

**Far EastTone Telecommunications Co.,
Ltd. and Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2004 and 2003 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Far EasTone Telecommunications Co., Ltd. and subsidiaries as of December 31, 2004 and 2003 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

February 4, 2005

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. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Par Value)**

ASSETS	2004		2003	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	\$ 8,502,692	8	\$ 14,568,654	20
Short-term investments (Note 2)	290,000	-	-	-
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,605,066 in 2004 and \$586,957 in 2003 (Note 2)	6,134,846	6	3,735,277	5
Receivables from related parties (Notes 2 and 19)	84,923	-	116,529	-
Inventories, net (Notes 2 and 6)	729,338	1	801,100	1
Prepaid expenses (Notes 2 and 19)	1,612,308	1	1,754,644	2
Deferred income tax assets - current (Notes 2 and 18)	1,910,414	2	1,392,724	2
Other current assets	167,361	-	68,554	-
Total current assets	19,431,882	18	22,437,482	30
INVESTMENTS IN SHARES OF STOCK (Notes 2, 7, 19 and 22)				
Equity method	1,799,682	2	8,518	-
Prepayment for investments	-	-	65,000	-
Total investments in shares of stock	1,799,682	2	73,518	-
PROPERTIES (Notes 2, 8, 19 and 21)				
Cost				
Land	1,050,281	1	952,504	1
Buildings and equipment	2,077,561	2	1,698,803	2
Operating equipment	85,522,467	79	48,644,499	66
Computer equipment	11,042,160	10	6,284,316	9
Office equipment	798,485	1	772,482	1
Leasehold improvements	1,456,932	1	1,331,900	2
Miscellaneous equipment	295,652	-	54,834	-
Total cost	102,243,538	94	59,739,338	81
Less - accumulated depreciation	46,506,010	43	24,388,503	33
	55,737,528	51	35,350,835	48
Construction in progress and advances related to acquisition of equipment	8,773,622	8	4,221,737	6
Net properties	64,511,150	59	39,572,572	54
INTANGIBLE ASSETS				
Goodwill, net (Notes 1 and 2)	11,074,034	10	-	-
3G concession (Notes 2 and 9)	10,169,000	10	10,169,000	14
Total intangible assets	21,243,034	20	10,169,000	14
OTHER ASSETS				
Rental assets, net (Notes 2, 8 and 10)	190,976	-	-	-
Refundable deposits (Note 19)	373,088	-	241,736	1
Deferred income tax assets - noncurrent (Notes 2 and 18)	712,622	1	813,904	1
Restricted assets (Note 22)	350,000	-	-	-
Other (Notes 2 and 21)	96,706	-	176,413	-
Total other assets	1,723,392	1	1,232,053	2
TOTAL	\$ 108,709,140	100	\$ 73,484,625	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Note 11)	\$ 2,250,000	2	\$ 100,000	-
Commercial paper payable (Note 12)	896,648	1	489,587	1
Notes payable	41,834	-	30,670	-
Accounts payable	538,371	1	1,043,206	1
Payables to related parties (Note 19)	321,770	-	226,534	-
Income tax payable (Notes 2 and 18)	2,325,564	2	24,083	-
Accrued expenses	5,189,310	5	2,637,837	4
Payables related to acquisition of properties	3,088,119	3	2,716,930	4
Guarantee deposits received - current	1,521,194	1	1,502,750	2
Unearned revenues (Note 2)	2,325,388	2	1,859,688	2
Current portion of long-term liabilities (Notes 2, 8, 13, 19 and 21)	4,803,577	4	1,226,000	2
Other current liabilities	538,948	1	169,615	-
Total current liabilities	23,840,723	22	12,026,900	16
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 8 and 13)				
Long-term bonds payable	8,670,000	8	13,270,436	18
Long-term debt payable	6,074,330	6	4,936,942	7
Long-term lease payable	88,500	-	-	-
Total long-term liabilities	14,832,830	14	18,207,378	25
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	226,308	-	169,278	-
Guarantee deposits received - noncurrent	83,587	-	50,841	-
Other	13,626	-	-	-
Total other liabilities	323,521	-	220,119	-
Total liabilities	38,997,074	36	30,454,397	41
STOCKHOLDERS' EQUITY				
Common stock - \$10 par value				
Authorized - 4,200,000 thousand shares in 2004 and 3,360,000 thousand shares in 2003				
Issued - 3,842,311 thousand shares in 2004 and 2,697,786 thousand shares in 2003	38,423,115	35	26,977,860	37
Capital surplus				
Paid-in capital in excess of par value	6,023,801	5	5,944,514	8
From business combination	8,482,381	8	-	-
From investments in shares of stock	-	-	29,086	-
Total capital surplus	14,506,182	13	5,973,600	8
Retained earnings				
Legal reserve	2,697,301	3	1,878,488	3
Unappropriated earnings	14,069,797	13	8,197,228	11
Total retained earnings	16,767,098	16	10,075,716	14
Cumulative translation adjustments	15,671	-	3,052	-
Total stockholders' equity	69,712,066	64	43,030,228	59
TOTAL	\$ 108,709,140	100	\$ 73,484,625	100

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2004		2003	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 19)				
Service revenues	\$ 61,270,948	94	\$ 34,515,474	93
Sales of cellular phone equipment and accessories, net	4,224,124	6	2,545,751	7
Other	<u>21,394</u>	<u>-</u>	<u>5,938</u>	<u>-</u>
Total operating revenues	<u>65,516,466</u>	<u>100</u>	<u>37,067,163</u>	<u>100</u>
OPERATING COSTS (Notes 2, 16, 17 and 19)				
Cost of services	26,603,683	41	15,892,163	43
Cost of sales	<u>4,642,528</u>	<u>7</u>	<u>2,822,662</u>	<u>7</u>
Total operating costs	<u>31,246,211</u>	<u>48</u>	<u>18,714,825</u>	<u>50</u>
GROSS PROFIT	<u>34,270,255</u>	<u>52</u>	<u>18,352,338</u>	<u>50</u>
OPERATING EXPENSES (Notes 2, 16, 17 and 19)				
Marketing	8,446,006	13	6,106,191	16
General and administrative	7,080,907	11	3,601,813	10
Research and development	<u>374,882</u>	<u>-</u>	<u>317,452</u>	<u>1</u>
Total operating expenses	<u>15,901,795</u>	<u>24</u>	<u>10,025,456</u>	<u>27</u>
OPERATING INCOME	<u>18,368,460</u>	<u>28</u>	<u>8,326,882</u>	<u>23</u>
NONOPERATING INCOME AND GAINS				
Gain from sale of non-performing accounts receivable	77,646	-	-	-
Foreign exchange gains, net (Notes 2 and 23)	45,542	-	38,469	-
Interest income	27,918	-	43,006	-
Other (Note 19)	<u>111,496</u>	<u>1</u>	<u>40,533</u>	<u>-</u>
Total nonoperating income and gains	<u>262,602</u>	<u>1</u>	<u>122,008</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2, 8, 19 and 23)	685,961	1	316,344	1
Provision for losses on properties not currently used in operations (Note 2)	489,086	1	-	-
Loss on disposal of properties, net (Notes 2 and 19)	455,087	1	-	-
Equity in investees' net losses (Notes 2 and 7)	210,888	-	1,778	-
Other (Notes 10, 17 and 19)	<u>586,865</u>	<u>-</u>	<u>4,691</u>	<u>-</u>
Total nonoperating expenses and losses	<u>2,427,887</u>	<u>4</u>	<u>322,813</u>	<u>1</u>

(Continued)

	<u>2004</u>		<u>2003</u>	
	Amount	%	Amount	%
CONSOLIDATED INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	\$ 16,203,175	25	\$ 8,126,077	22
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 18)	<u>2,160,099</u>	<u>4</u>	<u>(99,028)</u>	<u>-</u>
CONSOLIDATED INCOME BEFORE MINORITY INTEREST	14,043,076	21	8,225,105	22
MINORITY INTEREST	<u>-</u>	<u>-</u>	<u>(36,972)</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 14,043,076</u>	<u>21</u>	<u>\$ 8,188,133</u>	<u>22</u>
	<u>2004</u>		<u>2003</u>	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED EARNINGS PER SHARE (Note 15)				
Basic	<u>\$ 4.32</u>	<u>\$ 3.75</u>	<u>\$ 2.73</u>	<u>\$ 2.76</u>
Diluted	<u>\$ 4.17</u>	<u>\$ 3.61</u>	<u>\$ 2.62</u>	<u>\$ 2.65</u>

(Concluded)

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	Common Stock Issued (Notes 2 and 14)		Capital Surplus (Notes 2 and 14)				Retained Earnings (Note 14)			Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Investments in Shares of Stock	Total	Legal Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2003	2,305,800	\$ 23,058,000	\$ 5,967,572	\$ -	\$ 29,086	\$ 5,996,658	\$ 1,097,646	\$ 7,895,106	\$ 8,992,752	\$ 3,098	\$ 38,050,508
Appropriation of 2002 earnings											
Legal reserve	-	-	-	-	-	-	780,842	(780,842)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(140,551)	(140,551)	-	(140,551)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(70,276)	(70,276)	-	(70,276)
Cash dividend - 13%	-	-	-	-	-	-	-	(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividend - 16.9%	389,680	3,896,802	-	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus - 0.1%	2,306	23,058	(23,058)	-	-	(23,058)	-	-	-	-	-
Consolidated net income in 2003	-	-	-	-	-	-	-	8,188,133	8,188,133	-	8,188,133
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, DECEMBER 31, 2003	2,697,786	26,977,860	5,944,514	-	29,086	5,973,600	1,878,488	8,197,228	10,075,716	3,052	43,030,228
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)
Appropriation of 2003 earnings											
Legal reserve	-	-	-	-	-	-	818,813	(818,813)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)
Cash dividend - 14%	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)
Stock dividend - 4.6%	156,026	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Capitalization of capital surplus - 5.4%	183,161	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-
Consolidated net income in 2004	-	-	-	-	-	-	-	14,043,076	14,043,076	-	14,043,076
Conversion of overseas convertible bonds into common stock	111,815	1,118,151	1,910,898	-	-	1,910,898	-	-	-	-	3,029,049
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	12,619	12,619
BALANCE, DECEMBER 31, 2004	<u>3,842,311</u>	<u>\$ 38,423,115</u>	<u>\$ 6,023,801</u>	<u>\$ 8,482,381</u>	<u>\$ -</u>	<u>\$ 14,506,182</u>	<u>\$ 2,697,301</u>	<u>\$ 14,069,797</u>	<u>\$ 16,767,098</u>	<u>\$ 15,671</u>	<u>\$ 69,712,066</u>

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 14,043,076	\$ 8,188,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	-	36,972
Depreciation and amortization	12,385,066	7,071,949
Provision for doubtful accounts	1,535,989	416,689
Losses on disposal of obsolete inventory	5,852	-
Provision for losses on inventories	4,759	4,691
Unrealized losses on investments in shares of stock	3,000	-
Equity in investees' net losses	210,888	1,778
Losses (gains) on disposal of properties and properties not currently used in operations, net	455,087	(8,379)
Provision for loss on properties not currently used in operations	489,086	-
Accrued pension cost	79,994	38,148
Deferred income taxes	507,828	(182,361)
Interest premium on convertible bonds	34,297	33,886
Unrealized exchange gains on overseas convertible bonds	(56,508)	(95,910)
Other	(69,659)	43,329
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts and notes receivable	(334,550)	(935,389)
Receivables from related parties	8,920	(30,975)
Inventories	281,845	(149,777)
Prepaid expenses	551,655	(1,984)
Other current assets	19,548	(20,115)
Increase (decrease) in		
Notes payable	(412,129)	1,726
Accounts payable	(735,906)	378,138
Payables to related parties	95,236	(433,695)
Income tax payable	1,597,860	(113,012)
Accrued expenses	(487,287)	(215,138)
Unearned revenues	(312,834)	(190,622)
Other current liabilities	<u>217,610</u>	<u>41,280</u>
Net cash provided by operating activities	<u>30,118,723</u>	<u>13,879,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	3,103,647	-
Acquisition of investments in shares of stock	(654,404)	-
Prepayment for investments	-	(65,000)
Return of the capital from the dissolved investee	488	-
Acquisition of properties	(7,681,332)	(6,089,578)

(Continued)

	2004	2003
Proceeds from sale of properties and properties not currently used in operations	\$ 101,621	\$ 96,570
Decrease in refundable deposits	43,443	131,627
Restricted assets	(350,000)	-
Increase in other assets	<u>(19,919)</u>	<u>(100,033)</u>
Net cash used in investing activities	<u>(5,456,456)</u>	<u>(6,026,414)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	-	100,000
Increase (decrease) in commercial paper payable	(2,046,783)	489,587
Issuance of long-term bonds payable	-	8,472,460
Proceed from long-term debts	7,909,752	5,546,942
Repayment of long-term liabilities	(18,969,800)	(4,485,839)
Bonus paid to employees and directors	(221,080)	(224,941)
Cash dividends paid	(4,748,620)	(2,997,540)
Decrease in guarantee deposits received	(652,731)	(438,136)
Decrease in other liabilities	(23,198)	-
Decrease in minority interest	-	(2,000,000)
Issuance of treasury stock	(3,334,798)	-
Cash consideration of the merger	<u>(11,698,461)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(33,785,719)</u>	<u>4,462,533</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,123,452)	12,315,481
CASH AND CASH EQUIVALENTS DUE TO MERGER WITH KG TELECOMMUNICATIONS CO., LTD.	3,057,490	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,568,654</u>	<u>2,253,173</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,502,692</u>	<u>\$ 14,568,654</u>
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 692,907</u>	<u>\$ 219,704</u>
Income tax paid	<u>\$ 53,669</u>	<u>\$ 196,347</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 4,803,577</u>	<u>\$ 1,226,000</u>
Reclassification of properties into rental assets	<u>\$ 192,908</u>	<u>\$ -</u>
Conversion of overseas convertible bonds into common stock and capital surplus	<u>\$ 3,029,049</u>	<u>\$ -</u>
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	\$ 7,494,251	\$ 6,685,790
Increase in payables related to acquisition of properties	(94,919)	(596,752)
Decrease in lease payables	282,000	540
Actual cash paid for acquisition of properties	<u>\$ 7,681,332</u>	<u>\$ 6,089,578</u>

(Continued)

	2004	2003
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Total amount of properties and properties not currently used in operations sold	\$ 79,159	\$ 173,978
Decrease (increase) in receivables from properties sold	(224)	8
Decrease (increase) in receivables from related parties	<u>22,686</u>	<u>(77,416)</u>
Actual cash received from disposal of properties	<u>\$ 101,621</u>	<u>\$ 96,570</u>

(Concluded)

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

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 (known as GreTai Securities Market) since December 10, 2001. Far EasTone provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipments and accessories.

Far Eastern Textile Co., Ltd. is the ultimate parent company of Far EasTone. In October 2003, the other principal stockholder, AT&T Wireless Group and its affiliates, transferred to Far Eastern Textile Co., Ltd. and its affiliate ("Far Eastern Group") all of its stock held in Far EasTone. As of December 31, 2004, Far Eastern Group directly or indirectly owns 51.43 % of Far EasTone's shares.

On January 13, 2005, affiliates of Far Eastern Textile Co., Ltd., Yuan Tong Investment Co., Ltd. and An Ho Garment Co., Ltd., sold to foreign investors 64,995 thousand and 45,000 thousand shares, respectively, of Far EasTone's stock owned in the form of Global Depository Receipts. As a result, the equity of Far EasTone owned by Far Eastern Group directly or indirectly is then decreased to 48.37%,

Far EasTone provides wireless communications services by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 for island-wide ("GSM" means global system for mobile communications) issued by the Directorate General of Telecommunications ("DGT") of the Republic of China ("ROC"). These licenses allow Far EasTone to provide services for 15 years beginning in 1997, with an annual license fee of 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 beginning in 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 beginning in December 2001 and pays an annual license fee of 0.5% of ISR service revenues and is licensed to provide local/domestic long-distance land cable leased circuit services for 15 years beginning in 2003 with an annual license fee of 1% of leased circuit service revenues.

On October 7, 2003, Far EasTone signed a definitive merger agreement with KG Telecommunication Co., Ltd. (the "former KGT"). The former KGT 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.

The former KGT provides 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 wireless communications service revenues. Moreover, the merger of former KGT with TUNTEX (with a license to provide mobile communications service under a type I license - GSM1800 for the central and southern region of Taiwan issued by the DGT) is effective January 1, 2000. Thus, the former KGT provided wireless communications services under a type I license - GSM1800 for island-wide. 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 leased-circuit service revenues.

The merger agreement was submitted to the special stockholders' meetings of the Company, Yuan-Ho Telecommunications Co., Ltd. and the former KGT on November 25, 2003. The merger agreement with the former KGT provided for the transaction to occur in two steps (the "Combination"). To facilitate the combination with the former KGT, Far EasTone formed a new wholly owned subsidiary on September 25, 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 \$11,698,461.

In the first step of the transaction, the former KGT 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, the former KGT shareholders became entitled to receive cash of \$6.72, together with 0.46332 of one share of common stock of Yuan-Ho, for each former KGT share that they owned, representing aggregate consideration to all the former KGT shareholders of \$11,698,461 in cash and 806,567 thousand shares of common stock of Yuan-Ho. This merger consideration was held in escrow for the former KGT 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. ("KG Telecom") and the former KGT no longer existed as a corporate entity. In addition, the capital of KG Telecom increased to \$13,329,979 and the equity of KG Telecom owned by Far EasTone was temporarily diluted to 39.49%. The other principal shareholders of KG Telecom are the original shareholders of the former KGT and held 60.51% ownership as of January 1, 2004.

In the second step of the transaction, former KGT shareholders became entitled to receive one share of Far EasTone stock in exchange for each KG Telecom share owned, representing an aggregate of 806,567 thousand of Far EasTone shares in the amount of \$17,930,678. In order to satisfy this consideration to shareholders of KG Telecom for the remaining ownership, Far EasTone issued 693,523 thousand new shares and reissued the 113,044 thousand shares held as treasury stock. (Note 14) 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.

Upon completion of the second step of the transaction, Far EasTone accounted for the merger with KG Telecom as a wholly-owned subsidiary. Far EasTone established control of KG Telecom as of January 1, 2004 as Far EasTone held the majority of the board seats of KG Telecom, 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 was accounted for as a purchase with a total purchase price of NT\$29,832,639 which includes Far EasTone common stock valued at NT\$17,930,678 based on the average closing prices for the trading day (September 29, 2003 to October 3, 2003) around the announcement date (October 7, 2003) of the Combination, a cash payment of \$11,698,461 and direct transaction costs \$203,500. The difference between the total purchase price and the fair value of net assets assumed from the former KGT is \$11,865,037 (included in goodwill) and is amortized using the straight-line method over 15 years.

	Fair Value of Net Assets
Cash and cash equivalents	\$ 3,057,490
Short-term investments, net	3,393,647
Accounts and notes receivables, net	3,601,008
Inventories, net	220,694
Prepaid expenses	409,319

(Continued)

	Fair Value of Net Assets
Deferred income tax assets - current	\$ 806,277
Other current assets	111,668
Investments in shares of stock	1,273,517
Properties, net	30,061,042
Refundable deposits	174,795
Deferred expenses, net	112,693
Deferred income tax assets - noncurrent	119,616
Other assets	58,037
Short-term bank loan	(2,150,000)
Commercial paper payable	(2,453,844)
Notes payable	(423,293)
Accounts payable	(231,071)
Income tax payable	(703,621)
Accrued expenses	(2,835,260)
Payables related to acquisition of properties	(276,270)
Guarantee deposits - current	(532,669)
Unearned revenues	(778,534)
Current portion of long-term liabilities	(3,822,170)
Other current liabilities	(146,918)
Long-term liabilities	(10,870,475)
Guarantee deposits - noncurrent	(171,252)
Other liabilities	<u>(36,824)</u>
Total fair value of net assets	<u>\$ 17,967,602</u>

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. The permit is valid through December 31, 2004. Yuan-Ze has obtained a one-year extension from DGT before the deadline. 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 remaining shares of Yuan-Ze 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 will be in 2005. Yuan-Ze engages in providing 3G wireless communications and sale of telecommunications equipment. As of December 31, 2004, Yuan-Ze was still in its development stage.

Far EasTone, Yuan-Ze and KG Telecom (the "Group") had 3,468 and 2,366 employees as of December 31, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports for Securities Issuers and accounting principles generally accepted in the ROC.

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

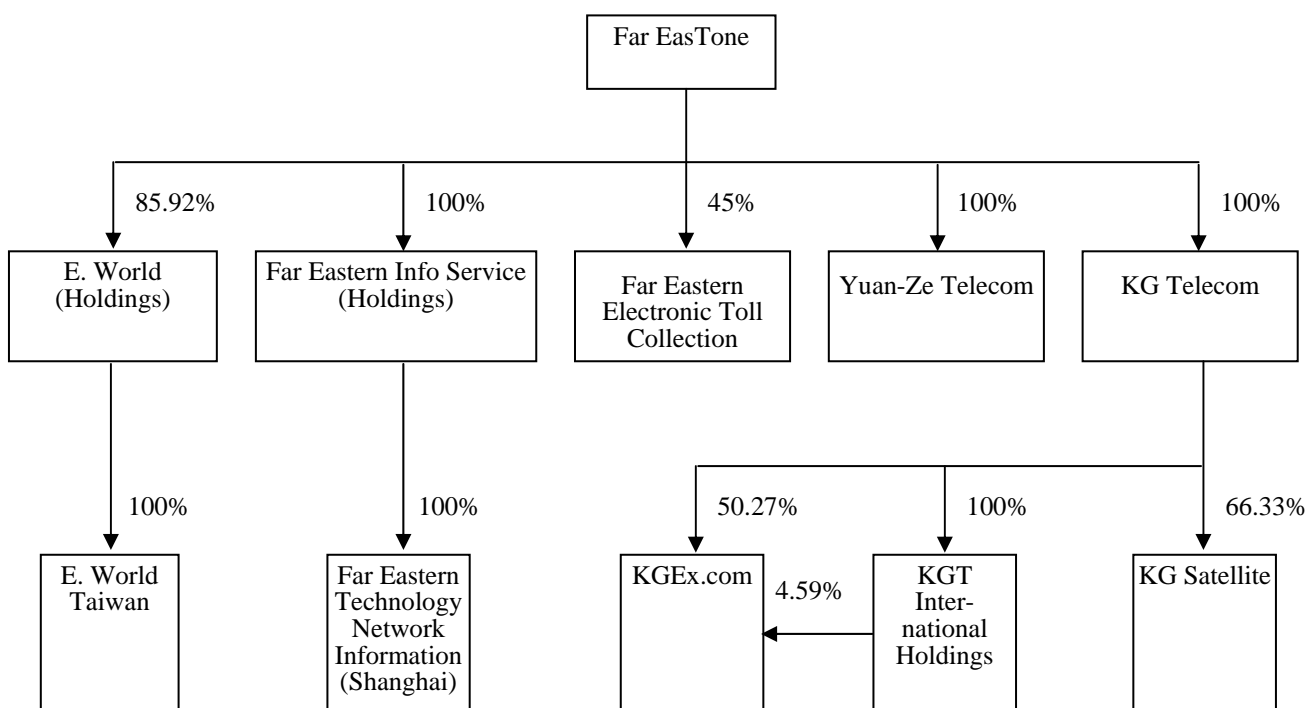
The significant accounting policies of the Group are summarized as follows:

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 exceed 30% of the unconsolidated total assets or operating revenues of Far EasTone. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements as of and for the years ended December 31, 2004 and 2003 include the accounts of Far EasTone, KG Telecom (the former Yuan Ho in 2003) and Yuan-Ze.

The intercompany relationships and percentages of ownership as of December 31, 2004 are shown below:



The entities in the “Consolidated Financial Statements of Far EasTone and Affiliates” are the same as those in consolidated financial statements as required under ROC GAAP SFAS No. 7 “Consolidated Financial Statements”; thus, no consolidated financial statements of Far EasTone and affiliates will be compiled. The information needed in consolidated financial statements of Far EasTone and affiliates is enclosed in consolidated financial statements.

Current and Noncurrent Assets and Liabilities

Current assets include non-restricted cash or cash equivalents 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 in mutual funds are carried at the lower of aggregate cost or market value. An allowance for loss is provided and charged to income for the current year when the aggregate carrying value of the investments exceeds the total market value. Any subsequent recovery of the market value to the extent of the original carrying value is recognized as income. The market values of the mutual funds are based on the net asset values as of the balance sheet date.

The costs of short-term investments sold are determined based on the weight-average method.

Allowance for Doubtful Accounts Receivable

An allowance for doubtful accounts receivable is provided on the basis of the aging status and 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 based on the weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in companies in which the Group 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. Under this method, the investment is initially 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 investees' net income or net loss. The difference between the cost of the investment and the Group's equity in the investees' net assets is amortized over three to twenty years. 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. 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 investees' net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

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 based on the 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 services 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
Operating equipment	5-15
Computer equipment	3-7
Office equipment	5-10
Leasehold improvements	3-10
Miscellaneous equipment	3-8

Upon retirement or other disposal (e.g., sale) of properties and rental 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.

Goodwill

Goodwill derived from the merger with the former KGT (Note 1) is amortized by the straight-line method over 15 years.

3G Concession

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

Deferred Charges

Deferred charges (included in other assets - miscellaneous), which consists 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 expected to be retired or disposed, 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 equipment 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 validity period of the contract using the straight-line method. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the beginning of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the beginning of the contract is deferred and amortized as marketing expenses over the validity period of the contract using the straight-line method.

Operating revenues are measured at fair values based on the prices negotiated between the 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 equipment 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 year when the service to a subscriber is activated.

Pension Costs

Far EasTone and KG Telecom 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. 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

Far EasTone issued overseas convertible bonds at par value and without any discount or premium. Far EasTone 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 interest-premium.

When the bondholder exercises the conversion option, Far EasTone uses the book-value approach. Far EasTone 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 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.

Tax credits earned for certain purchase of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in the current year's income tax expense.

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

Income taxes (10%) on undistributed earnings 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 year 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-accounted 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 because these agreements do not require the settlement of such notional amounts. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

Cross currency swap contracts, which are intended for hedging purposes, are recorded at the contract exchange rates on the starting dates of the contracts (the "starting dates"). The exchanged interest during the contract period, on an accrual basis, 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 prevailing exchange 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 prevailing exchange 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 year.

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.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the presentation of consolidated financial statements as of and for the year ended December 31, 2004.

3. ELIMINATED MATERIAL INTERCOMPANY TRANSACTIONS

For the year ended December 31, 2004

Company	Eliminated Account	Amount	Parties
Far EasTone	Receivables from related parties	\$ 845,798	KG Telecom
	Receivables from related parties	118,927	Yuan-Ze
	Payables to related parties	54,198	KG Telecom
	Service revenue	949,203	KG Telecom
	Cost of services	825,143	KG Telecom
	Marketing expenses	27,426	KG Telecom
	Management service revenue	62,844	KG Telecom
	Management service revenue	8,843	Yuan-Ze
	Nonoperating income - other	126,408	KG Telecom
	KG Telecom	Receivables from related parties	54,198
Receivables from related parties		8,703	Yuan-Ze
Payables to related parties		845,798	Far EasTone
Service revenue		825,143	Far EasTone
Cost of services		966,279	Far EasTone
Marketing expenses		143,596	Far EasTone
Nonoperating income - other		27,426	Far EasTone
General and administrative expenses		26,878	Far EasTone
Research and development expenses		1,702	Far EasTone
Yuan-Ze		Payables to related parties	118,927
	Payables to related parties	8,703	KG Telecom
	General and administrative expenses	8,843	Far EasTone

4. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined balance sheet and statement of income of Far EasTone, Yuan-Ze, and KG Telecom as of and for the year ended December 31, 2003. The 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	\$ 22,320,872
Properties-net	69,633,612
Current liabilities	26,694,998
Operating revenue	60,139,599
Depreciation	11,364,176
Amortization	927,308
Interest expense	959,683
EBITDA (operating income plus depreciation and amortization)	24,259,213
Income before income tax	10,372,335
Net income	9,875,472
EPS (based on weighted-average number of shares outstanding for 3,391,309 thousands)	2.91

The 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 KG Telecom 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

	December 31	
	2004	2003
Cash		
Cash on hand	\$ 8,515	\$ 7,334
Checking and demand deposits	2,356,554	1,315,157
Time deposit - interest of 1.92% to 2.53% in 2004 and 0.65% to 1.12% in 2003	557,805	1,548,163
Negotiable certificate of deposits - interest of 0.85%	<u>-</u>	<u>11,698,000</u>
	<u>2,922,874</u>	<u>14,568,654</u>
Cash equivalents		
Bonds purchased under agreements to resell - interest of 1.0%	1,200,000	-
Commercial paper purchased under agreements to resell - interest of 1.085% to 1.100%	<u>4,379,818</u>	<u>-</u>
	<u>5,579,818</u>	<u>-</u>
	<u>\$ 8,502,692</u>	<u>\$ 14,568,654</u>

6. INVENTORIES

	December 31	
	2004	2003
Cellular phone equipment	\$ 663,654	\$ 754,715
SIM cards	51,143	47,827
Cellular phone accessories	<u>37,542</u>	<u>11,950</u>
	752,339	814,492
Less - allowance for losses	<u>23,001</u>	<u>13,392</u>
	<u>\$ 729,338</u>	<u>\$ 801,100</u>

Inventory insurance as of December 31, 2004 amounted to approximately \$1,048,488.

7. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
KGEx.com	\$ 898,944	50.27	\$ -	-
Far Eastern Electronic Toll Collection Co., Ltd.	433,544	45.00	-	-
Far Eastern Info Service (Holding) Ltd.	109,846	100.00	-	-
KGT International Holdings	97,725	100.00	-	-
KG Satellite	83,256	66.33	-	-
iScreen	66,098	40.00	-	-
E. World (Holdings) Ltd.	65,433	85.92	8,518	19.00
Ding Ding Integrated Marketing Service Co., Ltd.	<u>44,836</u>	15.00	<u>-</u>	-
	1,799,682		8,518	
Cost method				
YesMobile Taiwan	-	0.50	-	-
Prepayment for investments				
Far Eastern Electronic Toll Collection Co., Ltd.	<u>-</u>		<u>65,000</u>	
	<u>\$ 1,799,682</u>		<u>\$ 73,518</u>	

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 EastTone and third parties incorporated Far Eastern Electronic Toll Collection Co., Ltd. (“FETETC”). MOTC selected FETETC through public appraisal and signed the contract on April 27, 2004.

Originally, the investment in E. World (Holdings) was accounted for by the equity method as the combined equity interests of the Far Eastern Group in E. World (Holdings) allowed Far EastTone to exercise significant influence on its operating and financial policy decisions. Far EastTone purchased shares from related parties amounting to \$41,788 in June 2004. As a result, Far EastTone’s ownership increased from 19.00% to 85.92%. Since the ownership of E. World (Holdings) exceeds 50%, Far EastTone consolidates this entity and the amounts recognized as equity in the net income or net loss of E. World (Holdings) were subsequently based on net income or net loss in the current year.

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. (“DDIM”) allows Far EastTone to exercise significant influence on its operating and financial policy decisions, the investment in DDIM is accounted for by the equity method even though the equity of DDIM owned by Far EastTone is 15%.

The carrying value of the foregoing investments accounted for by the equity method are based on audited financial statements as of December 31, 2004 and 2003. For the years ended December 31, 2004 and 2003, the equity in investees’ net losses were \$210,888 and \$1,778, respectively.

The individual or aggregate total assets and sales of the majority owned subsidiaries are less than 10% or 30%, respectively, of Far EastTone’s total assets and sales and are not consolidated in these financial statements.

8. PROPERTIES

- a. Accumulated depreciation consisted of:

	December 31	
	2004	2003
Buildings and equipment	\$ 357,584	\$ 237,761
Operating equipment	37,380,120	20,015,576
Computer equipment	7,230,303	3,063,835
Office equipment	561,840	449,549
Leasehold improvements	752,989	578,898
Miscellaneous equipment	<u>223,174</u>	<u>42,884</u>
	<u>\$ 46,506,010</u>	<u>\$ 24,388,503</u>

Depreciation expense for the years ended December 31, 2004 and 2003 was \$11,487,975 in 2004 and \$7,070,142 in 2003, respectively.

Insurance coverage on properties and rental assets amounted to about \$58,647,472 as of December 31, 2004.

- b. Far EasTone leases internet equipment with software (included in operating equipment) under three year leases, with total lease payments of \$35,686. The lease agreements qualify as capital leases since (a) the present value in 2000 of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) Far EasTone had a bargain-purchase option to purchase the leased equipment at of NT\$1.00. Far EasTone purchased the above internet equipment with software when the agreement expired in 2003.

Far EasTone and KG Telecom lease computer equipment from Far Eastern International Leasing Corporation under a five year lease with annual lease payments of \$30,828. The amount paid for the leased properties at the inception of the lease was \$147,500 net of the market price of new equipment \$277,470 less equipment exchanged valued at \$129,970. The total lease payments amount to \$154,136. The lease agreements qualify as capital lease since (a) the present value of the future lease payments under the agreement exceeds 90% of the fair value of the leased assets, and (b) the lease term is equal to 75% or more of the estimated economic life of the leased assets. The details of the lease as of December 31, 2004 are as follows:

	December 31, 2004
Total future lease payments	\$ 123,308
Less - imputed interest expense	<u>5,308</u>
	118,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	<u>29,500</u>
Long-term lease payable	<u>\$ 88,500</u>

c. Capitalized interest on properties was as follows:

	Years Ended	
	December 31	
	2004	2003
Total interest expense	\$ 793,876	\$ 416,893
Less - interest capitalized 1.33% to 4.24% in 2004 and 1.35% to 6.10% in 2003	<u>107,915</u>	<u>100,549</u>
Interest expense, net of amounts capitalized	<u>\$ 685,961</u>	<u>\$ 316,344</u>

9. 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, 2002, Yuan-Ze received the 3G concession from the DGT. Yuan-Ze was then required to obtain a network construction permit from the DGT. The permit is valid through December 31, 2004. Yuan-Ze has obtained a one-year extension from DGT before the deadline. Once the network construction is complete, it may apply for a 3G license from the MOTC. The 3G license will expire on December 31, 2018. Yuan-Ze will amortize the 3G concession on a straight-line basis for the period of the license.

10. RENTAL ASSETS, NET

	December 31,
	2004
Cost	
Land	\$ 99,524
Buildings	<u>94,672</u>
	194,196
Less - accumulated depreciation	
Buildings	<u>3,220</u>
	<u>\$ 190,976</u>

Depreciation expense for the year ended December 31, 2004 was \$1,932, included in nonoperating expenses and losses.

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 rental income is summarized as follows:

Year	Amount
2005	\$ 9,833
2006	9,913
2007	9,994
2008	4,111
2009 and thereafter	15,971

11. SHORT-TERM LOANS

Yuan-Ze obtained unsecured bank loans at interest of 1.35% to 1.71% as of December 31, 2004. Outstanding unsecured bank loans amounting to \$380,000 were due and were repaid at various dates from January 7, 2005 through January 31, 2005.

Far EasTone obtained unsecured bank loans at interest of 1.4% as of December 31, 2003. Outstanding unsecured bank loans were due and were fully repaid in July 2004.

12. COMMERCIAL PAPER PAYABLE

KG Telecom and Yuan-Ze issued commercial paper that was guaranteed by financial institutions. The obligations as of December 31, 2004 were discounted at the rate of 1.43% to 2.02%, and are due at various dates from March 22, 2005 through April 22, 2005. The obligations as of December 31, 2003 were discounted at the rate of 1.1% to 1.3%, which was fully repaid on January 30, 2004.

13. LONG-TERM LIABILITIES

	December 31, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds - Far EasTone	\$ 778,227	\$ -	\$ 778,227
Interest premium - overseas unsecured convertible bonds - Far EasTone	14,641	-	14,641
Domestic secured bonds - Far EasTone	660,000	-	660,000
Domestic secured bonds - KG Telecom	1,020,000	-	1,020,000
Domestic unsecured bonds - 1st - Far EasTone	-	4,200,000	4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	-	3,000,000	3,000,000
	<u>2,472,868</u>	<u>8,670,000</u>	<u>11,142,868</u>
Long-term debt			
Commercial paper - KG Telecom	217,834	325,752	543,586
Unsecured bank loans - KG Telecom	-	3,000,000	3,000,000
Secured bank loans - KG Telecom	2,083,375	608,578	2,691,953
Secured bank loans - Yuan-Ze	-	2,140,000	2,140,000
	<u>2,301,209</u>	<u>6,074,330</u>	<u>8,375,539</u>
Long-term lease payable			
Far EasTone	14,750	44,250	59,000
KG Telecom	14,750	44,250	59,000
	<u>29,500</u>	<u>88,500</u>	<u>118,000</u>
	<u>\$ 4,803,577</u>	<u>\$ 14,832,830</u>	<u>\$ 19,636,407</u>

	December 31, 2003		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds - Far EasTone	\$ -	\$ 3,906,550	\$ 3,906,550
Interest premium - overseas unsecured convertible bonds - Far EasTone	-	33,886	33,886
Domestic secured bonds - Far EasTone	616,000	660,000	1,276,000
Domestic unsecured bonds - 1st - Far EasTone	-	4,200,000	4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	-	3,000,000	3,000,000
	<u>616,000</u>	<u>13,270,436</u>	<u>13,886,436</u>
Long-tem debt			
Commercial paper - Far EasTone	610,000	686,942	1,296,942
Unsecured bank loans - Far EasTone	-	300,000	300,000
Secured bank loans - Far EasTone	-	3,300,000	3,300,000
Secured bank loans - Yuan-Ze	-	650,000	650,000
	<u>610,000</u>	<u>4,936,942</u>	<u>5,546,942</u>
	<u>\$ 1,226,000</u>	<u>\$ 18,207,378</u>	<u>\$ 19,433,378</u>

a. Overseas unsecured convertible bonds - Far EasTone

Five-year unsecured zero coupon convertible bonds, with total face value of US\$115,000 thousand, were issued on February 19, 2003. 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 on February 19, 2008;
- 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 December 31, 2003 was NT\$27.94, subject to adjustment for shares change.

As of December 31, 2004, convertible bonds amounting US\$90,458 thousand had been converted into 111,815 thousand shares of common stock (including 165 thousand units of Global Depositary Receipts representing 2,473 thousand shares of common stock).

- 4) At any time on or after February 19, 2006 and prior to February 19, 2008, Far EasTone may redeem the Bonds in whole, or from time to time in part at a specific price under certain conditions. In addition, Far EasTone may redeem the Bonds in whole, but not in part, if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled or converted.

As of January 31, 2005, amounting to US\$104,500 has been converted, which represents more than 90% of the original principal amount of the Bonds. As a result, Far EasTone has decided to redeem the Bonds in whole and has given the notice to the holders of the Bonds on January 31, 2005. Bondholders who wants to exercise conversion right shall deposit the Bond with the trustee or any paying agent before March 2, 2005 or Far EasTone will redeem the Bonds in whole at 102.08% of the principal amount on March 14, 2005.

b. Domestic secured bonds - Far EasTone

These are five-year secured domestic bonds issued at par value on November 30, 2000. The total face value of the bonds is \$2,200,000, with face value of \$1,000 and 5.06% interest, compounded semiannually. Starting on November 30, 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 - KG Telecom

Five-year domestic secured bonds were issued at par value on August 4, 2000. The total face value of the bonds is \$3,000,000, with face value of \$1,000 and 5.37% interest. Starting on August 4, 2003 and every year thereafter, KG Telecom should redeem the bonds for up to 33% to 34% of their face value.

d. Domestic unsecured bonds - 1st - Far EasTone

Five-year domestic unsecured bonds were issued at par value on February 19, 2002. The total face value of the bonds is \$4,200,000, with face value of \$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 - Far EasTone

These are five-year unsecured domestic bonds issued at par value on March 28, 2003. The total face value of the bonds is \$1,470,000, with a face value of \$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 - Far EasTone

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, with a face value of \$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 - KG Telecom

Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of \$543,586 to be reissued until June 2007. The commercial paper bears variable interest rates of 2.178% as of December 31, 2004. Starting on June 21, 2003, the maximum amount of commercial paper that can be reissued under the agreement will be decreased by \$109,000 every six months.

h. Unsecured bank loans - KG Telecom

KG Telecom had unsecured bank loans at an annual interest rate of 1.03% to 1.85%. These unsecured banking facilities as agreed by the banks will be made available for utilization until August 2006.

i. Secured bank loans - KG Telecom

1) KG Telecom obtained a loan, amounting to \$1,428,500, from a consortium of banks at 2.5389% interest rate, payable monthly. 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.

- 2) KG Telecom obtained a loan, amounting to US\$7,816 (equivalent to \$247,845), from a consortium of banks at 3.044% interest rate, payable quarterly. 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) KG Telecom obtained a loan, amounting to US\$32,028 (equivalent to \$1,015,608), from a consortium of banks at 3.615% interest rate, payable every three or six months upon KG Telecom's option. 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.

j. Secured bank loans - Yuan-Ze

Yuan-Ze obtained a loan from a consortium of banks. Interest rates are ranging from 2.102% to 2.125% and 1.960% to 2.000%, payable monthly for the years ended December 31, 2004 and 2003, respectively. The loan was due on various dates from January 3, 2005 to February 21, 2005. The loan is guaranteed by a consortium of banks and the guarantee is effective until April 7, 2006.

k. Long-term lease payable

Far EasTone and KG Telecom entered into capital lease agreements for computer equipment with Far Eastern International Leasing Corp. in July 2004. The annual lease payments amount to \$30,828 (Note 8).

l. Commercial paper - Far EasTone

Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of \$1,296,942 to be reissued until August 30, 2005. The commercial paper bears variable interest rates of 0.90% to 0.95% as of December 31, 2004. Starting in 2001, the maximum amount of commercial paper that can be reissued under the agreement will be decreased by 14-15% every six months.

m. Unsecured bank loans- Far EasTone

As of December 31, 2004, Far EasTone had a \$300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

n. Secured bank loans - Far EasTone

Far EasTone had a loan from a consortium of banks with interest rate of 1.982% as of December 31, 2004. The loan is guaranteed by a consortium of banks, and the guarantee is effective until February 4, 2007. Starting on August 4, 2004, the maximum amount that the Far EasTone can borrow will be decreased by 16% to 17% of the principal every year.

Under the terms of restriction of long-term loan contracts, Far EasTone must meet certain financial conditions such that total liabilities must less than 125% of Far EasTone's net assets and tangible assets should not be less than \$18,900,000.

The syndicated loans, includes the ability to loan or to re-issue the commercial paper under sound operating condition which requires KG Telecom to maintain its current ratio not lower than 80% in 2003, 90% in 2004 and 100% in 2005 and thereafter.

Secured bank loans for Yuan-Ze are from a consortium of banks and require Yuan-Ze to maintain (a) its net assets greater than its total liabilities and (b) its net assets to be no lower than \$7,000,000.

Besides the financial conditions precedent, no other restricted terms prevail for the Group's long-term and short-term credit facilities.

As of December 31, 2004, the Group had unused long-term and short-term credit lines of approximately \$6,160,000 and \$11,461,000, respectively, which are available for long-term and short-term credit facilities.

14. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital surplus (includes both paid-in capital in excess of par value and arising from business combination) may be used to offset a deficit or transferred to capital as a 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 balance should be appropriated as bonuses to employees, and 1% of the final 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 the 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 and distribution of the 2003 and 2002 earnings were approved by the stockholders on June 30, 2004 and May 23, 2003, respectively.

	<u>Appropriation and Distribution</u>		<u>Dividend Per Share (NT Dollars)</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Legal reserve	\$ 818,813	\$ 780,842		
Bonus to employees - cash	147,387	140,551		
Remuneration to directors and supervisors - cash	73,693	70,276		
Cash dividend	4,748,620	2,997,540	\$ 1.40	\$ 1.30
Stock dividend	1,560,261	3,896,802	0.46	1.69

Had the above bonus to employees and directors been charged to net income in 2003 and 2002, the primary earnings per share for 2003 and 2002 (after tax), based on the weighted-average number of outstanding shares of 2,697,786 and 2,305,800 thousand, respectively, would have decreased from NT\$3.04 to NT\$2.95 and from NT\$3.39 to NT\$3.29, respectively.

The appropriation of the 2004 earnings of Far EasTone had not been approved by the board of directors and stockholders as of February 4, 2005. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

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

In order to satisfy the consideration to the stockholders of KG Telecom except the shares Far EasTone owned, Far EasTone issued 693,523 thousand new shares (included in capital stock and capital surplus - from business combination in the amount of \$6,935,232 and \$8,482,381, respectively, amounting to \$15,417,613) and reissued the 113,044 thousand shares held as treasury stock (Note 1).

Information related to the Far EasTone's Global Depositary Receipts (GDRs) as of December 31, 2004 is as follows:

		GDRs (in Thousand Units Units	Representing Common Stock (in Thousand Shares)
Initial offering	a	\$ 10,000	\$ 150,000
Converted from overseas unsecured convertible bonds	b	165	2,473
Issued for capital increase	c	296	4,448
Reissued within authorized units	d	349	5,233
GDR's transferred to common stock		<u>(8,282)</u>	<u>(124,238)</u>
Outstanding issued		<u>\$ 2,528</u>	<u>\$ 37,916</u>

- a. On June 1, 2004, the Securities and Futures Bureau (SFB) approved Far EasTone's request to sell 150,000 thousand shares of Far EasTone's common stock in the form of GDRs to foreign investors representing 10,000 thousand units of GDRs. One GDR unit represents 15 shares of Far EasTone'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.
- b. On July 20, 2004, the SFB approved Far EasTone'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, 2004, 165 thousand units of GDRs have been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand shares of common stock.
- c. Far EasTone 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 shares of common stock.
- d. Under the terms of the DGR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, reissuance of GDRs is allowed up to the aggregate amount previously approved by the SFB. Accordingly, Far EasTone has reissued 349 thousand units of GDRs representing 5,233 thousand shares of common stock.

The owners of GDRs have the same rights as holders of common stock except that the GDR owners should exercise the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations through the Depositary Trust Company:

- a. Exercise voting rights;
- b. Transfer the GDRs; and
- c. Receive dividends and exercise preemptive rights or other rights and interests.

15. CONSOLIDATED EARNINGS PER SHARE

The information on consolidated earnings per share (EPS) calculation is as follows:

	<u>Amount (Numerator)</u>		<u>Common Stock (Denominator) (in Thousand Shares)</u>	<u>Consolidated Earnings Per Share (NT\$)</u>	
	<u>Income Before Income Tax</u>	<u>Net Income</u>		<u>Income Before Income Tax</u>	<u>Net Income</u>
For the year ended <u>December 31, 2004</u>					
Consolidated basic EPS					
Consolidated net income	\$ 16,203,175	\$ 14,043,076	3,748,089	<u>\$ 4.32</u>	<u>\$ 3.75</u>
Effect of potential dilutive common stocks					
Convertible bonds	<u>(62,776)</u>	<u>(60,578)</u>	<u>124,574</u>		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stocks	<u>\$ 16,140,399</u>	<u>\$ 13,982,498</u>	<u>3,872,663</u>	<u>\$ 4.17</u>	<u>\$ 3.61</u>
For the year ended <u>December 31, 2003</u>					
Consolidated basic EPS					
Consolidated net income	\$ 8,089,105	\$ 8,188,133	2,967,565	<u>\$ 2.73</u>	<u>\$ 2.76</u>
Effect of potential dilutive common stocks					
Convertible bonds	<u>(18,695)</u>	<u>(18,924)</u>	<u>111,455</u>		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stocks	<u>\$ 8,070,410</u>	<u>\$ 8,169,209</u>	<u>3,079,020</u>	<u>\$ 2.62</u>	<u>\$ 2.65</u>

For the year ended December 31, 2003, the consolidated primary EPS was retroactively adjusted for the 2003 stock dividend declared in 2004 decreased from \$3.00 (before tax) to \$2.73 and from \$3.04 (after tax) to \$2.76.

16. PENSION PLAN

Both Far EasTone and KG Telecom make monthly contributions, 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 December 31, 2004, Yuan-Ze has no regular employees and pension plan.

Combined information on the pension plans of Far EasTone and KG Telecom is as follows:

a. Net pension cost consisted of:

	2004	2003
Service cost	\$ 109,133	\$ 63,200
Interest cost	18,498	8,880
Expected return on pension assets	(6,348)	(4,752)
Amortization	<u>1,213</u>	<u>1,213</u>
Net pension cost	<u>\$ 122,496</u>	<u>\$ 68,541</u>

b. Net pension cost of Far EasTone is as follows:

	2004	2003
Actuarial net pension cost	\$ 122,496	\$ 68,541
Less: Included in properties	8,544	2,501
Included in other receivables - related parties	<u>867</u>	<u>346</u>
Net pension cost (included in operating costs and expenses)	<u>\$ 113,085</u>	<u>\$ 65,694</u>

c. Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	<u>December 31</u>	
	2004	2003
Benefit obligation		
Vested benefit obligation	\$ 3,080	\$ 2,915
Non-vested benefit obligation	<u>326,676</u>	<u>172,459</u>
Accumulated benefit obligation	329,756	175,374
Additional benefits based on projected and future salaries	<u>326,406</u>	<u>153,442</u>
Projected benefit obligation	656,162	328,816
Fair value of plan assets	<u>(291,970)</u>	<u>(152,469)</u>
Unfunded projected benefit obligation	364,192	176,347
Unrecognized net transition obligation	(9,699)	(10,912)
Unrecognized pension gain (loss)	<u>(128,185)</u>	<u>3,843</u>
Accrued pension cost	<u>\$ 226,308</u>	<u>\$ 169,278</u>

d. Vested benefit amounts is as follows:

	<u>\$ 3,591</u>	<u>\$ 3,507</u>
--	-----------------	-----------------

e. Actuarial assumptions are as follows:

	2004	2003
Discount rate used in determining present value	3.25%	3.25%
Future salary increase rate	3.50%	3.25%
Expected rate of return on plan asset	3.25%	3.25%

f. Fund changes are as follows:

	2004	2003
Beginning balance	\$ 152,469	\$ 120,163
Contributions	42,502	30,393
Earnings	<u>3,119</u>	<u>1,913</u>
Ending balance	198,090	152,469
Add: Fund of KG Telecom	<u>93,880</u>	<u>-</u>
	<u>\$ 291,970</u>	<u>\$ 152,469</u>

17. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>For the Year Ended December 31, 2004</u>			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	\$ 502,402	\$ 2,003,793	\$ -	\$ 2,506,195
Insurance	33,686	132,213	-	165,899
Pension	24,248	88,837	-	113,085
Miscellaneous	19,389	168,920	-	188,309
Depreciation	9,937,388	1,550,587	1,932	11,489,907
Amortization	<u>100,039</u>	<u>795,120</u>	<u>-</u>	<u>895,159</u>
	<u>\$ 10,617,152</u>	<u>\$ 4,739,470</u>	<u>\$ 1,932</u>	<u>\$ 15,358,554</u>

	<u>For the Year Ended December 31, 2003</u>			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	\$ 231,995	\$ 1,307,253	\$ -	\$ 1,539,248
Insurance	15,200	94,395	-	109,595
Pension	3,571	62,123	-	65,694
Miscellaneous	10,432	105,003	-	115,435
Depreciation	5,935,882	1,134,260	-	7,070,142
Amortization	<u>-</u>	<u>1,807</u>	<u>-</u>	<u>1,807</u>
	<u>\$ 6,197,080</u>	<u>\$ 2,704,841</u>	<u>\$ -</u>	<u>\$ 8,901,921</u>

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 is as follows:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Income tax expense computed at statutory tax rate (25%)	\$ 5,091,180	\$ 2,022,276
Add (deduct) tax effects of		
Permanent differences	(594,346)	87,356
Temporary differences	398,093	119,342
Tax-exempt income	(2,458,203)	(2,060,530)
Unappropriated earnings tax (10%)	279,862	17,460
Investment tax credits	<u>(788,490)</u>	<u>(159,264)</u>
Income tax expense - current	<u>\$ 1,928,096</u>	<u>\$ 26,640</u>

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

The balance of income tax payable as of December 31, 2004 was net of the creditable income taxes of \$291 plus Far EasTone and KG Telecom accrual of income tax payable of \$1,456 and \$396,303 (refer to f.), respectively, for the years not yet examined and cleared by the tax authorities. The balance of income tax payable as of December 31, 2003 was net of the creditable income taxes of \$2,557.

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 (benefit) consisted of:

	<u>Years Ended</u>	
	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Income tax expense - current	\$ 1,928,096	\$ 26,640
Income tax expense (benefit) - deferred	189,485	(133,954)
Prior year's adjustment	40,109	5,214
Income tax expense on income subjected to a separate rate of 20%	<u>2,409</u>	<u>3,072</u>
Income tax expense (benefit)	<u>\$ 2,160,099</u>	<u>\$ (99,028)</u>

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

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
<u>Current</u>		
Provision for doubtful accounts	\$ 1,420,725	\$ 718,225
Investment tax credits	1,202,868	937,424
Unrealized foreign exchange loss (gain), net	28,923	(22,802)
Other	<u>7,618</u>	<u>3,348</u>
	2,660,134	1,636,195
Less - valuation allowance	<u>749,720</u>	<u>243,471</u>
	<u>\$ 1,910,414</u>	<u>\$ 1,392,724</u>
<u>Noncurrent</u>		
Investment tax credits	\$ 7,419	\$ 321,817
Unrealized losses for disposal of properties	40,152	-
Depreciation resulting from the differences in estimated service lives of properties	458,671	432,008
Loss carryforwards	192,135	122,678
Provision for losses on properties not currently used in operations	141,958	-
Accrued pension cost	63,017	42,986
Accrued interest premium	3,660	8,562
Cumulative equity in the net loss of investee	5,168	8,927
Other	<u>42</u>	<u>69</u>
	912,222	937,047
Less - valuation allowance	<u>199,600</u>	<u>123,143</u>
	<u>\$ 712,622</u>	<u>\$ 813,904</u>

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

d. Integrated income tax information:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Far EasTone	<u>\$ 57,916</u>	<u>\$ 3,534</u>
KG Telecom	<u>\$ 546</u>	<u>\$ -</u>
Yuan-Ze	<u>\$ 137</u>	<u>\$ 132</u>

Estimated ratio of the ICA balance for Far EasTone as of December 31, 2004 to unappropriated earnings as of such date was 0.41%. When the dividends from the unappropriated earnings as of December 31, 2003 were distributed by Far EasTone in 2004, the actual ratio used was 0.68%.

Estimated ratio of the ICA balance for KG Telecom as of December 31, 2004 to unappropriated earnings as of such date was 0.01%. When the dividends from the unappropriated earnings as of December 31, 2003 were distributed by KG Telecom in 2004, the actual ratio used was 22.29%.

Yuan-Ze has no appropriated earnings as of December 31, 2004. Therefore, the ICA balance of Yuan-Ze will be accumulated upon a future date of dividend distribution.

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 KG Telecom for allocating tax credits to each Far EasTone's and KG Telecom's stockholder.

e. Investment tax credits and loss carryforwards information:

The unused investment tax credits and loss carryforwards of the Group as of December 31, 2004 are summarized as follows:

Far EasTone

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$ 267,445	\$ 149,060	2005
		141,604	30,031	2006
		54,946	54,946	2007
		99,344	99,344	2008
Statute for Upgrading Industries	Research and development expenditures	699,533	395,921	2004
		587,938	43,592	2005
		302,096	37,294	2006
		28,866	28,866	2007
Statute for Upgrading Industries	Personnel training expenditures	5,000	5,000	2008
		19,629	19,629	2005
		12,038	12,038	2006
		3,273	3,273	2007
		<u>\$ 2,221,712</u>	<u>\$ 878,994</u>	

KG Telecom

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$ 564,651	\$ 173,435	2006
		151,916	150,439	2007
		<u>\$ 716,567</u>	<u>\$ 323,874</u>	

Yuan-Ze

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	<u>\$ 7,419</u>	<u>\$ 7,419</u>	2007

Year of Expiry

	Loss Carryforwards
2006	\$ 36,132
2007	10,118
2008	76,396
2009	<u>69,489</u>

\$192,135

f. Status of Income tax returns:

Income tax returns through 1999 and for 2002 of Far EasTone had been examined and cleared by the tax authorities.

Income tax returns through 2002 of Yuan-Ze had been examined and cleared by the tax authorities.

Income tax returns through 1997 of KG Telecom (includes former KGT) had been examined and cleared by the tax authorities. In addition, tax authorities had examined and cleared KG Telecom's income tax returns for 1998 and 2001, however KG Telecom had appealed for re-examination of filing related to the amortization of goodwill resulting from merger with Tuntex and the dispute in the amount of investment tax credits. The outcome of this appeal is not yet finalized. KG Telecom had accrued income tax payable of \$396,303 for years not yet examined and cleared by tax authorities based on the foregoing examined results.

19. RELATED-PARTY TRANSACTIONS

The Group's related parties and relationship are as follows:

<u>Related Party</u>	<u>Nature of Relationship</u>
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 Textile Ltd. (FETL)	Ultimate parent company
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary of Far EasTone and a related party since September 2004
Far Eastern Technology Developmental Foundation (FETTFD)	Far EasTone's donation to the foundation's capital over one third
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Asia Cement Co., Ltd. (ACC)	Same chairman
U-Ming Marine Transport Corp. (UMMT)	Same chairman
Far Eastern Polychem Industries Ltd. (FETPI)	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same ultimate parent company
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FEDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT
Far Eastern Technology Network Information Ltd. (Shanghai) (FETI)	Same ultimate parent company and a subsidiary of Far EasTone since September 2004
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Ding Investment Co., Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern International Bank (FETIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman

(Continued)

<u>Related Party</u>	<u>Nature of Relationship</u>
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd. (Taiwan)	Same chairman
Oriental Institute of Technology	Same chairman
Yuan-Ze University (YZU)	Same chairman
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 ultimate parent company
Yuan Ding Leasing Corp.	Same ultimate parent company
Far Eastern Electronic Toll Collection Co., Ltd. (FETETC)	Equity-method investee of Far EasTone
KGEx.com (KGEx)	Subsidiary of KG Telecom and a related party of Far EasTone since January 2004
KGT International Holdings	Subsidiary of KG Telecom and a related party of Far EasTone since January 2004
KG Satellite	Subsidiary of KG Telecom and a related party of Far EasTone since January 2004
Far Eastern Alliance Asset Management Co., Ltd. (FEA)	Its chairman is the relative of Far EasTone's Chairman
Taipei Metro Properties Management	Same ultimate parent company
NTT DoCoMo Inc.	Director of Far EasTone
Bai Yang Investment Co., Ltd.	Its chairman is the relative of Far EasTone's chairman
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
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to Notes 7, 8 and 14, the Group's significant transactions with the above parties are summarized as follows:

		<u>2004</u>		<u>2003</u>	
		Amount	%	Amount	%
<u>During the year</u>					
Operating revenue	a.				
NCIC	b.	\$ 1,067,960	2	\$ 695,687	2
KGEx	c.	312,900	1	-	-
Other	bb.	<u>10,929</u>	-	<u>8,845</u>	-
		<u>\$ 1,391,789</u>	<u>3</u>	<u>\$ 704,532</u>	<u>2</u>
Operating costs and expenses					
Service cost					
FETEC	d.	\$ 38,881	-	\$ 30,941	-
KGEx	c. and e.	30,373	-	-	-
NCIC	b.	3,014	-	53,824	-
Other	bb.	<u>4,319</u>	-	<u>-</u>	-
		<u>\$ 76,587</u>	<u>-</u>	<u>\$ 84,765</u>	<u>-</u>

(Continued)

		<u>2004</u>		<u>2003</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Rental					
FEILC	f.	\$ 54,451	2	\$ 91,305	7
FETRD	g.	50,301	2	-	-
NCIC	h.	24,761	1	-	-
FETL	i.	4,706	-	54,895	4
Other	bb.	<u>7,418</u>	<u>-</u>	<u>7,696</u>	<u>-</u>
		<u>\$ 141,637</u>	<u>5</u>	<u>\$ 153,896</u>	<u>11</u>
Management service fee					
AWS	j.	<u>\$ -</u>	<u>-</u>	<u>\$ 59,215</u>	<u>100</u>
Research and development expense					
FETTDF	k.	<u>\$ 20,232</u>	<u>78</u>	<u>\$ 22,971</u>	<u>66</u>
Service fee					
FETI	l.	\$ 138,216	47	\$ 66,418	23
FCHRC	m.	<u>77,311</u>	<u>26</u>	<u>175,801</u>	<u>62</u>
		<u>\$ 215,527</u>	<u>73</u>	<u>\$ 242,219</u>	<u>85</u>
Nonoperating income and gains					
Management service revenue (included in other nonoperating income and gains)					
KGEx	n.	<u>\$ 7,500</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>
Rental and maintenance revenue (included in other nonoperating income and gains)					
NCIC	o.	<u>\$ 4,616</u>	<u>4</u>	<u>\$ 3,663</u>	<u>9</u>
Gain on disposal of properties					
NCIC	p.	<u>\$ 811</u>	<u>-</u>	<u>\$ 64,646</u>	<u>772</u>
Other					
NCIC	p.	<u>\$ -</u>	<u>-</u>	<u>\$ 7,400</u>	<u>18</u>
Nonoperating expenses and losses					
Interest expense					
FETIB	q.	<u>\$ 1,465</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Donation expense					
YZU	r.	<u>\$ 500,000</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>

(Continued)

		<u>2004</u>		<u>2003</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Acquisition of short-term investments					
FEA	s.	\$ 290,000	-	\$ -	-
Acquisition of investments in shares of stock					
FETPI	t.	\$ 92,616	14	\$ -	-
FETIH	u.	12,531	2	-	-
OIHP	u.	12,531	2	-	-
YTI	u.	12,531	2	-	-
FEDSD	u.	4,195	1	-	-
		<u>\$ 134,404</u>	<u>21</u>	<u>\$ -</u>	<u>-</u>
Acquisition of properties					
NCIC	r.	\$ 158,398	2	\$ -	-
FEILC	f.	147,500	2	1,532,506	23
FETEC	w.	128,880	2	77,682	1
Other	bb.	11,176	-	-	-
		<u>\$ 445,954</u>	<u>6</u>	<u>\$ 1,610,188</u>	<u>24</u>
<u>At end of year</u>					
Receivables from related parties					
KGEx	x.	\$ 45,343	53	\$ -	-
NCIC	b. and p.	23,815	28	87,768	75
FETETC	y.	7,616	9	11,189	10
FETI	l.	-	-	17,410	15
Other	bb.	8,149	10	162	-
		<u>\$ 84,923</u>	<u>100</u>	<u>\$ 116,529</u>	<u>100</u>
Prepaid expenses					
FEDS	z.	\$ 1,133	-	\$ 1,159	-
YDC	aa.	790	-	1,030	-
FETL	i.	604	-	753	-
NCIC	h.	590	-	-	-
Other	bb.	1,930	-	1,339	-
		<u>\$ 5,047</u>	<u>-</u>	<u>\$ 4,281</u>	<u>-</u>
Refundable deposits					
FEILC	f.	\$ 4,590	1	\$ 6,390	3
NCIC	h.	1,769	1	-	-
YDC	aa.	582	-	926	-
Other	bb.	255	-	219	-
		<u>\$ 7,196</u>	<u>2</u>	<u>\$ 7,535</u>	<u>3</u>

(Continued)

		<u>2004</u>		<u>2003</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Payables to related parties					
NCIC	b. and u.	\$ 169,505	53	\$ 24,864	11
FETEC	d. and v.	66,796	21	171,881	76
FEILC	f.	34,025	10	265	-
KGEx	c. and e.	14,807	5	-	-
FETL	i.	2,485	-	14,508	6
Other	bb.	<u>34,152</u>	<u>11</u>	<u>15,016</u>	<u>7</u>
		<u>\$ 321,770</u>	<u>100</u>	<u>\$ 226,534</u>	<u>100</u>
Long-term debt payable - current portion					
FETIB	q.	<u>\$ 34,000</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Long-term lease payable (includes current portion)					
FEILC	f.	<u>\$ 118,000</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>

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

- a. Operating revenues (such as service revenue and revenues from sales of cellular phone equipment and accessories and lease-circuit revenue) from related parties are based on normal service rates, selling prices and collection terms.
- b. The transactions between Far EasTone, KG Telecom and NCIC consisted of sales to NCIC of cellular phone equipments and accessories and interconnection activities for NCIC's use of Far EasTone's and KG Telecom's network. The interconnection fees paid by Far EasTone and KG Telecom on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to Far EasTone and KG Telecom are included in service cost. The international direct dialing revenue collected by Far EasTone and KG Telecom for NCIC was treated as a reduction of service revenue and was included in payables to related parties.
- c. The international direct dialing revenue collected by Far EasTone and KG Telecom for KGEx through call-by-call selection service was treated as a reduction of service revenue and was included in payables to related parties. The interconnection fees paid by Far EasTone and KG Telecom on their use of KGEx fixed-line network and billing processing costs pertaining to the interconnection service provided by KGEx to Far EasTone and KG Telecom are included in service cost. The transactions are comparable with third parties.
- d. Far EasTone and KG Telecom signed network maintenance contracts with FETEC for maintaining their telecommunications network and backbone network facilities.
- e. KG Telecom signed a network maintenance contract with KGEx for maintaining KG Telecom's telecommunications network and backbone network facilities.
- f. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung from February 2000 to April 2003; (b) the land and mobile switch centers located in Neihu, Taichung and Hsinchu, from November 1999 to June 2005; and (c) vehicles. The contracts will remain valid unless either Far EasTone or FEILC inform each other to cancel the contracts.

When the contracts expire, Far EasTone may either renew the contracts or 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
hsinchu land for switch center	120,000

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 price of \$1,532,382 (without sales tax) was determined based on the appraisal report obtained from real estate professionals. The title to the land and buildings was transferred to Far EasTone by the end of April 2003.

Far EasTone and KG Telecom lease from FEILC computer equipment, under a five years lease from July 2004 to June 2009, with annual lease payment of \$30,828 (Note 8).

- g. Far EasTone leases from FETRD several buildings and parcels of land under contracts with terms ranking from September 2003 to November 2013. The properties are located in Yatung street and Renai Street in Panchao City; Wuku in Taipei County and other locations in Taiwan.
- h. Far EasTone leases from NCIC telecommunications network and office space in Neihu under contracts with term from September 2003 to September 2008.
- i. Far EasTone leases from FETL several buildings and parcels of land under contracts with term from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli and other locations in Taiwan.
- j. 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.
- k. FETTDF researches telecommunication technology and provides training programs for Far EasTone.
- l. Far EasTone signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed upon with Far EasTone. The advances to FETI were treated as receivables from related parties and were collected at various times based on the cash balances of FETI.
- m. The Group has contracts with FCHRC for manpower dispatching service. The service charges were based upon the services provided by FCHRC for temporary or specific personnel supplies.
- n. Far EasTone provides management services to KGEx and the service revenues are collected annually.
- o. Far EasTone leases its HUB spaces to NCIC and provides related maintenance service, the lease agreement will expire in March 2005.
- p. The advances for the construction and joint use of telecommunications network and backbone network facilities between Far EasTone and NCIC and receivables from sales of properties to NCIC were included in receivables from related parties. The proceeds and gains on disposal of properties for the year ended December 31, 2004 are \$8,011 and \$811, respectively.

Far EasTone sold HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC in 2003. The selling price of the HUB and related operating equipment, which is comparable to market prices, was \$154,805 with a related service charge of \$7,770, including sales tax. For the year ended December 31, 2003, the gain on disposal of properties and service charge for the management of the building was \$64,646 and \$7,400, respectively, which was recorded as nonoperating income as net gains from disposal of properties.

- q. KG Telecom obtained a syndicated loan from a consortium of banks with interest payable monthly. A portion of the outstanding loans is drawn from FETIB and amounts \$34,000. The loan is secured and payable every six months at equal installments of the principal with the final payment due in August 2005.

In addition, FETIB provides a guarantee for payment of KG Telecom's long-term bonds amounting to \$30,600.

- r. KG Telecom made a donation to Yuan-Ze University for its construction of school buildings.
- s. KG Telecom purchased from FEAAM 27,574 thousand units of Taiwan Bond Fund which is recorded as short-term investments.
- t. Far EasTone purchased 100% ownership of Far Eastern Info Service (Holding) Ltd. in the amount of \$92,616 on August 30, 2004. As a result, Far EasTone acquired 100% ownership of FETI indirectly.
- u. Far EasTone purchased 4,685 thousand shares in the amount of \$41,788 thousand in June, 2004 representing ownership of 66.92% of E. World Holdings from FEITH, OIHP, FEDSD and YTI (Note 7).
- v. Far EasTone purchased NCIC's telecommunications network and backbone network facilities.
- w. The Group maintains contracts with FETEC for the construction of telecommunications network and backbone network facilities.
- x. Far EasTone and KG Telecom advanced KGEx for its daily operating expenditures and will be collected at various times based on the cash balances of KGEx.
- y. Far EasTone advances FETETC for its daily operating expenditures during its development stage. The advances will be collected at various times based on the cash balances of FETETC.
- z. Far EasTone leases from FEDS several buildings and parcels of land located in several places in Taiwan under contracts with terms ranking from December 1997 to October 2016.
- aa. The Group leases from YDC certain floors at Taipei Metro The Mall as well as building spaces located several places, the lease contracts will be expired on various dates from December 2005 to May 2017.
- bb. Accounts of other related parties that are less than 5% of the respective accounts.

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

20. COMMITMENTS AS OF DECEMBER 31, 2004

The Group has the following significant commitments:

- a. The Group has outstanding contracts to acquire properties for \$459,444.

- b. Far EasTone's outstanding letters of credit amounted to ¥ 526,784 thousand (equivalent to \$162,934) and US\$606 thousand (equivalent to \$19,216).
- c. Payments for the rentals of land, buildings and cell sites of the Group for the next five years are summarized as follows:

Year	Amount
2005	\$ 2,559,792
2006	2,658,948
2007	2,761,974
2008	2,870,021
2009	2,980,246

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:

	<u>December 31</u>	
	2004	2003
Time deposits (included in other assets - miscellaneous)	\$ 1,163	\$ -
Properties, net	<u>25,969,935</u>	<u>5,629,157</u>
	<u>\$ 25,971,098</u>	<u>\$ 5,629,157</u>

22. SUBSEQUENT EVENTS

In addition to Notes 1, 9, and 13, the Group has the following subsequent events:

- a. On January 4, 2005, Far EasTone signed an agreement to purchase 74,348 thousand shares (approximately 55.3% ownership) of Arcoa Communication Co. (ARCOA) from stockholders of ARCOA for an average price of \$16.26 per share; totalling \$1,208,866. The merger was approved by the Fair Trade Commission (FTC) on February 4, 2005.

Far EasTone deposited \$350,000 in escrow with Citibank (included in restricted assets) on December 24, 2004. The deposit was restricted and was transferred as part of the purchase price upon signed agreement.

- b. For the purpose of integration of the telecommunications business and operational efficiency, Far EasTone purchased 84,630 thousand shares of KGEx from its stockholders, Taiwan Cement Corporation and others, for \$436,268 at \$5.155 per share. Thus, the equity ownership of KGEx by KG Telecom increased to 74.45% upon completion of the acquisition.

23. ADDITIONAL DISCLOSURES

A. Important transactions and B. Related information of the Group's investees.

- a. Financing provided: None
- b. Endorsement/guarantee provided: None

- c. Marketable securities and investments in shares of stock held: Schedule A
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Schedule B
- e. Acquisition of individual real estate at costs of at least NT\$100 million or 20% of the paid-in capital: None
- f. Disposal of individual real estate at prices of at least NT\$100 million or 20% of the paid-in capital: None
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule C
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule D
- i. Names, locations, and related information of investees on which Far EasTone exercises significant influence: Schedule E
- j. Derivative financial instruments

Far EasTone and KG Telecom used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2004 and 2003. All these transactions are for nontrading purposes. Yuan-Ze did not enter into any derivative financial instrument contracts for the years ended December 31, 2004 and 2003.

The information on derivative financial instrument contracts entered into by the Group are as follows:

1) Open contracts and credit risk

Type of Transaction	December 31, 2004						
	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap - Far EasTone	\$ 2,670,000	1.25%-1.95%	1.004%-2.540%	Every 6 months	March 28, 2008 - December 19, 2008	\$ (62,401)	\$ -
Interest rate swap - KG Telecom	1,000,000	3.38%-4.50%	1.193%	Every 3 months	May 20, 2005	(13,192)	-

Type of Transaction	December 31, 2003						
	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap - Far EasTone	\$ 2,670,000	1.25%-1.95%	2.60%-3.98%	Every 6 months	March 28, 2008 - December 19, 2008	\$ 19,723	\$ 19,723

Type of Transaction	December 31, 2004			
	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap - KG Telecom	US\$ 40,238 thousand	\$ -	\$ (108,370)	\$ -

The related gains of Far EasTone on these swap contracts for the years ended December 31, 2004 and 2003 were \$29,680 and \$9,420, respectively, and were recorded as a reduction of interest expense.

The related losses of KG Telecom on these interest rate swap and cross currency swap contracts for the year ended December 31, 2004 was NT\$143,452 which were recorded separately as interest expense of \$51,033 and unrealized foreign exchange net loss of \$92,419.

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

The related gains of Far EasTone on forward contracts for the years ended December 31, 2004 and 2003 were \$770 and \$4,103, respectively, and were recorded as a reduction of inventory.

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

2) Market risk

Far EasTone and KG Telecom 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.

3) 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 be insignificant. Management believes that Far EasTone and KG Telecom have sufficient operating capital to meet cash demand.

4) The purpose of derivative financial instruments held or issued

Far EasTone and KG Telecom 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's and KG Telecom's paying interest at a fixed rate and receiving interest based on market rates. Far EasTone 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's and KG Telecom's exposure to cash flow risk. Far EasTone and KG Telecom periodically evaluates the effectiveness of the instruments.

5) The fair values of financial instruments were estimated as follows:

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative financial instruments</u>				
Financial assets				
Cash and cash equivalents	\$ 8,502,692	\$ 8,502,692	\$ 14,568,654	\$ 14,568,654
Short-term investments	290,000	290,800	-	-
Notes and accounts receivable, net	6,134,846	6,134,846	3,735,277	3,735,277
Receivables from related parties	84,923	84,923	116,529	116,529
Investments in shares of stock	1,799,682	1,799,682	73,518	73,518
Refundable deposits	373,088	372,232	241,736	240,236
Restricted assets	350,000	350,000	-	-
Pledged time deposits (included in other assets - miscellaneous)	1,163	1,163	-	-
Financial liabilities				
Short-term loans	2,250,000	2,250,000	100,000	100,000
Commercial paper payable	896,648	896,648	489,587	489,587
Notes payable	41,834	41,834	30,670	30,670
Accounts payable	538,371	538,371	1,043,206	1,043,206
Payables to related parties	321,770	321,770	226,534	226,534
Payables related to acquisition of properties	3,088,119	3,088,119	2,716,930	2,716,930
Long-term liabilities (including current portion)	19,636,407	19,789,167	19,433,378	19,663,516
Guarantee deposits received (including current portion)	1,604,781	1,604,781	1,553,591	1,553,591
<u>Derivative financial instruments</u>				
Interest rate swap - Far EasTone	-	(63,502)	-	19,723
Interest rate swap - KG Telecom	-	(13,192)	-	-
Cross currency swap - KG Telecom	-	(108,370)	-	-

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

- a) The carrying values of cash and cash equivalents, notes and accounts receivable, receivables from related parties, restricted assets, pledged time deposits, short-term loans, commercial paper payable, notes payable, accounts payable, payables to related parties and payables related to acquisition of properties are recorded at their carrying values due to the short maturity of these instruments.
- b) The fair values of investments in shares of stock and short-term investments are recorded at market prices or, if market prices are unavailable, on the equity in the investee's net assets.
- c) Long-term liabilities are recorded at market prices or, if market prices are unavailable, upon present value of expected cash outflows, which is discounted at the interest rates for bank loans with similar maturity date.
- d) Refundable deposits and guarantee deposits received are recorded at the present values of future payments or receipts.
- e) Fair values of derivative financial instruments are recorded at the quoted market prices obtained from banks.

C. Investment in Mainland China:

- a. 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 F;
- b. Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 19.

24. INDUSTRY SEGMENT INFORMATION

a. Industry

The Group provides wireless communications, leased circuit, Internet and international simple resale (ISR) services. No segment information is provided since the revenues from wireless communications services account for more than 90% of the Group's total revenues.

b. Foreign operations.

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

c. Foreign revenues

The Group has no foreign revenues.

d. Net sales to customers representing at least 10% of the Group's total net sales were as follows:

	<u>2004</u>		<u>2003</u>	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	\$ 12,153,099	19	\$ 7,139,284	19

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2004

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2004				Highest Shares/Units Held during the Year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Far Eastone Telecommunications Co., Ltd.	<u>Stocks</u> KG Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,332,997,916.00	\$ 33,786,566	100.00	\$ 33,786,566	1,332,997,916.00	Note A and D
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000,000.00	9,590,140	100.00	9,590,140	1,037,000,000.00	Note A and D
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	54,000,000.00	433,544	45.00	433,544	54,000,000.00	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	109,846	100.00	109,846	1,200.00	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	65,433	85.92	65,433	6,014,622.00	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	44,836	15.00	44,836	4,500,000.00	Note A
E. World (Holdings) Ltd.	<u>Stocks</u> E. World Ltd.	Equity-method investee	Investments in shares of stock	19,349,994.00	US\$ 593,000	99.99	US\$ 593,000	19,349,994.00	Note A
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US\$ 431,000	17.96	US\$ 143,000	1,195,141.00	Note C
Far Eastern Info Service (Holding) Ltd.	<u>Share certificates</u> Far Eastern Technology Network Information Limited Company (Shanghai)	Equity-method investee	Investments in shares of stock	-	US\$ 2,484,000	100.00	US\$ 2,484,000	-	Note A
KG Telecommunications Co., Ltd.	<u>Stocks</u> KGEx.com	Equity-method investee	Investments in shares of stock	175,931,000.00	898,944	50.27	898,944	175,931,000.00	Note A
	KGT International Holdings	Equity-method investee	Investments in shares of stock	50,000.00	97,725	100.00	97,725	50,000.00	Note A
	KG Satellite	Equity-method investee	Investments in shares of stock	9,950,000.00	83,256	66.33	83,256	9,950,000.00	Note A
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	66,098	40.00	66,098	4,000,000.00	Note A
	YesMobile	-	Investments in shares of stock	100,000.00	-	0.50	-	100,000.00	
	<u>Mutual funds</u> Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,899.00	290,000,000	-	290,800	27,573,899.00	Note B
KGT International Holdings	<u>Stocks</u> KGEx.com	Equity-method investee	Investments in shares of stock	16,051,000.00	US\$ 2,586,000	4.59	US\$ 2,586,000	16,051,000.00	Note A
KGEx.com	<u>Mutual funds</u> Invesco Bond Fund	-	Short-term investments	2,414,425.85	35,000	-	35,000	9,688,918.37	Note B
	Sheng Hua 1699 Bond Fund	-	Short-term investments	720,290.45	8,565	-	8,708	10,178,000.94	Note B

(Continued)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2004				Highest Shares/Units Held during the Year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
KG Satellite	<u>Mutual funds</u>								
	Phoenix Fund	-	Short-term investments	1,377,042.20	\$ 20,225	-	\$ 20,225	1,399,492.00	Note B
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,241	217,068.70	Note B
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,061	7,995,521.37	Note B

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

Note B: Open-ended mutual funds were calculated by net asset value of mutual funds as of December 31, 2004.

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

Note D: All the carrying value of investment in shares of stock and the investees' net assets have been eliminated in consolidation.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2004
 (Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquired		Disposed			The Change due to Equity Method	Ending Balance		
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs		Gain or Loss	Share/Units	Amount
Far Eastone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd. (Note E)	Equity-method investee	Original stockholders of KG Telecom Issuance of stock by cash	-	526,430,771.00	\$ 11,698,382	806,567,145 (Note D)	\$ 17,930,678 (Note D)	-	\$ -	\$ -	\$ -	\$ 4,157,506 (Note B)	1,332,997,916.00	\$ 33,786,566
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee		-	6,500,000.00	65,000	47,500,000	475,000	-	-	-	-	(106,456) (Note C)	54,000,000.00	433,544
KG Telecommunications Co., Ltd. (Note A)	Fuhwa Bond Fund	Short-term investments	-	-	8,276,487.41	101,313	-	-	8,276,487.41	101,752	101,313	439	-	-	-
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	28,193,838.32	335,263	-	-	28,193,838.32	336,616	335,263	1,353	-	-	-
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	27,259,695.01	292,862	-	-	27,259,695.01	293,494	292,862	632	-	-	-
	Entrust Kirin Bond Fund	Short-term investments	-	-	24,112,994.10	255,463	-	-	24,112,994.10	256,642	255,463	1,179	-	-	-
	Phoenix Fund	Short-term investments	-	-	52,414,671.20	756,895	-	-	52,414,671.20	759,803	756,895	2,908	-	-	-
	PCA Bond Fund	Short-term investments	-	-	17,673,057.10	263,885	-	-	17,673,057.10	264,260	263,885	375	-	-	-
	President Home Run Bond Fund	Short-term investments	-	-	9,818,196.30	132,159	-	-	9,818,196.30	132,351	132,159	192	-	-	-
	United Bond Fund	Short-term investments	-	-	11,773,049.24	147,593	-	-	11,773,049.24	147,687	147,593	94	-	-	-
	Truswell Bond Fund	Short-term investments	-	-	16,337,600.20	200,000	-	-	16,337,600.20	200,714	200,000	714	-	-	-
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	10,510,341.13	115,223	-	-	10,510,341.13	115,490	115,223	267	-	-	-
	Grand Cathay Bond Fund	Short-term investments	-	-	13,666,157.20	170,000	-	-	13,666,157.20	170,069	170,000	69	-	-	-
	TA Chong Bond Fund	Short-term investments	-	-	12,012,974.00	150,000	-	-	12,012,974.00	150,067	150,000	67	-	-	-
	TA Chong Gallop Bond Fund	Short-term investments	-	-	19,154,886.40	200,000	-	-	19,154,886.40	200,090	200,000	90	-	-	-
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	421,785.10	6,740	6,255,473.50	100,000	6,677,258.60	106,865	106,740	125	-	-	-
	Fuh-Hwa Bond Fund	Short-term investments	-	-	12,150,254.50	154,518	-	-	12,150,254.50	155,336	154,518	818	-	-	-
	Far Eastern Alliance Taiwan Bond Fund	Short-term investments	-	-	-	-	27,573,879.00	290,000	-	-	-	-	-	27,573,879.00	290,000
KGEx.com (Note A)	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	10,178,000.94	121,022	-	-	9,457,710.49	113,000	112,457	543	-	720,290.45	8,565
	Invesco Bond Fund	Short-term investments	-	-	-	-	9,688,918.37	140,000	7,274,492.52	105,216	105,000	216	-	2,414,425.85	35,000

Note A: The beginning balance was carried forward from KG Telecom's account balances due to the Combination with KG Telecom.

Note B: Including investment gain of \$4,168,180 and cumulative translation adjustments of (\$4,780) under the equity method and cash dividends of (\$5,894).

Note C: Investment loss under equity method.

Note D: Acquisition from the Combination with KG Telecom (Note 7).

Note E: All the carrying values of investment in shares of stock, investment income (loss) and the investees' net assets have been eliminated in consolidation.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousands of New Taiwan Dollars)**

Purchase (Sale) 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 of Far EasTone	Service revenue	\$ (949,203)	(3%)	30 days	-	-	Accounts receivable (Note A)	\$ 38,724	4%
			Cost of services	825,143	5%	30 days	-	-	Accounts payable (Note A)	-	-
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(634,227)	(2%)	30 days	-	-	Accounts receivable (Note B)	12,190	1%
									Accounts payable (Note B)	(36,248)	(12%)
KG Telecommunications Co., Ltd.	KGEx.com	Subsidiary of KG Telecom	Service revenue	(217,626)	(1%)	30 days	-	-	Accounts receivable	24,938	27%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(433,733)	(3%)	30 days	-	-	Accounts receivable (Note B)	-	-
									Accounts payable (Note B)	(25,472)	(3%)
Far EasTone Telecommunications Co., Ltd.	Parent company		Service revenue	(825,143)	(3%)	30 days	-	-	Accounts receivable (Note A)	-	-
			Cost of services	949,203	8%	30 days	-	-	Accounts payable (Note A)	(38,724)	(4%)

Note A: Service revenue and cost of services between Far EasTone and KG Telecom were settled at net amounts and was included in Far EasTone's receivables from related parties and KG Telecom's payable to related parties.

Note B: All revenues and costs were settled at full amount except interconnection revenues and costs and were included in receivables from related parties and payables to related parties, respectively.

Note C: All the service revenue, cost of services and receivables from related parties have been eliminated in consolidation.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2004

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	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	\$ 845,798	(Note A)	\$ -	-	\$ 361,353	\$ -
	Yuan-Ze Telecommunications Co., Ltd.	Subsidiary	118,927	(Note A)	-	-	-	-

Note A: The turnover rate is unavailable as the receivables from related parties were mainly due to the advances in operating expenditures to related parties.

Note B: All receivables from related parties have been eliminated in consolidation.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

FOR THE YEAR ENDED DECEMBER 31, 2004

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2004	December 31, 2003	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	\$ 29,629,139	\$ 11,698,461	1,332,997,916	100.00	\$ 33,786,566	\$ 4,161,551	\$ 4,168,180	Notes A, B and H
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	10,370,000	10,370,000	1,037,000,000	100.00	9,590,140	(278,123)	(279,947)	Notes A, B and H
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	540,000	65,000	54,000,000	45.00	433,544	(177,472)	(106,456)	Notes B and C
	Far Eatern Info Service (Holding) Ltd.	British Bermuda Islands	Investment	92,616	-	1,200	100.00	109,846	34,811	17,230	Notes A and B
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	82,883	41,095	6,014,622	85.92	65,433	(308)	(2,272)	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	-	4,500,000	15.00	44,836	(26,294)	(164)	Note B and C
KG Telecommunications Co., Ltd. (Note G)	KGEx.com	Taiwan	Type II telecommunications service	1,759,310	1,759,310	175,931,000	50.27	898,944	(1,152,123)		Notes B and E
	KGT International Holdings	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	97,725	(395,377)		Notes B and E
	KG Satellite	Taiwan	TYPE I telecommunications services	99,500	99,500	9,950,000	66.33	83,256	(6,232)		Notes B and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	66,098	(20,509)		Notes B and F
KGT International Holdings (Note G)	KGEx.com	Taiwan	Type II telecommunications service	US\$4,822,000	US\$4,687,000	16,051,000	4.59	US\$2,586,000	(1,152,123)		Notes B and E
E. World (Holdings) Ltd.	E. World Ltd.	Taiwan	Sale of cellular phone equipments and accessories	193,500	193,500	19,349,994	99.99	US\$ 593,000	22		Notes B and E
Far Eatern Info Service (Holding) Ltd.	Far Eastern Technology Network Information Limited Company (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US\$2,500,000	-	-	100.00	US\$2,484,000	34,000		Notes B and E

Notes: A. Subsidiary.

B. Calculation was based on audited financial statements as of December 31, 2004.

C. Equity-method was investee of the Far Eastone.

D. The equity in net gain (loss) was used to be recognized in the succeeding year because the audited financial statements of the investee were not timely available. However, the equity in net gain (loss) has been recognized at the same period since the percentage of ownership exceeded 50%. Calculations was based on audited financial statements in 2003 and 2004.

E. Subsidiary of KG Telecom.

F. Equity-method investee of KG Telecom.

G. The original investment amounts were equal to those of KG Telecom's account balances as of December 31, 2003 due to the Combination with KG Telecom in 2004.

H. All the carrying value of investment in shares of stock, investment income (loss) and the investees' net assets have been eliminated in consolidation.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
 FOR THE YEAR ENDED DECEMBER 31, 2004
 (Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

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, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004	Accumulated Investment in Mainland China as of Dec. 31, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Technology Network Information Limited Company (Shanghai)	Computer software, data processing and network information providing services	\$79,275 (US\$2,500,000)	Note B	\$ -	\$92,616	\$ -	\$92,616	100%	\$34,000	\$78,757 (US\$2,484,000)	\$ -	\$92,616	\$92,616	\$27,884,826 (Note C)

Note A: Calculation of investment gain (loss) was based on audited financial statement as of December 31, 2004 by Deloitte Touche Tohmatsu CPA Ltd., Shanghai office

Note B: Far EasTone made the investment through existing company registered in 3rd region.

Note C: Equal to 40% of Far EasTone's net asset value.