Far EasTone Telecommunications Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, regulations related to financial accounting standards stated in Business Accounting Law, and Guidelines Governing Business Accounting and 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 released ROC Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and SFAS 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.

February 6, 2007

Notice to Readers

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

For the convenience of readers, the auditors' 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 auditors' report and financial statements shall prevail.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 7,851,646	8	$ 4,640,298	5
Financial assets at fair value through profit or loss - current (Notes 2, 4, 6 and 28)	146,512	-	216,500	-
Available-for-sale financial assets - current (Notes 2, 4 and 7)	699,782	1	199,956	-
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 $1,334,622 in 2006 and $1,962,008 in 2005 (Note 2)	6,095,877	7	6,514,395	6
Accounts and notes receivable from related parties (Notes 2 and 26)	57,042	-	65,976	-
Inventories, net (Notes 2 and 9)	972,613	1	1,611,630	2
Prepaid expenses (Note 2)	769,175	1	721,240	1
Deferred income tax assets - current (Notes 2 and 21)	973,897	1	905,175	1
Pledged certificates of deposits - current (Note 28)	53,508	-	51,506	-
Other current assets	112,326	-	156,457	-
Total current assets	17,735,378	19	15,086,133	15
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 10)	449,500	1	857,390	1
Financial assets carried at cost - noncurrent (Notes 2, 4 and 11)	177,137	-	63,517	-
Total long-term investments	626,637	1	920,907	1
PROPERTIES (Notes 2, 12, 26 and 28)				
Cost				
Land	1,490,772	2	1,514,204	2
Buildings and equipment	2,872,605	3	2,865,633	3
Operating equipment	98,326,132	105	94,269,851	95
Computer equipment	14,009,777	15	13,220,429	13
Office equipment	924,882	1	992,571	1
Leasehold improvements	1,715,118	2	1,670,987	2
Miscellaneous equipment	489,835	-	430,829	-
Total cost	119,829,121	128	114,964,504	116
Less - accumulated depreciation	69,252,838	74	58,426,942	59
	50,576,283	54	56,537,562	57
Construction-in-progress and advances for acquisition of equipment	4,089,508	4	4,954,996	5
Net properties	54,665,791	58	61,492,558	62
INTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 13)	10,542,521	11	10,542,515	11
3G concession, net (Notes 1 and 2)	8,768,479	9	9,499,186	9
Total intangible assets	19,311,000	20	20,041,701	20
OTHER ASSETS				
Rental assets, net (Notes 2 and 14)	198,009	-	226,517	-
Idle assets, net (Note 2)	338,514	-	333,537	-
Refundable deposits (Note 26)	404,847	1	402,200	1
Deferred charges, net (Note 2)	159,511	-	275,730	-
Deferred income tax assets - noncurrent (Notes 2 and 21)	420,316	1	632,055	1
Other (Notes 2, 19 and 28)	18,916	-	12,644	-
Total other assets	1,540,113	2	1,882,683	2
TOTAL	$ 93,878,919	100	$ 99,423,982	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 15 and 28)	$ 128,956	-	$ 295,618	-
Commercial paper payable (Note 16)	-	-	49,996	-
Notes payable	131,692	-	104,728	-
Accounts payable	1,155,141	2	1,303,447	2
Accounts and notes payable to related parties (Note 26)	127,029	-	122,060	-
Income tax payable (Notes 2 and 21)	2,032,083	2	2,132,118	2
Accrued expenses	4,775,531	5	5,945,324	6
Guarantee deposits received - current	1,047,667	1	1,273,105	1
Payables for acquisition of properties	1,949,357	2	2,558,661	3
Unearned revenues (Notes 2 and 26)	1,082,025	1	1,289,456	1
Current portion of long-term bonds payable (Note 17)	2,960,000	3	3,040,000	3
Current portion of long-term bank loans (Notes 18 and 28)	38,095	-	38,095	-
Lease payable - current (Notes 2, 12 and 26)	40,514	-	38,913	-
Other current liabilities (Notes 2 and 4)	335,153	1	463,189	1
Total current liabilities	15,803,243	17	18,654,710	19
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Note 17)	2,670,000	3	5,630,000	6
Long-term bank loans (Notes 18 and 28)	95,238	-	433,333	-
Hedging derivative financial liabilities - noncurrent (Notes 2 and 4)	66,158	-	-	-
Lease payable- noncurrent (Notes 2, 12 and 26)	57,004	-	95,361	-
Total long-term liabilities	2,888,400	3	6,158,694	6
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	293,963	-	280,712	-
Guarantee deposits received - noncurrent	98,672	-	97,753	-
Other	4,672	-	9,343	-
Total other liabilities	397,307	-	387,808	-
Total liabilities	19,088,950	20	25,201,212	25
FAR EASTONE'S EQUITY				
Capital stocks - NT$10.00 par value; authorized - 4,200,000 thousand shares; issued and outstanding - 3,872,663 thousand shares	38,726,630	41	38,726,630	39
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	7
From business combination	8,482,381	9	8,482,381	8
From long-term equity-method investments	10,611	-	10,611	-
Total capital surplus	15,003,956	16	15,003,956	15
Retained earnings				
Legal reserve	5,573,350	6	4,101,609	4
Unappropriated earnings	14,667,598	16	15,385,739	16
Total retained earnings	20,240,948	22	19,487,348	20
Other adjustments				
Cumulative translation adjustments	4,960	-	2,168	-
Unrealized losses on financial products	(49,792)	-	-	-
Total other adjustments	(44,832)	-	2,168	-
Total controlling interest of Far EasTone	73,926,702	79	73,220,102	74
MINORITY INTEREST	863,267	1	1,002,668	1
Total stockholders' equity	74,789,969	80	74,222,770	75
TOTAL	$ 93,878,919	100	$ 99,423,982	100

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

(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 26)				
Sales of cellular phone equipment and accessories, net	$ 6,754,578	10	$ 8,368,029	12
Telecommunications service revenues	59,882,979	89	62,425,644	87
Other	589,407	1	1,118,498	1
Total operating revenues	67,226,964	100	71,912,171	100
OPERATING COSTS (Notes 2, 23 and 26)				
Cost of sales	7,604,492	11	9,105,380	13
Cost of telecommunications services	27,429,567	41	26,913,298	37
Other	518,353	1	812,502	1
Total operating costs	35,552,412	53	36,831,180	51
GROSS PROFIT	31,674,552	47	35,080,991	49
OPERATING EXPENSES (Notes 2, 23 and 26)				
Marketing	9,632,810	14	9,459,288	13
General and administrative	5,168,164	8	6,737,323	9
Research and development	295,962	-	358,153	1
Total operating expenses	15,096,936	22	16,554,764	23
OPERATING INCOME	16,577,616	25	18,526,227	26
NONOPERATING INCOME AND GAINS				
Interest (Note 2)	82,422	-	63,360	-
Advertising income	33,782	-	48,293	-
Gain from sale of nonperforming accounts receivable (Note 22)	23,862	-	-	-
Rental income	23,834	-	28,953	-
Other (Note 26)	366,641	1	83,544	-
Total nonoperating income and gains	530,541	1	224,150	-
NONOPERATING EXPENSES AND LOSSES				
Loss on disposal of properties, including idle properties, net (Note 2)	408,169	1	118,783	-
Equity in investees' net losses (Notes 2 and 10)	394,160	1	243,426	-
Interest (Notes 2, 12 and 26)	104,363	-	279,457	1
Other (Notes 23 and 26)	73,149	-	252,005	-
Total nonoperating expenses and losses	979,841	2	893,671	1

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
COMBINED INCOME BEFORE INCOME TAX	$ 16,128,316	24	$ 17,856,706	25
INCOME TAX (Notes 2 and 21)	3,111,329	5	3,207,433	5
COMBINED NET INCOME	$ 13,016,987	19	$ 14,649,273	20
ATTRIBUTABLE TO:				
Controlling interest	$ 13,156,225	19	$ 14,717,402	20
Minority interest	(139,238)	-	(68,129)	-
	$ 13,016,987	19	$ 14,649,273	20

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 24)				
Basic	$ 3.77	$ 3.40	$ 4.20	$ 3.80
Diluted	$ 3.77	$ 3.40	$ 4.20	$ 3.80

The pro forma financial information (after income tax) had the newly issued Statements of Financial Accounting Standards Nos. 34 and 36 been adopted on January 1, 2005 is as follows (Note 4):

	2006	2005
PRO FORMA COMBINED NET INCOME	$13,016,987	$15,548,364
PRO FORMA EARNINGS PER SHARE (NT$)		
Basic	$3.40	$4.03
Diluted	$3.40	$4.03

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

(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 2 and 20)		Capital Surplus (Notes 2 and 20)			Retained Earnings (Notes 2 and 20)		Other Adjustments				
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Long-term Equity-method Investments	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gains (Losses) on Financial Products (Notes 2, 4 and 25)	Controlling Interest of Far EasTone	Minority Interest	Total Stockholders' Equity
BALANCE, JANUARY 1, 2005	3,842,311	$ 38,423,115	$ 6,023,801	$ 8,482,381	$ -	$ 2,697,301	$ 14,069,797	$ 15,671	$ -	$ 69,712,066	$ -	$ 69,712,066
Effect of change in consolidated entities since 2005	-	-	-	-	-	-	-	-	-	-	812,889	812,889
Acquisition of ARCOA's capital stock in February 2005	-	-	-	-	-	-	-	-	-	-	690,845	690,845
Acquisition of KGEx.com's capital stock in 2005	-	-	-	-	-	-	-	-	-	-	(432,937)	(432,937)
Conversion of overseas convertible bonds into common stock	30,352	303,515	487,163	-	-	-	-	-	-	790,678	-	790,678
Appropriation of the 2004 earnings												
Legal reserve	-	-	-	-	-	1,404,308	(1,404,308)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	(252,775)	-	-	(252,775)	-	(252,775)
Remuneration to directors and supervisors	-	-	-	-	-	-	(126,388)	-	-	(126,388)	-	(126,388)
Cash dividend - NT$3.0 per share	-	-	-	-	-	-	(11,617,989)	-	-	(11,617,989)	-	(11,617,989)
Combined net income in 2005	-	-	-	-	-	-	14,717,402	-	-	14,717,402	(68,129)	14,649,273
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	10,611	-	-	-	-	10,611	-	10,611
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	(13,503)	-	(13,503)	-	(13,503)
BALANCE, DECEMBER 31, 2005	3,872,663	38,726,630	6,510,964	8,482,381	10,611	4,101,609	15,385,739	2,168	-	73,220,102	1,002,668	74,222,770
Adjustment due to accounting changes (Note 4)	-	-	-	-	-	-	-	-	(68,978)	(68,978)	(368)	(69,346)
Acquisition of KGEx.com's capital stock in 2006	-	-	-	-	-	-	-	-	-	-	(136)	(136)
Appropriation of the 2005 earnings												
Legal reserve	-	-	-	-	-	1,471,741	(1,471,741)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	(264,913)	-	-	(264,913)	-	(264,913)
Remuneration to directors and supervisors	-	-	-	-	-	-	(132,457)	-	-	(132,457)	-	(132,457)
Cash dividend - NT$3.1 per share	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)	-	(12,005,255)
Combined net income in 2006	-	-	-	-	-	-	13,156,225	-	-	13,156,225	(139,238)	13,016,987
Equity in changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(174)	(174)	-	(174)
Equity in changes in subsidiary's unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	532	532	368	900
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	18,828	18,828	-	18,828
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	2,792	-	2,792	(27)	2,765
BALANCE, DECEMBER 31, 2006	3,872,663	$ 38,726,630	$ 6,510,964	$ 8,482,381	$ 10,611	$ 5,573,350	$ 14,667,598	$ 4,960	$ (49,792)	$ 73,926,702	$ 863,267	$ 74,789,969

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

(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Combined net income	$ 13,016,987	$ 14,649,273
Amortization of 3G concession	730,707	669,814
Depreciation and amortization	11,928,782	12,407,949
Allowance for doubtful accounts	567,159	1,068,500
Losses (gains) on revaluation of financial assets	(12)	44
Losses on obsolescence of inventories	4,996	1,945
Provision for loss on decline in value of inventories	21,450	24,292
Gains on sale of financial assets	-	(2,807)
Equity in investees' net losses	394,160	243,426
Losses on disposal of properties, including idle properties	408,169	118,783
Provision for impairment loss on idle properties	5,770	13,756
Accrued pension cost	13,597	54,404
Deferred income taxes	159,557	1,085,806
Interest premium on convertible bonds	-	1,070
Other	-	1,997
Net changes in operating assets and liabilities		
Financial assets held for trading	70,045	496,865
Accounts and notes receivable	(152,812)	(1,035,228)
Accounts and notes receivable from related parties	8,935	(119,966)
Inventories	396,043	(312,856)
Prepaid expenses	(36,675)	1,061,434
Other current assets	(30,158)	180,153
Notes payable	26,958	(15,466)
Accounts payable	(199,392)	365,412
Accounts and notes payable to related parties	4,969	(76,954)
Income tax payable	(100,034)	(193,787)
Accrued expenses	(1,117,049)	504,460
Unearned revenues	(17,282)	(1,084,798)
Other current liabilities	(136,798)	(107,154)
Net cash provided by operating activities	25,968,072	30,000,367
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(500,000)	-
Proceeds of the sale of available-for-sale financial assets	-	92,807
Acquisition of financial assets carried at cost	(100,000)	-
Acquisition of equity-method investments	-	(526,500)
Return of capital by a dissolved investee	78,133	-
Acquisition of properties	(6,080,520)	(6,167,968)
Proceeds of the sale of properties, including idle properties	99,859	58,582
Decrease (increase) in refundable deposits	(414)	13,919

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
Increase in deferred charges	$ (24,185)	$ (107,193)
Decrease (increase) in pledged certificates of deposits	(9,941)	1,500
Decrease in other assets	2,672	5,587
Net cash used in investing activities	(6,534,396)	(6,629,266)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(166,662)	(2,296,968)
Decrease in commercial paper payable	(49,996)	(848,195)
Proceeds of long-term liabilities	-	7,049,788
Repayment of long-term liabilities	(3,378,095)	(17,744,086)
Bonus paid to employees and directors	(397,370)	(379,163)
Cash dividends paid	(12,005,255)	(11,617,989)
Decrease in guarantee deposits received	(224,670)	(289,369)
Decrease in other liabilities	(4,671)	(4,064)
Decrease in minority interest	(142)	(478,342)
Cash payment due to merger	-	(888,946)
Net cash used in financing activities	(16,226,861)	(27,497,334)
EFFECT OF EXCHANGE RATE CHANGES	4,533	(13,503)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,211,348	(4,139,736)
CASH AND CASH EQUIVALENTS ARISING FROM MERGER	-	178,080
CASH AND CASH EQUIVALENTS DUE TO CHANGE IN CONSOLIDATED ENTITIES	-	99,262
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,640,298	8,502,692
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,851,646	$ 4,640,298
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 243,944	$ 455,406
Less - interest capitalized	76,459	140,379
Interest paid, net of capitalized interest	$ 167,485	$ 315,027
Income tax paid	$ 3,034,970	$ 2,263,522

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 3,038,609	$ 3,117,008
Reclassification of properties into rental assets	$ -	$ 37,573
Reclassification of rental assets into properties	$ 26,379	$ -
Reclassification of properties into idle properties	$ 30,591	$ -
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
Receivable from the dissolved investee for the return of the capital	$ -	$ 78,133
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 5,434,332	$ 5,508,289
Decrease in payables for acquisition of properties	609,303	675,953
Decrease (increase) in lease payables	36,885	(16,274)
Cash paid for acquisition of properties	$ 6,080,520	$ 6,167,968
PROCEEDS OF THE DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties and idle properties	$ 75,438	$ 62,054
Increase in receivables from properties sold	(2,726)	(8,019)
Decrease in accounts and notes receivable from related parties	27,147	4,547
Cash received from disposal of properties	$ 99,859	$ 58,582

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

	December 31, 2005
Cash and cash equivalents	$ 157,224
Financial assets at fair value through profit or loss - current	662,800
Accounts and notes receivable, net	310,974
Inventories, net	627,274
Prepaid expenses	40,892
Other current assets	118,338
Equity-method investments	19,811
Financial assets carried at cost - noncurrent	49,332
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term bank loans	(282,586)
Notes payable	(78,354)
Accounts payable	(358,125)

(Continued)

	December 31, 2005
Accrued expenses	$ (174,836)
Unearned revenues	(64,120)
Other current liabilities	(28,814)
Long-term liabilities	(50,188)
Other liabilities	(8,843)
	1,723,145
Percentage of ownership acquired	55.37%
	954,135
Goodwill	254,811
Cash consideration of the merger	1,208,946
Less: Decrease in restricted assets	320,000
Cash payment due to merger	$ 888,946

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

(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 December 31, 2006, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 42.83% 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 4,800 and 5,203 employees as of December 31, 2006 and 2005, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports for Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC. In preparing consolidated 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

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. For subsidiaries acquired during the year, their revenues and expenses generated before the acquisition date need not be consolidated.

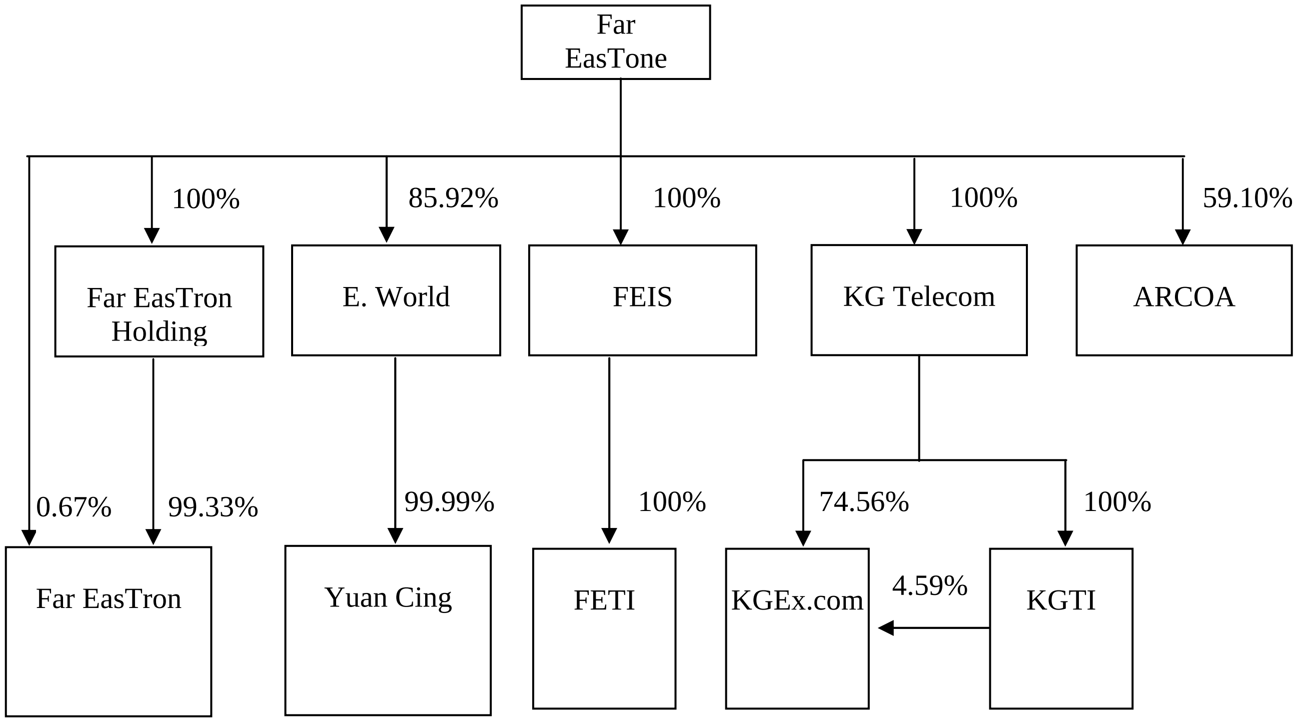
In the preparation of the consolidated financial statements, the financial statements of the foreign subsidiaries were translated from their respective functional currencies into New Taiwan dollars as follows:

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 year.

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 December 31, 2006 are shown below:



a. Entities included in the consolidated financial statements as of and for the years ended December 31, 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 2G 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 2G 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 79.15% 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 became ARCOA's parent company since February 2005. As of December 31, 2006, Far EasTone owns 59.10% of ARCOA's common stock.

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

In their special meeting on December 30, 2004, the stockholders of KG Satellite resolved to liquidate the company on July 11, 2005. The DGT approved this liquidation in January 2005 and allowed KG Satellite to discontinue its satellite communications services on the liquidation date. Therefore, KG Satellite’s accounts were excluded from the consolidated financial statements as of and for the year ended December 31, 2005.

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

Current and Noncurrent Assets and Liabilities

Current assets are cash or cash equivalents, assets held 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 year 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 year 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 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 Carried at Cost

Investments in equity instruments without quoted market prices in an active market, including investments in unlisted stocks and emerging stocks, are measured at cost upon initial recognition. Any cash dividends received are recognized as income on the ex-dividend date, but dividends declared 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.

If the Group losses its influence over an investee company because of a decrease in ownership percentage, it should cease using the equity method to account for the investment. In addition, the Group should apply the Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments," which states that the new cost of investment will be the carrying amount of the investment at the time of the decrease in ownership percentage.

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 year 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 costs of retail store renovation and computer software, are amortized using the straight-line method over the terms of lease 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 year 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 idle properties at the lower of net book value or net fair 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, idle properties, 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 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 year 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 year’s income tax expense.

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

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

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 year 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 year. Financial assets and liabilities carried at cost are stated at historical exchange rates; while equity-method investments are recorded as cumulative translation adjustments under stockholders' equity.

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.

Derivative instruments held by the Group are for cash flow hedge purpose. 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 nonfinancial 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 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 year ended December 31, 2005 have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 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 year ended December 31, 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)

	For the Year Ended December 31, 2005
Current assets	$ 15,086,133
Properties, net	61,492,558
Current liabilities	18,654,491
Operating revenue	72,281,646
Income before income tax	17,909,004
Net income	14,701,571
Earnings per share	3.80

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.

The effects of the accounting changes are summarized as follows:

a. Reclassification of financial assets and liabilities

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 year 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 for 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 $186 thousand in consolidated net income before income tax expense.

b. Other information on the accounting changes

The following accounting policy was being used by the Group before adopting SFAS Nos. 34 and 36:

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 year 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 year when the contracts are settled.

Forward contracts

Forward 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 year.

On the balance sheet date, the gains or losses on the contracts, computed by multiplying the contract amount by the difference between the rates on the starting dates and the balance sheet dates (or the rates last used to measure a gain or loss on that contract for an earlier year), 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.

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 year ended December 31, 2005 are reclassified as follows:

	December 31, 2005	
	Before Reclassification	**After Reclassification**
Balance sheet		
Short-term investments	$ 409,456	$ -
Investments in share of stock under the cost method	63,517	-
Pledged certificates of deposits - current	10,000	-
Payable on forward contracts (included in other current liabilities)	900	-
Financial assets at fair value through profit or loss - current	-	216,500
Available-for-sale financial assets - current	-	199,956
Bonds measured at amortized cost - current	-	3,000
Financial assets carried at cost - noncurrent	-	63,517
Hedging derivative financial liabilities - current (included in other current liabilities)	-	900

	Year Ended December 31, 2005	
	Before Reclassification	After Reclassification
Income statement		
Losses on decline in value of short-term investment (included in nonoperating expenses and losses)	$ 44	$ -
Losses on revaluation of financial assets (included in nonoperating expenses and losses)	-	44

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 annually instead of being amortized. The adoption of the revised Statements resulted in an increase of $864,870 thousand in consolidated net income before income tax expense without any cumulative changes in accounting principles and an increase of NT$0.22 in basic earnings per share after income tax for the year ended December 31, 2006.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash		
Cash on hand	$ 11,457	$ 15,977
Checking and demand deposits	855,109	1,350,159
Certificates of deposits - interest of 1.705%-5.130% in 2006 and 1.53%-4.25% in 2005	170,763	111,180
	1,037,329	1,477,316
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.61%-1.65% in 2006 and 1.40%-1.48% in 2005	6,800,299	3,032,982
Bonds purchased under resell agreements - interest of 1.465% in 2006 and 1.55%-1.60% in 2005	14,018	130,000
	6,814,317	3,162,982
	$ 7,851,646	$ 4,640,298

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

As of December 31, 2006 and 2005, foreign demand deposits were as follows:

	December 31	
	2006	2005
Belgium (US$1,025 thousand in 2006 and US$327 thousand in 2005)	$ 33,413	$ 10,726
Hong Kong (US$22 thousand in 2006 and US$29 thousand in 2005)	717	952
	$ 34,130	$ 11,678

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:

	December 31	
	2006	2005
Financial assets held for trading - mutual funds	$ 146,512	$ 206,500
Designated financial assets to be measured at fair value through profit or loss - interest-linked structured deposits	-	10,000
	$ 146,512	$ 216,500

Net gains on financial assets held for trading were $3,495 thousand and $7,480 thousand for the years ended December 31, 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 years ended December 31, 2006 and 2005, respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2006	2005
Open-ended mutual funds	$ 699,782	$ 199,956

8. BONDS MEASURED AT AMORTIZED COST - CURRENT

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

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

9. INVENTORIES, NET

	December 31	
	2006	2005
Cellular phone equipment	$ 896,464	$ 1,353,843
SIM cards and prepaid cards	41,743	147,938
Cellular phone accessories	48,849	58,046
Others	62,250	107,046
	1,049,306	1,666,873
Less - allowance for losses	76,693	55,243
	$ 972,613	$ 1,611,630

10. EQUITY-METHOD INVESTMENTS

	December 31			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Common stocks with no quoted market prices				
Far Eastern Electronic Toll Collection Co., Ltd.	$ 395,686	42.66	$ 789,096	42.66
Ding Ding Integrated Marketing Service Co., Ltd.	26,790	15.00	27,680	15.00
iScreen Corporation	20,998	40.00	20,949	40.00
Hi Information Co., Ltd.	6,026	33.17	5,537	33.17
THI Consultants Inc.	-	-	14,128	22.22
	$ 449,500		$ 857,390	

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

On February 26, 2004, Far Eastern Electronic Toll Collection Co. (“FETC”, which is originally known as “Far Eastern Consortium” established by Far EasTone, TECO Electric & Machinery Co., Ltd., Systex Corporation and MiTAC Inc.) 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 best qualified candidate 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. On December 5, 2006, in response to the verdict, the TANFB announced a second bidding for the ETC project. On December 25, 2006, FETC applied to TANFB to participate in the second bidding. As of February 6, 2007, the date of the accompanying auditors’ report, the bidding was still 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 thus affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, Far EasTone announced a proposal to withdraw from FETC by unconditionally donating its 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. Far EasTone's Board of Directors approved this proposal 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%.

ARCOA's investment in THI Consultants Inc ("THIC") was reclassified as financial assets carried at cost-noncurrent after THIC's capital increase for cash in September 2006. Because ARCOA did not participate in THIC's capital increase, ARCOA lost its influence on THIC's operating and financial policy decisions.

The financial statements as of and for the years ended December 31, 2006 and 2005, which were used as basis for calculating the equities in net assets of the foregoing equity-method investees, had all been audited, except those of THIC and Hi Information Co., Ltd. were calculated based on unaudited financial statements. The management believes that even if the financial statements of THIC and Hi Information Co., Ltd. are audited, the possibilities of effect on the financial statements presented are not material. In addition, 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 THIC in the same year starting in 2005. As a result, the equity in THIC in 2005 included the accounts of audited financial statements as of and for the years ended December 31, 2005 and 2004.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2006	**2005**
Emerging domestic common stock		
Taiwan Fixed Network Co., Ltd.	$ 21,000	$ 21,000
Unlisted domestic common stock		
VIBO Telecom Inc.	20,000	20,000
THI Consultants Inc.	13,729	-
Chunghwa Int'l Communication Network Co., Ltd.	6,714	6,714
Web Point Co., Ltd.	1,618	1,618
Unlisted foreign common stock		
Ideaculture Limited - US$431 thousand in 2006 and 2005	14,076	14,185
Private domestic mutual fund	100,000	-
	$ 177,137	$ 63,517

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:

	December 31 2006	December 31 2005
Buildings and equipment	$ 774,271	$ 628,907
Operating equipment	55,875,601	46,997,447
Computer equipment	10,486,141	8,921,267
Office equipment	793,585	765,006
Leasehold improvements	1,148,623	983,387
Miscellaneous equipment	174,617	130,928
	$ 69,252,838	$ 58,426,942

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 contracts valid from June 2005 to August 2009, with annual lease payments of $901 thousand. The total lease payments were $2,704 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 December 31, 2006 and 2005 are as follows:

	December 31 2006	December 31 2005
Total future lease payments	$ 105,638	$ 145,270
Less - imputed interest expense	8,120	10,996
	97,518	134,274
Less - current portion of lease payable	40,514	38,913
Long-term lease payable	$ 57,004	$ 95,361

c. Capitalized interest on properties was as follows:

	Years Ended December 31	
	2006	**2005**
Total interest expense	$ 180,822	$ 419,836
Less - interest capitalized (included in construction in process and advances for acquisition of equipment)	76,459	140,379
Interest expense, net of amounts capitalized	$ 104,363	$ 279,457
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 cash-generating units starting on January 1, 2005: Far EasTone, KG Telecom and ARCOA.

On December 31, 2006, the carrying value of the tangible and intangible assets used by the Group was $74,672,825 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 9.15% (Far EasTone), 9.8% (KG Telecom) and 12.2% (ARCOA). 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 2G telecommunications services market is mature and there would be increased use of 3G telecommunications services. Therefore, the growth rate is expected to be stable.

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 2006; this ratio is expected to decrease 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

	December 31	
	2006	**2005**
Cost		
Land	$ 105,366	$ 124,042
Buildings	100,136	109,698
	205,502	233,740
Less - accumulated depreciation		
Buildings	7,493	7,223
	$ 198,009	$ 226,517

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:

Year	**Amount**
2007	$ 13,952
2008	13,993
2009	12,576
2010	8,037
After 2010	9,783

15. SHORT-TERM BANK LOANS

	December 31	
	2006	**2005**
Secured bank loans - interest of 2.05% in 2006 and 1.65% in 2005	$ 85,000	$ 50,000
Unsecured bank loans - interest of 2.20%-2.27% in 2006 and 1.75%-6.03% in 2005	43,956	245,618
	$ 128,956	$ 295,618

16. COMMERCIAL PAPER PAYABLE

Far EasTone issued commercial paper guaranteed by financial institutions, which was discounted at 1.28%, was fully repaid on January 3, 2006.

17. BONDS PAYABLE

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st - Far EasTone	$ 2,060,000	$ -	$ 2,060,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	900,000	1,200,000	2,100,000
	$ 2,960,000	$ 2,670,000	$ 5,630,000

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Bonds payable			
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	900,000	2,100,000	3,000,000
	$ 3,040,000	$ 5,630,000	$ 8,670,000

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. Far EasTone already repaid $900,000 thousand on December 12, 2006.

18. LONG-TERM BANK LOANS

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Secured bank loans - KGEx.com	$ 38,095	$ 95,238	$ 133,333

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Unsecured bank loans - Far EasTone	$ -	$ 300,000	$ 300,000
Secured bank loans - KGEx.com	38,095	133,333	171,428
	$ 38,095	$ 433,333	$ 471,428

a. Secured bank loans - KGEx.com

KGEx.com obtained a secured bank loan at interest rates of 2.51% in 2006 and 2.10% to 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.

b. Unsecured bank loans - Far EasTone

Far EasTone had secured bank loans at interest rate of 1.60% to 1.64%, which were due on January 4, 2006. Under a revolving agreement, the bank loan has been made available for Far EasTone through November 2007 instead.

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 $146,895 thousand and $70,054 thousand for the years ended December 31, 2006 and 2005, respectively. FETI, under its government’s regulations, had recognized pension costs of $5,692 thousand and $4,953 thousand for the years ended December 31, 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:

1) Net pension cost consisted of:

	Year Ended December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	**KGEx.com**	**ARCOA**
Service cost	$ 30,912	$ 284	$ 485
Interest cost	26,078	159	988
Expected return on pension assets	(10,851)	(164)	(1,192)
Amortization of net transition obligations (assets)	1,213	(302)	65
Amortization of unrecognized pension loss (gain)	6,949	-	-
Net pension cost	$ 54,301	$ (23)	$ 346

	Year Ended December 31, 2005		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	**KGEx.com**	**ARCOA**
Service cost	$ 72,875	$ 833	$ 3,258
Interest cost	22,624	168	1,035
Expected return on pension assets	(9,994)	(141)	(1,189)
Amortization of net transition obligations (assets)	1,213	(302)	421
Amortization of unrecognized pension loss (gain)	4,363	-	(202)
Net pension cost	$ 91,081	$ 558	$ 3,323

2) Reconciliation of the fund status of the plans and accrued pension cost (prepaid pension cost) is as follows:

	December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	**KGEx.com**	**ARCOA**
Benefit obligation			
Vested benefit obligation	$ 5,840	$ -	$ -
Non-vested benefit obligation	526,397	2,395	26,905
Accumulated benefit obligation	532,237	2,395	26,905
Additional benefits based on projected and future salaries	505,043	1,938	10,580
Projected benefit obligation	1,037,280	4,333	37,485
Fair value of plan assets	(388,087)	(6,610)	(48,900)
Fund status	649,193	(2,277)	(11,415)

(Continued)

	December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Unrecognized net transition obligations (assets)	$ (7,273)	$ 6,334	$ (2,530)
Unrecognized pension gain (loss)	(353,841)	1,827	4,131
Accrued pension cost (prepaid pension cost)	$ 288,079	$ 5,884	$ (9,814)
Vested benefit amounts were as follows:	$ 4,061	$ -	$ -

(Concluded)

	December 31, 2005		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Benefit obligation			
Vested benefit obligation	$ 5,919	$ -	$ -
Non-vested benefit obligation	440,167	3,301	21,655
Accumulated benefit obligation	446,086	3,301	21,655
Additional benefits based on projected and future salaries	423,168	2,464	6,567
Projected benefit obligation	869,254	5,765	28,222
Fair value of plan assets	(340,092)	(5,577)	(47,690)
Fund status	529,162	188	(19,468)
Unrecognized net transition obligations (assets)	(8,486)	6,636	(2,952)
Unrecognized pension gain (loss)	(246,758)	(30)	12,260
Accrued pension cost (prepaid pension cost)	$ 273,918	$ 6,794	$ (10,160)
Vested benefit amounts were as follows:	$ 7,415	$ -	$ -

3) Actuarial assumptions were as follows:

	Year Ended December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Discount rate used in determining present value	2.75%	2.75%	3.25%
Rate of salary increase	3.50%	3.00%	2.00%
Expected return on plan assets	2.75%	2.75%	3.50%

	Year Ended December 31, 2005		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Discount rate used in determining present value	3.00%	2.75%	3.50%
Rate of salary increase	3.50%	3.00%	2.00%
Expected return on plan assets	3.00%	2.75%	2.50%

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 year-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 May 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

Had the above bonus to employees and directors been charged to net income in 2005 and 2004, the basic earnings per share for 2005 and 2004 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.80 to NT$3.70 and from NT$3.75 to NT$3.65, respectively.

The appropriation of the 2006 earnings of Far EasTone had not been approved by the board of directors and stockholders as of January 22, 2007. Related information can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

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

		GDRs (in Thousand Units)	Equivalent Common Stock (in Thousand Shares)
Initial offering	1)	10,000	150,000
Converted from overseas unsecured convertible bonds	2)	165	2,473
Issued for capital increase	3)	296	4,448
Reissued within authorized units	4)	19,907	298,607
GDRs transferred to common stock		(26,577)	(398,651)
Outstanding GDRs issued		3,791	56,877

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

3) In 2004, Far EasTone issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represent 4,448 thousand common shares.

4) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDR reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2006, Far EasTone had reissued 19,907 thousand units of GDRs representing 298,607 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. 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.

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

	December 31	
	2006	**2005**
Income tax expense computed at statutory tax (25% to 33%)	$ 5,452,901	$ 5,768,733
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(999,461)	(1,262,477)
Equity in investees' net gains	(1,221,416)	(1,105,883)
Other	(3,131)	(148,196)
Temporary differences	(137,185)	176,778
Unappropriated earnings tax (10%)	84,303	1,438
Less - investment tax credits	(203,178)	(721,671)
Income tax payable - current	2,972,833	2,708,722
Prepaid income tax	(1,495,329)	(897,812)
Accrued income tax payable in administrative remedy	554,579	321,208
Income tax payable	$ 2,032,083	$ 2,132,118

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 from June 26, 2002 to June 25, 2007.

c. Income tax expense consisted of:

	Years Ended December 31	
	2006	**2005**
Income tax expense - current	$ 2,972,833	$ 2,708,722
Income tax expense - deferred	159,557	486,826
Prior year's adjustment	(35,527)	1,327
Income tax expense on income subjected to a separate rate of 20%	14,466	10,558
Income tax expense	$ 3,111,329	$ 3,207,433

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

	December 31	
	2006	2005
Current		
Provision for doubtful accounts	$ 953,749	$ 912,722
Loss carryforwards	36,675	65,090
Provision for losses on decline in value of inventories	17,960	12,599
Investment tax credits	3,971	2,489
Unrealized foreign exchange gains, net	(177)	(2,544)
Other	27,339	(168)
	1,039,517	990,188
Less - valuation allowance	65,620	85,013
	$ 973,897	$ 905,175
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 281,071	$ 363,150
Loss carryforwards	312,224	223,809
Impairment loss on idle properties	217,021	110,165
Accrued pension cost	81,247	89,078
Equity in investees' net losses	22,963	25,666
Loss on disposal of properties	18,495	38,246
Unrealized losses on financial products	16,540	-
Unrealized loss on equity-method investments	14,071	14,071
Investment tax credits	27,464	-
Other	(295)	6,200
	990,801	870,385
Less - valuation allowance	570,485	238,330
	$ 420,316	$ 632,055

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

e. Integrated income tax information was as follows:

	December 31	
	2006	2005
Balance of imputation credit account (ICA)		
Far EasTone	$ 247,789	$ 59,684
KG Telecom	$ 5,052	$ 898,809
ARCOA	$ 4,021	$ 3,360

Estimated ratio of the ICA balance for Far EasTone as of December 31, 2006 to unappropriated earnings as of such date was 1.69%. When the dividends from the unappropriated earnings as of December 31, 2005 was distributed in 2006, the actual ratios Far EasTone used was 16.18%.

Estimated ratio of the ICA balance for KG Telecom as of December 31, 2006 to unappropriated earnings as of such date was 0.09%. When the dividends from the unappropriated earnings as of December 31, 2005 was distributed in 2006, the actual ratios KG Telecom used was 0.11%.

ARCOA, Yuan Cing, Far EasTron and KGEx.com had no appropriated earnings as of December 31, 2006. Thus, their ICA balances will be accumulated until dividend distribution in the future.

Based on the Income Tax Law, the imputation tax credits allocated to each stockholder are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation, which the Group had calculated in consideration of current year's income tax expenses, may be adjusted when the imputation credits are distributed. On the other hand, the creditable ratio for the 2005 earnings appropriation has been determined, and the actual ratio is disclosed.

f. Investment tax credits were as follows:

The unused investment tax credits of the Group as of December 31, 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	Personnel training expenses	$ 623	$ 623	2009

g. Loss carryforwards of the Group as of December 31, 2006 are as follows:

Expiry Year	ARCOA	KGEx.com	Yuan Cing	Far EasTron
2007	$ -	$ 36,546	$ 129	$ -
2008	-	53,341	179	-
2009	-	72,907	-	-
2010	37,459	37,056	-	2,716
2011	50,841	47,022	-	10,703
	$ 88,300	$ 246,872	$ 308	$ 13,419

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

Income tax returns of Far EasTone through 2002 had been examined by the tax authorities. The tax authorities assessed an additional tax on Far EasTone's income tax returns for 2000 to 2002. Far EasTone had filed an appeal for the reexamination of the above-mentioned returns and accrued the related tax thereof. The income tax returns of Yuan-Ze Telecom through 2005 had been examined and cleared by the tax authorities.

The income tax returns of KG Telecom through 2003 and the income tax returns of the former KG Telecom through 2002 had been examined by the tax authorities. However, KG Telecom disagreed with the tax authorities' assessment of the former KG Telecom's 2000 to 2002 returns and thus filed appeals for the reexamination of these returns. Nevertheless, KG Telecom accrued the related tax.

Income tax returns through 2003 of ARCOA had been examined by the tax authorities. However, ARCOA disagreed with tax authorities' assessment of its 2003 and 2002 returns and thus filed appeals for the reexamination of these returns. Nevertheless, ARCOA accrued the related tax.

Income tax returns of KGEx.com through 2003 had been examined and cleared by the tax authorities. Income tax returns of Yuan Cing through 2004 had been examined and cleared by the tax authorities. However, income tax return of Far EasTron for 2005 had not been examined and cleared by the tax authorities.

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 December 31, 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

	Year Ended December 31, 2006			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 612,241	$ 2,137,564	$ -	$ 2,749,805
Pension	52,112	155,099	-	207,211
Meal	16,913	79,402	-	96,315
Employee benefit	1,408	71,915	-	73,323
Insurance	52,117	192,016	-	244,133
Miscellaneous	14,487	54,088	-	68,575
	$ 749,278	$ 2,690,084	$ -	$ 3,439,362
Depreciation	$ 10,095,498	$ 1,704,869	$ 17,402	$ 11,817,769
Amortization	$ -	$ 111,013	$ -	$ 111,013

	Year Ended December 31, 2005			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 518,440	$ 2,148,893	$ -	$ 2,667,333
Pension	30,462	123,464	-	153,926
Meal	13,876	78,320	-	92,196
Employee benefit	1,165	74,480	-	75,645
Insurance	43,843	178,201	-	222,044
Miscellaneous	21,367	76,739	-	98,106
	$ 629,153	$ 2,680,097	$ -	$ 3,309,250
Depreciation	$ 9,514,939	$ 1,924,807	$ 2,032	$ 11,441,778
Amortization	$ -	$ 966,171	$ -	$ 966,171

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
2006					
Basic EPS					
Net income - Far EasTone	$ 14,586,019	$ 13,156,225	3,872,663	$ 3.77	$ 3.40
2005					
Basic EPS					
Net income - Far EasTone	$ 16,244,364	$ 14,717,402	3,871,066	$ 4.20	$ 3.80
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,038	1,597		
Diluted EPS					
Net income including the effect of potential dilutive common stock - Far EasTone	$ 16,246,613	$ 14,719,440	3,872,663	$ 4.20	$ 3.80

25. FINANCIAL INSTRUMENTS

a. Fair value information

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Financial assets at fair value through profit or loss - current	$ 146,512	$ 146,512	$ 216,500	$ 216,545
Available-for-sale financial assets - current	699,782	699,782	199,956	199,956
Bonds measured at amortized cost - current	3,000	-	3,000	-
Equity-method investments	449,500	-	857,390	-
Financial assets carried at cost - noncurrent	177,137	-	63,517	-
Refundable deposits	404,847	404,599	402,200	401,426
Liabilities				
Bonds payable (including current portion)	5,630,000	5,630,000	8,670,000	8,932,267
Long-term bank loans (including current portion)	133,333	133,333	471,428	471,428
Lease payable (including current portion)	97,518	97,518	134,274	134,274
Guarantee deposits received (including current portion)	1,146,339	1,146,339	1,370,858	1,370,858
Derivative instruments				
Hedging derivative financial liabilities - noncurrent - Far EasTone	(66,158)	(66,158)	-	(91,261)

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. Methods and assumptions used for estimating the fair values of financial instruments were as follows:

1) Cash and cash equivalents, notes and accounts receivable, accounts and notes receivable from related parties, pledged certificates of deposits, short-term bank loans, commercial paper payable, notes payable, accounts payable, accounts and notes payable to related parties and payables for 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 not available, 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 carried at cost - noncurrent, bonds measured at amortized cost - current and equity-method investments with no quoted market prices cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost.

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:

	December 31			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Assets				
Financial assets at fair value through profit or loss - current	$ 146,512	$ 206,573	$ -	$ 9,972
Available-for-sale financial assets - current	699,782	199,956	-	-
Liabilities				
Hedging derivative financial liabilities - Far EasTone	-	-	(66,158)	(91,261)

d. As of December 31, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $7,455,537 thousand and $3,732,031 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $4,203,857 thousand and $7,505,132 thousand, respectively. As of December 31, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $855,109 thousand and $1,360,159 thousand, respectively, while financial liabilities with cash flow risk from interest rate fluctuations amounted to $2,932,289 thousand and $3,487,042 thousand, respectively.

e. 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.

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 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 liquidity risks.

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 liquidity risks.

4) Cash flow risk from interest rate fluctuations

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

f. Cash flow hedge

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

	Designated Hedging Instruments				
		Fair Value December 31			Expected Year for Realization of Gains or Losses
Hedged Items	**Financial Instruments Designated**	**2006**	**2005**	**Expected Year of Cash Flows**	
Bonds with floating interest rate	Interest rate swap - Far EasTone	$ (66,158)	$ (91,261)	2003-2008	2003-2008
Firm commitments	Forward contracts - ARCOA	-	(900)	2006	2006

Unrealized gains or losses on financial products

In 2006, the changes in unrealized gains and losses on financial products were as follows:

	Year Ended December 31, 2006
Far EasTone	
As adjustments to stockholders' equity	$ (19,999)
Recognized as profit or loss	38,827
	$ 18,828
ARCOA	
As adjustments to stockholders' equity	$ 581
Recognized as profit or loss	319
	$ 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; dissolved 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
Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation (FETSTMF)	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 year					
Operating revenue	a.				
NCIC	b.	$ 608,326	1	$ 993,332	1
Other	o.	65,068	-	85,353	-
		$ 673,394	1	$ 1,078,685	1
Operating costs and expenses					
Cost of telecommunications service					
NCIC	b.	$ 202,986	1	$ 68,096	-
Other	o.	7,474	-	2,456	-
		$ 210,460	1	$ 70,552	-

(Continued)

		2006		2005	
		Amount	%	Amount	%
Rental					
FETRD	c.	$ 52,221	1	$ 52,405	1
FEILC	d.	36,892	1	44,245	1
Other	o.	28,381	-	24,994	-
		$ 117,494	2	$ 121,644	2
Research and development expense					
FETTDF	e.	$ 14,979	32	$ 11,968	60
Service fee					
FCHRC	f.	$ 53,898	39	$ 55,287	43
Marketing expense					
DDIM	g.	$ 47,521	-	$ 26,093	-
Reductions of employee expenses					
FETC	h.	$ 11,392	-	$ 5,909	-
Nonoperating income and gains					
Other revenue					
FETC	h.	$ 17,894	5	$ 26,782	32
Nonoperating expenses and losses					
Interest expense					
FEIB	i.	$ -	-	$ 128	-
Donation expense (including in nonoprating expenses and losses)					
Yuan-Ze University	j.	$ 16,000	100	$ -	-
FETSTMF	j.	-	-	200,000	100
		$ 16,000	100	$ 200,000	100
Acquisition of properties					
NCIC	k.	$ 2,675	-	$ 55,743	1
FEILC	d.	162	-	44,446	1
Other	o.	76	-	17,057	-
		$ 2,913	-	$ 117,246	2
At end of year					
Accounts and notes receivable from related parties					
FETC	h.	$ 36,074	63	$ 28,431	43
NCIC	l.	11,645	20	31,646	48
NTT DoCoMo Inc.	m.	7,730	14	3,206	5
Other	o.	1,593	3	2,693	4
		$ 57,042	100	$ 65,976	100

(Continued)

		2006		2005	
		Amount	%	Amount	%
Refundable deposits					
DDIM	g.	$ 40,256	10	$ 14,419	4
Other	o.	7,714	2	8,107	2
		$ 47,970	12	$ 22,526	6
Accounts and notes payable to related parties					
NCIC	b.	$ 58,089	46	$ 30,501	25
DDIM	g.	48,868	39	46,540	38
FEILC	d.	6,588	5	9,069	7
FETRD	c.	4,294	3	9,015	7
FETL	n.	55	-	8,229	7
Other	o.	9,135	7	18,706	16
		$ 127,029	100	$ 122,060	100
Unearned revenues					
FETC	h.	$ -	-	$ 17,401	1
Lease payable (including current portion)					
FEILC	d.	$ 96,654	99	$ 132,927	99

(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 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 their 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 accounts and notes payable 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 $41,195 thousand (Note 12).

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

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

g. In March 2005, 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 accounts and notes payable to related parties. Far EasTone and KG Telecom had given DDIM monthly refundable deposits, which were calculated at a fixed percentage of the unused reward points.

h. In June 2005, Far EasTone contracted FETC to implement the trouble ticket system for handling ticket problems or customers' complaints. 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 Group has provided customer telephone service to FETC, and related revenue was recorded as other operating revenue. Moreover, Far EasTone gave FETC advances for its daily operating expenditures, and the repayment for these advances will be collected at various times depending on the cash balances of FETC. Moreover, Far EasTone has provided personnel support for FETC's daily operation, and related charges to FETC were recorded as reductions to related personnel expenses.

i. 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.

j. Far EasTone and KG Telecom made donation to non-profit organizations for further integration and development of telecommunications business and personnel.

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 accounts and notes receivable 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 accounts and notes receivable from related parties.

n. Far EasTone leases from FETL several buildings and parcels of land under contracts with terms from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli city and other locations in Taiwan.

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 DECEMBER 31, 2006

The Group had the following significant commitments:

a. The Group were under contracts to acquire properties and cellular phone equipment for $891,612 thousand and $552,014 thousand, respectively.

b. The Group's outstanding letters of credit amounted to ￥94,462 thousand (equivalent to $25,892 thousand), US$2,391 thousand (equivalent to $77,941 thousand) and $22,860 thousand.

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

Year	**Amount**
2007	$ 2,413,911
2008	2,499,351
2009	2,566,010
2010	2,639,092
2011	2,710,720

d. On July 25, 2006, Far EasTone provided a $154,000 thousand guarantee for FETC's bank loan. As of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

e. On December 27, 2006, Far EasTone's board of directors had approved to provide financing support to FETC within the amount of $50,000 thousand for their use of participating in the second round bidding for "Private Participation in the Electronic Toll Collection BOT Project" and their daily operations. As of December 31, 2006, Far EasTone had not yet provided any financing to FETC.

28. ASSETS PLEDGED OR MORTGAGED

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

	December 31	
	2006	**2005**
Financial assets at fair value through profit or loss - current	$ -	$ 10,000
Pledged certificates of deposits - current	53,508	51,506
Pledged certificates of deposits - noncurrent (included in other assets - other)	9,102	1,163
Properties, net	492,108	3,867,038
	$ 554,718	$ 3,929,707

29. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

a. Important transactions and b. information on the Group's investees.

1) Financing provided: Note 27

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

30. SEGMENT INFORMATION

a. Industry: Schedule I.

b. Foreign operations

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

c. Foreign revenues

The Group has no foreign revenues.

d. A customer accounting for at least 10% of the Group's total operating revenue is as follows:

	2006		2005	
	Amount	**Percentage of Operating Revenue (%)**	**Amount**	**Percentage of Operating Revenue (%)**
Company A	$ 10,637,096	16	$ 11,888,145	17

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 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 Year	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	$73,926,702	$154,000 (Note 1)	$154,000 (Note 1)	$ -	0.21%	$147,853,404

Note 1: Represents the actual amount of guarantee provided, as of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

Note 2: The maximum 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
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Highest Shares/ Units Held During the Year	Note
				Shares	Carrying Value (Note D)	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	$ 36,124,571	100.00	$ 36,124,571	1,332,997,916	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	79,353,013	1,026,383	59.10	1,026,383	79,353,013	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	106,650,000	395,686	42.66	395,686	106,650,000	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	134,999	100.00	134,999	1,200	Note A
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	100,542	100.00	100,542	4,486,988	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	73,717	85.92	73,717	6,014,622	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	26,790	15.00	26,790	4,500,000	Note A
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	100,000	642	0.67	642	100,000	Note A
KG Telecommunications Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	186,390,714	1,084,619	74.56	1,084,619	260,915,000	Note A
	KGT International Holding Co., Ltd.	Equity-method investee	Equity-method investments	50,000	82,913	100.00	82,913	50,000	Note A
	iScreen	Equity-method investee	Equity-method investments	4,000,00	20,998	40.00	20,998	4,000,000	Note A
	Mutual funds								
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	46,468,833.40	501,752	-	501,752	46,468,833.40	Note B
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	198,030	-	198,030	20,000,000.00	Note B
	FEA Long-Short Private Placement Fund	-	Financial assets measured at holding cost - noncurrent	10,000,000.00	100,000	-	-	10,000,000.00	Note C
ARCOA Communication Co., Ltd.	Stocks								
	Hi Information Co., Ltd.	Equity-method investee	Equity-method investments	4,975,000	6,026	33.17	6,026	4,975,000	Note D
	THI consultants	-	Financial assets measured at holding cost - noncurrent	1,134,200	13,729	18.29	-	1,134,200	Note C
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,830,901	6,714	4.20	-	2,830,901	Note C
	Taiwan Fixed Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,100,000	21,000	0.03	-	2,100,000	Note C
	VIBO Telecom Inc.	-	Financial assets measured at holding cost - noncurrent	2,000,000	20,000	0.13	-	2,000,000	Note C
	Web Point Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	160,627	1,618	0.63	-	160,627	Note C
	Mutual funds								
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,145,477.50	91,507	-	91,507	10,334,101.90	Note B
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	1,263,463.79	20,002	-	20,002	1,268,568.67	Note B

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Highest Shares/ Units Held During the Year	Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value		
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	1,368,578.80	$ 20,001	-	$ 20,001	1,368,578.80	Note B
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	1,098,619.40	15,002	-	15,002	1,120,850.10	Note B
	Bonds								
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds measured at amortized cost - current	3,000,000.00	3,000	-	-	3,000,000.00	Note C
Far Eastern Info Service (Holding) Ltd.	Share certificates								
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity-method investments	-	US$ 3,641,000	100.00	US$ 3,641,000	-	Note A
Far EasTron Holding Ltd.	Stocks								
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	14,900,000	US$ 3,063,000	99.33	US$ 3,063,000	14,900,000	Note A
E. World (Holdings) Ltd.	Stocks								
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$ 1,686,000	99.99	US$ 1,686,000	19,349,994	Note A
	Ideaculture (Cayman) Ltd.	-	Financial assets measured at holding cost - noncurrent	1,195,141	US$ 431,000	17.96	-	1,195,141	Note D
KGT International Holding Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	11,465,000	66,490	4.59	66,490	16,051,000	Note A

Note A: Calculation was based on audited financial statements as of December 31, 2006.

Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2006 while that of bonds was based on cost.

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

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

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

(Concluded)

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
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related 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.	FEA Long-Short Private Placement Fund	Financial assets measured at holding cost - noncurrent	-	-	-	$ -	10,000,000.00	$ 100,000	-	$ -	$ -	$ -	10,000,000.00	$ 100,000
	FEA 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	24,723,665.80	366,000	28,912,290.20	427,492	426,000	1,492	6,145,477.50	91,500
	CITC Cash Reserves	Financial assets measured at holding cost - noncurrent	-	-	1,729,340.90	20,000	7,748,879.60	90,000	9,478,220.50	110,177	110,000	177	-	-
	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	15,754,247.15	200,391	200,000	391	-	-
	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
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Purchaser (Seller) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable or (Payable)	
			Purchase (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	Telecommunications service revenues	$ (2,794,346)	(6%)	Based on agreement	-	-	Accounts receivable $ 276,073	5%
			Cost of telecommunications service	1,562,707	8%	Based on agreement	-	-	Accounts payable (43,960)	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	727,404	3%	Based on agreement			Accounts payable and accrual expense (229,938)	(6%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(238,039)	(1%)	Based on agreement	-	-	Accounts receivable 41,828	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(464,900)	(1%)	Based on agreement	-	-	Accounts receivable (Note) -	-
									Accounts payable (Note) (14,081)	(2%)
	Far Eastern Tech-info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	115,510	55%	Based on agreement	-	-	Accrual expense (2,280)	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,562,707)	(6%)	Based on agreement	-	-	Accounts receivable 43,960	2%
			Cost of telecommunications service	2,794,346	24%	Based on agreement	-	-	Accounts payable (276,073)	(52%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(135,218)	(1%)	Based on agreement	-	-	Accounts receivable 6,843	-
	ARCOA Communication Co., Ltd.	Same parent company	Marketing expenses and cost of sales	194,308	5%	Based on agreement	-	-	Accounts payable and accrual expense (37,450)	(2%)
	KGEx.com Co., Ltd.	Subsidiary company	Telecommunications service revenues	(141,202)	(1%)	Based on agreement	-	-	Accounts receivable 19,508	1%
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(727,404)	(11%)	Based on agreement	-	-	Accounts receivable 229,938	61%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue and sales	(208,960)	(5%)	Based on agreement	-	-	Accounts receivable 37,450	10%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications service	238,039	23%	Based on agreement	-	-	Accounts payable (41,828)	(29%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications service	141,202	14%	Based on agreement	-	-	Accounts payable (19,508)	(13%)
	New Century InfoComm Tech Co., Ltd.	Same chairman of ultimate parent company	Cost of telecommunications service	$167,071	16%	Based on agreement	-	-	Accounts payable ($15,294)	(10%)
Far Eastern Tech-info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenues	(115,510)	(69%)	Based on agreement	-	-	Accounts receivable 2,280	4%

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
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Year	Allowance for Bad Debts
					Amount	Action Taken		
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	$ 604,162	(Note A)	$ -	-	$ 32,364	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	112,718	13.28	-	-	-	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,464,210	(Note B)	-	-	460,908	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	229,938	4.44	-	-	182	-

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH FAR EASTONE EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2006	December 31, 2005	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	Type I telecommunications services	$ 29,629,139	$ 29,629,139	1,332,997,916	100.00	$ 36,124,571	$ 5,568,497	$ 5,568,404	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	Type II telecommunications services, manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,026,383	(245,260)	(144,937)	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	395,686	(982,928)	(393,410)	Notes B and C
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	134,999	(9,169)	(9,169)	Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	100,542	(42,749)	(42,749)	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	73,717	8,397	7,215	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	26,790	(5,935)	(890)	Notes B and C
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	642	(42,812)	(286)	Notes B and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,794	2,197,652	186,390,714	74.56	1,084,619	(192,174)		Notes B and D
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	82,913	(7,897)		Notes B and D
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,998	250		Notes B and E
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	6,026	11,250		Notes E and F
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Taiwan	Internet service	US$ 4,532,000	US$ 4,532,000	14,900,000	99.33	US$ 3,063,000	(42,812)		Notes B and D
Far Eastern Info Service (Holding) Ltd.	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer service providing	US$ 2,500,000	US$ 2,500,000	-	100.00	US$ 3,641,000	(8,811)		Notes B and D
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$ 1,686,000	8,371		Notes B and D
KGT International Holding Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$ 4,822,000	US$ 4,822,000	11,465,000	4.59	66,490	(192,174)		Notes B and D

Notes: A. Subsidiary.

B. Calculation based on audited financial statements as of December 31, 2006.

C. Equity-method investee of Far EasTone.

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

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

F. Calculation was based on the most current financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2006	Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$81,488 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$(8,811)	$118,678 (US$3,641,000)	$ -	$92,616	$92,616	$16,285,340 (Note C)

Note A: Calculation based on audited financial statements as of December 31, 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 Corporation in Mainland China, which was issued by the ROC Investment Commission on March 1, 2004.

Note D: Please refer to Note 18 for significant transactions with the investee company.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

ELIMINATED SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
	Year ended December 31, 2006						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Accounts and notes receivable from related parties	$ 604,162	Note D	1%
				Inventories	22,534	Note D	-
				Prepaid expenses	12,040	Note D	-
				Accounts and notes payable to related parties	1,464,120	Note D	2%
				Unearned revenues	8,867	Note D	-
				Telecommunications services revenue	2,794,346	Note D	4%
				Cost of telecommunications services	1,562,707	Note D	2%
				Marketing expenses	183,755	Note D	-
				Nonoperating income and gains	253,408	Note D	-
				Management service revenue	123,314	Note D	-
		ARCOA Communication Co., Ltd.	1	Accounts and notes receivable from related parties	112,718	Note D	-
				Accounts and notes payable to related parties	229,938	Note D	-
				Unearned revenues	173,342	Note D	-
				Sales of cellular phone equipment and accessories, net	62,791	Note D	-
				Telecommunications service revenue	7,565	Note D	-
				Cost of sales	262,341	Note D	-
				Other operating costs	2,718	Note D	-
				Marketing expenses	465,063	Note D	1%
				Nonoperating income and gains	1,438	Note D	-
		KGEx.com Co., Ltd.	1	Accounts and notes receivable from related parties	46,345	Note D	-
				Accounts and notes payable to related parties	18,161	Note D	-
				Telecommunications services revenue	238,039	Note D	-
				Cost of telecommunications services	4,104	Note D	-
				General and administrative expenses	728	Note D	-
				Management service revenue	7,500	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Accounts and notes payable to related parties	2,280	Note D	-
				General and administrative expenses	115,510	Note D	-
		Far EasTron Co., Ltd.	1	Accounts and notes receivable from related parties	1,409	Note D	-
		Yuan Cing co., Ltd.	1	Accounts and notes receivable from related parties	1,961	Note D	-
				Accounts and notes payable to related parties	1,272	Note D	-
				Management service revenue	1,088	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Accounts and notes receivable from related parties	1,136	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)
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	$ 1,464,120	Note D	2%
				Inventories	20,907	Note D	-
				Prepaid Expenses	5,676	Note D	-
				Accounts and notes payable to related parties	604,162	Note D	1%
				Unearned Revenues	16,858	Note D	-
				Telecommunications services revenue	1,562,707	Note D	2%
				Cost of telecommunications services	2,827,393	Note D	4%
				Marketing expenses	290,821	Note D	-
				General and administrative expenses	50,667	Note D	-
				Research and development expenses	2,187	Note D	-
				Nonoperating income and gains	183,755	Note D	-
		ARCOA Communication Co., Ltd.	3	Accounts and notes receivable from related parties	42	Note D	-
				Accounts and notes payable to related parties	37,450	Note D	-
				Unearned revenue	1,442	Note D	-
				Sales of cellular phone equipment and accessories, net	9,103	Note D	-
				Cost of sales	74,237	Note D	-
				Other operating costs	1,071	Note D	-
				Marketing expenses	120,071	Note D	-
		KGEx.com Co., Ltd.	3	Accounts and notes receivable from related parties	22,565	Note D	-
				Accounts and notes payable to related parties	2,424	Note D	-
				Telecommunications service revenue	141,202	Note D	-
				Cost of telecommunications services	1,002	Note D	-
				General and administrative expenses	20,749	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Accounts and notes payable to related parties	13,249	Note D	-
				General and administrative expenses	52,053	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	229,938	Note D	-
				Inventories	173,342	Note D	-
				Accounts and notes payable to related parties	112,718	Note D	-
				Sales of cellular phone equipment and accessories, net	834,849	Note D	1%
				Other operating revenues	390,230	Note D	1%
				Cost of sales	604,338	Note D	1%
				Cost of telecommunications services	8,153	Note D	-
				Nonoperating income and gains	45,740	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	37,450	Note D	-
				Inventories	1,442	Note D	-
				Accounts and notes payable to related parties	42	Note D	-
				Sales of cellular phone equipment and accessories, net	127,470	Note D	-
				Other operating revenues	117,851	Note D	-
				Cost of sales	60,014	Note D	-
				Nonoperating income and gains	969	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)
3	KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	$ 18,161	Note D	-
				Accounts and notes payable to related parties	46,345	Note D	-
				Telecommunications service revenue	4,832	Note D	-
				Cost of telecommunications services	238,039	Note D	-
				General and administrative expenses	7,500	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	2,424	Note D	-
				Accounts and notes payable to related parties	22,565	Note D	-
				Cost of telecommunications services	141,202	Note D	-
				Telecommunications service revenue	21,751	Note D	-
		Far EasTron Co., Ltd.	3	Accounts and notes receivable from related parties	323	Note D	-
				Telecommunications service revenue	3,328	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	2,280	Note D	-
				Other operating revenues	115,510	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	13,249	Note D	-
				Other operating revenues	52,053	Note D	-
5	Far EasTron Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes payable to related parties	1,409	Note D	-
		KGEx.com Co., Ltd.	3	Accounts and notes payable to related parties	323	Note D	-
				Other operating costs	3,328	Note D	-
		Yuan Cing Co., Ltd.	3	General and administrative expenses	1,771	Note D	-
6	Yuan Cing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	1,272	Note D	-
				Accounts and notes payable to related parties	1,961	Note D	-
				General and administrative expenses	1,088	Note D	-
		Far EasTron Co., Ltd.	3	Other operating revenues	1,771	Note D	-
7	Far Eastern Info Service (Holding) Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes payable to related parties	1,136	Note D	-
	Year ended December 31, 2005						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Accounts and notes receivable from related parties	611,732	Note D	1%
				Accounts and notes payable to related parties	503,615	Note D	1%
				Telecommunications services revenue	2,520,762	Note D	4%
				Cost of telecommunications services	1,206,382	Note D	2%
				Marketing expenses	155,371	Note D	-
				Nonoperating income and gains	290,712	Note D	-
				Management service revenue	125,489	Note D	-
				Accounts and notes receivable from related parties	8,488		
		ARCOA Communication Co., Ltd.	1	Refundable deposits	20	Note D	-
				Accounts and notes payable to related parties	168,308	Note D	-
				Sales of cellular phone equipment and accessories, net	99,517	Note D	-
				Cost of sales	19,845	Note D	-
				Marketing expenses	466,927	Note D	1%

(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)
		KGEX.com Co., Ltd.	1	Accounts and notes receivable from related parties	$ 46,435	Note D	-
				Accounts and notes payable to related parties	477	Note D	-
				Telecommunications services revenue	177,702	Note D	-
				Cost of telecommunications services	1,446	Note D	-
				General and administrative expenses	185	Note D	-
				Management service revenue	7,500	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Accounts and notes payable to related parties	4,459	Note D	-
				General and administrative expenses	148,268	Note D	-
		Far EasTron Co., Ltd.	1	Accounts and notes receivable from related parties	37,975	Note D	-
				Accounts and notes payable to related parties	163	Note D	-
		Yuan Cing co., Ltd.	1	Accounts and notes receivable from related parties	4,067	Note D	-
				Accounts and notes payable to related parties	23,070	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Accounts and notes receivable from related parties	664	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	503,615	Note D	1%
				Accounts and notes payable to related parties	611,732	Note D	1%
				Telecommunications services revenue	1,206,382	Note D	2%
				Cost of telecommunications services	2,552,018	Note D	4%
				Marketing expenses	326,110	Note D	-
				General and administrative expenses	54,584	Note D	-
				Research and development expenses	4,251	Note D	-
				Nonoperating income and gains	155,371	Note D	-
		ARCOA Communication Co., Ltd.	3	Accounts and notes payable to related parties	65,467	Note D	-
				Sales of cellular phone equipment and accessories, net	37,678	Note D	-
				Cost of sales	7,149	Note D	-
				Marketing expenses	267,554	Note D	-
		KGEX.com Co., Ltd.	3	Accounts and notes receivable from related parties	28,045	Note D	-
				Accounts and notes payable to related parties	1,481	Note D	-
				Telecommunications services revenue	172,563	Note D	-
				General and administrative expenses	8,481	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Accounts and notes payable to related parties	13,424	Note D	-
				General and administrative expenses	34,521	Note D	-
		Far EasTron Co., Ltd.	3	Accounts and notes receivable from related parties	10	Note D	-
				Accounts and notes payable to related parties	70	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	168,308	Note D	-
				Accrual expense	8,488	Note D	-
				Guarantee deposits received	20	Note D	-
				Sales of cellular phone equipment and accessories, net	19,845	Note D	-
				Other revenues	466,927	Note D	1%
				Cost of sales	99,517	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)
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	$ 65,467	Note D	-
				Sales of cellular phone equipment and accessories, net	7,149	Note D	-
				Other revenues	267,554	Note D	-
				Cost of sales	37,678	Note D	-
3	KGEX.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	477	Note D	-
				Accounts and notes payable to related parties	46,435	Note D	-
				Telecommunications services revenue	1,446	Note D	-
				Other operating revenues	185	Note D	-
				Cost of telecommunications services	177,702	Note D	-
				General and administrative expenses	7,500	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	1,481	Note D	-
				Accounts and notes payable to related parties	28,045	Note D	-
				Cost of telecommunications services	172,563	Note D	-
				Other operating revenues	8,481	Note D	-
		Far EasTron Co., Ltd.	3	Other operating revenues	1,745	Note D	-
				Accounts and notes receivable from related parties	486	Note D	-
				Accounts and notes payable to related parties	584	Note D	-
		Yuan Cing Co., Ltd.	3	General and administrative expenses	584	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	4,459	Note D	-
				Other operating revenues	148,268	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	13,424	Note D	-
				Other operating revenues	34,521	Note D	-
5	Far EasTron Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	163	Note D	-
				Accounts and notes payable to related parties	37,975	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	70	Note D	-
				Accounts and notes payable to related parties	10	Note D	-
		KGEx.com Co., Ltd.	3	Accounts and notes receivable from related parties	584	Note D	-
				Accounts and notes payable to related parties	486	Note D	-
				Other operating costs	1,745	Note D	-
		Yuan Cing Co., Ltd.	3	Accounts and notes payable to related parties	1,690	Note D	-
				General and administrative expenses	1,753	Note D	-
6	Yuan Cing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	23,070	Note D	-
				Accounts and notes payable to related parties	4,067	Note D	-
		KGEx.com Co., Ltd.	3	Other operating revenues	584	Note D	-
		Far EasTron Co., Ltd.	3	Accounts and notes receivable from related parties	1,690	Note D	-
				Other operating revenues	1,753	Note D	-
7	Far Eastern Info Service (Holding) Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes payable to related parties	664	Note D	-

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

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

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

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

Note C: For assets and liabilities, amount is shown as a percentage to the consolidated total assets as of December 31, 2006 and 2005; while revenues, costs and expenses are shown as a percentage to the consolidated total operating revenues for the years ended December 31, 2006 and 2005.

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

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

(Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

SEGMENT INFORMATION
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	Years Ended December 31							
	2006				2005			
	Telecommunications Services	Sales	Adjustment and Eliminations	Combined	Telecommunications Services	Sales	Adjustment and Eliminations	Combined
Revenues generated from un-affiliates	$ 60,472,386	$ 6,754,578	$ -	$ 67,226,964	$ 63,544,142	$ 8,368,029	$ -	$ 71,912,171
Revenues generated from the Group (Note B)	-	-	-	-	-	-	-	-
Total revenues	$ 60,472,386	$ 6,754,578	$ -	$ 67,226,964	$ 63,544,142	$ 8,368,029	$ -	$ 71,912,171
Segment operating income (loss) (Note C)	$ 23,563,543	$ (1,817,763)	$ -	$ 21,745,780	$ 27,101,627	$ (1,838,077)	$ -	$ 25,263,550
Interest revenue				82,422				63,360
Other revenue				448,119				160,790
Equity in investees' net losses				(394,160)				(243,426)
Interest expense				(104,363)				(279,457)
Other expense				(481,318)				(370,788)
General and administrative expense (Note D)				(5,168,164)				(6,737,323)
Income before income tax				$ 16,128,316				$ 17,856,706
Identifiable assets (Note E)	$ 73,566,877	$ 1,505,003	$ -	$ 75,071,880	$ 81,209,830	$ 2,182,857	$ -	$ 83,392,687
Financial products				849,294				419,456
Long-term investment				626,637				920,907
Assets not identifiable to a specified segment				17,331,108				14,690,932
Total assets				$ 93,878,919				$ 99,423,982
Depreciation expense	$ 11,769,525	$ 30,842			$ 11,415,124	$ 24,622		
Amortization expense	$ 62,138	$ 48,875			$ 923,321	$ 42,850		
Capital expenditure	$ 5,403,105	$ 31,227			$ 5,490,776	$ 17,513		

Notes:

A. The Group is distinguished into telecommunications services business and sales business.

B. Represents sales between segments.

C. Represents revenue minus costs and operating expenses. Costs and operating expenses are related to revenue of segments except general and administrative expense.

D. Represents general and administrative expenses of the Group.

E. Represents tangible and intangible assets which can be separately allocated to each segment. However, those assets do not include:

a. Assets not for use by any specific segment.
b. Advances or loans to another segment.
c. Mutual funds and long-term investments.