Far EasTone Telecommunications Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Nine Months Ended September 30, 2006 and 2005 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. (the "Company") and subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of income and cash flows for the nine 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 paragraph, 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 disclosed in Note 2 to the consolidated financial statements, the financial statements as of September 30, 2006 and 2005 of some minor consolidated subsidiaries, with combined total assets that were 3.0% (NT$2,698,716 thousand) and 2.6% (NT$2,540,745 thousand), respectively, of the consolidated total assets and with combined total liabilities that were 2.5% (NT$471,953 thousand) and 1.9% (NT$495,181 thousand), respectively, of the consolidated total liabilities, had not been reviewed. In the nine months ended September 30, 2006 and 2005, these subsidiaries' combined total operating revenues were 1.8% (NT$905,420 thousand) and 1.3% (NT$726,939 thousand), respectively, of the consolidated operating revenues and their total net losses were (1.6%) (NT$161,309 thousand) and (0.5%) (NT$58,310 thousand), respectively, of consolidated net income. As disclosed in Note 10 to the consolidated financial statements, the financial statements supporting the Company's and subsidiaries' investments in certain equity-method investees, with carrying values of NT$533,952 thousand and NT$1,052,423 thousand as of September 30, 2006 and 2005, respectively, had not been reviewed. The Company's equity of NT$323,438 thousand and NT$125,920 thousand in the losses of these investees was included in the consolidated net income of the nine months ended September 30, 2006 and 2005, respectively. Related information on the Company's and subsidiaries' investments shown in Note 29 to the consolidated financial statements was not reviewed, either.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some equity-method investees as described in the preceding paragraph been reviewed, 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 disclosed in Note 4 to the consolidated financial statements, starting on January 1, 2006, the Company and subsidiaries adopted the newly announced ROC Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments," and related revisions of previously issued Statements. In addition, based on the revised ROC SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," goodwill should be subjected to impairment test annually instead of being amortized.

October 18, 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 review 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
SEPTEMBER 30, 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)	$ 3,144,108	3	$ 832,538	1
Financial assets at fair value through profit or loss - current (Notes 2, 4, 6 and 28)	266,591	-	436,300	-
Hedging derivative financial assets - current (Notes 2 and 4)	-	-	699	-
Available-for-sale financial assets - current (Notes 2, 4 and 7)	699,658	1	35,000	-
Bonds measured at amortized cost - current (Notes 2, 4 and 8)	3,000	-	3,000	-
Accounts and notes receivable, net of allowance for doubtful accounts of $2,075,430 in 2006 and $2,104,478 in 2005 (Note 2)	5,940,768	7	7,564,665	8
Accounts and notes receivable from related parties (Notes 2 and 26)	47,219	-	38,055	-
Inventories, net (Notes 2 and 9)	1,033,611	1	1,530,284	2
Prepaid expenses (Note 2)	947,130	1	1,165,145	1
Deferred income tax assets - current (Notes 2 and 21)	880,743	1	834,643	1
Pledged certificates of deposits - current (Note 28)	53,508	-	41,506	-
Other current assets	69,841	-	98,016	-
Total current assets	13,086,177	14	12,579,851	13
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 10)	533,952	1	1,052,423	1
Financial assets measured at holding cost - noncurrent (Notes 2, 4 and 11)	163,625	-	63,932	-
Total long-term investments	697,577	1	1,116,355	1
PROPERTIES (Notes 2, 12, 26 and 28)				
Cost				
Land	1,530,870	2	1,516,082	2
Buildings and equipment	2,885,842	3	2,865,739	3
Operating equipment	97,687,705	108	93,261,207	95
Computer equipment	13,930,007	15	12,629,956	13
Office equipment	921,938	1	989,113	1
Leasehold improvements	1,714,329	2	1,665,343	2
Miscellaneous equipment	489,102	1	370,697	-
Total cost	119,159,793	132	113,298,137	116
Less - accumulated depreciation	66,623,262	74	55,480,370	57
	52,536,531	58	57,817,767	59
Construction in progress and advances for acquisition of equipment	2,933,903	3	4,019,836	4
Net properties	55,470,434	61	61,837,603	63
INTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 13)	10,542,515	12	10,738,411	11
3G concession, net (Notes 1 and 2)	8,951,156	10	9,681,862	10
Total intangible assets	19,493,671	22	20,420,273	21
OTHER ASSETS				
Rental assets, net (Notes 2 and 14)	198,520	-	227,071	-
Idle assets, net (Note 2)	317,879	-	338,435	-
Refundable deposits	411,581	1	397,814	1
Deferred charges, net (Note 2)	181,092	-	299,628	-
Deferred income tax assets - noncurrent (Notes 2 and 21)	450,218	1	631,288	1
Other (Notes 2, 19 and 28)	19,929	-	7,929	-
Total other assets	1,579,219	2	1,902,165	2
TOTAL	$ 90,327,078	100	$ 97,856,247	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 15 and 28)	$ 103,946	-	$ 2,666,617	3
Commercial paper payable (Note 16)	-	-	778,581	1
Notes payable	83,292	-	105,054	-
Accounts payable	1,106,360	1	1,429,229	1
Accounts and notes payable to related parties (Note 26)	144,095	-	142,589	-
Income tax payable (Notes 2 and 21)	1,232,327	1	1,456,035	1
Accrued expenses	4,891,411	6	5,586,113	6
Payables for acquisition of properties	1,300,890	2	1,677,842	2
Guarantee deposits received - current	1,097,699	1	1,288,065	1
Unearned revenues (Notes 2 and 26)	1,086,119	1	1,472,207	2
Current portion of long-term bonds payable (Note 17)	2,960,000	3	2,470,000	3
Current portion of long-term bank loans (Notes 18 and 28)	38,095	-	38,095	-
Lease payable - current (Notes 2, 12 and 26)	40,449	-	29,500	-
Other current liabilities (Note 2)	359,559	1	487,921	-
Total current liabilities	14,444,242	16	19,627,848	20
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Note 17)	3,570,000	4	6,530,000	7
Long-term bank loans (Notes 18 and 28)	104,762	-	142,857	-
Hedging derivative financial liabilities - noncurrent (Notes 2 and 4)	75,914	-	-	-
Lease payable (Notes 2, 12 and 26)	57,115	-	59,000	-
Total long-term liabilities	3,807,791	4	6,731,857	7
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 19)	290,472	1	279,127	-
Guarantee deposits received - noncurrent	104,239	-	96,607	-
Other	5,840	-	10,511	-
Total other liabilities	400,551	1	386,245	-
Total liabilities	18,652,584	21	26,745,950	27
FAR EASTONE'S EQUITY (Notes 2, 4 and 20)				
Capital stocks - NT$10.00 par value; authorized - 4,200,000 thousand shares Issued and outstanding - 3,872,663 thousand shares	38,726,630	43	38,726,630	40
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	6
From business combination	8,482,381	9	8,482,381	9
From long-term equity-method investments	10,611	-	6,224	-
Total capital surplus	15,003,956	16	14,999,569	15
Retained earnings				
Legal reserve	5,573,350	6	4,101,609	4
Unappropriated earnings	11,507,195	13	12,263,425	13
Total retained earnings	17,080,545	19	16,365,034	17
Other adjustments				
Cumulative translation adjustments	6,160	-	(10,906)	-
Unrealized losses on financial products	(57,233)	-	-	-
Total other adjustments	(51,073)	-	(10,906)	-
Total controlling interest of Far EasTone	70,760,058	78	70,080,327	72
MINORITY INTEREST	914,436	1	1,029,970	1
Total stockholders' equity	71,674,494	79	71,110,297	73
TOTAL	$ 90,327,078	100	$ 97,856,247	100

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

(With Deloitte & Touche review report dated October 18, 2006)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 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 26)				
Sales of cellular phone equipment and accessories, net	$ 5,197,292	10	$ 6,426,580	12
Telecommunications service revenues	45,272,997	89	47,272,035	87
Other	484,659	1	468,613	1
Total operating revenues	50,954,948	100	54,167,228	100
OPERATING COSTS (Notes 2, 23 and 26)				
Cost of sales	5,854,744	12	6,839,618	12
Cost of telecommunications services	20,602,947	40	19,936,988	37
Other	350,370	1	510,452	1
Total operating costs	26,808,061	53	27,287,058	50
GROSS PROFIT	24,146,887	47	26,880,170	50
OPERATING EXPENSES (Notes 2, 23 and 26)				
Marketing	7,077,667	14	6,802,008	13
General and administrative	4,180,126	8	5,280,036	10
Research and development	221,220	-	265,521	-
Total operating expenses	11,479,013	22	12,347,565	23
OPERATING INCOME	12,667,874	25	14,532,605	27
NONOPERATING INCOME AND GAINS				
Interest	61,722	-	57,774	-
Gain from sale of nonperforming accounts receivable (Note 22)	23,862	-	-	-
Rent	12,128	-	8,376	-
Other (Notes 6 and 26)	154,163	-	92,633	-
Total nonoperating income and gains	251,875	-	158,783	-
NONOPERATING EXPENSES AND LOSSES				
Equity in investees' net losses (Notes 2 and 10)	323,438	1	125,920	-
Loss on disposal of properties, including idle properties, net (Note 2)	212,571	-	10,988	-
Interest (Notes 2, 12 and 26)	79,530	-	234,473	1
Loss on decline in value of inventories (Note 2)	16,036	-	16,969	-

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2005	
	Amount	**%**	**Amount**	**%**
Impairment loss on idle properties	$ -	-	$ 160,317	-
Other (Note 23)	25,065	-	16,266	-
Total nonoperating expenses and losses	656,640	1	564,933	1
COMBINED INCOME BEFORE INCOME TAX EXPENSE	12,263,109	24	14,126,455	26
INCOME TAX (Notes 2 and 21)	2,355,543	5	2,586,137	5
COMBINED NET INCOME	$ 9,907,566	19	$ 11,540,318	21
ATTRIBUTABLE TO:				
Controlling interest	$ 9,995,822	19	$ 11,595,088	21
Minority interest	(88,256)	-	(54,770)	-
	$ 9,907,566	19	$ 11,540,318	21

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 24)				
Basic	$ 2.86	$ 2.58	$ 3.28	$ 3.00
Diluted	$ 2.86	$ 2.58	$ 3.28	$ 2.99

The pro forma financial information (after income tax) had the newly issued Statements of Financial Accounting Standards been adopted on January 1, 2005 is as follows (Note 4):

	2006	2005
PRO FORMA COMBINED NET INCOME	$ 9,907,566	$12,211,973
PRO FORMA EARNINGS PER SHARE		
Basic	$2.58	$3.17
Diluted	$2.58	$3.17

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

(With Deloitte & Touche review report dated October 18, 2006) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Combined net income	$ 9,907,566	$ 11,540,318
Depreciation and amortization	8,881,219	9,184,568
Amortization of 3G concession	548,030	487,138
Allowance for doubtful accounts	642,832	864,177
Losses on obsolescence of inventories	5,078	955
Provision for losses on decline in value of inventories	16,036	16,969
Gain on sale of financial assets	-	(2,974)
Equity in investees' net losses	323,438	125,920
Losses on sale of properties, including idle properties, net	212,571	10,988
Provision for decline in value of idle properties	-	160,317
Gain on revaluation of financial assets	(91)	-
Accrued pension cost	10,323	45,859
Deferred income taxes	225,248	1,157,105
Interest premium on convertible bonds	-	1,070
Other	-	16,354
Net changes in operating assets and liabilities		
Financial assets held for trading	(49,955)	233,500
Accounts and notes receivable	(72,341)	(2,031,858)
Accounts and notes receivable from related parties	18,757	233,762
Inventories	339,839	(228,421)
Prepaid expenses	(208,167)	625,673
Other current assets	(27,796)	155,766
Notes payable	(21,435)	(15,134)
Accounts payable	(196,263)	839,005
Accounts and notes payable to related parties	22,035	(674,415)
Income tax payable	(899,789)	(871,592)
Accrued expenses	(1,055,794)	241,745
Unearned revenues	7,015	(951,388)
Other current liabilities	(72,377)	(171,984)
Net cash provided by operating activities	18,555,979	20,993,423
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(500,000)	-
Proceeds from sale of available-for-sale financial assets	-	301,539
Acquisition of financial assets measured at holding cost	(100,000)	-
Acquisition of equity-method investments	-	(526,500)
Return of capital from the dissolved investee	78,133	-
Acquisition of properties	(4,241,921)	(4,443,865)
Proceeds of sales of properties, including idle properties	26,866	8,667
Decrease (increase) in refundable deposits	(9,380)	18,302
Decrease (increase) in pledged certificates of deposits	(9,852)	17,494

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
Increase in deferred charges	$ (15,632)	$ (92,369)
Decrease in other assets	1,401	2,542
Net cash used in investing activities	(4,770,385)	(4,714,190)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans	(191,672)	74,031
Decrease in commercial paper payable	(49,996)	(119,610)
Proceeds of long-term liabilities	-	6,249,788
Repayment of long-term liabilities	(2,469,022)	(16,934,063)
Decrease in guarantee deposits received	(168,920)	(229,093)
Bonus paid to employees and directors	(397,370)	(252,813)
Cash dividends paid	(12,005,255)	(11,617,989)
Decrease in other liabilities	(3,541)	(3,115)
Decrease in minority interest	-	(478,342)
Cash payment due to merger	-	(888,946)
Net cash used in financing activities	(15,285,776)	(24,200,152)
EFFECT OF EXCHANGE RATE CHANGES	3,992	(26,577)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,496,190)	(7,947,496)
CASH AND CASH EQUIVALENTS ARISING FROM CHANGE IN CONSOLIDATED ENTITIES	-	99,262
CASH AND CASH EQUIVALENTS ARISING FROM MERGER	-	178,080
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,640,298	8,502,692
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,144,108	$ 832,538
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 193,282	$ 391,617
Less - Interest capitalized	60,835	117,663
Interest paid, net of capitalized interest	$ 132,447	$ 273,954
Income tax paid	$ 3,031,218	$ 2,261,149
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 3,038,544	$ 2,537,595
Reclassification of idle properties into properties	$ 3,941	$ -
Reclassification of properties into rental assets	$ -	$ 37,659
Reclassification of properties into idle properties	$ -	$ 150,000

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
Reclassification of rental assets into properties	$ 26,379	$ -
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 2,947,439	$ 2,896,085
Decrease in payables for acquisition of properties	1,257,771	1,547,780
Decrease in lease payables	36,711	-
Actual cash paid for acquisition of properties	$ 4,241,921	$ 4,443,865
PROCEEDS OF THE DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties and idle properties	$ 84,354	$ 24,501
Decrease (increase) in receivables on properties sold	7,413	(23,709)
Decrease (increase) in receivables from related parties	(64,901)	7,875
Actual cash received from disposal of properties	$ 26,866	$ 8,667

SUPPLEMENTARY INFORMATION ON THE FAIR VALUE OF ARCOA'S TOTAL ASSETS AND TOTAL LIABILITIES ACQUIRED IN FEBRUARY 2005:

	September 30, 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 measured at holding 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)

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	September 30, 2005
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	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 October 18, 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 exchange 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. As of September 30, 2006, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 42.85% of Far EasTone's shares. Since Far EasTone's chief executive officer is appointed by Far Eastern Textile's 99.99% subsidiary, Far Eastern Textile has control over Far EasTone's finances, operations and personnel affairs. Thus, Far Eastern Textile 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 from 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 from 1999 for a fixed annual license fee based on Far EasTone's paid-in capital. In addition, Far EasTone provides services under a type II-ISR license for 10 years from December 2001 and pays an annual license fee 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 from January 2003, for 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 (hereinafter referred to as the "Group") had 4,866 and 5,045 employees as of September 30, 2006 and 2005, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements were 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, provision for losses on decline in value of inventories, depreciation and amortization, impairment losses on tangible and intangible assets, product warranty reserve, income taxes and pension cost. Actual results may 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

Effective January 2005, investees in which Far EasTone, directly or indirectly holds more than 50% of voting rights or de facto control are included in the consolidated financial statements in accordance with the amendments to the ROC Statement of Financial Accounting Standards No. 7 -"Consolidated Financial statements". For subsidiaries acquired during the period, their revenues and expenses generated before the acquisition date need not be consolidated.

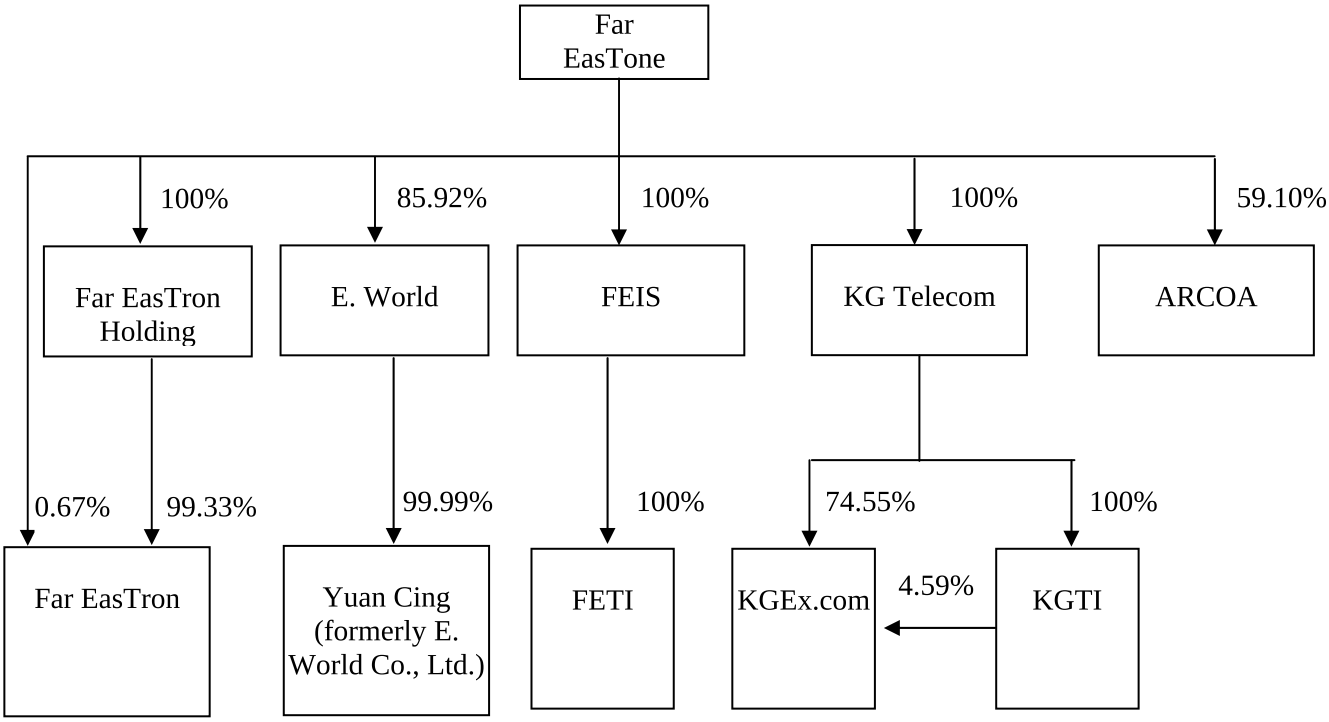
In the preparation of the consolidated financial statements, the financial statements of the foreign subsidiaries were translated from their respective functional currencies into New Taiwan dollars as follows:

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 exchange rates; and
c. All items in the statement of income at the average exchange rates for the periods.

The cumulative translation effects of the subsidiaries' using functional currencies other than New Taiwan Dollars are included in the cumulative translation adjustments in stockholders' equity.

All significant intercompany transactions and balances were eliminated on consolidation.

Intercompany relationships and percentages of ownership as of September 30, 2006 are shown below:



a. Entities included in the consolidated financial statements as of and for the nine months ended September 30, 2006 and 2005 and their major business activities were as follows:

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

KG Telecom, formerly Yuan Ho Telecommunications Co., Ltd., was incorporated in the ROC on September 25, 2003. It is a wholly owned subsidiary of Far EasTone. After its incorporation, KG Telecom merged with the former KG Telecommunications Co., Ltd. (the "former KGT") through a two-step merger agreement. The merger was completed on May 20, 2004 after the registration of the shares with MOEA.

The former KGT provides wireless communications services under a type I license - GSM1800 for the northern region of Taiwan issued by the DGT. The license allows the former KGT to provide services for 15 years from 1997, with an annual license fee at 2% of total wireless communications service revenues. Moreover, the merger of former KGT with TUNTEX (with a license of 2G to provide wireless communications service under a type I license - GSM1800 for the central and southern region of Taiwan issued by the DGT) is effective from January 1, 2000. Thus, the former KGT provided island-wide 2G wireless communications services under a type I license - GSM1800. The DGT also issued the former KGT a type I license, allowing it to provide local/domestic long distance land cable leased circuit services for 15 years from September 2000, with an annual license fee of 1% of leased circuit service revenues.

2) 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.

3) 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.

4) 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.

5) 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.

6) 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.

7) Far Eastern Tech-info Ltd. (Shanghai) (FETI)

FETI was incorporated in the People's Republic of China on November 18, 2002. It is a wholly owned subsidiary of FEIS. FETI provides computer software, data processing and Internet content providing services.

8) ARCOA Communication 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 exchange since December 27, 2002. ARCOA sells cellular phone units and other telecommunications equipment or accessories and provides related maintenance services. The DGT issued to ARCOA a Type II license, allowing it to provide mobile virtual network operator services for three years from July 2006 for a fixed annual fee based on ARCOA's paid-in capital.

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

9) 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.

10) 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 September 30, 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. Therefore, KG Satellite's accounts were excluded from the consolidated financial statements as of and for the nine months ended September 30, 2005.

c. The financial statements of some consolidated minor subsidiaries (E. World, Yuan Cing, FEIS, FETI, KGEx.com, Far EasTron, Far EasTron Holding and KGTI) as of and for the nine months ended September 30, 2006 and 2005 were unreviewed.

Current and Noncurrent Assets and Liabilities

Current assets are unrestricted cash or cash equivalents, assets hold mainly for trading and other assets to be converted into cash or consumed within 12 months after the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are noncurrent assets. Current liabilities are obligations to be settled within 12 months after the balance sheet date. All other 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 or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes in profit or loss. On initial recognition, the financial instruments are measured at fair value, with transaction costs expensed currently. Subsequent changes in fair value are recognized as current gain or loss.

Purchase or sale of financial instruments under customary transactions is recognized and de-recognized using trade date accounting.

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

Hybrid contracts containing one or more embedded derivatives are designated as financial assets or financial liabilities at fair value through profit or loss upon initial recognition.

Available-for-sale Financial Assets

On initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs on directly attributable to the acquisition of the assets. 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 and derecognized using trade date accounting.

An impairment loss should be recognized if there is objective evidence that a financial asset is impaired. This impairment loss can be reversed to the extent of the original carrying value and recognized as an adjustment to stockholders' equity.

The fair value of mutual funds is determined at 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 the excess of minutes of traffic included in the fixed monthly service fees) from wireless services and mobile virtual network operator 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 (d) 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. This sale 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 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 or cost of telecommunications service 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. When loss on scrap and slow-moving items is anticipated, these items are written down to their net realizable value, with loss on decline in value recognized under current income.

Bonds Measured at Amortized Cost

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 plus transaction cost on initial recognition. Gains or losses are recognized when de-recognition, impairment loss or amortization occurs. Purchase or sale of bonds under customary transactions is recognized and derecognized using trade date accounting.

An impairment loss should be recognized if there is objective evidence that a financial asset is impaired. If later on an indication suggest that the impairment may no longer exist or may have diminished, the impairment loss can be reversed to the extend that would otherwise result had no impairment loss been recognized for the assets in prior years.

Financial Assets Measured at Holding 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 attributable to earnings before investment is acquired are recognized as reduction of the carrying value of the investment.

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 and charged to current income if there is objective evidence that a financial asset is impaired. This loss cannot be reversed.

Equity-method Investments

Long-term investments 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. On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 3 to 20 years.

As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long Term Investments in Equity Securities," starting on January 1, 2006, the cost of acquisition is subjected to an initial analysis. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required when there is evidence indicating that goodwill might be impaired due to an event or a change in the economic environment. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to noncurrent assets proportionately to their respective fair values (except for financial assets not under the equity method, assets for disposal, deferred income tax assets and prepaid pension costs or other retirement benefit costs). If these assets are all reduced to zero, the remaining excess should be recognized as extraordinary gain. Starting on January 1, 2006, the unamortized balance of the investment cost in excess of the equity in investee's net assets is no longer amortized and is instead subject to the same accounting treatment as that for goodwill; the negative goodwill previously acquired should be amortized over the remaining estimated economic lives.

An increase in the Group’s proportionate share in the net assets of its investee resulting from its subscription for additional shares of stock issued by the investee at a rate different from its existing equity ownership in the investee is credited to capital surplus. If the subscription results in a decrease in the Group’s equity in an investee’s net assets, capital surplus is debited. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Properties and Rental Assets

Properties and rental assets are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major additions, renewals 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.

Equipment covered by capital lease agreements 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 price.

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	3-10
Leasehold improvements	3-10
Miscellaneous equipment	3-10

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

Goodwill

Goodwill is the difference (the source of which cannot be identified) between investment costs and the equity in investees’ net assets, which is amortized using the straight-line method over 3 to 15 years. However, under the revised ROC Statement of Financial Accounting Standards, goodwill is no longer amortized starting on January 1, 2006.

3G Concession

The 3G concession, which was stated at cost, is amortized on a straight-line basis from January 24, 2005, the issuance date of the concession license, until the license expiry date on December 31, 2018.

Deferred Charges

Deferred charges mainly include the management cost of syndication loans, costs of retail store renovation and computer software, 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 issuance date and the redemption date at the option of the bondholder.

Idle Properties

Properties not currently used in operations are transferred to other assets at the lower of net book value or net realizable value, with difference charged to nonoperating expenses. However, starting on January 1, 2006, based on related regulations, idle property depreciation is calculated using the straight-line method over the estimated useful lives of the properties.

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, properties not currently used in operations, 3G concession, goodwill, deferred charges and equity-method investment) exceed their recoverable amount, and this impairment loss should be charged to current income. The accumulated impairment loss of an asset recognized in prior years can be reversed if, later on, the estimate of the asset's recoverable amount later has changed so as to increase the recoverable amount. Then, the asset's carrying amount can be increased to its recoverable amount; however, the recoverable amount should not exceed the carrying amount that would have been after the deduction of depreciation or amortization if it had not been impaired. An impairment loss recognized on goodwill can not be reversed.

Deferral of Unrealized Intercompany Profit

The entire gains or losses from Far EasTone's sales of products to its subsidiaries are deferred and included in deferred income. In addition, Far EasTone classifies deferred income as current or noncurrent on the basis of the length of the gain realization period.

Far EasTone defers gains or loss on its product sales in proportion to ownership percentages for sales to equity-method investees that are not majority owned.

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.

All of the deferred gains and losses are realized on the subsequent sales of 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. 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 employees' individual pension accounts 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

Before December 31, 2005, Far EasTone issued overseas convertible bonds at par value without any discount or premium. Far EasTone gave the bondholders the right to redeem the convertible bonds in cash at par value plus the interest-premium on a specific date. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, is amortized using the interest method and is recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option.

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

The inter-period and intra-period allocation methods are used for income taxes. 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, personnel training expenses and equity investments 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 expensed 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 transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing foreign exchange rates when cash in foreign currency is converted into New Taiwan dollars or when nonmonetary 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 measured at holding cost are stated at historical exchange rates; while equity-method investments are recorded as cumulative translation adjustments under stockholders' equity.

Hedging Derivative Financial Instruments

Hedging derivative financial instruments are measured at fair value. The changes in fair values of these instruments 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.

The Group uses interest rate swaps and forward exchange contracts to hedge cash flow risks from interest rate and exchange rate fluctuations of liabilities and firm commitments Under the cash flow hedge, the gains or losses from the changes in fair values 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 hedging would give rise to a non-financial asset or liability, the gains or losses will be recognized as adjustments to the original cost or carrying amount of the hedged asset or liability. If recognized adjustments to stockholders' equity result 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 risks from interest rate and exchange rate fluctuations of liabilities and firm commitments.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the nine months ended September 30, 2005 have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the nine months ended September 30, 2006.

3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined financial information of the Group as of and for the nine months ended September 30, 2005. This information is based on the assumption that Far EasTone bought majority interest of ARCOA on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	Nine Months Ended September 30, 2005
Current assets	$ 12,528,345
Properties, net	61,837,603
Current liabilities	19,627,848
Operating revenue	54,592,113
Income before income tax	14,165,339
Net income	11,579,202
Earnings per share	2.99

The pro forma combined financial information 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 the new ROC Statements of Financial Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and ROC SFAS No. 36 - "Disclosure and Presentation of Financial Instruments" and related revised Statements.

a. Effects of the first time adoption of the new announcement and revised Statements

On the basis of the accounting changes, 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 adjustments to the carrying values of the financial assets at fair value through profit or loss. Available-for-sale financial instruments measured at fair value or the assets or derivatives under the cash flow hedge are recognized as adjustments to stockholders' equity. In addition, an adjustment from assets or liabilities deferred from profit or loss under the cash flow hedge to stockholders' equity should be made for derivative instruments.

The effects of the first time adoption of the statements are as follows:

	As Adjustments to Stockholders' Equity (After Tax)
Hedging derivative financial liabilities - Far EasTone	$ 68,446
Hedging derivative financial liabilities - ARCOA	$ 900

The accounting change resulted in an increase of $389 thousand in consolidated net income before income tax expense.

b. Reclassification based on the new announcement and revised of Statements

Changes in accounting policies on the valuation of the Group's financial instruments for the nine months ended September 30, 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 is recognized in current income.

An allowance for loss is provided and charged to income in the current period when the aggregate carrying value of investments exceeds the total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income. The costs of short-term investments sold are determined 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 values 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 spot rate at the inception of the contracts. The premium or discount, which is the foreign-currency amount of the contract multiplied by the difference between the contracted forward rates and the spot rate at the inception of the contracts, 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. In addition, the receivables and payables on forward contracts open as of balance sheet date are offset against each other, and the resulting balances are recorded as assets or liabilities.

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.

Cross currency swap

Cross currency swap, which are intended for hedging purposes, are recorded at the contract exchange rates on the starting dates of the contracts (the “starting dates”). The differences of the notional amounts and accrued interests due to exchange rate fluctuations between the balance sheet date and starting dates are included in the current period’s incomes or losses. The interest exchanged during the contract period, is recorded on an accrual basis as an adjustment to the revenue or expense associated with the item being hedged.

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

On the balance sheet dates, the balances of foreign-currency denominated long-term investments accounted for under the cost method 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 Statements, the consolidated financial statements as of and for the nine months ended September 30, 2005 are reclassified as follows:

	September 30, 2005	
	Before Reclassification	**After Reclassification**
Short-term investments	$ 464,300	$ -
Investments in share of stock under the cost method	63,932	-
Pledged certificates of deposits - current	10,000	-
Receivable on forward contracts (included in other current assets)	699	-

(Continued)

	September 30, 2005	
	Before Reclassification	After Reclassification
Financial assets at fair value through profit or loss - current	$ -	$ 436,300
Hedging derivative financial assets - current	-	699
Available-for-sale financial assets - current	-	35,000
Bonds measured at amortized cost - current	-	3,000
Financial assets measured at holding cost - noncurrent	-	63,932

(Concluded)

The Group adopted new Statements as required by the revised ROC SFAS No. 1 - “Conceptual Framework for Financial Accounting and Preparation of Financial Statements,” SFAS No. 5 - “Long-term Investments in Equity Securities,” and SFAS 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 Statements resulted in an increase of $648,775 thousand in consolidated net income before income tax expense without any cumulative changes in accounting principles and an increase of $0.17 in basic earnings per share after income tax for the nine months ended September 30, 2006.

5. CASH AND CASH EQUIVALENTS

	September 30	
	2006	2005
Cash		
Cash on hand	$ 9,151	$ 13,273
Checking and demand deposits	1,087,672	769,689
Certificates of deposits - interest of 1.635%-5.100% in 2006 and 0.85%-3.50% in 2005	171,301	49,576
	1,268,124	832,538
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.55%-1.60%	1,853,166	-
Bonds purchased under resell agreements - interest of 1.45%	22,818	-
	1,875,984	-
	$ 3,144,108	$ 832,538

As of September 30, 2006 and 2005, the Group had no certificates of deposits with maturity periods exceeding one year.

As of September 30, 2006 and 2005, foreign demand deposits were as follows:

	September 30	
	2006	2005
Belgium (US$619 thousand in 2006 and US$615 thousand in 2005)	$ 20,489	$ 20,406
Hong Kong (US$22 thousand)	728	-
	$ 21,217	$ 20,406

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

Financial assets held for trading and designated financial assets to be measured at fair value through profit or loss were as follows:

	September 30	
	2006	2005
Financial assets held for trading - mutual funds	$ 266,591	$ 426,300
Designated financial assets to be measured at fair value through profit or loss - interest-linked structured deposits	-	10,000
	$ 266,591	$ 436,300

Net gains on financial assets held for trading were $2,482 thousand and $5,747 thousand for the nine months ended September 30, 2006 and 2005, respectively.

In September 2003, ARCOA invested $10,000 thousand in interest-linked structured deposits, which is highly correlated to interest rates, 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 financial assets to be measured at fair value through profit or loss were $57 thousand and $370 thousand for the nine months ended September 30, 2006 and 2005, respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	September 30	
	2006	2005
Open-ended mutual funds	$ 699,658	$ 35,000

8. BONDS MEASURED AT AMORTIZED COST - CURRENT

	September 30	
	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.

9. INVENTORIES, NET

	September 30 2006	September 30 2005
Cellular phone equipment	$ 887,168	$ 1,295,089
SIM cards and prepaid cards	94,660	108,457
Cellular phone accessories	50,133	121,052
Others	72,929	102,733
	1,104,890	1,627,331
Less - allowance for losses	71,279	97,047
	$ 1,033,611	$ 1,530,284

10. EQUITY-METHOD INVESTMENTS

	September 30 2006 Carrying Value	2006 % of Ownership	September 30 2005 Carrying Value	2005 % of Ownership
Common stocks with no quoted market prices				
Far Eastern Electronic Toll Collection Co., Ltd.	$ 467,069	42.66	$ 891,768	42.66
Ding Ding Integrated Marketing Service Co., Ltd.	26,579	15.00	28,580	15.00
iScreen Corporation	20,549	40.00	33,756	40.00
THI Consultants Inc.	13,729	22.22	14,128	22.22
Hi Information Co., Ltd.	6,026	33.17	5,217	33.17
KG Satellite Communication Co., Ltd.	-	-	78,974	66.33
	$ 533,952		$ 1,052,423	

a. Far Eastern Electronic Toll Collection Co., Ltd.

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.

On February 24, 2006, however, the Taipei High Administrative Court announced its decision to revoke the status of FETC as the candidate best qualified for the ETC project. Then, on August 3, 2006, the Supreme Administrative Court ruled that the original screening process conducted by TANFB was flawed and in violation of the principles of equality and public interest and stripped FETC of its "best qualified candidate" status. Thus, FETC must now compete for the project with two other bidders on an equal footing. As of October 18, 2006, the bidding process has not yet in progress.

The original intention behind Far EasTone's investment in FETC was to create the first intelligent transportation system in Taiwan and to maximize national economic efficiency. Nevertheless, since the foundation of the FETC, it has been under political attack and suffered from untruthful media accusation. FETC was, therefore, affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, Far Eastern Textile Co., Ltd. (Far EasTone's ultimate parent company) announced a proposal for Far EasTone and the affiliates of the Far Eastern Textile

Group to withdraw from FETC by unconditionally donating their FETC shareholding to the Government, so that the Government will be able to plan the future for the ETC operation on a brand new basis and further enhance domestic transportation efficiency and national competitiveness. This proposal took effect upon approval by Far EasTone's Board of Directors on August 22, 2006. The donation will be made depends on the Government's response.

b. Equity in investees' net gains or losses

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 financial statements as of and for the nine months ended September 30, 2006 and 2005, which were used as basis for calculating the equities in net assets of the foregoing equity-method investees, had all been unreviewed. Under the revised ROC SFAS No. 5 - "Long-term Investment in Equity Securities," ARCOA started to recognize its equity in the net income or net loss of THI Consultants Inc. (THIC) in the same period starting in 2005. As a result, the equity in THIC for the nine months ended September 30, 2005 included the accounts of audited financial statements as of and for the year ended December 31, 2004 and the accounts of unreviewed financial statements as of and for the nine months ended September 30, 2005.

The Group's investments in certain equity-method investees, which were based on unreviewed financial statements, were $533,952 thousand and $1,052,423 thousands as of September 30, 2006 and 2005, respectively. The equity in investees' net losses were $323,438 thousand and $125,920 thousand for the nine months ended September 30, 2006 and 2005, respectively.

c. Goodwill

The difference for the nine months ended September 30, 2006 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 MEASURED AT HOLDING COST - NONCURRENT

	September 30	
	2006	2005
Domestic emerging common stock		
Taiwan Fixed Network Co., Ltd.	$ 21,000	$ 21,000
Domestic unlisted common stock		
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
Foreign unlisted common stock		
Ideaculture Limited - US$431 thousand in 2006 and 2005	14,293	14,600
Domestic private mutual fund	100,000	-
	$ 163,625	$ 63,932

The Group's holdings of marketable equity securities and fund 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:

	September 30 2006	September 30 2005
Buildings and equipment	$ 742,711	$ 590,829
Operating equipment	53,656,183	44,766,970
Computer equipment	10,181,329	8,300,277
Office equipment	770,401	755,730
Leasehold improvements	1,110,320	945,984
Miscellaneous equipment	162,318	120,580
	$ 66,623,262	$ 55,480,370

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 September 30, 2006 and 2005 are as follows:

	September 30 2006	September 30 2005
Total future lease payments	$ 105,723	$ 92,480
Less - imputed interest expense	8,159	3,980
	97,564	88,500
Less - current portion of lease payable	40,449	29,500
Long-term lease payable	$ 57,115	$ 59,000

c. Capitalized interest on properties was as follows:

	Nine Month Ended September 30	
	2006	2005
Total interest expense	$ 140,365	$ 352,136
Less - Interest capitalized (included in construction in process and advances for acquisition of equipment)	60,835	117,663
Interest expense, net of amounts capitalized	$ 79,530	$ 234,473
Interest rate capitalized	2.09-2.51%	1.75-2.73%

13. GOODWILL

If an investment acquisition cost exceeds the fair value of identifiable net assets acquired, and the source of this excess cannot be identified, this excess should be recorded as goodwill.

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 September 30, 2006, the carrying value of the tangible and intangible assets used by the Group was $75,343,717 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

	September 30	
	2006	**2005**
Cost		
Land	$ 105,366	$ 124,042
Buildings	100,136	109,698
	205,502	233,740
Less - accumulated depreciation		
Buildings	6,982	6,669
	$ 198,520	$ 227,071

Rental assets 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. However, the rental agreement of ARCOA was canceled in July 2006 by the transacting parties. Future rental income is summarized as follows:

Period	**Amount**
October 1, 2006 to December 31, 2006	$ 3,583
2007	12,712
2008	8,174
2009	8,372
2010	8,578
After 2010	6,594

15. SHORT-TERM BANK LOANS

	September 30	
	2006	**2005**
Secured bank loans - interest of 2.0% in 2006 and 2.20%-5.55% in 2005	$ 48,000	$ 82,857
Unsecured bank loans - interest of 2.10% in 2006 and 1.30%-2.20% in 2005	55,946	2,583,760
	$ 103,946	$ 2,666,617

16. COMMERCIAL PAPER PAYABLE

Far EasTone and KG Telecom issued commercial paper guaranteed by financial institutions, which were discounted at 1.408% to 2.058%, were fully repaid on December 21, 2005.

17. BONDS PAYABLE

	September 30, 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

	September 30, 2005		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic secured bonds - Far EasTone	$ 330,000	$ -	$ 330,000
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
	$ 2,470,000	$ 6,530,000	$ 9,000,000

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.

18. LONG-TERM BANK LOANS

	September 30, 2006		
	Due Within One Year	Due After One Year	Total
Secured bank loans - KGEx.com	$ 38,095	$ 104,762	$ 142,857

	September 30, 2005		
	Due Within One Year	Due After One Year	Total
Secured bank loans - KGEx.com	$ 38,095	$ 142,857	$ 180,952

KGEx.com obtained a secured bank loan at interest rate of 2.44% in 2006 and 2.345% in 2005, payable monthly. The loan is secured and repayable quarterly from April 2005 at equal installments, with final repayment due in April 2010.

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 $107,546 thousand and $38,905 thousand for the nine months ended September 30, 2006 and 2005, respectively. FETI, under its government’s regulations, had recognized pension costs of $4,391 thousand and $3,597 thousand for the nine months ended September 30, 2006 and 2005, respectively.

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. Under this pension plan, employees can accumulate two base points for every service year within the first 15 service years and one base point for every service year thereafter. Employees can accumulate up to 45 base points. 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.

d. Additional 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:

	Nine Months Ended September 30, 2006		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	**KGEx.com**	**ARCOA**
Beginning balance	$ 340,092	$ 5,577	$ 47,690
Contribution	30,424	662	-
Interest	4,815	39	348
Payment	(1,174)	-	-
Ending balance	$ 374,157	$ 6,278	$ 48,038

	Nine Months Ended September 30, 2005		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	**KGEx.com**	**ARCOA**
Beginning balance	$ 291,970	$ 4,779	$ 42,374
Contribution	32,547	550	4,658
Ending balance	$ 324,517	$ 5,329	$ 47,032

Accrued pension costs (prepaid pension) were as follows:

	Nine Months Ended September 30, 2006		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	**KGEx.com**	**ARCOA**
Beginning balance	$ 273,918	$ 6,794	$ (10,160)
Pension cost	40,726	120	563
Contribution	(30,424)	(662)	-
Ending balance	$ 284,220	$ 6,252	$ (9,597)

	Nine Months Ended September 30, 2005		
	Far EasTone (Including KG Telecom, Far EasTron and Yuan Cing)	**KGEx.com**	**ARCOA**
Beginning balance	$ 226,308	$ 6,583	$ (8,825)
Pension cost	78,406	927	3,135
Contribution	(32,547)	(550)	(4,658)
Ending balance	$ 272,167	$ 6,960	$ (10,348)

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 the setting aside from the unappropriated earnings of a special reserve equal to any debit balance of an account under stockholders' equity. The balance of this special reserve is adjusted on the basis of the debit balance of the stockholders' equity account at period-end.

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. When the reserve exceeds 50% of Far EasTone's paid-in capital, the excess may be distributed as follows: (a) if Far EasTone has no earnings, the excess may be declared as dividends or bonus; and (b) if Far EasTone has no deficit, only the excess portion that is over 25% of Far EasTone's paid-in capital may be declared as stock dividends.

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 of the 2005 and 2004 earnings were approved by Far EasTone's stockholders on March 26, 2006 and May 20, 2005, respectively.

	Appropriation and Distribution		Dividend Per Share (Dollars)	
	2005	2004	2005	2004
Legal reserve	$ 1,471,741	$ 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

c. Global depositary receipts

Far EasTone's Global Depositary Receipts ("GDRs") as of September 30, 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)	18,874	283,103
GDRs transferred to common stock		(23,252)	(348,775)
Outstanding GDRs issued		6,083	91,249

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 September 30, 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 September 30, 2006, Far EasTone had reissued 18,874 thousand units of GDRs representing 283,103 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:

	September 30 2006	September 30 2005
Income tax expense computed at statutory tax (25% to 33%)	$ 4,135,646	$ 4,549,971
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(776,252)	(1,025,833)
Equity in investees' net gains	(918,399)	(839,929)
Goodwill amortization	(148,313)	-
Realized investment losses	-	(145,319)
Other	(29,597)	1,977
Temporary differences	(178,300)	105,481
Unappropriated earnings tax (10%)	84,303	1,438
Less - investment tax credits	(201,158)	(701,908)
Income tax payable - current	1,967,930	1,945,878
Prepaid income tax	(1,495,250)	(897,685)
Accrued income tax payable in administrative remedy	759,647	407,842
Income tax payable	$ 1,232,327	$ 1,456,035

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 from June 26, 2002 to June 25, 2007.

b. Income tax expense consisted of:

	Nine Months Ended September 30 2006	Nine Months Ended September 30 2005
Income tax expense - current	$ 1,967,930	$ 1,945,878
Income tax expense - deferred	225,248	644,760
Prior year's adjustment	151,405	(14,301)
Income tax expense on income subjected to a separate rate of 20%	10,960	9,800
Income tax expense	$ 2,355,543	$ 2,586,137

c. Deferred income taxes assets (liabilities) as of September 30, 2006 and 2005 were as follows:

	September 30 2006	September 30 2005
Current		
Provision for doubtful accounts	$ 881,918	$ 842,321
Loss carryforwards	62,932	40,327
Provision for losses on decline in value of inventories	16,607	29,292
Investment tax credits	2,489	66,999

(Continued)

	September 30	
	2006	2005
Unrealized foreign exchange gains, net	$ (204)	$ (2,576)
Other	2,767	-
	966,509	976,363
Less - valuation allowance	85,766	141,720
	$ 880,743	$ 834,643
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 315,596	$ 382,525
Loss carryforwards	316,448	276,907
Losses in decline in value of properties not currently used in operations	217,021	365,330
Accrued pension cost	80,096	82,867
Equity in investees' net losses (gains)	14,395	(333)
Unrealized losses on financial products	33,050	14,420
Loss on disposal of properties	20,496	13,246
Investment tax credits	31,435	8,573
Other	461	6,146
	1,028,998	1,149,681
Less - valuation allowance	578,780	518,393
	$ 450,218	$ 631,288

(Concluded)

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

d. Integrated income tax information was as follows:

	September 30	
	2006	2005
Balance of imputation credit account (ICA)		
Far EasTone	$ 245,998	$ 58,849
KG Telecom	$ 3,028	$ 135,962
ARCOA	$ 3,779	$ 3,366

When the dividend from the unappropriated earnings as of December 31, 2005 and 2004 were distributed in 2006 and 2005, the actual ratios Far EasTone used were 16.18% and 8.75%, respectively.

When the dividend from the unappropriated earnings as of December 31, 2005 and 2004 were distributed in 2006 and 2005, the actual ratios KG Telecom used were 0.11% and 32.50%, respectively.

ARCOA, Yuan Cing, Far EasTron and KGEx.com had no appropriated earnings as of September 30, 2006. Thus, their ICA balances will be accumulated until dividend distribution in the future.

e. Investment tax credits were as follows:

The unused investment tax credits of the Group as of September 30, 2006 are summarized as follows:

Far EasTone

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 3,971	$ 3,971	2007
	Purchase of automated equipment or technology	26,841	26,841	2008
		$ 30,812	$ 30,812	

ARCOA

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 9,066	$ 2,489	2006
	Personnel training expenses	623	623	2009
		$ 9,689	$ 3,112	

f. Loss carryforwards of the Group as of September 30, 2006 are as follows:

Expiry Year	ARCOA	KGEx.com	Yuan Cing	Far EasTron
2006	$ -	$ 47,960	$ 14,972	$ -
2007	-	36,546	129	-
2008	-	53,341	179	-
2009	-	72,907	-	-
2010	37,459	37,056	-	2,716
2011	34,860	33,839	-	7,416
	$ 72,319	$ 281,649	$ 15,280	$ 10,132

g. The status of income tax returns are as follows:

The income tax returns of Yuan-Ze Telecom, KGEx.com and Yuan Cing through 2003 had been examined and cleared by the tax authorities. However, the income tax return of Far EasTron for 2005 had not been examined and cleared by the tax authorities.

Income tax returns of Far EasTone through 2002 had been examined and cleared by the tax authorities. The tax authorities assessed an additional tax on Far EasTone's income tax returns for 2000 and 2001. Far EasTone had filed an appeal for the reexamination of the above-mentioned returns and accrued the related tax thereof.

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 had filed appeals for the reexamination of returns from 2000 to 2002 and accrued the related tax thereof.

Income tax returns through 2003 of ARCOA had been examined by the tax authorities. However, the tax authorities assessed additional taxes of $6,771 thousand and $1,397 thousand on ARCOA's returns for 2003 and 2002, respectively. ARCOA filed appeals for the reexamination of its 2003 and 2002 returns in June 2006 and October 2005, respectively.

22. FACTORING OF NONPERFORMING ACCOUNTS RECEIVABLE

KG Telecom wrote off certain overdue/nonperforming accounts receivables. Under an agreement signed in March 2006, KG Telecom factored these receivables, i.e., sold them without recourse, to an asset management company. Thus, KG Telecom was no longer responsible for collecting these receivables.

Related information as of September 30, 2006 were as follows:

Counter Party	Amount of Accounts Receivables Sold	Proceeds from Sale of Accounts Receivable
Hui Cheng First Asset Management Co., Ltd.	$ 679,069	$ 23,862

23. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Nine Months Ended September 30, 2006			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 447,236	$ 1,653,350	$ -	$ 2,100,586
Pension	38,817	114,529	-	153,346
Meal	13,088	60,129	-	73,217
Employee benefit	1,039	54,220	-	55,259
Insurance	41,476	139,937	-	181,413
Miscellaneous	6,337	39,870	-	46,207
	$ 547,993	$ 2,062,035	$ -	$ 2,610,028
Depreciation	$ 7,459,666	$ 1,322,793	$ 12,705	$ 8,795,164
Amortization	$ -	$ 86,055	$ -	$ 86,055

	Nine Months Ended September 30, 2005			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 356,946	$ 1,701,191	$ -	$ 2,058,137
Pension	17,785	91,696	-	109,481
Meal	9,425	58,576	-	68,001
Employee benefit	801	56,885	-	57,686
Insurance	29,841	132,734	-	162,575
Miscellaneous	11,351	50,709	-	62,060
	$ 426,149	$ 2,091,791	$ -	$ 2,517,940
Depreciation	$ 7,039,261	$ 1,453,524	$ 1,521	$ 8,494,306
Amortization	$ -	$ 690,262	$ -	$ 690,262

24. EARNINGS PER SHARE

The earnings per share (EPS) calculation was as follows:

	Amount (Numerator)		Common Stock (Denominator) (in Thousand Shares)	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
Nine months ended September 30, 2006					
Basic EPS					
Net income - Far EasTone	$ 11,084,054	$ 9,995,822	3,872,663	$ 2.86	$ 2.58
Nine months ended September 30, 2005					
Basic EPS					
Net income - Far EasTone	$ 12,708,375	$ 11,595,088	3,870,533	$ 3.28	$ 3.00
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,052	2,130		
Diluted EPS					
Net income including the effect of potential dilutive common stock - Far EasTone	$ 12,710,624	$ 11,597,140	3,872,663	$ 3.28	$ 2.99

25. FINANCIAL INSTRUMENTS

a. Fair value information

	September 30			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Financial assets at fair value through profit or loss - current	$ 266,591	$ 266,591	$ 436,300	$ 436,806
Available-for-sale financial assets - current	699,658	699,658	35,000	35,037
Bonds measured at amortized cost	3,000	-	3,000	-
Equity method investments	533,952	-	1,052,423	-
Financial assets measured at holding cost - noncurrent	163,625	-	63,932	-
Refundable deposits	411,581	411,319	397,814	396,962
Liabilities				
Bonds payable (including current portion)	6,530,000	6,516,271	9,000,000	9,191,950
Long-term bank loans (including current portion)	142,857	142,857	180,952	180,952
Lease payable (including current portion)	97,564	97,564	88,500	88,500
Guarantee deposits received (including current portion)	1,201,938	1,201,938	1,384,672	1,384,672
Hedging derivative financial liabilities - Far EasTone	(75,914)	(75,914)	-	(86,254)

The Group adopted ROC SFAS 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 methods and assumptions used for estimating the fair values of financial instruments were as follows:

1) Cash and cash equivalents, notes and accounts receivable, receivables from related parties, pledged certificates of deposits, short-term bank loans, commercial paper payable, notes payable, accounts payable, payables to related parties and payables related to acquisition of properties, excluded from the financial instruments mentioned in the table above, 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 fair values 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 fair values of derivatives. Otherwise, the fair 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 fair value of each interest rate swap and forward contract based on the net cash flow and the exchange rate, respectively.

3) The fair values of financial assets measured at holding cost - noncurrent, bonds measured at amortized cost - current and equity method investments with no quoted market prices cannot be reasonably measured since the quoted market prices are not available.

4) Fair values of bonds payable, lease payable, long-term bank loans, refundable deposits, and guarantee deposits received are measured at the present values of expected cash flows, which are discounted at the interest rates for bank loans with similar maturities.

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:

	September 30			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Assets				
Financial assets at fair value through profit or loss - current	$ 266,591	$ 426,831	$ -	$ 9,975
Available-for-sale financial assets - current	699,658	35,037	-	-
Liabilities				
Hedging derivative financial liabilities - Far EasTone	-	-	(75,914)	(86,254)

d. As of September 30, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $2,524,387 thousand and $493,059 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $5,159,502 thousand and $ 7,803,172 thousand, respectively. As of September 30, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $1,087,672 thousand and $779,689 thousand, respectively, while financial liabilities with cash flow risk from interest rate fluctuations amounted to $2,916,803 thousand and $6,296,150 thousand, respectively.

e. Information on 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 cross-currency swap contracts to hedge the effect of interest rate fluctuations and foreign currency fluctuations on its foreign-currency denominated 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. Gains or losses on exchange rates fluctuations of the forward contracts are likely to offset the gains or losses on the hedged item. As a result, no significant exposure to market risk is anticipated.

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 and corporations 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 flow requirement. Thus, the Group does not have liquidity risk.

Far EasTone 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. However, Far EasTone also made equity-method investment with no quoted prices in an active market; thus, it might face significant liquidity risk.

KG Telecom invested in mutual funds that have quoted prices in active markets and can be sold immediately at prices close to their fair values. However, KG Telecom also invested in domestic private fund and equity - method investments with no quoted prices in an active market; thus, these investments could expose KG Telecom to material liquidity risks. Moreover, KG Telecom entered into cross-currency swap to hedge cash flow risk.

ARCOA invested in mutual funds that have quoted prices in an active market and can be sold immediately at prices close to their fair values. However, ARCOA also invested in financial bonds and equity instruments with no quoted prices in an active market; thus, these investments could expose ARCOA to material liquidity risks.

4) Cash flow risk from interest rate fluctuations

The Group has certificates of deposits and short-term and long-term liabilities with floating interest rates. As a result, the effective interest rates on these certificates of deposits and loans will change as the market interest rates change.

f. Cash flow hedge

The Group uses interest rate swap and forward exchange contracts to hedge overall fluctuations on interest rates and exchange rates on their liabilities and firm commitments.

	Designated Hedging Instruments				
		Fair Value September 30			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	$ (75,914)	$ (86,254)	2003-2008	2003-2008
Firm commitments	Forward contracts - ARCOA	-	699	2005	2005

In the nine months ended September 30, 2006, changes in unrealized gains and losses on financial products were as follows:

	Nine Months Ended September 30, 2006
Far EasTone	
As adjustments to stockholders' equity	$ (16,786)
Recognized as profit or loss	28,297
	$ 11,511
ARCOA	
As adjustments to stockholders' equity	$ 581
Recognized as profit or loss	382
Recognized under hedged nonfinancial asset	(63)
	$ 900

26. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Group
Far Eastern Textile Ltd.	Ultimate parent company
KG Satellite Communication Co., Ltd.	Subsidiary of KG Telecom; liquidated in July 2005
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
NTT DoCoMo Inc.	Director of Far EasTone
Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EasTone
Yuang Ding Co.	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd.	Same chairman
Asia Cement Co., Ltd.	Same chairman
Far Eastern International Bank (FEIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Yuan-Ze University	Same chairman
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to those mentioned in Notes 12 and 27, the Group's significant transactions with the above parties are summarized as follows:

		2006		2005	
		Amount	%	Amount	%
During the period					
Operating revenue	a.				
NCIC	b.	$ 423,445	1	$ 821,926	2
Other	o.	43,307	-	11,394	-
		$ 466,752	1	$ 833,320	2
Operating costs and expenses					
Cost of telecommunications service					
NCIC	b.	$ 33,812	-	$ 67,930	-
Other	o.	6,098	-	1,476	-
		$ 39,910	-	$ 69,406	-

(Continued)

		2006		2005	
		Amount	%	Amount	%
Rental					
FETRD	c.	$ 38,640	1	$ 39,190	2
FEILC	d.	26,958	1	34,081	1
NCIC	e.	11,286	-	10,023	-
Other	o.	10,036	-	7,082	-
		$ 86,920	2	$ 90,376	3
Research and development expense					
FETTDF	f.	$ 10,608	34	$ 16,231	81
Service fee					
FCHRC	g.	$ 41,194	37	$ 40,403	18
Marketing expense					
DDIM	h.	$ 35,395	1	$ 13,922	-
Nonoperating income and gains					
Other Revenue					
FETC	i.	$ 16,449	13	$ -	-
Nonoperating expenses and loses					
Interest					
FEIB	j.	$ -	-	$ 128	-
Acquisition of properties					
NCIC	k.	$ -	-	$ 54,204	1
Other	o.	76	-	1,408	-
		$ 76	-	$ 55,612	1
At end of period					
Accounts and notes receivable from related parties					
FETC	i.	$ 23,602	50	$ 21,417	56
NCIC	l.	15,782	33	11,092	29
NTT DoCoMo Inc.	m.	6,549	14	3,350	9
DDIM	n.	835	2	1,816	5
Other	o.	451	1	380	1
		$ 47,219	100	$ 38,055	100
Accounts and notes payable to related parties					
DDIM	h.	$ 60,911	42	$ 24,309	17
NCIC	b. and k.	53,947	37	67,829	48
FETRD	c.	8,587	6	5,128	3
FEILC	d.	2,864	2	8,931	6
FETTDF	f.	76	-	9,844	7
Other	o.	17,710	13	26,548	19
		$ 144,095	100	$ 142,589	100

(Continued)

		2006		2005	
		Amount	%	Amount	%
Unearned revenues					
FETC	i.	$ 1,487	-	$ 25,304	2
Other	o.	1,478	-	-	-
		$ 2,965	-	$ 25,304	2
Lease payable (including current portion)					
FEILC	d.	$ 96,571	99	$ 88,500	100

(Concluded)

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.com 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.com's network. The interconnection fees paid by Far EasTone, KG Telecom and KGEx.com 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.com were included in cost of telecommunications services. 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; and (c) vehicles. 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 is entitled to renew the contracts or to 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.com lease from FEILC computer equipment under capital lease agreement, with annual lease payments of $41,141 thousand (Note 12).

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

f. FETTDF provides telecommunications technology researches and training programs to Far EasTone and KG Telecom.

g. 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 demands.

h. 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.

i. Far EasTone was contracted with FETC to implement the 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.

j. KG Telecom obtained a syndicated loan from a consortium of banks with interest payable monthly. A portion of the outstanding loans amounting to $34,000 thousand was drawn from FEIB, which was repaid in June 2005. In addition, FEIB provided a $30,600 thousand guarantee for KG Telecom’s domestic secured bonds, which was fully repaid on August 4, 2005.

k. Far EasTone bought NCIC’s telecommunications network and backbone network facilities.

l. 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.

m. 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.

n. Yuan Cing provided implementation service to DDIM for its Interactive Voice Response system. The related proceeds were included in receivables from related parties.

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.

27. COMMITMENTS AS OF SEPTEMBER 30, 2006

The Group had the following significant commitments:

a. The Group were under contracts to acquire properties and cellular phone equipment for $1,237,689 thousand and $888,119 thousand, respectively.

b. The Group’s outstanding letters of credit amounted to ￥34,042 thousand (equivalent to $9,532 thousand), US$3,687 thousand (equivalent to $122,038 thousand) and $62,289 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
October 1, 2006 to December 31, 2006	$ 659,298
2007	2,708,437
2008	2,788,739
2009	2,873,773
2010	2,956,013
January 1, 2011 to September 30, 2011	2,306,078

d. On May 26, 2006, Far EasTone's Board of Directors authorized its Chairman, by the end of Year 2006 and with the amount under $500,000 thousand, to determine on behalf of Far EasTone to provide endorsements/guarantees to its investee, Far Eastern Electronic Toll Collection Co., Ltd. ("FETC"), in accordance with Far EasTone's "Procedure for Making Endorsements and Guarantees." On July 25, 2006, Far EasTone provided a $154,000 thousand guarantee for FETC's bank loan, which Far EasTone's Board of Directors ratified on August 22, 2006. As of October 18, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

28. 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, were as follows:

	September 30	
	2006	**2005**
Financial assets at fair value through profit or loss - current	$ -	$ 10,000
Pledged certificates of deposits - current	53,508	41,506
Pledged certificates of deposits - noncurrent (included in other assets - other)	9,013	1,163
Properties, net	495,161	11,715,128
	$ 557,682	$ 11,767,797

29. 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: Schedule A

3) Marketable securities and investments held: Schedule B

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 C

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 D

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

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

10) Derivative financial instruments of investees: Note 25

c. 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 G

   2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 26

d. Additional disclosure for consolidated financial statements:

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
NINE MONTHS ENDED SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party (Note 2)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Total Guarantee/ Endorsement Allowed to Be Provided by the Guarantor/Endorser (Note 2)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd. ("Far EasTone")	Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee	$70,760,058	$154,000 (Note 1)	$154,000 (Note 1)	$ -	0.22%	$141,520,116

Note 1: Represents the actual amount of guarantee provided, not the maximum amount allowable, as of October 18, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

Note 2: The total guarantee/endorsement amount equals 200% of Far EasTone's net worth, while the limit of guarantee/endorsement amount for each receiving party should not exceed 100% of Far EasTone's net worth.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 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	September 30, 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	$ 34,741,050	100.00	$ 34,741,050	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity method investments	79,353,013.00	1,081,746	59.10	1,081,746	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity method investments	106,650,000.00	467,069	42.66	467,069	Note B
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity method investments	1,200.00	153,600	100.00	153,600	Note B
	Far EasTron Holding Ltd.	Equity-method investee	Equity method investments	4,486,988.00	113,698	100.00	113,698	Note B
	E. World (Holdings) Ltd.	Equity-method investee	Equity method investments	6,014,622.00	74,185	85.92	74,185	Note B
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity method investments	4,500,000.00	26,579	15.00	26,579	Note B
	Far EasTron Co., Ltd.	Equity-method investee	Equity method investments	100,000.00	730	0.67	730	Note B
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity method investments	186,367,857.00	1,129,631	74.55	1,129,631	Note B
	KGT International Holding Co., Ltd.	Equity-method investee	Equity method investments	50,000.00	85,655	100.00	85,655	Note B
	iScreen Corporation	Equity-method investee	Equity method investments	4,000,000.00	20,549	40.00	20,549	Note B
	Mutual funds							
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	46,468,833.40	500,056	-	500,056	Note C
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	199,602	-	199,602	Note C
	Far Eastern Alliance Long-Short Private Placement Fund	-	Financial assets measured at holding cost - noncurrent	10,000,000.00	100,000	-	-	Note D
ARCOA Communication Co., Ltd.	Stocks							
	Hi Information Co., Ltd.	Equity-method investee	Equity method investments	4,975,000.00	6,026	33.17	6,026	Note B
	THI Consultants Inc.	Equity-method investee	Equity method investments	1,060,000.00	13,729	22.22	13,729	Note B
	Chunghwa Int’l Communication Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,830,901.00	6,714	4.20	-	Note D
	Taiwan Fixed Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,100,000.00	21,000	0.03	-	Note D
	VIBO Telecom Inc.	-	Financial assets measured at holding cost - noncurrent	2,000,000.00	20,000	0.13	-	Note D
	Web Point Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	160,627.00	1,618	0.63	-	Note D
	Mutual funds							
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,169,365.40	91,517	-	91,517	Note C

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares	Carrying Value (Note F)	Percentage of Ownership	Market Value or Net Asset Value	
	Capital Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,102,997.90	$ 15,004	-	$ 15,004	Note C
	Fuhwa Bond Fund	-	Financial assets at fair value through profit or loss - current	4,708,769.19	60,010	-	60,010	Note C
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	2,598,527.50	30,002	-	30,002	Note C
	ABN AMRO Select Bond Fund	-	Financial assets at fair value through profit or loss - current	4,431,439.05	50,052	-	50,052	Note C
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	1,268,568.67	20,006	-	20,006	Note C
	Bonds							
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds measured at amortized cost - current	3,000,000.00	3,000	-	-	Note D
Far Eastern Info Service (Holding) Ltd. (Note E)	Share certificates							
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity method investments	-	US$ 4,147,000	100.00	US$ 4,147,000	Note B
Far EasTron Holding Ltd. (Note E)	Stocks							
	Far EasTron Co., Ltd.	Equity-method investee	Equity method investments	14,900,000.00	US$ 3,413,000	99.33	US$ 3,413,000	Note B
E. World (Holdings) Ltd. (Note E)	Stocks							
	Yuan Cing Co., Ltd. (former E. World Co., Ltd.)	Equity-method investee	Equity method investments	19,349,994.00	US$ 1,668,000	99.99	US$ 1,668,000	Note B
	Ideaculture (Cayman) Ltd.	-	Financial assets measured at holding cost - noncurrent	1,195,141.00	US$ 431,000	17.96	-	Note D
KGT International Holding Co., Ltd. (Note E)	Stocks							
	KGEx.com Co., Ltd.	Equity-method investee	Equity method investments	11,465,000.00	69,268	4.59	69,268	Note B

Note A: Calculation was based on reviewed financial statements as of September 30, 2006.

Note B: Calculation was based on unreviewed financial statements as of September 30, 2006.

Note C: The market values of open-end mutual funds were calculated at their net asset value as of September 30, 2006.

Note D: Calculation was based on cost because the security did not have a quoted price in an active market.

Note E: Information was based on unreviewed financial statements as of September 30, 2006.

Note F: Carrying values of available-for-sale financial assets - current and financial assets at fair value through profit or loss - current were based on their fair values as of September 30, 2006.

(Concluded)

SCHEDULE C

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
NINE MONTHS ENDED SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss	Share/Units	Amount
KG Telecommunications Co., Ltd.	Far Eastern Alliance Long-Short Private Placement Fund	Financial assets measured at holding cost - noncurrent	-	-	-	$ -	10,000,000.00	$ 100,000	-	$ -	$ -	$ -	10,000,000.00	$ 100,000
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	Available-for-sale financial assets - current	-	-	-	-	46,468,833.40	500,000	-	-	-	-	46,468,833.40	500,000
ARCOA Communication Co., Ltd.	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	10,334,101.90	151,500	18,578,285.40	274,500	22,743,021.90	335,648	334,500	1,148	6,169,365.40	91,500
	Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,584,836.29	20,000	14,169,410.86	180,000	11,045,477.96	140,290	140,000	290	4,708,769.19	60,000
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,862,319.11	170,000	12,862,319.11	170,459	170,000	459	-	-
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,079,318.13	150,000	11,079,318.13	150,294	150,000	294	-	-

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

SCHEDULE D

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
NINE MONTHS ENDED SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)

Purchaser (Seller)	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 service revenues	$ (2,097,299)	(6%)	Based on agreement	-	-	Accounts receivable	$ 261,538	5%
			Cost of telecommunications service	1,160,197	8%	Based on agreement	-	-	Accounts payable	(37,709)	(5%)
	ARCOA Communication Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	424,658	5%	Based on agreement	-	-	Accounts payable and accrual expense	(59,523)	(8%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(173,042)	(1%)	Based on agreement	-	-	Accounts receivable	69,429	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(324,632)	(1%)	Based on agreement	-	-	Accounts receivable (Note)	-	-
									Accounts payable (Note)	(14,988)	(2%)
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,160,197)	(6%)	Based on agreement	-	-	Accounts receivable	37,709	1%
			Cost of telecommunications service	2,097,299	23%	Based on agreement	-	-	Accounts payable	(261,538)	(48%)
	KGEx.com Co., Ltd.	Subsidiary	Telecommunications service revenues	(103,232)	(1%)	Based on agreement	-	-	Accounts receivable	15,568	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(424,658)	(13%)	Based on agreement	-	-	Accounts receivable	59,523	41%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications service	173,042	29%	Based on agreement	-	-	Accounts payable	(69,429)	(46%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications service	103,232	17%	Based on agreement	-	-	Accounts payable	(15,568)	(10%)

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
SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	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	$ 511,245	(Note A)	$ -	-	$ 131,341	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	125,959	12.84	-	-	-	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,458,764	(Note B)	-	-	442,076	-

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 the telecommunications bills collected by Far EasTone.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
NINE MONTHS ENDED SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				September 30, 2006	December 31, 2005	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications service	$ 29,629,139	$ 29,629,139	1,332,997,916	100.00	$ 34,741,050	$ 4,185,101	$ 4,185,008	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	TYPE II telecommunications service, manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,081,746	(151,575)	(89,573)	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	467,069	(815,600)	(322,027)	Notes C and D
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	153,600	8,612	8,612	Notes A and D
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	113,698	(29,668)	(29,668)	Notes A and D
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	74,185	8,584	7,376	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	26,579	(7,342)	(1,101)	Notes C and D
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	730	(29,662)	(198)	Notes D and E
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications service	2,197,652	2,197,652	186,367,857	74.55	1,129,631	(131,609)		Notes D and E
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	85,655	(5,154)		Notes D and E
	iScreen Corporation	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,549	(1,000)		Notes D and F
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	6,026	1,476		Notes D and F
	THI Consultants Inc.	Taiwan	Construction consulting	13,700	13,700	1,060,000	22.22	13,729	-		Notes D and F
Far Eastern Info Service (Holding) Ltd. (Note G)	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer - related service	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 4,147,000	8,956		Notes D and E
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$ 3,413,000	(29,662)		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$ 1,668,000	8,632		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	11,465,000	4.59	69,268	(131,609)		Notes D and E

Notes: A. Subsidiary.

B. Calculation was based on reviewed financial statements as of September 30, 2006.

C. Equity-method investee of Far EasTone.

D. Calculation was based on unreviewed financial statements as of September 30, 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 September 30, 2006.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
NINE MONTHS ENDED SEPTEMBER 30, 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 since Jan. 1, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of September 30, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of September 30, 2006	Accumulated Investment in Mainland China as of September 30, 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	$82,750 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$8,956	$137,266 (US$4,147,000)	$ -	$92,616	$92,616	$15,652,012 (Note C)

Note A: Calculation was based on unreviewed financial statements as of September 30, 2006.

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

Note C: Based on the limit stated in the “Principles Governing the Review of Investment or Technical Cooperation in Mainland China,” which was issued by the ROC Investment Commission on March 1, 2004.

Note D: Please refer to Note 26 for significant transactions with the investee company.

SCHEDULE H

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

ELIMINATED SIGNIFICANT INTERCOMPANY TRANSACTIONS
NINE MONTHS ENDED SEPTEMBER 30, 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)
	Nine months ended September 30, 2006						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	$ 511,245	Note D	1%
				Payables to related parties	1,458,764	Note D	2%
				Telecommunications services revenue	2,097,299	Note D	4%
				Cost of telecommunications services	1,160,197	Note D	2%
				Marketing expenses	146,232	Note D	-
				Nonoperating income and gains	182,677	Note D	-
				Management service revenue	92,397	Note D	-
		ARCOA Communication Co., Ltd.	1	Receivables form related parties	125,959	Note D	-
				Unearned revenue	219,320	Note D	-
				Payables to related parties	59,523	Note D	-
				Sales of cellular phone equipment and accessories, net	16,860	Note D	-
				Telecommunications service revenue	1,509	Note D	-
				Cost of sales	93,052	Note D	-
				Marketing expenses	331,606	Note D	1%
		KGEx.com Co., Ltd.	1	Receivables from related parties	69,429	Note D	-
				Payables to related parties	2,924	Note D	-
				Telecommunications services revenue	173,042	Note D	-
				Cost of telecommunications services	3,257	Note D	-
				General and administrative expenses	866	Note D	-
				Management service revenue	5,625	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Payables to related parties	6,149	Note D	-
				General and administrative expenses	85,997	Note D	-
		Far EasTron Co., Ltd.	1	Receivables form related parties	3,381	Note D	-
		Yuan Cing co., Ltd.	1	Payables to related parties	9,858	Note D	-
				Management service revenue	858	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Receivables from related parties	891	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	1,458,764	Note D	2%
				Payables to related parties	511,245	Note D	1%
				Telecommunications services revenue	1,160,197	Note D	2%
				Cost of telecommunications services	2,121,937	Note D	4%
				Marketing expenses	210,681	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	$ 38,081	Note D	-
				Research and development expenses	1,674	Note D	-
				Nonoperating income and gains	146,232	Note D	-
		ARCOA Communication Co., Ltd.	3	Payables to related parties	21,627	Note D	-
				Unearned revenue	959	Note D	-
				Sales of cellular phone equipment and accessories, net	7,013	Note D	-
				Cost of sales	28,666	Note D	-
				Marketing expenses	99,386	Note D	-
		KGEx.com Co., Ltd.	3	Receivables from related parties	21,216	Note D	-
				Payables to related parties	1,652	Note D	-
				Telecommunications service revenue	103,232	Note D	-
				General and administrative expenses	12,986	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Payables to related parties	15,805	Note D	-
				General and administrative expenses	40,180	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	59,523	Note D	-
				Inventory	219,320	Note D	-
				Payables to related parties	125,959	Note D	-
				Sales of cellular phone equipment and accessories, net	522,886	Note D	1%
				Other operating revenues	249,736	Note D	1%
				Cost of sales	377,718	Note D	1%
				Cost of telecommunications services	659	Note D	-
				Marketing Expenses	850	Note D	-
				Nonoperating income and gains	12,894	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	21,627	Note D	-
				Inventory	959	Note D	-
				Sales of cellular phone equipment and accessories, net	66,560	Note D	-
				Other operating revenues	92,690	Note D	-
				Cost of sales	38,211	Note D	-
3	KGEx.com Co., Ltd. (Note F)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	2,924	Note D	-
				Payables to related parties	69,429	Note D	-
				Telecommunications service revenue	4,123	Note D	-
				Cost of telecommunications services	173,042	Note D	-
				General and administrative expenses	5,625	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	1,652	Note D	-
				Payables to related parties	21,216	Note D	-
				Telecommunications service revenue	12,986	Note D	-
				Cost of telecommunications services	103,232	Note D	-
		Far EasTron Co., Ltd.	3	Receivables from related parties	272	Note D	-
				Telecommunications service revenue	2,403	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai) (Note F)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	6,149	Note D	-
				Other operating revenues	85,997	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	15,805	Note D	-
				Other operating revenues	40,180	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 F)	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	$ 3,381	Note D	-
		KGEx.com Co., Ltd.	3	Payables to related parties	272	Note D	-
				Other operating costs	2,403	Note D	-
		Yuan Cing Co., Ltd.	3	General and administrative expenses	524	Note D	-
6	Yuan Cing Co., Ltd. (Note F)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	9,858	Note D	-
				General and administrative expenses	858	Note D	-
		Far EasTron Co., Ltd.	3	Other operating revenues	524	Note D	-
7	Far Eastern Info Service (Holding) Ltd. (Note F)	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	891	Note D	-
	Nine months ended September 30, 2005						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	757,719	Note D	1%
				Payables to related parties	558,406	Note D	1%
				Telecommunication service revenue	1,852,539	Note D	3%
				Cost of telecommunications services	873,051	Note D	2%
				Marketing expenses	96,257	Note D	-
				Nonoperating income and gains	208,378	Note D	-
				Management service revenue	68,178	Note D	-
		ARCOA Communication Co., Ltd.	1	Refundable deposits	20	Note D	-
				Payables to related parties	63,584	Note D	-
				Sales of cellular phone equipment and accessories, net	75,795	Note D	-
				Cost of sales	11,960	Note D	-
				Marketing expenses	256,244	Note D	-
		KGEx.com Co., Ltd.	1	Receivables from related parties	35,862	Note D	-
				Payables to related parties	1,598	Note D	-
				Telecommunications service revenue	124,823	Note D	-
				Management service revenue	5,625	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Payables to related parties	5,772	Note D	-
				General and administrative expenses	106,283	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	558,406	Note D	1%
				Payables to related parties	757,719	Note D	1%
				Telecommunications service revenue	873,051	Note D	2%
				Cost of telecommunications services	1,867,262	Note D	3%
				Marketing expenses	228,813	Note D	-
				General and administrative expenses	30,768	Note D	-
				Research and development expenses	2,252	Note D	-
				Nonoperating income and gains	96,257	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 Communication Co., Ltd.	3	Payables to related parties	$ 46,211	Note D	-
				Sales of cellular phone equipment and accessories, net	26,838	Note D	-
				Cost of sales	4,259	Note D	-
				Marketing expenses	209,597	Note D	-
		KGEx.com Co., Ltd.	3	Receivables from related parties	31,538	Note D	-
				Payables to related parties	4,322	Note D	-
				Telecommunications service revenue	127,659	Note D	-
				General and administrative expenses	5,606	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Payables to related parties	15,452	Note D	-
				General and administrative expenses	12,598	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	63,584	Note D	-
				Guarantee deposits received	20	Note D	-
				Sales of cellular phone equipment and accessories, net	11,960	Note D	-
				Other operating revenues	256,244	Note D	-
				Cost of sales	75,795	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	46,211	Note D	-
				Sales of cellular phone equipment and accessories, net	4,259	Note D	-
				Other operating revenues	209,597	Note D	-
				Cost of sales	26,838	Note D	-
3	KGEx.com Co., Ltd. (Note F)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	1,598	Note D	-
				Payables to related parties	35,862	Note D	-
				Cost of telecommunications services	124,823	Note D	-
				General and administrative expenses	5,625	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	4,322	Note D	-
				Payables to related parties	31,538	Note D	-
				Cost of telecommunications services	127,659	Note D	-
				Nonoperating income and gains	5,606	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai) (Note F)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	5,772	Note D	-
				Nonoperating income and gains	106,283	Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	15,452	Note D	-
				Nonoperating income and gains	12,598	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.”

(Continued)

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 September 30, 2006 and 2005; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the nine months ended September 30, 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: Information was based on unreviewed financial statements as of September 30, 2006 and 2005.

(Concluded)