

Operator:

Welcome everyone to Far Eastone 1Q11 conference call. All lines have been placed on mute to prevent background noise. After this presentation there will be a question and answer session. Please, follow the instruction given at the time if you would like to ask a question.

For your information, a webcast replay will be available within an hour after the conference is finished. Please visit www.fareastone.com.tw under the investor relation section.

I would like to introduce Mr. Gary Lai, IR Officer. Gary, you may begin.

Gary Lai:

Thank you everybody, again, to attend our quarterly conference call. Both our President, Yvonne, and CFO, T.Y., are here for everybody. Again, we will start with Yvonne's presentation on our 1Q performance as well as the business update.

OK. Let us pass it to Yvonne. Thank you.

Yvonne Li:

Good afternoon and good morning for all the investors. Before I start this 1Q investor conference, I have a brief update to everyone, which is on the dividend. Far Eastone just had a Board meeting this morning, and the Board has approved to distribute NT\$2.5 per share in terms of 2010 dividend, which is equivalent to a 92% payout ratio. So, we are constantly maximizing our shareholders return by the size of the dividend payout.

Later on in my presentation I will not cover this dividend, so before I proceed into my presentation today, just to let everyone know that the Board has approved this cash dividend payout this time.

Slide 4

Then, we move on to the presentation. I will start with the overall market, actually, the 1Q11, compared to the same period last year, the entire Taiwan telecom market is showing a 3.5% year-on-year growth. On the mobile side, the revenue is growing roughly by 1.6%. On the fixed-line side, it is growing 7.6% on an annual basis. This is mainly due to that starting from January this year, the fix-to-mobile pricing right has been changed to the fixed line operators, so that resulted in this increase on a year-on-year basis of the fixed-line revenues.

In terms of subscribers, the mobile subs continue to grow at a 5.5% growth on an annual basis. It is very interesting also to see that the fixed line subs are growing slightly by 0.5% on a year-on-year basis.

In terms of the overall traffic on the entire telecom market, the mobile outgoing minutes continue to grow very nicely, at a 6.8%, while the fixed-line outgoing minutes continue to come down by 0.5%.

Slide 5

On the overall market dynamic, in the mobile market, the revenue share is very stable for the last few quarters. We continue to see a very high growth on the data revenue; however, a lot of the data revenue growth unfortunately was offset by the negative regulatory impact, meaning the X value and the fix-to-mobile pricing right change.

So, on your left-hand side you can see that in terms of the revenue share, Far Eastone in terms of mobile service revenue is actually growing 1.1% on a year-on-year basis, Chunghwa is actually coming down by 1.4%, and Taiwan Mobile is growing 0.7%. And the smaller two continue to see a 13.2% year-on-year growth.

However, one thing I would like to indicate is that we start to observe that after all these smartphones, which has been picking up very nicely in the local market, we did see that the growth percentage of the smaller two, like APBW and VIBO, continues to trending down.

On the regulatory side, I think all of you know that NCC has implemented a mandatory price cut, roughly 4% on the short message and the mobile off-net rates, effective from April this year.

Slide 7

Coming into Far Eastone's own performance, I would say the 1Q is quite a good quarter for Far Eastone. We continue to increase our 3G subscribers. Both our postpaid minutes of use continued to grow 5% on a year-on-year growth, and although we have this negative regulatory impact to be implemented, we are still being able to manage that we maintain our ARPU. We certainly expect that with the data revenue continuing to grow, eventually we could see some slight pickup on the ARPU side.

Slide 8

Top line is also showing I would say a quite a good trend. On the consolidated total revenue, we are showing a 20% growth on a year-on-year basis, and on the service revenue we are seeing close to 15% year-on-year growth. On the mobile service revenue side, we just shared with you, it is a 1.1% year-on-year growth, despite all this regulatory impact. And on the fixed line side we are actually showing 10.5% growth on an annual basis.

Slide 9

Mobile data revenue, I would say it is the key growth driver in the 1Q. Far Eastone continues to see that data revenue is actually growing very fast, 35.5% growth on an year-on-year basis. In terms of the subscribers, it is a 57.7% growth YoY, meaning more and more costumers are actually subscribing our data service.

Slide 10

Let us look a little bit about the components in the growth. I would say that the majority of the data revenue growth is still coming from the so-called wireless and broadband access. That is 84% growth on the annual basis.

On the entertainment related segment, it is showing quite a nicely growth about 114% growth. Even on the e-commerce side, we are seeing 39% on the year-on-year basis. So, in short, on the data revenue, aside from the rapid growth on the so-called transmission front, we also see on the content front there is also a significant growth.

Slide 11

In terms of the financial achievement, in the 1Q Far EasTone is being able to meet all our guidance that we reported in February. So basically it is 100% achieve in all the major indicators.

Slide 12

On the balance sheet, I would say Far EasTone continues to be a very cash rich company; our net cash position currently is NT\$8.5 billion, so this free cash flow continues to be very strong, we reported close to NT\$3.7 billion in this 1Q, which means that Far EasTone continues to have this very healthy balance sheet, that continue to allows Far EasTone to look into the future growth opportunities.

Slide 14

Coming into the business update, the smartphone take up rate is actually very, very fast. In the 1Q, in terms of all the handsets we sold, meaning all the new acquisitions plus the renewal, 57% is through the smartphone segment. And the smartphone penetration rate in terms of total postpaid subscriber base has reached 14.3%, which is roughly growing 1% each month.

The ARPU, actually the smartphone ARPU is quite good, the average smartphone users ARPU is about NT\$1,500, while the iPhone users ARPU is about NT\$2,200. So, the overall ARPU coming into from the smartphone segment is very high, despite from subsidies, it is also quite large in terms of the smartphone subsidies.

A lot of investors are concerned about the usage, here are some indicators that we can share with you, the smartphone user data usage in average, per month usage is about 900MB, and iPhone usage is slightly higher, it is about 1GB, and the tablet users is 1.5GB per month, based on the current usage indicators.

Slide 15

In terms of the device portfolio, I would say that Far EasTone right now has the full range of smartphone and tablet devices, particularly on the tablet devices we did see that from the 2Q and especially on the 2H of this year we will see a full range of tablets coming into the market. Smartphones, we do see more and more very good phones that their price range continue to lower down, which I think will continue to boost up the smartphone take up rate currently in Taiwan.

Slide 16

On the content, actually Far EasTone has been very focusing on, we also would like to update you with some of the recent progress. Our S Mart, which is an Android based application store focusing on the Chinese community content, right now we have aggregated more than 1,500 android applications and games and we are targeted to

have 3,000 applications by the end of this year. Right now, per user download is about five to six on average per month, it is actually on par with the global major players.

In terms of the users coming into our application store, about half is from Far Eastone own user base and the other half is coming from non-FET users. We are going to launch the Android 3.0, the tablet store, from the 3Q this year and we are on our way to explore the Japan and the Korea markets by providing a central kitchen kind of concept to them.

Slide 17

On the S Mart performance, so far the application downloads continue to grow, accumulated downloads today is slightly above 1.4 million already, and the popular downloads is still in the same basis and in terms of the paid and the non-paid apps is about seven to three, this kind of ratio. And our target continues to be: we want to be the number one Chinese android application store of Asia in 2011.

Slide 18

The e-Book Town, we continue to make progress and our positioning of this e-Book Town is the most versatile e-book service in the Chinese community, and customer is able to access no matter if it is through their PC, their notebook or smartphone or even tablets, for both their Apple OS and Android 3.0 OS.

We are going to export our entire e-Book Town to the China Mobile leading base, targeted in May this year. We are also very soon going to launch exclusive content provided by NTT DoCoMo in adding some very popular so-called Japanese comics which is very popular in Taiwan, so this will be done in the 2Q this year.

Slide 19

On our music platform, which is we position ourselves as the first DRM-Free download store in the Mandarin music. So, this is our very unique feature compared to the current two other music stores in Taiwan who are only providing so far streaming music services.

Because this is a joint venture with all the major labels in Taiwan, so we do have the advantage of acquiring exclusive songs and music from all these leading record companies. And our pricing strategy is also very attractive, per download is only like US\$.6 and if it is streaming per month you only need to pay like US\$0.1 per phone to actually lower the entry barriers to other consumers. And we just launched the first digital album in Asia by a very famous local singing group called FIR and the price of this entire album is about 60%-70% pricing of the physical album.

Slide 20

In early May, we are going to launch our fourth very important asset base, which is the 'Video Store', it is a personal cinema and actually serves seamlessly on three screens and from one cloud. The partner we are going to partner with is a very famous local company, so we will provide a premium on-line video streaming services to all the consumers. This partner is very similar to the NefLex in the United States and currently this partner owns 40% of the overall of the so-called video market in Taiwan.

We are going to provide various charging models to our customers, meaning the linear channel or the monthly subscription, or pay-per-view, or they can pay a deposit to enjoy a certain number of movies, and they can also have unlimited view on a monthly subscription, so we will provide a very flexible charging models for the consumer to choose. And as I just mentioned, this will be a cloud service for various devices, and so including the PC, notebooks, smartphone and tablets. And it will be available both on the iOS and the Android OS.

Because this player in the local market is also the largest player in the physical cinema movies, so we are going to tie it up also with physical cinema tickets to actually enrich the personal entertainment.

Slide 21

A little bit on our continuous cooperation with China Mobile in terms of the consumer product business development. We start with, again, our four important asset base, starting from the 'S Mart', currently we have listed around 200+ applications on the CMCC mobile market, versus last quarter with only 80 applications. So, the speed of the listed applications is growing very fast, and right now we have accumulated over 200,000 downloads since November, the first launch on the mobile market.

Our game content started to list on the China Mobile's game base starting from April 1st. We certainly will share with you some of the initial results on our next update to you.

On the reading base, I just updated you that in May we are going to list our e-Book Town onto the CMCC reading base. Initially we will propose to list 2,500 books on their mobile reading base.

In terms of music cooperation, we will continue to leverage Omusic through steps, our music download application service, onto the China Mobile, their music base, which right now they are rebuilding.

Slide 22

A bit of the highlight on the S Mart performances, I just mentioned that right now it has accumulated over 200,000 downloads, and the paid download is growing to 35%. And the paid versus free ratio right now has improved to 80:20.

In terms of the download application, right now the paid ratio has actually increased from 9% to 27% in the 2Q, so we continuously want to improve this paid ratio so that we can monetize on whatever is listing.

CMCC this year actually are paying a lot of focus on the growth of the mobile market, so Far Eastone is at a very unique position where we can actually leverage CMCC cross-strait media exposure to actually build awareness quite effectively.

Slide 23

A little bit on the enterprise side, on this side by working together with CMCC we also made quite a good progress last quarter. On April 7th, we signed a Wireless City Strategic Cooperation Agreement with CMCC and the Sichuan Provincial Government, and also another Cross Strait Wireless City Industry Cooperation Strategic Agreement with CMCC-Chengdu.

So, this cooperation with Chengdu-CMCC, actually enabled us to introduce our enterprise solutions into the Chengdu city. So, the areas of cooperation include a WiFi consulting, the surveillance, the tourism, the transportation and Tele-healthcare. So, all these Far Eastone will receive the reimbursement either from the Sichuan province, or from the CMCC-Chengdu. So, I would say this is a very good start. Our next target city will be Ningbo, so this will be the two Wireless City projects that currently we are working on.

So, that concludes our updates for the 1Q, including the market, our performances and some of the important initiatives.

- End -