# Far EasTone Telecommunications Co., Ltd. and Subsidiaries

## Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007 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, 2008 and 2007, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

February 18, 2009

*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, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars, Except Par Value)**

| ASSETS | 2008 Amount | 2008 % | 2007 Amount | 2007 % |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2, 5 and 30) | $ 7,235,872 | 8 | $ 10,278,313 | 10 |
| Available-for-sale financial assets - current (Notes 2, 6 and 30) | 1,745,767 | 2 | 1,621,420 | 2 |
| Bonds carried at amortized cost - current (Notes 2 and 7) | 3,000 | - | 3,000 | - |
| Accounts and notes receivable, net (Notes 2 and 8) | 6,181,007 | 7 | 6,506,901 | 7 |
| Receivables from related parties, net (Notes 2 and 29) | 216,348 | - | 32,693 | - |
| Inventories, net (Notes 2 and 9) | 852,667 | 1 | 670,840 | 1 |
| Prepaid expenses | 695,889 | 1 | 705,983 | 1 |
| Deferred income tax assets - current (Notes 2 and 24) | 738,618 | 1 | 757,683 | 1 |
| Restricted assets (Note 2) | 72,446 | - | 113,259 | - |
| Pledged certificates of deposits - current (Note 31) | 20,000 | - | 39,036 | - |
| Other current assets (Note 30) | 260,579 | 1 | 110,159 | - |
| Total current assets | 18,022,193 | 21 | 20,839,287 | 22 |
| LONG-TERM INVESTMENTS | | | | |
| Equity-method investments (Notes 2 and 10) | 5,933,262 | 7 | 6,750,690 | 7 |
| Financial assets carried at cost - noncurrent (Notes 2 and 11) | 180,461 | - | 292,061 | - |
| Total long-term investments | 6,113,723 | 7 | 7,042,751 | 7 |
| PROPERTIES (Notes 2, 12 and 31) | | | | |
| Cost | | | | |
| Land | 1,473,588 | 2 | 1,467,746 | 2 |
| Buildings and equipment | 2,935,661 | 3 | 2,888,046 | 3 |
| Operating equipment | 106,184,956 | 120 | 102,139,535 | 106 |
| Computer equipment | 15,899,999 | 18 | 14,960,798 | 15 |
| Office equipment | 998,804 | 1 | 1,001,385 | 1 |
| Leasehold improvements | 1,736,987 | 2 | 1,709,137 | 2 |
| Miscellaneous equipment | 607,591 | 1 | 497,949 | - |
| Total cost | 129,837,586 | 147 | 124,664,596 | 129 |
| Less: Accumulated depreciation | 89,289,662 | 101 | 79,671,538 | 82 |
| | 40,547,924 | 46 | 44,993,058 | 47 |
| Construction-in-progress and prepayments for equipment | 4,880,523 | 5 | 3,935,609 | 4 |
| Net properties | 45,428,447 | 51 | 48,928,667 | 51 |
| INTANGIBLE ASSETS | | | | |
| Goodwill, net (Notes 2 and 13) | 10,571,909 | 12 | 10,596,625 | 11 |
| 3G concession, net (Notes 1, 2 and 14) | 7,307,065 | 8 | 8,037,772 | 8 |
| Total intangible assets | 17,878,974 | 20 | 18,634,397 | 19 |
| OTHER ASSETS | | | | |
| Rental assets, net (Notes 2 and 15) | 212,797 | - | 225,766 | - |
| Idle properties, net (Note 2) | 296,328 | - | 312,815 | - |
| Refundable deposits (Note 29) | 409,363 | 1 | 412,077 | 1 |
| Deferred charges, net (Note 2) | 110,808 | - | 119,483 | - |
| Other (Notes 22 and 31) | 25,933 | - | 25,339 | - |
| Total other assets | 1,055,229 | 1 | 1,095,480 | 1 |
| TOTAL | $ 88,498,566 | 100 | $ 96,540,582 | 100 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2008 Amount | 2008 % | 2007 Amount | 2007 % |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Short-term bank loans (Notes 16 and 31) | $ 1,689,450 | 2 | $ 269,215 | - |
| Commercial paper payable (Note 17) | 379,964 | 1 | - | - |
| Hedging derivative financial liabilities - current (Notes 2 and 28) | - | - | 21,601 | - |
| Notes payable | 83,824 | - | 84,865 | - |
| Accounts payable | 2,675,010 | 3 | 2,720,938 | 3 |
| Payables to related parties (Note 29) | 343,147 | - | 201,983 | - |
| Income tax payable (Notes 2 and 24) | 2,173,306 | 3 | 1,565,019 | 2 |
| Accrued expenses (Note 18) | 3,500,251 | 4 | 3,635,137 | 4 |
| Payables for acquisition of properties | 1,988,287 | 2 | 1,722,988 | 2 |
| Guarantee deposits received - current | 713,367 | 1 | 837,648 | 1 |
| Unearned revenues (Note 2) | 1,154,126 | 1 | 999,361 | 1 |
| Current portion of long-term bonds payable (Note 19) | - | - | 2,670,000 | 3 |
| Current portion of long-term bank loans (Notes 20 and 31) | 238,095 | - | 38,095 | - |
| Lease payable - current (Notes 2, 21 and 29) | 8,394 | - | 40,314 | - |
| Other current liabilities (Notes 23 and 30) | 291,290 | - | 325,851 | - |
| Total current liabilities | 15,238,511 | 17 | 15,133,015 | 16 |
| LONG-TERM LIABILITIES, NET OF CURRENT PORTION | | | | |
| Long-term bank loans (Notes 20 and 31) | 19,048 | - | 57,143 | - |
| Lease payable - noncurrent (Notes 2, 21 and 29) | 8,360 | - | 16,754 | - |
| Total long-term liabilities | 27,408 | - | 73,897 | - |
| OTHER LIABILITIES | | | | |
| Accrued pension costs (Notes 2 and 22) | 346,328 | - | 314,804 | 1 |
| Guarantee deposits received - noncurrent | 118,487 | - | 112,043 | - |
| Deferred income tax liabilities - noncurrent (Notes 2 and 24) | 31,445 | - | 224,442 | - |
| Deferred revenue (Note 2) | 397,944 | 1 | 267,225 | - |
| Other | 97,140 | - | - | - |
| Total other liabilities | 991,344 | 1 | 918,514 | 1 |
| Total liabilities | 16,257,263 | 18 | 16,125,426 | 17 |
| FAR EASTONE'S EQUITY | | | | |
| Capital stocks - NT$10.00 par value; authorized - 4,200,000 thousand shares Issued and outstanding - 3,258,501 thousand shares in 2008 and 4,033,033 thousand shares in 2007 | 32,585,008 | 37 | 40,330,334 | 42 |
| Capital surplus | | | | |
| Additional paid-in capital - share issuance in excess of par value | 10,964,702 | 12 | 10,964,702 | 11 |
| From business combination | 8,482,381 | 10 | 8,482,381 | 9 |
| From long-term equity-method investments | 40,266 | - | 40,187 | - |
| Total capital surplus | 19,487,349 | 22 | 19,487,270 | 20 |
| Retained earnings | | | | |
| Legal reserve | 8,050,917 | 9 | 6,888,973 | 7 |
| Special reserve | - | - | 44,832 | - |
| Unappropriated earnings | 11,194,668 | 13 | 12,567,456 | 13 |
| Total retained earnings | 19,245,585 | 22 | 19,501,261 | 20 |
| Other adjustments | | | | |
| Cumulative translation adjustments | 28,464 | - | 11,826 | - |
| Unrealized gains (losses) on financial instruments | (50,204 ) | - | 3,309 | - |
| Total other adjustments | (21,740 ) | - | 15,135 | - |
| Total controlling interest of Far EasTone | 71,296,202 | 81 | 79,334,000 | 82 |
| MINORITY INTEREST | 945,101 | 1 | 1,081,156 | 1 |
| Total stockholders' equity | 72,241,303 | 82 | 80,415,156 | 83 |
| TOTAL | $ 88,498,566 | 100 | $ 96,540,582 | 100 |

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUES (Notes 2 and 29) | | | | |
| Sales of cellular phone equipment and accessories, net | $ 5,198,917 | 8 | $ 5,517,101 | 9 |
| Telecommunications service revenues | 56,955,864 | 91 | 58,242,827 | 91 |
| Other | 363,129 | 1 | 276,818 | - |
| Total operating revenues | 62,517,910 | 100 | 64,036,746 | 100 |
| OPERATING COSTS (Notes 2, 26, 29 and 31) | | | | |
| Cost of sales | 5,720,732 | 9 | 6,316,967 | 10 |
| Cost of telecommunications services | 27,233,385 | 44 | 27,017,579 | 42 |
| Other | 264,817 | - | 214,471 | - |
| Total operating costs | 33,218,934 | 53 | 33,549,017 | 52 |
| GROSS PROFIT | 29,298,976 | 47 | 30,487,729 | 48 |
| OPERATING EXPENSES (Notes 2, 26 and 29) | | | | |
| Marketing | 10,044,411 | 16 | 10,059,673 | 16 |
| General and administrative | 4,759,751 | 8 | 5,085,405 | 8 |
| Research and development | 154,007 | - | 290,176 | - |
| Total operating expenses | 14,958,169 | 24 | 15,435,254 | 24 |
| OPERATING INCOME | 14,340,807 | 23 | 15,052,475 | 24 |
| NONOPERATING INCOME AND GAINS | | | | |
| Interest (Note 29) | 179,558 | 1 | 185,939 | 1 |
| Government grant (Note 2) | 74,217 | - | 21,583 | - |
| Advertising income | 26,969 | - | 21,386 | - |
| Rent | 25,326 | - | 20,384 | - |
| Reversal of loss on decline in value of inventories (Note 2) | 21,920 | - | - | - |
| Gain from sale of nonperforming accounts receivable (Note 25) | - | - | 56,264 | - |
| Gain from sale of financial assets, net (Note 2) | - | - | 44,519 | - |
| Other (Note 29) | 169,360 | - | 182,395 | - |
| Total nonoperating income and gains | 497,350 | 1 | 532,470 | 1 |

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| NONOPERATING EXPENSES AND LOSSES | | | | |
| Equity in investees' net losses (Notes 2 and 10) | $ 812,892 | 2 | $ 295,000 | 1 |
| Loss on disposal of properties, net (Note 2) | 407,782 | 1 | 629,519 | 1 |
| Loss from sale of financial assets, net (Note 2) | 146,194 | - | - | - |
| Impairment loss (Note 2) | 35,017 | - | 24,425 | - |
| Interest (Notes 2 and 12) | 22,664 | - | 41,606 | - |
| Other (Note 26) | 89,966 | - | 31,454 | - |
| Total nonoperating expenses and losses | 1,514,515 | 3 | 1,022,004 | 2 |
| COMBINED INCOME BEFORE INCOME TAX | 13,323,642 | 21 | 14,562,941 | 23 |
| INCOME TAX (Notes 2 and 24) | 3,301,821 | 5 | 3,140,606 | 5 |
| COMBINED NET INCOME | $ 10,021,821 | 16 | $ 11,422,335 | 18 |
| ATTRIBUTABLE TO: | | | | |
| Controlling interest | $ 10,160,747 | 16 | $ 11,619,441 | 18 |
| Minority interest | (138,926) | - | (197,106) | - |
| | $ 10,021,821 | 16 | $ 11,422,335 | 18 |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Before Income Tax** | **After Income Tax** | **Before Income Tax** | **After Income Tax** |
| EARNINGS PER SHARE (Note 27) | | | | |
| Basic | $ 3.99 | $ 3.09 | $ 3.53 | $ 3.00 |
| Diluted | $ 3.99 | $ 3.09 | $ 3.53 | $ 3.00 |

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

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars, Except Amounts Per Share)**

| | Capital Stock Issued and Outstanding (Notes 10 and 23) | | Capital Surplus (Notes 2 and 23) | | | Retained Earnings (Notes 2, 4 and 23) | | | Other Adjustments | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares (Thousands) | Amount | Additional Paid-in Capital - Share Issuance in Excess of Par Value | From Business Combination | From Long-term Equity-method Investments | Legal Reserve | Special Reserve | Unappropriated Earnings | Cumulative Translation Adjustments (Notes 2 and 23) | Unrealized Gains (Losses) on Financial Instruments (Notes 2 and 23) | Controlling Interest of Far EasTone | Minority Interest | Total Stockholders' Equity |
| BALANCE, JANUARY 1, 2007 | 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 |
| Acquisition of Q-ware Com. in July 2007 | - | - | - | - | - | - | - | - | - | - | - | 414,617 | 414,617 |
| Appropriation of the 2006 earnings | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | 1,315,623 | - | (1,315,623 ) | - | - | - | - | - |
| Special reserve | - | - | - | - | - | - | 44,832 | (44,832 ) | - | - | - | - | - |
| Bonus to employees | - | - | - | - | - | - | - | (235,915 ) | - | - | (235,915 ) | - | (235,915 ) |
| Remuneration to directors and supervisors | - | - | - | - | - | - | - | (117,958 ) | - | - | (117,958 ) | - | (117,958 ) |
| Cash dividend - NT$3.1 per share | - | - | - | - | - | - | - | (12,005,255 ) | - | - | (12,005,255 ) | - | (12,005,255 ) |
| Combined net income in 2007 | - | - | - | - | - | - | - | 11,619,441 | - | - | 11,619,441 | (197,106 ) | 11,422,335 |
| Adjustment arising from changes in percentage of ownership in investees | - | - | - | - | 29,576 | - | - | - | - | - | 29,576 | - | 29,576 |
| Changes in subsidiary's unrealized loss on available-for-sale financial assets | - | - | - | - | - | - | - | - | - | 19,684 | 19,684 | 445 | 20,129 |
| Changes in unrealized loss on cash flow hedge | - | - | - | - | - | - | - | - | - | 33,417 | 33,417 | - | 33,417 |
| Translation adjustments on long-term equity-method investments | - | - | - | - | - | - | - | - | 6,866 | - | 6,866 | (67 ) | 6,799 |
| Issuance of common stock to acquire an equity-method investment - NCIC | 160,370 | 1,603,704 | 4,453,738 | - | - | - | - | - | - | - | 6,057,442 | - | 6,057,442 |
| BALANCE, DECEMBER 31, 2007 | 4,033,033 | 40,330,334 | 10,964,702 | 8,482,381 | 40,187 | 6,888,973 | 44,832 | 12,567,456 | 11,826 | 3,309 | 79,334,000 | 1,081,156 | 80,415,156 |
| Acquisition of KGEx.com's capital stock in 2008 | - | - | - | - | - | - | - | - | - | - | - | (1,414 ) | (1,414 ) |
| Holdings of Far EasTron's capital stock swapped into ADCast's capital stock | - | - | - | - | - | - | - | - | - | - | - | 13,538 | 13,538 |
| Acquisition of ARCOA's capital stock in 2008 | - | - | - | - | - | - | - | - | - | - | - | (9,333 ) | (9,333 ) |
| Capital reduction - NT$1.9204715 per share | (774,532 ) | (7,745,326 ) | - | - | - | - | - | - | - | - | (7,745,326 ) | - | (7,745,326 ) |
| Appropriation of the 2007 earnings | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | 1,161,944 | - | (1,161,944 ) | - | - | - | - | - |
| Special reserve | - | - | - | - | - | - | (44,832 ) | 44,832 | - | - | - | - | - |
| Bonus to employees | - | - | - | - | - | - | - | (210,047 ) | - | - | (210,047 ) | - | (210,047 ) |
| Remuneration to directors and supervisors | - | - | - | - | - | - | - | (105,023 ) | - | - | (105,023 ) | - | (105,023 ) |
| Cash dividend - NT$3.1 per share | - | - | - | - | - | - | - | (10,101,353 ) | - | - | (10,101,353 ) | - | (10,101,353 ) |
| Combined net income in 2008 | - | - | - | - | - | - | - | 10,160,747 | - | - | 10,160,747 | (138,926 ) | 10,021,821 |
| Adjustments to change in equity-method investees' stockholders' equity | - | - | - | - | 79 | - | - | - | - | - | 79 | - | 79 |
| Changes in subsidiary's unrealized loss on available-for-sale financial assets | - | - | - | - | - | - | - | - | - | (69,714 ) | (69,714 ) | (6 ) | (69,720 ) |
| Changes in unrealized loss on cash flow hedge | - | - | - | - | - | - | - | - | - | 16,201 | 16,201 | - | 16,201 |
| Translation adjustments on long-term equity-method investments | - | - | - | - | - | - | - | - | 16,638 | - | 16,638 | 86 | 16,724 |
| BALANCE, DECEMBER 31, 2008 | 3,258,501 | $ 32,585,008 | $ 10,964,702 | $ 8,482,381 | $40,266 | $ 8,050,917 | $ - | $ 11,194,668 | $28,464 | $ (50,204 ) | $ 71,296,202 | $ 945,101 | $ 72,241,303 |

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars)**

| | 2008 | 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Combined net income | $ 10,021,821 | $ 11,422,335 |
| Depreciation and amortization | 10,911,688 | 11,276,779 |
| Amortization of 3G concession | 730,707 | 730,707 |
| Allowance for doubtful accounts | 678,231 | 419,589 |
| Provision (reversal of provision) for loss on decline in value of inventories | (21,920) | 3,225 |
| Loss (gain) from sale of financial assets, net | 146,194 | (42,006) |
| Equity in investees’ net losses | 812,892 | 295,000 |
| Provision for impairment loss | 35,017 | 24,425 |
| Loss on disposal of properties, net | 407,782 | 629,519 |
| Accrued pension cost | 31,524 | 20,841 |
| Deferred income taxes | (179,332) | 652,081 |
| Net changes in operating assets and liabilities | | |
| Financial assets held for trading | - | 146,512 |
| Accounts and notes receivable | (339,341) | (824,401) |
| Receivables from related parties | (170,482) | 28,957 |
| Inventories | (159,907) | 298,548 |
| Prepaid expenses | 13,561 | 67,003 |
| Other current assets | (150,911) | (9,069) |
| Notes payable | (3,715) | (46,827) |
| Accounts payable | (53,893) | (148,813) |
| Payables to related parties | 141,164 | 74,954 |
| Income tax payable | 608,287 | (269,313) |
| Accrued expenses | (152,807) | 555,127 |
| Unearned revenues | 153,900 | (85,334) |
| Other current liabilities | (50,530) | (272,369) |
| Net cash provided by operating activities | 23,409,930 | 24,947,470 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of available-for-sale financial assets | (3,820,954) | (2,523,962) |
| Proceeds of the disposal of available-for-sale financial assets | 3,500,411 | 1,680,289 |
| Acquisition of equity-method investments | - | (510,640) |
| Proceeds of the disposal of equity-method investments | - | 4,939 |
| Acquisition of financial assets carried at cost | - | (150,000) |
| Proceeds of the disposal of financial assets carried at cost | 87,509 | 17,378 |
| Acquisition of properties | (7,470,417) | (5,785,911) |
| Proceeds of the disposal of properties | 29,505 | 35,831 |
| Decrease in refundable deposits | 3,616 | 5,268 |
| Decrease in pledged certificates of deposits | 19,971 | 7,475 |
| Increase in deferred charges | (14,781) | (18,363) |
| Decrease (increase) in restricted assets | 40,813 | (113,259) |
| Decrease (increase) in other assets | (222) | 574 |
| Net cash used in investing activities | (7,624,549) | (7,350,381) |

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# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars)**

| | 2008 | 2007 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term bank loans | $ 1,420,235 | $ 140,259 |
| Increase in commercial paper payable | 379,964 | - |
| Proceeds of long-term bank loans | 200,000 | - |
| Repayment of bonds payable | (2,670,000) | (2,960,000) |
| Repayment of long-term bank loans | (38,095) | (38,095) |
| Decrease in guarantee deposits received | (118,008) | (210,019) |
| Increase in deferred revenue | 130,719 | 248,690 |
| Bonus paid to employees and remuneration paid to directors and supervisors | (314,570) | (353,873) |
| Cash dividends paid | (10,101,353) | (12,005,255) |
| Capital reduction | (7,745,326) | - |
| Decrease in minority interest | (9,674) | - |
| Cash payment due to merger | - | (495,855) |
| Net cash used in financing activities | (18,866,108) | (15,674,148) |
| EFFECT OF EXCHANGE RATE CHANGES | 16,641 | 6,866 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,064,086) | 1,929,807 |
| CASH AND CASH EQUIVALENTS ARISING FROM MERGER | 21,645 | 496,860 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 10,278,313 | 7,851,646 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 7,235,872 | $ 10,278,313 |
| SUPPLEMENTARY CASH FLOW INFORMATION | | |
| Interest paid | $ 73,810 | $ 149,207 |
| Less: Interest capitalized | 44,347 | 45,880 |
| Interest paid, net of capitalized interest | $ 29,463 | $ 103,327 |
| Income tax paid | $ 3,034,172 | $ 2,757,839 |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Issuance of common stock to acquire an equity-method investment | $ - | $ 6,057,442 |
| Current portion of long-term liabilities | $ 246,489 | $ 2,770,010 |
| Reclassification of properties into rental assets and idle properties | $ - | $ 20,867 |
| Reclassification of rental assets into properties | $ 10,692 | $ - |
| Reclassification of idle properties into rental assets | $ - | $ 24,684 |
| Reclassification of deferred charges into properties | $ - | $ 2,853 |
| Reclassification of properties into deferred charges | $ 38,702 | $ - |
| Declaration of remuneration to directors and supervisors | $ 500 | $ - |

(Continued)

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars)**

| | 2008 | 2007 |
|---|---|---|
| CASH PAID FOR ACQUISITION OF PROPERTIES | | |
| Increase in properties | $ 7,806,176 | $ 5,519,092 |
| Decrease (increase) in payables for acquisition of properties | (265,299) | 226,369 |
| Decrease in lease payables | 40,314 | 40,450 |
| Increase in other current liabilities | (13,634) | - |
| Increase in other liabilities - other | (97,140) | - |
| Cash paid for acquisition of properties | $ 7,470,417 | $ 5,785,911 |
| PROCEEDS OF THE DISPOSAL OF PROPERTIES | | |
| Total amount of sold properties | $ 42,575 | $ 30,936 |
| Decrease in receivables from properties sold | 103 | 9,503 |
| Increase in receivables from related parties | (13,173) | (4,608) |
| Cash received from the disposal of properties | $ 29,505 | $ 35,831 |

SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

a. In the year ended December 31, 2008, Far EasTone and Far EasTron Holding Ltd. swapped their holdings of Far EasTron's common shares for ADCast Interactive Marketing Co., Ltd.'s ("ADCast") common shares. KG Telecom also bought ADCast's common shares by cash. As a result, the group acquired about 69.08% of ADCast's common stock; the fair value of ADCast's total assets and total liabilities at the time of acquisition was as follows:

| | Amount |
|---|---|
| Cash and cash equivalents | $ 22,434 |
| Accounts and notes receivable, net | 32,673 |
| Prepaid expenses | 2,306 |
| Other current assets | 4,054 |
| Properties, net | 1,725 |
| Goodwill | 3,417 |
| Refundable deposits | 907 |
| Deferred charges, net | 30 |
| Other assets | 1,307 |
| Notes payable | (2,674) |
| Accounts payable | (8,228) |
| Accrued expenses | (12,038) |
| Unearned revenues | (865) |
| Other current liabilities | (1,091) |
| Guarantee deposits received | (171) |
| | 43,786 |
| Percentage of ownership acquired | 69.08% |
| | 30,248 |
| Goodwill | 1,717 |
| Total acquisition cost of ADCast | $ 31,965 |

(Continued)

**(In Thousands of New Taiwan Dollars)**

| | **Amount** |
|---|---|
| Total acquisition cost of ADCast | |
| Carrying value of swapped equity-method investments | $ 28,313 |
| Cash payment | 3,652 |
| | $ 31,965 |

b. In July 2007, Far EasTone bought 51% of Q-ware Communications Co., Ltd.'s common stock; the fair value of total assets and total liabilities at the time of acquisition was as follows:

| | **Amount** |
|---|---|
| Cash and cash equivalents | $ 496,860 |
| Accounts and notes receivable, net | 6,212 |
| Prepaid expenses | 3,811 |
| Other current assets | 2,601 |
| Properties, net | 617,161 |
| Prepayments for equipment | 7,174 |
| Refundable deposits | 12,498 |
| Accounts payable | (5,457) |
| Accrued expenses | (15,103) |
| Unearned revenues | (2,670) |
| Other current liabilities | (263,066) |
| Other liabilities | (13,864) |
| | 846,157 |
| Percentage of ownership acquired | 51.00% |
| | 431,540 |
| Goodwill | 64,315 |
| Cash payment due to merger | $ 495,855 |

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(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, 2008, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 40.59% 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 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 1% 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.

Far EasTone merged with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom") on May 2, 2005. 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.

On July 26, 2007, the National Communications Commission (NCC) awarded Far EasTone a license to have operations in worldwide interoperability for microwave access (WiMAX) in southern region of Taiwan. On August 30, 2007, Far EasTone paid a guarantee deposit of $40,000 thousand and a minimum advance payment of $210,000 thousand for the license fee through a guarantee provided by a bank. On October 1, 2007, Far EasTone got the NCC's permission to start preparations for the construction of WiMAX networks.

Far EasTone and its consolidated subsidiaries (hereinafter referred to as the "Group") had 5,079 and 4,837 employees as of December 31, 2008 and 2007, 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 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 loss on decline in value of inventories, depreciation and amortization, impairment losses on tangible and intangible assets, asset retirement obligation, product warranty reserve, income taxes and pension cost, bonus to employees and remuneration to directors and supervisors. 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;

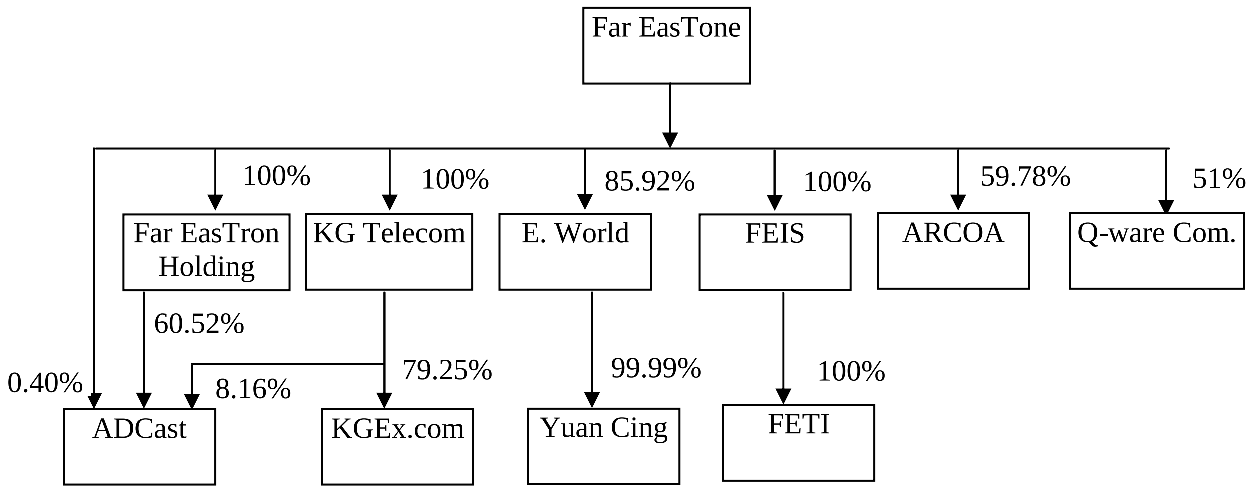
b. Share capital, retained earnings and/or accumulated deficit at their historical exchange rates; and

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, 2008 are shown below:




a. Entities included in the consolidated financial statements as of and for the years ended December 31, 2008 and 2007 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. On January 1, 2004, 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 with the Ministry of Economics Affairs (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) ARCOA Communication Co., Ltd. (“ARCOA”)

ARCOA was incorporated in the ROC on May 4, 1981. 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.

ARCOA’s shares have been listed as emerging market stock on the OTC exchange since December 27, 2002. 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, 2008, Far EasTone owned 59.78% of ARCOA’s common stock.

3) Q-ware Communications Co., Ltd. ("Q-ware Com.")

Q-ware Com. was incorporated on February 13, 2007. It mainly provides Type II telecommunications services. On February 14, 2007, the board of directors of Far EasTone approved a cooperation plan with Q-ware System Inc. ("Q-ware") to operate WiFly and other businesses agreed upon by both Far EasTone and Q-ware. After obtaining the authorities' approval of this agreement, Far EasTone, as a specific person, subscribed for 36,460 thousand newly issued shares (NT$13.60 per share) of Q-ware Com. for $495,855 thousand on July 2, 2007. On July 3, 2007, Q-ware spun off its WiFly business, with a net worth of $349,301 thousand, to Q-ware Com. and received 34,930 thousand new shares of Q-ware Com. for this spin-off. Q-ware Com. got the right to provide WiFly business in Taipei City through this spin-off until September 7, 2013, with an annual fee at 3% of total WiFly revenues. Moreover, the NCC issued to Q-ware Com. a Type II license, allowing it to provide Internet services for three years from 2007 for a fixed annual license fee based on Q-ware Com.'s paid-in capital. After the completion of this spin-off, Far EasTone owned approximately 51% of Q-ware Com.'s common stock and thus became its parent company. Q-ware's revenues and expenses were included in the consolidated financial statements since the acquisition date.

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

KGEx.com was incorporated on August 9, 2000. KGEx.com mainly provides Type II telecommunications services.

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

Yuan Cing was incorporated on August 5, 2000. Yuan Cing provides call center services.

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

FETI was incorporated in the People's Republic of China on November 18, 2002. FETI provides computer software, data processing and Internet content providing services.

7) Far EasTron Co., Ltd. ("Far EasTron") and ADCast Interactive Marketing Co., Ltd. ("ADCast")

Far EasTron was incorporated in the R.O.C. on August 12, 2005. Far EasTron mainly provides Internet content providing services.

To enhance the Group's market share of Internet advertisements and integrate the Group's resources, the stockholders of Far EasTron resolved on April 21, 2008 for Far EasTron to have a share swap with ADCast Interactive Marketing Co., Ltd. ("ADCast"), a subsidiary of New Century Info Comm Tech Co., Ltd., with ADCast as the survivor entity. After ADCast's capital reduction, Far EasTron's stockholders will receive 1 share of ADCast for every 4.8526 shares of Far EasTron. However, in their special meeting on August 29, 2008, Far EasTron's stockholders revised the share swap ratio to 5.4490:1. In addition, Far EasTron's board of directors resolved to have September 3, 2008 as the merger date. The share swap was completed on September 30, 2008 after the related registration with the Taipei City Government. After the share swap, Far EasTone, Far EasTron Holding and KG Telecom owned 69.08% of ADCast's common stock; thus, Far EasTone became ADCast's parent company. ADCast's revenues and expenses were included in the consolidated financial statements since the merger date and Far EasTron's revenues and expenses before the merger date were also included in the consolidated statements.

8) E. World (Holdings) Ltd. ("E. World"), Far Eastern Info Service (Holding) Ltd. ("FEIS"), KGT International Holding Co., Ltd. ("KGTI") and Far EasTron Holding Ltd. ("Far EasTron Holding")

E. World, FEIS, KGTI and Far EasTron Holding are primarily investment holding companies.

On May 7, 2008, KGTI's stockholders approved the board of directors' proposal to dissolve KGTI, and on May 27, 2008, the authorities of the British Virgin Islands approved this dissolution. The dissolution was also approved by ROC Investment Commission of the MOEA on August 21, 2008. In addition, KG Telecom recognized this equity-method investment using KGTI's liquidation value.

b. Except for the financial statements of some immaterial subsidiaries, KGTI (dissolved on May 7, 2008) and Far EasTron (dissolved on September 3, 2008 due to a merger), as of and for the year ended December 31, 2008, all of the financial statements of subsidiaries had been audited.

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 statements of Far EasTone and affiliates 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. All other assets such as properties and intangible assets are classified as noncurrent. Current liabilities are obligations held for trading and those 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.

**Available-for-sale Financial Assets**

On initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Any cash dividends received are recognized as income on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The cost per share is recalculated on the basis of the total number of shares held after stock dividends are received.

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.

Fair value is determined as follows: Publicly traded stocks - at the closing price on the balance sheet date, and mutual funds - at their net asset value on the balance sheet date.

**Bonds Carried at Amortized Cost**

Bonds with fixed or determinable payments that are not quoted in an active market are carried at amortized cost. Bonds should be carried at original cost plus transaction cost on initial recognition. Gains or losses are recognized when derecognition, impaired or amortized. All regular way purchases or sales of bonds are recognized and derecognized on a trade date basis.

An impairment loss should be recognized if there is objective evidence that bonds are impaired. The impairment loss is reversed if an increase in the bonds' recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the bonds may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the bonds in prior years.

**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 access 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 recharge call 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 cost 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.

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 a review of the collectibility of accounts receivable. The Group assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

**Promotion Expenses**

Commissions and cellular phone equipment subsidy costs 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. Loss 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.

**Government Grant**

When received, the government grant is included in the restricted assets and in deferred revenue at the same time. The restricted asset is recognized as cash or cash equivalent when Far EasTone uses the grant under the terms of the related agreement. The deferred revenue is recognized as follows: (1) if the grant is related to depreciable assets, it should be recognized as revenue over the asset economic lives in proportion to the depreciation expenses for these assets; or (2) if the grant is related to income, the grant amount should be deducted from the related expense when the revenue is realized.

**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 5 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 acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. 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 subjected 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.

**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, and private domestic mutual funds are carried at cost upon initial recognition. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets.

An impairment loss should be recognized and charged to current income if there is objective evidence that a financial asset is impaired. A reversal of this impairment loss is disallowed.

**Properties and Rental Assets**

Properties and rental assets are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major additions, renewals and improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their initially estimated service lives are depreciated over their newly estimated service lives.

Equipment covered by capital lease agreements are stated at the lower of (1) the fair value of the equipment at the beginning of the lease or (2) the total present value of future lease payments and the bargain purchase price.

Since November 2008, the Group estimates and capitalizes the costs of dismantling, removing properties and restoring the cellular site on which they are located and to record these costs as properties and accrued asset retirement cost.

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, which are amortized using the straight-line method over the terms of lease and agreements on the rights of software use.

**Idle Properties**

Properties not currently used in operations are transferred to idle properties at the lower of net book value or fair value, with difference charged to nonoperating expenses. However, starting on January 1, 2006, based on related regulations, depreciation of idle properties 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 investments) exceeds their recoverable amount, and this impairment loss should be charged to current income. For investees which the Group has significant influence but with no control, the carrying value amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing. For investees which the Group has control, the recoverable amount is accessed under the consideration of taking the consolidated financial statement as a whole. 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.

To test for impairment, goodwill should be allocated to each of the cash-generating units that are expected to benefit from the synergies of the combinations. A cash-generating unit should be tested for impairment at least annually by comparing the carrying amount of the unit with its recoverable amount. If the carrying amount exceeds the recoverable amount of the unit, the impairment loss is allocated to reduce the carrying amount of the unit in the following order: (a) reduce the carrying amount of any goodwill allocated to the unit; and (b) reduce the carrying amounts of other assets of the unit proportionally. A reversal of an impairment loss on goodwill is disallowed.

**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, which is included in other current liabilities.

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, Far EasTron, Q-ware Com., and ADCast 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.

## 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 unappropriated 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

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Group. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

The above prevailing exchange rates are based on the average of bid and ask rates of principal correspondent banks.

## 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 Far EasTone 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.

Far EasTone uses interest rate swaps to hedge cash flow risks from interest rate fluctuations of liabilities.

**Reclassifications**

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 2008.

## 3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined balance sheets and statements of income of the Group as of and for the years ended December 31, 2008 and 2007, respectively. The pro forma financial information based on the assumption that Far EasTone acquired the majority interest of ADCast on January 1, 2008 and 2007 is as follows:

**(In Thousands, Except EPS)**

| | Years Ended December 31 | |
|---|---|---|
| | **2008** | **2007** |
| Current assets | $ 18,022,193 | $ 20,859,114 |
| Properties, net | 45,428,447 | 48,929,392 |
| Current liabilities | 15,238,511 | 15,138,172 |
| Operating revenue | 62,536,014 | 64,066,905 |
| Income before income tax | 13,322,245 | 14,558,392 |
| Net income | 10,020,424 | 11,417,786 |
| EPS | 3.09 | 3.00 |

The pro forma combined balance sheets and statements of income are presented for illustrative purposes only. That is, this information does not necessarily show the financial position and results of operations under the assumption that Far EasTone acquired the majority interest of ADCast on January 1, 2008 and 2007, nor is it necessarily indicative of future financial position or results of operations of the Group.

## 4. CHANGE IN ACCOUNTING PRINCIPLE

In March 2007, the Accounting Research and Development Foundation (ARDF) issued Interpretation No. 2007-052 that requires companies to recognize bonuses to employees and remunerations to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in a decrease of $205,266 thousand in combined income attributable to controlling interest and a decrease of NT$0.06 in basic earnings per share after income tax for the year ended December 31, 2008.

## 5. CASH AND CASH EQUIVALENTS

| | December 31 2008 | 2007 |
|---|---|---|
| Cash | | |
| Cash on hand | $ 7,086 | $ 6,540 |
| Checking deposits | 10,003 | 92,724 |
| Demand deposits | 891,629 | 1,014,721 |
| Certificates of deposits - interest of 1.00%-2.71% in 2008 and 1.965%-4.87% in 2007 | 2,483,961 | 811,602 |
| | 3,392,679 | 1,925,587 |
| Cash equivalents | | |
| Commercial paper purchased under resell agreements - interest of 0.50%-1.30% in 2008 and 1.91%-2.00% in 2007 | 3,753,173 | 6,026,826 |
| Bonds purchased under resell agreements - interest of 0.50%-0.60% in 2008 and 1.625%-1.92% in 2007 | 90,020 | 2,325,900 |
| | 3,843,193 | 8,352,726 |
| | $ 7,235,872 | $ 10,278,313 |

As of December 31, 2008 and 2007, foreign demand deposits were as follows:

| | December 31 2008 | 2007 |
|---|---|---|
| Belgium (US$752 thousand in 2008 and US$516 thousand in 2007) | $ 24,666 | $ 16,734 |
| Hong Kong (US$10 thousand in 2008 and US$16 thousand in 2007) | 328 | 519 |
| | $ 24,994 | $ 17,253 |

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

| | December 31 2008 | 2007 |
|---|---|---|
| Domestic quoted stocks | $ 316,751 | $ 293,282 |
| Open-ended mutual funds | 1,429,016 | 1,328,138 |
| | $ 1,745,767 | $ 1,621,420 |

## 7. BONDS CARRIED AT AMORTIZED COST - CURRENT

| | December 31 2008 | 2007 |
|---|---|---|
| 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.

## 8. ACCOUNTS AND NOTES RECEIVABLE, NET

| | December 31 2008 | December 31 2007 |
|---|---|---|
| Accounts and notes receivable | $ 7,047,646 | $ 7,427,410 |
| Less: Allowance for doubtful accounts | (866,639) | (920,509) |
| | $ 6,181,007 | $ 6,506,901 |

The change in allowance for doubtful accounts was as follows:

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Accounts Receivable | Other Receivables (Included in Other Current Assets) | Accounts Receivable | Other Receivables (Included in Other Current Assets) |
| Beginning balance | $ 920,509 | $ 2,090 | $ 1,334,622 | $ - |
| Deduct: Bad debts written off | (1,018,546) | - | (1,078,745) | - |
| Add: Acquired from ADCast | 135 | - | - | - |
| Collection after write-off | 286,310 | - | 247,133 | - |
| Accrual of bad debt expenses | 678,231 | - | 417,499 | 2,090 |
| | $ 866,639 | $ 2,090 | $ 920,509 | $ 2,090 |

## 9. INVENTORIES, NET

| | December 31 2008 | December 31 2007 |
|---|---|---|
| Cellular phone equipment | $ 713,017 | $ 594,074 |
| SIM cards and prepaid cards | 37,929 | 34,328 |
| Cellular phone accessories | 36,428 | 38,215 |
| Others | 123,291 | 84,141 |
| | 910,665 | 750,758 |
| Less: Allowance for losses | 57,998 | 79,918 |
| | $ 852,667 | $ 670,840 |

## 10. EQUITY-METHOD INVESTMENTS

| | December 31 | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Carrying Value | % of Owner-ship | Carrying Value | % of Owner-ship |
| Common stocks with no quoted market prices | | | | |
| New Century InfoComm Tech Co., Ltd. | $ 5,490,024 | 24.51 | $ 6,062,000 | 24.51 |
| Far Eastern Electronic Toll Collection Co., Ltd. | 408,729 | 41.18 | 644,856 | 41.18 |
| iScreen Corporation | 28,765 | 40.00 | 26,534 | 40.00 |
| Ding Ding Integrated Marketing Service Co., Ltd. | 5,744 | 15.00 | 17,300 | 15.00 |
| | $ 5,933,262 | | $ 6,750,690 | |

a. New Century InfoComm Tech Co., Ltd. (NCIC)

Far EasTone issued 100,637,444 and 59,732,926 common shares to exchange for 615,178,755 and 365,136,728, respectively, of NCIC's common shares after NCIC's capital reduction from Infocom Holding Company Pte Ltd. and SingTel Taiwan Limited on December 31, 2007 (the record date of the share swap). The ratio for this share swap was 1:6.11282174. The share swap was approved by the Financial Supervisory Commission under the Executive Yuan on December 26, 2007 and registered with the MOEA on January 14, 2008. After the share swap, Far EasTone acquired about 24.51% of NCIC's issued shares.

b. Far Eastern Electronic Toll Collection Co., Ltd. (FETC)

On February 26, 2004, Far Eastern Electronic Toll Collection Co. was selected by the Taiwan Area National Freeway Bureau (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 the related negotiations and signed the project contract.

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 promotion of public interest and stripped FETC of its "best qualified candidate" status. In response to the verdict, the TANFB announced a second bidding for the ETC project. On April 14, 2007, TANFB announced that FETC was again the best qualified candidate. FETC then completed the ETC project negotiations and on August 22, 2007, signed the project contract with a term of 18 years and 4 months with TANFB.

c. Equity in investees' net gains or losses

Equity in investees' net gains (losses) consisted of:

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Net Gain (Loss) of the Investee | Equity in Net Gain (Loss) | Net Gain (Loss) of the Investee | Equity in Net Gain (Loss) |
| New Century InfoComm Tech Co., Ltd. | $ (2,800,811) | $ (567,440) | $ (235,630) | $ - |
| Far Eastern Electronic Toll Collection Co., Ltd. | (594,577) | (236,127) | (717,513) | (291,046) |
| iScreen Corporation | 5,362 | 2,231 | 13,928 | 5,536 |
| Ding Ding Integrated Marketing Services Co., Ltd. | (91,562) | (11,556) | (55,304) | (9,490) |
| | | $ (812,892) | | $ (295,000) |

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%.

d. Changes in the difference between investment cost and the investees' net assets

For the years ended December 31, 2008 and 2007, the changes in the difference between investment cost and the Group's equity in its investees' net assets were as follows:

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| | Amortizable Assets | Amortizable Assets |
| Beginning balance | $ (924,029) | $ - |
| Increase | - | (924,029) |
| Decrease | 115,356 | - |
| Ending balance | $ (808,673) | $ (924,029) |

## 11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Domestic unlisted common stock | | |
| THI Consultants Inc. | $ 13,729 | $ 13,729 |
| VIBO Telecom Inc. | 8,400 | 20,000 |
| Chunghwa Int'l Communication Network Co., Ltd. | 6,714 | 6,714 |
| Web Point Co., Ltd. | 1,618 | 1,618 |
| Domestic private fund | | |
| Fuh Hwa Value Added Strategy Fund | 150,000 | 150,000 |
| FEA Long-Short Private Placement Fund | - | 100,000 |
| | $ 180,461 | $ 292,061 |

The above equity and fund investments, which had no quoted prices in an active market and of which fair values could not be realizably measured, were carried at cost.

## 12. PROPERTIES

a. Changes in properties consisted of:

| | Year Ended December 31, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Movement | | | | | |
| | Beginning Balance | Addition | Sale or Disposal | Reclassification | Reclassification as Other Assets | Cumulative Translation Adjustments | Ending Balance |
| Cost | | | | | | | |
| Land | $ 1,467,746 | $ - | $ - | $ 5,842 | $ - | $ - | $ 1,473,588 |
| Buildings and equipment | 2,888,046 | 7,571 | 181 | 40,225 | - | - | 2,935,661 |
| Operating equipment | 102,139,535 | 121,179 | 1,438,081 | 5,362,323 | - | - | 106,184,956 |
| Computer equipment | 14,960,798 | 7,689 | 100,450 | 1,030,077 | - | 1,885 | 15,899,999 |
| Office equipment | 1,001,385 | 93 | 16,503 | 4,603 | - | 9,226 | 998,804 |
| Leasehold improvements | 1,709,137 | 57 | 29,554 | 57,347 | - | - | 1,736,987 |
| Miscellaneous equipment | 497,949 | 118,485 | 8,670 | (173) | - | - | 607,591 |
| | 124,664,596 | $ 255,074 | $ 1,593,439 | $ 6,500,244 | $ - | $ 11,111 | 129,837,586 |
| Accumulated depreciation | | | | | | | |
| Buildings and equipment | 903,859 | $ 115,819 | $ 114 | $ 613 | $ - | $ - | 1,020,177 |
| Operating equipment | 64,537,629 | 9,005,935 | 1,099,100 | 511 | - | - | 72,444,975 |
| Computer equipment | 11,870,126 | 1,471,348 | 86,891 | (52) | - | 1,290 | 13,255,821 |
| Office equipment | 843,637 | 40,571 | 11,008 | - | - | 7,093 | 880,293 |
| Leasehold improvements | 1,268,266 | 130,227 | 17,731 | - | - | - | 1,380,762 |
| Miscellaneous equipment | 248,021 | 68,625 | 8,553 | (459) | - | - | 307,634 |
| | 79,671,538 | $ 10,832,525 | $ 1,223,397 | $ 613 | $ - | $ 8,383 | 89,289,662 |
| | 44,993,058 | | | | | | 40,547,924 |
| Construction-in-progress and prepayments for equipment | 3,935,609 | $ 7,552,870 | $ 80,315 | $ (6,488,939) | $ (38,702) | $ - | 4,880,523 |
| | $ 48,928,667 | | | | | | $ 45,428,447 |

| | Year Ended December 31, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Movement | | | | | |
| | Beginning Balance | Addition | Sale or Disposal | Reclassification | Reclassification as Other Assets | Cumulative Translation Adjustments | Ending Balance |
| Cost | | | | | | | |
| Land | $ 1,490,772 | $ - | $ 2,255 | $ - | $ (20,771) | $ - | $ 1,467,746 |
| Buildings and equipment | 2,872,605 | 3,994 | 4,785 | 16,377 | (145) | - | 2,888,046 |
| Operating equipment | 98,300,808 | 804,251 | 1,291,988 | 4,325,759 | 705 | - | 102,139,535 |
| Computer equipment | 14,009,777 | 17,283 | 69,811 | 1,002,235 | (48) | 1,362 | 14,960,798 |
| Office equipment | 920,912 | 6,679 | 32,916 | 100,197 | - | 6,513 | 1,001,385 |
| Leasehold improvements | 1,715,118 | 6,036 | 65,725 | 53,708 | - | - | 1,709,137 |
| Miscellaneous equipment | 519,129 | 8,481 | 35,533 | 2,767 | 3,105 | - | 497,949 |
| | 119,829,121 | $ 846,724 | $ 1,503,013 | $ 5,501,043 | $ (17,154) | $ 7,875 | 124,664,596 |
| Accumulated depreciation | | | | | | | |
| Buildings and equipment | 774,271 | $ 129,952 | $ 313 | $ - | $ (51) | $ - | 903,859 |
| Operating equipment | 55,859,580 | 9,469,706 | 792,362 | - | 705 | - | 64,537,629 |
| Computer equipment | 10,486,141 | 1,434,654 | 51,377 | - | - | 708 | 11,870,126 |
| Office equipment | 791,643 | 80,745 | 32,857 | - | - | 4,106 | 843,637 |
| Leasehold improvements | 1,148,623 | 160,587 | 40,944 | - | - | - | 1,268,266 |
| Miscellaneous equipment | 192,580 | 68,923 | 13,991 | - | 509 | - | 248,021 |
| | 69,252,838 | $ 11,344,567 | $ 931,844 | $ - | $ 1,163 | $ 4,814 | 79,671,538 |
| | 50,576,283 | | | | | | 44,993,058 |
| Construction in process and advances for acquisition of equipment | 4,089,508 | $ 5,447,532 | $ 89,269 | $ (5,501,043) | $ (11,119) | $ - | 3,935,609 |
| | $ 54,665,791 | | | | | | $ 48,928,667 |

In November 2008, the ARDF issued Interpretation No. 2008-340 that required the Group to estimate and to capitalize the costs of dismantling and removing properties and restoring the cellular site on which they are located and to record the costs as properties and accrued asset retirement cost. This accounting change resulted in an increase in properties of NT$110,774 thousand as of December 31, 2008; however, the adoption had no significant influence in the current year's income.

b. Capitalized interest on properties was as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Total interest expense | $ 67,011 | $ 87,486 |
| Less: Interest capitalized (included in construction-in-process and prepayments for equipment) | 44,347 | 45,880 |
| Interest expense, net of amounts capitalized | $ 22,664 | $ 41,606 |
| Interest rate capitalized | 1.56%-2.39% | 1.56%-2.29% |

## 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.

In conformity with SFAS No. 35 - "Accounting for Asset Impairment," the Group was divided into several identifiable cash-generating units: To enhance the operating effectiveness, the Group integrated its telecommunications resources actively in 2008. Thus, in 2008, the identifiable cash-generating units were defined as mobile telecommunications service business, telecommunication equipment business and WiFly business, which were divided by distinct business functions. In 2007, the identifiable cash-generating units were defined as Far EasTone, KG Telecom, ARCOA and Q-ware Com.

On December 31, 2008 and 2007, the carrying values of the tangible and intangible assets used by the Group were $63,927,354 thousand and $68,221,128 thousand, respectively. The Group's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast with discount rates of 12.64% (mobile telecommunications service business), 16.88% (telecommunication equipment business) and 10.00% (WiFly business) on December 31, 2008 and 13.38% (Far EasTone), 14.48% (KG Telecom), 15.60% (ARCOA) and 10.00%(Q-ware Com.) on December 31, 2007. The operating revenue forecast was based on the expected future growth rate of the telecom industry along with the prospective advancement of the business.

The principal assumptions and the relevant measurement of the recoverable amounts of the Group are summarized as follows:

a. Expected future growth rate of each business

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 telecommunication equipment: Based on past experience, plans and the trend in the overall market, the anticipated growth rate is expected to decrease gradually.

4) WiFly business: Based on present experience and the demand of WiFly, the growth rate is expected to be stable.

b. Expected ratio of service EBITDA (earnings before interest, taxes, depreciation and amortization) to operating revenue: The ratio was around 50% in 2008 and 2007; this ratio is expected to decrease slightly in future years.

Estimated impairment losses of $20,000 thousand for 2008 and $10,211 thousand for 2007 were recorded, respectively.

## 14. INTANGIBLE ASSETS - 3G CONCESSION, NET

| | Years Ended December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Cost | $ 10,169,000 | $ 10,169,000 |
| Accumulated amortization | | |
| Beginning balance | 2,131,228 | 1,400,521 |
| Amortization | 730,707 | 730,707 |
| Ending balance | 2,861,935 | 2,131,228 |
| Intangible assets, net | $ 7,307,065 | $ 8,037,772 |

## 15. RENTAL ASSETS, NET

| | Years Ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | | | 2007 | | | |
| | Beginning Balance | Addition | Reclassification | Ending Balance | Beginning Balance | Addition | Reclassification | Ending Balance |
| Cost | | | | | | | | |
| Land | $ 130,631 | $ - | $ (5,842 ) | $ 124,789 | $ 105,366 | $ - | $ 25,265 | $ 130,631 |
| Buildings and equipment | 113,260 | - | (5,463 ) | 107,797 | 100,136 | - | 13,124 | 113,260 |
| | 243,891 | $ - | $ (11,305 ) | 232,586 | 205,502 | $ - | $ 38,389 | 243,891 |
| Accumulated depreciation | | | | | | | | |
| Buildings and equipment | 12,355 | $ 2,277 | $ (613 ) | 14,019 | 7,493 | $ 2,139 | $ 2,723 | 12,355 |
| | 231,536 | | | 218,567 | 198,009 | | | 231,536 |
| Accumulated impairment | 5,770 | $ - | $ - | 5,770 | - | $ - | $ 5,770 | 5,770 |
| Rental assets, net | $ 225,766 | | | $ 212,797 | $ 198,009 | | | $ 225,766 |

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 December 2011 (ARCOA), respectively. Future rental income is summarized as follows:

| Year | Amount |
|---|---|
| 2009 | $ 12,296 |
| 2010 | 12,458 |
| 2011 | 9,204 |
| 2012 | 2,271 |
| 2013 | 379 |

## 16. SHORT-TERM BANK LOANS

| | December 31 2008 | December 31 2007 |
|---|---|---|
| Secured bank loans - interest of 2.29%-2.42% in 2008 and 2.965% in 2007 | $ 433,500 | $ 224,000 |
| Unsecured bank loans - interest of 1.95%-4.19% in 2008 and 2.64% in 2007 | 1,255,950 | 45,215 |
| | $ 1,689,450 | $ 269,215 |

## 17. COMMERCIAL PAPER PAYABLE

Far EasTone issued the commercial paper and Q-ware Com. issued the commercial paper guaranteed by the financial institution, which were discounted at interest rate of 1.838% and 2.900%, respectively, and were fully repaid on January 16, 2009.

## 18. ACCRUED EXPENSES

| | December 31 2008 | December 31 2007 |
|---|---|---|
| Commission | $ 1,458,616 | $ 1,644,231 |
| Bonus | 557,748 | 467,684 |
| Bonus to employees and remuneration to directors and supervisors | 273,688 | - |
| Advertisement | 149,150 | 144,357 |
| Maintenance fee | 141,295 | 209,948 |
| Utilities | 119,216 | 154,568 |
| Billing processing fee | 77,509 | 60,017 |
| Other | 723,029 | 954,332 |
| | $ 3,500,251 | $ 3,635,137 |

## 19. BONDS PAYABLE

| | December 31, 2007 | | |
|---|---|---|---|
| | Due Within One Year | Due After One Year | Total |
| Bonds payable | | | |
| Domestic unsecured bonds - 2nd - Far EasTone | $ 1,470,000 | $ - | $ 1,470,000 |
| Domestic unsecured bonds - 3rd - Far EasTone | 1,200,000 | - | 1,200,000 |
| | $ 2,670,000 | $ - | $ 2,670,000 |

a. Domestic unsecured bonds - 2nd - Far EasTone

These are five-year unsecured domestic bonds issued at par value from March 28, 2003 to April 3, 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 already repaid all of the bonds payable by April 3, 2008.

b. 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 all of the bonds payable by December 18, 2008.

## 20. LONG-TERM BANK LOANS

| | December 31, 2008 | | |
|---|---|---|---|
| | **Due Within One Year** | **Due After One Year** | **Total** |
| Secured bank loan - KGEx.com | $ 38,095 | $ 19,048 | $ 57,143 |
| Unsecured bank loan - Q-ware Com. | 200,000 | - | 200,000 |
| | $ 238,095 | $ 19,048 | $ 257,143 |

| | December 31, 2007 | | |
|---|---|---|---|
| | **Due Within One Year** | **Due After One Year** | **Total** |
| Secured bank loan - KGEx.com | $ 38,095 | $ 57,143 | $ 95,238 |

a. Secured bank loan - KGEx.com

KGEx.com obtained a secured bank loan at interest rates of 2.54% in 2008 and 2.85% in 2007, 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 loan - Q-ware Com.

Q-ware Com. obtained an unsecured bank loan at interest rates of 3.15% in 2008, payable monthly. Q-ware Com. should repay the full amount on loan maturity by December 2008.

## 21. LEASE PAYABLE

| | December 31 | |
|---|---|---|
| | **2008** | **2007** |
| Total future lease payments | $ 19,406 | $ 62,412 |
| Less: Imputed interest expense | 2,652 | 5,344 |
| | 16,754 | 57,068 |
| Less: Current portion of lease payable | 8,394 | 40,314 |
| Lease payable - noncurrent | $ 8,360 | $ 16,754 |

The contracts of capital lease were summarized as follows:

| Lessor | Properties | Payment Terms | Rental Paid Years Ended December 31 2008 | 2007 |
|---|---|---|---|---|
| Far Eastern International Leasing Corp. - Far EasTone | Computer equipment | July 2004-June 2009 $15,414 thousand annually | $ 15,414 | $ 15,414 |
| Far Eastern International Leasing Corp. - Far EasTone | Computer equipment | March 2006-February 2011 $5,063 thousand annually | 5,063 | 5,063 |
| Far Eastern International Leasing Corp. - KG Telecom | Computer equipment | July 2004-June 2009 $15,414 thousand annually | 15,414 | 15,414 |
| Far Eastern International Leasing Corp. - KG Telecom | Computer equipment | March 2006-February 2011 $5,063 thousand annually | 5,063 | 5,063 |
| Far Eastern International Leasing Corp. - KGEx.com | Office equipment | November 2005-October 2008 $16 thousand monthly | 160 | 192 |
| Far Eastern International Leasing Corp. - KGEx.com | Office equipment | September 2006-August 2009 $5 thousand monthly | 60 | 60 |
| Taiwan Telecommunication Network Services Co., Ltd. - KGEx.com | Computer equipment | July 2005-June 2008 $55 thousand monthly | 330 | 660 |
| | | | $ 41,504 | $ 41,866 |

## 22. PENSION PLAN

a. The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, rate of monthly contributions by Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing, Far EasTron, Q-ware Com. and ADCast 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 $138,827 thousand and $157,654 thousand for the years ended December 31, 2008 and 2007, respectively. FETI, under its government's regulations, had recognized pension costs of $3,378 thousand and $4,256 thousand for the years ended December 31, 2008 and 2007, respectively.

b. 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 Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity).

c. Information about the defined benefit pension plan was as follows:

1) Net pension cost consisted of:

| | Years Ended December 31 2008 | 2007 |
|---|---|---|
| Service cost | $ 31,659 | $ 31,103 |
| Interest cost | 35,721 | 29,785 |
| Expected return on plan assets | (15,483) | (12,994) |
| Amortization of net transition obligation | 1,128 | 1,333 |
| Amortization of unrecognized pension loss | 12,762 | 11,209 |
| Net pension cost | $ 65,787 | $ 60,436 |

2) Reconciliation of the funded status of the plan and accrued pension cost was as follows:

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Benefit obligation | | |
| Vested benefit obligation | $ 5,605 | $ 6,016 |
| Non-vested benefit obligation | 645,232 | 631,500 |
| Accumulated benefit obligation | 650,837 | 637,516 |
| Additional benefits based on projected and future salaries | 639,283 | 553,091 |
| Projected benefit obligation | 1,290,120 | 1,190,607 |
| Fair value of plan assets | (545,450) | (495,282) |
| Funded status | 744,670 | 695,325 |
| Unrecognized net transition obligation | (803) | (2,136) |
| Unrecognized pension loss | (407,000) | (387,624) |
| Included in prepaid pension cost | 9,461 | 9,239 |
| Accrued pension cost | $ 346,328 | $ 314,804 |
| Vested benefit | $ 7,752 | $ 7,465 |

3) Actuarial assumptions were as follows:

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Discount rate used in determining present value | 2.25%-2.75% | 3.00%-3.25% |
| Rate of future salary increase | 1.00%-3.50% | 2.00%-3.50% |
| Expected rate of return on plan assets | 2.25%-2.75% | 3.00%-3.25% |

## 23. STOCKHOLDERS' EQUITY

a. Capital surplus

Under government regulations, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares and that arising from business combination) may be capitalized, which however is limited to a certain percentage of Far EasTone's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

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 bonus 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.

The bonus to employees of NT$182,459 thousand and the remuneration to directors and supervisors of NT$91,229 thousand, which representing 2% and 1% of net income (net of the bonus to employees and remuneration to directors and supervisors) less 10% legal reserve and special reserve, respectively, was recognized for the year ended December 31, 2008. The amounts were estimated based on past experiences. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of the stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

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.

Legal reserve shall be appropriated until it has reached Far EasTone's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Far EasTone's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

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 2007 and 2006 earnings were approved by Far EasTone's stockholders on June 5, 2008 and June 12, 2007, respectively.

| | **Appropriation and Distribution** | | **Dividend Per Share (Dollars)** | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Legal reserve | $ 1,161,944 | $ 1,315,623 | | |
| Special reserve | (44,832 ) | 44,832 | | |
| Bonus to employees - cash | 210,047 | 235,915 | | |
| Remuneration to directors and supervisors | 105,023 | 117,958 | | |
| Cash dividend | 10,101,353 | 12,005,255 | $ 3.10 | $ 3.10 |

There was no difference in the appropriation and distribution of the 2007 and 2006 earnings proposed by the board of directors on April 22, 2008 and April 19, 2007, respectively, and those resolved by the stockholders. Had the above bonus to employees and directors been charged to net income in 2007 and 2006, the basic earnings per share for 2007 and 2006 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.00 to NT$2.92 and from NT$3.40 to NT$3.31, respectively. As of December 31, 2008, directors and supervisors' remuneration of $500 thousand of Far EasTone had been included in other current liabilities.

Information on the bonus to employees, and remuneration to directors and supervisors can be accessed through the Market Observation Post System website of the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

Far EasTone's Global Depositary Receipts (GDRs) as of December 31, 2008 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 |
| Net decrease due to capital increase or capital reduction | 3) | (362) | (5,426) |
| Reissued within authorized units | 4) | 21,723 | 325,838 |
| GDRs transferred to common stock | | (29,455) | (441,832) |
| Outstanding GDRs issued | | 2,071 | 31,053 |

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, 2008, 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. Furthermore, in 2008, Far EasTone cancelled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represent 9,874 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 re-issuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2008, Far EasTone had reissued 21,723 thousand units of GDRs representing 325,838 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.

d. Capital reduction

To enhance the return of stockholders' equities, Far EasTone's board of directors proposed on April 30, 2007 to reduce capital by returning $7,745,326 thousand in cash to stockholders and decreasing common stock by 774,532 thousand shares. The capital reduction was approved by the stockholders' meeting on June 12, 2007. The capital reduction ratio was 19.204715% and the cash return per share was around NT$1.9204715. Paid-in capital after the capital reduction was $32,585,008 thousand. Far EasTone's board of directors resolved January 15, 2008 as the record date of the capital reduction. On January 22, 2008, this capital reduction was registered with the MOEA. The authority also approved March 17, 2008 as the share exchange date of the capital reduction. The foregoing payable amounts due to the capital reduction were fully paid on March 28, 2008.

e. Cumulative translation adjustments

Cumulative translation adjustments for the years ended December 31, 2008 and 2007 were summarized as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Difference due to translation of foreign-currency financial statements | | |
| Beginning balance | $ 11,826 | $ 4,960 |
| Recorded as adjustment under stockholders' equity | 16,638 | 6,866 |
| | $ 28,464 | $ 11,826 |

f. Unrealized gains and losses on financial instruments

Unrealized gains and losses on financial instruments for the years ended December 31, 2008 and 2007 were summarized as follows:

| | Recognized from Equity-method Investments | Unrealized Gain (Loss) on Cash Flow Hedge | Total |
|---|---|---|---|
| Year ended December 31, 2008 | | | |
| Beginning balance | $ 19,510 | $ (16,201) | $ 3,309 |
| Recorded as adjustments to stockholders' equity | (69,714) | 3,209 | (66,505) |
| Recognized as profit or loss | - | 12,992 | 12,992 |
| Ending balance | $ (50,204) | $ - | $ (50,204) |
| Year ended December 31, 2007 | | | |
| Beginning balance | $ (174) | $ (49,618) | $ (49,792) |
| Recorded as adjustments to stockholders' equity | 19,684 | (8,183) | 11,501 |
| Recognized as profit or loss | - | 41,600 | 41,600 |
| Ending balance | $ 19,510 | $ (16,201) | $ 3,309 |

## 24. INCOME TAX

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

| | Years Ended December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Income tax expense computed at statutory tax (25% to 33%) | $ 3,635,696 | $ 4,664,838 |
| Add (deduct) tax effects of: | | |
| Permanent differences | | |
| Tax-exempt income | - | (443,752) |
| Equity in investees' net gains | (253,841) | (821,718) |
| Other | 99,844 | (184,739) |
| Temporary differences | 179,332 | (652,081) |
| Loss carryforwards used | (12,965) | (308) |
| Investment tax credits used | (160,392) | (79,171) |
| Unappropriated earnings tax (10%) | 8,596 | - |
| Income tax payable - current | 3,496,270 | 2,483,069 |
| Income tax expense on income subject to a separate rate of 20% | 20,943 | 33,306 |
| Prior year's adjustment | (36,060) | (27,850) |
| Income tax expense - current | $ 3,481,153 | $ 2,488,525 |

Far EasTone's 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.

b. Income tax expense consisted of:

| | Years Ended December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Income tax expense - current | $ 3,481,153 | $ 2,488,525 |
| Income tax expense - deferred | | |
| Temporary differences | (179,332) | 652,081 |
| | $ 3,301,821 | $ 3,140,606 |

E. World, Far EasTron Holding, FEIS and KGTI were incorporated in Cayman Islands, Bermuda Islands and British Virgin Islands, respectively, where their incomes are tax-exempt.

c. Deferred income taxes assets (liabilities) were as follows:

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Current | | |
| Deferred income tax assets | | |
| Allowance for doubtful accounts | $ 715,982 | $ 736,755 |
| Provision for losses on decline in value of inventories | 13,762 | 18,767 |
| Investment tax credits | 6,773 | 26,841 |
| Loss carryforwards | - | 53,341 |
| Unrealized loss on financial instruments | - | 5,400 |
| Other | 39,364 | 29,181 |
| | 775,881 | 870,285 |
| Less: Valuation allowance | 37,263 | 112,602 |
| | $ 738,618 | $ 757,683 |

(Continued)

| | December 31 | |
|---|---|---|
| | **2008** | **2007** |
| Noncurrent | | |
| Deferred income tax assets | | |
| Loss carryforwards | $ 533,975 | $ 390,865 |
| Equity in investees' net losses | 713,071 | 44,386 |
| Impairment loss on idle properties | 144,334 | 217,021 |
| Accrued pension cost | 89,754 | 88,226 |
| Depreciation resulting from the differences in estimated service lives of properties | 36,269 | 36,119 |
| Investment tax credits | 3,192 | 1,110 |
| Impairment loss on financial assets | 3,372 | 3,372 |
| Other | 21,966 | 1,383 |
| | 1,545,933 | 782,482 |
| Less: Valuation allowance | 984,962 | 611,423 |
| | 560,971 | 171,059 |
| Deferred income tax liabilities | | |
| Goodwill amortization | (592,416 ) | (395,501 ) |
| | $ (31,445 ) | $ (224,442 ) |

(Concluded)

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

d. Integrated income tax information was as follows:

| | December 31 | |
|---|---|---|
| | **2008** | **2007** |
| Balance of imputation credit account (ICA) | | |
| Far EasTone | $ 264,186 | $ 201,975 |
| KG Telecom | $ 6,781 | $ 9,856 |
| ARCOA | $ 12,584 | $ 11,595 |

Estimated ratio of the ICA balance for Far EasTone as of December 31, 2008 to unappropriated earnings as of such date was 2.36%. When the dividends from the unappropriated earnings as of December 31, 2007 was distributed in 2008, the actual ratio Far EasTone used was 25.53%.

Estimated ratio of the ICA balance for KG Telecom as of December 31, 2008 to unappropriated earnings as of such date was 0.67 %. When the dividends from the unappropriated earnings as of December 31, 2007 was distributed in 2008, the actual ratio KG Telecom used was 0.62%.

ARCOA, Yuan Cing, KGEx.com, Q-ware Com. and ADCast had no appropriated earnings as of December 31, 2008. Thus, their ICA balances will be accumulated until dividend distribution in the future.

Based on the Income Tax Law, the imputation tax credits distributed to each stockholder are based on the ICA balance as of the date of dividend distribution. Thus, the estimated creditable ratio for the 2008 earnings appropriation may be adjusted when the imputation credits are distributed. While the distribution ratio for the 2007 earnings appropriation had been determined, the actual ratio was disclosed.

e. Investment tax credits are as follows:

The unused investment tax credits of the Group as of December 31, 2008 are summarized as follows:

ARCOA

| Regulatory Basis of Tax Credits | Items | Total Investment Tax Credits | Unused Investment Tax Credits | Expiry Year |
|---|---|---|---|---|
| Statute for Upgrading Industries | Personnel training expenses | $ 623 | $ 623 | 2009 |
| | Personnel training expenses | 487 | 487 | 2010 |
| | Personnel training expenses | 420 | 420 | 2011 |
| | Purchase of automated equipment or technology | 115 | 115 | 2012 |
| | | $ 1,645 | $ 1,645 | |

ADCast

| 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 | $ 264 | $ 2 | 2010 |

Q-ware Com.

| Regulatory Basis of Tax Credits | Items | Total Investment Tax Credits | Unused Investment Tax Credits | Expiry Year |
|---|---|---|---|---|
| Statute for Upgrading Industries | Purchase of automated equipment or technology | $ 6,150 | $ 6,150 | 2009 |
| | Purchase of automated equipment or technology | 1,642 | 1,642 | 2010 |
| | Purchase of automated equipment or technology | 526 | 526 | 2012 |
| | | $ 8,318 | $ 8,318 | |

f. The unused loss carryforwards of ARCOA, KGEx.com, Q-ware Com. and ADCast as of December 31, 2008 are as follows:

| Year | Total Creditable Amount | Remaining Creditable Amount | Expiry Year |
|---|---|---|---|
| 2003 | $ 53,452 | $ 53,452 | 2013 |
| 2004 | 72,907 | 72,907 | 2014 |
| 2005 | 65,165 | 65,165 | 2015 |
| 2006 | 106,190 | 106,190 | 2016 |
| 2007 | 130,680 | 130,680 | 2017 |
| 2008 | 105,581 | 105,581 | 2018 |
| | $ 533,975 | $ 533,975 | |

g. Status of income tax returns are as follows:

Income tax returns through 2004 of Far EasTone had been examined by the tax authorities. However, Far EasTone disagreed with the tax authorities' assessment of its 2000 to 2004 returns. Thus, Far EasTone filed appeals for the reexamination of its 2000 to 2004 returns. Nevertheless, Far EasTone accrued the related tax.

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

Income tax returns through 2006 of ARCOA had been examined by the tax authorities. However, ARCOA disagreed with tax authorities' assessment of its 2002 to 2004 returns and thus filed appeals for reexamination of these returns. Nevertheless, ARCOA accrued the related tax.

Income tax returns through 2007 of Far EasTron had been examined and cleared by the tax authorities. Income tax returns of Yuan Cing, KGEx.com and ADCast through 2006 had been examined and cleared by the tax authorities. Income tax return of Q-ware Com. in 2007 had not been examined and cleared by the tax authorities.

## 25. FACTORING OF NONPERFORMING ACCOUNTS RECEIVABLE

Far EasTone and KG Telecom wrote off certain overdue/nonperforming accounts receivables. Under agreements signed in March 2007, Far EasTone and KG Telecom factored these receivables, i.e. sold them without recourse to an asset management company. Thus, Far EasTone and KG Telecom were no longer responsible for collecting these receivables.

Related information for the year ended December 31, 2007 was as follows:

| Counter Party | Amount of Factored Accounts Receivable | Proceeds of the Factoring of Accounts Receivable |
|---|---|---|
| Year ended December 31, 2007 | | |
| Hui Cheng First Asset Management Co., Ltd. - Far EasTone | $ 1,158,871 | $ 26,979 |
| Hui Cheng First Asset Management Co., Ltd. - KG Telecom | 1,864,698 | 29,285 |
| | $ 3,023,569 | $ 56,264 |

## 26. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

| | Year Ended December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | Operating Costs | Operating Expenses | Nonoperating Expenses and Losses | As Reductions of Operating Costs or Expenses | Total |
| Employee expenses | | | | | |
| Salaries | $ 677,990 | $ 2,335,847 | $ - | $ 77,711 | $ 3,091,548 |
| Pension | 65,166 | 136,079 | - | 6,747 | 207,992 |
| Meal | 16,872 | 75,287 | - | 1,876 | 94,035 |
| Employee benefit | 719 | 69,808 | - | - | 70,527 |
| Insurance | 52,096 | 178,582 | - | 5,576 | 236,254 |
| Miscellaneous | 8,616 | 54,225 | - | 464 | 63,305 |
| | $ 821,459 | $ 2,849,828 | $ - | $ 92,374 | $ 3,763,661 |
| Depreciation | $ 9,664,881 | $ 1,167,030 | $ 18,765 | $ - | $ 10,850,676 |
| Amortization | $ 3,785 | $ 57,227 | $ - | $ - | $ 61,012 |

| | Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Operating Costs | Operating Expenses | Nonoperating Expenses and Losses | As Reductions of Operating Costs or Expenses | Total |
| Employee expenses | | | | | |
| Salaries | $ 584,951 | $ 2,167,053 | $ - | $ - | $ 2,752,004 |
| Pension | 57,292 | 165,054 | - | - | 222,346 |
| Meal | 17,396 | 74,133 | - | - | 91,529 |
| Employee benefit | 1,404 | 105,376 | - | - | 106,780 |
| Insurance | 53,671 | 174,155 | - | - | 227,826 |
| Miscellaneous | 6,479 | 53,534 | - | - | 60,013 |
| | $ 721,193 | $ 2,739,305 | $ - | $ - | $ 3,460,498 |
| Depreciation | $ 9,862,094 | $ 1,331,644 | $ 18,807 | $ - | $ 11,212,545 |
| Amortization | $ - | $ 64,234 | $ - | $ - | $ 64,234 |

To enhance their competency, Far EasTone, New Century InfoComm Tech Co., Ltd. and Digital United Inc. made a strategic business alliance to integrate the resources of their marketing departments and operating management departments and to support each other's human resources. The related employee revenues and expenses were charged and paid on the basis of agreed-upon terms and recorded as nonoperating income and operating cost or expense.

## 27. EARNINGS PER SHARE (EPS)

| | Amount (Numerator) | | Common Stock (Denominator) (in Thousand Shares) | Earnings Per Share (NT$) | |
|---|---|---|---|---|---|
| | Income Before Income Tax | Net Income | | Income Before Income Tax | Net Income |
| Year ended December 31, 2008 | | | | | |
| Basic EPS | | | | | |
| Net income - Far EasTone | $ 13,127,822 | $ 10,160,747 | 3,288,127 | $ 3.99 | $ 3.09 |
| Effect of dilutive potential common stock | | | | | |
| Bonus to employees | - | - | 4,892 | | |
| Diluted EPS | | | | | |
| Net income including the effect of potential dilutive common stock - Far EasTone | $ 13,127,822 | $ 10,160,747 | 3,293,019 | $ 3.99 | $ 3.09 |
| Year ended December 31, 2007 | | | | | |
| Basic EPS | | | | | |
| Net income - Far EasTone | $ 13,690,944 | $ 11,619,441 | 3,873,102 | $ 3.53 | $ 3.00 |

The ARDF issued Interpretation No. 2007-052 that requires Far EasTone to recognizes bonuses paid to employees, remuneration to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If Far EasTone may settle the bonus to employees by cash or shares, Far EasTone should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 28. FINANCIAL INSTRUMENTS

a. Fair value information

| | December 31 | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets | | | | |
| Available-for-sale financial assets - current | $ 1,745,767 | $ 1,745,767 | $ 1,621,420 | $ 1,621,420 |
| Bonds carried at amortized cost - current | 3,000 | 3,000 | 3,000 | 3,000 |
| Equity-method investments | 5,933,262 | 5,933,262 | 6,750,690 | 6,750,690 |
| Financial assets carried at cost - noncurrent | 180,461 | 180,461 | 292,061 | 292,061 |
| Refundable deposits | 409,363 | 409,219 | 412,077 | 410,908 |

(Continued)

| | December 31 | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Liabilities | | | | |
| Hedging derivative financial liabilities - current | $ - | $ - | $ 21,601 | $ 21,601 |
| Current portion of long-term bonds payable | - | - | 2,670,000 | 2,670,000 |
| Long-term bank loans (including current portion) | 257,143 | 257,143 | 95,238 | 95,238 |
| Lease payable (including current portion) | 16,754 | 16,754 | 57,068 | 57,068 |
| Guarantee deposits received (including current portion) | 831,854 | 831,854 | 949,691 | 949,691 |

(Concluded)

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

1) Cash and cash equivalents, accounts and notes receivable, receivables from related parties, restricted assets, pledged certificates of deposits, short-term bank loans, commercial paper payable, notes payable, accounts payable, payables 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 derivative financial instruments and available-for-sale financial assets.

   If quoted market prices are not available, the fair values are evaluated by the Group using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers). These estimations and assumptions are available to the Group.

   The Group uses the long-term interest rate quotations of Reuters (or Bloomberg) to calculate the fair value of each interest rate swap contract based on the net cash flow and the interest rate, respectively.

3) The fair values of bonds carried at amortized cost - current, financial assets carried at cost - noncurrent and equity-method investments with no quoted market prices will be measured by net worth of investees or their respective carrying values.

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:

| | Quoted Price | | Estimated Price | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | |
| Available-for-sale financial assets - current | $ 1,745,767 | $ 1,621,420 | $ - | $ - |
| Liabilities | | | | |
| Hedging derivative financial liabilities - current | - | - | - | 21,601 |

d.

| | December 31 | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | **Financial Assets** | **Financial Liabilities** | **Financial Assets** | **Financial Liabilities** |
| <u>Risk of interest rate change</u> | | | | |
| Fair value risk | $ 5,483,606 | $ 2,907,072 | $ 9,552,969 | $ 1,006,759 |
| Cash flow risk | 2,255,150 | 268,093 | 1,209,551 | 3,034,453 |

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.

Fair values of mutual funds and domestic quoted stocks held by KG Telecom and ARCOA are determined at their quoted prices in an active market; thus, market price fluctuations would result in changes in the fair values of these investments. However, since KG Telecom and ARCOA periodically evaluates the performance of these investments, market risk is expected to be immaterial.

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 loss 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 possessed equity-method investment with no quoted prices in an active market; thus, it might face liquidity risk.

KG Telecom invested in domestic quoted stocks and 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

Far EasTone used interest rate swap to hedge overall cash flow fluctuations on its liabilities.

| Hedged Items | Designated Hedging Instruments | | | | | Expected Year of Cash Flows | Expected Year for Realization of Gains or Losses |
|---|---|---|---|---|---|---|---|
| | Financial Instruments Designated | Notional Amount December 31 | | Fair Value December 31 | | | |
| | | 2008 | 2007 | 2008 | 2007 | | |
| Bonds with floating interest rate | Interest rate swap - Far EasTone | $ | $ 2,670,000 | $ | $ (21,601 ) | 2003-2008 | 2003-2008 |

## 29. RELATED-PARTY TRANSACTIONS

a. The group's related parties and their relationships were as follows:

| Related Party | Relationship with the Group |
|---|---|
| Far Eastern Textile Ltd. | Ultimate parent company |
| New Century InfoComm Tech Co., Ltd. (NCIC) | Same chairman (became equity-method investee of Far EasTone since December 31, 2007) |
| 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 |
| Digital United Inc. (DU) | Subsidiary of NCIC (became related party since December 31, 2007) |
| Information Security Service Digital United Inc. | Subsidiary of NCIC (became related party since December 31, 2007) |
| NTT DoCoMo Inc. | Director of Far EasTone |
| Far Eastern International Leasing Corp. (FEILC) | Supervisor of Far EasTone |
| Telecommunication and Transportation Foundation (former Far Eastern Technology Developmental Foundation) (TTF) | Far EasTone's donation is over one third of the foundation's fund |
| Far Eastern Apparel Co., Ltd. | Same ultimate parent company |
| Far Cheng Human Resources Consultant Corp. (FCHRC) | Same ultimate parent company |
| Far Eastern Resource Development Co., Ltd. (FETRD) | Same ultimate parent company |
| Yuan Ding Co., Ltd. | Same chairman |
| Far Eastern Department Stores Co., Ltd. | Same chairman |
| Asia Cement Co., Ltd. | Same chairman |
| Oriental Union Chemical Corporation | Same chairman |
| Far Eastern Geant Company Ltd. | Same chairman |
| Far Eastern Memorial Hospital | Same chairman |
| Oriental Institute of Technology | Same chairman |
| Yuan-Ze University | Same chairman |
| Far Eastern Medical Foundation (FEMF) | Same chairman |
| Far Eastern Construction Co., Ltd. | Same ultimate parent company |
| Yuang Tong Investment Corporation | Same ultimate parent company |
| Kai Yuan International Investment Corp. | Same ultimate parent company |
| An-Ho Garment Corp. | Same ultimate parent company |
| Fu Kwok Garment Manufacturing Co. | Same ultimate parent company |
| Yuan Ding Investment Corporation | Same ultimate parent company |
| Far Eastern Polychem Industries Ltd. | Same ultimate parent company |
| Ding Yuan International Investment Ltd. | Same ultimate parent company |

(Continued)

| Related Party | Relationship with the Group |
|---|---|
| Far Eastern Polytex (Holding) Ltd. | Same ultimate parent company |
| Far Eastern Investment (Holding) Ltd. | Same ultimate parent company |
| Far Eastern General Contractor Inc. | Same ultimate parent company |
| Oriental Resources Development Limited (former Taiwan Recycling Corp.) | Same ultimate parent company |
| Yuan Faun Ltd. | Same ultimate parent company |
| Far Eastern Apparel (Holding) Ltd. | Same ultimate parent company |
| Oriental Textile (Holding) Ltd. | Same ultimate parent company |
| Pacific Petrochemical (Holding) Ltd. | Same ultimate parent company |
| PET Far Eastern (Holding) Ltd. | Same ultimate parent company |
| F.E.D.P. (Holding) Ltd. | Same ultimate parent company |
| Pet Far Eastern (M) Sdn Bhd. | Same ultimate parent company |
| FETG Investment Antilles N.V. | Same ultimate parent company |
| Ming Ding Corp. | Same ultimate parent company |
| Far Eastern Spinning Weaving and Dyeing (Suzhou) Limited | Same ultimate parent company |
| Far Eastern Industries (Wuxi) | Same ultimate parent company |
| Oriental Industries (Suzhou) Ltd. | Same ultimate parent company |
| Far Eastern Industries (Jiu Jiang) Ltd. | Same ultimate parent company |
| Oriental Petrochemical (Shanghai) Ltd. | Same ultimate parent company |
| Far Eastern Industries (Shanghai) Ltd. | Same ultimate parent company |
| Far Eastern Industries (Suzhou) Ltd. | Same ultimate parent company |
| Far Eastern Apparel (Suzhou) Ltd. | Same ultimate parent company |
| Waldorf Service B.V. | Same ultimate parent company |
| Shanghai Far Eastern Petrochemical Logistic Ltd. | Same ultimate parent company |
| Shanghai Far Eastern IT Company | Same ultimate parent company |
| Wu Han Far Eastern New Material Ltd. (former Wu Han Far Eastern Industrial Trading Ltd.) | Same ultimate parent company |
| Far Eastern (China) Investment Limited | Same ultimate parent company |
| Sino Belgium (Holding) Limited. | Same ultimate parent company |
| Sino Belguim (Suzhou) Limited | Same ultimate parent company |
| Fashionline Saigon Ltd. | Same ultimate parent company |
| Suzhou An He Apparel Ltd. | Same ultimate parent company |

(Concluded)

b. In addition to those disclosed in other notes, the Group's significant transactions with the above parties are summarized as follows:

| | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| During the year | | | | | |
| Operating revenue | 1) | | | | |
| NCIC | 2) | $ 1,140,627 | 2 | $ 596,795 | 1 |
| NTT DoCoMo | 3) | 117,340 | - | 81,086 | - |
| Other | 19) | 55,713 | - | 29,033 | - |
| | | $ 1,313,680 | 2 | $ 706,914 | 1 |

| | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | | **Amount** | **%** | **Amount** | **%** |
| Operating costs and expenses | | | | | |
| Cost of telecommunications service | | | | | |
| NCIC | 2) | $ 184,981 | 1 | $ 113,660 | - |
| Other | 19) | 20,051 | - | 15,907 | - |
| | | $ 205,032 | 1 | $ 129,567 | - |
| Rental | | | | | |
| FETRD | 4) | $ 45,266 | 1 | $ 45,399 | 1 |
| FEILC | 5) | 40,468 | 1 | 36,897 | 1 |
| NCIC | 6) | 40,357 | 1 | 36,680 | 1 |
| Other | 19) | 11,791 | - | 12,413 | - |
| | | $ 137,882 | 3 | $ 131,389 | 3 |
| Marketing expense | | | | | |
| DDIM | 7) | $ 165,352 | 2 | $ 142,220 | 1 |
| Service fee | | | | | |
| FCHRC | 8) | $ 57,703 | 40 | $ 52,232 | 40 |
| Donation expense | | | | | |
| Yuan-Ze University | 9) | $ 15,000 | 30 | $ 16,000 | 7 |
| TTF | 10) | 14,391 | 29 | 8,639 | 4 |
| FEMF | 11) | - | - | 200,000 | 88 |
| | | $ 29,391 | 59 | $ 224,639 | 99 |
| Nonoperating income and gains | | | | | |
| Management services revenue | | | | | |
| NCIC | 12) | $ 3,475 | 2 | $ - | - |
| DU | 12) | 1,336 | 1 | - | - |
| | | $ 4,811 | 3 | $ - | - |
| Guarantee service revenue | | | | | |
| FETC | 13) | $ - | - | $ 285 | - |
| Acquisition of properties | | | | | |
| NCIC | 14) | $ 45,620 | 1 | $ - | - |
| Other | 19) | 18,352 | - | - | - |
| | | $ 63,972 | 1 | $ - | - |
| Disposal of properties | | | | | |
| NCIC | 15) | $ 7,928 | 19 | $ - | - |
| Others | 19) | 82 | - | - | - |
| | | $ 8,010 | 19 | $ - | - |

| | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | | **Amount** | **%** | **Amount** | **%** |
| At end of year | | | | | |
| Receivables from related parties | | | | | |
| Accounts and notes receivable | | | | | |
| NCIC | 2) | $ 37,547 | 17 | $ 1,089 | 3 |
| NTT DoCoMo Inc. | 3) | 25,970 | 12 | 14,229 | 44 |
| FETC | 16) | 5,360 | 3 | 7,698 | 24 |
| Other | 19) | 10,447 | 5 | 2,014 | 6 |
| | | 79,324 | 37 | 25,030 | 77 |
| Other receivables | | | | | |
| NCIC | 2), 12) and 15) | 91,878 | 42 | 2,489 | 7 |
| DU | 12) | 29,467 | 14 | - | - |
| DDIM | 7) | 10,254 | 5 | - | - |
| FETC | 17) | 5,095 | 2 | 5,174 | 16 |
| Other | 19) | 330 | - | - | - |
| | | 137,024 | 63 | 7,663 | 23 |
| | | $ 216,348 | 100 | $ 32,693 | 100 |
| Refundable deposits | | | | | |
| DDIM | 7) | $ 43,693 | 11 | $ 48,922 | 12 |
| Other | 19) | 10,357 | 2 | 8,950 | 2 |
| | | $ 54,050 | 13 | $ 57,872 | 14 |
| Payables to related parties | | | | | |
| NCIC | 2) and 6) | $ 206,499 | 60 | $ 97,901 | 48 |
| DDIM | 7) | 72,729 | 21 | 69,889 | 35 |
| FEILC | 5) | 5,359 | 2 | 2,389 | 1 |
| FETRD | 4) | 3,680 | 1 | 3,355 | 2 |
| NTT DoCoMo Inc. | 18) | 2,808 | 1 | 4,626 | 2 |
| Other | 19) | 52,072 | 15 | 23,823 | 12 |
| | | $ 343,147 | 100 | $ 201,983 | 100 |
| Lease payable (including current portion) | | | | | |
| FEILC | 5) | $ 16,754 | 100 | $ 56,718 | 99 |

Financing to related parties was as follows:

| Related Party | Highest Balance Held During the Year | Ending Balance | Rate % | Interest | Collateral |
|---|---|---|---|---|---|
| Year ended December 31, 2007 | | | | | |
| FETC | $50,000 | $ - | 6.685-6.915 | $2,081 | $ - |

Descriptions of transactions with related parties were as follows:

1) Operating revenues (such as service revenue and revenues from sales of cellular phone equipment, accessories and customer service revenues) from related parties were based on normal service rates, selling prices and collection terms.

2) 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 were included in telecommunications service revenues. 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 telecommunications service revenue.

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

4) 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.

5) 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. Some of these contracts will be automatically renewed unless either Far EasTone or FEILC informs the other party of contract nonrenewal.

   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 and office equipment under capital lease agreements, with amounts of $41,174 thousand and $41,206 thousand paid for the years ended December 31, 2008 and 2007, respectively (Note 21).

6) Far EasTone leases from NCIC the office space in Neihu, telecommunications network and backbone network facilities under operating lease contracts.

7) Far EasTone and KG Telecom authorized DDIM to manage the accumulation and redemption of customers' reward points. The related service charges were treated as marketing expense and payables to related parties. Reduced amounts of Far EasTone's and KG Telecom's telecommunication bills by redemption of customers' reward points resulting from their consumption in other stores were included in receivables from related parties. In addition, Far EasTone and KG Telecom give DDIM monthly refundable deposits for the points accumulated but not yet redeemed, and these deposits are calculated at a fixed percentage of the unused reward points.

8) The Group have contracts with FCHRC for manpower dispatching services, under which the Group paid for FCHRC's providing the Group with temporary or specific personnel demands.

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

10) KG Telecom made donation to TTF for telecommunications technology researches.

11) KG Telecom made donation to non-profit organizations.

12) Far EasTone provided management services and advances to NCIC and DU for their daily operating expenditures.

13) Far EasTone provided FETC with $154,000 thousand as endorsement for its bank loans, with charges to FETC based on the agreed rate.

14) Far EasTone bought operating equipment from NCIC.

15) KG Telecom had sold properties to NCIC. The proceeds amounted to $7,928 thousand, and the gain of $2,410 thousand on this disposal was included in nonoperating income and gains.

16) KGEx.com and Arcoa charged FETC for the providing of co-location service, manpower service and logistics service, which were included in receivables from related parties.

17) Far EasTone gave advances for FETC daily operating expenditures, which were treated as receivables from related parties.

18) The payments made by Fat EasTone and KG Telecom for using the I-Mode services of NTT DoCoMo Inc., which were included in payables to related parties.

19) 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.

c. Compensation of directors, supervisors and management personnel:

| | Years Ended December 31 | |
|---|---|---|
| | **2008** | **2007** |
| Salary and bonus | $ 95,874 | $ 105,082 |
| Remuneration paid from distribution of earnings | 91,238 | 105,057 |
| Bonus paid from distribution of earnings | 17,137 | 20,722 |
| Operation allowance of directors | 7,264 | 7,588 |
| | $ 211,513 | $ 238,449 |

The compensation of directors, supervisors and management personnel for the years ended December 31, 2008 and 2007 included the estimated and actual bonuses appropriated from the 2008 and 2007 earnings, for which were approved by stockholders in their annual meetings held in 2009 and 2008, respectively. Related details are shown in Far EasTone's 2008 and 2007 annual reports.

## 30. COMMITMENTS AS OF DECEMBER 31, 2008

The Group had the following significant commitments:

a. The Group was under contracts to acquire properties and cellular phone equipment for $1,592,693 thousand and $161,461 thousand, respectively.

b. The Group’s outstanding letters of credit amounted to US$1,398 thousand (equivalent to $45,854 thousand) and $27,690 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** |
|---|---|
| 2009 | $ 2,873,493 |
| 2010 | 2,930,842 |
| 2011 | 3,247,076 |
| 2012 | 3,101,225 |
| 2013 | 3,162,613 |

d. Oriental Securities Investment Advisory Co. manages KG Telecom’s funds of $350,000 thousand, which are based on discretionary portfolio management agreements through January 2009 and March 2009. Under the agreements, the portfolio can include domestic quoted stocks, government bonds, corporate bonds and commercial papers or bonds under resell agreements. However, investments in the affiliates of the Group and other domestic telecommunications companies’ (except Chunghwa Telecom Co., Ltd.) and related derivatives are prohibited. As of December 31, 2008, the carrying value of the funds was $228,218 thousand as follows:

| | **December 31, 2008** |
|---|---|
| Cash and cash equivalent | |
| Demand deposits | $ 37,779 |
| Bonds purchased under resell agreements | 20,020 |
| | 57,799 |
| Available-for-sale financial assets - current | 170,580 |
| Receivable from the sale of securities (included in other current assets) | 8,225 |
| Payables for the purchase of securities (included in other current liabilities) | (8,323) |
| Other | (63) |
| | $ 228,218 |

e. Under the NCC’s policy effective April 1, 2007, Far EasTone had provided performance guarantees amounting to $450,000 thousand to KG Telecom and $45,000 thousand to KGEx.com for prepaid cards already bought by customers. KG Telecom had also provided Far EasTone a similar guarantee amounting to $850,000 thousand.

## 31. ASSETS PLEDGED OR MORTGAGED

Assets pledged or mortgaged, i.e., used as collaterals for the guarantee provided by banks, cell cites, long-term and short-term bank loans and the purchase of inventory, were as follows:

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Pledged certificates of deposits - current | $ 20,000 | $ 39,036 |
| Pledged certificates of deposits - noncurrent (included in other assets - other) | 15,164 | 16,099 |
| Properties, net | 467,676 | 479,892 |
| | $ 502,840 | $ 535,027 |

## 32. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

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

1) Financing provided: None

2) Endorsement/guarantee provided: Schedule A

3) Marketable securities and investments held: Schedule B

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

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

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

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

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

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

10) Derivative financial instruments of investees: None

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: Schedule H

3) Endorsements, guarantees or collateral directly or indirectly provided to the investees: None

4) Financings directly or indirectly provided to the investees: None

5) Other transactions that significantly impacted current period's profit or loss or financial position: None

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

## 33. 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 was as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Amount** | **Percentage of Operating Revenue (%)** | **Amount** | **Percentage of Operating Revenue (%)** |
| Company A | $ 8,737,467 | 14 | $ 9,679,703 | 15 |

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**ENDORSEMENT/GUARANTEE PROVIDED**
**YEAR ENDED DECEMBER 31, 2008**
**(In Thousands of New Taiwan Dollars)**

| No. | Endorser/ Guarantor | Counter-party | | Limits on Endorsement/ Guarantee Amount Provided to Each Counter-party (Note A) | Maximum Balance for the Year (Note B) | Ending Balance (Note B) | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Financial Statement | Maximum Total Endorsement/ Guarantee Allowed to Be Provided by the Endorser/ Guarantor (Note A) |
|---|---|---|---|---|---|---|---|---|---|
| | | Name | Nature of Relationship | | | | | | |
| 0 | Far EasTone Telecommunications Co., Ltd. | KG Telecommunications Co., Ltd. | Subsidiary | $ 35,648,101 | $ 450,000 | $ 450,000 | $ - | 0.63% | $ 71,296,202 |
| | | KGEx.com Co., Ltd. | Subsidiary of KG Telecom | 35,648,101 | 45,000 | 45,000 | - | 0.06% | 71,296,202 |
| 1 | KG Telecommunications Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent Company | 16,237,720 | 850,000 | 850,000 | - | 2.62% | 32,475,440 |

Note A: The maximum total endorsement/guarantee amount were equals Far EasTone's and KG Telecom's net worth, while the limit of endorsement/guarantee amount for each counter-party should not exceed 50% of Far EasTone's and KG Telecom's net worth.

Note B: The maximum balance for the year and the ending balance shown above were the amounts allowed, not the actual appropriations.

**SCHEDULE B**

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD**
**DECEMBER 31, 2008**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Holding Company Name | Type and Issuer/Name of Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2008 | | | | Note | Highest Shares/ Units Held During the Year |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 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 | $ 32,475,440 | 100.00 | $ 32,475,440 | Notes A and C | 1,332,997,916 |
| | New Century InfoComm Tech Co., Ltd. | Equity-method investee | Equity-method investments | 980,315,483 | 5,490,024 | 24.51 | 5,490,024 | Notes A and C | 980,315,483 |
| | ARCOA Communication Co., Ltd. | Equity-method investee | Equity-method investments | 80,276,314 | 1,039,987 | 59.78 | 1,039,987 | Notes A and C | 80,276,314 |
| | Far Eastern Electronic Toll Collection Co., Ltd. | Equity-method investee | Equity-method investments | 157,714,020 | 408,729 | 41.18 | 408,729 | Notes A and C | 157,714,020 |
| | Q-ware Communications Co., Ltd | Equity-method investee | Equity-method investments | 36,459,930 | 190,370 | 51.00 | 190,370 | Notes A and C | 36,459,930 |
| | Far Eastern Info Service (Holding) Ltd. | Equity-method investee | Equity-method investments | 1,200 | 153,851 | 100.00 | 153,851 | Notes A and C | 1,200 |
| | E. World (Holdings) Ltd. | Equity-method investee | Equity-method investments | 6,014,622 | 67,305 | 85.92 | 67,305 | Notes A and C | 6,014,622 |
| | Far EasTron Holding Ltd. | Equity-method investee | Equity-method investments | 4,486,988 | 25,575 | 100.00 | 25,575 | Notes A and C | 4,486,988 |
| | Ding Ding Integrated Marketing Services Co., Ltd. | Equity-method investee | Equity-method investments | 4,500,000 | 5,744 | 15.00 | 5,744 | Notes A and C | 4,500,000 |
| | ADCast Interactive Marketing Co., Ltd. | Equity-method investee | Equity-method investments | 18,351 | 170 | 0.40 | 170 | Notes A and C | 18,351 |
| KG Telecommunications Co., Ltd. | Stocks | | | | | | | | |
| | KGEx.com Co., Ltd. | Equity-method investee | Equity-method investments | 198,136,425 | 890,885 | 79.25 | 890,885 | Notes A and C | 198,136,425 |
| | iScreen Corporation | Equity-method investee | Equity-method investments | 4,000,000 | 28,765 | 40.00 | 28,765 | Notes A and C | 4,000,000 |
| | ADCast Interactive Marketing Co., Ltd. | Equity-method investee | Equity-method investments | 368,519 | 3,414 | 8.16 | 3,414 | Notes A and C | 1,255,382 |
| | GREATWALL | - | Available-for-sale financial assets - current | 270,369 | 6,813 | - | 6,813 | Note E | 300,000 |
| | TYG | - | Available-for-sale financial assets - current | 350,000 | 3,955 | - | 3,955 | Note E | 350,000 |
| | EVERLIGHT | - | Available-for-sale financial assets - current | 100,000 | 4,320 | - | 4,320 | Note E | 400,000 |
| | AUO | - | Available-for-sale financial assets - current | 300,000 | 7,410 | - | 7,410 | Note E | 750,000 |
| | HTC | - | Available-for-sale financial assets - current | 18,000 | 5,886 | - | 5,886 | Note E | 25,000 |
| | ACER | - | Available-for-sale financial assets - current | 100,000 | 4,260 | - | 4,260 | Note E | 400,000 |
| | SONIX | - | Available-for-sale financial assets - current | 200,000 | 6,880 | - | 6,880 | Note E | 200,000 |
| | CHINESEGAMER | - | Available-for-sale financial assets - current | 50,000 | 4,725 | - | 4,725 | Note E | 102,974 |
| | SZS | - | Available-for-sale financial assets - current | 45,000 | 3,690 | - | 3,690 | Note E | 50,000 |

(Continued)

| Holding Company Name | Type and Issuer/Name of Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2008 | | | | Note | Highest Shares/ Units Held During the Year |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Value (Note D) | Percentage of Ownership (%) | Market Value or Net Asset Value | | |
| | INNOLUX | - | Available-for-sale financial assets - current | 200,000 | $ 4,850 | - | $ 4,850 | Note E | 300,000 |
| | PT TECH. | - | Available-for-sale financial assets - current | 70,000 | 3,913 | - | 3,913 | Note E | 150,000 |
| | GET | - | Available-for-sale financial assets - current | 75,000 | 7,200 | - | 7,200 | Note E | 150,136 |
| | S.W. | - | Available-for-sale financial assets - current | 100,000 | 3,480 | - | 3,480 | Note E | 100,000 |
| | CSRC | - | Available-for-sale financial assets - current | 130,000 | 4,199 | - | 4,199 | Note E | 250,000 |
| | N.P.C | - | Available-for-sale financial assets - current | 19,000 | 1,311 | - | 1,311 | Note E | 300,000 |
| | FTC | - | Available-for-sale financial assets - current | 70,000 | 5,404 | - | 5,404 | Note E | 70,000 |
| | FOXLINK | - | Available-for-sale financial assets - current | 120,000 | 4,320 | - | 4,320 | Note E | 120,000 |
| | TCC | - | Available-for-sale financial assets - current | 200,000 | 5,390 | - | 5,390 | Note E | 703,000 |
| | FPC | - | Available-for-sale financial assets - current | 100,000 | 4,360 | - | 4,360 | Note E | 600,000 |
| | CMT | - | Available-for-sale financial assets - current | 100,000 | 5,060 | - | 5,060 | Note E | 200,000 |
| | CSC | - | Available-for-sale financial assets - current | 207,500 | 4,793 | - | 4,793 | Note E | 850,000 |
| | DELTA | - | Available-for-sale financial assets - current | 100,000 | 6,350 | - | 6,350 | Note E | 300,000 |
| | Yuanta Group | - | Available-for-sale financial assets - current | 400,000 | 5,880 | - | 5,880 | Note E | 600,000 |
| | UMT | - | Available-for-sale financial assets - current | 50,000 | 4,025 | - | 4,025 | Note E | 50,000 |
| | CHT | - | Available-for-sale financial assets - current | 181,500 | 9,710 | - | 9,710 | Note E | 300,000 |
| | PAHSCO | - | Available-for-sale financial assets - current | 180,000 | 5,778 | - | 5,778 | Note E | 180,000 |
| | FFHC | - | Available-for-sale financial assets - current | 150,000 | 2,588 | - | 2,588 | Note E | 500,360 |
| | UNIMICRON | - | Available-for-sale financial assets - current | 280,000 | 3,808 | - | 3,808 | Note E | 280,500 |
| | Alpha | - | Available-for-sale financial assets - current | 100,000 | 1,895 | - | 1,895 | Note E | 400,000 |
| | Cyberlink | - | Available-for-sale financial assets - current | 25,000 | 2,913 | - | 2,913 | Note E | 100,000 |
| | MOTECH | - | Available-for-sale financial assets - current | 90,000 | 6,966 | - | 6,966 | Note E | 100,000 |
| | LITE-ON IT | - | Available-for-sale financial assets - current | 600,750 | 7,930 | - | 7,930 | Note E | 600,750 |

(Continued)

| Holding Company Name | Type and Issuer/Name of Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2008 | | | | Note | Highest Shares/ Units Held During the Year |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Value (Note D) | Percentage of Ownership (%) | Market Value or Net Asset Value | | |
| | GIANT | - | Available-for-sale financial assets - current | 52,500 | $ 3,827 | - | $ 3,827 | Note E | 200,000 |
| | U-MING | - | Available-for-sale financial assets - current | 1,047,000 | 41,147 | - | 41,147 | Note E | 1,047,000 |
| | ACC | - | Available-for-sale financial assets - current | 3,449,000 | 98,124 | - | 98,124 | Note E | 3,449,000 |
| | HWACOM | - | Available-for-sale financial assets - current | 60,000 | 1,233 | - | 1,233 | Note E | 60,000 |
| | TSMT | - | Available-for-sale financial assets - current | 160,000 | 3,560 | - | 3,560 | Note E | 300,000 |
| | PVI | - | Available-for-sale financial assets - current | 130,000 | 1,898 | - | 1,898 | Note E | 400,000 |
| | OUCC | - | Available-for-sale financial assets - current | 500,000 | 6,900 | - | 6,900 | Note E | 500,000 |
| | Open-ended mutual funds | | | | | | | | |
| | Deutsche Far Eastern DWS Taiwan Bond Security Investment Trust Fund (Former Far Eastern Alliance Taiwan Bond Security Investment Trust Fund) | - | Available-for-sale financial assets - current | 73,960,494.25 | 824,268 | - | 824,268 | Note B | 73,960,494.25 |
| | JPM (Taiwan) European Bond Fund | - | Available-for-sale financial assets - current | 20,000,00.00 | 196,462 | - | 196,462 | Note B | 20,000,000.00 |
| | Deutsche Far Eastern DWS Taiwan Thematic Fund | - | Available-for-sale financial assets - current | 10,000,000.00 | 77,200 | - | 77,200 | Note B | 10,000,000.00 |
| | Private funds | | | | | | | | |
| | Fuh Hwa Value Added Strategy Fund | - | Financial assets carried at cost - noncurrent | 14,866,204.20 | 150,000 | - | 150,000 | Note C | 14,866,204.20 |
| ARCOA Communication Co., Ltd. | Stocks | | | | | | | | |
| | THI consultants | - | Financial assets carried at cost - noncurrent | 1,213,594 | 13,729 | 18.32 | 13,729 | Note C | 1,213,594 |
| | Chunghwa Int'l Communication Network Co., Ltd. | - | Financial assets carried at cost - noncurrent | 2,086,854 | 6,714 | 4.12 | 6,714 | Note C | 2,830,901 |
| | VIBO Telecom Inc. | - | Financial assets carried at cost - noncurrent | 840,000 | 8,400 | 0.04 | 8,400 | Note C | 200,000 |
| | Web Point Co., Ltd. | - | Financial assets carried at cost - noncurrent | 160,627 | 1,618 | 0.63 | 1,618 | Note C | 160,627 |
| | Open-ended mutual funds | | | | | | | | |
| | Yuanta Wan Tai Bond Fund | - | Available-for-sale financial assets - current | 2,096,201.70 | 30,246 | - | 30,246 | Note B | 12,626,337.00 |
| | ING Taiwan Bond Fund | - | Available-for-sale financial assets - current | 1,946,497.28 | 30,293 | - | 30,293 | Note B | 1,948,950.49 |
| | PCA Well Pool Fund | - | Available-for-sale financial assets - current | 6,969,144.50 | 90,187 | - | 90,187 | Note B | 12,563,948,80 |

(Continued)

| Holding Company Name | Type and Issuer/Name of Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2008 | | | | Note | Highest Shares/ Units Held During the Year |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Value (Note D) | Percentage of Ownership (%) | Market Value or Net Asset Value | | |
| | IBT 1699 Bond Fund | - | Available-for-sale financial assets - current | 5,969,159.60 | $ 90,049 | - | $ 90,049 | Note B | 5,969,159.60 |
| | UPAMC Great China Fund | - | Available-for-sale financial assets - current | 5,667,328.00 | 90,311 | - | 90,311 | Note B | 5,667,328.20 |
| | Bonds | | | | | | | | |
| | Ta Chong Bank Financial Bonds 93 Series-I | - | Bonds carried at amortized cost - current | 3,000,000.00 | 3,000 | - | 3,000 | Note C | 3,000,000.00 |
| Far Eastern Info Service (Holding) Ltd. | Share certificates | | | | | | | | |
| | Far Eastern Tech-info Ltd. (Shanghai) | Equity-method investee | Equity-method investments | - | US$ 4,078,000 | 100.00 | US$ 4,078,000 | Notes A and C | - |
| Far EasTron Holding Ltd. | Stocks | | | | | | | | |
| | ADCast Interactive Marketing Co., Ltd. | Equity-method investee | Equity-method investments | 2,734,446 | US$ 772,000 | 60.52 | US$ 772,000 | Notes A and C | 2,734,446 |
| E. World (Holdings) Ltd. | Stocks | | | | | | | | |
| | Yuan Cing Co., Ltd. | Equity-method investee | Equity-method investments | 19,349,994 | US$ 2,112,000 | 99.99 | US$ 2,112,000 | Notes A and C | 19,349,994 |

Note A: The calculation was based on audited financial statements as of December 31, 2008.

Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2008.

Note C: The financial assets carried at cost, bonds carried at amortized cost and equity-method investments without quoted prices were measured by net worth of investees or their respective carrying values.

Note D: The carrying value of available-for-sale financial assets - current were equal to market values as of December 31, 2008.

Note E: The calculation of domestic publicly traded stocks were based on the closing price at the end of December 31, 2008.

(Concluded)

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**YEAR ENDED DECEMBER 31, 2008**
**(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 |
| ARCOA Communication Co., Ltd. | Pca Well Pool Fund | Available-for-sale financial assets - current | - | - | 11,840,116.17 | $ 150,000 | 17,943,657.00 | $ 230,000 | 22,814,628.67 | $ 291,238 | $ 290,000 | $ 1,238 | 6,969,144.50 | $ 90,000 |
| | Yuanta Wan Tai Bond Fund | Available-for-sale financial assets - current | - | - | 8,486,961.50 | 120,000 | 10,511,710.10 | 150,000 | 16,902,469.90 | 242,197 | 240,000 | 2,197 | 2,096,201.70 | 30,000 |
| KG Telecommunications Co., Ltd. | FPC | Available-for-sale financial assets - current | - | - | 100,000 | 9,158 | 1,350,000 | 108,749 | 1,350,000 | 110,570 | 112,462 | (1,892 ) | 100,000 | 5,445 |
| | Deutsche Far Eastern DWS Taiwan Thematic Fund | Available-for-sale financial assets - current | - | - | - | - | 10,000,000.00 | 100,000 | - | - | - | - | 1,000,000.00 | 100,000 |

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

# 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, 2008**
**(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 | $ (3,007,573) | (6%) | Based on agreement | - | - | Accounts receivable $ 398,046 | 6% |
| | | | Cost of telecommunications services | 1,658,786 | 8% | Based on agreement | - | - | Accounts payable (139,326) | (6%) |
| | ARCOA Communication Co., Ltd. | Subsidiary | Sales of cellular phone equipment and accessories and telecommunications service revenue | (245,153) | - | Based on agreement | - | - | Accounts receivable 174,080 | 3% |
| | | | Cost of telecommunications services, marketing expenses and cost of sales | 2,229,708 | 6% | Based on agreement | - | - | Accounts payable and accrued expense (142,182) | (3%) |
| | KGEx.com Co., Ltd. | Subsidiary of KG Telecom | Telecommunications service revenues | (208,305) | - | Based on agreement | - | - | Accounts receivable 40,953 | 1% |
| | New Century InfoComm Tech Co., Ltd. | Equity-method investee | Telecommunications service revenues | (773,982) | (2%) | Based on agreement | - | - | Accounts receivable (Note) - | - |
| | | | Cost of telecommunication services | 102,144 | - | Based on agreement | - | - | Accounts payable (Note) (134,600) | (6%) |
| | NTT DoCoMo Inc. | Director | Telecommunications service revenues | (114,572) | - | Based on agreement | - | - | Accounts receivable 25,810 | - |
| | Ding Ding Integrated Marketing Co., Ltd. | Equity-method investee | Marketing expenses | 128,396 | 1% | Based on agreement | - | - | Accrued expense (58,309) | 2% |
| | Far Eastern Tech-Info Ltd. (Shanghai) | Subsidiary of FEIS | Service fee | 146,383 | 57% | Based on agreement | - | - | Accrued expense (16,797) | 1% |
| KG Telecommunications Co., Ltd. (KG Telecom) | Far EasTone Telecommunications Co., Ltd. | Parent company | Telecommunications service revenues | (1,658,786) | (13%) | Based on agreement | - | - | Accounts receivable 139,326 | 10% |
| | | | Cost of telecommunications services | 3,007,573 | 33% | Based on agreement | - | - | Accounts payable (398,046) | (44%) |
| | ARCOA Communication Co., Ltd. | Same parent company | Cost of telecommunications services, marketing expenses and cost of sales | 533,013 | 5% | Based on agreement | - | - | Accounts payable and accrued expense (33,450) | (2%) |
| ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Commission revenue, sales of cellular phone equipment and accessories and service revenues | (2,229,708) | (38%) | Based on agreement | - | - | Accounts receivable 142,182 | 67% |
| | | | Purchase and cost of telecommunications services | 245,153 | 5% | Based on agreement | - | - | Accounts payable (174,080) | (41%) |
| | KG Telecommunications Co. Ltd. | Same parent company | Commission revenue and sales of cellular phone equipment and accessories | (533,013) | (9%) | Based on agreement | - | - | Accounts receivable 33,450 | 16% |
| KGEx.com Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Ultimate parent company | Cost of telecommunications services | 208,035 | 18% | Based on agreement | - | - | Accounts payable (40,953) | (21%) |
| | New Century InfoComm Tech Co., Ltd. | Equity-method investee of Far EasTone | Telecommunications service revenues | (277,667) | (27%) | Based on agreement | | | Accounts receivable 37,317 | 18% |
| Far Eastern Tech-Info Ltd. (Shanghai) | Far EasTone Telecommunications Co., Ltd. | Ultimate parent company | Service revenue | (146,383) | (84%) | Based on agreement | - | - | Accounts receivable 16,797 | 62% |

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.

SCHEDULE E

# 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, 2008**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Far EasTone Telecommunications Co., Ltd. | KG Telecommunications Co., Ltd. | Subsidiary | $ 460,375 | (Note A) | $ - | - | $ 270,734 | $ - |
| | ARCOA Communication Co., Ltd. | Subsidiary | 178,036 | 9.60 | - | - | 130,063 | - |
| KG Telecommunications Co., Ltd. (KG Telecom) | Far EasTone Telecommunications Co., Ltd. | Parent company | 841,906 | (Note B) | - | - | 648,164 | - |
| ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | 142,182 | 10.91 | - | - | 98,290 | - |

Note A: The turnover rate was unavailable as the receivables from related parties were mainly due to the advances made for KG Telecom’s daily operating expenditures.

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**
**YEAR ENDED DECEMBER 31, 2008**
**(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, 2008 | | | Net Gain (Loss) of the Investee | Equity in Net Gain (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2008 | December 31, 2007 | 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 | $ 32,475,440 | $ 1,013,276 | $ 1,013,206 | Notes A and B |
| | New Century InfoComm Tech Co., Ltd. | Taiwan | Type I, II telecommunications services | 6,062,000 | 6,062,000 | 980,315,483 | 24.51 | 5,490,024 | (2,800,811) | (567,440) | Notes B and C |
| | ARCOA Communication Co., Ltd. | Taiwan | Type II telecommunications services, sales of communications products and office equipment | 1,283,560 | 1,278,944 | 80,276,314 | 59.78 | 1,039,987 | 61,190 | 35,600 | Notes A and B |
| | Far Eastern Electronic Toll Collection Co., Ltd. | Taiwan | Electronic toll collection service | 1,577,140 | 1,577,140 | 157,714,020 | 41.18 | 408,729 | (594,577) | (236,127) | Notes B and C |
| | Q-ware Communications Co., Ltd. | Taiwan | Type II telecommunications services | 495,855 | 495,855 | 36,459,930 | 51.00 | 190,370 | (277,906) | (141,732) | Notes A and B |
| | Far Eastern Info Service (Holding) Ltd. | Bermuda | Investment | 92,616 | 92,616 | 1,200 | 100.00 | 153,851 | 4,730 | 4,730 | Notes A and B |
| | E. World (Holdings) Ltd. | Cayman Islands | Investment | 82,883 | 82,883 | 6,014,622 | 85.92 | 67,305 | 6,626 | 5,693 | Notes A and B |
| | Far EasTron Holding Ltd. | Cayman Islands | Investment | 150,000 | 150,000 | 4,486,988 | 100.00 | 25,575 | (13,862) | (13,862) | Notes A and B |
| | Ding Ding Integrated Marketing Service Co., Ltd. | Taiwan | Marketing | 45,000 | 45,000 | 4,500,000 | 15.00 | 5,744 | (91,562) | (11,556) | Notes B and C |
| | ADCast Interactive Marketing Co., Ltd. (Note G) | Taiwan | Internet advertisements and marketing | 1,000 | - | 18,351 | 0.40 | 170 | (3,320) | 9 | Notes B and E |
| | Far EasTron Co., Ltd. (Note G) | Taiwan | Internet service | - | 1,000 | - | - | - | (10,846) | (72) | Notes D and E |
| KG Telecommunications Co., Ltd. | KGEx.com Co., Ltd. (Note H) | Taiwan | Type II telecommunications services | 2,355,649 | 2,197,794 | 198,136,425 | 79.25 | 890,885 | (135,428) | | Notes B and E |
| | KGT International Holding Co., Ltd. (Note H) | British Virgin Islands | Investment | - | 93,976 | - | - | - | (4,596) | | Notes D and E |
| | iScreen Corporation | Taiwan | Information service | 100,000 | 100,000 | 4,000,000 | 40.00 | 28,765 | 5,362 | | Notes B and F |
| | ADCast Interactive Marketing Co., Ltd. | Taiwan | Internet advertisements and marketing | 3,652 | - | 368,519 | 8.16 | 3,414 | (3,320) | | Notes B and E |
| Far Eastern Info Service (Holding) Ltd. | Far Eastern Tech-info Ltd. (Shanghai) | Shanghai | Computer data providing service | US$ 2,500,000 | US$ 2,500,000 | - | 100.00 | US$ 4,078,000 | 282 | | Notes B and E |
| Far EasTron Holding Ltd. | ADCast Interactive Marketing Co., Ltd. (Note G) | Taiwan | Internet advertisements and marketing | US$ 4,532,000 | - | 2,734,446 | 60.52 | US$ 772,000 | (3,320) | | Notes B and E |
| | Far EasTron Co., Ltd. (Note G) | Taiwan | Internet service | - | US$ 4,532,000 | - | - | - | (10,846) | | Notes D and E |
| E. World (Holdings) Ltd. | Yuan Cing Co., Ltd. | Taiwan | Call center services | 193,500 | 193,500 | 19,349,994 | 99.99 | US$ 2,112,000 | 7,252 | | Notes B and E |
| KGT International Holding Co., Ltd. (Note H) | KGEx.com Co., Ltd. | Taiwan | Type II telecommunications services | - | US$ 4,822,000 | - | - | - | (135,428) | | Notes B and E |

Note A: Subsidiary.

Note B: The calculation was based on audited financial statements as of December 31, 2008.

Note C: Equity-method investee of Far EasTone.

Note D: The calculation was based on unaudited financial statements as of December 31, 2008.

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

Note F: Equity-method investee of KG Telecom.

Note G: Far EasTron was dissolved on September 3, 2008 upon its merger with ADCast. Thus, Far EasTron's common shares owned by Far EasTone and Far EasTron Holding were swapped into ADCast's common shares.

Note H: KGTI was dissolved on May 27, 2008 and completed its liquidation on August 21, 2008. KGTI's holding of the common shares of KGEx.com was distributed to KG Telecom after the liquidation.

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**INVESTMENT IN MAINLAND CHINA**
**YEAR ENDED DECEMBER 31, 2008**
**(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, 2008 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2008 | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note A) | Carrying Value as of December 31, 2008 (Note A) | Accumulated Inward Remittance of Earnings as of December 31, 2008 | Accumulated Investment in Mainland China as of December 31, 2008 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | | | |
| Far Eastern Tech-info Ltd. (Shanghai) | Computer software, data processing and network information providing services | $82,000 (US$2,500,000) | Note B | $92,616 | $ - | $ - | $92,616 | 100% | $282 | $133,758 (US$4,078,000) | $ - | $92,616 | $92,616 | $42,777,721 (Note C) |

Note A: The calculation was based on audited financial statements as of December 31, 2008.

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

Note C: Based on the limit, which is 60% of Far EasTone's net worth, as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA, ROC.

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

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**SIGNIFICANT TRANSACTIONS BETWEEN FAR EASTONE AND SUBSIDIARIES**
**YEARS ENDED DECEMBER 31, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars)**

| Number (Note A) | Company Name | Counter Party | Flow of Transactions (Note B) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | Year ended December 31, 2008 | | | | | | |
| 0 | Far EasTone Telecommunications Co., Ltd. | KG Telecommunications Co., Ltd. | 1 | Receivables from related parties | $ 460,375 | Note D | 1% |
| | | | | Inventories | 3,666 | Note D | - |
| | | | | Payables to related parties | 841,906 | Note D | 1% |
| | | | | Unearned revenues | 2,250 | Note D | - |
| | | | | Telecommunications service revenues | 3,007,573 | Note D | 5% |
| | | | | Cost of telecommunications services | 1,658,786 | Note D | 3% |
| | | | | Marketing expenses | 192,714 | Note D | - |
| | | | | Nonoperating income and gains | 45,938 | Note D | - |
| | | | | Management service revenue | 63,124 | Note D | - |
| | | | | Nonoperating expenses and losses | 2,242 | Note D | - |
| | | ARCOA Communication Co., Ltd. | 1 | Receivables from related parties | 178,036 | Note D | - |
| | | | | Inventories | 462 | Note D | - |
| | | | | Payables to related parties | 142,182 | Note D | - |
| | | | | Unearned revenues | 46,028 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 41,738 | Note D | - |
| | | | | Telecommunications service revenues | 203,415 | Note D | - |
| | | | | Cost of sales | 1,583,993 | Note D | 3% |
| | | | | Other operating cost | 57,345 | Note D | - |
| | | | | Marketing expenses | 588,370 | Note D | 1% |
| | | | | Nonoperating income and gains | 3,861 | Note D | - |
| | | KGEx.com Co., Ltd. | 1 | Receivables from related parties | 46,403 | Note D | - |
| | | | | Payables to related parties | 2,902 | Note D | - |
| | | | | Telecommunications service revenues | 208,035 | Note D | - |
| | | | | Cost of telecommunications services | 30,305 | Note D | - |
| | | | | General and administrative expenses | 7,558 | Note D | - |
| | | | | Nonoperating income and gains | 1,356 | Note D | - |
| | | Far Eastern Tech-Info Ltd. (Shanghai) | 1 | Payables to related parties | 16,797 | Note D | - |
| | | | | General and administrative expenses | 146,383 | Note D | - |
| | | ADCast Interactive Marketing Co., Ltd. | 1 | Receivables from related parties | 1,173 | Note D | - |
| | | | | Management service revenue | 250 | Note D | - |
| | | Yuan Cing Co., Ltd. | 1 | Receivables from related parties | 4,487 | Note D | - |
| | | | | Payables to related parties | 3,697 | Note D | - |
| | | | | General and administrative expenses | 3,869 | Note D | - |
| | | | | Management service revenue | 890 | Note D | - |

(Continued)

| Number (Note A) | Company Name | Counter Party | Flow of Transactions (Note B) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | Q-ware Communications Co., Ltd. | 1 | Receivables from related parties | $ 23,463 | Note D | - |
| | | | | Nonoperating income and gains | 11,212 | Note D | - |
| 1 | KG Telecommunications Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 841,906 | Note D | 1% |
| | | | | Inventories | 2,250 | Note D | - |
| | | | | Payables to related parties | 460,375 | Note D | 1% |
| | | | | Unearned revenues | 3,666 | Note D | - |
| | | | | Telecommunications service revenues | 1,658,786 | Note D | 3% |
| | | | | Cost of telecommunications services | 3,026,389 | Note D | 5% |
| | | | | Marketing expenses | 57,922 | Note D | - |
| | | | | General and administrative expenses | 30,532 | Note D | - |
| | | | | Research and development expenses | 444 | Note D | - |
| | | | | Nonoperating income and gains | 194,956 | Note D | - |
| | | | | Nonoperating expenses and losses | 1,348 | Note D | - |
| | | ARCOA Communication Co., Ltd. | 3 | Receivables from related parties | 12,203 | Note D | - |
| | | | | Inventories | 124 | Note D | - |
| | | | | Payables to related parties | 33,450 | Note D | - |
| | | | | Unearned revenues | 4,502 | Note D | - |
| | | | | Other operating revenues | 87 | Note D | - |
| | | | | Cost of sales | 476,647 | Note D | 1% |
| | | | | Marketing expenses | 56,366 | Note D | - |
| | | KGEx.com Co., Ltd. | 3 | Receivables from related parties | 18,614 | Note D | - |
| | | | | Payables to related parties | 3,537 | Note D | - |
| | | | | Telecommunications service revenues | 70,305 | Note D | - |
| | | | | General and administrative expenses | 38,848 | Note D | - |
| | | | | Management service revenue | 2,726 | Note D | - |
| | | Far Eastern Tech-Info Ltd. (Shanghai) | 3 | Payables to related parties | 5,034 | Note D | - |
| | | | | General and administrative expenses | 27,137 | Note D | - |
| 2 | ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 142,182 | Note D | - |
| | | | | Inventories | 46,028 | Note D | - |
| | | | | Payables to related parties | 178,036 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 3,170,872 | Note D | 5% |
| | | | | Other operating revenues | 379,958 | Note D | 1% |
| | | | | Cost of sales | 1,469,867 | Note D | 2% |
| | | | | Cost of telecommunications services | 207,153 | Note D | - |
| | | | | General and administrative expenses | 1 | Note D | - |
| | | | | Nonoperating income and gains | 107,347 | Note D | - |
| | | KG Telecommunications Co., Ltd. | 3 | Receivables from related parties | 33,450 | Note D | - |
| | | | | Inventories | 4,502 | Note D | - |
| | | | | Payables to related parties | 12,203 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 686,413 | Note D | 1% |
| | | | | Other operating revenues | 36,920 | Note D | - |
| | | | | Cost of sales | 190,283 | Note D | - |
| | | Yuan Cing Co., Ltd. | 3 | Payables to related parties | 1,939 | Note D | - |
| | | | | Marketing expenses | 6,394 | Note D | - |

(Continued)

| Number (Note A) | Company Name | Counter Party | Flow of Transactions (Note B) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| 3 | KGEx.com Co., Ltd. (Note E) | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | $ 2,902 | Note D | - |
| | | | | Payables to related parties | 46,403 | Note D | - |
| | | | | Telecommunications service revenues | 30,305 | Note D | - |
| | | | | Cost of telecommunications services | 208,035 | Note D | - |
| | | | | Nonoperating expenses and losses | 1,356 | Note D | - |
| | | | | Other operating revenues | 7,558 | Note D | - |
| | | KG Telecommunications Co., Ltd. | 3 | Receivables from related parties | 3,537 | Note D | - |
| | | | | Payables to related parties | 18,614 | Note D | - |
| | | | | Other operating revenues | 38,848 | Note D | - |
| | | | | Cost of telecommunications services | 70,305 | Note D | - |
| | | | | General and administrative expenses | 2,726 | Note D | - |
| | | Far EasTron Co., Ltd. | 3 | Telecommunications service revenues | 644 | Note D | - |
| | | Q-ware communications Co., Ltd. | 3 | Receivables from related parties | 753 | Note D | - |
| | | | | Telecommunications service revenues | 9,163 | Note D | - |
| 4 | Far Eastern Tech-Info Ltd. (Shanghai) | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 16,797 | Note D | - |
| | | | | Other operating revenues | 146,383 | Note D | - |
| | | KG Telecommunications Co., Ltd. | 3 | Receivables from related parties | 5,034 | Note D | - |
| | | | | Other operating revenues | 27,137 | Note D | - |
| 5 | Far EasTron Co., Ltd. | KGEx.com Co., Ltd | 3 | Service cost | 644 | Note D | - |
| 6 | Yuan Cing Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 3,697 | Note D | - |
| | | | | Payables to related parties | 4,487 | Note D | - |
| | | | | Other operating revenues | 3,869 | Note D | - |
| | | | | General and administrative expenses | 890 | Note D | - |
| | | ARCOA communications Co., Ltd. | 3 | Receivables from related parties | 1,939 | Note D | - |
| | | | | Other operating revenues | 6,394 | Note D | - |
| 7 | Q-ware Communications Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Payables to related parties | 23,463 | Note D | - |
| | | | | General and administrative expenses | 11,212 | Note D | - |
| | | KGEx.com Co., Ltd | 3 | Payables to related parties | 753 | Note D | - |
| | | | | Cost of telecommunications services | 9,163 | Note D | - |
| 8 | ADCast Interactive Marketing Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Payables to related parties | 1,173 | Note D | - |
| | | | | General and administrative expenses | 250 | Note D | - |

(Continued)

| Number (Note A) | Company Name | Counter Party | Flow of Transactions (Note B) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | Year ended December 31, 2007 | | | | | | |
| 0 | Far EasTone Telecommunications Co., Ltd. | KG Telecommunications Co., Ltd. | 1 | Receivables from related parties | $ 649,022 | Note D | 1% |
| | | | | Inventories | 14,979 | Note D | - |
| | | | | Payables to related parties | 789,247 | Note D | 1% |
| | | | | Unearned revenues | 5,191 | Note D | - |
| | | | | Telecommunications service revenues | 2,828,152 | Note D | 4% |
| | | | | Cost of telecommunications services | 1,831,295 | Note D | 3% |
| | | | | Marketing expenses | 207,308 | Note D | - |
| | | | | Nonoperating income and gains | 153,152 | Note D | - |
| | | | | Management service revenue | 121,573 | Note D | - |
| | | | | Nonoperating expense and losses | 736 | Note D | - |
| | | ARCOA Communication Co., Ltd. | 1 | Receivables from related parties | 181,648 | Note D | - |
| | | | | Inventories | 568 | Note D | - |
| | | | | Payables to related parties | 266,558 | Note D | - |
| | | | | Unearned revenues | 58,945 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 26,288 | Note D | - |
| | | | | Telecommunications service revenues | 116,407 | Note D | - |
| | | | | Cost of sales | 1,071,211 | Note D | 2% |
| | | | | Other operating costs | 46,636 | Note D | - |
| | | | | Marketing expenses | 562,727 | Note D | 1% |
| | | | | Nonoperating income and gains | 3,780 | Note D | - |
| | | KGEx.com Co., Ltd. | 1 | Receivables from related parties | 44,633 | Note D | - |
| | | | | Payables to related parties | 2,269 | Note D | - |
| | | | | Telecommunications service revenues | 268,304 | Note D | - |
| | | | | Cost of telecommunications services | 8,628 | Note D | - |
| | | | | General and administrative expenses | 6,994 | Note D | - |
| | | | | Nonoperating income and gains | 50 | Note D | - |
| | | Far Eastern Tech-Info Ltd. (Shanghai) | 1 | Payables to related parties | 25,233 | Note D | - |
| | | | | General and administrative expenses | 133,724 | Note D | - |
| | | Far EasTron Co., Ltd. | 1 | Receivables from related parties | 4,000 | Note D | - |
| | | | | Management service revenues | 2,400 | Note D | - |
| | | Yuan Cing Co., Ltd. | 1 | Receivables from related parties | 3,100 | Note D | - |
| | | | | Payables to related parties | 2,754 | Note D | - |
| | | | | General and administrative expenses | 3,346 | Note D | - |
| | | | | Management service revenue | 1,030 | Note D | - |
| | | Q-ware Communications Co., Ltd. | 1 | Receivables from related parties | 4,839 | Note D | - |
| 1 | KG Telecommunications Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 789,247 | Note D | 1% |
| | | | | Inventories | 5,191 | Note D | - |
| | | | | Payables to related parties | 649,022 | Note D | 1% |
| | | | | Unearned revenues | 14,979 | Note D | - |
| | | | | Telecommunications service revenues | 1,831,295 | Note D | 3% |
| | | | | Cost of telecommunications services | 2,862,245 | Note D | 4% |
| | | | | Marketing expenses | 193,403 | Note D | - |
| | | | | General and administrative expenses | 45,097 | Note D | - |
| | | | | Research and development expenses | 1,586 | Note D | - |

(Continued)

| Number (Note A) | Company Name | Counter Party | Flow of Transactions (Note B) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | | | Nonoperating income and gains | $ 208,044 | Note D | - |
| | | | | Nonoperating expense and losses | 546 | Note D | - |
| | | ARCOA Communication Co., Ltd. | 3 | Receivables from related parties | 18,773 | Note D | - |
| | | | | Inventories | 166 | Note D | - |
| | | | | Payables to related parties | 54,000 | Note D | - |
| | | | | Unearned revenues | 43,005 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 7 | Note D | - |
| | | | | Telecommunications service revenues | 36 | Note D | - |
| | | | | Cost of sales | 319,395 | Note D | - |
| | | | | Marketing expenses | 59,898 | Note D | - |
| | | KGEx.com Co., Ltd. | 3 | Receivables from related parties | 47,578 | Note D | - |
| | | | | Payables to related parties | 3,400 | Note D | - |
| | | | | Telecommunications service revenues | 124,909 | Note D | - |
| | | | | Cost of telecommunications services | 248 | Note D | - |
| | | | | General and administrative expenses | 35,999 | Note D | - |
| | | | | Management service revenue | 15,042 | Note D | - |
| | | Far Eastern Tech-Info Ltd. (Shanghai) | 3 | Payables to related parties | 9,092 | Note D | - |
| | | | | General and administrative expenses | 40,547 | Note D | - |
| 2 | ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 266,558 | Note D | - |
| | | | | Inventories | 58,945 | Note D | - |
| | | | | Payables to related parties | 181,648 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 2,018,097 | Note D | 3% |
| | | | | Other operating revenues | 409,066 | Note D | 1% |
| | | | | Cost of sales | 912,193 | Note D | 1% |
| | | | | Cost of telecommunications services | 119,104 | Note D | - |
| | | | | General and administrative expenses | 227 | Note D | - |
| | | | | Nonoperating income and gains | 139,028 | Note D | - |
| | | KG Telecommunications Co., Ltd. | 3 | Receivables from related parties | 54,000 | Note D | - |
| | | | | Inventories | 43,005 | Note D | - |
| | | | | Payables to related parties | 18,773 | Note D | - |
| | | | | Sales of cellular phone equipment and accessories, net | 422,620 | Note D | 1% |
| | | | | Other operating revenues | 49,322 | Note D | - |
| | | | | Cost of sales | 92,526 | Note D | - |
| | | Yuan Cing Co., Ltd. | 3 | Payables to related parties | 425 | Note D | - |
| 3 | KGEx.com Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 2,269 | Note D | - |
| | | | | Payables to related parties | 44,633 | Note D | - |
| | | | | Telecommunications service revenues | 8,628 | Note D | - |
| | | | | Other operating revenues | 6,994 | Note D | - |
| | | | | Cost of telecommunications services | 268,304 | Note D | - |
| | | | | Nonoperating expense and losses | 50 | Note D | - |
| | | KG Telecommunications Co., Ltd. | 3 | Receivables from related parties | 3,400 | Note D | - |
| | | | | Payables to related parties | 47,578 | Note D | - |
| | | | | Telecommunications service revenues | 248 | Note D | - |
| | | | | Cost of telecommunications services | 124,909 | Note D | - |

(Continued)

| Number (Note A) | Company Name | Counter Party | Flow of Transactions (Note B) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % to Consolidated Assets/Revenue (Note C) |
| | | | | Other operating revenues | $ 35,999 | Note D | - |
| | | | | General and administrative expense | 15,042 | Note D | - |
| | | Far EasTron Co., Ltd. | 3 | Receivables from related parties | 229 | Note D | - |
| | | | | Telecommunications service revenues | 2,699 | Note D | - |
| | | Q-ware communications Co., Ltd. | 3 | Receivables from related parties | 1,359 | Note D | - |
| | | | | Telecommunications service revenues | 3,071 | Note D | - |
| 4 | Far Eastern Tech-Info Ltd. (Shanghai) | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 25,233 | Note D | - |
| | | | | Other operating revenues | 133,724 | Note D | - |
| | | KG Telecommunications Co., Ltd. | 3 | Receivables from related parties | 9,092 | Note D | - |
| | | | | Other operating revenues | 40,547 | Note D | - |
| 5 | Far EasTron Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Payables to related parties | 4,000 | Note D | - |
| | | | | General and administrative expenses | 2,400 | Note D | - |
| | | KGEx.com Co., Ltd | 3 | Payables to related parties | 229 | Note D | - |
| | | | | Service cost | 2,699 | Note D | - |
| 6 | Yuan Cing Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Receivables from related parties | 2,754 | Note D | - |
| | | | | Payables to related parties | 3,100 | Note D | - |
| | | | | Other operating revenues | 3,346 | Note D | - |
| | | | | General and administrative expenses | 1,030 | Note D | - |
| | | ARCOA communications Co., Ltd. | 3 | Receivables from related parties | 425 | Note D | - |
| 7 | Q-ware Communications Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | 2 | Payables to related parties | 4,839 | Note D | - |
| | | KGEx.com Co., Ltd | 3 | Payables to related parties | 1,359 | Note D | - |
| | | | | Cost of telecommunications services | 3,071 | Note D | - |

Note A: Parties to the intercompany transactions are identified and numbered as follows:

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

Note B: The flow of related-party transactions is as follows:

1. From the parent company to its subsidiary.
2. From a subsidiary to its parent company.
3. Between subsidiaries.

Note C: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of December 31, 2008 and 2007; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the years ended December 31, 2008 and 2007.

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

Note E: The information shown 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, 2008 AND 2007**
**(In Thousands of New Taiwan Dollars)**

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Telecommunications Services | Sales | Adjustment and Eliminations | Combined | Telecommunications Services | Sales | Adjustment and Eliminations | Combined |
| Revenues generated from un-affiliates | $ 57,318,993 | $ 5,198,917 | $ - | $ 62,517,910 | $ 58,519,645 | $ 5,517,101 | $ - | $ 64,036,746 |
| Revenues generated from the Group (Note B) | - | - | - | - | - | - | - | - |
| Total revenues | $ 57,318,993 | $ 5,198,917 | $ - | $ 62,517,910 | $ 58,519,645 | $ 5,517,101 | $ - | $ 64,036,746 |
| Segment operating income (loss) (Note C) | $ 20,457,665 | $ (1,357,097) | $ - | $ 19,100,558 | $ 21,804,440 | $ (1,666,560) | $ - | $ 20,137,880 |
| Interest revenue | | | | 179,558 | | | | 185,939 |
| Other revenue | | | | 317,792 | | | | 346,531 |
| Equity in investees' net losses | | | | (812,892) | | | | (295,000) |
| Interest expense | | | | (22,664) | | | | (41,606) |
| Other expense | | | | (678,959) | | | | (685,398) |
| General and administrative expense (Note D) | | | | (4,759,751) | | | | (5,085,405) |
| Income before income tax | | | | $ 13,323,642 | | | | $ 14,562,941 |
| Identifiable assets (Note E) | $ 62,939,804 | $ 1,331,092 | $ - | $ 64,270,896 | $ 67,144,503 | $ 1,194,106 | $ - | $ 68,338,609 |
| Financial products | | | | 1,748,767 | | | | 1,624,420 |
| Long-term investment | | | | 6,113,723 | | | | 7,042,751 |
| Assets not identifiable to a specified segment | | | | 16,365,180 | | | | 19,534,802 |
| Total assets | | | | $ 88,498,566 | | | | $ 96,540,582 |
| Depreciation expense | $ 10,804,661 | $ 27,250 | | | $ 11,169,743 | $ 23,995 | | |
| Amortization expense | $ 13,073 | $ 47,939 | | | $ 16,169 | $ 48,065 | | |
| Capital expenditure | $ 7,771,909 | $ 34,267 | | | $ 5,486,908 | $ 32,184 | | |

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 and interest 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.