Far EasTone Telecommunications Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2005 and 2004 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") and subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As discussed in Note 2 to the consolidated financial statements, we were unable to obtain audited financial statements of some immaterial subsidiaries with combined total assets that were 2.3% (NT$2,588,623 thousand) of the consolidated total assets and combined total liabilities that were 1.2% (NT$523,803 thousand) of the consolidated total liabilities as of June 30, 2005. These subsidiaries' combined total operating revenues were 1.2% (NT$443,571 thousand) of the consolidated operating revenues and their total net losses were (0.5%) (NT$37,277 thousand) of consolidated net income for the six months then ended.

We were unable to obtain audited financial statements supporting the Company's and subsidiaries' investments in certain equity-method investees with carrying values of NT$176,603 thousand and NT$1,731,363 thousand as of June 30, 2005 and 2004, respectively. The Company's equity of NT$36,078 thousand and NT$125,790 thousand in the losses of these investees was included in the consolidated net incomes for the six months ended June 30, 2005 and 2004, respectively, as described in Note 7. Related information on the Company's and subsidiaries' investments is shown in Note 22 to the consolidated financial statements.

In our opinion, 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, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of June 30, 2005 and 2004, and the consolidated results of their operations and their cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As discussed in Note 2, the entities included in the consolidated financial statements as of and for the six months ended June 30, 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 six months ended June 30, 2004 include the accounts of the Company and its direct and indirect 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.

July 30, 2005

Notice to Readers

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

	2005		2004	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 12,592,753	11	$ 8,840,863	8
Short-term investments (Notes 2 and 5)	809,300	1	-	-
Accounts and notes receivable, net of allowance for doubtful accounts of $1,885,874 thousand in 2005 and $1,516,500 thousand in 2004 (Note 2)	6,267,572	6	6,841,863	6
Receivables from related parties (Notes 2 and 19)	18,481	-	46,689	-
Inventories, net (Notes 2 and 6)	1,362,698	1	761,651	1
Prepaid expenses (Notes 2 and 19)	1,146,245	1	2,224,940	2
Deferred income tax assets - current (Notes 2 and 18)	938,914	1	1,416,627	1
Other current assets (Note 21)	141,836	-	203,231	-
Total current assets	23,277,799	21	20,335,864	18
INVESTMENTS IN SHARES OF STOCK (Notes 2, 7, 19 and 21)				
Equity method	1,099,526	1	1,731,363	2
Cost method	62,986	-	3,000	-
Total investments in shares of stock	1,162,512	1	1,734,363	2
PROPERTIES (Notes 2, 8, 19 and 21)				
Cost				
Land	1,516,082	1	1,050,281	1
Buildings and equipment	2,854,300	3	2,073,563	2
Operating equipment	87,807,105	80	86,491,998	78
Computer equipment	12,446,090	11	11,171,118	10
Office equipment	1,000,389	1	925,103	1
Leasehold improvements	1,653,195	1	1,513,939	1
Miscellaneous equipment	100,217	-	88,308	-
Total cost	107,377,378	97	103,314,310	93
Less - accumulated depreciation	52,793,109	48	42,557,691	38
	54,584,269	49	60,756,619	55
Construction in progress and advances for acquisition of equipment	8,562,964	8	4,981,051	4
Net properties	63,147,233	57	65,737,670	59
INTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 9)	10,947,573	10	11,469,535	10
3G concession, net (Notes 1 and 2)	9,864,539	9	10,169,000	9
Total intangible assets	20,812,112	19	21,638,535	19
OTHER ASSETS				
Rental assets, net (Notes 2, 8 and 10)	227,625	-	191,942	-
Properties not currently used in operations, net (Note 2)	343,505	-	43,750	-
Refundable deposits (Note 19)	397,468	1	411,432	1
Deferred income tax assets - noncurrent (Notes 2 and 18)	608,494	1	1,021,076	1
Deferred charges, net (Note 2)	324,746	-	98,490	-
Other (Notes 2 and 21)	62,056	-	53,338	-
Total other assets	1,963,894	2	1,820,028	2
TOTAL	$ 110,363,550	100	$ 111,266,460	100

	2005		2004	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 11 and 21)	$ 266,455	-	$ -	-
Commercial paper payable (Note 12)	228,924	-	619,309	1
Notes payable	88,336	-	57,721	-
Accounts payable	1,558,417	1	787,238	1
Payables to related parties (Note 19)	122,033	-	214,800	-
Income tax payable (Notes 2 and 18)	1,604,187	1	1,145,091	1
Accrued expenses	5,016,120	5	5,230,786	5
Dividends payable (Note 14)	11,617,989	11	4,748,620	4
Payables for acquisition of properties	1,969,049	2	1,602,535	1
Guarantee deposits received - current	1,346,323	1	1,635,638	1
Unearned revenues (Note 2)	1,647,927	2	2,677,436	2
Current portion of long-term liabilities (Notes 2, 8, 13 and 21)	5,133,735	5	8,893,199	8
Other current liabilities (Notes 2 and 14)	400,081	-	559,221	1
Total current liabilities	30,999,576	28	28,171,594	25
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 8, 13, 19 and 21)				
Long-term bonds payable	6,530,000	6	10,020,000	9
Long-term debts payable	4,942,169	5	13,052,004	12
Long-term lease payable - noncurrent	88,500	-	-	-
Total long-term liabilities	11,560,669	11	23,072,004	21
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	285,335	-	202,045	-
Guarantee deposits received - noncurrent	91,873	-	134,928	-
Other	11,679	-	15,962	-
Total other liabilities	388,887	-	352,935	-
Total liabilities	42,949,132	39	51,596,533	46
CONTROLLING INTEREST OF FAR EASTONE				
Capital stocks - $10 par value				
Authorized - 4,200,000 thousand shares				
Issued - 3,872,663 thousand shares in 2005 and 3,391,871 thousand shares in 2004	38,726,630	35	33,918,714	31
Capital stock to be issued	-	-	3,391,872	3
Capital surplus				
Paid-in capital in excess of par value	6,510,964	6	4,123,900	4
From business combination	8,482,381	8	8,482,381	7
From investments in shares of stock	6,224	-	-	-
Total capital surplus	14,999,569	14	12,606,281	11
Retained earnings				
Legal reserve	4,101,609	4	2,697,301	3
Unappropriated earnings	8,471,674	7	7,055,889	6
Total retained earnings	12,573,283	11	9,753,190	9
Cumulative translation adjustments	(4,974)	-	(130)	-
Controlling Interests	66,294,508	60	59,669,927	54
Minority interest	1,119,910	1	-	-
Total stockholders' equity	67,414,418	61	59,669,927	54
TOTAL	$ 110,363,550	100	$ 111,266,460	100

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

(With Deloitte & Touche audit report dated July 30, 2005)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2005		2004	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 19)				
Sales of cellular phone equipment and accessories, net	$ 4,268,510	12	$ 1,936,327	6
Telecommunication service revenues	30,872,712	87	30,400,203	94
Other	432,074	1	9,967	-
Total operating revenues	35,573,296	100	32,346,497	100
OPERATING COSTS (Notes 2, 16, 17 and 19)				
Cost of sales	4,481,659	13	2,032,910	6
Cost of telecommunication services	13,011,071	36	13,397,661	42
Other	329,990	1	-	-
Total operating costs	17,822,720	50	15,430,571	48
GROSS PROFIT	17,750,576	50	16,915,926	52
OPERATING EXPENSES (Notes 2, 16, 17 and 19)				
Marketing	4,423,399	12	4,539,862	14
General and administrative	3,472,317	10	3,547,870	11
Research and development	180,510	1	184,998	-
Total operating expenses	8,076,226	23	8,272,730	25
OPERATING INCOME	9,674,350	27	8,643,196	27
NONOPERATING INCOME AND GAINS				
Interest	44,382	-	10,093	-
Foreign exchange gains, net	6,247	-	-	-
Gain from sale of short-term investments, net	4,731	-	9,579	-
Gain on disposal of properties, net	1,532	-	-	-
Gain from sale of nonperforming accounts receivable	-	-	88,351	-
Other	68,658	1	50,187	-
Total nonoperating income and gains	125,550	1	158,210	-
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 8, 19 and 22)	170,101	1	388,128	1
Equity in investees’ net losses (Notes 2 and 7)	79,423	-	125,790	1
Loss on decline in value of inventories	8,843	-	5,790	-
Loss on disposal of properties, net	-	-	7,632	-
Other (Notes 10 and 17)	15,709	-	82,465	-
Total nonoperating expenses and losses	274,076	1	609,805	2

(Continued)

	2005		2004	
	Amount	%	Amount	%
COMBINED INCOME BEFORE INCOME TAX EXPENSE	$ 9,525,824	27	$ 8,191,601	25
INCOME TAX EXPENSE (Notes 2 and 18)	1,751,845	5	1,162,433	3
COMBINED NET INCOME	$ 7,773,979	22	$ 7,029,168	22
ATTRIBUTABLE TO:				
Controlling interest	$ 7,803,337	22	$ 7,029,168	22
Minority interest	(29,358)	-	-	-
	$ 7,773,979	22	$ 7,029,168	22

	2005		2004	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED EARNINGS PER SHARE (Note 15)				
Basic	$ 2.47	$ 2.02	$ 2.20	$ 1.88
Diluted	$ 2.47	$ 2.02	$ 2.12	$ 1.82

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

(With Deloitte & Touche audit report dated July 30, 2005) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued (Notes 2 and 14)		Capital Stock to be Issued (Note 14)	Capital Surplus (Notes 2 and 14)				Retained Earnings (Note 14)			Cumulative Translation Adjustments (Note 2)	Controlling Interest of Far EasTone	Minority Interest	Total Stockholders' Equity
	Shares (Thousands)	Amount		Paid-in Capital in Excess of Par Value	From Business Combination	From Investments in Shares of Stock	Total	Legal Reserve	Unappropriated Earnings	Total				
BALANCE, JANUARY 1, 2005	3,842,311	$ 38,423,115	$ -	$ 6,023,801	$ 8,482,381	$ -	$ 14,506,182	$ 2,697,301	$ 14,069,797	$ 16,767,098	$ 15,671	$ 69,712,066	$ -	$ 69,712,066
Effect of change in consolidated entities since 2005	-	-	-	-	-	-	-	-	-	-	-	-	812,889	812,889
Acquisition of ARCOA's capital stock in February, 2005	-	-	-	-	-	-	-	-	-	-	-	-	769,011	769,011
Acquisition of KGEx.com's capital stock in 2005	-	-	-	-	-	-	-	-	-	-	-	-	(432,632)	(432,632)
Conversion of overseas convertible bonds into common stock	30,352	303,515	-	487,163	-	-	487,163	-	-	-	-	790,678	-	790,678
Appropriation of 2004 earnings														
Legal reserve	-	-	-	-	-	-	-	1,404,308	(1,404,308)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	(252,775)	(252,775)	-	(252,775)	-	(252,775)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(126,388)	(126,388)	-	(126,388)	-	(126,388)
Cash dividend - $3 per share	-	-	-	-	-	-	-	-	(11,617,989)	(11,617,989)	-	(11,617,989)	-	(11,617,989)
Combined net income for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	7,803,337	7,803,337	-	7,803,337	(29,358)	7,773,979
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	-	6,224	6,224	-	-	-	-	6,224	-	6,224
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	(20,645)	(20,645)	-	(20,645)
BALANCE, JUNE 30, 2005	3,872,663	$ 38,726,630	$ -	$ 6,510,964	$ 8,482,381	$ 6,224	$ 14,999,569	$ 4,101,609	$ 8,471,674	$ 12,573,283	$ (4,974)	$ 66,294,508	$ 1,119,910	$ 67,414,418
BALANCE, JANUARY 1, 2004	2,697,786	$ 26,977,860	$ -	$ 5,944,514	$ -	$ 29,086	$ 5,973,600	$ 1,878,488	$ 8,197,228	$ 10,075,716	$ 3,052	$ 43,030,228	$ -	$ 43,030,228
Conversion of overseas convertible bonds into common stock	562	5,622	-	10,997	-	-	10,997	-	-	-	-	16,619	-	16,619
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880	-	14,595,880
Appropriation of 2003 earnings														
Legal reserve	-	-	-	-	-	-	-	818,813	(818,813)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)	-	(147,387)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)	-	(73,693)
Cash dividend - $1.4 per share	-	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)	-	(4,748,620)
Stock dividend - 4.6%	-	-	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-	-	-
Capitalization of capital surplus - 5.4%	-	-	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-	-	-
Combined net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	7,029,168	7,029,168	-	7,029,168	-	7,029,168
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)	-	(29,086)
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	(3,182)	(3,182)	-	(3,182)
BALANCE, JUNE 30, 2004	3,391,871	$ 33,918,714	$ 3,391,872	$ 4,123,900	$ 8,482,381	$ -	$ 12,606,281	$ 2,697,301	$ 7,055,889	$ 9,753,190	$ (130)	$ 59,669,927	$ -	$ 59,669,927

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

(With Deloitte & Touche audit report dated July 30, 2005)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Combined net income	$ 7,773,979	$ 7,029,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,025,916	6,211,191
Amortization of 3G concession	304,461	-
Provision for doubtful accounts	560,545	829,843
Provision for loss on decline in value of inventories	8,843	5,790
Losses on disposal of inventory and inventory count	747	-
Equity in investees' net losses	79,423	125,790
Losses (gains) on disposal of properties and properties not currently used in operations, net	(1,532)	7,632
Accrued pension cost	52,067	32,767
Deferred income taxes	1,075,628	693,161
Interest premium on convertible bonds	1,070	19,327
Unrealized exchange gains on overseas convertible bonds	-	(24,045)
Other	23,232	(4,096)
Net changes in operating assets and liabilities		
Accounts and notes receivable	(316,171)	(335,421)
Receivables from related parties	15,420	870
Inventories	(52,501)	254,353
Prepaid expenses	651,581	(59,320)
Other current assets	147,509	(56,389)
Notes payable	(31,853)	(396,242)
Accounts payable	728,409	(487,039)
Payables to related parties	(217,768)	(11,734)
Income tax payable	(723,440)	417,387
Accrued expenses	(425,418)	(445,811)
Unearned revenues	(782,676)	39,214
Other current liabilities	(261,248)	162,532
Net cash provided by operating activities	14,636,223	14,008,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments, net	187,065	3,393,647
Acquisition of investments in shares of stock	(526,500)	(516,788)
Acquisition of properties	(2,391,119)	(3,782,358)
Proceeds from sale of properties and properties not currently used in operations	7,395	81,394

(Continued)

	2005	2004
Decrease in refundable deposits	$ 18,651	$ 5,099
Return of the capital from the dissolved investee	-	488
Increase in deferred charges	(99,003)	-
Decrease in other assets, net	12,415	26,154
Net cash used in investing activities	(2,791,096)	(792,364)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(2,335,655)	(2,250,000)
Decrease in commercial paper payable	(669,267)	(2,324,122)
Increase in long-term debts	6,249,788	6,555,000
Repayment of long-term liabilities	(9,499,588)	(8,294,269)
Decrease in guarantee deposits received	(175,573)	(486,946)
Bonus paid to employees and directors	(252,813)	(147,387)
Decrease in other liabilities	(1,947)	(20,862)
Repurchase of treasury stock	-	(3,334,798)
Decrease in minority interest	(437,762)	-
Cash payment due to merger	(888,946)	(11,698,461)
Net cash used in financing activities	(8,011,763)	(22,001,845)
EFFECT OF EXCHANGE RATE CHANGES	(20,645)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,812,719	(8,785,281)
CASH AND CASH EQUIVALENTS DUE TO CHANGE IN CONSOLIDATED ENTITIES	99,262	-
CASH AND CASH EQUIVALENTS ARISING FROM MERGER	178,080	3,057,490
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,502,692	14,568,654
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,592,753	$ 8,840,863
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS INFORMATION		
Interest paid (excluding capitalized interest)	$ 206,407	$ 357,750
Income tax paid	$ 1,361,485	$ 52,182
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 5,133,735	$ 8,893,199
Reclassification of properties into rental assets	$ 37,659	$ 192,908
Conversion of overseas convertible bonds into common stock and capital surplus	$ 790,678	$ 16,619
Declaration of cash dividend payable	$ 11,617,989	$ 4,748,620

(Continued)

	2005	2004
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 1,135,422	$ 1,991,693
Decrease in payables related to acquisition of properties	1,255,697	1,390,665
Decrease in obligations under capital lease	-	400,000
Actual cash paid for acquisition of properties	$ 2,391,119	$ 3,782,358
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Total amount of properties and properties not currently used in operations sold	$ 20,594	$ 13,082
Increase in receivables from properties sold	(21,455)	(658)
Decrease in receivables from related parties	8,256	68,970
Actual cash received from disposal of properties and properties not currently used in operations	$ 7,395	$ 81,394

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

	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 loans	(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 for acquisition of properties	-	(276,270)
Guarantee deposits received	-	(703,921)
Unearned revenues	(64,120)	(778,534)
Other current liabilities	(28,814)	(146,918)

(Continued)

	2005	2004
Long-term liabilities	$ (50,188)	$ (14,692,645)
Other liabilities	(8,843)	(36,824)
	1,723,145	17,967,602
Percentage of ownership acquired	55.37%	100%
	954,135	17,967,602
Goodwill	254,811	11,865,037
Cash consideration of the merger and issuance cost	1,208,946	29,832,639
Less: Issuance of common stock	-	18,134,178
Less: Decrease in restricted assets - noncurrent	320,000	-
Cash payment due to merger	$ 888,946	$ 11,698,461

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

(With Deloitte & Touche audit report dated July 30, 2005) (Concluded)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. ("Far EasTone") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. Far EasTone's shares have been traded and listed on the ROC Over-the-Counter (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. Affiliates of Far Eastern Textile Co., Ltd. are the major stockholders 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 second-generation wireless communications service revenues.

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.

To integrate the telecommunications business and enhance the Far EasTone's operational efficiency, the Board of Directors of Far EasTone has approved the Far EasTone's merger with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom"), its wholly owned subsidiary, on February 24, 2005. The merger was completed on May 2, 2005, with Far EasTone as the survivor company.

In 2002, Yuan-Ze Telecom received from the DGT the 3G (third-generation wireless communications system) concession, with a bidding price of $10,169,000 thousand, included in intangible assets-3G concession. On January 24, 2005, the DGT officially issued to Yuan-Ze Telecom a 3G license, which is valid through December 31, 2018. Through the completion of the merger with Yuan-Ze Telecom, Far EasTone became licensed to provide 3G wireless communications service and began commercial operations on July 13, 2005.

Far EasTone and its affiliates (the "Group") had 5,020 and 3,457 employees as of June 30, 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 consolidated financial statements shall prevail.

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

Consolidation

As required by the revised ROC Statement of Financial Accounting Standards No. 7 "Consolidated Financial Statements," starting from January 2005, consolidated financial statements should include the accounts of Far EasTone and its direct and indirect subsidiaries or other investees in which Far EasTone has controlling interests. For subsidiaries acquired during the period, their revenues and expenses generated before the acquisition date will not be consolidated.

The consolidated financial statements prior to and for 2004 include the accounts of Far EasTone and its direct and indirect subsidiaries with individual total assets or total operating revenues that were at least 10% of the unconsolidated total assets or operating revenues of Far EasTone. Other subsidiaries were also consolidated if their combined total assets or operating revenues were at least 30% of the unconsolidated total assets or operating revenues of Far EasTone.

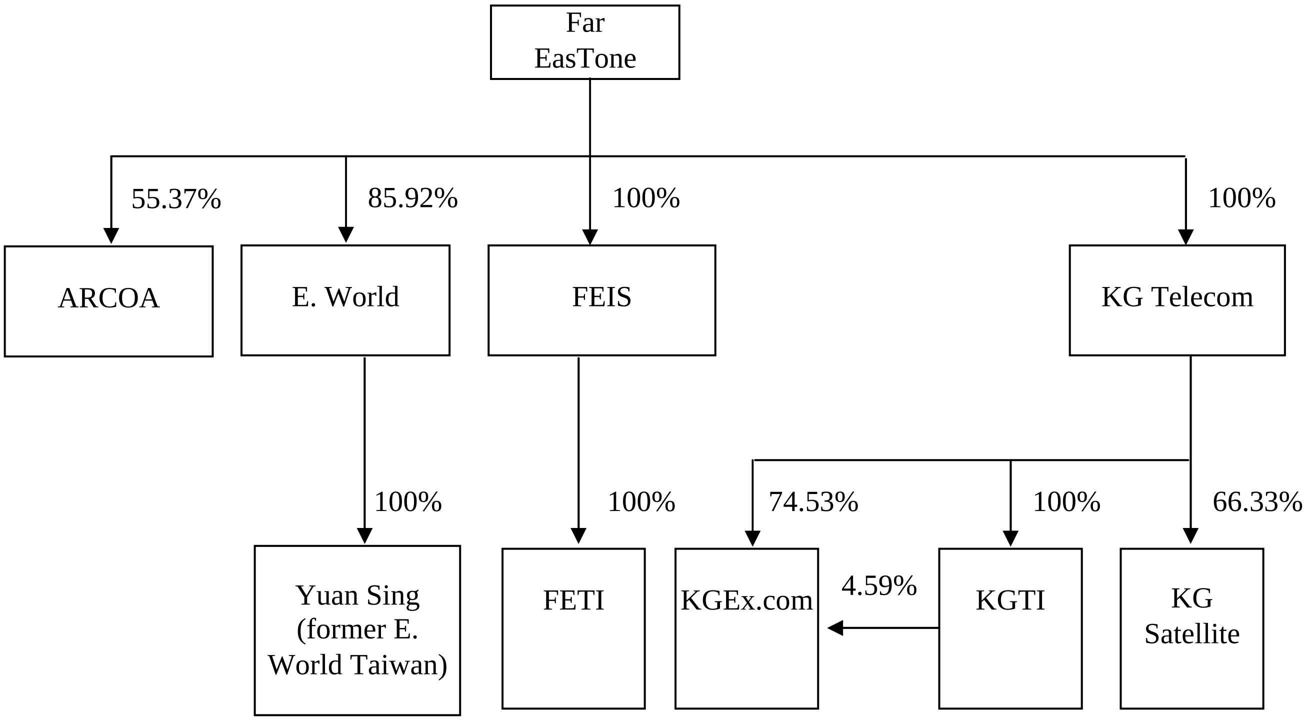
In the preparation of the consolidated financial statements, the financial statements of the foreign subsidiaries are translated from their respective functional currencies into New Taiwan dollars as follows:

a. All assets and liabilities at the exchange rate ruling at the balance sheet dates;
b. Share capital, retained earnings and/or accumulated deficit at their historical rates of exchanges; and
c. All items in the statement of income at the averages rate of exchange for the periods.

The resulting translation gains and losses are accounted for as cumulative translation adjustments.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Intercompany relationships and percentages of ownership as of June 30, 2005 are shown below:



a. Consolidated entities and their major business activities for the consolidated financial statements as of and for the six months ended June 30, 2005 were 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 and 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 from January 1, 2000. Thus, the former KGT provided wireless communications services under a type I license - GSM1800 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% of leased-circuit service revenues.

The merger agreement was submitted to the special stockholders' meetings of Far EasTone, 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 stockholders 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 stockholders 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 stockholders 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 stockholders of KG Telecom are the original stockholders of the former KGT and held 60.51% ownership as of January 1, 2004.

In the second step of the transaction, former KGT stockholders 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 stockholders of KG Telecom for the remaining ownership, Far EasTone issued 693,523 thousand new shares and reissued the 113,044 thousand shares held as treasury stock (Note 14). The share swap agreement was approved by the stockholders of the two companies on February 18, 2004 and by 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. Thus, 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's 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 of $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 Telecommunications 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 obtained a 3G (third - generation wireless communications system) license from the DGT and began its commercial operations on July 13, 2005.

On February 24, 2005, the Board of Directors of Far EasTone approved the merger with Yuan-Ze Telecom, with Far EasTone as the survivor company. The merger approved by DGT on March 16, 2005 and by the OTC securities exchange on April 19, 2005. The merger was completed and took effect on May 2, 2005. On March 25, 2005, Yuan-Ze Telecom's Board of Directors, authorized representative of the stockholders approved a capital reduction to offset a deficit. The capital reduction, which took effect on March 28, 2005, amounted 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 was $9,590,140 thousand.

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

E. World was incorporated in the Cayman Islands on April 7, 2000. Its stockholders were Far EasTone (85.92%) and AT&T Wireless Service Inc. (14.08%) as of June 30, 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 and KGTI own 79.12% of KGEx.com's common stock. KGEx.com mainly provides Type II telecommunications service.

7) Yuan Sing Co., Ltd. ("Yuan Sing"; formerly E. World Co., Ltd.):

Yuan Sing was established on August 5, 2000. It is a wholly owned subsidiary of E. World. Yuan Sing provides data processing services. On June 20, 2005, the Board of Directors of Yuan Sing approved to change its name from E. World Co., Ltd. to Yuan Sing Co., Ltd.

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

FETI was incorporated in the People's Republic of China on November 18, 2002 and acquired a 50-year operating permit. 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 telecommunications equipment or accessories and also provides related maintenance services.

On December 22, 2004, the Board of Directors of ARCOA decided to withdraw its stock from the OTC exchange and became a private company. Far EasTone has purchased from ARCOA's stockholders 74,353 thousand shares in February 2005 and March 2005. As a result, Far EasTone acquired 55.37% of ARCOA's common stocks and became its parent company.

The consolidated financial statements as of and for the six months ended June 30, 2005 excluded the accounts of KG Satellite Co., Ltd. ("KG Satellite").

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

In their special meeting on December 30, 2004, the stockholders of KG Satellite decided to liquidate this company on July 11, 2005. DGT approved this liquidation in January 2005 and allowed KG Satellite to discontinue providing satellite communications service from the proposed liquidation date. Thus, the accounts of KG Satellite were excluded from the consolidated financial statements.

b. The consolidated financial statements as of and for the six months ended June 30, 2004 included the accounts of Far EasTone, KG Telecom and Yuan-Ze Telecom. Other subsidiaries with individual total assets or total operating revenues that were not at least 10% of the unconsolidated total assets and operating revenues of Far EasTone were excluded.

c. We were unable to obtain audited financial statements supporting some of the immaterial consolidated entities (E. World, Yuan Sing, FEIS, FETI, KGEx.com and KGTI) as of and for the six months ended June 30, 2005.

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash or cash equivalents as well as items to be converted into cash or used within one year. Current liabilities are obligations to be settled within one year. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Bonds and commercial paper purchased under resell agreements and 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 financial bonds 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 weighted-average method.

Allowance for Doubtful Accounts

An allowance for doubtful accounts 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 using 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 of 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 2 to 3 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.

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 a year after investment acquisition are accounted for as dividend income.

For both equity-method and cost-method investments, 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 shares is recalculated on the basis of the total number of shares, including the received stock dividends. Costs of investments sold are determined using 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 initially estimated service lives 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 operations 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	3-18
Operating equipment	2-15
Computer equipment	3-10
Office equipment	2-10
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 of, are stated at the lower of net book value or net realizable value. An impairment loss should be recognized whenever the carrying amount of these properties exceeds their recoverable amount.

Deferred Charges

Deferred charges mainly to the management cost of syndication loans, retail stores renovation and computer software and are amortized using the straight-line method over the terms of the syndicated loans, lease (retail store renovation) and agreements on the rights of software use. Deferred charges are grouped with properties for impairment loss test purposes.

Intangible Assets

Goodwill derived from a merger or the premium between purchase price and net asset 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 January 24, 2005, the grant date of the concession license, until the license expiry date on December 31, 2018.

Intangible assets are reviewed for impairment whenever circumstances indicate that the carrying value is higher than recoverable value. 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 Far EasTone’s sales of products to its subsidiaries are deferred and included as deferred income until the gains are realized through the subsequent sale of the related items to third parties. In addition, Far EasTone classifies the deferred income as current or noncurrent on the basis of the length of the gain realization period.

Far EasTone 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.

Far EasTone defers its gains or losses on the subsidiaries’ sales of products to Far EasTone or on the sale among 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.

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; (b) prepaid call and internet card services are recognized as income based upon customer usage; (c) 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 of mobile phone number as an agent for the telecommunication providers are accrued as activated; and (b) commission revenue are accrued monthly based upon related airtime revenue.

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 period when the service to a subscriber is activated.

Capital Expenditures and Expenses

Expenditure is capitalized whenever it increases the future service potential of a fixed asset and the amount is material. Other expenditures (e.g., costs of merchandise sold or services rendered) are expensed as incurred.

Pension Costs

Far EasTone, KG Telecom, KGEx.com, ARCOA and Yuan Sing (formerly 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, under its government's regulations, has a defined contribution pension plan. It makes monthly payments calculated at a fixed percentage of the actual salary paid to the employees, which are recognized as pension costs.

Pension costs, except those of 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 years of employees, respectively.

The pension cost of KGEx.com was previously calculated at a fixed percentage of the actual monthly salary paid. Effective December 31, 2004, KGEx.com adopted Statement of Financial Accounting Standards No. 18, "Accounting for Pensions," which requires (a) the 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 determined starting 2005.

FEIS, E. World and KGTI do not have a pension plan since they do not have any employees.

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 are 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 capital stock is valued at its carrying value net of the amounts 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 period'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 prevailing exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the period of settlement.

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

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

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

Financial Derivatives

The contract (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 differences of the notional amounts and accrued interests due to exchange rate fluctuations between balance sheet dates and starting dates are included in the current period's incomes or losses. 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 six months ended June 30, 2004 have been reclassified to be consistent with the presentation of consolidated financial statements as of and for the six months ended June 30, 2005.

3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined balance sheets and statements of income of the Group as of and for the six months ended June 30, 2005 and 2004, respectively. The pro forma financial information on the assumption that Far EasTone brought the majority interest of ARCOA on January 1, 2005 and 2004 is as follows:

(In Thousands, Except EPS)

	Six Months Ended June 30	
	2005	**2004**
Current assets	$ 23,277,799	$ 21,075,796
Properties, net	63,147,233	66,075,090
Current liabilities	30,999,576	28,998,430
Operating revenue	35,998,181	34,696,704
Income before income tax	9,539,692	8,211,822
Net income	7,787,847	7,044,266
EPS	2.01	1.89

The pro forma combined balance sheets and statements of income are presented for illustrative purposes only. That is, this information does not necessarily show the financial position and results of operations under the assumption that Far EasTone brought 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

	June 30	
	2005	2004
Cash		
Cash on hand	$ 12,866	$ 8,444
Checking and demand deposits	1,933,654	2,363,483
Time deposit - interest of 0.85%-2.95% in 2005 and 0.40%-1.23% in 2004	49,391	2,275,739
	1,995,911	4,647,666
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.00%-1.23% in 2005 and 0.925%-0.965% in 2004	5,146,842	2,993,197
Bonds purchased under resell agreements - interest of 1.00%-1.33% in 2005 and 0.725% in 2004	5,450,000	1,200,000
	10,596,842	4,193,197
	$ 12,592,753	$ 8,840,863

5. SHORT-TERM INVESTMENTS

	June 30	
	2005	2004
Mutual funds - open-ended	$ 806,300	$ -
Financial bonds	3,000	-
	$ 809,300	$ -

6. INVENTORIES, NET

	June 30	
	2005	2004
Cellular phone equipment	$ 1,137,031	$ 683,065
Cellular phone accessories	99,171	32,111
SIM cards and prepaid cards	83,699	70,507
Others	131,718	-
	1,451,619	785,683
Less - allowance for losses	88,921	24,032
	$ 1,362,698	$ 761,651

Inventory insurance as of June 30, 2005 amounted to approximately $1,945,049 thousand.

7. INVESTMENTS IN SHARES OF STOCK

	June 30			
	2005		2004	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method				
Far Eastern Electronic Toll Collection Co., Ltd.	$ 922,923	42.66	471,918	45.00
KG Satellite	78,983	66.33	84,073	66.33
iScreen	46,046	40.00	72,321	40.00
Ding Ding Integrated Marketing Service Co., Ltd.	32,566	15.00	-	-
THI Consultants Inc.	14,109	22.22	-	-
Hi Information Co., Ltd.	4,899	33.17	-	-
KGEx.com	-	-	906,733	50.27
KGTI	-	-	146,330	100.00
E. World (Holdings) Ltd.	-	-	49,988	85.92
	1,099,526		1,731,363	
Cost method				
Taiwan Fixed Network Co., Ltd.	21,000	0.03		-
VIBO Telecom Inc.	20,000	0.20		-
Ideaculture Limited	13,654	17.96		-
Chunghwa Int’l Communication Network Co., Ltd.	6,714	4.20		-
Web Point Co., Ltd.	1,618	0.75		-
YesMobile Taiwan	-	-	3,000	0.50
	62,986		3,000	
	$ 1,162,512		$ 1,734,363	

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. (“DDIM”) allow 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 Far EasTone’s equity in DDIM is only 15%.

The equities in net assets of the foregoing equity-method investees, except Far Eastern Electronic Toll Collection Co., Ltd. (FETETC), were determined on the basis of the investees’ audited and unaudited financial reports as of and for the six months ended June 30, 2005. Under the revised ROC Statement of Financial Accounting Standards 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 same period starting 2005. As a result, the equity in THIC for the six months ended June 30, 2005 included the accounts of audited financial statements as of and for the year ended December 31, 2004 and the accounts of unaudited financial statements as of and for the six months ended June 30, 2005.

8. PROPERTIES

a. Accumulated depreciation consisted of:

	June 30	
	2005	2004
Buildings and equipment	$ 552,756	$ 309,849
Operating equipment	42,479,753	34,389,505
Computer equipment	8,037,810	6,449,888
Office equipment	742,376	602,396
Leasehold improvements	903,424	736,457
Miscellaneous equipment	76,990	69,596
	$ 52,793,109	$ 42,557,691

Depreciation expenses for the six months ended June 30, 2005 and 2004 were $5,569,746 thousand and $5,755,978 thousand, respectively.

As of June 30, 2005, insurance for properties and rental assets amounted to $60,687,331 thousand.

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 thousand. The amount paid for the leased properties at the inception of the lease was $147,500 thousand net of the market price of new equipment of $277,470 thousand less the equipment exchange valued of $129,970 thousand. The total lease payments were $154,136 thousand. The lease agreement qualifies as capital lease since (a) the present value of the future lease payments plus the bargain purchase price 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 June 30, 2005 are as follows:

	June 30, 2005
Total future lease payments	$ 123,308
Less - imputed interest expense	5,308
	118,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	29,500
Long-term lease payable	$ 88,500

c. Capitalized interest on properties was as follows:

	Six Months Ended June 30	
	2005	2004
Total interest expense	$ 264,821	$ 431,710
Less - interest capitalized 2.32%-2.73% in 2005 and 1.33%-4.24% in 2004	94,720	43,582
Interest expense, net of amounts capitalized	$ 170,101	$ 388,128

9. GOODWILL

Goodwill recognized by the Group as of June 30, 2005 is summarized as follows:

a. 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 amounted to $10,678,533 thousand as of June 30, 2005.

b. Goodwill recognized by Far EasTone from the acquisition of E. World and FEIS amounted to $31,188 thousand.

c. Goodwill recognized by KG Telecom from the acquisition of KGEx.com amounted to $4,275 thousand.

d. Goodwill recognized by Far EasTone from the acquisition of ARCOA amounted to $233,577 thousand.

Starting from January 1, 2005, in conformity with the Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment," the Group is divided into three identifiable groups: 2G/2.5G wireless telecommunications services, 3G wireless telecommunications services and business of selling cellular phone units and other telecommunications equipment or accessories. 2G/2.5G wireless telecommunications services can be further identified as Far EasTone and KG Telecom. As a result, the Group was divided into four smallest identifiable cash-generating units - Far EasTone, KG Telecom, 3G wireless telecommunications services and business of selling cellular phone units and other telecommunications equipment or accessories. In line with the required test for asset impairment, goodwill is allocated as follows:

a. Goodwill from the merger with the former KGT belongs to KG Telecom;

b. Goodwill from the acquisition of E. World and FEIS belongs to Far EasTone;

c. Goodwill from the acquisition of KGEx.com belongs to KG Telecom; and

d. 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 June 30, 2005, the carrying value of the tangible and intangible assets used by KG Telecom was $35,221,598 thousand, including $10,678,533 thousand in goodwill. From previous years' experience, management can achieve their cash flow target; thus, a forecast for more than five years was adopted. For this reason, the Group's management estimated the recoverable amount of core assets at their expected useful lives 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 Group's management believes that the carrying amount 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 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 June 30, 2005, the recoverable amount calculated on the basis of the above principal hypotheses exceeded the carrying amount of the assets. Thus, no impairment loss should be recognized.

10. RENTAL ASSETS, NET

	June 30	
	2005	**2004**
Cost		
Land	$ 124,042	$ 99,524
Buildings	109,698	94,672
	233,740	194,196
Less - accumulated depreciation		
Buildings	6,115	2,254
	$ 227,625	$ 191,942

Depreciation expenses for the six months ended June 30, 2005 and 2004 were $1,010 thousand and $966 thousand, respectively (included in nonoperating expenses and losses - other).

Rental properties are offices of Far EasTone and ARCOA, which are intended to be used as operating premises for future business expansion. The rental agreements will expire on various dates between May, 2007 and February 2013. Future rental income is summarized as follows:

Period	**Amount**
July 2005 to June 2006	$ 13,706
July 2006 to June 2007	13,111
July 2007 to June 2008	12,837
July 2008 to June 2009	6,815
July 2009 and on	18,695

11. SHORT-TERM BANK LOANS

	June 30	
	2005	**2004**
Secured bank loans - interest of 1.95%-2.20%	$ 194,358	$ -
Unsecured bank loans - interest of 2.06%-4.92%	72,097	-
	$ 266,455	$ -

12. COMMERCIAL PAPER PAYABLE

KG Telecom and Yuan-Ze Telecom issued commercial paper that was guaranteed by financial institutions, which will be due within one year. The obligations as of June 30, 2005, which were discounted at 2.058%, are due on September 22, 2005. The obligations as of June 30, 2004 were discounted at 1.138% to 2.640% and were fully repaid on September 27, 2004.

13. LONG-TERM LIABILITIES

	June 30, 2005		
	Due Within One Year	Due After One Year	Total
Bonds			
Domestic secured bonds - Far EasTone	$ 330,000	$ -	$ 330,000
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	-	3,000,000	3,000,000
	3,490,000	6,530,000	10,020,000
Long-term debts			
Secured bank loans - Far EasTone	1,460,000	1,460,000	2,920,000
Secured bank loans - KG Telecom	116,140	-	116,140
Secured bank loans - KGEx.com	38,095	152,381	190,476
Commercial paper - Far EasTone	-	1,399,788	1,399,788
Unsecured bank loans - Far EasTone	-	1,930,000	1,930,000
	1,614,235	4,942,169	6,556,404
Long-term lease payable			
Far EasTone	14,750	44,250	59,000
KG Telecom	14,750	44,250	59,000
	29,500	88,500	118,000
	$ 5,133,735	$ 11,560,669	$ 16,694,404

	June 30, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds - Far EasTone	$ 3,865,520	$ -	$ 3,865,520
Interest premium - overseas unsecured convertible bonds - Far EasTone	53,000	-	53,000
Domestic secured bonds - Far EasTone	638,000	330,000	968,000
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	-	3,000,000	3,000,000
	5,546,520	10,020,000	15,566,520
Long-term debts			
Secured bank loans - Far EasTone	-	2,920,000	2,920,000
Secured bank loans - KG Telecom	2,936,679	2,377,794	5,314,473
Secured bank loans - Yuan-Ze Telecom	-	2,310,000	2,310,000
Commercial paper - KG Telecom	410,000	1,944,210	2,354,210
Unsecured bank loans - Far EasTone	-	500,000	500,000
Unsecured bank loans - KG Telecom	-	3,000,000	3,000,000
	3,346,679	13,052,004	16,398,683
	$ 8,893,199	$ 23,072,004	$ 31,965,203

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.

   As of June 30, 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).

4) At any time on or after February 19, 2006 and prior to February 19, 2008, Far EasTone may redeem the Bonds in whole, or from time to time in part at a specific price under certain conditions. In addition, 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.

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 semi-annually. Starting on November 30, 2002 and every six months thereafter, Far EasTone should redeem the bonds for up to 14% to 15% of their face value.

c. Domestic secured bonds - KG Telecom

Five-year domestic secured bonds were issued at par value on August 4, 2000. The total face value of the bonds is $3,000,000 thousand, with face value of $1,000 thousand 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 thousand, with face value of $1,000 thousand at 3.4% annual interest. Redemption is at a percentage of the face amount of the bond, as follows: Type I bond - 40% in February 2006 and 60% in February 2007; and Type II bond - 60% in February 2006 and 40% in February 2007.

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 thousand, with a face value of $1,000 thousand and interest rate of 2.6% in the first year and 3.2% minus USD six-month LIBOR rate from the second year to maturity, payable semi-annually. 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 thousand, with a face value of $5,000 thousand and annual interest rates of 1.83% (three-year bonds) and 1.92% (four-year bonds). The interest rate for five-year bonds is 5.2% minus USD six-month LIBOR rate if the LIBOR rate is greater than 1.05%; otherwise, the interest is at the LIBOR rate plus 1%, payable semi-annually. Far EasTone should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

g. Secured bank loans

Far EasTone obtained secured bank loans from a consortium of banks with interest rates at 2.202% and 1.944% as of June 30, 2005 and 2004, respectively. Under a revolving credit agreement, the secured bank loan is made available for Far EasTone through February 2007. Starting on August 4, 2004, the maximum amount of secured loan that can be made available under the agreement decreases by 16% to 17% every six months.

h. Secured bank loans - KG Telecom

1) KG Telecom obtained a loan of US$3,673 thousand (equivalent to $116,140), from a consortium of banks at 2.961% to 4.133% and 1.926% interest rate, payable quarterly as of June 30, 2005 and 2004, respectively. 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 of $2,142,800 thousand from a consortium of banks at 2.463% interest rate, payable quarterly as of June 30, 2004. The loan is secured and payable starting in August 2002 and every six months thereafter at equal installments of the principal, with the final payment due in August 2005. KG Telecom had obtained permissions from the banks to make an early repayment of the total outstanding loan on January 3, 2005.

3) KG Telecom obtained a loan of US$38,446 thousand from a consortium of banks at 2.590% interest rate, payable quarterly as of June 30, 2004. The loan is secured and payable starting in June 2003 and every six months thereafter at equal installments of the principal, with the final payment due in June 2007. KG Telecom had obtained a permission from the banks to make an early repayment of the total outstanding loan on June 11, 2005.

4) KG Telecom obtained a secured bank loan of $120,000 thousand at 2.5% interest rate, payable monthly as of June 30, 2004. The loan is payable in installments of $20,000 thousand to $60,000 thousand starting in July 2000 with final payment due in April 2005. KG Telecom had obtained a permission from the bank to make an early repayment of the total outstanding loan on October 20, 2004.

5) KG Telecom obtained a loan of $1,350,000 thousand from a consortium of banks at 2.305% interest rate, payable quarterly as of June 30, 2004. The loan is secured and payable starting in February, 2005 and every three months thereafter at equal installments, with the final payment due in November 2005. KG Telecom had obtained a permission from the banks to make an early repayment of the total outstanding loan on November 1, 2004.

i. Secured bank loans - KGEx.com

KGEx.com obtained a secured bank loan at 2% interest rate, payable monthly as of June 30, 2005. The loan is secured and payable, starting in January 2005 and every three months thereafter at equal installments, with final payment due in April 2010.

j. Commercial paper - Far EasTone

Commercial paper with one-year maturity and bearing variable interest rates of 1.35% to 1.40% amounted to $1,399,788 thousand as of June 30, 2005. Commercial paper were fully repaid by Far EasTone on July 5, 2005. Under a revolving credit agreement, financial institutions guaranteed the commercial paper to be reissued by Far EasTone through June 23, 2007.

k. Unsecured bank loans - Far EasTone

As of June 30, 2005 and 2004, Far EasTone had bank loans at annual interest rates of 1.7% to 1.9% and 1.45%, respectively. These loans were fully repaid by Far EasTone on July 5, 2005 and July 2, 2004, respectively. The loan is guaranteed by banks and the guarantee is effective until November 2006.

l. Long-term lease payable

Far EasTone and KG Telecom entered into capital lease agreements on computer equipment with Far Eastern International Leasing Corp. in July 2004. The annual lease payments were $30,828 thousand (Note 8) as of June 30, 2005.

m. Secured bank loans - Yuan-Ze Telecom

Yuan-Ze obtained a loan from a consortium of banks at 1.928% to 2.114% interest rate payable monthly as of June 30, 2004. The loan will be due on January 28, 2005. The loan is guaranteed by a consortium of banks and the guarantee is effective until April 7, 2006.

n. Commercial paper - KG Telecom

1) Under a revolving credit agreement, a consortium of banks guaranteed the commercial paper amounting to $1,133,000 thousand to be reissued by KG Telecom until June 2007. The commercial paper bears variable interest rates, which were 1.530% to 1.896% as of June 30, 2004. Starting in 2002, the maximum amount of commercial paper that can be reissued under the agreement will decrease by 14% to 15% every six months.

2) Under a revolving credit agreement, a financial institution has guaranteed commercial paper amounting to $1,221,210 thousand to be reissued by KG Telecom through December 21, 2005. The commercial paper bears variable interest rates, which ranged from 1.65% to 2.258% as of June 30, 2004.

o. Unsecured bank loans - KG Telecom

KG Telecom had unsecured bank loans at an annual interest rate of 1.30% to 1.85% as of June 30, 2004.

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

The syndicated loans as well as the reissue of commercial paper requires KG Telecom to maintain its current ratio at not lower than 90% in 2004 and not lower than 100% in 2005 and on.

If KG Telecom cannot meet the above restrictions, KG Telecom should make improvements within six months after the financial statement date to maintain the status of the loan.

Apart from the foregoing financial conditions, there were no other restrictions on the Group for its long-term and short-term credit facilities.

As of June 30, 2005, the Group had unused long-term and short-term credit lines of approximately $4,050,000 thousand and $11,978,545 thousand, respectively.

14. STOCKHOLDERS' EQUITY

a. Capital surplus

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

b. Appropriation of earnings and dividend policy

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, 1% to 2% of the balance should be appropriated as bonuses to employees, and 1% of the final balance should be appropriated as remuneration to directors and supervisors.

At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 50% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures or the plan for improving financial structure.

A regulation issued by the Securities and Futures Bureau requires a special reserve to be made from the unappropriated earnings, equivalent to the debit balance of any account shown in stockholders' equity. The special reserve is allowed to be appropriated to the extent that the debit balance of such accounts is reversed.

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.

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 stockholders on May 20, 2005 and June 30, 2004, respectively.

	Appropriation and Distribution		Dividend Per Share (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	126,388	73,693		
Cash dividend	11,617,989	4,748,620	$ 3.00	$ 1.40
Stock dividend	-	1,560,261	-	0.46

As of June 30, 2005, remuneration to directors and supervisors of $126,388 thousand was included in other current liabilities; cash dividend of $11,617,989 thousand was included in dividend payable. The effective date of these appropriations is July 26, 2005.

c. Issuance of new stock in exchange of investment in shares of stock

Under Article 12 of the Enterprise Mergers and Acquisitions Law, 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 of $821,733 thousand between the fair value and the repurchase price of the treasury stock was recorded as a reduction of unappropriated earnings.

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 the 113,044 thousand shares held as treasury stock in order to satisfy the consideration to the stockholders of KG Telecom for the remaining ownership and completed the share swap for 806,567 thousand shares in the amount of $17,930,678 thousand (Note 2).

d. Global depositary receipts

Far EasTone's Global Depositary Receipts (GDRs) as of June 30, 2005 were 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	11,077	166,160
GDRs transferred to common stock		(14,668)	(220,034)
Outstanding GDRs issued		6,870	103,047

1) 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.

2) 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 June 30, 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.

3) 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.

4) Under the terms of the GDR 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 11,077 thousand units of GDRs representing 166,160 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:

1) Exercise voting rights;
2) Transfer the GDRs into common stocks; and
3) Receive dividends and exercise preemptive rights or other rights and interests.

15. CONSOLIDATED EARNINGS PER SHARE

	Six Months Ended June 30			
	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
Consolidated basic EPS	$ 2.47	$ 2.02	$ 2.20	$ 1.88
Consolidated diluted EPS	$ 2.47	$ 2.02	$ 2.12	$ 1.82

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

	Amount (Numerator)		Common Stock (Denominator) (in Thousand Shares)	Consolidated Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
For the six months ended June 30, 2005					
Consolidated basic EPS					
Consolidated net income	$ 9,555,182	$ 7,803,337	3,869,468	$ 2.47	$ 2.02
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,063	3,195		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stock	$ 9,557,431	$ 7,805,400	3,872,663	$ 2.47	$ 2.02

	Amount (Numerator)		Common Stock	Consolidated Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
For the six months ended June 30, 2004					
Consolidated basic EPS					
Consolidated net income	$ 8,191,601	$ 7,029,168	3,730,749	$ 2.20	$ 1.88
Effect of potential dilutive common stock					
Convertible bonds	20,272	19,559	141,623		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stock	$ 8,211,873	$ 7,048,727	3,872,372	$ 2.12	$ 1.82

16. PENSION PLAN

Far EasTone, KG Telecom, KGEx.com, Yuan Sing (former E. World Taiwan) and ARCOA accrue pension cost on the basis of actuarial calculations and make monthly contributions, at 2% of salaries and wages, to each pension fund, which is administered by each pension plan committee and deposited in each Committee's name in the Central Trust of China.

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

Net pension costs are as follows:

	Six Months Ended June 30	
	2005	2004
Actuarial net pension cost	$ 79,272	$ 53,722
Less: Included in properties	10,032	4,027
Included in receivables from related parties	575	512
Net pension cost (included in operating costs and expenses)	$ 68,665	$ 49,183

Fund changes as follows:

	Six Months Ended June 30, 2005			
	Far EasTone (Including KG Telecom and Yuan Sing)	KGEx.com	ARCOA	FETI
Contribution	$ 22,918	$ 404	$ 3,364	$ 2,235
Actual payment	$ -	$ -	$ -	$ -
Fund balance	$ 313,648	$ 5,182	$ 45,738	$ -

The Group's contribution to the Fund was $20,786 thousand for the six months ended June 30, 2004. Fund balance was $265,993 thousand as of June 30, 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 employees' monthly wages.

17. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2005			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 216,549	$ 1,155,067	$ -	$ 1,371,616
Pension	10,733	57,932	-	68,665
Meal	5,769	38,505	-	44,274
Employee benefit	425	40,342	-	40,767
Insurance	17,714	88,175	-	105,889
Miscellaneous	2,288	39,889	-	42,177
Depreciation	4,634,804	934,942	1,010	5,570,756
Amortization	-	455,160	-	455,160
	$ 4,888,282	$ 2,810,012	$ 1,010	$ 7,699,304

	Six Months Ended June 30, 2004			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 246,770	$ 1,087,645	$ -	$ 1,334,415
Pension	10,155	39,028	-	49,183
Meal	5,987	28,412	-	34,399
Employee benefit	-	23,461	-	23,461
Insurance	15,409	63,882	-	79,291
Miscellaneous	2,056	32,433	-	34,489
Depreciation	4,975,754	780,224	966	5,756,944
Amortization	57,907	396,340	-	454,247
	$ 5,314,038	$ 2,451,425	$ 966	$ 7,766,429

18. INCOME TAX

a. Reconciliation of income tax expense based on income before income tax at statutory income tax rates to income tax expense - current is as follows:

	June 30	
	2005	**2004**
Income tax expense computed at statutory tax (15% to 25%)	$ 3,029,248	$ 2,645,126
Add (deduct) tax effects of		
Permanent differences		
Tax - exempt income	(732,580)	(1,162,963)
Equity in investees' net gains	(504,484)	(543,018)
Realized investment losses	(145,319)	-
Other	(5,809)	(204)
	(1,388,192)	(1,706,185)
Temporary differences		
Provision for doubtful accounts	120,736	214,725
Accrued pension cost	12,980	8,224
Unrealized foreign exchange loss, net	604	14,496
Equity in the investees' net losses (gains)	(3,517)	52
Accrued interest premium	(3,660)	4,809
Unrealized (realized) losses on properties not currently used in operations	(12,107)	10,938
Realized loss for disposal of properties	(27,527)	-
Depreciation resulting from the differences in estimated service lives of properties	(38,568)	32,081
Other	2,162	1,475
	51,103	286,800
Unappropriated earnings tax (10%)	1,438	123,949
Less - investment tax credits	(566,054)	(600,773)
Income tax expense - current	$ 1,127,543	$ 748,917

The balance of income tax payable as of June 30, 2005 was net of the creditable taxes of Far EasTone ($436 thousand) and KG Telecom ($33 thousand) plus the accrual of income tax payable of Far EasTone ($1,200 thousand) and KG Telecom ($475,913 thousand) for the years not yet examined and cleared by the tax authorities (refer to item [g] below).

The balances of income tax payable as of June 30, 2004 were net of KG Telecom creditable income taxes of $129 thousand plus KG Telecom's accrual of $393,303 thousand in income tax payable for the years not yet examined and cleared by the tax authorities (refer to item [g] below).

Net operating income generated from the use of switches and cell sites acquired during the period April 1, 1997 to December 31, 1999 is 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 is exempt from income tax for the period June 26, 2002 to June 25, 2007.

b. Income tax expense consisted of:

	Six Months Ended June 30	
	2005	2004
Income tax expense - current	$ 1,127,543	$ 748,917
Income tax expense - deferred	632,554	374,817
Prior year's adjustment	(15,900)	38,653
Income tax expense on income subjected to a separate rate of 20%	7,648	46
Income tax expense	$ 1,751,845	$ 1,162,433

c. Deferred income taxes assets (liabilities) as of June 30, 2005 and 2004 consisted of:

	June 30	
	2005	2004
Current		
Provision for doubtful accounts	$ 812,721	$ 1,451,134
Investment tax credits	202,853	583,637
Loss carryforwards	40,987	-
Provision for losses on inventories	21,017	6,008
Unrealized foreign exchange losses (gains), net	(2,674)	1,091
Other	-	1,867
	1,074,904	2,043,737
Less - valuation allowance	135,990	627,110
	$ 938,914	$ 1,416,627
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 402,243	$ 495,060
Provision for losses on properties not currently used in operations	328,904	30,623
Loss carryforwards	257,154	152,225
Accrued pension cost	76,354	51,210
Unrealized loss on long-term investments	15,170	-
Loss on disposal of properties	13,246	-
Investment tax credits	8,573	750,427
Cumulative equity in the net loss of investee	1,651	8,960
Accrued interest premium	-	13,394
Other	5,000	(695)
	1,108,295	1,501,204
Less - valuation allowance	499,801	480,128
	$ 608,494	$ 1,021,076

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

d. Integrated income tax information:

	June 30	
	2005	**2004**
Balance of imputation credit account (ICA)		
Far EasTone	$ 12,903	$ 55,939
KG Telecom	$ 1,352,300	$ 482,646
Yuan-Ze Telecom	$ -	$ 132
ARCOA	$ 3,013	$ -
Yuan Sing	$ -	$ -
KGEx.com	$ -	$ -

Actual ratio of the ICA balance for Far EasTone as of June 30, 2005 to unappropriated earnings as of such date was 8.75%. When the dividends from the unappropriated earnings as of June 30, 2004 were distributed by Far EasTone in 2004, the actual ratio used was 0.68%.

Actual ratio of the ICA balance for KG Telecom as of June 30, 2005 to unappropriated earnings as of such date was 32.51%. When the dividends from the unappropriated earnings as of June 30, 2004 were distributed by KG Telecom in 2004, the actual ratio used was 22.29%.

ARCOA, Yuan Sing and KGEx.com had no appropriated earnings as of June 30, 2005. Thus, the ICA balances of ARCOA, Yuan Sing and KGEx.com will be accumulated until dividend distribution in the future.

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 of the respective company's stockholder.

e. Investment tax credits information:

The unused investment tax credits and loss carryforwards of the Group as of June 30, 2005 are summarized as follows:

Far EasTone

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 587,938	$ 8,268	2005
		302,096	14,763	2006
		28,866	6,894	2007
Statute for Upgrading Industries	Purchase of automated equipment or technology	3,971	3,971	2007
		4,602	4,602	2008
		200,000	135,854	2009
		$ 1,127,473	$ 174,352	

ARCOA

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 3,900	$ 1,606	2005
	Research and development expenditures	9,066	2,489	2006
		$ 12,966	$ 4,095	

KGEx.com

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 32,979	$ 32,979	2005

f. Loss carryforwards as of June 30, 2005 were as follows:

Expiry Year	ARCOA	KGEx.com	Yuan Sing (Formerly E. World Taiwan)
2005	$ -	$ 15,870	$ 25,117
2006	-	48,150	17,130
2007	-	36,546	129
2008	-	53,341	179
2009	-	72,907	-
2010	10,119	18,653	-
	$ 10,119	$ 245,467	$ 42,555

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 Yuan Sing (former 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 examined and cleared by the tax authorities.

Income tax returns through 1999 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 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 as of June 30, 2005 and 2004 of $79,610 thousand and $396,303 thousand, respectively for years not yet examined and cleared by tax authorities based on the foregoing examination results.

19. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Group
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 (FETTDF)	Far EasTone's donation to the foundation's capital is 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
Oriental Securities Co., Ltd.	Same major stockholder as that of Far EasTone
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same major stockholder as that of Far EasTone
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FEDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT
Far Eastern International Bank (FEIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman
Yuan-Ze University	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Oriental Institute of Technology	Same chairman
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS since August 2004
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 Alliance Asset Management Co., Ltd. (FEAAM)	Its chairman is the relative of Far EasTone's chairman
Far Eastern Apparel Co., Ltd.	Same major stockholder as that of Far EasTone
Yuan Ding Leasing Corp.	Same major stockholder as that of Far EasTone
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 stockholder 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

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

		2005			2004		
		Amount		**%**	**Amount**		**%**
During the period							
Operating revenue	a.						
Telecommunication service revenue							
NCIC	b.	$	560,765	2	$	492,697	2
KGEX	c.		-	-		131,427	-
Other	x.		5,443	-		4,798	-
		$	566,208	2	$	628,922	2
Other							
DDIM	e.	$	6,065	1	$	-	-
FETETC	i.		1,137	1		-	-
		$	7,202	2	$	-	-
Operating costs and expenses							
Telecommunication service cost							
NCIC	b.	$	83,500	1	$	1,140	-
KGEX	d.		-	-		20,251	-
Other	x.		522	-		16,326	-
		$	84,022	1	$	37,717	-
Rental							
FETRD	g.	$	25,874	2	$	25,390	2
FEILC	f.		23,009	2		26,485	2
NCIC	h.		6,807	-		23,360	2
Other	x.		5,045	-		7,258	-
		$	60,735	4	$	82,493	6
Research and development expense							
FETTDF	j.	$	9,993	61	$	6,926	70
Service fee							
FCHRC	k.	$	25,592	18	$	40,628	30
FETI	l.		-	-		62,805	46
		$	25,592	18	$	103,433	76
Marketing expense							
DDIM	m.	$	5,666	-	$	-	-
Nonoperating expenses and loses							
Interest expense							
FEIB	v.	$	109	-	$	874	-

(Continued)

		2005		2004	
		Amount	%	Amount	%
Acquisition of investments in shares of stock					
FETIH	o.	$ -	-	$ 12,531	-
OIHP	o.	-	-	12,531	-
YTI	o.	-	-	12,531	-
FEDSD	o.	-	-	4,195	-
		$ -	-	$ 41,788	-
Acquisition of properties					
NTT DoCoMo Inc.	r.	$ 18,765	2	$ -	-
FETEC	p.	2,912	-	19,004	1
NCIC	q.	-	-	76,602	4
		$ 21,677	2	$ 95,606	5
Acquisition of short-term investments					
FEAAM	w.	$ 290,000	36	$ -	-
At end of period					
Receivables from related parties					
NCIC	b. and n.	$ 12,211	66	$ 15,490	33
FETETC	i. and u.	2,690	15	13,449	29
NTT DoCoMo Inc.	t.	2,205	12	-	-
DDIM	e.	945	5	-	-
KGEX	s.	-	-	3,336	7
FETI	l.	-	-	8,972	19
Other	x.	430	2	5,442	12
		$ 18,481	100	$ 46,689	100
Prepaid expenses					
NCIC	h.	$ 4,333	-	$ 6,190	-
FEILC	f.	-	-	407	-
Other	x.	6,638	1	4,116	-
		$ 10,971	1	$ 10,713	-
Refundable deposits					
FEILC	f.	$ 4,590	1	$ 6,390	2
NCIC	h.	1,779	-	1,779	-
Other	x.	644	-	938	-
		$ 7,013	1	$ 9,107	2
Payables to related parties					
NCIC	b. and q.	$ 59,802	49	$ 125,270	58
FEILC	f.	11,779	9	6,583	3
DDIM	m.	10,445	9	-	-
FETEC	p.	9,578	8	40,098	19

(Continued)

		2005		2004	
		Amount	%	Amount	%
FETRD	g.	$ 9,364	8	$ -	-
KGEX	c. and d.	-	-	19,419	9
Other	x.	21,065	17	23,430	11
		$ 122,033	100	$ 214,800	100
Long-term lease payable (including current portion)					
FEILC	f.	$ 118,000	100	$ -	-

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 equipments, accessories and leased-circuit revenue) from related parties were based on normal service rates, selling prices and collection terms.

b. The transactions between Far EasTone, KG Telecom, KGEx and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC's use of Far EasTone's, KG Telecom's and KGEx's network. The interconnection fees paid by Far EasTone, KG Telecom and KGEx on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to Far EasTone, KG Telecom and KGEx were included in telecommunication 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 interconnection fees paid by KGEx on its use of Far EasTone's and KG Telecom's network and billing processing costs pertaining to the interconnection services provided by Far EasTone and KG Telecom to KGEx were included in telecommunication service revenue and receivables from related parties. The international direct dialing revenues collected by EasTone and KG Telecom for KGEx through call-by-call selection service were treated as a reduction of telecommunications service revenue and were settled at net amounts based on related agreements.

d. KG Telecom signed a network maintenance contract with KGEx for maintaining KG Telecom's telecommunications network and backbone network facilities. The contract expired in March 2004.

e. Yuan Sing (formerly E. World Taiwan) provided operational service to DDIM for its IVR system. The related service revenues were included in other revenues and receivables from related parties.

f. 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 Xinzhu, from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either Far EasTone or FEILC informs 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
Xinzhu land for switch center	120,000

Far EasTone and KG Telecom lease from FEILC computer equipment under a five-year operating lease agreement from July 2004 to June 2009, with annual lease payments of $30,828 thousand (Note 8).

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

h. Far EasTone leases from NCIC telecommunications network and office spaces in Neihu under contracts with terms from September 2003 to September 2008.

i. KGEx provides co-location services to FETETC. The service revenues were included in other revenues and receivables from related parties.

j. FETTDF researches telecommunication technology and provides training programs for Far EasTone.

k. Far EasTone and KG Telecom have contracts with FCHRC for manpower dispatching services. The service charges were based upon the services provided by FCHRC for temporary or specific personnel supplies.

l. Far EasTone signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed upon with Far EasTone. Moreover, the advances to FETI were treated as receivables from related parties and were settled in the net amount against the fees paid.

m. 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 payables to related parties.

n. 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.

o. In June 2004, Far EasTone brought 4,685 thousand shares (66.92% ownership) of E. World for $41,788 thousand from FEITH, OIHP, FEDSD and YTI.

p. Far EasTone and KG Telecom maintain contracts with FETEC for the construction of telecommunications network and backbone network facilities.

q. Far EasTone brought NCIC’s telecommunications network and backbone network facilities.

r. NTT DoCoMo Inc. does 3G construction of wireless facilities and system integration, and renders related operating services to Far EasTone. Since the related expenditure refers to facility construction, it is capitalized.

s. Far EasTone and KG Telecom give advances to KGEx for its daily operating expenditures and will be collected at various times based on the cash balances of KGEx.

t. Far EasTone and KG Telecom provide international roaming services to the customers of NTT DoCoMo Inc. The service revenues are treated as telecommunication service revenue and receivables from related parties.

u. Far EasTone gives advances to 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.

v. KG Telecom obtained a syndicated loan from a consortium of banks with interest payable monthly. A portion of the outstanding loans amounting to $34,000 thousand was drawn from FEIB, which was repaid in June 2005.

   In addition, FEIB provided a $30,000-thousand guarantee for payment of KG Telecom's domestic secured bonds.

w. KG Telecom purchased 27,574 thousand units of Far Eastern Alliance Taiwan Bond Fund from FEAAM as short-term investments.

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

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

20. COMMITMENTS AS OF JUNE 30, 2005

The Group has the following significant commitments:

a. The Group has outstanding contracts to acquire properties for $2,071,452 thousand.

b. ARCOA signed contracts amounting to $165,900 thousand for software purchase and remodelling of retail stores, of which $107,255 thousand was unpaid.

c. The Group's outstanding letters of credit amounted to ￥1,108,056 thousand (equivalent to $317,347 thousand), US$1,079 thousand (equivalent to $34,102 thousand) and $106,558 thousand.

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
July 1, 2005 to June 30, 2006	$ 2,282,978
July 1, 2006 to June 30, 2007	2,335,817
July 1, 2007 to June 30, 2008	2,390,786
July 1, 2008 to June 30, 2009	2,456,511
July 1, 2009 and thereafter	2,522,286

21. ASSETS PLEDGED OR MORTGAGED

The assets pledged or mortgaged, i.e., used as collaterals for customs duties, long-term and short-term debts, purchase of inventory and bonds, were as follows:

	June 30	
	2005	**2004**
Restricted assets		
Included in other current assets	$ 51,006	$ -
Included in other assets - other	1,163	30,381
Investment in shares of stock	438,860	462,343
Properties, net	21,788,354	26,480,038
	$ 22,279,383	$ 26,972,762

ARCOA invested $10,000 thousand in an interest-linked structured deposit product maturing on 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 deposit was pledged for short-term bank loans.

22. 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 six months ended June 30, 2005 and 2004. All these transactions are for nontrading purposes. ARCOA brought interest-linked structured deposits to earn interest, i.e., for trading purposes, for the six months ended June 30, 2005. Except for these three companies, the Group had no derivative transactions for the six months ended June 30, 2005 and 2004.

The derivative contracts entered into by Far EasTone, KG Telecom and ARCOA were as follows:

1) Open contracts and credit risk

a) For nontrading purposes

	June 30, 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%	0-2.54%	Every 6 months	March 28, 2008-December 19, 2008	$ (77,831)	$ -

	June 30, 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%	2.04-3.41%	Every 6 months	March 28, 2008-December 19, 2008	$ 65,612	$ 65,612
Interest rate swap - KG Telecom	1,300,000	3.38-6.33%	0.965-0.981%	Every 3 months	July 12, 2004-May 20, 2005	(30,617)	-

	June 30, 2005			
Type of Transaction	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap - KG Telecom	US$ 4,067 thousand	$ -	$ (6,203)	$ -

	June 30, 2004			
Type of Transaction	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap - KG Telecom	US$ 50,799 thousand	$ -	$ (11,201)	$ -

b) For trading purpose

	June 30, 2005			
Type of Transaction	Carrying Value	Notional Amount	Credit Risk	Transactor's Location
Interest-linked structured deposits - ARCOA	$ 10,000	$ 10,000	$ 10,112	Taiwan

c) Credit risk

Far EasTone, 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 a stop-loss target price for trading derivative financial instruments and periodically evaluates these instruments for their effectiveness to prevent affecting its operating activities.

ARCOA monitors interest-linked deposits and the market risk is expected to be within a 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. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregate 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 interest-linked deposits is paid on the contract date and no additional cash is required unless the contract is cancelled before the contract expires.

The cancellation requires ARCOA to reimburse the loss and related bank charges incurred. ARCOA monitors its net position and expects that the cash-flow risk is 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. 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 evaluate the effectiveness of the instruments.

ARCOA uses interest-linked structured deposits to earn interest. Therefore, the interest-linked structured deposits are highly-correlated to interest rates.

5) The losses of Far EasTone on these swap contracts for the six months ended June 30, 2005 were $2,599 thousand and its gains were $19,271 thousand for the six months ended June 30, 2004, which were recorded as interest expenses and reduction of interest expenses, respectively.

The losses of KG Telecom on the swap contracts for the six months ended June 30, 2005 were $16,556 thousand, recorded as interest expense of $7,923 thousand and foreign exchange loss of $8,633 thousand. The losses of KG Telecom on the swap contracts for the six months ended June 30, 2004 were $44,997 thousand, recorded as interest expense of $32,058 thousand and foreign exchange loss of $12,939 thousand.

The related gains and accounts of ARCOA on interest-linked derivative financial instruments were as follows:

	June 30, 2005
Pledged time deposits	$10,000

	Six Months Ended June 30, 2005
Interest income - interest-linked structured deposits	$190

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

	June 30			
	2005		**2004**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 12,592,753	$ 12,592,753	$ 8,840,863	$ 8,840,863
Short-term investments	809,300	811,658	-	-
Notes and accounts receivable, net	6,267,572	6,267,572	6,841,863	6,841,863
Receivables from related parties	18,481	18,481	46,689	46,689
Restricted assets (included in other current assets)	81,006	81,006	-	-
Investments in shares of stock	1,162,512	1,154,356	1,734,363	1,734,363
Refundable deposits	397,468	396,539	411,432	410,316
Restricted assets (included in other assets - other)	1,163	1,163	30,381	30,381
Nonderivative financial instruments				
Financial liabilities				
Short-term bank loans	266,455	266,455	-	-
Commercial paper payable	228,924	228,924	619,309	619,309
Notes payable	88,336	88,336	57,721	57,721
Accounts payable	1,558,417	1,558,417	787,238	787,238
Payables to related parties	122,033	122,033	214,800	214,800
Dividend payable	11,617,989	11,617,989	4,748,620	4,748,620
Payables related to acquisition of properties	1,969,049	1,969,049	1,602,535	1,602,535
Long-term liabilities (including current portion)	16,694,404	16,930,241	31,965,203	32,347,502
Guarantee deposits received (including current portion)	1,438,196	1,438,196	1,770,566	1,770,566
Derivative financial instruments				
Interest rate swap - Far EasTone	-	(77,831)	-	65,612
Interest rate swap - KG Telecom	-	-	-	(30,617)
Cross currency swap - KG Telecom	-	(6,203)	-	(11,201)
Interest-linked structured deposits - ARCOA	10,000	10,112	-	-

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 bank loans, commercial paper payable, notes payable, accounts payable, payables to related parties, dividend payable and payables related to acquisition of properties are recorded at their carrying values due to the short maturities 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 maturities.

d) Refundable deposits and guarantee deposits received are recorded at the present values of future payments or receipts.

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

C. Investment in Mainland China:

a. Investee company name, the description of the primary business activity and products, issued capital, nature of the relationship, capital inflow or outflow, ownership interest, gain or loss on investment, amounts received on investment, and the limitation on investment: Schedule F;

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

D. Additional disclosure for consolidated financial statements:

a. Significant transactions between Far EasTone and its subsidiaries and among subsidiaries: Schedule G.

b. Reasons, amounts, number of shares held and subsidiaries' names, which owns Far EasTone's shares: None.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	June 30, 2005				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,332,997,916.00	$ 32,599,955	100.00	$ 32,599,955	Note A and F
	ARCOA Communications Co., Ltd.	Equity-method investee	Investments in shares of stock	74,353,013.00	1,172,389	55.37	1,172,389	Note A and F
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	106,650,000.00	922,923	42.66	922,923	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	121,541	100.00	121,541	Note B and F
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	47,336	85.92	47,336	Note B and F
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	32,566	15.00	32,566	Note B
E. World (Holdings) Ltd. (Note E)	Stocks							
	Yuan Sing Co., Ltd. (formerly E. World Ltd. Taiwan)	Equity-method investee	Investments in shares of stock	19,349,994.00	US$ 709,000	99.99	US$ 709,000	Note 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)	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Investments in shares of stock	-	US$ 3,151,000	100.00	US$ 3,151,000	Note B and F
ARCOA Communications Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Investments in shares of stock	4,975,000.00	4,899	33.17	4,899	Note B
	THI Consultants Inc.	Equity-method investee	Investments in shares of stock	1,000,000.00	14,109	22.22	14,109	Note B
	Chunghwa Int’l Communication Network Co., Ltd.	-	Investments in shares of stock	2,830,901.00	6,714	4.20	8,409	Note B
	Taiwan Fixed Network Co., Ltd.	-	Investments in shares of stock	2,100,000.00	21,000	0.03	23,199	Note D
	VIBO Telecom Inc.	-	Investments in shares of stock	2,000,000.00	20,000	0.20	17,082	Note D
	Web Point Co., Ltd.	-	Investments in shares of stock	300,000.00	1,618	0.75	1,618	Note D
	Mutual funds-open-ended	-						
	Fuhwa Advantage Bond Fund	-	Short-term investments	5,869,348.31	60,000	-	60,000	Note C
	Fuhwa Bond Fund	-	Short-term investments	3,988,194.94	50,000	-	50,000	Note C
	The High-Yield Fund	-	Short-term investments	705,815.92	10,000	-	10,000	Note C
	Fuh-Hwa Bond Fund	-	Short-term investments	9,782,908.20	127,800	-	127,800	Note C
	CITC Cash Reserves	-	Short-term investments	6,268,337.06	72,000	-	72,000	Note C
	CITC Safe Income Fund	-	Short-term investments	11,104,693.50	161,500	-	161,500	Note C

(Continued)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	June 30, 2005				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Short-term investments	3,000,000.00	$ 3,000	-	$ 3,000	Note C
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Investments in shares of stock	260,851,000.00	1,276,126	74.53	1,276,126	Note B, F and G
	KGT International Holding Co., Ltd.	Equity-method investee	Investments in shares of stock	50,000.00	93,620	100.00	93,620	Note B and F
	KG Satellite Co., Ltd.	Equity-method investee	Investments in shares of stock	9,950,000.00	78,983	66.33	78,983	Note B
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	46,046	40.00	46,046	Note B
	Mutual funds							
	Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,879.00	290,000	-	292,358	Note C
KGT International Holding Co., Ltd. (Note E)	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Investments in shares of stock	16,051,000.00	78,261	4.59	78,261	Note B and F
KGEx.com Co., Ltd. (Note E)	Mutual funds-open-ended							
	Invesco Bond Fund	-	Short-term investments	2,399,429.62	35,000	-	35,000	Note C
KG Satellite Co., Ltd. (Note E)	Mutual funds-open-ended							
	Phoenix Fund	-	Short-term investments	1,377,042.20	20,225	-	20,361	Note C
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,261	Note C
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,667	Note C

Note A: Calculation was based on audited financial statements as of June 30, 2005.

Note B: Calculation was based on unaudited financial statements as of June 30, 2005.

Note C: Open-ended mutual funds were calculated at the net asset value of mutual funds as of June 30, 2005 while bonds were based on the cost.

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

Note E: Information was based on unaudited financial statements as of June 30, 2005.

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

Note G: Pledged as collateral for bank loans were 89,700 thousand shares.

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
SIX MONTHS ENDED JUNE 30, 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 D)	Equity-method investee	Original stockholders of ARCOA	-	-	$ -	74,353,013.00	$ 1,208,946	-	$ -	$ -	$ -	$ (36,557)	74,353,013.00	$ 1,172,389
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Issuance of capital stock for cash	-	54,000,000.00	433,544	52,650,000.00	526,500	-	-	-	-	(37,121) (Note C)	106,650,000.00	922,923
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd. (Note D)	Equity-method investee	Original stockholders of Taiwan Cement	Note A	175,931,000.00	898,944	84,920,000.00	437,762	-	-	-	-	(60,580)	260,851,000.00	1,276,126
ARCOA Communications Co., Ltd. (Note B)	Fuhwa Advantage Bond Fund	Short-term investments	-	-	9,849,887.71	100,000	15,688,190.67	160,000	19,668,730.07	200,589	200,000	589	-	5,869,348.31	60,000
	Fuh-Hwa Bond Fund	Short-term investments	-	-	9,858,600.80	127,800	19,606,498.70	255,600	19,682,191.30	256,587	255,600	987	-	9,782,908.20	127,800
	CITC Cash Reserves	Short-term investments	-	-	11,866,277.70	135,500	15,184,420.96	174,000	20,782,361.60	238,323	237,500	823	-	6,268,337.06	72,000
	CITC Safe Income Fund	Short-term investments	-	-	11,197,858.90	161,500	22,260,704.90	323,000	22,353,870.30	324,352	323,000	1,352	-	11,104,693.50	161,500
	Fuhwa Fund	Short-term investments	-	-	6,750,675.07	84,000	7,991,557.76	100,000	10,754,037.89	134,458	134,000	458	-	3,988,194.94	50,000

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

Note B: The beginning balance was carried from ARCOA Communications Co., Ltd. as it became the subsidiary of Far EasTone since February, 2005.

Note C: Including equity in investee's net losses of $43,345 thousand and the effect of change in ownership percentage due to investees' issuance of capital stock for cash amounting to $6,224 thousand.

Note D: All the carrying values of investments 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
SIX MONTHS ENDED JUNE 30, 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	Telecommunication service revenue	$(1,144,865)	(6%)	Conducted as agreed terms	-	-	Accounts receivable (Note A) $637,214	12%
			Cost of telecommunication services	540,704	7%	Conducted as agreed terms	-	-	Accounts payable (Note A) -	-
	ARCOA Communications Co., Ltd.	Subsidiary	Marketing expenses	183,509	7%	Conducted as agreed terms	-	-	Accrued expense (82,339)	(3%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunication service revenue	(375,985)	(2%)	Conducted as agreed terms	-	-	Accounts receivable (Note B) 8,868 Accounts payable (Note B) (8,291)	- (1%)
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunication service revenue	(540,704)	(4%)	Conducted as agreed terms	-	-	Accounts receivable (Note A) -	-
			Cost of telecommunication services	1,144,865	19%	Conducted as agreed terms	-	-	Accounts payable (Note A) (637,214)	(56%)
	ARCOA Communications Co., Ltd.	Same parent company	Marketing expenses	126,081	7%	Conducted as agreed terms	-	-	Accrued expense (57,028)	(3%)
ARCOA Communications Co., Ltd	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue	(183,509)	(30%)	Conducted as agreed terms	-	-	Accounts receivable 82,339	31%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue	(126,081)	(20%)	Conducted as agreed terms	-	-	Accounts receivable 57,028	21%

Note A: Telecommunication service revenue and cost of telecommunication services between Far EasTone and KG Telecom were settled at net amounts and were included in Far EasTone's receivables from related parties and KG Telecom's payables 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 telecommunication service revenue, cost of telecommunication services, commission revenue, marketing expense, receivables from related parties and payables to related parties have been eliminated in consolidation.

SCHEDULE D

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
JUNE 30, 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	$968,603	(Note A)	$ -	-	$ 85,107	$ -
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	433,643	(Note B)	-	-	25,841	-

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

Note B: The turnover rate is unavailable as the receivables from related parties were mainly due to collection of telecommunication bills by Far EasTone.

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

SCHEDULE E

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2005			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				June 30, 2005	December 31, 2004	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	$ 25,878,053	$ 29,623,244	1,332,997,916	100.00	$ 32,599,955	$ 2,558,830	$ 2,558,775	Notes A, B and I
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	(Note H)	10,370,000	-	-	-	(359,811)	(359,811)	Notes A, B and I
	ARCOA Communications Co., Ltd.	Taiwan	Sale and manufacturing of communication products and office equipment	1,208,946	-	74,353,013	55.37	1,172,389	(36,978)	(36,557)	Notes A, B and I
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,066,500	540,000	106,650,000	42.66	922,923	(96,321)	(43,345)	Notes B and C
	Far Eatern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	121,541	20,541	13,547	Notes A, D and I
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	47,336	3,555	521	Notes A, D and I
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	32,566	(57,759)	(12,270)	Note C and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	2,197,072	1,759,310	260,851,000	74.53	1,276,126	(81,852)		Notes D, E and I
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	93,620	(3,930)		Notes D, E and I
	KG Satellite Co., Ltd.	Taiwan	TYPE I telecommunications services	99,500	99,500	9,950,000	66.33	78,983	(6,442)		Notes D and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	46,046	(11,283)		Notes D and F
ARCOA Communications Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	4,899	1,883		Notes D and F
	THI Consultants Inc.	Taiwan	Construction consulting	13,700	13,700	1,000,000	22.22	14,109	4,092		Notes D and F
KGT International Holdings (Note G)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	US$ 4,822,000	US$ 4,822,000	16,051,000	4.59	78,261	(81,852)		Notes D, E and I
E. World (Holdings) Ltd. (Note G)	Yuan Sing Co., Ltd. (formerly E. World Ltd. Taiwan)	Taiwan	Computer software, data processing and network information providing services	193,500	193,500	19,349,994	99.99	US$ 709,000	3,602		Notes D, E and I
Far Eatern Info Service (Holding) Ltd. (Note G)	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 3,151,000	20,541		Notes D, E and I

Notes:
A. Subsidiary.

B. Calculation was based on audited financial statements as of June 30, 2005.

C. Equity-method investee of Far EasTone.

D. Calculation was based on unaudited financial statements as of June 30, 2005.

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

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

G. Information was based on unaudited financial statements as of June 30, 2005.

H. Merged with Far EasTone on May 2, 2005.

I. All the carrying values of investments 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
SIX MONTHS ENDED JUNE 30, 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 June 30, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of June 30, 2005	Accumulated Inward Remittance of Earnings as of June 30, 2005	Accumulated Investment in Mainland China as of June 30, 2005	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$79,050 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$20,541	$99,635 (US$3,151,000)	$ -	$92,616	$92,616	$26,517,803 (Note C)

Note A: Calculation of investment gain (loss) was based on unaudited financial statements as of June 30, 2005

Note B: Far EasTone made the investment through a company registered in a third 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.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS BETWEEN FAR EASTONE AND SUBSIDIARIES
SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	$ 968,603	Note D	-
				Dividend receivable	3,745,191	Note D	3%
				Payables to related parties	433,643	Note D	-
				Telecommunication service revenue	1,144,865	Note D	3%
				Cost of telecommunication services	540,704	Note D	2%
				Marketing expenses	50,950	Note D	-
				Nonoperating income and gains	137,027	Note D	-
				Management service revenue	26,081	Note D	-
		ARCOA Communications Co., Ltd.	1	Refundable deposits	20	Note D	-
				Payables to related parties	82,339	Note D	-
				Sales of cellular phone equipment and accessories, net	58,299	Note D	-
				Cost of sales	2,407	Note D	-
				Marketing expenses	183,509	Note D	1%
		KGEX.com Co., Ltd.	1	Receivables from related parties	27,634	Note D	-
				Telecommunication service revenue	72,691	Note D	-
				Management service revenue	3,750	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Payables to related parties	15,860	Note D	-
				General and administrative expenses	73,399	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	433,643	Note D	-
				Payables to related parties	968,603	Note D	-
				Dividend payable	3,745,191	Note D	3%
				Telecommunication service revenue	540,704	Note D	2%
				Cost of telecommunication service	1,148,796	Note D	3%
				Marketing expenses	145,690	Note D	-
				General and administrative expenses	12,662	Note D	-
				Research and development expenses	825	Note D	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
				Nonoperating income and gains	$ 50,950	Note D	-
		ARCOA Communications Co., Ltd.	3	Payables to related parties	57,028	Note D	-
				Sales of cellular phone equipment and accessories, net	17,179	Note D	-
				Cost of sales	1,307	Note D	-
				Marketing expenses	126,081	Note D	-
		KGEx.com Co., Ltd.	3	Receivables from related parties	25,742	Note D	-
				Payables to related parties	3,899	Note D	-
				Telecommunication service revenue	79,409	Note D	-
				General and administrative expenses	3,393	Note D	-
		Far Eastern Tech-info Ltd. (Shanghai)	3	General and administrative expenses	7,381	Note D	-
2	ARCOA Communications Co., Ltd.	Far EasTone Communications Co., Ltd.	2	Receivables from related parties	82,339	Note D	-
				Guarantee deposits received	20	Note D	-
				Sales of cellular phone equipment and accessories, net	2,407	Note D	-
				Other revenues	183,509	Note D	1%
				Cost of sales	58,299	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	57,028	Note D	-
				Sales of cellular phone equipment and accessories, net	1,307	Note D	-
				Other revenues	126,081	Note D	-
				Cost of sales	17,179	Note D	-
3	KGEX.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	27,634	Note D	-
				Cost of telecommunication service	72,691	Note D	-
				General and administrative expenses	3,750	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	3,899	Note D	-
				Payables to related parties	25,742	Note D	-
				Cost of telecommunication service	79,409	Note D	-
				Other revenues	3,393	Note D	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
4	Far Eastern Tech-info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	15,860	Note D	-
				Other revenues	73,399	Note D	-
		KG Telecommunications Co., Ltd.	3	Other revenues	7,381	Note D	-

Note A: Significant transactions between parent company and its subsidiaries or among subsidiaries are numbered as follows:

1. "0" for Far EasTone Telecommunications Co., Ltd. (Far EasTone).
2. Subsidiaries are numbered from "1".

Note B: Related party transactions are divided into three categories as follows:

1. Far EasTone to its subsidiaries.
2. Subsidiaries to its parent company, Far EasTone.
3. Among Far EasTone's subsidiaries.

Note C: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of June 30, 2005; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the six months ended June 30, 2005.

Note D: Payment terms varied depending on the related agreements.