Far EasTone Telecommunications Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2006 and 2005 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. (the "Company") and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's and subsidiaries' management. Our responsibility is to issue a report based on our reviews.

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

As discussed in Note 2 to the consolidated financial statements, we were unable to obtain reviewed financial statements of some immaterial subsidiaries as of March 31, 2006 and 2005 with combined total assets that were 3% (NT$2,825,894 thousand) and 2% (NT$2,297,520 thousand, respectively, of the consolidated total assets and with combined total liabilities that were 2% (NT$482,806 thousand) and 1% (NT$403,679 thousand), respectively, of the consolidated total liabilities. For the three months ended March 31, 2006 and 2005, these subsidiaries' combined total operating revenues were 2% (NT$289,203 thousand) and 1% (NT$156,079 thousand), respectively, of the consolidated operating revenues and their total net losses were each 1% (NT$35,643 thousand and NT$28,911 thousand, respectively) of consolidated net income.

We were unable to obtain reviewed financial statements supporting the Company's and subsidiaries' investments in certain equity-method investees with carrying value of NT$672,741 thousand and NT$607,017 thousand as of March 31, 2006 and 2005, respectively; the Company's equity of NT$184,649 thousand and NT$39,100 thousand in the losses of these investees was included in the consolidated net income for the three months ended March 31, 2006 and 2005, respectively, as described in Note 10. Related information on the Company's and subsidiaries' investments is shown in Note 28 to the consolidated financial statements.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had the investment information mentioned in the preceding two paragraphs been based on reviewed financial statements, we are not aware of any material modifications that should be made to the consolidated financial statements of Far EasTone Telecommunications Co., Ltd. and subsidiaries referred to in the first paragraph for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.

As discussed in Note 4, starting from January 1, 2006, the Company and subsidiaries have adopted the newly announced ROC Statements of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments," and subsequent revision of other Statements.

April 20, 2006

<u>*Notice to Readers*</u>

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 7,676,960	8	$ 9,910,340	9
Accounts and notes receivable, net of allowance for doubtful accounts of $1,884,231 in 2006 and $1,706,079 in 2005 (Note 2)	5,901,152	6	5,923,636	5
Receivables from related parties (Notes 2 and 25)	26,942	-	20,593	-
Inventories, net (Notes 2 and 8)	1,615,561	2	1,170,629	1
Prepaid expenses (Note 2)	1,044,541	1	1,654,358	2
Deferred income tax assets - current (Notes 2 and 21)	939,548	1	1,482,039	1
Pledged certificates of deposits - current (Note 27)	67,000	-	53,006	-
Other current assets (Notes 2, 24 and 27)	85,269	-	187,811	-
Financial assets at fair value through profit or loss - current (Notes 2, 4, 6, 24 and 27)	226,522	-	611,300	1
Available-for-sale financial assets - current (Notes 2, 4, 7 and 24)	196,800	-	290,000	-
Unquoted financial instruments - current (Notes 2, 4, 9 and 24)	3,000	-	3,000	-
Total current assets	17,783,295	18	21,306,712	19
LONG-TERM INVESTMENTS				
Equity method investments (Notes 2 and 10)	672,741	1	607,017	1
Financial assets carried at cost - noncurrent (Notes 2, 4 and 11)	63,349	-	62,954	-
Total long-term investments	736,090	1	669,971	1
PROPERTIES (Notes 2, 12, 25 and 27)				
Cost				
Land	1,514,283	1	1,536,659	1
Buildings and equipment	2,869,662	3	2,862,594	3
Operating equipment	95,297,807	96	87,223,863	79
Computer equipment	13,777,720	14	11,682,241	11
Office equipment	965,521	1	994,985	1
Leasehold improvements	1,683,821	2	1,631,505	1
Miscellaneous equipment	91,242	-	103,735	-
Total cost	116,200,056	117	106,035,582	96
Less - accumulated depreciation	61,406,324	62	50,011,515	45
	54,793,732	55	56,024,067	51
Construction in progress and advances for acquisition of equipment	4,675,788	4	8,779,969	8
Net properties	59,469,520	59	64,804,036	59
INTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 13)	10,542,515	11	11,159,654	10
3G concession, net (Notes 1 and 2)	9,316,509	9	10,047,216	9
Total intangible assets	19,859,024	20	21,206,870	19
OTHER ASSETS				
Rental assets, net (Notes 2 and 14)	225,963	-	197,952	-
Properties not currently used in operations, net (Note 2)	325,854	-	346,943	-
Refundable deposits	408,869	1	421,392	1
Deferred income tax assets - noncurrent (Notes 2 and 21)	537,656	1	683,220	1
Deferred charges, net (Note 2)	252,486	-	333,135	-
Other (Notes 19 and 27)	13,706	-	104,212	-
Total other assets	1,764,534	2	2,086,854	2
TOTAL	$ 99,612,463	100	$ 110,074,443	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 15 and 27)	$ 328,765	1	$ 2,715,677	3
Commercial paper payable (Note 16)	-	-	947,359	1
Notes payable	102,724	-	120,235	-
Accounts payable	1,267,390	1	1,368,006	1
Payables to related parties (Note 25)	142,441	-	270,972	-
Income tax payable (Notes 2 and 21)	2,831,248	3	2,710,458	2
Accrued expenses	6,126,220	6	5,694,060	5
Payables for acquisition of properties	1,539,769	2	2,313,702	2
Guarantee deposits received - current	1,158,559	1	1,436,387	1
Unearned revenues (Note 2)	1,210,573	1	1,877,579	2
Current portion of long-term liabilities (Notes 2, 12, 17, 18, 25 and 27)	3,037,032	3	5,013,783	5
Other current liabilities (Note 2)	300,881	-	272,333	-
Total current liabilities	18,045,602	18	24,740,551	22
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Note 17)	3,570,000	4	6,530,000	6
Long-term bank loans (Notes 18 and 27)	123,809	-	2,931,905	3
Liabilities designated as hedged item - noncurrent (Notes 2, 4 and 24)	92,205	-	-	-
Lease payable - noncurrent (Notes 2, 12 and 25)	86,393	-	88,500	-
Total long-term liabilities	3,872,407	4	9,550,405	9
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	283,191	-	259,666	-
Guarantee deposits received - noncurrent	102,568	-	89,145	-
Other	8,176	-	12,458	-
Total other liabilities	393,935	-	361,269	-
Total liabilities	22,311,944	22	34,652,225	31
FAR EASTONE'S EQUITY (Notes 2, 4, 20 and 24)				
Capital stocks - $10 par value; authorized - 4,200,000 thousand shares				
Issued - 3,872,663 thousand shares	38,726,630	39	38,726,630	35
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	6
From business combination	8,482,381	8	8,482,381	8
From investments in shares of stock	10,611	-	-	-
Total capital surplus	15,003,956	15	14,993,345	14
Retained earnings				
Legal reserve	4,101,609	4	2,697,301	3
Unappropriated earnings	18,547,269	19	17,864,829	16
Total retained earnings	22,648,878	23	20,562,130	19
Other adjustments				
Cumulative translation adjustments	1,287	-	805	-
Unrealized losses on financial instruments	(72,255)	-	-	-
Total other adjustments	(70,968)	-	805	-
Total controlling interest of FarEasTone	76,308,496	77	74,282,910	68
Minority interest	992,023	1	1,139,308	1
Total stockholders' equity	77,300,519	78	75,422,218	69
TOTAL	$ 99,612,463	100	$ 110,074,443	100

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

(With Deloitte & Touche review report dated April 20, 2006)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 25)				
Sales of cellular phone equipment and accessories, net	$ 2,214,574	12	$ 2,055,799	12
Telecommunications services revenue	15,103,023	86	15,306,787	88
Other	290,664	2	63,789	-
Total operating revenues	17,608,261	100	17,426,375	100
OPERATING COSTS (Notes 2, 22 and 25)				
Cost of sales	2,442,512	14	2,180,558	12
Cost of telecommunications services	6,801,565	39	6,445,401	37
Other	158,128	1	90,205	1
Total operating costs	9,402,205	54	8,716,164	50
GROSS PROFIT	8,206,056	46	8,710,211	50
OPERATING EXPENSES (Notes 2, 22 and 25)				
Marketing	2,627,396	15	2,209,265	13
General and administrative	1,425,131	8	1,686,868	10
Research and development	63,346	-	84,074	-
Total operating expenses	4,115,873	23	3,980,207	23
OPERATING INCOME	4,090,183	23	4,730,004	27
NONOPERATING INCOME AND GAINS				
Interest	16,025	-	19,731	-
Foreign exchange gains, net	3,984	-	5,662	-
Gain from sale of financial assets	620	-	2,294	-
Other (Note 6)	54,230	-	22,967	1
Total nonoperating income and gains	74,859	-	50,654	1
NONOPERATING EXPENSES AND LOSSES				
Equity in investees' net losses (Notes 2 and 10)	184,649	1	39,100	-
Interest (Notes 2, 12 and 25)	30,909	-	98,826	1
Loss on disposal of properties and properties not currently used in operations, net (Note 2)	4,103	-	-	-
Depreciation of properties not currently used in operations and rental properties (Note 22)	3,926	-	3,804	-

(Continued)

	2006		2005	
	Amount	%	Amount	%
Loss on decline in value of inventories (Note 2)	$ -	-	$ 6,914	-
Other	7,386	-	3,509	-
Total nonoperating expenses and losses	230,973	1	152,153	1
COMBINED INCOME BEFORE INCOME TAX EXPENSE	3,934,069	22	4,628,505	27
INCOME TAX (Notes 2 and 21)	783,182	4	844,386	5
COMBINED NET INCOME	$ 3,150,887	18	$ 3,784,119	22
ATTRIBUTABLE TO:				
Controlling interest	$ 3,161,530	18	$ 3,795,032	22
Minority interest	(10,643)	-	(10,913)	-
	$ 3,150,887	18	$ 3,784,119	22

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 23)				
Basic	$ 1.02	$ 0.82	$ 1.20	$ 0.98
Diluted	$ 1.02	$ 0.82	$ 1.20	$ 0.98

Following is the pro forma financial information on the assumption that the Group adopted on January 1, 2005 the ROC Statement of Financial Accounting Standards ("ROC SFAS") No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements"; ROC SFAS No. 5 - "Long-term Investment in Equity Securities"; ROC SFAS No. 25 - "Business Combination - Accounting Treatment under Purchase Method"; ROC SFAS No. 34 - "Accounting for Financial Instruments"; and ROC SFAS No. 36 - "Disclosure and Presentation of Financial Instruments":

	2006	2005
PRO FORMA COMBINED NET INCOME	$ 3,150,887	$ 4,003,530
PRO FORMA CONSOLIDATED EARNINGS PER SHARE		
Basic	$0.82	$1.04
Diluted	$0.82	$1.04

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

(With Deloitte & Touche review report dated April 20, 2006) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Combined net income	$ 3,150,887	$ 3,784,119
Depreciation and amortization	2,953,177	3,023,301
Amortization of 3G concession	182,677	121,784
Provision for doubtful accounts	179,198	262,009
Losses on obsolescence of inventories	4,000	161
Provision for (reversal of) losses on decline in value of inventories	(522)	6,914
Equity in investees' net losses	184,649	39,100
Losses (gains) on sale of properties and properties not currently used in operations, net	4,103	(842)
Fair value adjustment of financial assets	(22)	-
Accrued pension cost	2,666	26,413
Deferred income taxes	83,077	457,777
Interest premium on convertible bonds	-	1,070
Amortization of issuance cost of convertible bonds	-	1,179
Net changes in operating assets and liabilities		
Financial assets held for trading	(19,955)	102,344
Accounts and notes receivable	431,279	321,843
Receivables from related parties	10,370	10,838
Inventories	(7,409)	178,908
Prepaid expenses	(324,297)	14,540
Other current assets	63,457	(26,632)
Notes payable	(2,004)	44
Accounts payable	(37,756)	508,271
Payables to related parties	16,665	(50,311)
Income tax payable	697,907	384,286
Accrued expenses	196,796	236,388
Unearned revenues	(125,305)	(553,023)
Other current liabilities	(163,077)	(298,015)
Net cash provided by operating activities	7,480,561	8,552,466
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(1,935,336)	(1,611,506)
Proceeds from sales of properties and properties not currently used in operations	41,904	11,158
Increase in refundable deposits	(6,669)	(5,274)
Increase in restricted assets	(5,494)	-
Increase in deferred charges	(5,368)	(61,536)
Decrease (increase) in other assets	(1,062)	594
Net cash used in investing activities	(1,912,025)	(1,666,564)

(Continued)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank loans	$ 33,147	$ 123,091
Increase (decrease) in commercial paper payable	(49,996)	50,711
Proceeds from long-term bank loans	-	630,000
Repayment of long-term liabilities	(2,449,668)	(5,159,539)
Decrease in guarantee deposits received	(63,309)	(88,237)
Decrease in other liabilities	(1,167)	(1,183)
Decrease in minority interest	-	(435,950)
Cash payment due to merger	-	(888,946)
Net cash used in financing activities	(2,530,993)	(5,770,053)
EFFECT OF EXCHANGE RATE CHANGES	(881)	(62)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,036,662	1,115,787
CASH AND CASH EQUIVALENTS ARISING FROM MERGER	-	157,224
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,640,298	8,637,329
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,676,960	$ 9,910,340
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	$ 136,842	$ 192,836
Income tax paid	$ 2,998	$ 4,035
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 3,037,032	$ 5,013,783
Reclassification of properties not currently used in operations into properties	$ 3,941	$ -
Reclassification of properties into rental assets	$ -	$ 7,481
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 907,645	$ 837,090
Decrease in payables for acquisition of properties	1,018,891	774,416
Decrease in lease payables	8,800	-
Actual cash paid for acquisition of properties	$ 1,935,336	$ 1,611,506
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Proceeds from selling properties and properties not currently used in operations	$ 10,250	$ 3,107
Decrease in receivables from properties sold	6,445	8,051
Decrease in receivables from related parties	25,209	-
Actual cash received from disposal of properties	$ 41,904	$ 11,158

(Continued)

SUPPLEMENTARY INFORMATION ON THE FAIR VALUE OF ARCOA'S TOTAL ASSETS AND TOTAL LIABILITIES ACQUIRED FOR THE THREE MONTHS ENDED 2005

	March 31, 2005
Cash and cash equivalents	$ 157,224
Financial assets at fair value through profit or loss - current	662,800
Accounts and notes receivable, net	310,974
Inventories, net	627,274
Prepaid expenses	40,892
Other current assets	118,338
Equity method investments	19,811
Financial assets carried at cost - noncurrent	49,332
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term bank loans	(282,586)
Notes payable	(78,354)
Accounts payable	(358,125)
Accrued expenses	(174,836)
Unearned revenues	(64,120)
Other current liabilities	(28,814)
Long-term liabilities	(50,188)
Other liabilities	(8,843)
	1,723,145
Percentage of ownership acquired	55.37%
	954,135
Goodwill	254,811
Cash consideration of the merger	1,208,946
Less: Decrease in restricted assets - noncurrent	320,000
Cash payment due to merger	$ 888,946

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

(With Deloitte & Touche review report dated April 20, 2006) (Concluded)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. ("Far EasTone") was incorporated in the Republic of China (the ROC) on April 11, 1997 and began commercial operations on January 20, 1998. Far EasTone's shares began to be traded on the ROC over-the-counter (OTC) securities exchange (known as GreTai Securities Market) on December 10, 2001. Later, Far EasTone's shares ceased to be traded on OTC and became listed on the ROC Taiwan Stock Exchange on August 24, 2005. Far EasTone provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. Far Eastern Textile Co., Ltd. is the ultimate parent company of Far EasTone.

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

The DGT also issued to Far EasTone a type II license, allowing it to provide Internet services for 10 years beginning in 1999 for a fixed annual license fee based on the amount of Far EasTone's paid-in capital. In addition, Far EasTone provides services under a type II-ISR license for 10 years beginning in December 2001 and pays an annual license fee of 0.5% of ISR service revenues. Far EasTone is also 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 Far EasTone's operational efficiency, the Board of Directors of Far EasTone approved 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 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 consolidated subsidiaries (the "Group") had 5,087 and 4,795 employees as of March 31, 2006 and 2005, 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 statements 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 ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language 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. Based on this requirement, the consolidated entities include Far EasTone and all its subsidiaries. For subsidiaries acquired during the period, their revenues and expenses generated before the acquisition date will not be consolidated.

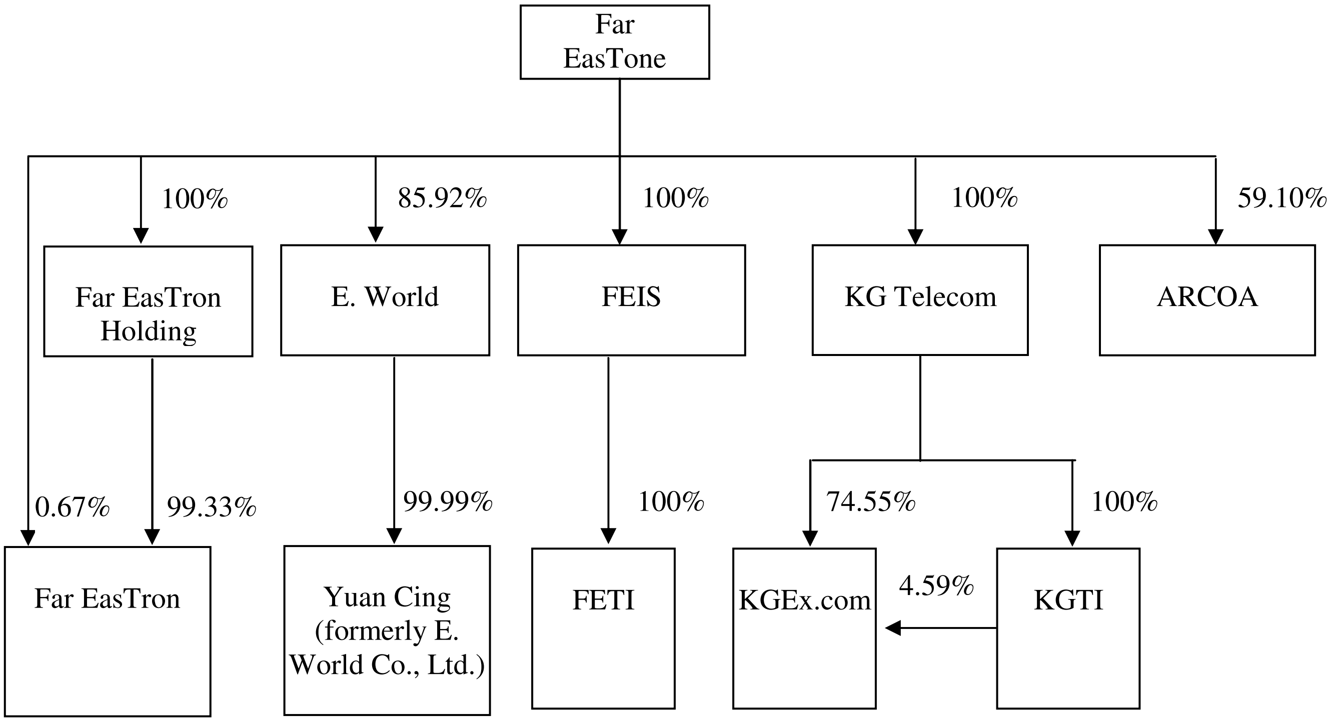
In the preparation of the consolidated financial statements, the financial statements of the foreign subsidiaries were translated from their respective functional currencies into New Taiwan dollars as follows:

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

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

All significant intercompany accounts and transactions have been excluded from the consolidation.

Intercompany relationships and percentages of ownership as of March 31, 2006 are shown below:



a. Entities included in the consolidated financial statements as of and for the three months ended March 31, 2006 and their major business activities were as follows:

1) KG Telecommunications Co., Ltd. ("KG Telecom")

Yuao Ho Telecommunications Co., Ltd. ("Yuao Ho") was incorporated in the ROC on September 25, 2003. After its incorporation, Yuao Ho merged with the former KG Telecommunications Co., Ltd. (the "former KGT") on January 1, 2004 and changed its name to KG Telecommunications Co., Ltd. ("KG Telecom"). Later, Far EasTone swapped shares with the stockholders of KG Telecom, effective April 29, 2004. The merger was completed on May 20, 2004 after the registration of the shares with MOEA. Thus, KG Telecom became a wholly owned subsidiary of Far EasTone.

KG Telecom provides 2G wireless communications services under a type I license - GSM1800 for the northern region of Taiwan, which was issued by the DGT. The license allows KG Telecom to provide services for 15 years from 1997, with an annual license fee at 2% of total 2G wireless communications service revenues. The DGT also issued KG Telecom a type I license, allowing it to provide local/domestic long distance land cable leased circuit services for 15 years from September 2000.

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.

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 was approved by the 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.

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

E. World was incorporated in the Cayman Islands on April 7, 2000. Far EasTone originally owned 19.00% of E. World's stock. On June 30, 2004, Far EasTone acquired 66.92% of E. World's stock from Far Eastern Textile Co., Ltd. and its affiliates; thus, Far EasTone became E. World's parent company. 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 January 6, 2000. 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 ROC on August 9, 2000. KG Telecom and KGTI together own 79.14% of KGEx.com's common stock. KGEx.com mainly provides Type II telecommunications services.

7) Yuan Cing Co., Ltd. ("Yuan Cing")

Yuan Cing was incorporated on August 5, 2000. E. World owns 99.99% of Yuan Cing's common stock. On June 20, 2005, the Board of Directors of Yuan Cing approved to change its name from E. World Co., Ltd. to Yuan Cing Co., Ltd. Yuan Cing provides customer services.

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 ROC on May 4, 1981. ARCOA's shares have been listed as emerging market stock on the OTC securities exchange since December 27, 2002. ARCOA sells cellular phone units and other telecommunications equipment or accessories and provides related maintenance services.

On December 22, 2004, the Board of Directors of ARCOA decided to withdraw its stock from the OTC securities exchange and became a private company. Far EasTone has purchased from ARCOA's stockholders 79,353 thousand shares between February 2005 and July 2005. As a result, Far EasTone acquired 59.10% of ARCOA's common stocks and became its parent company.

10) Far EasTron Holding Ltd. ("Far EasTron Holding")

Far EasTron Holding was incorporated in the Cayman Islands on August 30, 2005. It is a wholly owned subsidiary of Far EasTone. Far EasTron Holding is primarily an investment holding company.

11) Far EasTron Co., Ltd. ("Far EasTron")

Far EasTron was incorporated in the ROC on August 12, 2005. It was originally a wholly owned subsidiary of Far EasTone. Subsequently, the equity of Far EasTron owned by Far EasTone decreased to 0.67% since Far EasTron Holding Ltd. subscribed the new shares issued by Far EasTron for $149,000 thousand (99.33%) in November 2005. Far EasTron mainly provides Internet content providing services. Since the combined equity of Far EasTone and Far EasTron Holding in Far EasTron allows Far EasTone to control Far EasTron's operating and financial policy decisions, Far EasTron is included in the consolidated entities.

b. As of March 31, 2005, KG Satellite is a 66.33% owned subsidiary of KG Telecom. KG Satellite engages in Type I telecommunications services and mainly provides satellite communications services.

   In their special meeting on December 30, 2004, the stockholders of KG Satellite resolved to liquidate the company on July 11, 2005. The DGT approved this liquidation in January 2005 and allowed KG Satellite to discontinue its satellite communications services on the liquidation date. KG Satellite's accounts were excluded from the consolidated financial statements.

c. We were unable to obtain reviewed financial statements of some immaterial consolidated entities (E. World, Yuan Cing, FEIS, FETI, KGEx.com and KGTI) as of and for the three months ended March 31, 2006 and 2005. We were also unable to obtain reviewed financial statements of Far EasTron Holding and Far EasTron as of and for the three months ended March 31, 2006.

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash or cash equivalents as well as items to be converted into cash or consumed within 12 months after the balance sheet date. Current liabilities are obligations to be settled within 12 months after the balance sheet date. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper and bonds purchased under resell agreements with original maturities of not more than three months are classified as cash equivalents. Their carrying values approximate their fair values.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets and financial liabilities held for trading and those designated on initial recognition as at fair value through profit or loss. These instruments are recorded at fair value and the transaction costs on initial recognition. The gains and losses arising from changes in the market value are included in the current period.

Any cash dividends received (including the period of investment) are recognized as current income. Purchase or sale of financial assets under customary transactions is recognized on the trade date.

The fair value of mutual funds is based upon the net asset value as of the balance sheet date.

Contracts with embedded derivatives are also classified as financial instruments at fair value through profit or loss.

Available-for-sale Financial Assets

Available-for-sale financial assets are recorded at fair value and transaction costs on initial recognition. Gain or loss due to changes in fair value is recognized as adjustments to stockholders' equity, and the related cumulative gain or loss should be recognized in the current period when the financial asset is derecognized. Purchase or sale of financial assets under customary transactions is recognized on the trade date.

Any cash dividends received are recognized as income on the ex-dividend date, but cash dividends declared that are based on the investee's net income before the Group's investment acquisition are recognized as a reduction of the carrying value of the 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 shares held is recalculated on the basis of the total number of shares held after stock dividends are received.

An impairment loss should be recognized on the balance sheet date if the carrying amount of investments exceeds their recoverable amount, and this impairment loss should be charged to the net income of the current period. This impairment loss can be reversed to the extent of the original carrying value and recognized as adjustments to stockholders' equity.

The fair value of mutual funds is based on their net asset value as of the balance sheet date.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to 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 telecommunications providers are accrued as activated; and (b) commission revenues are accrued monthly on the basis of 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 using the pro forma interest rate method.

An allowance for doubtful accounts is provided on the basis of the aging status of the receivables, customers' credit, prevailing economic development and estimated collectibility of receivables from subscribers and other parties.

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 and cost of telecommunications services in the period when the service to a subscriber is activated.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined using the weighted-average method. Losses on disposal of inventory are evaluated on the basis of the changes in marketing strategy. Losses on decline in value of inventory are evaluated on the basis of market demand and should be recognized when the net realizable value is lower than the cost.

Financial Assets Carried at Cost

Investments in equity instruments without quoted market prices in an active market, including investments in unlisted stocks and emerging stocks, are measured at cost upon initial recognition. Any cash dividends received are recognized as income on the ex-dividend date, but dividends declared are based on the net income before investment and are recognized as a reduction of the carrying value of the 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 shares held is recalculated on the basis of the total number of shares held after stock dividends are received.

An impairment loss should be recognized on the balance sheet date if the carrying amount of investments exceeds their recoverable amount, and this impairment loss should be charged to the net income of the current period. This impairment loss cannot be reversed.

Unquoted Financial Instruments

Bonds with fixed or determinable payments that are not quoted in an active market are measured at amortized cost. Bonds should be measured at original cost and related transaction cost on initial recognition. Gains or losses are recognized when derecognition, impairment loss or amortization occurs. Purchase or sale of bonds under customary transactions is recognized on the trade date.

Equity Method Investments

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. Any cash dividends received are recognized as a reduction of the carrying value of the investments. Under this method, the investment is initially carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately at 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 five years.

As required by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long Term Investments in Equity Securities," starting on January 1, 2006, the investment cost should be analyzed first. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is not amortizable. The Group reviews the carrying amounts of goodwill every year or when there are indications that goodwill has suffered an impairment loss. When the fair value of identifiable assets exceeds the cost of investments, the excess should be allocated to noncurrent assets proportionately based on the fair value of noncurrent assets (i.e., financial assets except investments in share of stock, assets held for disposal, deferred income tax assets and prepaid pension costs or other pension costs), and any remainder after the allocation should be charged to nonoperating gains or losses. Since January 1, 2006, the carrying amounts of goodwill previously acquired should be accounted for by the new standard and should not be amortized; the negative goodwill previously acquired should be deferred and amortized on the basis of its remaining life years.

If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Group's equity in its investee's net assets is credited to capital surplus. Any decrease in the Group's equity in its investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Properties, Rental Properties and Properties not Currently Used in Operations

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 additions and improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their initially estimated service lives are depreciated over their newly estimated service lives.

Properties not currently used in operations, such as telecommunications equipment and computer equipment expected to be retired or disposed of and properties not expected to be used currently, are stated at the lower of net book value or net realizable value.

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	2-15
Leasehold improvements	3-10
Miscellaneous equipment	3-10

Upon retirement or other disposal (e.g., sale) of properties, rental properties, properties not currently used in operations, the related costs and accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to nonoperating income.

Deferred Charges

Deferred charges mainly include the management cost of syndication loans and costs of retail store renovation and computer software and are amortized using the straight-line method over the terms of the syndication loans, lease (retail store renovation) and agreements on the rights of software use. The cost of issuing convertible bonds before December 31, 2005 should be amortized by the straight-line method over the period between the issue date and the redemption date at the option of the bondholder.

Goodwill

Goodwill derived from a merger or the premium between purchase price and net asset value of subsidiaries on acquisition is amortized by the straight-line method over 3 to 15 years. Under ROC Statement of Financial Accounting Standards No. 5 - "Long Term Investments in Equity Securities," goodwill is no longer amortizable starting on January 1, 2006.

3G Concession

The 3G concession was stated at cost to 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.

Impairment Loss

An impairment loss should be recognized on the balance sheet date if the carrying amount of properties, rental properties, properties not currently used in operations, 3G concession, goodwill, deferred charges and investment in shares of stock under the equity method 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 and amortization) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill can not be reversed.

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 equity-method investees that are not majority owned. 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.

Pension Costs

Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron have two types of pension plans: defined benefit and defined contribution. Under the defined benefit plan, pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service years of employees, respectively. Benefits are based on the number of service years and average basic pay on the final six months before retirement. Under the defined contribution plan, Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron should make monthly contributions to employees' individual pension accounts at a fixed percentage of monthly salaries and wages and recognize these contributions as pension costs.

FETI, under its government's regulations, has a defined contribution pension plan. It makes monthly contributions to a pension fund at a fixed percentage of salaries and recognizes these contributions as pension costs.

FEIS, E. World, KGTI and Far EasTron Holding do not have pension plans because they do not have any employees.

Convertible Bonds

Far EasTone issued overseas convertible bonds at par value and without any discount or premium before December 31, 2005. 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.

When the bondholder exercises the conversion option, Far EasTone uses the book-value approach. Thus, 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 classification of the related assets and liabilities for financial reporting. A deferred asset or liability that cannot be related to an asset or a liability in the financial statements is classified as current or noncurrent according to the expected realization date of the temporary difference.

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

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

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

The Income Basic Tax Act (the “IBT Act”), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The effect of the IBT Act on the Group’s income tax is not material.

Foreign Currency Transactions and Translation of Foreign-currency Financial Statements

Foreign currency transactions (except derivative instruments) 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 monetary foreign-currency denominated assets and liabilities are settled, are credited or charged to income in the period of settlement.

On the balance sheet dates, the balances of nonmonetary foreign-currency denominated assets and liabilities evaluated at fair value, such as equity instruments, are restated at the prevailing exchange rates, and the resulting differences are recorded as adjustment to stockholders’ equity or as profit or loss in the current period. Financial assets and liabilities carried at cost are stated at historical exchange rates; while equity-method investments are recorded as cumulative translation adjustments under stockholders' equity.

Derivative Financial Instruments Designated As Hedge Items

Derivative financial instruments designated as hedge items are measured at fair value. The difference between their fair values and carrying amounts are debited or charged to either stockholders’ equity or current income depending on the hedged items.

Hedge Accounting

Hedge accounting involves the recognition of the offsetting effects on profit or loss of changes in fair values of the hedging instrument and the hedged item.

Derivative instruments held by the Group are for cash flow hedge purposes. Under the cash flow hedge, the gains or losses from the change in fair value on the hedging instruments are recognized under stockholders’ equity and are recognized as current income if the hedged forecast transaction affects net gains or losses. If the hedged forecast transaction would give rise to a financial asset or a financial liability, the gain or loss should be recognized as current income within the period that the asset or liability affects the gains or losses. If hedging would give rise to a nonfinancial asset or liability, the gain or loss will be recognized as the adjustment to original cost or carrying amount of the hedged asset or liability. If a recognized adjustment to stockholders’ equity results in irreversible losses, these losses should be immediately charged to current income.

The Group uses interest rate swaps and forward exchange contracts to hedge cash flow risk from interest rate and exchange rate fluctuations.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the three months ended March 31, 2005 have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the three months ended March 31, 2006.

3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the Group's combined balance sheets and statements of income as of and for the three months ended March 31, 2005. This information, based on the assumption that Far EasTone acquired majority interest in ARCOA on January 1, 2005, is as follows:

(In Thousands, Except Earnings Per Share)

	Three Months Ended March 31, 2005
Current assets	$ 21,306,712
Properties, net	64,804,036
Current liabilities	24,135,139
Operating revenue	17,851,261
Income before income tax	4,623,928
Net income	3,779,541
Earnings per share	0.98

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 bought the majority interest of ARCOA on January 1, 2005 nor does it show the Group's future financial position or results of operations.

4. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Group adopted new accounting principles as required by the ROC Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments," ROC Statement of Financial Accounting Standards No. 36 - "Disclosure and Presentation of Financial Instruments" and related revised standards.

a. The effect of adopting the new announcement or revised standards

The Group reclassified financial assets and financial liabilities (including derivative instruments). The cumulative effect of changes in accounting principle should be recognized in the current period for financial assets at fair value through profit or loss. Available-for-sale financial instruments evaluated at fair value or the assets or liabilities deferred from profit or loss under the cash flow hedge are reclassified as adjustments to stockholders' equity. In addition, an adjustment from assets or liabilities to stockholders' equity should be made for derivative instruments under the cash flow hedge.

The effects of adopting the standards are as follows:

	As Adjustments to Stockholders' Equity (After Tax)
Liabilities designated as hedging instruments - ARCOA	$ 900
Liabilities designated as hedging instruments - Far EasTone	$ 68,446

The accounting change resulted in an increase of $3,178 thousand in consolidated operating income before income tax expense.

b. Reclassification based on the new announcement and revision of standards

Changes in accounting policies on the valuation of the Group's financial instruments for the three months ended March 31, 2006 and 2005 are summarized as follows:

1) Short-term investments

Short-term investments in financial bonds or mutual funds are carried at the lower of aggregate cost or market value, and the loss on decline in value of short-term investments should be included in current income.

An allowance for short-term investments should be recognized if the total market price is below total cost. If the market price increases, the recognized allowance should be reversed, but this reversal should not exceed the allowance. Short-term investments sold are determined using the weighted-average method or the specific identification method. The market values of financial bonds and mutual funds are based on cost and net asset value as of the balance sheet date, respectively.

2) Derivative financial instruments

Interest-linked structured deposits

The interest-linked structured deposits are recorded as assets when the principal is paid at the start of the contracts, and the interest is recognized as income over the terms of the contracts. The related gains and losses are recognized in the current period when the contracts are settled.

Forward exchange contracts

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

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

Interest rate swap

The contract (notional) amounts of interest rate swap agreements, which are entered into as hedges of interest rate risks, 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.

3) Foreign-currency denominated long-term investments accounted for as cost method

Foreign-currency denominated long-term investments accounted for as cost method are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur.

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 cumulative translation adjustments under stockholders' equity if the restated balances are less than the original cost.

Based on the new standards, the consolidated financial statements as of and for the three months ended March 31, 2005 are reclassified as follows from January 1, 2006:

	March 31, 2005	
	Before Reclassification	**After Reclassification**
Short-term investments	$ 894,300	$ -
Investments in share of stock under the cost method	62,954	-
Pledged time deposits - current	10,000	-
Financial assets at fair value through profit or loss - current	-	611,300
Available-for-sale financial assets - current	-	290,000
Unquoted financial instruments - current	-	3,000
Financial assets carried at cost - noncurrent	-	62,954

The Group adopted new standards as required by the revised ROC Financial Accounting Standards No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements"; No. 5 - "Long-term Investments in Equity Securities"; and No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method." These revisions stated that the difference between the cost of an investment and the amount of the underlying equity in net assets of an investee should no longer be amortized. If the difference is goodwill, it should be tested for impairment loss periodically instead of being amortized. The adoption of the revised standards resulted in an increase of $219,344 thousand in consolidated net income before income tax expense without any cumulative changes in accounting principles and an increase of NT$0.06 in basic earnings per share.

5. CASH AND CASH EQUIVALENTS

	March 31	
	2006	**2005**
Cash		
Cash on hand	$ 22,991	$ 12,763
Checking and demand deposits	925,746	2,015,895
Certificates of deposit - interest of 1.495%-4.60% in 2006 and 1.258%-2.950% in 2005	156,677	218,089
	1,105,414	2,246,747
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.41%-1.47% in 2006 and 1.18%-1.22% in 2005	6,481,493	7,663,593
Bonds purchased under resell agreements - interest of 1.375%-1.550%	90,053	-
	6,571,546	7,663,593
	$ 7,676,960	$ 9,910,340

As of March 31, 2006 and 2005, the Group had no certificates of deposits with maturity dates exceeding one year.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

Financial assets held for trading were as follows:

	March 31	
	2006	2005
Mutual funds	$ 226,522	$ 601,300

Net losses on financial assets held for trading were $620 thousand and $2,219 thousand for the three months ended March 31, 2006 and 2005, respectively.

Financial instruments designated as financial instruments at fair value through profit or loss were as follows:

	March 31	
	2006	2005
Designated as financial assets at fair value through profit or loss		
Interest-linked structured deposits	$ -	$ 10,000

ARCOA invested $10,000 thousand in interest-linked structured deposits, which is highly correlated to interest rates in September 2003, to earn interest. ARCOA pledged the deposit as collateral for its short-term bank loans.

The original maturity date of the deposits was September 15, 2010, and the contract will become invalid once the actual return reaches 8%. ARCOA was informed by the bank that the contract became invalid on March 15, 2006 since the actual return reached 8%.

Net gains of those designated as financial instruments at fair value through profit or loss were $57 thousand and $190 thousand for the three months ended March 31, 2006 and 2005, respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	March 31	
	2006	2005
Mutual funds	$ 196,800	$ 290,000

8. INVENTORIES, NET

	March 31	
	2006	2005
Cellular phone equipment	$ 1,357,551	$ 950,705
SIM cards	124,302	85,255
Cellular phone accessories	80,042	107,817
Others	108,387	113,844
	1,670,282	1,257,621
Less - allowance for losses	54,721	86,992
	$ 1,615,561	$ 1,170,629

9. UNQUOTED FINANCIAL INSTRUMENTS - CURRENT

	March 31	
	2006	2005
Bond - Ta Chong Commercial Bank	$ 3,000	$ 3,000

On July 16, 2004, ARCOA bought a five-year corporate bond at par value, amounting to $3,000 thousand with coupon interest rate of 2.55%. The interest is payable on July 16 annually. The maturity date of the bond is July 16, 2009.

10. EQUITY METHOD INVESTMENTS

	March 31			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Far Eastern Electronic Toll Collection Co., Ltd.	$ 603,660	42.66	$ 414,033	45.00
Ding Ding Integrated Marketing Service Co., Ltd.	28,636	15.00	35,363	15.00
iScreen	20,466	40.00	60,013	40.00
THI Consultants Inc.	14,128	22.22	13,731	22.22
Hi Information Co., Ltd.	5,851	33.17	4,865	33.17
KG Satellite	-	-	79,012	66.33
	$ 672,741		$ 607,017	

On February 26, 2004, Far Eastern Electronic Toll Collection Co. (“FETC”) was selected by the Taiwan Area National Freeway Bureau (“the TANFB”) as the best qualified candidate for its “Private Participation in the Electronic Toll Collection BOT Project” (“ETC project”).” On April 27, 2004, FETC and the TANFB completed negotiations and signed the project contract. This 20-year contract covers both the construction and operation of the ETC system. Upon completion of the ETC system construction on February 10, 2006, the TANFB cleared FETC for testing system operations. Later, the Ministry of Transportation and Communications (“the MOTC”) gave its official clearance for FETC to do the operational testing.

Taiwan U-Tong Technology Co. (“Taiwan U-Tong”), a competitor of FETC in the ETC project, filed an administrative litigation against FETC for FETC’s inability to deliver the complete documentation on system design and financial planning within the official deadline. In addition, Taiwan U-Tong questioned the capability of the infrared ray communications system recommended by FETC and claimed this system had no actual success record. On February 24, 2006, the Taipei High Administrative Court announced its decision to revoke the status of FETC as the best qualified candidate for the ETC project. FETC and MOTC appealed the court decision. As of April 20, the date of the accompanying accountants’ review report, the hearing of this case by the Supreme Administrative Court was still ongoing.

On March 24, 2006, the MOTC announced that FETC remained eligible for the ETC project, and the contract will be revised under the consent of both FETC and Taiwan U-Tong in consideration of public welfare.

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 DDIM’s 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 were determined on the basis of the investees' unreviewed financial reports as of and for the three months ended March 31, 2006 and 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 in 2005. As a result, the equity in THIC for the three months ended March 31, 2005 included the accounts of audited financial statements as of and for the years ended December 31, 2004 and the accounts of unreviewed financial statements as of and for the three months ended March 31, 2005.

We were unable to obtain reviewed financial statements supporting the Group's investments in certain equity-method investees with carrying value of $672,741 thousand and $607,017 thousand as of March 31, 2006 and 2005, respectively; the Group's equity of $184,649 thousand and $39,100 thousand in the losses of these investees was included in the consolidated net incomes for the three months ended March 31, 2006 and 2005, respectively.

The difference between ARCOA's investment cost and its equity in its investees' net assets, which is determined as goodwill, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Goodwill	$ 1,473	$ -	$ -	$ 1,473

11. FINANCIAL ASSETS CARRIED AT COST

	March 31	
	2006	2005
Taiwan Fixed Network Co., Ltd.	$ 21,000	$ 21,000
VIBO Telecom Inc.	20,000	20,000
Chunghwa Int'l Communication Network Co., Ltd.	6,714	6,714
Web Point Co., Ltd.	1,618	1,618
Ideaculture Limited - US$431 thousand	14,017	13,622
	$ 63,349	$ 62,954

The Group's holdings of marketable equity securities with no quoted market prices and with fair values that could not be reliably measured were evaluated at cost.

12. PROPERTIES

a. Accumulated depreciation consisted of:

	March 31	
	2006	2005
Buildings and equipment	$ 667,369	$ 516,339
Operating equipment	49,475,615	40,214,919
Computer equipment	9,403,787	7,630,234
Office equipment	760,877	712,628
Leasehold improvements	1,027,979	857,303
Miscellaneous equipment	70,697	80,092
	$ 61,406,324	$ 50,011,515

b. Far EasTone and KG Telecom leased computer equipment from Far Eastern International Leasing Corporation under a contract valid from July 2004 to June 2009, with annual lease payments of $30,828 thousand. The amount paid for the leased properties at the start of the lease was $147,500 thousand net of the market price of new equipment of $277,470 thousand less the equipment exchanged amounting to $129,970 thousand. The total lease payments were $154,136 thousand. The lease agreement qualifies as a 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.

Far EasTone and KG Telecom leased another computer equipment from Far Eastern International Leasing Corporation under a contract valid from March 2006 to February 2011, with annual lease payments of $10,126 thousand. The total lease payments were $50,626 thousand. The lease agreements qualify as capital lease since (a) the present value of the future lease payments plus the bargain purchase price under the lease 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.

KGEx.com leased computer equipment from a third party and Far Eastern International Leasing Corporation under a contract valid from June 2005 to October 2008, with annual lease payments of $847 thousand. The total lease payments were $2,542 thousand. The lease agreement qualifies as a capital lease since (a) the present value of the future lease payments exceeds 90% of the fair value of the leased assets, and (b) at the expiration of the lease term, the equipment will be transferred to KGEx.com.

The details of the lease as of March 31, 2006 and 2005 are as follows:

	March 31	
	2006	**2005**
Total future lease payments	$ 134,934	$ 123,308
Less - imputed interest expense	9,604	5,308
	125,330	118,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	38,937	29,500
Long-term lease payable	$ 86,393	$ 88,500

c. Capitalized interest on properties was as follows:

	Three Month Ended March 31	
	2006	**2005**
Total interest expense	$ 55,325	$ 143,189
Less: Interest capitalized - 2.22%-2.51% in 2006 and 1.75%-2.73% in 2005	24,416	44,363
Interest expense, net of amounts capitalized	$ 30,909	$ 98,826

13. GOODWILL

Goodwill resulted when the investment costs exceeding the Group's equities in its investees' net assets with unanalyzable reason when the Group merges with or acquires controlling interests in investees.

Under Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment," the Group is divided into three identifiable groups starting on January 1, 2005: 2G/2.5G wireless telecommunications services, 3G wireless telecommunications services and the 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 identifiable cash-generating units: Far EasTone, KG Telecom, 3G wireless telecommunications services and the business of selling cellular phone units and other telecommunications equipment or accessories.

On March 31, 2006, the carrying value of the tangible and intangible assets used by the Group was $80,132,847 thousand. The Group's management estimated the recoverable amount of core assets at their expected useful lives and thus based the cash flow forecast on discount rates of 9.42% (Far EasTone), 11.27% (KG Telecom), 9.42% (3G wireless telecommunications services) and 11% (business of selling cellular phone units and other telecommunications equipment or accessories). 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 amounts 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 and the relevant measurement of the recoverable amounts of the Group 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.

    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.

    3) Business of selling cellular phone units: Based on past experience, plans and the trend in the overall market, the anticipated growth rate is expected to decrease.

b. Expected ratio of service EBITDA (earnings before interest, taxes, depreciation and amortization) to operating revenue: The ratio was around 50% in 2005; this ratio will still be around 50% in future years.

As of the evaluation date, the recoverable amount calculated on the basis of the above principal hypotheses exceeded the carrying amount of the tangible and intangible assets. Thus, no impairment loss was recognized.

14. RENTAL ASSETS, NET

	March 31	
	2006	2005
Cost		
Land	$ 124,042	$ 103,465
Buildings	109,698	98,357
	233,740	201,822
Less - accumulated depreciation		
Buildings	7,777	3,870
	$ 225,963	$ 197,952

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 through February 2013 (Far EasTone) and through May 2007 (ARCOA), respectively. Future rental income is summarized as follows:

Period	Amount
April 1, 2006 to December 31, 2006	$ 10,299
2007	11,434
2008	6,955
2009	7,138
2010	7,328
After March 31, 2011	7,060

15. SHORT-TERM BANK LOANS

	March 31	
	2006	2005
Secured bank loans - interest of 1.90% in 2006 and 1.75%-2.20% in 2005	$ 73,000	$ 145,904
Unsecured bank loans - interest of 1.90-6.42% in 2006 and 1.38%-4.54% in 2005	255,765	2,569,773
	$ 328,765	$ 2,715,677

16. COMMERCIAL PAPER PAYABLE

KG Telecom and Yuan-Ze Telecom issued commercial paper guaranteed by financial institutions. The obligations as of March 31, 2005, which were discounted at 1.430 % to 2.238%, were fully repaid on June 24, 2005.

17. BONDS PAYABLE

	March 31, 2006		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds-1st - Far EasTone	$ 2,060,000	$ -	$ 2,060,000
Domestic unsecured bonds-2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds-3rd - Far EasTone	900,000	2,100,000	3,000,000
	$ 2,960,000	$ 3,570,000	$ 6,530,000

	March 31, 2005		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic secured bonds - Far EasTone	$ 660,000	$ -	$ 660,000
Domestic secured bonds - KG Telecom	1,020,000	-	1,020,000
Domestic unsecured bonds - 1st - Far EasTone	2,140,000	2,060,000	4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	-	3,000,000	3,000,000
	$ 3,820,000	$ 6,530,000	$ 10,350,000

a. 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. Far EasTone already repaid $2,140,000 thousand on February 19, 2006.

b. 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 semiannually. Far EasTone should redeem the full amount when the bonds become due in 2008.

c. 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 semiannually. Far EasTone should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

d. Domestic secured bonds - Far EasTone

These are five-year secured domestic bonds issued at par value on November 30, 2000. The total face value of the bonds is $2,200,000 thousand, with face value of $1,000 thousand and 5.06% interest, compounded semiannually. Starting on November 30, 2002 and every six months thereafter, Far EasTone should redeem the bonds for up to 14% to 15% of their face value. Far EasTone had made the final payment due on November 30, 2005.

e. 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 until August 4, 2005, KG Telecom should redeem the bonds annually for up to 33% to 34% of their face value. KG Telecom had made the final repayment due on August 4, 2005.

18. LONG-TERM BANK LOANS

	March 31, 2006		
	Due Within One Year	Due After One Year	Total
Secured bank loans - KGEx.com	$ 38,095	$ 123,809	$ 161,904

	March 31, 2005		
	Due Within One Year	Due After One Year	Total
Secured bank loans - KG Telecom	$ 1,126,188	$ -	$ 1,126,188
Secured bank loans - Yuan-Ze	-	2,770,000	2,770,000
Secured bank loans - KGEx.com	38,095	161,905	200,000
	$ 1,164,283	$ 2,931,905	$ 4,096,188

a. Secured bank loans - KGEx.com

KGEx.com obtained a secured bank loan at interest rate of 2.100% to 2.345%, payable monthly as of March 31, 2006. The loan is secured and repayable quarterly from April 2005 at equal installments, with final repayment due in April 2010.

b. Secured bank loans - KG Telecom

1) As of March 31, 2005, KG Telecom had obtained a loan of US$3,673 thousand (equivalent to $115,865 thousand) from a consortium of banks at 3.5348% to 3.6469% interest rate, payable quarterly. The loan is secured and repayable semiannually from August 2002 at equal installments, with the final repayment due on August 4, 2005.

2) As of March 31, 2005, KG Telecom had obtained a loan of US$32,028 thousand (equivalent to $1,010,323 thousand) from a consortium of banks at 4.1755% interest rate, payable quarterly. The loan is secured and repayable semiannually from June 2003 at equal installments, with the final repayment due in June 2007. KG Telecom had obtained permission from the banks to make an early repayment of the total outstanding loan on June 21, 2005.

c. Secured bank loans - Yuan-Ze Telecom

As of March 31, 2005, Yuan-Ze had obtained a loan from a consortium of banks at 2.1617% interest rate, payable monthly. The loan was due on April 27, 2005. The loan was guaranteed by a consortium of banks, and the guarantee was effective until April 7, 2006. The loan was repaid by Far EasTone on May 30, 2005 after Far EasTone merged with Yuan-Ze Telecom, with Far EasTone as the survivor entity.

19. PENSION PLAN

a. The Labor Pension Act (the "Act") took effect on July 1, 2005. This Act provides for a defined contribution plan featuring a portable pension. Employees of Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron subject to the Labor Standards Law before June 30, 2005 were allowed to 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. Those hired on or after July 1, 2005 automatically become subject to the Act.

b. Based on the Act, rate of monthly contributions by Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron to the employees' individual pension fund accounts starting on July 1, 2005 is at 6% of monthly wages and salaries. The pension costs under the defined contribution plan amounted to $35,671 thousand in the three months ended March 31, 2006.

c. Far EasTone, KG Telecom, KGEx.com, Yuan Cing, Far EasTron and ARCOA have a defined benefit pension plan for all regular employees required under Labor Standards Law. Far EasTone, KG Telecom, KGEx.com, Yuan Cing, Far EasTron and ARCOA accrue pension costs on the basis of actuarial calculations and make monthly contributions, at 2% of salaries and wages, to their respective pension funds, which are administered by their respective pension plan committees and deposited in each committee's name in the Central Trust of China.

   FETI, under its government's regulations, had recognized pension costs of $1,372 thousand and 815 thousand for the three months ended March 31, 2006 and 2005, respectively.

d. The combined information on the defined benefit pension plans of Far EasTone, KG Telecom, KGEx.com, Yuan Cing, Far EasTron and ARCOA is as follows:

   Fund changes were as follows:

	Three Months Ended March 31, 2006		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	KGEx.com	ARCOA
Beginning balance	$ 340,092	$ 5,577	$ 47,690
Contribution	11,105	207	-
Interest	4,815	39	348
Ending balance	$ 356,012	$ 5,823	$ 48,038

	Three Months Ended March 31, 2005		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	KGEx.com	ARCOA
Beginning balance	$ 291,970	$ 4,779	$ 42,374
Contribution	10,758	96	2,046
Ending balance	$ 302,728	$ 4,875	$ 44,420

Accrued pension costs were as follows:

	March 31, 2006		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	KGEx.com	ARCOA
Beginning balance	$ 273,918	$ 6,794	$ (10,160)
Pension cost	13,576	215	187
Contribution	(11,105)	(207)	-
Ending balance	$ 276,389	$ 6,802	$ (9,973)

	March 31, 2005		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	KGEx.com	ARCOA
Beginning balance	$ 226,308	$ 6,583	$ (8,825)
Pension cost	37,171	458	1,474
Contribution	(10,758)	(96)	(2,046)
Ending balance	$ 252,721	$ 6,945	$ (9,397)

20. 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, with the transfer to be made 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 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 plans to improve 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 the 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 Far EasTone's paid-in capital. Legal reserve may be used to offset a deficit. If the legal reserve exceeds the paid-in capital by 50%, the excess may be paid as dividends and bonuses if there are no surplus earnings; alternatively, the excess over half of 50% of the paid-in capital should be retained and the rest may be capitalized if there is no deficit.

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 tax credits 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 2005 and 2004 earnings were approved by Far EasTone's board of directors and stockholders on March 3, 2006 and May 20, 2005, respectively.

	Appropriation and Distribution		**Dividend Per Share (Dollars)**	
	2005	**2004**	**2005**	**2004**
Legal reserve	$ 1,471,740	$ 1,404,308		
Bonus to employees - cash	264,913	252,775		
Remuneration to directors and supervisors	132,457	126,388		
Cash dividend	12,005,255	11,617,989	$ 3.10	$ 3.00

The appropriation of the 2005 earnings of Far EasTone had not been approved by its stockholders as of April 20, 2006, the date of the accompanying accountants' review report. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

c. Global depositary receipts

Far EasTone's Global Depositary Receipts ("GDRs") as of March 31, 2006 were as follows:

		GDRs (in Thousand Units)	**Equivalent Common Stock (in Thousand Shares)**
Initial offering	1)	10,000	150,000
Converted from overseas unsecured convertible bonds	2)	165	2,473
Issued for capital increase	3)	296	4,448
Reissued within authorized units	4)	13,438	201,569
GDRs transferred to common stock		(19,420)	(291,304)
Outstanding GDRs issued		4,479	67,186

1) On June 1, 2004, the Securities and Futures Bureau (SFB) approved Far EasTone's request to sell to foreign investors 150,000 thousand shares of Far EasTone's common stock in the form of 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 per unit.

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 March 31, 2006, 165 thousand units of GDRs had been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common shares.

3) In 2004, 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 common shares.

4) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDR reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of March 31, 2006, Far EasTone had reissued 13,438 thousand units of GDRs representing 201,569 thousand common shares.

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

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

21. INCOME TAX

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

	March 31	
	2006	2005
Income tax expense computed at statutory tax (25% to 33%)	$ 1,351,058	$ 1,531,549
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(242,168)	(261,657)
Equity in investees' net gains	(346,087)	(286,028)
Realized investment losses	-	(145,319)
Other	(3,146)	2,625
Temporary differences	(83,077)	(125,780)
Less - investment tax credits	-	(331,997)
Income tax payable	$ 676,580	$ 383,393

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

b. Income tax expense consisted of:

	Three Months Ended March 31	
	2006	2005
Income tax expense - current	$ 676,580	$ 383,393
Income tax expense - deferred	103,714	457,777
Income tax expense on income subjected to a separate rate of 20%	2,888	3,216
Income tax expense	$ 783,182	$ 844,386

c. Deferred income taxes assets (liabilities) as of March 31, 2006 and 2005 were as follows:

	March 31	
	2006	2005
Current		
Provision for doubtful accounts	$ 939,733	$ 1,349,212
Loss carryforwards	64,346	41,353
Provision for losses on inventories	12,468	12,542
Investment tax credits	2,489	511,409
Unrealized foreign exchange losses (gains), net	(233)	38,570
Other	10,416	1,125
	1,029,219	1,954,211
Less - valuation allowance	89,671	472,172
	$ 939,548	$ 1,482,039
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 343,867	$ 457,927
Loss carryforwards	240,835	501,908
Provision for losses on properties not currently used in operations	236,385	129,851
Accrued pension cost	90,279	69,632
Cumulative equity in the net loss of investees	55,756	3,115
Unrealized losses on financial instruments	23,051	-
Unrealized losses on investments in shares of stock	14,821	14,420
Investment tax credits	-	9,908
Other	5,412	37
	1,010,406	1,186,798
Less - valuation allowance	472,750	503,578
	$ 537,656	$ 683,220

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

d. Integrated income tax information was as follows:

	March 31	
	2006	2005
Balance of imputation credit account (ICA)		
Far EasTone	$ 60,994	$ 59,834
KG Telecom	$ 900,398	$ 2,160
Yuan-Ze Telecom	$ -	$ 137
ARCOA	$ 3,360	$ 1,899

The estimated ratio of Far EasTone's ICA balance as of March 31, 2006 to the unappropriated earnings as of this date was 0.40%. When the dividends from the unappropriated earnings as of March 31, 2005 were distributed by Far EasTone in 2005, the actual ratio used was 8.75%.

The estimated ratio of KG Telecom's ICA balance as of March 31, 2006 to the unappropriated earnings as of this date was 17.48%. When the dividends from the unappropriated earnings as of March 31, 2005 were distributed by KG Telecom in 2005, the actual ratio used was 32.51%.

ARCOA, Yuan Cing, Far EasTron and KGEx.com had no appropriated earnings as of December 31, 2005. Thus, their ICA balances 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 stockholders.

e. Investment tax credits were as follows:

The unused investment tax credits and loss carryforwards of the Group as of March 31, 2006 are summarized as follows:

ARCOA

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 9,066	$ 2,489	2006

f. Loss carryforwards as of March 31, 2006 were as follows:

Expiry Year	ARCOA	KGEx.com	Yuan Cing	Far EasTron
2006	$ -	$ 47,960	$ 16,386	$ -
2007	-	36,546	129	-
2008	-	53,341	179	-
2009	-	72,907	-	-
2010	27,212	34,292	-	2,718
2011	849	10,284	-	2,378
	$ 28,061	$ 255,330	$ 16,694	$ 5,096

g. Status of income tax returns was as follows:

Income tax returns of Yuan-Ze Telecom, KGEx.com and Yuan Cing (formerly E. World Taiwan) through 2003 had been examined and cleared by the tax authorities. Far EasTron has not filed its income tax return since its incorporation in 2005.

Income tax returns through 2002 of Far EasTone had been examined and cleared by the tax authorities. However, Far EasTone disagreed with the tax authorities assessment on its 2000 and 2001 income tax returns and had filed an appeal for the reexamination of these returns. Nevertheless, Far EasTone accrued the related tax.

The income tax returns through 2003 of KG Telecom and the former KG Telecom had been examined by the tax authorities, except the former KG Telecom's 2003 income tax return. However, KG Telecom disagreed with the tax authorities' assessment on its 2000, 2001 and 2002 income tax returns and had filed an appeal for the reexamination of these returns. Nevertheless, KG Telecom accrued the tax.

Income tax returns through 2002 of ARCOA had been examined by the tax authorities. However, the tax authorities assessed an additional tax of $1,397 thousand on ARCOA's 2002 income tax return. In October 2005, ARCOA filed an appeal for the reexamination of its 2002 income tax return; nevertheless, it accrued the related tax on this assessment.

22. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Three Months Ended March 31, 2006			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 168,621	$ 551,975	$ -	$ 720,596
Pension	14,014	37,007	-	51,021
Meal	4,414	20,039	-	24,453
Employee benefit	372	18,408	-	18,780
Insurance	14,001	44,949	-	58,950
Miscellaneous	1,837	13,448	-	15,285
	$ 203,259	$ 685,826	$ -	$ 889,085
Depreciation	$ 2,453,062	$ 467,577	$ 3,926	$ 2,924,565
Amortization	$ -	$ 28,612	$ -	$ 28,612

	Three Months Ended March 31, 2005			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 83,757	$ 597,580	$ -	$ 681,337
Pension	4,778	29,885	-	34,663
Meal	2,226	18,961	-	21,187
Employee benefit	7	17,815	-	17,822
Insurance	5,487	43,610	-	49,097
Miscellaneous	580	30,484	-	31,064
	$ 96,835	$ 738,335	$ -	$ 835,170
Depreciation	$ 2,323,271	$ 468,969	$ 3,804	$ 2,796,044
Amortization	$ -	$ 227,257	$ -	$ 227,257

23. CONSOLIDATED EARNINGS PER SHARE

The consolidated earnings per share (EPS) calculation was 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
Three months ended March 31, 2006					
Consolidated basic EPS					
Net income - Far EasTone	$ 3,944,623	$ 3,161,530	3,872,663	$ 1.02	$ 0.82

(Continued)

Three months ended March 31, 2005	Amount (Numerator) Income Before Income Tax	Net Income	Common Stock (Denominator) (in Thousand Shares)	Consolidated Earnings Per Share (NT$) Income Before Income Tax	Net Income
Consolidated basic EPS					
Net income - Far EasTone	$ 4,639,418	$ 3,795,032	3,866,273	$ 1.20	$ 0.98
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,068	6,390		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stock	$ 4,641,667	$ 3,797,100	3,872,663	$ 1.20	$ 0.98

24. DISCLOSURE OF FINANCIAL INSTRUMENTS

a. The fair values of financial instruments were as follows:

	March 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 7,676,960	$ 7,676,960	$ 9,910,340	$ 9,910,340
Financial assets at fair value through profit or loss - current	226,522	226,522	611,300	611,580
Available-for-sale financial assets - current	196,800	196,800	290,000	291,585
Unquoted financial instruments - current	3,000	3,000	3,000	3,000
Notes and accounts receivable, net	5,901,152	5,901,152	5,923,636	5,923,636
Receivables from related parties	26,942	26,942	20,593	20,593
Pledged certificates of deposits	69,413	69,413	54,169	54,169
Restricted assets (included in other current assets)	-	-	30,000	30,000
Financial assets carried at cost - noncurrent	63,349	63,349	62,954	62,954
Refundable deposits	408,869	408,511	421,392	420,385
Financial liabilities				
Short-term bank loans	328,765	328,765	2,715,677	2,715,677
Commercial paper payable	-	-	947,359	947,359
Notes payable	102,724	102,724	120,235	120,235
Accounts payable	1,267,390	1,267,390	1,368,006	1,368,006
Payables to related parties	142,441	142,441	270,972	270,972
Payables for the acquisition of properties	1,539,769	1,539,769	2,313,702	2,313,702
Bonds payable (including current portion)	6,530,000	6,511,927	10,350,000	10,477,716
Long-term bank loans (including current portion)	161,904	161,904	4,096,188	4,096,188
Lease payable (including current portion)	125,330	125,330	118,000	118,000
Guarantee deposits received (including current portion)	1,261,127	1,261,127	1,525,532	1,525,532
Derivative financial instruments				
Interest rate swap - Far EasTone	(92,205)	(92,205)	-	(90,369)
Interest rate swap - KG Telecom	-	-	-	(6,519)
Cross currency swap - KG Telecom	-	-	-	(111,612)
Interest-linked structured deposits - ARCOA	-	-	10,000	10,071
Forward exchange contract - ARCOA	92	92	-	-

The Group adopted ROC Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments" on January 1, 2006. Thus, some derivatives were not included in the consolidated financial statements in 2005 (Note 4).

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

1) The fair values of short-term financial instruments (including cash and cash equivalents, notes and accounts receivable, receivables from related parties, pledged certificates of deposits, restricted assets, notes payable, accounts payable, payables to related parties, payables related to acquisition of properties, short-term bank loans and commercial paper payable) are recorded at their carrying values because of the short maturities of these instruments.

2) If quoted market prices are available, these are used as market value of financial instruments at fair value through profit or loss and available-for-sale financial assets.

   If quoted market prices are available, these are used as market value of derivatives. Otherwise, the market value is evaluated by the Group using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers) to value the derivatives. These estimation and assumptions are available to the Group.

   The Group uses the exchange quotations of the Reuters (or the Associated Press) to calculate market value of each interest rate swap and forward contract based on the net cash flow and the exchange rate, respectively.

3) Bonds payable, long-term bank loans, refundable deposits, and guarantee deposits received are recorded at market prices or, if market prices are unavailable, at the present values of expected cash outflows, which is discounted at the interest rates for bank loans with similar maturities.

4) The fair values of financial instruments carried at cost and unquoted financial instruments - current are based on the original investment cost.

c. The fair values of financial assets and financial liabilities, which were determined at their quoted prices in an active market or at estimated prices, were as follows:

	March 31			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Non-derivative financial instruments				
Financial assets				
Financial assets at fair value through profit or loss - current	$ 226,522	$ 611,580	$ -	$ -
Available-for-sale financial assets	196,800	291,585	-	-
Unquoted financial instruments	-	-	3,000	3,000
Financial assets carried at cost - noncurrent	-	-	63,349	62,954
Derivative financial instruments				
Assets				
Interest-linked structured deposits - ARCOA	-	-	-	10,071
Forward exchange contract - ARCOA	-	-	92	-

(Continued)

	March 31			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Liabilities				
Interest rate swap - Far EasTone	$ -	$ -	$ (92,205)	$ (90,369)
Interest rate swap - KG Telecom	-	-	-	(6,519)
Gross currency swap - KG Telecom	-	-	-	(111,612)

d. As of March 31, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $6,728,223 thousand and $7,881,682 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $4,475,999 thousand and $14,557,224 thousand, respectively. As of March 31, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $925,746 thousand and $2,045,895 thousand, respectively, while financial liabilities with cash flow risk from interest rate fluctuations amounted to $2,670,000 thousand and $3,670,000 thousand, respectively.

e. An reduction of $3,809 thousand to stockholders' equity of the Group was made for derivative financial liabilities designated as hedged items and available-for-sale financial assets in the three months ended March 31, 2006.

f. Financial risks

1) Market risk

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

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

ARCOA entered into forward contracts to hedge its exposure to exchange rate fluctuations on firm commitments. Therefore, the market risk is not material.

2) Credit risk

The Group is exposed to credit risk on counter-parties default on contracts. The Group's maximum exposure to credit risk is equal to book value. The Group conducts transactions only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from default on contracts.

3) Liquidity risk

The Group has sufficient operating capital to meet cash demand. Thus, the Group does not have liquidity risk.

Far EasTone entered into interest rate swap and cross currency swap to hedge cash flow risk. The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant.

KG Telecom entered into interest rate swap to hedge cash flow risk. 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.

For the three months ended March 31, 2006, ARCOA's forward exchange contracts are expected to be settled between April 3, 2006 and May 7, 2006, with US$1,736 thousand cash inflow and NT$56,100 thousand cash outflow. In addition, ARCOA's forward exchange rate is fixed; thus, the cash flow risk is not material.

The Group invested in mutual funds that have a quoted price in an active market and could be sold immediately at prices close to fair value. However, the Group also invested in financial bonds and equity instruments with no quoted prices in an active market; thus, these investments could expose the Group to material liquidity risks.

g. Cash flow hedge

The Group uses interest rate swap, cross-currency swap and forward exchange contracts to hedge overall fluctuations on interest rates, exchange rates and future cash flows.

	Designated Hedging Instruments				
		Fair Value March 31			Expected Period for Realization of Gains or Losses
Hedged Items	Financial Instruments Designated	2006	2005	Expected Period of Cash Flows	
Bonds with floating interest rate	Interest rate swap - Far EasTone	$ (92,205)	$ (90,369)	2003-2008	2003-2008
Liabilities with floating interest rates	Interest rate swap - KG Telecom	-	(6,519)	2002-2005	2002-2005
Foreign-currency denominated liabilities with floating interest rates	Cross currency swap - KG Telecom	-	(111,612)	2001-2005	2001-2005
Firm Commitments	Forward exchange contracts - ARCOA	92	-	2006	2006

25. RELATED-PARTY TRANSACTIONS

The Group's related parties and their relationships were as follows:

Related Party	Relationship with the Group
Far Eastern Textile Ltd. (FETL)	Ultimate parent company
NTT DoCoMo Inc.	Director of Far EasTone
Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EasTone
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee of Far EasTone
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee of Far EasTone
iScreen Corporation	Equity-method investee of KG Telecom
Far Eastern Technology Developmental Foundation (FETTDF)	Far EasTone's donation is over one third of the foundation's capital
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company
Yuang Ding Investment Co., Ltd. (YDI)	Same ultimate parent company

(Continued)

Related Party	Relationship with the Group
Oriental Securities Co., Ltd.	Same ultimate parent company
Yuang Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern International Bank (FEIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Oriental Institute of Technology	Same chairman
Far Eastern Memorial Hospital	Same chairman
Yuan-Ze University (YZU)	Same chairman
Far Eastern Telecom Engineering Corp. (FETEC)	Subsidiary of YDC
KG Satellite Co., Ltd.	Subsidiary of KG Telecom; liquidated in July 2005
Far Eastern Apparel Co., Ltd.	Subsidiary of YDI
Liquid Air Far East Co., Ltd.	Equity-method investee of YDI

In addition to those mentioned in Notes 12, the Group's significant transactions with the above parties are summarized as follows:

		2006		2005	
		Amount	%	Amount	%
During the period					
Operating revenue	a.				
Telecommunications services revenue					
NCIC	b.	$ 142,620	1	$ 237,075	1
Other	o.	21,022	-	6,242	-
		$ 163,642	1	$ 243,317	1
Operating costs and expenses					
Telecommunications services cost					
NCIC	b.	$ 8,846	-	$ 2,037	-
Other	o.	4,824	-	237	-
		$ 13,670	-	$ 2,274	-
Rental					
FETRD	c.	$ 12,880	-	$ 12,900	3
FEILC	d.	10,365	-	13,652	2
Other	o.	7,191	-	5,442	1
		$ 30,436	-	$ 31,994	6
Research and development expense					
FETTDF	e.	$ 362	23	$ 3,456	67
Service fee					
FCHRC	f.	$ 14,452	45	$ 16,810	53
Other	o.	45	-	-	-
		$ 14,497	45	$ 16,810	53

(Continued)

		2006		2005	
		Amount	**%**	**Amount**	**%**
Marketing expense					
DDIM	g.	$ 12,523	-	$ 1,029	-
Nonoperating expenses and loses					
Interest expense					
FEIB	h.	$ -	-	$ 56	-
Acquisition of properties					
FETEC	i.	$ 458	-	$ 69,840	8
NCIC	j.	-	-	55,572	7
Other	o.	76	-	424	-
		$ 534	-	$ 125,836	15
At end of period					
Receivables from related parties					
FETC	n.	$ 13,193	49	$ 78	-
NCIC	k.	9,606	36	14,169	69
NTT DoCoMo Inc.	l.	3,132	12	1,628	8
YDC	m.	-	-	3,263	16
Other	o.	1,011	3	1,455	7
		$ 26,942	100	$ 20,593	100
Payables to related parties					
NCIC	b. and j.	$ 52,578	37	$ 161,484	60
DDIM	g.	52,572	37	952	-
FEILC	d.	9,099	6	10,896	4
FETRD	c.	8,587	6	12,379	5
FETEC	i.	8,424	6	54,470	20
Other	o.	11,181	8	30,791	11
		$ 142,441	100	$ 270,972	100
Unearned revenues					
FETC	n.	$ 15,104	1	$ -	-
Long-term lease payable (including current portion)					
FEILC	d.	$ 124,096	99	$ 118,000	100

Descriptions of transactions with related parties are as follows:

a. Operating revenues (such as service revenue and revenues from sales of cellular phone equipments, accessories, leased-circuit revenue and customer service revenues) 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 were 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 telecommunications services 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. Far EasTone leases from FETRD several parcels of the land and building spaces under contracts with terms from September 2003 to November 2013. The properties are located on Yatung Street and Renai Street in Panchao City, Wuku in Taipei County, and other locations in Taiwan.

d. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Tainan and Kaohsiung; and (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu, from November 1999 to June 2004. The contracts will remain valid unless either Far EasTone or FEILC informs the other party 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, KG Telecom and KGEx lease from FEILC computer equipment under a five-year operating lease with annual lease payments of $41,141 thousand (Note 12).

e. FETTDF provides telecommunications technology researches and training programs to Far EasTone.

f. Far EasTone has contracts with FCHRC for manpower dispatching services. The service charges were based upon the services provided by FCHRC to supply temporary or specific personnel supplies.

g. Far EasTone and KG Telecom authorized DDIM to manage the accumulation and redemption of reward points for customers. The related service charges were treated as marketing expense and payables to related parties.

h. KG Telecom obtained a syndication 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 $30,600 thousand guarantee for the repayment of KG Telecom's domestic secured bonds, which was repaid on August 4, 2005.

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

j. Far EasTone bought NCIC's telecommunications network and backbone network facilities.

k. The advances for the construction and joint use of telecommunications network and backbone network facilities between Far EasTone and NCIC were included in receivables from related parties.

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

m. Far EasTone advances consulting fees payable by YDC. The advances are collected at various times based on the cash balance of YDC.

n. Far EasTone provided consulting services to FETC to use Far EasTone's trouble ticket system. The fees collected were based on the terms of the related contract and were treated as unearned revenues. Unearned revenues were recognized using the percentage of construction completion method. Moreover, the advances to FETC by Far EasTone for its daily operating expenditures will be collected at various times based on the cash balances of FETC.

o. 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.

26. COMMITMENTS AS OF MARCH 31, 2006

The Group had the following significant commitments:

a. The Group were under contracts to acquire properties for $461,510 thousand.

b. The Group's outstanding letters of credit amounted to ￥545,856 thousand (equivalent to $151,358 thousand), US$866 thousand (equivalent to $28,110 thousand) and $56,754 thousand.

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

Period	Amount
From April 1, 2006 to December 31, 2006	$ 1,993,666
2007	2,703,143
2008	2,773,825
2009	2,848,843
2010	2,922,504
From January 1, 2011 to March 31, 2011	750,284

27. ASSETS PLEDGED OR MORTGAGED

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

	March 31	
	2006	2005
Financial assets at fair value through profit or loss - current	$ -	$ 10,000
Pledged certificates of deposit - current	67,000	53,006
Restricted assets (included in other current assets)	-	30,000
Pledged certificates of deposit - noncurrent (include in other assets - other)	2,413	1,163
Properties, net	2,062,800	25,687,462
	$ 2,132,213	$ 25,781,631

28. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

a. Important transactions and B - Information on the Group's investees.

1) Financing provided: None

2) Endorsement/guarantee provided: None

3) Marketable securities and investments in shares of stock held: Schedule A

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

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

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

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

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

9) Names, locations, and related information of investees on which Far EasTone exercises significant influence: Schedule E

10) Derivative instruments: Note 24

b. Investment in Mainland China:

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

2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 25

c. Additional disclosure for consolidated financial statements:

1) Significant transactions between Far EasTone and its subsidiaries and among subsidiaries: Schedule G

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

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	March 31, 2006				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Equity method investments	1,332,997,916.00	$ 36,642,697	100.00	$ 36,642,697	Note A
	ARCOA Communications Co., Ltd.	Equity-method investee	Equity method investments	79,353,013.00	1,166,883	59.10	1,166,883	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity method investments	106,650,000.00	603,660	42.66	603,660	Note B
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity method investments	1,200.00	148,969	100.00	148,969	Note B
	Far EasTron Holding Ltd.	Equity-method investee	Equity method investments	4,486,988.00	133,688	100.00	133,688	Note B
	E. World (Holdings) Ltd.	Equity-method investee	Equity method investments	6,014,622.00	68,896	85.92	68,896	Note B
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity method investments	4,500,000.00	28,636	15.00	28,636	Note B
	Far EasTron Co., Ltd.	Equity-method investee	Equity method investments	100,000.00	864	0.67	864	Note B
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity method investments	260,915,000.00	1,199,376	74.55	1,199,376	Note B
	KGT International Holding Co., Ltd.	Equity-method investee	Equity method investments	50,000.00	89,570	100.00	89,570	Note B
	iScreen	Equity-method investee	Equity method investments	4,000,000.00	20,466	40.00	20,466	Note B
	Mutual funds							
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	196,800	-	196,800	Note C
ARCOA Communications Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Equity method investments	4,975,000.00	5,851	33.17	5,851	Note B
	THI Consultants Inc.	Equity-method investee	Equity method investments	1,060,000.00	14,128	22.22	14,128	Note B
	Chunghwa Int’l Communication Network Co., Ltd.	-	Financial assets carried at cost - noncurrent	2,830,901.00	6,714	4.20	9,291	Note D
	Taiwan Fixed Network Co., Ltd.	-	Financial assets carried at cost - noncurrent	2,100,000.00	21,000	0.03	22,280	Note D
	VIBO Telecom Inc.	-	Financial assets carried at cost - noncurrent	2,000,000.00	20,000	0.13	16,691	Note D
	Web Point Co., Ltd.	-	Financial assets carried at cost - noncurrent	160,627.00	1,618	0.75	1,606	Note D
	Mutual funds							
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	2,585,070.40	30,004	-	30,004	Note C
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,216,320.70	91,502	-	91,502	Note C

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	March 31, 2006				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Capital Money Market	-	Financial assets at fair value through profit or loss - current	1,111,712.30	$ 15,002	-	$ 15,002	Note C
	The Increment Fund	-	Financial assets at fair value through profit or loss - current	2,654,953.90	40,005	-	40,005	Note C
	Fuhwa Bond Fund	-	Financial assets at fair value through profit or loss - current	1,580,147.09	20,006	-	20,006	Note C
	Fuh-hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	2,273,647.60	30,003	-	30,003	Note C
	<u>Bonds</u>							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Unquoted financial instruments - current	3,000,000.00	3,000	-	3,000	Note C
Far Eastern Info Service (Holding) Ltd. (Note E)	<u>Share certificates</u>							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity method investments	-	US$ 4,079,000	100.00	US$ 4,079,000	Note B
Far EasTron Holding Ltd. (Note E)	<u>Stocks</u>							
	Far EasTron Co., Ltd.	Equity-method investee	Equity method investments	14,900,000.00	US$ 4,094,000	99.33	US$ 4,094,000	Note B
E. World (Holdings) Ltd. (Note E)	<u>Stocks</u>							
	Yuan Cing Co., Ltd. (former E. World Ltd. Taiwan)	Equity-method investee	Equity method investments	19,349,994.00	US$ 1,527,000	99.99	US$ 1,527,000	Note B
	Ideaculture (Cayman) Ltd.	-	Financial assets carries at cost - non-current	1,195,141.00	US$ 431,000	17.96	US$ 134,000	Note D
KGT International Holding Co., Ltd. (Note E)	<u>Stocks</u>							
	KGEx.com Co., Ltd.	Equity-method investee	Equity method investments	16,051,000.00	73,558	4.59	73,558	Note B

Note A: Calculation was based on reviewed financial statements as of March 31, 2006.

Note B: Calculation was based on unreviewed financial statements as of March 31, 2006.

Note C: Open-end mutual funds were calculated at the net asset value of mutual funds as of March 31, 2006 while bonds were based on the cost.

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

Note E: Information was based on unreviewed financial statements as of March 31, 2006.

Note F: Carrying value of available-for-sale financial assets - current and financial assets at fair value through profit or loss - current were equal to market values as of March 31, 2006.

SCHEDULE B

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquired		Disposed				Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss	Share/Units	Amount
ARCOA Communications Co., Ltd. (Note B)	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	10,334,101.90	$151,500	6,216,320.70	$91,500	10,334,101.90	$151,953	$151,500	$453	6,216,320.70	$91,500

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

SCHEDULE C

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2006
(In Thousands of New Taiwan Dollars)

Purchaser (Seller) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable or (Payable)		
			Purchase (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	Telecommunications services revenue	$ (681,171)	(6%)	Based on agreement	-	-	Accounts receivable	$ 266,838	5%
			Cost of telecommunications services	366,827	8%	Based on agreement	-	-	Accounts payable	(22,295)	(3%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications services revenue	(103,693)	(1%)	Based on agreement	-	-	Accounts receivable (Note)	-	-
									Accounts payable (Note)	(17,158)	(2%)
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications services revenue	(366,827)	(6%)	Based on agreement	-	-	Accounts receivable	22,295	1%
			Cost of telecommunications services	681,171	23%	Based on agreement	-	-	Accounts payable	(266,838)	(45%)

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2006
(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	$ 540,564	(Note A)	$ -	-	$ 242,264	$ -
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	979,047	(Note B)	-	-	713,127	-

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 telecommunications bills by Far EasTone.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				March 31, 2006	December 31, 2005	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	$ 29,629,139	$ 29,629,139	1,332,997,916	100.00	$ 36,642,697	$ 1,453,478	$ 1,453,478	Notes A and B
	ARCOA Communications Co., Ltd.	Taiwan	Manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,166,883	(7,600)	(4,492)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,066,500	1,066,500	106,650,000	42.66	603,660	(495,413)	(185,435)	Notes C and D
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	148,969	8,369	8,369	Notes A and D
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	133,688	(9,582)	(9,582)	Notes A and D
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	68,896	2,883	2,477	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	28,636	6,374	956	Notes C and D
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	864	(9,512)	(63)	Notes D and E
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	2,197,652	2,197,652	260,915,000	74.55	1,199,376	(38,051)		Notes D and E
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	89,570	(1,239)		Notes D and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,466	(1,210)		Notes D and F
ARCOA Communications Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	5,851	3,803		Notes D and F
	THI Consultants Inc.	Taiwan	Construction consulting	13,700	13,700	1,060,000	22.22	14,128	-		Notes D and F
Far EasTron Holding Ltd. (Note G)	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	US$ 4,532,000	14,900,000	99.33	US$ 4,094,000	(9,512)		Notes D and E
Far Eastern Info Service (Holding) Ltd. (Note G)	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer service providing	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 4,079,000	8,513		Notes D and E
E. World (Holdings) Ltd. (Note G)	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 1,527,000	2,976		Notes D and E
KGT International Holding Co., Ltd. (Note G)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	US$ 4,822,000	US$ 4,822,000	16,051,000	4.59	73,558	(38,051)		Notes D and E

Notes: A. Subsidiary.

B. Calculation was based on reviewed financial statements as of March 31, 2006.

C. Equity-method investee of Far EasTone.

D. Calculation was based on unreviewed financial statements as of March 31, 2006.

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

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

G. Information was based on unreviewed financial statements as of March 31, 2006.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
THREE MONTHS ENDED MARCH 31, 2006
(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, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of March 31, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of March 31, 2006	Accumulated Investment in Mainland China as of March 31, 2006	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	$81,150 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$8,513	$132,404 (US$4,079,000)	$ -	$92,616	$92,616	$30,523,398 (Note C)

Note A: Calculation was based on unreviewed financial statements as of March 31, 2006.

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 transaction with the investee company (Note 25).

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS BETWEEN FAR EASTONE AND SUBSIDIARIES
THREE MONTHS ENDED MARCH 31, 2006
(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)
	Three months ended March 31, 2006						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	$ 540,564	Note D	1%
				Payables to related parties	979,047	Note D	1%
				Telecommunications services revenue	681,171	Note D	4%
				Cost of telecommunications services	366,827	Note D	2%
				Marketing expenses	65,807	Note D	-
				Nonoperating income and gains	70,994	Note D	-
				Management service revenue	31,413	Note D	-
		ARCOA Communications Co., Ltd.	1	Receivables form related parties	14,448	Note D	-
				Payables to related parties	88,408	Note D	-
				Sales of cellular phone equipment and accessories, net	24,794	Note D	-
				Cost of sales	3,609	Note D	-
				Marketing expenses	96,318	Note D	1%
		KGEX.com Co., Ltd.	1	Receivables from related parties	43,079	Note D	-
				Payables to related parties	406	Note D	-
				Telecommunications services revenue	50,526	Note D	-
				Cost of telecommunications services	867	Note D	-
				General and administrative expenses	246	Note D	-
				Management service revenue	1,875	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Payables to related parties	1,728	Note D	-
				General and administrative expenses	43,869	Note D	-
		Far EasTron Co., Ltd.	1	Receivables form related parties	1,341	Note D	-
		Yuan Cing co., Ltd.	1	Receivables form related parties	2,895	Note D	-
				Payables to related parties	4,886	Note D	-
				Management service revenue	282	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Receivables from related parties	664	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	979,047	Note D	1%
				Payables to related parties	540,564	Note D	1%
				Telecommunications services revenue	366,827	Note D	2%
				Cost of telecommunications services	686,632	Note D	4%
				Marketing expenses	80,581	Note D	-
				General and administrative expenses	15,777	Note D	-
				Research and development expenses	588	Note D	-
				Nonoperating income and gains	65,807	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)
		ARCOA Communications Co., Ltd.	3	Payables to related parties	$ 38,465	Note D	-
				Sales of cellular phone equipment and accessories, net	3,736	Note D	-
				Cost of sales	1,084	Note D	-
				Marketing expenses	56,854	Note D	-
		KGEX.com Co., Ltd.	3	Receivables from related parties	18,872	Note D	-
				Payables to related parties	413	Note D	-
				Telecommunications services revenue	31,558	Note D	-
				General and administrative expenses	3,073	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Payables to related parties	15,327	Note D	-
				General and administrative expenses	15,427	Note D	-
2	ARCOA Communications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	88,408	Note D	-
				Payables to related parties	14,448	Note D	-
				Sales of cellular phone equipment and accessories, net	3,609	Note D	-
				Other revenues	96,318	Note D	1%
				Cost of sales	24,794	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	38,465	Note D	-
				Sales of cellular phone equipment and accessories, net	1,084	Note D	-
				Other revenues	56,854	Note D	-
				Cost of sales	3,736	Note D	-
3	KGEX.com Co., Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	406	Note D	-
				Payables to related parties	43,079	Note D	-
				Telecommunications services revenue	867	Note D	-
				Other revenues	246	Note D	-
				Cost of telecommunications services	50,526	Note D	-
				General and administrative expenses	1,875	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	413	Note D	-
				Payables to related parties	18,872	Note D	-
				Cost of telecommunications services	31,558	Note D	-
				Other revenues	3,073	Note D	-
		Far EasTron Co., Ltd.	3	Receivables from related parties	704	Note D	-
				Other revenues	918	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai) (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	1,728	Note D	-
				Other revenues	43,869	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	15,327	Note D	-
				Other revenues	15,427	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)
5	Far EasTron Co., Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	$ 1,341	Note D	-
		KGEx.com Co., Ltd.	3	Payables to related parties	704	Note D	-
				Other operating costs	918	Note D	-
		Yuan Cing Co., Ltd.	3	Payables to related parties	1,431	Note D	-
				General and administrative expenses	1,363	Note D	-
6	Yuan Cing Co., Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	4,886	Note D	-
				Payables to related parties	2,895	Note D	-
				General and administrative expenses	282	Note D	-
		Far EasTron Co., Ltd.	3	Receivables from related parties	1,431	Note D	-
				Other revenues	1,363	Note D	-
7	Far Eastern Info Service (Holding) Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	664	Note D	-
	Three months ended March 31, 2005						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	495,457	Note D	-
				Payables to related parties	54,752	Note D	-
				Telecommunications services revenue	270,290	Note D	2%
				Cost of telecommunications services	247,736	Note D	1%
				Marketing expenses	23,507	Note D	-
				Nonoperating income and gains	61,601	Note D	-
				Management service revenue	13,291	Note D	-
		ARCOA Communications Co., Ltd.	1	Payables to related parties	28,896	Note D	-
				Sales of cellular phone equipment and accessories, net	24,806	Note D	-
				Cost of sales	1,818	Note D	-
				Marketing expenses	77,995	Note D	-
		KGEX.com Co., Ltd.	1	Receivables from related parties	18,055	Note D	-
				Payables to related parties	3,804	Note D	-
				Telecommunications services revenue	30,939	Note D	-
				Management service revenue	1,875	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Receivables from related parties	29,389	Note D	-
				Payables to related parties	36,623	Note D	-
				General and administrative expenses	38,933	Note D	-
		Yuan Ze Telecommunications Co., Ltd.	1	Receivables from related parties	51,519	Note D	-
				Management service revenue	4,956	Note D	-
		Yuan Cing co., Ltd.	1	Receivables from related parties	1,722	Note D	-
				Payables to related parties	1,320	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Receivables from related parties	564	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	54,752	Note D	-
				Payables to related parties	495,457	Note D	-
				Telecommunications services revenue	247,736	Note D	1%
				Cost of telecommunications services	272,301	Note D	2%
				Marketing expenses	66,027	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)
				General and administrative expenses	$ 6,446	Note D	-
				Research and development expenses	408	Note D	-
				Nonoperating income and gains	23,507	Note D	-
		ARCOA Communications Co., Ltd.	3	Payables to related parties	20,718	Note D	-
				Sales of cellular phone equipment and accessories, net	5,587	Note D	-
				Cost of sales	756	Note D	-
				Marketing expenses	56,822	Note D	-
		KGEX.com Co., Ltd.	3	Receivables from related parties	19,712	Note D	-
				Payables to related parties	9,889	Note D	-
				Telecommunications services revenue	38,643	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Payables to related parties	926	Note D	-
				General and administrative expenses	626	Note D	-
2	ARCOA Communications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	28,896	Note D	-
				Sales of cellular phone equipment and accessories, net	1,818	Note D	-
				Other revenues	77,995	Note D	-
				Cost of sales	24,806	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	20,718	Note D	-
				Sales of cellular phone equipment and accessories, net	756	Note D	-
				Other revenues	56,822	Note D	-
				Cost of sales	5,587	Note D	-
3	KGEX.com Co., Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	3,804	Note D	-
				Payables to related parties	18,055	Note D	-
				Cost of telecommunications services	30,939	Note D	-
				General and administrative expenses	1,875	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	9,889	Note D	-
				Payables to related parties	19,712	Note D	-
				Cost of telecommunications services	38,643	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai) (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	36,623	Note D	-
				Payables to related parties	29,389	Note D	-
				Other revenues	38,933	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	926	Note D	-
				Other revenues	626	Note D	-
5	Yuan-Ze Telecommunications Co., Ltd. (Notes F and G)	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	51,519	Note D	-
				General and administrative expenses	4,956	Note D	-
6	Yuan Cing Co., Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	1,320	Note D	-
				Payables to related parties	1,722	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)
7	Far Eastern Info Service (Holding) Ltd. (Note G)	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	$ 564	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 March 31, 2006 and 2005; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the three months ended March 31, 2006 and 2005.

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

Note E: Information show in the schedule is equivalent to the eliminated material intercompany transactions.

Note F: Merged with Far EasTone on May 2, 2005.

Note G: Information was based on unreviewed financial statements as of March 31, 2006 and 2005.