	$ 9,837,398	$ 26,517,503	$ 803,561

22. COMMITMENTS AS OF MARCH 31, 2004

The Group has the following significant commitments:

a. The Group has outstanding contracts to acquire properties for NT$937,665 (US$28,414).

b. The rentals of land, buildings and cell sites for the next five years are summarized as follows:

Year	NT$	US$ (Note 3)
April 1, 2004 to March 31, 2004	$ 2,553,428	$ 77,377
April 1, 2005 to March 31, 2005	2,616,683	79,293
April 1, 2006 to March 31, 2006	2,707,953	82,059
April 1, 2007 to March 31, 2007	2,802,472	84,923
April 1, 2008 to March 31, 2008	2,900,358	87,890

c. Far EasTone's outstanding letters of credit amounted to ￥365,990 thousand (equivalent to NT$116,385 (US$3,527)) and US$2,084.

23. SUBSEQUENT EVENTS AS OF MARCH 31, 2004

a. GDR offering

On April 12, 2004, the board of directors of Far EasTone approved the shareholders request to have the Company sell a portion, tentatively set to not exceed 150,000 thousand shares, of their shares in the form of Global Depositary Receipts (GDRs) to foreign investors. Approximately 7,500 to 10,000 thousand units of GDRs in aggregate is expected to be issued. One unit of GDR represents approximately 15 to 20 of Far EasTone's common stock. The application of the issuance of GDRs has been filed to Securities and Futures Commission on April 13, 2004.

b. Repurchase Far EasTone's common stocks

The shareholder of Far EasTone opposed for the share swap with KGT and requested Far EasTone to repurchase the shares under the Enterprise Mergers and Acquisitions Law No. 12. Far EasTone had entered into an agreement with the shareholder on April 16, 2004 and repurchased the shares as the treasury stocks on April 26, 2004 (Note 1).

24. FINANCIAL INSTRUMENTS

Far EasTone and KGT used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the three months ended March 31, 2003 and 2004. All these transactions were for nontrading purposes. Yuan-Ze did not enter into any derivative financial contracts for the three months ended March 31, 2003 and 2004.

a. Open contracts and credit risk

Following is Far EasTone's outstanding interest rate swap contracts as of March 31, 2003.

	March 31, 2003 (Unaudited)				
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**
Interest rate swap	$ 670,000	1.25%	2.60%	Half year	March 28, 2008 to March 31, 2008

Following are Far EasTone's and KGT's outstanding interest rate swap contracts as of March 31, 2004:

	March 31, 2004 (Unaudited)					
Type of Transaction	**Notional Amount**		**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**
	NT$	**US$ (Note 3)**				
Far EasTone						
Interest rate swap	$ 2,670,000	$ 80,909	1.25%- 1.95%	2.04%- 3.98%	Half year	March 28, 2008 to December 19, 2008
KGT						
Interest rate swap	1,300,000	39,394	3.10%- 6.33%	0.940%- 1.002%	Quarterly	July 12, 2004 to May 20, 2005

Following is KGT's outstanding cross currency swap contracts as of March 31, 2004:

	March 31, 2004 (Unaudited)				
Type of Transaction	Notional Amount	Fair Value		Credit Risk	
		NT$	US$ (Note 3)	NT$	US$ (Note 3)
Cross currency swap	US$57,217 thousand	($ 33,810)	($ 1,025)	$ -	$ -

The related gains and losses on these swap contracts for the three months ended March 31, 2003 and 2004 were NT$55 and NT$61,183 (US$1,854), respectively.

There were no outstanding forward contracts as of March 31, 2003 and 2004, respectively.

In 2002, Far EasTone placed an order for cell phones amounting to ￥1,444,814 thousand. To hedge the effect of exchange rate fluctuations on this commitment, Far EasTone entered into a Japanese yen forward contract. The forward contract was due on January 6, 2003, and the realized gain of NT$4,103 on this commitment was recognized as a reduction of inventory.

Far EasTone and KGT are exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, Far EasTone and KGT transact only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

b. Market risk

Far EasTone and KGT entered into interest rate swap and cross currency swap contracts to hedge the effect of foreign currency fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

Far EasTone entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. Therefore, the market risk is not material.

c. Liquidity risk, cash-flow risk and future cash demand

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. The forward exchange rates are determined in advance and no additional material cash is required. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is expected to have insignificant Management believes that Far EasTone and KGT have sufficient operating capital to meet cash demand.

d. The purpose of derivative financial instruments held or issued and the strategies to meet the purpose

Far EasTone and KGT use certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves Far EasTone and KGT's paying a fixed rate of interest and receiving interest based on market rates. Far EasTone and KGT entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The cross currency swap contracts are for hedging overall fluctuations on interest rates and exchange rates from foreign currency obligations with floating rates. The overall purpose of these contracts is to hedge Far EasTone and KGT's exposure to cash flow risk. Far EasTone and KGT periodically evaluate the effectiveness of the instruments.

e. The fair values of financial instruments were estimated as follows:

	March 31 (Unaudited)					
	2003		2004			
	Carrying Value NT$	Fair Value NT$	Carrying Value NT$	Fair Value NT$	Carrying Value US$ (Note 3)	Fair Value US$ (Note 3)
Nonderivative financial instruments						
Financial assets						
Cash and cash equivalents	$ 4,147,768	$ 4,147,768	$ 2,680,115	$ 2,680,115	$ 81,216	$ 81,216
Short-term investments	-	-	75,505	75,905	2,288	2,300
Notes and accounts receivable—net	3,541,343	3,541,343	6,450,532	6,450,532	195,470	195,470
Other receivables—related parties	-	-	127,718	127,718	3,870	3,870
Investments in shares of stock	8,564	8,564	1,754,869	1,754,869	53,178	53,178
Refundable deposits	375,295	370,649	424,979	423,453	12,878	12,832
Pledged time deposits (included in other assets—miscellaneous)	-	-	34,309	34,309	1,040	1,040
Financial liabilities						
Short-term debts	-	-	1,300,264	1,300,264	39,402	39,402
Commercial paper payable			1,708,933	1,708,933	51,786	51,786
Notes payable	16,432	16,432	146,692	146,692	4,445	4,445
Accounts payable	173,856	173,856	1,517,415	1,517,415	45,983	45,982
Payables to related parties	515,915	515,915	169,027	169,027	5,122	5,122
Income tax payable	168,985	168,985	970,300	970,300	29,403	29,403
Payables related to acquisitions of properties	1,714,037	1,714,037	2,160,137	2,160,137	65,459	65,459
Guarantee deposits received—current	-	-	1,850,067	1,850,067	56,063	56,063
Long-term liabilities (including within one year)	10,762,198	10,362,667	25,190,126	25,633,826	763,337	776,783
Guarantee deposits received—non current	1,858,693	1,858,693	130,381	130,381	3,951	3,951
Derivative financial instruments						
Interest rate swap	55	55	(12,839)	(11,430)	(389)	(346)
Cross currency swap	-	-	(82,510)	(33,810)	(2,500)	(1,025)

The bases used for estimating the fair values of financial instruments were as follows:

1) The fair values of cash and cash equivalents, notes and accounts receivable, other receivables—related parties, pledged time deposits, short-term debts, notes and accounts payable, payables to related parties, income tax payable and payables related to acquisitions of properties are recorded at their carrying values due to the short maturity of these instruments.

2) The fair values of short-term investments and investment in shares of stock are recorded at market prices or, if market prices are unavailable, the equity in the net assets of the investee.

3) Long-term liabilities are recorded at market prices or, if market prices are unavailable, upon present value of expected cash outflows. The discount rate is determined by rate of bank loans, which the Group can obtain in similar conditions (e.g. maturity date).

4) Refundable deposits and guarantee deposits received are recorded at their present value of future payments or receipts.

5) Fair values of derivative financial instruments are recorded at the quoted market prices obtained from foreign banks.