

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

**Consolidated Financial Statements for the
Three Months Ended March 31, 2005 and 2004 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Far EastTone Telecommunications Co., Ltd. (the "Company") and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income and cash flows for the three months then ended. All information included in these consolidated financial statements is the responsibility of the Company's and subsidiaries' management. Our responsibility is to issue a report based on our reviews.

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

As discussed in Note 2 to the consolidated financial statements, we were unable to obtain reviewed financial statements of some immaterial subsidiaries with combined total assets that were 2% (NT\$2,297,520 thousand) of the consolidated total assets and combined total liabilities that were 1% (NT\$403,679 thousand) of the consolidated total liabilities as of March 31, 2005. These subsidiaries' combined total operating revenues were 1% (NT\$156,079 thousand) of the consolidated operating revenues and their total net losses were 1% (NT\$28,911 thousand) of consolidated net income for the three months then ended.

We were unable to obtain reviewed financial statements supporting the Company's and subsidiaries' investments in certain equity-method investees with carrying value of NT\$607,017 thousand as of March 31, 2005; the Company's equity of NT\$39,100 thousand in the losses of these investees, which was included in the consolidated net incomes for the three months then ended as described in Note 7; and the related information of the Company's and subsidiaries' investments as described in Note 23 to the consolidated financial statements.

Based on our review, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence regarding the investments in and equity in the losses of the investee companies and the related information of the Company's and subsidiaries' investments as described in the preceding two paragraphs, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.

As discussed in Note 2, the entities included in the consolidated financial statements as of and for the three months ended March 31, 2005 are those in which the Company owns a controlling interest, as required under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements." The consolidated financial statements as of and for the three months ended March 31, 2004 include the accounts of the Company and its direct and indirect subsidiaries which the Company has more than 50% equity ownership of the subsidiaries with individual total assets or total operating revenue that reached at least 10% of the unconsolidated total assets or operating revenues of the Company.

April 22, 2005

Notice to Readers

The accompanying consolidated 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 accountants' report and the accompanying consolidated 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 accountants' report and financial statements shall prevail.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2005 AND 2004

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

(Reviewed, Not Audited)

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 9,910,340	9	\$ 2,680,115	3
Short-term investments (Notes 2 and 5)	894,300	1	75,505	-
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,706,079 in 2005 and \$1,319,258 in 2004 (Note 2)	5,923,636	5	6,426,863	6
Receivables from related parties (Notes 2 and 20)	20,593	-	151,387	-
Inventories, net (Notes 2 and 6)	1,170,629	1	1,132,056	1
Prepaid expenses (Notes 2 and 20)	1,654,358	2	2,515,149	2
Deferred income tax assets - current (Notes 2 and 19)	1,482,039	1	1,751,134	2
Other current assets (Note 22)	250,817	-	192,361	-
Total current assets	21,306,712	19	14,924,570	14
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 7)				
Equity method	607,017	1	1,751,869	2
Cost method	62,954	-	3,000	-
Total investments in shares of stock	669,971	1	1,754,869	2
PROPERTIES (Notes 2, 8, 20 and 22)				
Cost				
Land	1,536,659	1	1,050,281	1
Buildings and equipment	2,862,594	3	2,071,649	2
Operating equipment	87,223,863	79	83,186,493	77
Computer equipment	11,682,241	11	11,472,702	11
Office equipment	994,985	1	935,259	1
Leasehold improvements	1,631,505	1	1,582,672	1
Miscellaneous equipment	103,735	-	108,571	-
Total cost	106,035,582	96	100,407,627	93
Less - accumulated depreciation	50,011,515	45	37,459,115	35
	56,024,067	51	62,948,512	58
Construction in progress and advances related to acquisition of equipment	8,779,969	8	4,456,269	4
Net properties	64,804,036	59	67,404,781	62
INTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 9)	11,159,654	10	11,667,286	11
3G concession, net (Notes 2 and 10)	10,047,216	9	10,169,000	9
Total intangible assets	21,206,870	19	21,836,286	20
OTHER ASSETS				
Rental assets, net (Notes 2 and 11)	197,952	-	192,425	-
Properties not currently used in operations, net (Note 2)	346,943	-	65,625	-
Refundable deposits (Note 20)	421,392	1	424,979	1
Deferred income tax assets - noncurrent (Notes 2 and 19)	683,220	1	1,078,713	1
Deferred charges, net (Note 2)	333,135	-	212,532	-
Other (Note 22)	104,212	-	58,901	-
Total other assets	2,086,854	2	2,033,175	2
TOTAL	\$ 110,074,443	100	\$ 107,953,681	100

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

(With Deloitte & Touche review report dated April 22, 2005)

LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Notes 12 and 22)	\$ 2,715,677	3	\$ 1,300,264	1
Commercial paper payable (Note 13)	947,359	1	1,708,933	2
Notes payable	120,235	-	146,692	-
Accounts payable	1,368,006	1	1,517,415	2
Payables to related parties (Note 20)	270,972	-	169,027	-
Income tax payable (Notes 2 and 19)	2,710,458	3	970,300	1
Accrued expenses	5,694,060	5	5,403,783	5
Payables related to acquisition of properties	2,313,702	2	2,160,137	2
Guarantee deposits received - current	1,436,387	1	1,850,067	2
Unearned revenues (Note 2)	1,877,579	2	2,579,258	2
Current portion of long-term liabilities (Notes 2, 8, 14, 20 and 22)	5,013,783	4	9,035,162	8
Other current liabilities (Note 2)	272,333	-	3,666,748	3
Total current liabilities	24,740,551	22	30,507,786	28
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 8, 14, 20 and 22)				
Long-term bonds payable	6,530,000	6	10,350,000	10
Long-term debts payable	2,931,905	3	5,804,964	5
Long-term lease payable	88,500	-	-	-
Total long-term liabilities	9,550,405	9	16,154,964	15
OTHER LIABILITIES				
Accrued pension cost (Note 2)	259,666	-	186,920	1
Guarantee deposits received - noncurrent	89,145	-	130,381	-
Other	12,458	-	17,129	-
Total other liabilities	361,269	-	334,430	1
Total liabilities	34,652,225	31	46,997,180	44
STOCKHOLDERS' EQUITY (Notes 2 and 15)				
Capital stocks - \$10 par value				
Authorized - 4,200,000 thousand shares in 2005 and 3,504,353 thousand shares in 2004				
Issued - 3,872,663 thousand shares in 2005 and 2,697,786 thousand shares in 2004	38,726,630	35	26,977,860	25
Capital stock to be issued - 693,523 thousand shares	-	-	6,935,232	6
Capital surplus				
Paid-in capital in excess of par value	6,510,964	6	5,944,514	5
From business combination	8,482,381	8	8,482,381	8
From investments in shares of stock	-	-	29,086	-
Total capital surplus	14,993,345	14	14,455,981	13
Retained earnings				
Legal reserve	2,697,301	3	1,878,488	2
Unappropriated earnings	17,864,829	16	10,705,995	10
Total retained earnings	20,562,130	19	12,584,483	12
Cumulative translation adjustments	805	-	2,945	-
Controlling interest	74,282,910	68	60,956,501	56
Minority interest	1,139,308	1	-	-
Total stockholders' equity	75,422,218	69	60,956,501	56
TOTAL	\$ 110,074,443	100	\$ 107,953,681	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

(Reviewed, Not Audited)

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 20)				
Sales of cellular phone equipment and accessories, net	\$ 2,055,799	12	\$ 1,004,449	6
Telecommunication service revenues	15,306,787	88	15,157,015	94
Other	<u>63,789</u>	<u>-</u>	<u>4,732</u>	<u>-</u>
Total operating revenues	<u>17,426,375</u>	<u>100</u>	<u>16,166,196</u>	<u>100</u>
OPERATING COSTS (Notes 2, 17, 18 and 20)				
Cost of sales	2,180,558	12	1,084,772	6
Cost of telecommunications services	6,445,401	37	6,744,276	42
Other	<u>90,205</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total operating costs	<u>8,716,164</u>	<u>50</u>	<u>7,829,048</u>	<u>48</u>
GROSS PROFIT	<u>8,710,211</u>	<u>50</u>	<u>8,337,148</u>	<u>52</u>
OPERATING EXPENSES (Notes 2, 17, 18 and 20)				
Marketing	2,209,265	13	2,516,207	16
General and administrative	1,686,868	10	1,696,116	10
Research and development	<u>84,074</u>	<u>-</u>	<u>95,792</u>	<u>1</u>
Total operating expenses	<u>3,980,207</u>	<u>23</u>	<u>4,308,115</u>	<u>27</u>
OPERATING INCOME	<u>4,730,004</u>	<u>27</u>	<u>4,029,033</u>	<u>25</u>
NONOPERATING INCOME AND GAINS				
Interest	19,731	-	6,551	-
Foreign exchange gains, net (Note 2)	5,662	-	60,803	-
Gain from sale of short-term investments, net	2,294	-	-	-
Gain from sale of non-performing account receivable	-	-	82,301	1
Other	<u>22,967</u>	<u>1</u>	<u>89</u>	<u>-</u>
Total nonoperating income and gains	<u>50,654</u>	<u>1</u>	<u>149,744</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 8, 20 and 23)	98,826	1	204,098	1
Equity in investees' net losses (Notes 2 and 7)	39,100	-	63,955	1
Loss on decline in value of inventories (Note 2)	6,914	-	-	-
Loss on disposal of properties, net (Note 2)	-	-	5,780	-
Other (Note 18)	<u>7,313</u>	<u>-</u>	<u>26,607</u>	<u>-</u>
Total nonoperating expenses and losses	<u>152,153</u>	<u>1</u>	<u>300,440</u>	<u>2</u>

(Continued)

	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
CONSOLIDATED INCOME BEFORE INCOME TAX EXPENSE	\$ 4,628,505	27	\$ 3,878,337	24
INCOME TAX EXPENSE (Notes 2 and 19)	<u>844,386</u>	<u>5</u>	<u>547,837</u>	<u>3</u>
CONSOLIDATED NET INCOME	<u>\$ 3,784,119</u>	<u>22</u>	<u>\$ 3,330,500</u>	<u>21</u>
ATTRIBUTABLE TO:				
Controlling interest	\$ 3,795,032	100	\$ 3,330,500	100
Minority interest	<u>(10,913)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,784,119</u>	<u>100</u>	<u>\$ 3,330,500</u>	<u>100</u>
	<u>2005</u>		<u>2004</u>	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED EARNINGS PER SHARE (Note 16)				
Basic	<u>\$ 1.20</u>	<u>\$ 0.98</u>	<u>\$ 1.04</u>	<u>\$ 0.89</u>
Diluted	<u>\$ 1.20</u>	<u>\$ 0.98</u>	<u>\$ 0.98</u>	<u>\$ 0.84</u>

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

(With Deloitte & Touche review report dated April 22, 2005)

(Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 3,795,032	\$ 3,330,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	(10,913)	-
Depreciation and amortization	3,023,301	3,108,792
Amortization of 3G concession	121,784	-
Provision for doubtful accounts	262,009	423,985
Losses on obsolescence inventories	161	-
Provision for losses on decline in value of inventories	6,914	3,470
Equity in investees' net losses	39,100	63,955
Losses (gains) on disposal of properties and properties not currently used in operations, net	(842)	5,780
Accrued pension cost	26,413	17,642
Deferred income taxes	457,777	302,675
Interest premium on convertible bonds	1,070	8,584
Unrealized exchange gains on overseas convertible bonds	-	(108,512)
Amortization of issuance cost of convertible bonds	1,179	13,063
Net changes in operating assets and liabilities		
Accounts and notes receivable	321,843	469,722
Receivables from related parties	10,838	(11,191)
Inventories	178,908	(113,732)
Prepaid expenses	14,540	(293,295)
Other current assets	(26,632)	(13,224)
Notes payable	44	(114,419)
Accounts payable	508,271	50,286
Payables to related parties	(50,311)	(57,507)
Income tax payable	384,286	242,596
Accrued expenses	236,388	(272,814)
Unearned revenues	(553,023)	(58,963)
Other current liabilities	(298,015)	15,417
	<u>8,450,122</u>	<u>7,012,810</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	102,344	3,318,142
Acquisition of investments in shares of stock	-	(475,000)
Acquisition of properties	(1,611,506)	(1,824,848)
Proceeds from sales of properties and properties not currently used in operations	11,158	298
Increase in refundable deposits	(5,274)	(8,448)

(Continued)

	2005	2004
Decrease in restricted assets	\$ 320,000	\$ -
Increase in deferred charges	(61,536)	-
Decrease in other assets	<u>594</u>	<u>46,440</u>
Net cash provided by (used in) investing activities	<u>(1,244,220)</u>	<u>1,056,584</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	123,091	(949,736)
Increase (decrease) in commercial paper payable	50,711	(1,234,498)
Decrease in long-term lease payable	-	(400,000)
Proceeds from long-term debts	630,000	690,000
Repayment of long-term liabilities	(5,159,539)	(9,125,969)
Decrease in guarantee deposits received	(88,237)	(277,065)
Decrease in other liabilities	(1,183)	(19,694)
Decrease in minority interest	(435,950)	-
Cash consideration of the merger paid	<u>(1,208,946)</u>	<u>(11,698,461)</u>
Net cash used in financing activities	<u>(6,090,053)</u>	<u>(23,015,423)</u>
FOREIGN EXCHANGE RATE ADJUSTMENTS	<u>(62)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,115,787	(14,946,029)
CASH AND CASH EQUIVALENTS DUE TO MERGER	157,224	3,057,490
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>8,637,329</u>	<u>14,568,654</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 9,910,340</u>	<u>\$ 2,680,115</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 192,836</u>	<u>\$ 218,093</u>
Income tax paid	<u>\$ 4,035</u>	<u>\$ 2,719</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 5,013,783</u>	<u>\$ 9,035,162</u>
Reclassification of properties into rental assets	<u>\$ 7,481</u>	<u>\$ 192,908</u>
Conversion of overseas convertible bonds into common stock and capital surplus	<u>\$ 790,678</u>	<u>\$ 16,619</u>
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	\$ 837,090	\$ 991,785
Decrease (increase) in payables related to acquisition of properties	<u>774,416</u>	<u>833,063</u>
Actual cash paid for acquisition of properties	<u>\$ 1,611,506</u>	<u>\$ 1,824,848</u>
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	\$ 3,107	\$ 8,990
Decrease (increase) in receivables from properties sold	<u>8,051</u>	<u>(8,692)</u>
Actual cash received from disposal of properties	<u>\$ 11,158</u>	<u>\$ 298</u>

(Continued)

SUPPLEMENTARY INFORMATION OF THE FAIR VALUE OF SUBSIDIARIES' TOTAL ASSETS AND TOTAL LIABILITIES ACQUIRED (ARCOA IN 2005 AND KG TELECOM IN 2004)

	Three Months Ended	
	March 31	
	2005	2004
Cash and cash equivalents	\$ 157,224	\$ 3,057,490
Short-term investments, net	662,800	3,393,647
Accounts and notes receivable, net	310,974	3,601,008
Inventories, net	627,274	220,694
Prepaid expenses	40,892	409,319
Deferred income tax assets - current	-	806,277
Other current assets	118,338	111,668
Investments in shares of stock	69,143	1,273,517
Properties, net	544,691	30,061,042
Refundable deposits	42,993	174,795
Deferred charges, net	185,857	112,693
Deferred income tax assets - noncurrent	-	119,616
Other assets	8,825	58,037
Short-term bank loan	(282,586)	(2,150,000)
Commercial paper payable	-	(2,453,844)
Notes payable	(78,354)	(423,293)
Accounts payable	(358,125)	(231,071)
Income tax payable	-	(703,621)
Accrued expenses	(174,836)	(2,835,260)
Payables related to acquisition of properties	-	(276,270)
Guarantee deposits received	-	(703,921)
Unearned revenues	(64,120)	(778,534)
Other current liabilities	(28,814)	(146,918)
Long-term liabilities	(50,188)	(14,692,645)
Other liabilities	(8,843)	(36,824)
	<u>1,723,145</u>	<u>17,967,602</u>
Percentage of ownership acquired	<u>55.37%</u>	<u>100%</u>
	954,135	17,967,602
Goodwill	<u>254,811</u>	<u>11,865,037</u>
Cash consideration of the merger and issuance cost	1,208,946	29,832,639
Less: Issuance of common stock	<u>-</u>	<u>18,134,178</u>
Cash consideration of the merger paid	<u>\$ 1,208,946</u>	<u>\$ 11,698,461</u>

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

(With Deloitte & Touche review report dated April 22, 2005)

(Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2005 AND 2004

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

(Reviewed, Not Audited)

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 (“OTC”) 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. and its affiliates are the major shareholders of Far EasTone.

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 January 2003 with an annual license fee of 1% of leased circuit service revenues.

Far EasTone and its affiliates (the “Group”) had 4,795 and 3,483 employees as of March 31, 2005 and 2004, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports for Securities Issuers and accounting principles generally accepted in the ROC. In preparing financial estimates in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, allowance for losses on inventories, depreciation and amortization, impairment losses on tangible and intangible assets, income taxes and pension cost. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated 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 financial statements shall prevail.

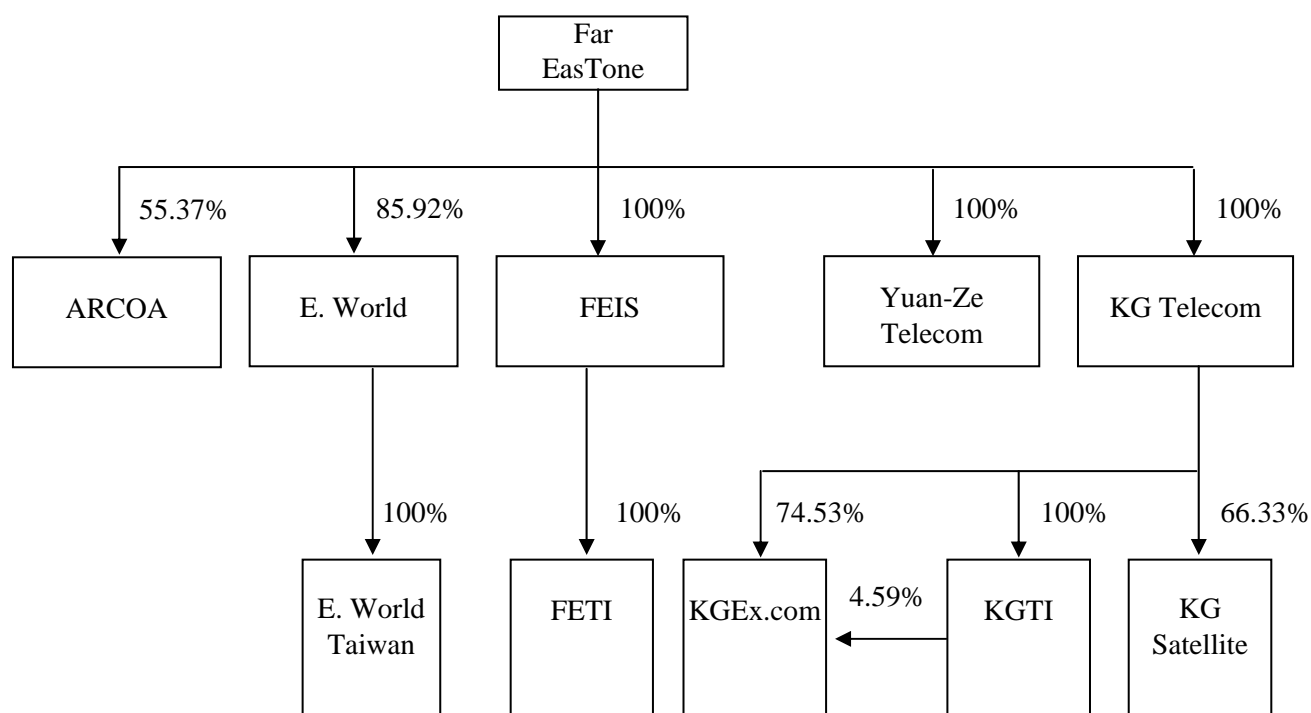
The Group's significant accounting policies are summarized as follows:

Consolidation

Starting from January 2005, the consolidated financial statements include the accounts of Far EasTone and its direct and indirect subsidiaries which Far EasTone owns at least 50% of subsidiaries' common stock or has controlling interests as required in revised ROC GAAP SFAS No. 7 - "Consolidated Financial Statements", which includes entities that Far EasTone owns controlling interest. All significant intercompany accounts and transactions have been eliminated in consolidation. For majority-owned subsidiaries acquired during the period, their revenues and expenses generated before the acquisition date will not be consolidated.

The consolidated financial statements as of and for the three months ended March 31, 2004 include the accounts of Far EasTone and its direct and indirect subsidiaries, which Far EasTone owns 50% or more of their total voting shares and their 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.

Intercompany relationships with percentages of ownership as of March 31, 2005 are shown below:



a. Consolidated entities and their major business activities for the consolidated financial statements as of and for the three months ended March 31, 2005 are as follows:

1) KG Telecommunication Co., Ltd. (KG Telecom):

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 wireless 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 1% 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 thousand.

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 - for each KGT share owned - cash at NT\$6.72 per KGT share and 0.46332 share of Yuan-Ho's common stock; thus, the former KGT shareholders will receive a total of \$11,698,461 thousand in cash and 806,567 thousand common shares of Yuan-Ho. This merger consideration was held in escrow for the former KGT shareholders pending completion of the second step of the transaction. After the 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 thousand 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 thousand. 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 15). 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 \$29,832,639 thousand, which included Far EasTone common stock valued at \$17,930,678 thousand 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 thousand and direct transaction costs \$203,500 thousand. The difference between the total purchase price and the fair value of net assets assumed from the former KGT is \$11,865,037 thousand (included in goodwill) and is amortized using the straight-line method over 15 years.

2) Yuan-Ze Telecommunication Co., Ltd. (Yuan-Ze Telecom):

Yuan-Ze Telecom started preparing for its establishment on January 1, 2001 and was incorporated in the ROC on December 5, 2001. On January 24, 2005, Yuan-Ze Telecom has obtained 3G (third - generation wireless communications system) license from the DGT and is anticipated to begin its commercial operations in July 2005.

On February 24, 2005, the Board of Directors of Far EasTone has approved the merger with Yuan-Ze Telecom, with Far EasTone as the surviving company. The merger has been approved by both DGT and OTC on March 16, 2005 and on April 19, 2005, respectively. The proposed date for completion of the merger will be on May 25, 2005. On March 25, 2005, Yuan-Ze Telecom's Board of Directors, authorized representative for shareholders, had approved a capital reduction to offset the deficit which will be effective on March 28, 2005. The capital reduction amounts to \$779,860 thousand, representing 7.5203% of Yuan-Ze Telecom's total paid-in capital. After the capital reduction, the paid-in capital of Yuan-Ze Telecom amounts to NT\$9,590,140.

Yuan-Ze Telecom engages in providing 3G wireless communications and sale of telecommunications equipment. As of March 31, 2005, Yuan-Ze Telecom was still in its development stage.

3) E. World (Holdings) Ltd. ("E. World"):

E. World was incorporated in the Cayman Islands on April 7, 2000. Its stockholders are Far EasTone (85.92%) and AT&T Wireless Service Inc. (14.08%) as of March 31, 2005. Far EasTone became the parent company of E. World after its acquisition of E. World's stock held by Far EasTone Textile Co., Ltd. and its affiliates on June 30, 2004. E. World is primarily an investment holding company.

4) Far Eastern Info Service (Holding) Ltd. ("FEIS"):

FEIS was incorporated in the Bermuda Islands on July 17, 2002. Far EasTone became FEIS's parent company after its acquisition of FEIS's stock held by Far Eastern Polychem Industries on August 30, 2004. FEIS is primarily an investment holding company.

5) KGT International Holding Co., Ltd. ("KGTI")

KGTI was incorporated in the British Virgin Islands on June 14, 2001. It is a wholly owned subsidiary of KG Telecom. KGTI is primarily an investment holding company.

6) KGEx.com Co., Ltd. ("KGEx.com")

KGEx.com was incorporated by KG Telecom and KGTI in the Republic of China on August 9, 2000. KG Telecom together with KGTI own 79.12% of KGEx.com's common stock. KGEx.com mainly engages in providing Type II telecommunications service.

7) E. World Co., Ltd. (“E. World Taiwan”):

E. World Taiwan was established on August 5, 2000. It is a wholly owned subsidiary of E. World. E. World Taiwan engages in providing data processing service.

8) Far Eastern Tech-info Ltd. (Shanghai) (“FETI”):

FETI was incorporated in the People’s Republic of China on November 18, 2002 with an operation permission for 50 years. It is a wholly owned subsidiary of FEIS. FETI provides computer software, data processing and internet content providing services.

9) ARCOA Communications Co., Ltd. (“ARCOA”):

ARCOA was incorporated in the Republic of China on May 4, 1981. ARCOA’s shares have been traded and listed on the emerging market of OTC since December 27, 2002. ARCOA sells cellular phone units and other telecommunication equipments or accessories and also provides maintenance service.

On December 22, 2004, the Board of Directors of ARCOA has decided to withdraw from OTC and became a private company. Far EastTone has purchased from ARCOA’s stockholders 74,353 thousand shares in February and March 2005, as a result, Far EastTone owns 55.37% of ARCOA’s common shares and became its parent company.

The consolidated financial statements as of and for the three months ended March 31, 2005 exclude the accounts of KG Satellite Co., Ltd. (“KG Satellite”).

KG Satellite is a 66.33% owned subsidiary of KG Telecom. KG Satellite engages in Type I telecommunications service and mainly provides satellite communication service.

On December 30, 2004, the special stockholders’ meeting of KG Satellite has reached a conclusion to go liquidation on July 11, 2005. DGT has approved this liquidation in January 2005 and allowed KG Satellite discontinue to provide satellite communication service on the proposed liquidation date. Therefore, the accounts of KG Satellite is excluded from the consolidated financial statements.

- b. The consolidated financial statements as of and for the three months ended March 31, 2004 include the accounts of Far EastTone, KG Telecom and Yuan-Ze Telecom. Other subsidiaries with individual total assets or total operating revenues less than 10% of the unconsolidated total assets or operating revenues of Far EastTone were excluded.
- c. We were unable to obtain reviewed financial statements supporting some of the immaterial consolidated entities (including E. World, E. World Taiwan, FEIS, FETI, KGEx.com and KGTI) as of and for the three months end March 31, 2005.

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

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 and financial bonds 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 value of the financial bond is stated at cost. 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. An impairment loss should be recognized whenever the carrying amount of those investments in shares of stock exceeds their recoverable amount, and this impairment loss should be charged to current income. 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.

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.

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 the investees' stock. These allowances are charged to current income. Cash dividends received are accounted for as dividend income.

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.

An impairment loss should be recognized whenever the carrying amount of properties, rental properties, properties not currently used in operation and deferred charges exceeds their recoverable amount, and this impairment loss should be charged to current income. An impairment loss recognized in prior years could be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

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	5-18
Operating equipment	5-15
Computer equipment	3-10
Office equipment	5-10
Leasehold improvements	3-10
Miscellaneous equipment	3-15

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.

Properties Not Currently Used in Operations

Properties not currently used in operations, such as telecommunications equipment expected to be retired or disposed, are stated at the lower of net book value or net realizable value. An impairment loss should be recognized whenever the carrying amount exceeds their recoverable amount.

Deferred Charges

Deferred charges refer mainly to retail store renovation and computer software and are amortized using the straight-line method over two to five years. Deferred charges are grouped with properties for impairment test purposes.

Intangible Asset

Goodwill derived from merger or the premium between purchase price and net assets value of subsidiaries at acquisition is amortized by the straight-line method over 3 to 15 years.

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

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying value of the assets, a loss is recognized for the difference between the fair value and the carrying value of the assets. An impairment loss recognized in prior years may be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years. Reversal of a previously recognized impairment loss on goodwill is prohibited.

Deferral of Unrealized Intercompany Profit

The entire gains from the Company's sales of products are deferred and included as a component of other current liabilities or deferred income until the gains are realized through the subsequent sale of the related items to third parties. In addition, the Company classifies the deferred income as current or noncurrent on the basis of the length of the gain realization period.

The Company defers its gains or losses on the subsidiaries' sales of products to the Company or on the sale amount subsidiaries in proportion to its equity in the subsidiaries until the gains or losses are realized through the subsequent sale of the related items to third parties.

The Company defers its gain or loss on its product sales in proportion to ownership percentages for sales to other equity-method investees. These gains and losses are realized upon subsequent sale of products to third parties.

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. Other service revenues are recognized as follows: (a) one-time commission and subsidy revenue of a bundled contract (which covers both the purchase price of a cellular phone unit and a mobile phone number) or merely sales mobile phone number as an agent for the telecommunication providers and (b) commission revenue accrued monthly 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, KG Telecom, KGEx.com, ARCOA and E. World Taiwan have a defined benefit pension plan for all regular employees. Benefits are based on the number of service years and average basic pay on the final six months before retirement. FETI, in conformity with regulation of its registered government, has a defined contribution pension plan. It makes monthly payments calculated base on a fixed percentage of the actual salary paid to the employees, and recognized it as pension costs.

Pension costs, except FETI, 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.

Pension cost for KGEx.com was previously calculated base upon a fixed percentage of the actual monthly salary paid. Effective December 31, 2004, KGEx.com adopted Financial Accounting Standards No. 18 - "According for Pensions", which requires: (a) actuarial determination of assets and obligation as of December 31, 2004; (b) disclosure of certain pension information; and (c) recognition of pension cost as actuarially determination stating 2005.

Yuan-Ze Telecom, FEIS, E. World and KGTI do not have a pension plan.

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 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 period'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 period of settlement.

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

- a. Equity-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.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the period ended March 31, 2004 have been reclassified to conform to the presentation of consolidated financial statements as of and for the period ended March 31, 2005.

3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined balance sheet and statement of income of the Group as of and for the three months ended March 31, 2005 and 2004, respectively. The pro forma financial information on the assumption that Far EasTone had purchased the majority interest of ARCOA on January 1, 2005 and 2004 is as follows:

	(In Thousands, Except EPS)	
	Three Months Ended	
	March 31	
	2005	2004
Current assets	\$ 21,306,712	\$ 15,569,726
Properties, net	64,804,036	67,806,204
Current liabilities	24,135,139	30,845,020
Operating revenue	17,851,261	17,338,572
Income before income tax	4,623,928	3,881,177
Net income	3,779,541	3,333,339
EPS	0.98	0.89

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 under the assumption as if Far EasTone had purchased the majority interest of ARCOA on January 1, 2005 and 2004, nor is it necessarily indicative of future financial position or results of operations of the Group.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2005	2004
Cash		
Cash on hand	\$ 12,763	\$ 8,082
Checking and demand deposits	2,015,895	1,294,532
Time deposit - interest of 1.258%-2.950% in 2005 and 1.0%-1.1% in 2004	<u>218,089</u>	<u>1,228,466</u>
	2,246,747	2,531,080
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.18%-1.22% in 2005 and 0.915% in 2004	<u>7,663,593</u>	<u>149,035</u>
	<u>\$ 9,910,340</u>	<u>\$ 2,680,115</u>

5. SHORT-TERM INVESTMENTS

	March 31	
	2005	2004
Mutual funds	\$ 891,300	\$ 75,505
Financial bonds	<u>3,000</u>	<u>-</u>
	<u>\$ 894,300</u>	<u>\$ 75,505</u>

6. INVENTORIES

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Cellular phone equipment	\$ 950,705	\$ 1,086,560
Cellular phone accessories	107,817	17,280
SIM cards	85,255	49,928
Others	<u>113,844</u>	<u>-</u>
	1,257,621	1,153,768
Less - allowance for losses	<u>86,992</u>	<u>21,712</u>
	<u>\$ 1,170,629</u>	<u>\$ 1,132,056</u>

7. INVESTMENTS IN SHARES OF STOCK

	<u>March 31</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
Equity method				
Far Eastern Electronic Toll Collection Co., Ltd.	\$ 414,033	45.00	\$ 499,562	45.00
KG Satellite	79,012	66.33	85,760	66.33
iScreen	60,013	40.00	75,006	40.00
Ding Ding Integrated Marketing Service Co., Ltd.	35,363	15.00	-	-
THI Consultants Inc.	13,731	22.22	-	-
Hi Information Co., Ltd.	4,865	33.17	-	-
KGEx.com	-	-	932,905	50.27
KGTI	-	-	149,900	100.00
E. World (Holdings) Ltd.	-	-	8,236	19.00
Koo's Group AGC Holdings	<u>-</u>	<u>-</u>	<u>500</u>	<u>50.00</u>
	<u>607,017</u>		<u>1,751,869</u>	
Cost method				
Taiwan Fixed Network Co., Ltd.	21,000	0.03	-	-
VIBO Telecom Inc.	20,000	0.25	-	-
Ideaculture Limited	13,622	17.96	-	-
Chunghwa Int'l Communication Network Co., Ltd.	6,714	4.20	-	-
Web Point Co., Ltd.	1,618	0.75	-	-
YesMobile Taiwan	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>0.50</u>
	<u>62,954</u>		<u>3,000</u>	
	<u>\$ 669,971</u>		<u>\$ 1,754,869</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 Eastone 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 was accounted for by the equity method as the combined equity interests of the Far Eastern Group in E. World allowed Far EasTone to exercise significant influence on its operating and financial policy decisions. Far EasTone purchased shares from related parties amounting to \$41,788 thousand in June 2004. As a result, Far EasTone's ownership increased from 19.00% to 85.92%. Since the ownership of E. World exceeds 50%, Far EasTone consolidates this entity and the amounts recognized as equity in the net income or net loss of E. World 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 EasTone 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 EasTone is 15%.

The carrying values of the foregoing investments and the related equity in investees' net income or net loss are based on unreviewed financial statements as of and for the three months ended March 31, 2005. In accordance with revised ROC GAAP SFAS No. 5 - "Long-term Investment in Equity Securities", ARCOA started to recognize its equity in the net income or net loss of THI Consultants Inc. ("THIC") in the current year. As a result, the equity in THIC for the three months ended March 31, 2005 included the accounts of audited financial statement as of and for the year ended December 31, 2004 and the accounts of unreviewed financial statement as of and for the three months ended March 31, 2005.

The equities in net assets of the foregoing investments accounted for by the equity method, except E. World are determined based on audited financial report for the year ended December 31, 2003, are determined based on unreviewed financial statements for the three months ended March 31, 2004. The management believes that even if the financial statements are reviewed, the possibilities of effect on the financial statements presented are not material.

8. PROPERTIES

a. Accumulated depreciation consisted of:

	March 31	
	2005	2004
Buildings and equipment	\$ 516,339	\$ 285,160
Operating equipment	40,214,919	31,710,077
Computer equipment	7,630,234	4,105,428
Office equipment	712,628	489,804
Leasehold improvements	857,303	650,438
Miscellaneous equipment	<u>80,092</u>	<u>218,208</u>
	<u>\$ 50,011,515</u>	<u>\$ 37,459,115</u>

- b. 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 March 31, 2005 are as follows:

	March 31, 2005
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:

	Three Months Ended March 31	
	2005	2004
Total interest expense	\$ 143,189	\$ 225,118
Less - interest capitalized 1.746%-2.729% in 2005 and 1.3458%-3.9108% in 2004	<u>44,363</u>	<u>21,020</u>
Interest expense, net of amounts capitalized	<u>\$ 98,826</u>	<u>\$ 204,098</u>

9. GOODWILL

Goodwill recognized by the Group as of March 31, 2005 is summarized as follows:

- The difference of \$11,865,037 thousand between the total purchase price and the fair value of net assets assumed from the former KGT was accounted for by KG Telecom as goodwill. Starting from January 1, 2004, the goodwill is amortized using the straight-line method over 15 years.
- Goodwill recognized by Far EasTone from the acquisition of E. World and FEIS amounted to \$37,054.
- Goodwill recognized by Far EasTone from the acquisition of ARCOA amounted to \$246,317.

Starting from January 1, 2005, the Group adopted Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment." The Group is divided into four cash-generating units: Far EasTone, Yuan-Ze Telecom, KG Telecom and ARCOA. Far EasTone and KG Telecom mainly provide 2G/2.5G wireless telecommunications services. Yuan-Ze Telecom provides 3G wireless telecommunications services. ARCOA sells cellular phone units and other telecommunications equipment or accessories and also provides maintenance services. In line with the required test for impairment, goodwill is allocated as follows:

- Goodwill from the merger with the former KGT belongs to KG Telecom;
- Goodwill from the acquisition of E. World and FEIS belongs to Far EasTone; and

- c. Goodwill from the acquisition of ARCOA has not yet been classified into any cash-generating units since the relevant operating strategy has not yet been completed.

On March 31, 2005, the carrying value of the tangible and intangible assets used by KG Telecom was \$38,340,753 thousand, including \$10,876,283 thousand in goodwill. From previous years' experience, management can achieve their cash flow target; thus, a more than five years forecast was adopted. For this reason, Far EasTone's management estimated the recoverable amount of core assets at their expected useful life and thus based the cash flow forecast on an eight-year financial budget with a discount rate of 11.64%. The operating revenue forecast is based on the expected future growth rate of the telecom industry along with the prospective advancement of the business. On the basis of the anticipated effective-customer base and sales predictions, the management of the Group believes that the book value of these tangible and intangible assets will not exceed their recoverable amounts even if there are changes in the basic assumptions used to estimate recoverable amounts as long as these changes are reasonable.

The principal assumptions on and the relevant measurement of the recoverable amounts of KG Telecom are summarized as follows:

- a. Expected future growth rate of the telecommunications industry
- 1) Mobile voice service (MVS): The anticipated MVS growth rate is based on the actual effective customer base of the previous years and on assumptions that the MVS market will mature and that the upcoming 3G telecommunications service will have a great impact on the market. Thus, the anticipated growth rate of MVS will decrease from 0.03% to (0.99%) gradually.
 - 2) Mobile data service (MDS): The demand for MDS is expected to grow. However, given the cycle in the industry, the growth rate for MDS will gradually decrease annually. Thus, the anticipated growth rate of the MDS will gradually decrease from 31% to 10%.
- b. Expected ratio of service EBITDA (earnings from service before interest, taxes, depreciation and amortization) to operating revenue - around 50% in 2004; this ratio will still be around 50% in future years.

As of March 31, 2005, the recoverable amount calculated on the basis of the above principal hypotheses the carrying amount of the assets. Thus, no impairment loss should be recognized.

10. 3G CONCESSION

On January 24, 2005, Yuan-Ze Telecom has obtained the 3G license for the third-generation wireless communications service. The 3G license will expire on December 31, 2018. Yuan-Ze Telecom amortized the 3G concession on a straight-line basis for the period of the license.

11. RENTAL ASSETS, NET

	March 31	
	2005	2004
Cost		
Land	\$ 103,465	\$ 99,524
Buildings and equipment	<u>98,357</u>	<u>94,672</u>
	201,822	194,196
Less - accumulated depreciation		
Buildings and equipment	<u>3,870</u>	<u>1,771</u>
	<u>\$ 197,952</u>	<u>\$ 192,425</u>

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:

Period	Amount
April 2005 to March 2006	\$ 10,211
April 2006 to March 2007	10,313
April 2007 to March 2008	10,416
April 2008 to March 2009	4,556
2009 and thereafter	16,439

12. SHORT-TERM LOANS

	<u>March 31</u>	
	2005	2004
Secured bank loan - interest of 1.75%-2.20%	\$ 145,904	\$ -
Unsecured bank loans - interest of 1.380%-4.543% in 2005 and 1.30%-1.75% in 2004	<u>2,569,773</u>	<u>1,300,264</u>
	<u>\$ 2,715,677</u>	<u>\$ 1,300,264</u>

13. COMMERCIAL PAPER PAYABLE

Far EasTone, KG Telecom and Yuan-Ze Telecom issued commercial paper that was guaranteed by financial institutions. The obligations as of March 31, 2005 were discounted at the rate of 1.430%-2.238%, and are due at various dates from April 18, 2005 through June 24, 2005. The obligations as of March 31, 2004 were discounted at the rate of 1.1%-1.7%, which was fully repaid on April 26, 2004.

14. LONG-TERM LIABILITIES

	<u>March 31, 2005</u>		
	Due Within One Year	Due After One Year	Total
Bonds			
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	2,140,000	2,060,000	4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	<u>-</u>	<u>3,000,000</u>	<u>3,000,000</u>
	<u>3,820,000</u>	<u>6,530,000</u>	<u>10,350,000</u>
Long-term debt			
Secured bank loans - KG Telecom	1,126,188	-	1,126,188
Secured bank loans - Yuan-Ze Telecom	-	2,770,000	2,770,000
Secured bank loans - KGEx.com	<u>38,095</u>	<u>161,905</u>	<u>200,000</u>
	<u>1,164,283</u>	<u>2,931,905</u>	<u>4,096,188</u>
Long-term lease payable			
Far EasTone	14,750	44,250	59,000
KG Telecom	<u>14,750</u>	<u>44,250</u>	<u>59,000</u>
	<u>29,500</u>	<u>88,500</u>	<u>118,000</u>
	<u>\$ 5,013,783</u>	<u>\$ 9,550,405</u>	<u>\$ 14,564,188</u>

	March 31, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds - Far EasTone	\$ 3,798,038	\$ -	\$ 3,798,038
Interest premium - overseas unsecured convertible bonds - Far EasTone	42,470	-	42,470
Domestic secured bonds - Far EasTone	616,000	660,000	1,276,000
Domestic secured bonds - KG Telecom	990,000	1,020,000	2,010,000
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	-	<u>3,000,000</u>	<u>3,000,000</u>
	<u>5,446,508</u>	<u>10,350,000</u>	<u>15,796,508</u>
Long-tem debt			
Commercial paper - Far EasTone	655,000	344,572	999,572
Commercial paper - KG Telecom	410,000	1,154,666	1,564,666
Secured bank loans - KG Telecom	2,523,654	2,965,726	5,489,380
Secured bank loans - Yuan-Ze Telecom	-	<u>1,340,000</u>	<u>1,340,000</u>
	<u>3,588,654</u>	<u>5,804,964</u>	<u>9,393,618</u>
	<u>\$ 9,035,162</u>	<u>\$ 16,154,964</u>	<u>\$ 25,190,126</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) Each bondholder has the right to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The last conversion price was NT\$27.94.
- 4) At any time on or after February 19, 2006 and prior to February 19, 2008, the Company may redeem the Bonds in whole, or from time to time in part at a specific price under certain conditions. In addition, the Company 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 March 31, 2005, convertible bonds amounting US\$115,000 thousand had been fully converted into 142,167 thousand shares of common stock (including 165 thousand units of Global Depositary Receipts representing 2,473 thousand shares of common stock).

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 thousand, with face value of \$1,000 thousand 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%-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. Secured bank loans - KG Telecom

- 1) KG Telecom obtained a loan, amounting to US\$3,673 (equivalent to \$115,865 thousand), from a consortium of banks at 3.5348% to 3.6469% 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.
- 2) KG Telecom obtained a loan, amounting to US\$32,028 (equivalent to \$1,010,323 thousand), from a consortium of banks at 4.1755% 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 originally due in June 2007. KG Telecom had obtained a permission from the bank to make an early repayment on June 21, 2005 of the total outstanding loan.

h. Secured bank loans - Yuan-Ze Telecom

Yuan-Ze Telecom obtained a loan from a consortium of banks. Interest rates are at 2.1617% and ranging from 1.8985%, payable monthly for the period ended March 31, 2005 and 2004, respectively. The loan was due on various dates from April 1, 2005 to April 27, 2005 and April 28, 2004, respectively. The loan is guaranteed by a consortium of banks and the guarantee is effective until April 7, 2006.

i. Secured bank loans - KGEx.com

KGEx.com obtained a secured bank loan at 2.165% interest rate, payable monthly as of March 31, 2005. The loan is secured and payable, starting in January 2005 and every three months thereafter, at equal installments of the principal with final payment due in April 2010.

j. 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 thousand (Note 8).

k. Commercial paper - Far EasTone

Commercial paper within one-year maturity bears variable interest rates of 1.485%, which amounted to \$1,000,000 thousand as of March 31, 2004. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by Far EasTone through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will decrease by 14%-15% every six months.

l. Commercial paper - KG Telecom

1) Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper amounting to \$1,242,000 thousand to be reissued by KG Telecom until June 2007. The commercial paper bears variable interest rates of 1.530%-1.968% as of March 31, 2004. Starting in 2002, the maximum amount of commercial paper that can be reissued under the agreement will decrease every six months.

2) Under a revolving credit agreement, a consortium of banks has guaranteed commercial paper amounting to \$322,666 thousand to be reissued by KG Telecom through December 21, 2005. The commercial paper bears variable interest rates that range from 1.79% to 2.70% as of March 31, 2004.

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 thousand.

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, 90% in 2004 and 100% in 2005 and thereafter.

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

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

15. 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 2004 and 2003 earnings were approved by the board of directors and the stockholders on April 7, 2005 and June 30, 2004, respectively.

	Appropriation and Distribution		Dividend Per Share (NT Dollars)	
	2004	2003	2004	2003
Legal reserve	\$ 1,404,308	\$ 818,813		
Bonus to employees - cash	252,775	147,387		
Remuneration to directors and supervisors - cash	126,388	73,693		
Cash dividend	11,617,989	4,748,620	\$ 3.00	\$ 1.40
Stock dividend	-	1,560,261	-	0.46

The appropriation of the 2004 earnings of Far EasTone had not been approved by the stockholders as of April 22, 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 thousand. The difference between the fair value and the repurchase price of the treasury stock of \$821,733 thousand 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 thousand and \$8,482,381 thousand, respectively) amounting to \$15,417,613 thousand and reissued 113,044 thousand shares held as treasury stock (Note 2).

Information related to the Far EasTone's Global Depositary Receipts (GDRs) as of March 31, 2005 is as follows:

		GDRs (in Thousand 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	8,701	130,510
GDR's transferred to common stock		<u>(11,035)</u>	<u>(165,522)</u>
Outstanding GDRs issued		<u>\$ 8,127</u>	<u>\$ 121,909</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 March 31, 2005, 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 8,701 thousand units of GDRs representing 130,510 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 into common stocks; and
- c. Receive dividends and exercise preemptive rights or other rights and interests.

16. 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 three months ended <u>March 31, 2005</u>					
Consolidated basic EPS					
Consolidated net income	\$ 4,639,418	\$ 3,795,032	3,866,273	<u>\$ 1.20</u>	<u>\$ 0.98</u>
Effect of potential dilutive common stocks					
Convertible bonds	<u>2,249</u>	<u>2,068</u>	<u>6,390</u>		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stocks	<u>\$ 4,641,667</u>	<u>\$ 3,797,100</u>	<u>3,872,663</u>	<u>\$ 1.20</u>	<u>\$ 0.98</u>
For the three months ended <u>March 31, 2004</u>					
Consolidated basic EPS					
Consolidated net income	\$ 3,878,337	\$ 3,330,500	3,730,440	<u>\$ 1.04</u>	<u>\$ 0.89</u>
Effect of potential dilutive common stocks					
Convertible bonds	<u>(86,865)</u>	<u>(83,825)</u>	<u>142,241</u>		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stocks	<u>\$ 3,791,472</u>	<u>\$ 3,246,675</u>	<u>3,872,681</u>	<u>\$ 0.98</u>	<u>\$ 0.84</u>

17. PENSION PLAN

Far EasTone, KG Telecom, KGEx.com, E. World Taiwan and ARCOA 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.

Combined information on the pension plans of Far EasTone, KG Telecom, KGEx.com, E. World Taiwan and ARCOA are as follows:

Net pension costs are as follows:

	Three Months Ended March 31	
	2005	2004
Actuarial net pension cost	\$ 39,301	\$ 25,846
Less: Included in properties	4,370	94
Included in receivables from related parties	<u>268</u>	<u>317</u>
Net pension cost (included in operating costs and expenses)	<u>\$ 34,663</u>	<u>\$ 25,435</u>

Fund charges as follows:

	For the Three Months Ended March 31, 2005			
	Far EasTone (Including KG Telecom and E. World Taiwan)	KGEx.com	ARCOA	FETI
Contribute	<u>\$ 10,836</u>	<u>\$ 97</u>	<u>\$ 2,046</u>	<u>\$ 815</u>
Actual payment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance	<u>\$ 302,728</u>	<u>\$ 4,875</u>	<u>\$ 44,420</u>	<u>\$ -</u>

The Group's contribution to the Fund was \$8,204 for the three months ended March 31, 2004. Fund balance were \$254,553 as of March 31, 2004.

The Labor Pension Act (the "Act") will take effect on July 1, 2005. This Act provides for defined contribution plans featuring a portable pension. Employees can choose to remain subject to the pension mechanism under the Labor Standards Law, or choose to be subject to the pension mechanism under the Act with their service years accumulated before the enforcement of this Act to be retained. Under the Act, the employer's monthly rate of contribution to the pension fund should be at least 6% of the employee's monthly wages.

18. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Three Months Ended March 31, 2005			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	\$ 83,757	\$ 597,580	\$ -	\$ 681,337
Pension	4,778	29,885	-	34,663
Meal	2,226	18,961	-	21,187
Employee benefits	7	17,815	-	17,822
Insurance	5,487	43,610	-	49,097
Miscellaneous	580	30,484	-	31,064
Depreciation	2,323,271	468,969	3,804	2,796,044
Amortization	<u>-</u>	<u>227,257</u>	<u>-</u>	<u>227,257</u>
	<u>\$ 2,420,106</u>	<u>\$ 1,434,561</u>	<u>\$ 3,804</u>	<u>\$ 3,858,471</u>

For the Three Months Ended March 31, 2004

	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	\$ 130,627	\$ 514,111	\$ -	\$ 644,738
Pension	5,484	19,951	-	25,435
Meal	3,217	13,900	-	17,117
Employee benefits	6,728	4,911	-	11,639
Insurance	7,896	24,788	-	32,684
Miscellaneous	1,622	16,228	-	17,850
Depreciation	2,495,959	384,061	483	2,880,503
Amortization	29,669	198,620	-	228,289
	<u>\$ 2,681,202</u>	<u>\$ 1,176,570</u>	<u>\$ 483</u>	<u>\$ 3,858,255</u>

19. 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:

	March 31	
	2005	2004
Income tax expense computed at statutory tax (15%-25%)	\$ 1,531,549	\$ 1,251,044
Add (deduct) tax effects of		
Permanent differences		
Tax - exempt income	(261,657)	(511,273)
Equity in the investee's net loss	(286,028)	(258,275)
Realized investment losses	(145,319)	-
Other	2,625	(2,192)
	<u>(690,379)</u>	<u>(771,740)</u>
Temporary differences		
Realized loss for disposal of properties	(40,152)	-
Depreciation resulting from the differences in estimated service lives of properties	(744)	22,708
Unrealized foreign exchange loss, net	9,837	(3,798)
Accrued pension cost	6,614	4,443
Provision of doubtful accounts	(84,311)	110,615
Provision for losses on properties not currently used in operations	(10,205)	-
Accrued interest premium	(3,660)	2,427
Equity in the investee's net loss (gain)	(2,053)	44
Other	(1,106)	867
	<u>(125,780)</u>	<u>137,306</u>
Less - investment tax credits	<u>(331,997)</u>	<u>(371,479)</u>
Income tax expense - current	<u>\$ 383,393</u>	<u>\$ 245,131</u>

The balance of income tax payable as of March 31, 2005 was net of \$44 of ARCOA's creditable income taxes plus \$1,456 of Far EasTone, \$2,324,108 of KG Telecom, \$53 of ARCOA and \$1,492 of FETI accrual of income tax payable as of December 31, 2004.

The balance of income tax payable as of March 31, 2004 was net of \$336 of Far EasTone and \$2,535 of KG Telecom creditable income taxes plus \$24,419 of Far EasTone and \$703,621 of KG Telecom accrual of income tax payable as of December 31, 2004.

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:

	For the Three Months Ended March 31	
	2005	2004
Income tax expense - current	\$ 383,393	\$ 245,131
Income tax expense (benefit) - deferred	457,777	302,675
Income tax expense on income subjected to a separate rate of 20%	<u>3,216</u>	<u>31</u>
Income tax expense	<u>\$ 844,386</u>	<u>\$ 547,837</u>

- c. Deferred income taxes assets (liabilities) as of March 31, 2005 and 2004 consisted of:

	March 31	
	2005	2004
<u>Current</u>		
Provision for doubtful accounts	\$ 1,349,212	\$ 1,230,254
Investment tax credits	511,409	818,167
Loss carryforward	41,353	-
Unrealized foreign exchange loss (gain), net	38,570	(17,202)
Loss on decline in value of inventories	12,542	-
Other	<u>1,125</u>	<u>6,553</u>
	1,954,211	2,037,772
Less - valuation allowance	<u>472,172</u>	<u>286,638</u>
	<u>\$ 1,482,039</u>	<u>\$ 1,751,134</u>
<u>Noncurrent</u>		
Depreciation resulting from the differences in estimated service lives of properties	\$ 457,927	497,571
Loss carryforwards	501,908	137,282
Provision for losses on properties not currently used in operations	129,851	-
Accrued pension cost	69,632	41,690
Loss on market value decline of long-term equity investments	14,420	-
Cumulative equity in the net loss of investee	3,115	8,951
Investment tax credits	9,908	836,254
Accrued interest premium	-	10,989
Other	<u>37</u>	<u>64</u>
	1,186,798	1,532,801
Less - valuation allowance	<u>503,578</u>	<u>454,088</u>
	<u>\$ 683,220</u>	<u>\$ 1,078,713</u>

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

d. Integrated income tax information:

	March 31	
	2005	2004
Far EasTone	<u>\$ 59,834</u>	<u>\$ 4,352</u>
KG Telecom	<u>\$ 2,160</u>	<u>\$ 436,818</u>
Yuan-Ze Telecom	<u>\$ 137</u>	<u>\$ 132</u>
ARCOA	<u>\$ 1,899</u>	<u>\$ -</u>

Estimated ratio of the ICA balance for Far EasTone as of March 31, 2004 to unappropriated earnings as of such date was 0.43%. When the dividends from the unappropriated earnings as of March 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 March 31, 2004 to unappropriated earnings as of such date was 0.01%. When the dividends from the unappropriated earnings as of March 31, 2003 were distributed by KG Telecom in 2004, the actual ratio used was 22.29%.

Yuan-Ze Telecom and ARCOA have no appropriated earnings as of March 31, 2005. Therefore, the ICA balance of Yuan-Ze Telecom and ARCOA 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 the Group for allocating tax credits to each the Group's stockholder.

e. Investment tax credits information:

The unused investment tax credits and loss carryforwards of the Group as of March 31, 2005 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	\$ 99,344	\$ 99,344	2008
Statute for Upgrading Industries	Research and development expenditures	587,938	8,268	2005
		302,096	14,763	2006
		28,866	23,700	2007
		<u>5,000</u>	<u>5,000</u>	2008
		<u>\$ 1,023,244</u>	<u>\$ 151,075</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
		<u>151,916</u>	<u>150,439</u>	2007
		<u>\$ 716,567</u>	<u>\$ 323,874</u>	

Yuan-Ze Telecom

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

ARCOA

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$ 3,900	\$ 3,481	2005
	Research and development expenditures	9,066	2,489	2006
		<u>\$ 12,966</u>	<u>\$ 5,970</u>	

KGEX.com

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$ <u>32,979</u>	\$ <u>32,979</u>	2005

f. Loss carryforward information:

Year of Expiry	Yuan-Ze Telecom	ARCOA	KGEx.com	E. World Taiwan
2005	\$ -	\$ -	\$ 15,870	\$ 25,483
2006	36,132	-	48,150	17,130
2007	10,118	-	36,546	129
2008	76,396	1,208	53,341	179
2009	69,489	2,753	71,141	-
2010	<u>63,634</u>	<u>4,919</u>	<u>10,643</u>	<u>-</u>
	<u>\$ 255,769</u>	<u>\$ 8,880</u>	<u>\$ 235,691</u>	<u>\$ 42,921</u>

g. 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 Telecom and E. World Taiwan had been examined and cleared by the tax authorities.

Income tax returns through 2001 of ARCOA, income tax returns through 2000 and for 2002 of KGEx.com had been examine 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.

20. 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)	Same chairman
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
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
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity method investee of Far EasTone
iScreen Corporation	Equity method investee of KG Telecom
Yuan Ding Investment Co., Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same major stockholders as that of Far EasTone
Yuan-Ze University (YZU)	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda)	Same major stockholders as that of Far EasTone
Oriental Industrial Holding Pte. Ltd. (Singapore)	Subsidiary of ACC
FEDS Development Ltd. (BVI)	Subsidiary of FEDS
Yue-Tung Investment Corp.	Subsidiary of UMMT
Far Eastern International Bank (FETIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Oriental Institute of Technology	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 major stockholders as that of Far EasTone
Yuan Ding Leasing Corp.	Same major stockholders as that of Far EasTone
Far Eastern Electronic Toll Collection Co., Ltd. (FETETC)	Equity-method investee of Far EasTone
KGEx.com (KGEx)	Subsidiary of KG Telecom
KG Satellite	Subsidiary of KG Telecom
Taipei Metro Properties Management	Same major stockholders as that of Far EasTone
NTT DoCoMo Inc.	Director of Far EasTone
Bai Yang Investment Co., Ltd.	Its chairman is the relative of Far EasTone's chairman
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same major stockholders as that of Far EasTone
Hi Information Co., Ltd.	Equity-method investee of ARCOA
THI Consultants Inc.	Equity-method investee of ARCOA

In addition to Notes 8 and 15, the Group's significant transactions with the above parties are summarized as follows:

		<u>2005</u>		<u>2004</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>During the period</u>					
Operating revenue					
	a.				
NCIC	b.	\$ 237,075	1	\$ 318,947	2
Other	t.	<u>6,242</u>	<u>-</u>	<u>85,415</u>	<u>1</u>
		<u>\$ 243,317</u>	<u>1</u>	<u>\$ 404,362</u>	<u>3</u>
Operating costs and expenses					
Service cost					
NCIC	b.	\$ 2,037	-	\$ 628	-
KGEx	c. and d.	-	-	18,230	-
Other	t.	<u>237</u>	<u>-</u>	<u>3,390</u>	<u>-</u>
		<u>\$ 2,274</u>	<u>-</u>	<u>\$ 22,248</u>	<u>-</u>
Rental					
FEILC	e.	\$ 13,652	2	\$ 14,771	3
FETRD	s.	12,900	3	12,925	4
Other	t.	<u>5,442</u>	<u>1</u>	<u>4,298</u>	<u>1</u>
		<u>\$ 31,994</u>	<u>6</u>	<u>\$ 31,994</u>	<u>8</u>
Research and development expense					
FETTDF	f.	<u>\$ 3,456</u>	<u>67</u>	<u>\$ 3,106</u>	<u>61</u>
Service fee					
FCHRC	g.	\$ 16,810	53	\$ 24,136	35
FETI	h.	<u>-</u>	<u>-</u>	<u>17,092</u>	<u>25</u>
		<u>\$ 16,810</u>	<u>53</u>	<u>\$ 41,228</u>	<u>60</u>
Marketing expense					
DDIM	i.	<u>\$ 1,029</u>	<u>1</u>	<u>\$ -</u>	<u>-</u>
Nonoperating expenses and losses					
Interest expense					
FETIB	j.	<u>\$ 56</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Acquisition of properties					
FETEC	k.	\$ 69,840	8	\$ 10,054	1
NCIC	l.	55,572	7	12,215	1
Other	t.	<u>424</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ 125,836</u>	<u>15</u>	<u>\$ 22,269</u>	<u>2</u>

(Continued)

		<u>2005</u>		<u>2004</u>	
<u>At end of period</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Receivables from related parties					
NCIC	b. and m.	\$ 14,169	69	\$ 92,693	61
YDC	n.	3,263	16	3,263	2
NTT DoCoMo Inc.	o.	1,628	8	-	-
KGEx	p.	-	-	22,473	15
FETETC	q.	78	-	19,590	13
FETI	h.	-	-	8,554	6
Other	t.	<u>1,455</u>	<u>7</u>	<u>4,814</u>	<u>3</u>
		<u>\$ 20,593</u>	<u>100</u>	<u>\$ 151,387</u>	<u>100</u>
Prepaid expenses					
FEDS	r.	\$ 714	-	\$ 765	-
Other	t.	<u>1,629</u>	<u>-</u>	<u>9,374</u>	<u>-</u>
		<u>\$ 2,343</u>	<u>-</u>	<u>\$ 10,139</u>	<u>-</u>
Refundable deposits					
FEILC	e.	\$ 4,590	1	\$ 6,390	1
Other	t.	<u>2,617</u>	<u>1</u>	<u>2,942</u>	<u>1</u>
		<u>\$ 7,207</u>	<u>2</u>	<u>\$ 9,332</u>	<u>2</u>
Payables to related parties					
NCIC	b. and l.	\$ 161,484	60	\$ 25,407	15
FETEC	k.	54,470	20	71,134	42
FETRD	s.	12,379	5	21,086	13
FETTDF	f.	9,068	3	9,698	6
KGEx	c. and d.	-	-	20,970	12
Other	t.	<u>33,571</u>	<u>12</u>	<u>20,732</u>	<u>12</u>
		<u>\$ 270,972</u>	<u>100</u>	<u>\$ 169,027</u>	<u>100</u>
Long-term lease payable (includes current portion)					
FEILC	e.	<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. KG Telecom signed a network maintenance contract with KGEx for maintaining KG Telecom's telecommunications network and backbone network facilities. The contract expired on March 31, 2004.
- e. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung (b) the land and mobile switch centers located in Neihu, Taichung and Hsinchu, from November 1999 to June 2004; 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

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).

- f. FETTDF researches telecommunication technology and provides training programs for Far EasTone.
- g. Far EasTone, KG Telecom and Yuan-Ze Telecom have contracts with FCHRC for manpower dispatching service. The service charges were based upon the services provided by FCHRC for temporary or specific personnel supplies.
- h. 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.
- i. Far EasTone and KG Telecom authorized DDIM to deal with the accumulation and redemption of reward points for customers. The related service charges were treated as marketing expense and payable to related parties.
- j. 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. The loan is secured and payable every six months at equal installments of the principal and repaid in January 2005.

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

- k. Far EasTone, KG Telecom and Yuan-Ze Telecom maintains contracts with FETEC for the construction of telecommunications network and backbone network facilities.

- l. Far EasTone purchased NCIC's telecommunications network and backbone network facilities.
- m. 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.
- n. Far EasTone advances YDC for its consulting fee. The advances are collected at various times based on the cash balance of YDC.
- o. Far EasTone and KG Telecom provide international roaming service to the customers of NTT DoCoMo Inc. The service revenue are treated as service revenue and receivables from related parties.
- p. Far EasTone and KG Telecom advanced KGEEx for its daily operating expenditures and will be collected at various times based on the cash balances of KGEEx.
- q. 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.
- r. 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.
- s. Far EasTone leases from FETRD several buildings and parcels of land under contracts with terms ranking from September 2003 to October 2013. The properties are located in Yatung street and Renai Street in Panchao City; Wuku in Taipei County and other locations in Taiwan.
- t. 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.

21. COMMITMENTS AS OF MARCH 31, 2005

The Group has the following significant commitments:

- a. The Group has outstanding contracts to acquire properties for \$820,203.
- b. ARCOA signed contracts amounting \$167,619 for software and remodeling of retail stores, and \$113,173 of it is unpaid.
- c. Far EasTone's outstanding letters of credit amounted to ¥948,320 thousand (equivalent to \$290,079), US\$3,480 thousand (equivalent to \$109,777) and \$107,366.
- d. Payments for the rentals of land, buildings and cell sites of the Group for the next five years are summarized as follows:

Period	Amount
April 1, 2005 to March 31, 2006	\$ 2,117,158
April 1, 2006 to March 31, 2007	2,149,503
April 1, 2007 to March 31, 2008	2,193,442
April 1, 2008 to March 31, 2009	2,263,518
April 1, 2009 to March 31, 2010	2,349,913

22. ASSETS PLEDGED OR MORTGAGED

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

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Restricted assets		
Included in other current assets	\$ 93,006	\$ -
Included in other assets - miscellaneous	1,163	34,309
Properties, net	<u>25,687,462</u>	<u>26,483,194</u>
	<u>\$ 25,781,631</u>	<u>\$ 26,517,503</u>

ARCOA invested \$10,000 thousand interest-linked on structured deposit product with the maturity date of September 15, 2010. ARCOA should ensure that it follows the terms and conditions of the contract. Early withdrawal of structured deposits may probably result in receiving less than its initial deposit amount. This structured deposits is pledged for short-term loan.

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 three months ended March 31, 2005 and 2004. All these transactions are for nontrading purposes. ARCOA purchased inverse floating-rate structured deposits to earn interest and considered as for trading purpose for the three months ended March 31, 2005. The Group, except mentioned above, did not enter into any derivative financial instrument contracts for the three months ended March 31, 2005 and 2004.

The information on derivative financial instrument contracts entered into by Far EasTone, KG Telecom and ARCOA are as follows:

1) Open contracts and credit risk

a) For nontrading purpose

March 31, 2005							
Type of Transaction	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%	0%-2.540%	Every 6 months	March 28, 2008- December 19, 2008	\$ (90,369)	\$ -
Interest rate swap - KG Telecom	1,000,000	3.38%-4.50%	1.193%-1.232%	Every 3 months	May 20, 2005	(6,519)	-

March 31, 2004							
Type of Transaction	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%	2.04%-3.98%	Every 6 months	March 28, 2008- December 19, 2008	\$ 29,586	\$ 29,586
Interest rate swap - KG Telecom	1,300,000	3.10%-6.33%	0.940%-1.002%	Every 3 months	July 12, 2004- May 20, 2005	(41,016)	-

March 31, 2005				
Type of Transaction	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap - KG Telecom	US\$ 36,095 thousand	\$ -	\$ (111,612)	\$ -

March 31, 2004				
Type of Transaction	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap - KG Telecom	US\$ 57,217 thousand	\$ -	\$ (33,810)	\$ -

b) For trading purpose

March 31, 2004				
Type of Transaction	Carrying Value	National Amount	Credit Risk	Transactor's Location
Interest-linked Structured deposits - ARCOA	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,071</u>	Taiwan

c) Credit risk

Far Eastern, KG Telecom and ARCOA are exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, Far EasTone, KG Telecom and ARCOA 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.

Based on ARCOA's policy, ARCOA sets up stop loss target price for trading derivative financial instruments and revalues periodically to prevent affecting its operating activities.

ARCOA monitors interest-linked deposits and the market risk is expected to be within the reasonable range.

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.

The notional amount of credit-linked deposits is paid at the contract date and no additional cash is required unless canceling the contract previously.

The cancellation requires to reimburse the loss and related bank charges. ARCOA monitors the transaction and the cash-flow risk is expected to be not material.

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.

ARCOA uses interest-linked structured deposits to earn interest. The credit-linked structured deposits are highly-correlated to market price.

5) The related gains of Far EasTone on these swap contracts for the three months ended March 31, 2005 and 2004 were \$770 and \$10,822, 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 three months ended March 31, 2005 was \$6,794 which were recorded separately as interest expense of \$5,636 and unrealized foreign exchange net loss of \$1,158. The related losses of KG Telecom on these interest rate swap and cross currency swap contracts for the three months ended March 31, 2004 was \$72,005 which were recorded separately as interest expense of \$15,610 and unrealized foreign exchange net loss of 56,395.

The related gains of ARCOA on credit-linked derivative financial products are as follows:

	March 31, 2005
Restricted assets - pledged time deposits	\$10,000
	Three Months Ended March 31, 2005
Interest revenue - interest-linked structured deposits	\$190

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

	March 31			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative financial instruments</u>				
Financial assets				
Cash and cash equivalents	\$ 9,910,340	\$ 9,910,340	\$ 2,680,115	\$ 2,680,115
Short-term investments	894,300	896,094	75,505	75,905
Notes and accounts receivable, net	5,923,636	5,923,636	6,426,863	6,426,863
Receivables from related parties	20,593	20,593	151,387	151,387
Restricted assets (included in other current assets)	93,006	93,006	-	-
Investments in shares of stock	669,971	662,603	1,754,869	1,754,869
Refundable deposits	421,392	420,385	424,979	423,453
Pledged time deposits (included in other assets - miscellaneous)	1,163	1,163	34,309	34,309
Financial liabilities				
Short-term loans	2,715,677	2,715,677	1,300,264	1,300,264
Commercial paper payable	947,359	947,359	1,708,933	1,708,933
Notes payable	120,235	120,235	146,692	146,692
Accounts payable	1,368,006	1,368,006	1,517,415	1,517,415
Payables to related parties	270,972	270,972	169,027	169,027
Payables related to acquisition of properties	2,313,702	2,313,702	2,160,137	2,160,137
Long-term liabilities (including current portion)	14,564,188	14,736,025	25,190,126	25,633,826
Guarantee deposits received (including current portion)	1,525,532	1,525,532	1,980,448	1,980,448
<u>Derivative financial instruments</u>				
Interest rate swap - Far EasTone	-	(90,369)	-	29,586
Interest rate swap - KG Telecom	-	(6,519)	-	(41,016)
Cross currency swap - KG Telecom	-	(111,612)	-	(33,810)
Interest-linked structured deposits - ARCOA	10,000	10,071	-	-

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, 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: None.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

MARCH 31, 2005

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	March 31, 2005				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	\$ 35,267,689	100.00	\$ 35,267,689	Notes A and F
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	959,014,018.00	9,334,067	100.00	9,334,067	Notes A and F
	ARCOA Communications Co., Ltd.	Equity-method investee	Investments in shares of stock	74,353,013.00	1,198,995	55.37	1,198,995	Notes A and F
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	54,000,000.00	414,033	45.00	414,033	Note B
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	115,604	100.00	115,604	Notes B and F
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	53,104	85.92	53,104	Notes B and F
E. World (Holdings) Ltd. (Note E)	<u>Stocks</u>							
	E. World Ltd.	Equity-method investee	Investments in shares of stock	19,349,994.00	US\$ 804,000	99.99	US\$ 804,000	Notes B and F
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US\$ 431,000	17.96	US\$ 143,000	Note D
Far Eastern Info Service (Holding) Ltd. (Note E)	<u>Share certificates</u>							
	Far Eastern Technology Network Information Limited Company (Shanghai)	Equity-method investee	Investments in shares of stock	-	US\$ 2,863,000	100.00	US\$ 2,863,000	Note B and F
ARCOA Communications Co., Ltd.	<u>Stocks</u>							
	Hi Information Co., Ltd.	Equity-method investee	Investments in shares of stock	4,975,000.00	4,865	33.17	4,865	Note B
	THI Consultants Inc.	Equity-method investee	Investments in shares of stock	1,000,000.00	13,731	22.22	13,731	Note B
	Chunghwa Int'l Communication Network Co., Ltd.	-	Investments in shares of stock	2,830,901.00	6,714	4.20	6,714	Note D
	Taiwan Fixed Network	-	Investments in shares of stock	2,100,000.00	21,000	0.03	21,390	Note B
	VIBO Telecom Inc.	-	Investments in shares of stock	2,000,000.00	20,000	0.25	21,353	Note B
	Web Point Co., Ltd.	-	Investments in shares of stock	300,000.00	1,618	0.75	1,618	Note D
	<u>Mutual funds</u>							
	Fuhwa Advantage Bond Fund	-	Short-term investments	9,818,842.36	100,000	-	100,052	Note C
	Fuhwa Bond Fund	-	Short-term investments	4,003,362.82	50,000	-	50,028	Note C
	The High-Yield Fund	-	Short-term investments	708,646.91	10,000	-	10,008	Note C
	Fuh-Hwa Bond Fund	-	Short-term investments	9,823,590.50	127,800	-	127,876	Note C
	CITC HIGH Yield	-	Short-term investments	1,137,225.20	15,000	-	15,074	Note C
	CITC Cash Reserves	-	Short-term investments	8,896,083.90	102,000	-	101,824	Note C
CITC Safe Income Fund	-	Short-term investments	11,156,011.40	161,500	-	161,607	Note C	

(Continued)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	March 31, 2005				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
KG Telecommunications Co., Ltd.	<u>Debentures</u> Ta Chong Bank Financial Bonds 93 Series-I	-	Short-term investments	3,000,000.00	\$ 3,000	-	\$ 3,000	Note C
	<u>Stocks</u> KGEx.com	Equity-method investee	Investments in shares of stock	260,851,000.00	1,301,564	74.53	1,301,564	Note B and F
	KGT International Holdings	Equity-method investee	Investments in shares of stock	50,000.00	95,757	100.00	95,757	Note B and F
	KG Satellite	Equity-method investee	Investments in shares of stock	9,950,000.00	79,012	66.33	79,012	Note B
KGT International Holdings (Note E)	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	60,013	40.00	60,013	Note B
	<u>Mutual funds</u> Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,899.00	290,000	-	291,585	Note C
KGEx.com (Note E)	<u>Stocks</u> KGEx.com	Equity-method investee	Investments in shares of stock	16,051,000.00	US\$ 2,539,000	4.59	US\$ 2,539,000	Note B
KG Satellite (Note E)	<u>Mutual funds</u> Invesco Bond Fund	-	Short-term investments	2,409,655.14	35,000	-	35,040	Note C
	<u>Mutual funds</u> Phoenix Fund	-	Short-term investments	1,377,042.20	20,225	-	20,295	Note C
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,251	Note C
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,373	Note C

Note A: Calculation was based on reviewed financial statements as of March 31, 2005.

Note B: Calculation was based on unreviewed financial statements as of March 31, 2005.

Note C: Open-ended mutual funds were calculated by net asset value of mutual funds as of March 31, 2005.

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

Note E: Information was based on unreviewed financial statements as of March 31, 2005.

Note F: 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
THREE MONTHS ENDED MARCH 31, 2005
(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.	ARCOA Communications Co., Ltd. (Note C)	Equity-method investee	Original stockholders of ARCOA	-	-	\$ -	74,353,013.00	\$ 1,208,946	-	\$ -	\$ -	\$ -	\$ (9,951)	74,353,013.00	\$ 1,198,995
KG Telecommunications Co., Ltd.	KGEx.com (Note C)	Equity-method investee	Original stockholders of Taiwan Cement	Note A	175,931,000.00	898,944	84,920,000.00	437,762	-	-	-	-	(35,142)	260,851,000.00	1,301,564
ARCOA Co., Ltd. (Note 2)	Fuhwa Advantage Bond Fund	Short-term investments	-	-	9,849,887.71	100,000	9,818,842.36	100,000	9,849,877.71	100,313	100,000	313	-	9,818,842.36	100,000
	Fuh-Hwa Bond Fund	Short-term investments	-	-	9,858,600.80	127,800	9,823,590.50	127,800	9,858,600.80	128,255	127,800	455	-	9,823,590.50	127,800
	CITC Cash Reserves	Short-term investments	-	-	11,866,277.70	135,500	8,896,083.90	102,000	11,866,277.70	135,921	135,500	421	-	8,896,083.90	102,000
	CITC Safe Income Fund	Short-term investments	-	-	11,197,858.90	161,500	11,156,011.40	161,500	11,197,858.90	162,106	161,500	606	-	11,165,011.40	161,500

Note A: Leslie Koo is the authorized representative of KG Telecommunications Co., Ltd.

Note B: The beginning balance was carried from ARCOA Co., Ltd. as it became the subsidiary of Far EasTone.

Note C: 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

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2005**

(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	\$ (270,290)	(3%)	30 days	-	-	Accounts receivable (Note A)	\$ 31,321	5%
			Cost of services	247,736	6%	30 days	-	-	Accounts payable (Note A)	-	
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(155,347)	(2%)	30 days	-	-	Accounts receivable (Note B)	9,936	2%
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Service revenue	(247,736)	(4%)	30 days	-	-	Accounts receivable (Note A)	-	
			Cost of services	270,290	9%	30 days	-	-	Accounts payable (Note A)	(31,321)	(5%)

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 between Far EasTone and NCIC 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

MARCH 31, 2005

(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	\$495,457	(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
THREE MONTHS ENDED MARCH 31, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2005			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				March 31, 2005	March 31, 2004	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	\$ 29,623,244	\$ 29,623,244	1,332,997,916	100.00	\$ 35,267,689	\$ 1,481,205	\$ 1,481,205	Notes A, B and H
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	10,370,000	10,370,000	959,014,018	100.00	9,334,067	(256,073)	(256,073)	Notes A, B and H
	ARCOA Communications Co., Ltd.	Taiwan	Sale and manufacturing communication products and office equipment	1,208,946	-	74,353,013	55.37	1,198,995	(13,873)	(9,951)	Notes A, B and H
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	540,000	540,000	54,000,000	45.00	414,033	(42,991)	(19,510)	Notes C and D
	Far Eastern Info Service (Holding) Ltd.	British Bermuda Islands	Investment	92,616	92,616	1,200	100.00	115,604	11,841	7,437	Notes A, D and H
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	53,104	2,172	775	Notes A, D and H
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	35,363	(46,587)	(9,473)	Note C and D
KG Telecommunications Co., Ltd.	KGEx.com	Taiwan	Type II telecommunications service	2,197,073	1,759,310	260,851,000	74.53	1,301,564	(41,984)		Notes D, E and H
	KGT International Holdings	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	95,757	(1,886)		Notes D, E and H
	KG Satellite iScreen	Taiwan	TYPE I telecommunications services	99,500	99,500	9,950,000	66.33	79,012	(4,244)		Notes D and E
ARCOA Communications Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	4,865	930		Notes D and F
	THI Consultants Inc.	Taiwan	Consulting	13,700	13,700	1,000,000	22.22	13,731	1,745		Notes D and F
KGT International Holdings (Note G)	KGEx.com	Taiwan	Type II telecommunications service	US\$ 4,822,000	US\$ 4,822,000	16,051,000	4.59	US\$ 2,539,000	(41,984)		Notes D, E and H
E. World (Holdings) Ltd. (Note G)	E. World Ltd.	Taiwan	Data processing service	193,500	193,500	19,349,994	99.99	US\$ 804,000	2,190		Notes D, E and H
Far Eastern Info Service (Holding) Ltd. (Note G)	Far Eastern Technology Network Information Limited Company (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US\$ 2,500,000	US\$ 2,500,000	-	100.00	US\$ 2,863,000	11,841		Notes D, E and H

Notes: A. Subsidiary.

B. Calculation was based on reviewed financial statements as of March 31, 2005.

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

D. Calculation was based on unreviewed financial statements as of March 31, 2005.

E. Subsidiary of KG Telecom, KGT International Holding, E. World (Holdings) or Far Eastern Info Service (Holding).

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

G. Bases on unreviewed financial statements as of March 31, 2005.

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
 THREE MONTHS ENDED MARCH 31, 2005
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of March 31, 2005	Accumulated Inward Remittance of Earnings as of March 31, 2005	Accumulated Investment in Mainland China as of March 31, 2005	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	\$78,863 (US\$2,500,000)	Note B	\$92,616	\$ -	\$ -	\$92,616	100%	\$11,841	\$90,313 (US\$2,863,000)	\$ -	\$92,616	\$92,616	\$29,713,164 (Note C)

Note A: Calculation of investment gain (loss) was based on unreviewed financial statement as of March 31, 2005

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.

Note D: Significant transactions with the investee company have been eliminated in consolidation.