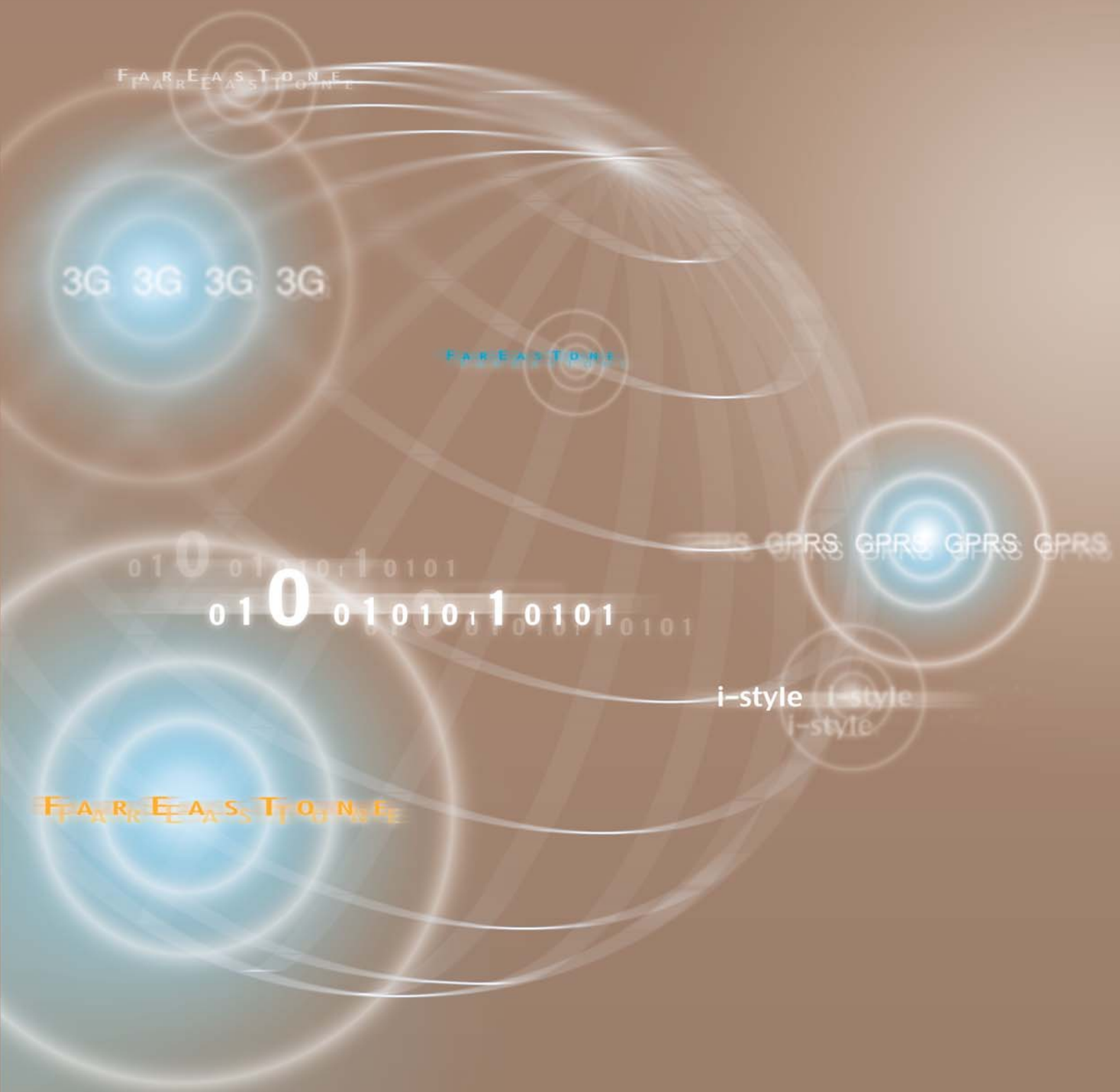


ANNUAL REPORT 2001





◀ **FET Spokesperson : Yvonne Lan, Director of Public Relations**

Telephone : +886-2-8793-5689

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◀ **Acting Spokesperson : Yvonne Li, Vice President of Finance and Administration Division**

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◀ **Corporate Headquarter : 28F, Taipei Metro Tower, 207, Tun Hwa South Road, Sec. 2, Taipei, Taiwan, R.O.C.**

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◀ **Stock Title Transfer : Oriental Securities Corporation**

Address : 3F, 86, Chung Ching South Road, Sec. 1, Taipei, Taiwan, R.O.C.

Telephone : +886-2-2361-8608

Website : www.osc.com.tw

◀ **Independent Auditors : Clark Chen, CPA, and Edward Way, CPA**

◀ **Auditing Firm : T N Soong & Co**

Address : 12F, 156, Min Seng East Road, Sec. 3, Taipei, Taiwan, R.O.C.

Telephone : +886-2-2361-8608

Website : www.andersen.com.tw

◀ **FET Website : www.fetnet.net**

www.fareastone.com.tw

◀ **Exchange Rate :**

We publish our annual report in New Taiwan dollars (NT\$), the lawful currency of the ROC. For investors' reference, the exchange rate as of December 31, 2001 published by Bank of Taiwan, was NT\$ 34.95 to US\$ 1.

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1. Letter to the Shareholders

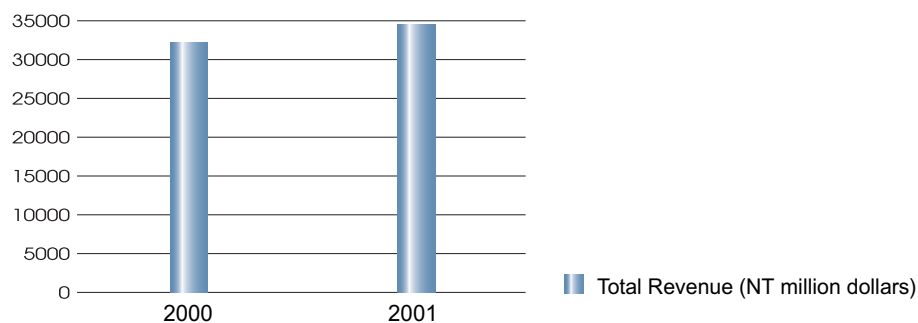
Financial Analysis & Profitability

NT\$ in millions, except per share amount

| Year ended December 31 | 2001 | 2000 | Change |
|------------------------|--------|--------|--------|
| Total Revenue | 34,544 | 32,181 | 7.3% |
| EBITDA | 11,611 | 7,046 | 64.8% |
| EBITDA Margin | 33.6% | 21.9% | 53.4% |
| Net Income | 6,659 | 4,040 | 64.8% |
| EPS (Diluted Share) | 3.52 | 2.42 | 45.4% |

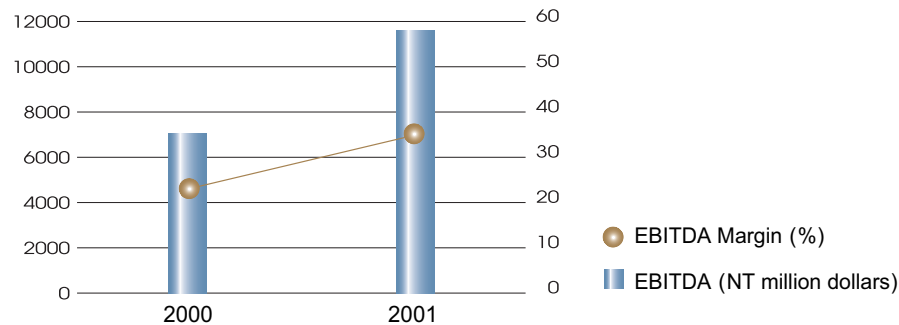
Total Revenue

NT million dollars



EBITDA

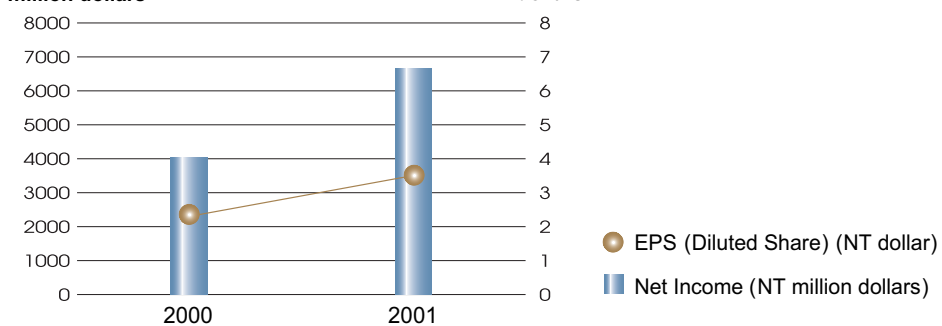
NT million dollars



Net Income

NT million dollars

NT dollars



Dear Shareholders:

We are delighted to present our first annual report as Far EasTone has been a publicly listed company since Dec. 10, 2001. The last twelve months represent the most challenging and rewarding period of our company. No one could have predicted the events that changed the world during 2001, from the first recession of the new century, to the event of 911, nor the global slowdown in the telecommunications sector. These events tested companies in every sector of the economy and highlights the best and the worst of modern management techniques and leadership. Guided by our shared values of being Innovative, Responsive and Trustworthy, we were able to fulfill our long-term commitments to our customers, employees, shareholders and community.

As wireless penetration exceeded 90% of the population in Taiwan we continued to focus on delivering profitable services by increasing our customers' voice and data usage. Total minutes of usage increased by 31% and revenues from value added services including SMS and data grew by 28%. Through effective cost control, our EBITDA grew by 64.8% on a 7.3% growth of revenue and we have delivered EPS of NT\$3.52.

Vision and Mission

Far EasTone is dedicated to the convergence of mobile communications and Internet. Our aim is to provide customers easy access to a wealth of public and personalized information, while fulfilling our vision - "Anywhere, anytime, communications enriching the lives of people". By being "innovative, trustworthy and responsive", we met our customers' needs by going beyond their voice communication needs; we delivered a wide range of content and application services with IP data transmission using GPRS today and 3G in the future. With Far EasTone, our customers can stay in touch and enjoy an improved quality of life through our cutting edge technology.

With the integration of all our resources, we believe by 2003 we will become the leading provider of value-added mobile communication services in Taiwan.

We have established the "Eight Building Blocks of the Mobile Internet" to guide us in fulfilling vision of "Anywhere, anytime, communications enriching the lives of people".

- ◀ **Ready Customers:** Operating in one of the highest mobile penetrated market in the world gives Far EasTone an advantage because most Taiwanese are highly aware of the telecom services offered. More importantly, Far EasTone has the highest percentage of existing customers who use Value Added Services including SMS, in both the consumer and enterprise segments of the Taiwan market and are ready for more advanced telecom services to help and enrich their lives.
- ◀ **Appealing Applications:** We support "open access" which means that our customers will have access to the widest range of applications and contents provided by us or from third party application/content providers. We will leverage our ability to use location and availability information to allow our customers to build completely personalized applications.
- ◀ **Effective Navigation:** With more data-intensive services, the effectiveness of the user interface and well-managed navigation mechanism for handset and content portals are crucial. Due to the rich contents, it becomes more important to provide customers with an easy browsing interface and device without the need to go through the complete user manual. In other words, a self-explanatory navigation mechanism should be built for the content portal and the device itself.
- ◀ **Robust Middleware Platform:** The interaction between customers and our services rely on a robust middleware platform. The platform allows third party content/service providers to build their applications on it with ease.
- ◀ **Data Ready Networks:** We have been and will continue to be the leader in the field of providing our customers access to data and content using networks compatible with their devices. We have implemented GPRS and our development of 3G network will commence this year. We have been providing customers with data services since our launch in 1998. Our focuses now are continuing to provide customers with reliable and well-covered networks and sufficient bandwidth for future data-intensive services.
- ◀ **The Right Devices:** While the customer has devices that they choose to serve their different needs, our systems will detect the specifications of users' handset, so that we can deliver the proper content in the best format that best fit their devices. Our system will be able to detect the latest handsets that may have color displays and large displays for richer media services.
- ◀ **Low Entry Barrier:** Easy sign-up and flexible tailor-made i-Style package for each customer are important in the highly penetrated market in Taiwan.

◀ **Sales & Service Ready:** Introduce many points of service to provide our customers with one-stop-shopping. Customers will be able to have their questions answered and new features demonstrated to them; allows our i-Style services to enrich their lives.

Innovative

i-Style Product & Services

We continued to maintain our position as the leader in providing value added connectivity in Taiwan. Our track record of delivering innovative products and services for consumers and enterprises remained un-surpassed evidenced by winning GSM Association award for launching the Fleet Management service. With Far EasTone's Fleet Management service, Formosa Plastics Transport Corp. successfully reduced its total operating cost by 30%, including lowering the cost of manpower, transportation, and vehicle maintenance.

While Taiwan mobile telephony matures, we still see tremendous growth potential as Taiwan's average outgoing MOU and data revenue percentage remain relatively low in Asia. Our innovative suite of i-Style services was bolstered by the introduction of Advertiser Sponsored Calls "258 *", PDA wireless Internet service, 8288 mParty, and mobile location-based service. We continued to enhance our leadership in the wireless data arena by focusing our efforts on "Eight Building Blocks of the Mobile Internet".

Far EasTone's data penetration grew steadily to 29.9% by the end of 2001, much higher than the industry average 5.3%. The percentage of total data revenue as of total revenue reached 3.1% in 2001, and the total value-added service revenue as percentage of total service revenue in the first quarter of 2002 has reached 4.4%.

We have expanded our efforts in developing business solutions that help our enterprise customers lower operating cost and increase efficiency as well as to use our mobility services to market products and services to their customers and prospects.

Responsive

Responsive to Customers: Bi-Annual Employee and Customer Survey

We continue to conduct extensive customer satisfaction review as well as our bi-annual employee survey. According to the latest data, 71% of our customers rated us 80+ in overall Customer Satisfaction (on a 100 point scale) and 76% rated us 80+ Best Company ratings. 65% of our employees rated Far EasTone 80+ for "best company to work for" in Taiwan and 53% see their future employment lasting three or more years.

With Far EasTone's core strengths of strong brand, execution excellence, superior quality of network and customer service, we will strive to fulfill the needs and to enhance the loyalty of customers from different segments. We will not only offer various product and service through different channels to reach customers in different segments, and suit various customers' needs, but also strive to provide consistent services and qualities through multiple channels such as internet, telephone, and Far EasTone's V@SS stores.

Responsive to Employees

Employee survey is conducted every quarter to establish an active feedback loop to the management team. Moreover, there are several means to have employee's voice heard in the company. We have process team to review and take proper action according to employees' ideas and suggestions submitted through e-mail or Intranet.

Responsive to Investors/Shareholders

FET actively interacts with our shareholders and investors. FET is the first wireless operator to conduct investor conferences in Taiwan.

Trustworthy

FET upgraded its billing system in November 2000 in order to better provide personalized products and services to customers efficiently. Very small percentage of customers were impacted by the new billing system before taking the advantages of what the new billing system could bring to them. While some of our bills had errors, with our proactive PDCA (Plan-Do-Check-Adjust) feedback loop in our business processes and responsiveness to customers' feedback, we acted quickly to identify the root cause of the problems and made the necessary adjustments to our systems and process. We took the initiative to communicate with our customers on these issues and waived all the mis-charged items even before the customers call us. We also made official announcements using various media and press releases to communicate with the public. Winning customers' trusts is as important

as resolving customers' problems.

FET is fully compliant with GAAP and is the only Taiwan wireless operator nominated for "Best at Investor Relations" and "Strongest Commitment to Enhancing Shareholder Value" by FinanceAsia.com. With the strong and transparent corporate governance, Far EasTone was listed on Taisdaq in December 2001, and was rated "twA" by Taiwan Ratings Corp (TRC).

Internal Process Improvement

P-D-C-A (Plan-Do-Check-Act) is the motto for every Far EasTone employee. Through this practice in every aspect of our work, we streamline and continuously improve our processes for better efficiency and effectiveness. P-D-C-A is also our guiding principle in the evolution of SEM (Strategic Enterprise Management) system and OFA (Oracle Financial Analyzer). We are gradually transforming many of our paper based internal processes into electronic formats to improve efficiency. E-form, for example, has integrated the workflow of employee service requests, employee profile, leave/overtime management system, payment system and other general administrative systems altogether.

Our Commitment to R&D in Taiwan

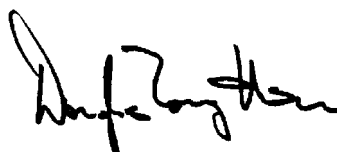
Since the establishment of the company in 1997, FET has set high standards for itself in the high-tech telecom industry. To make Taiwan the leader in the global telecom field, FET positions itself as a pioneer in innovative services and technology. Besides FET in-house R&D programs, FET has funded and sponsored several public and private telecom research institutes and 70+ research projects in universities throughout the country; AT&T Lab, ART (Advanced Research & Technology) Lab, and FET Education Center are established.

Through the cooperation with the telecom industry, FET not only gains the new knowledge and practices from the global industry but also contributes the industry with our successful Taiwan experience. Many of these information acquired and shared within the industry then become valuable educational materials to share with peer operators as well as related academic seminars. We have conducted several seminars and lectures to the industry and universities in Taiwan. Good corporate citizenship is something FET values a lot. Our sustained involvement and ongoing investments in the communities where we live, work and play are important to our company culture and our business philosophy.

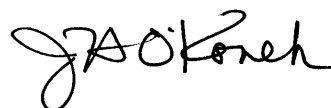
Looking into the Future

Far EasTone's Eight Building Blocks are the guiding principles as we implement broader and faster networks to prepare for the future data-intensive applications. In February 2002 Far EasTone's subsidiary Yuan-Ze Telecommunications won a 3G license in Taiwan (License A with 30 MHz of paired spectrum and 5MHz of unpaired spectrum) at a price of NTD 10,169 million, or NT\$ 12.86 per MHz per population, the lowest price to date in Asia for a 3G license on the 2GHz band. This license represents excellent value for our shareholders and will allow Far EasTone to maintain its strong balance sheet. FET is positioned to use the new spectrum with W-CDMA technology to deliver new 'multi-sensory' services to fulfill our corporate vision — Anywhere, Anytime, Communications Enriching the Lives of People.

We are also continuing on the path we set out in 1999 for the future of the "Mobile Internet" to provide appealing applications and contents. Therefore, FET worked with IBM to launch the first GSM Common Service Platform (CSP) in Feb 2002. By utilizing IBM's Service Provider Delivery Environment, FET's Common Service Platform allows customers to access services through a variety of access channels, including SMS, WAP and GPRS, with different devices. CSP is the essential component to broaden distribution, encourage third-party application development, and enrich wireless applications. By launching the Common Service Platform, FET is setting the pace in terms of delivering wireless applications and services as an international wireless leader. Not only we are prepared for the future, but also creating it.



Douglas O' Hsu,
Chairman



Joseph O' Konek,
President

II. Company Highlights

1. Company Profile
2. Organization
3. Capital and Shares
4. Issuance of Corporate Bonds
5. Preferred Shares
6. Issuance of Depository Receipt
7. Employee Stock Option
8. Merge and Acquisition



FAREASTONE

1. Company Profile

1-1 Date of Incorporation : FET was incorporated on April 11, 1997 and started the operation on January 20, 1998

1-2 Milestones

| | |
|---------|---|
| 1998/1 | The first cellular operator in the world to launch an integrated GSM900/1800 dual-band cellular system and per second based billing in Taiwan |
| 1998/9 | Launched financial information service “ MobileInfo ” , the first adopting USSD technology and SMS applications in Taiwan |
| 1998/11 | Prepaid card “ IF ” launched, attracting 200,000 customers in the first month and becoming the leading brand |
| 1999/3 | Reached one million customers |
| 1999/6 | Launched “ Mobile Office ” services |
| 1999/7 | Adopted USSD technology to launch ring tone and logo download service “ Vogo player ” |
| 1999/8 | Launched life information and entertainment service “ Fun Master ” |
| 1999/12 | Launched FETnet and Wireless Application Protocol (WAP), making FET the first operator to provide convergence communications in Taiwan |
| 2000/2 | Received “ GSM in the Community Award ” from GSM Association for disaster relief effort after 921 earthquake |
| 2000/7 | Launched MVPN as the first operator to provide total communications solutions tailor-made for enterprise users with dedicated workforce |
| 2000/9 | First in Taiwan to provide “ Multi-Site Call Center ” network |
| 2000/10 | Revenue producing customers reached 3 million |
| 2000/11 | Awarded by DGT as the operator winning the best customer satisfaction three times in a row |
| 2001/4 | Launched the innovative enterprise solution Mobile Information on Demand (MloD) |
| 2001/6 | Launched the first mobile media service 258 * in Taiwan |
| 2001/12 | Listed at Taiwan's OTC Exchange Market (also known as Taisdag, Ticker:4904) |
| 2001/12 | Rated “ twA ” on Issuer Long Term Credit Rating by Taiwan Ratings Corp (TRC) |
| 2002/2 | Yuan-Ze Telecom, Far EasTone's fully-owned subsidiary, was awarded a 3G License with the lowest price to date in Asia for a 3G license on the 2GHz band (License A, with 30 MHz of paired spectrum and 5MHz of unpaired spectrum) |
| 2002/2 | Awarded the Best Corporate Wireless Service or Application by the 3GSM World Congress for its innovative solution-Fleet Management |
| 2002/3 | Jointly launched “ Enterprise Mobile Value-added Service Solution ” with IBM to promote Mobilization Enterprises |
| 2002/3 | Revenue producing customers reached 4 million |

1-3 Status of Acquisitions : None

1-4 Changes in Directors, Supervisors, Shareholders with Greater than 10% Shareholding or Their

Transfer of a Large Number of Shares :

2001/05/14 Ding-Yuan International Co., Ltd. resigned its Director position

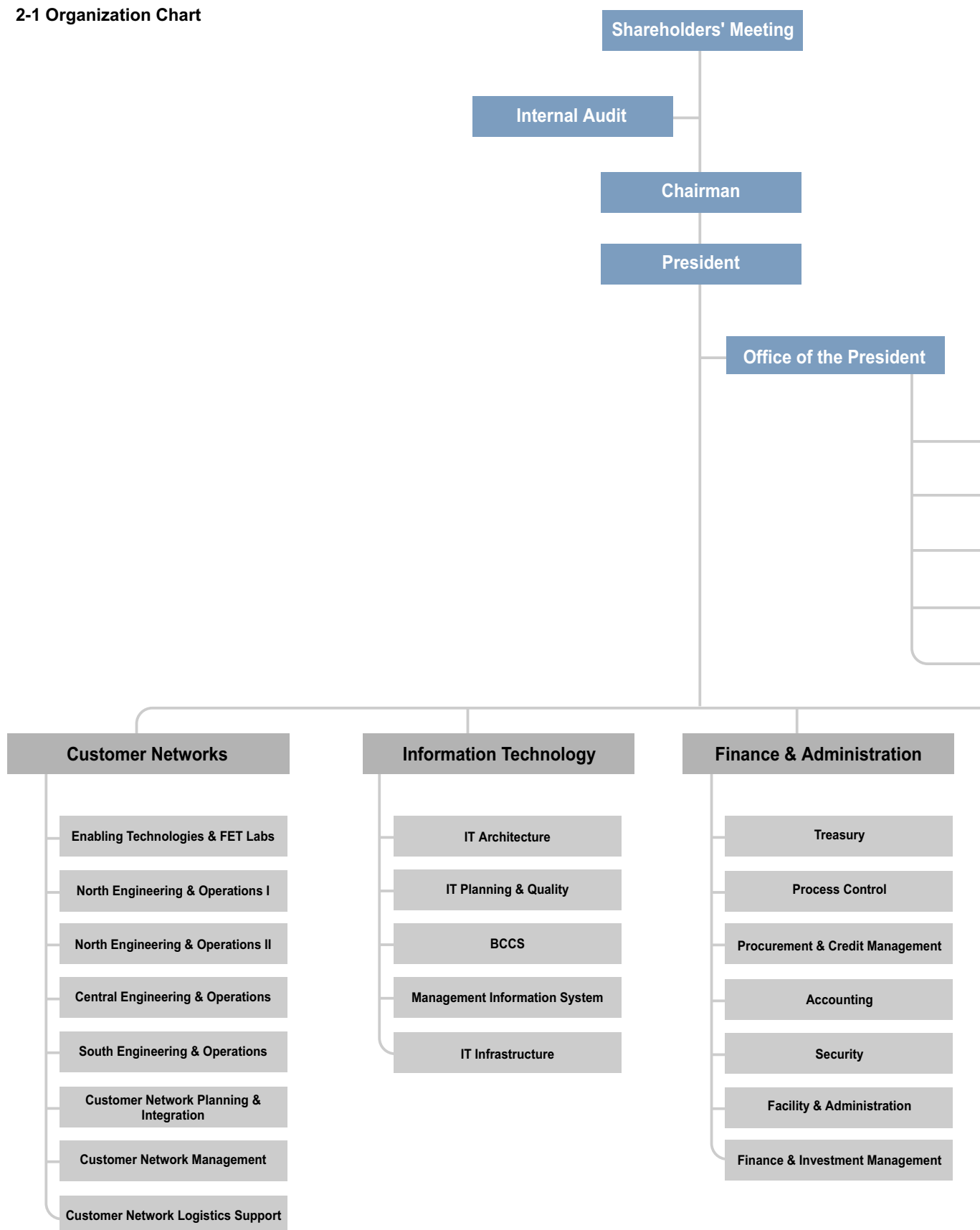
2001/05/15 P.Y. Lee was elected for Director position.

1-5 Changes in Operations : None

1-6 Major Items Sufficient to Influence Shareholders' Rights or the Company : None

2. Organization

2-1 Organization Chart



Public Relations

Legal & Regulatory

Human Resources

3G Program Management

Labor Safety and Health Office

Business Strategy & Marketing

Product Management & Operations

Marketing Communication

Mobile Marketing Service

Strategic Planning

Strategic Development

Promotion & Product Marketing

Sales & Service

Enterprise Solution Sales & Service

Consumer Sales & Service

Operations & System Support

Customer Care

Function Description

| Division Name | Function Description |
|--------------------------------|--|
| Office of the President | Responsible for cross-departmental and external issues for the president |
| Public Relations | Responsible for public and media affairs |
| Legal & Regulatory | Responsible for legal, regulatory and contracts review and consultation |
| Human Resources | Responsible for human resources management and development |
| 3G Program Management | Responsible for 3G development planning |
| Labor Safety and Health Office | Responsible for maintaining and ensuring a safe and healthy workplace |
| Internal Audit | Responsible for auditing internal operations |
| Customer Networks | Responsible for planning, integrating, and maintaining customer networks |
| Information Technology | Responsible for operations of billing system, customer care system, and company information management system |
| Finance & Administration | Responsible for accounting, investor relations, procurement, process control, general administration and security issues |
| Business Strategy & Marketing | Responsible for planning, developing and implementing marketing strategies |
| Sales & Service | Responsible for sales management and customer care support |

2-2 Executive Officer

04/26/2002

| Title | Name | Date Effective | Shareholding | % | Spouse & Minor | | Education | Experience | Current Position with other company | Managers are spouse or within 2 degrees of consanguinity to each other | | |
|--|----------------|----------------|--------------|-------|----------------|---|--|--|-------------------------------------|--|------|--------------|
| | | | | | Shareholding | % | | | | Title | Name | Relationship |
| President | Joseph O'Konek | 1997/12/1 | 148,606 | 0.01% | - | - | M.B.A., National University, USA | CEO, EuroTel | - | - | - | - |
| Division VP, Business Strategy & Marketing | Benny Chen | 2001/5/1 | - | - | - | - | M.B.A. in Operation Management, Southern Illinois University at Edwardsville, Illinois, USA. | VP, Citibank, Taiwan | - | - | - | - |
| Division VP, Information Technology | Y.C. Chang | 1999/1/1 | 213,741 | 0.01% | - | - | PhD, International Business, Chinese Culture University, Taipei, Taiwan | General Manager, Yang Ming Marine | - | - | - | - |
| Division VP, Finance & Administration | Yvonne Li | 2001/9/1 | - | - | - | - | M.S., Accounting, University of Illinois, Urbana Champaign, Illinois, USA | VP, Citibank, Taiwan | - | - | - | - |
| Division VP, Customer Networks | David Clarke | 2001/10/15 | - | - | - | - | B.S., Geology, Phillips University, Enid, Oklahoma, USA | Sr. VP of Technology, TransAsia Telecommunications | - | - | - | - |
| Division VP, Customer Networks | Jay Shy | 1999/8/16 | 141,750 | 0.01% | - | - | B.S., Computer Science, Feng Chia University, Taichung, Taiwan | Director, DBTEL | - | - | - | - |
| Division VP, Sales & Service | Philby Chen | 1997/8/11 | 354,288 | 0.02% | - | - | B.S., Accounting, Northern Arizona University, AZ, USA | CFO, Tai Chia Technology Inc. | - | - | - | - |
| Chief Auditor, Internal Audit | Rachel Yu | 2002/4/11 | - | - | - | - | M.B.A, State University of New York, NY, USA | Chief Auditor, Singfor Life Insurance Company | - | - | - | - |

2-3 Directors and Supervisors

04/26/2002

| Title | Name | Date Elected | Term (Year) | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Education & Experience | Current Position with Other Company | Managers are spouse or within 2 degrees of consanguinity to each other | | |
|---------------|--|--------------|-------------|---------------------------|--------|----------------------|--------|-----------------------------|-------|---|---|--|---------------|--------------------------------------|
| | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chairman | Douglas Hsu Yuan Ding Investment Co., Ltd. | 04/21/2000 | 3 | 646,865,566 | 56.89% | 945,835,970 | 50.04% | — | — | Chairman of Far Eastern Textile Ltd. MS., Economics, Columbia University Honorary PhD of Management, National Chiao Tung University | Chairman of Far Eastern Textile Ltd. | Vice Chairman | Laurence Yang | within 2 degrees of affinity brother |
| Vice Chairman | Laurence Yang Yuan Ding Investment Co., Ltd. | 04/21/2000 | 3 | 646,865,566 | 56.89% | 945,835,970 | 50.04% | — | — | Vice Chairman of Far Eastern Textile Ltd. Department of Chemistry, National Taiwan University | Vice Chairman of Far Eastern Textile Ltd. | Chairman | Douglas Hsu | within 2 degrees of affinity |
| Director | Champion Lee Yuan Ding Investment Co., Ltd. | 04/21/2000 | 3 | 646,865,566 | 56.89% | 945,835,970 | 50.04% | — | — | Senior VP and CFO of Far Eastern Textile Ltd. Master Degree in Business Administration, Texas A&I University, USA | Director of Far Eastern Textile Ltd. CFO of Far Eastern Group | — | — | — |
| Director | Peter Hsu Yuan Ding Investment Co., Ltd. | 04/21/2000 | 3 | 646,865,566 | 56.89% | 945,835,970 | 50.04% | — | — | Vice President of Central Procurement Far Eastern Textile Ltd. Masters of Science, Operations Research, Stanford University | Supervisor of Far Eastern Textile Ltd. | Chairman | Douglas Hsu | brother |
| Director | P.Y. Lee | 05/15/2001 | 3 | 192,000 | 0.01% | 241,200 | 0.01% | 112,235 | 0.01% | Director General of Directorate General of Telecommunications Bachelor of Electrical Engineering, National Taiwan University | — | — | — | — |
| Director | Jordan Roderick Taiwan Wireless Investments, Inc. | 12/28/2000 | 3 | 145,568,667 | 10.40% | 196,517,700 | 10.40% | — | — | MBA., Dartmouth College | President, International, AT&T Wireless Services, Inc. | — | — | — |
| Director | Robert L. Lewis Taiwan Wireless Investments, Inc. | 12/28/2000 | 3 | 145,568,667 | 10.40% | 196,517,700 | 10.40% | — | — | Executive MBA, University of Washington | Senior Vice President, International Operations, AT&T Wireless Services, Inc. | — | — | — |
| Director | Chin Lin China Development Industrial Bank | 04/21/2000 | 3 | 4,000,000 | 0.35% | 128,669,300 | 6.81% | — | — | MBA, University of Michigan | Senior Executive Vice President of China Development Industrial Bank | — | — | — |
| Director | Maria Lu Chiao Tung Bank Co., Ltd. | 04/21/2000 | 3 | 38,028,783 | 3.34% | 54,986,854 | 2.91% | — | — | Senior Vice President & General Manager of Singapore Branch, Chiao Tung Bank Co., Ltd. Master of Public Finance, National Chengchi University | Senior Vice President & General Manager of Investment Department, Chiao Tung Bank Co., Ltd. | — | — | — |
| Supervisor | Yukio Morikubo CHD Investments Holdings, Inc. | 12/28/2000 | 3 | 1,000 | 0.00% | 1,350 | 0.00% | — | — | Counsel, Perkins Coie Seattle MBA, University of Hawaii JD, Georgetown University Law Center | Chief Counsel, AT&T Wireless Services International | — | — | — |
| Supervisor | Eli Hung Far Eastern International Leasing Corp. | 12/28/2000 | 3 | 18,561,587 | 1.33% | 21,008,142 | 1.11% | — | — | Vice President of Citibank Taiwan Bachelor of Economics, National Chung Hsing University | President of Far Eastern International Bank | — | — | — |
| Supervisor | Jong C. Wang Yue-Li Investment Corp. | 04/21/2000 | 3 | 1,000 | 0.00% | 1,455 | 0.00% | — | — | Ph. D, Electrical Engineering, University of Pittsburgh | Professor of Yuan Ze University | — | — | — |

** * indicates individual shareholding

2-4 Information Regarding the Legal Entity Shareholders as Directors and Supervisors of the Company

04/26/2002

| Legal Entity Shareholders | Major Shareholders of Legal Entity Shareholders |
|---|---|
| Yuan Ding Investment Co., Ltd. | Far Eastern Textile Ltd. |
| China Development Industrial Bank | Chiao Tung Bank, Bank of Taiwan, and The International Commercial Bank of China |
| Chiao Tung Bank Co., Ltd. | Ministry of Finance, R.O.C. |
| Taiwan Wireless Investments, Inc. | Taiwan Investment Subsidiary I Inc. |
| Far Eastern International Leasing Corp. | Far Eastern International Bank |
| Yue-Li Investment Corp. | U-Ming Marine Transport Corp. |
| CHD Investments Holdings, Inc. | Taiwan Investment Subsidiary VI Inc. |

2-5 Information of Directors & Supervisors

04/26/2002

| | With experience for more than five years in business, finance, legal or areas required by the business of the Company | Not an employee of the Company; not a director, supervisor or employee of the affiliated companies of the Company | Not a shareholder of natural person directly or indirectly owning more than 1% of the Company's outstanding shares nor one of the Company's top 10 shareholders of natural person | Not a spouse to nor having relationship within two degrees of lineal consanguinity with any person specified in column 2 and 3 | Not a director, supervisor or employee of a shareholder of legal entity of the company directly or indirectly owning more than 5% of the Company's outstanding shares nor one of the Company's top 5 shareholders of legal entity | Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of certain companies or institutions which have financial or business relationship with the Company | Not an owner, partner, director, supervisor, manager of any sole proprietor, partnership, company or institution and his/her spouse, or the specialist and his/her spouse, which provided finance, commerce, legal consultation and services to the Company or its affiliated companies within one year |
|------------------------------|---|---|---|--|---|---|---|
| Douglas Hsu, Chairman | √ | | √ | √ | | | √ |
| Laurence Yang, Vice Chairman | √ | | √ | √ | | | √ |
| Champion Lee, Director | √ | | √ | √ | | | √ |
| Peter Hsu, Director | √ | | √ | √ | | √ | √ |
| P.Y. Lee, Director | √ | | √ | √ | √ | | √ |
| Jordom Roderick, Director | √ | √ | √ | √ | | √ | √ |
| Robert L. Lewis, Director | √ | √ | √ | √ | | √ | √ |
| Chin Lin, Director | √ | √ | √ | √ | | √ | √ |
| Maria Lu, Director | √ | √ | √ | √ | √ | √ | √ |
| Yukio Morikubo, Supervisor | √ | √ | √ | √ | √ | √ | √ |
| Eli Hung, Supervisor | √ | | √ | √ | √ | | √ |
| Jong C. Wang, Supervisor | √ | √ | √ | √ | √ | √ | √ |

"√" indicates meeting conditions specified above

3. Capital and Shares

3-1 History of Capitalization

04/26/2002 Unit :NT\$; Share

| Month/ Year | Par Value | Authorized Capital | | Shares Outstanding | | Remarks | | |
|----------------|--------------|--------------------|-----------------------|--------------------|-----------------------|--|-----------------------------------|--|
| | | Shares (1,000) | Amount (NT\$1,000) | Shares (1,000) | Amount (NT\$1,000) | Source of Capital | Non-Monetary Capital Expansion | Effective Date & Cert. No. |
| Apr. 1997 | 10 | 900,000 | 9,000,000 | 900,000 | 9,000,000 | Cash Founding 9,000,000,000 | - | - |
| Dec. 1998 | 10 | 1,400,000 | 14,000,000 | 1,070,000 | 10,700,000 | Cash Capital Call 1,700,000,000 | - | 1998.10.22(87) Tai-Tsai-Cheng (I) No.87084 |
| Sep. 1999 | 10 | 1,400,000 | 14,000,000 | 1,137,000 | 11,370,000 | Cash Capital Call 670,000,000 | - | 1999.5.21(88) Tai-Tsai-Cheng (I) No.47451 |
| Jul. 2000 | 10 | 1,400,000 | 14,000,000 | 1,225,743 | 12,257,430 | Capitalization of capital surplus 887,430,000 | - | 2000.5.22(89) Tai-Tsai-Cheng (I) No.41536 |
| Oct. 2000 | 10 | 1,400,000 | 14,000,000 | 1,400,000 | 14,000,000 | Cash Capital Call 1,742,570,000 | - | 2000.10.11(89) Tai-Tsai-Cheng (I) No.83771 |
| Jul. 2001 | 10 | 3,360,000 | 33,600,000 | 1,890,000 | 18,900,000 | Capitalization of retained earning and capital surplus 4,900,000,000 | - | 2001.6.15(90) Tai-Tsai-Cheng (I) No.138249 |

04/26/2002 Unit:Share

| Type of Stock | Authorized Capital | | | | | Reserved Shares |
|---------------|--------------------|------------|---------------|---------------------|---------------|-------------------------|
| | Issued Shares | | | Un-issued Shares | Total | for Convertible Bond |
| | Listed (OTC) | Non-Listed | Total | | | |
| Common Shares | 1,890,000,000 | - | 1,890,000,000 | 1,470,000,000 | 3,360,000,000 | 0 |

3-2 Share price, net worth, earnings, dividends and related information

Units: NT\$; Share

| Year | | 2000 | 2001 | Q1, 2002 |
|---------------------------------|-------------------------------------|-------------------|---------------|---------------|
| Item | | | | |
| Share Price (Note 1) | High | - | 52.5 | 46.9 |
| | Low | - | 33.1 | 39.3 |
| | Average | - | 44.65 | 42.64 |
| Net Worth per Share | Before distribution | 18.3 | 17.08 | 18.07 |
| | After distribution | 14.64 | Note 2 | - |
| Earnings per Share | Weighted average outstanding shares | 1,236,724,000 | 1,890,000,000 | 1,890,000,000 |
| | Earnings per share | 3.27 | 3.52 | - |
| Dividends per Share (Note 3) | Cash dividends | 0.2195 | - | - |
| | Stock dividends | Retained earnings | 2.5 | - |
| | | | | |
| | | Capital surplus | 1.0 | - |
| Return on Investment | Accumulated undistributed dividend | | - | - |
| | Price/Earnings ratio (Note 4) | | - | 12.68 |
| | Price/Dividend ratio (Note 5) | | - | - |
| | Cash dividend yield rate (Note 6) | | - | - |

Note:1. The company was listed on Taiwan's Over-the-Counter Securities Exchange on Dec. 10, 2001. Share price information starts to be provided from 2001.

2. The above distribution amounts are based on Annual General Shareholders' Meeting resolutions in the subsequent year. The distribution amounts for 2001 have not been approved yet.

3. Dividends per share of the prior year.

4. Price/Earnings ratio = Average closing share price of the year / Earnings per share

5. Price/Dividend ratio = Average closing share price of the year / Cash dividend per share

6. Cash dividend yield = Cash dividend per share / Average closing share price of the year

3-3 Dividend Policy

(1) Dividend Policy under Articles of Incorporation

The cash dividend declared by the Corporation each fiscal year shall be no less than ten percent (10%) of the total dividends distributed that year. However, depending on whether the Corporation has any financial structure improvement or major capital expenditure plans in the year, the percentage of cash dividend may be raised or lowered by a resolution adopted at the shareholders' meeting.

(2) Status of dividend allocation proposed at the annual general shareholders' meeting

At this annual general shareholders' meeting, the dividend allocation is proposed: stock dividend of 220 shares for each 1,000 shares (capitalization of retained earning 210 shares for each 1,000 shares/capitalization of capital surplus 10 shares for each 1,000 shares) and cash dividend of NT\$1.

3-4 Impact of stock dividend distribution of this year on business performance, earnings per share, and return on investment

Unit: in Thousands of NT dollars unless otherwise specified

| Item | | 2002 (Forecast) |
|-------------------------------------|---|--|
| Paid-in Capital (Beginning of year) | | \$ 18,900,000 |
| Dividend Plan | Cash dividend (NT\$/per share) | \$ 1 |
| | Stock dividend from retained earnings (share/per share) | 0.21 |
| | Stock dividend from capital surplus (share/per share) | 0.01 |
| Business Performance | Income from operations | \$ 8,087,901 |
| | % change in income from operations (YoY) | 22.80% |
| | Net income | \$ 7,100,000 |
| | % change in net income (YoY) | 6.62% |
| | Earnings per share (NT\$) | \$ 3.08 |
| | % change in EPS (YoY) | -12.50% |
| Average return on investment | | 7.22% |
| Pro forma EPS & P/E Ratio | If retained earnings distributed in cash dividend | Pro forma earnings per share (NT\$) \$ 3.61 |
| | | Pro forma average return on investment 8.48% |
| | If capital surplus not distributed in stock dividend | Pro forma earnings per share (NT\$) \$ 3.10 |
| | | Pro forma average return on investment 7.28% |
| | If retained earnings distributed in cash dividend and capital surplus not distributed in stock dividend | Pro forma earnings per share (NT\$) \$ 3.65 |
| | | Pro forma average return on investment 8.56% |

Source for the information above :

(1) The audited Financial Forecast of 2002 dated Apr. 08, 2002.

(2) Tax rate applied as effective tax rates: 25%; and the annual lending rate is based on Bank of Taiwan's 1-year primary lending rate of 6.725%.

Note: Average P/E ratio = Average share price / EPS. The company was listed on Taiwan's Over-the-Counter Securities Exchange on Dec. 10, 2001. Average share price of 2002 is \$42.64 (by the end of Q1, 2002).

4. Issuance of Corporate Bonds

4-1 Corporate Bonds

| Issuance | | Domestic Secured Bond (I) | Domestic Unsecured Bond (I) |
|--|--|---|--|
| Issuing Date | | 11/30/2000 | 02/19/2002~02/22/2002 |
| Denomination | | NT\$1,000,000 | NT\$1,000,000 |
| Issuance & listing | | ROC / NA | ROC / OTC Securities Exchange |
| Offering Rate | | Par | Par |
| Total Amount | | NT\$2,200,000,000 | NT\$4,200,000,000 |
| Coupon Rate | | 5.06%p.a. | Tranche A:3.4%p.a. Tranche B:3.3716%p.a. |
| Tenor | | 5year Maturity : 11/30/2005 | 5year Maturity : 02/19/2007~02/22/2007 |
| Guarantor | | Syndicated banks(1) | N/A |
| Trustee | | Central Trust of China | Taipei Bank |
| Underwriter | | N/A | N/A |
| Legal Counsel | | Mr. Morton Maote Huang | Mr. Morton Maote Huang |
| Auditor | | T N Soong & Co | T N Soong & Co |
| Repayment | | From 24 th month, repay 14%,14%,14%,14%,14%,15%,15% semi-annually. | Repay 50%, 50% at 4 th and 5 th year. |
| Outstanding | | NT\$2,200,000,000 | NT\$4,200,000,000 |
| Redemption or Early Repayment Clause | | N/A | N/A |
| Covenant | | N/A | N/A |
| Credit Rating | | N/A | Far EasTone's domestic unsecured bond (1) has received a rating of "twA" from Taiwan Ratings Corporation 12/20/2001 |
| Other Rights of Bondholders | Amount Converted into or exchanged for Common Shares, ADRs or Other Securities | N/A | N/A |
| | Conversion Right | N/A | N/A |
| Dilution Effect and Other Adverse Effect on Existing Shareholders | | N/A | N/A |
| Custodian | | N/A | N/A |

(1) : Syndicated banks including :Citibank N.A. 、Grand Commercial Bank 、United Banks of Overseas Chinese 、Chinatrust Commercial Bank 、The Shanghai Commercial & Savings Bank 、Hsin-Chu Int'l Bank 、Cathy Commercial Bank 、Taiwan Industrial Bank 、Tainan Bank 、Taipei Bank 、Hua-Tai Commercial Bank 、Sunny Bank 、Dai-Ichi Kangyo Bank 、Bank of Panshin 、International Commercial Bank of Taipei 、Hua-Nan Commercial Bank 。



4-2 Convertible Bonds : None

4-3 Exchangeable Bond : None

4-4 Bond with Warrants : None

5. Preferred Shares

None

6. Issuance of Depository Receipt

None

7. Employee Stock Option

None

8. Merge and Acquisition

None

III. Operational Highlights

1. Business Activities
2. Market and Sales Overview
3. Employee Information for 2000 and 2001
4. Environmental Protection Measures
5. Employee Relations
6. Major Contracts
7. Lawsuits or Non-litigious Matters
8. Acquisitions or Dispositions of Real Estate



Far EasTone provides one-stop services,
24 hours a day, 7 days a week.

1. Business Activities

1-1 Business Scope

(1) Major Business Items

1. To operate mobile telephone business;
2. To conduct installation, maintenance, wholesale and import/export business for electronic and radio communications facilities and components;
3. To conduct purchase and sale, installation, and maintenance business of radio transceivers (limited to land mobile wireless telephones and cordless telephones);
4. To conduct purchase and sale, installation and maintenance business of radio receivers (limited to pagers only);
5. To operate installation, maintenance, import/export wholesale business for all component parts of the above mentioned products;
6. To conduct general import/export trading business (except business requiring special permit);
7. To handle price quotations and tender applications for local and foreign companies with regard to the above mentioned products;
8. To operate retail business of ready-made clothes;
9. To operate retail business of accessories;
10. To conduct manufacturing business of wireless communications equipment and facilities;
11. To operate G901011 Type I Telecommunications Business;
12. To operate G902011 Type II Telecommunications Business;
13. To operate I301020 data processing service business;
14. To conduct IZ11010 overdue receivables management service business;
15. To operate F201070 retail business of flowers;
16. To operate F204030 retail business of shoes;
17. To conduct F204040 retail business of purses, handbags and suitcases;
18. To conduct F209010 retail business of books and stationery;
19. To operate F209030 retail business of toys and recreational articles;
20. To operate F213030 retail business of office-automation machinery and equipment;
21. To operate F218010 retail business of information software;
22. To conduct IZ12010 manpower outsourcing business;
23. To conduct JZ99050 brokerage business;
24. To conduct I301030 electronic information provision service business;
25. To conduct I401010 general advertising service business;
26. To conduct IZ99990 other services business (ticketing services);
27. To conduct I601010 leasing business;
28. To conduct I199990 other consulting services business
(provide integration & consultant services to telecommunication equipment);
29. To conduct IE 01010 processing mobile subscription business;
30. To conduct JA02990 other repair business (provide maintenance & repair services to telecommunication equipment).

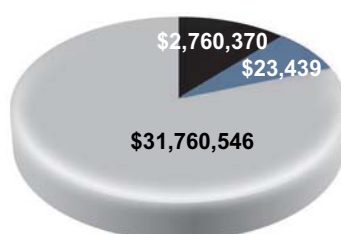


(2) Operating Revenue Breakdown

Unit: NT\$000

| Item | Year | 2000 | | 2001 | |
|---|------|------------|-------|------------|-------|
| | | Amount | % | Amount | % |
| Service Revenue | | 28,651,010 | 89 % | 31,760,546 | 92 % |
| Sales of cellular phone equipment and accessories | | 3,529,506 | 11 % | 2,760,370 | 8 % |
| Other | | 0 | 0 % | 23,439 | 0% |
| Total | | 32,180,516 | 100 % | 34,544,355 | 100 % |

Total Operating Revenue of 2001



- Sales of Cellular phone equipment and accessories
- Service revenue
- Other

(3) Main Products (Services):

| Item | Service Content |
|--|---|
| Type I Telecommunication Services | Mobile telecommunication services and value-added services. The services can be categorized into postpaid and prepaid based on customers' payment method. |
| Type II Telecommunication Services | Internet access service (IAS); E-mail; convergence service of E- Business, Internet and mobile telecommunication. |
| Sales of wireless communication equipment such as cellular phone and its accessories | Sales of wireless communication equipment and post-selling repair and maintenance. |

(4) Developing New Products (Services)

In 2002, FET continues to provide value added services for our customers, and plans on developing more VAS:

- | | |
|---------------------------------|------------------------------------|
| 1. GPRS | 10. Voice Portal |
| 2. Mobile Portal | 11. Mobile Marketing Platform |
| 3. Common Service Platform | 12. Data Broadcasting |
| 4. Integrated Messaging Service | 13. Fleet Management |
| 5. Mobile Position System | 14. Mobile Virtual Private Network |
| 6. Mobile Commerce | 15. Mobile Info. On Demand |
| 7. Micro-payment Service | 16. Mobile Intranet |
| 8. Multimedia Messaging Service | 17. Mobile Workflow |
| 9. Java Application | 18. M-POS |

1-2 Summary of Technology Researches and Developments

(1) Major R&D Spending and Achievements over the last two years

| Financial Year | R&D Direct Spending (unit: NT\$1000) | Ratio to Total Revenue | Major Achievements |
|----------------|---|------------------------|--|
| 2000 | 147,006 | 0.46% | Establish FET R&D laboratories with ambitious missions to develop high technology oriented business for wireless telecommunication services. Through technological innovations and integration with industrial, as well as academic, R&D energy, FET has established unique business operation and service models. |
| 2001 | 205,909 | 0.6% | Further integrate industrial, academic and governmental R&D energies to enhance FET's capability to develop unique value-added services and to increase sales revenues. In order to assure service reliability and quality, many new technologies and the common service platform have been developed and established. Evaluate and study new technologies to fulfill the operational needs of 3G mobile communications, and further establish FET's leadership in the telecommunication market. |

(2) R&D Plans in Year 2002

The R&D plans in year 2002 is to focus on major topics that will impact current FET's operation and future needs in the creations of new services and revenues. In order to maximize the R&D results, the execution of the plans tends to integrate the research energy from industry, academic universities and governmental organizations. Four major parts have been identified and described in the following :

a. FET-NTPO Co-planned Researches for Advanced Technologies

This part focuses on the development of advanced technologies, and partnered with NTPO (National Telecommunication Research Plan Office, NTPO) according to the mutual-cooperation agreements. In this financial year, five research topics have been planned to fulfill this goal. The sponsored research projects, as well as their associated leading universities, are summarized in the following table.

| Item | Leading University | Project Title |
|------|---|---|
| 1 | Dept. of Electrical Eng., Yuan-Ze University (YZU) | The Simulation of the Traffic Performance for the High-Tiered Integrated Dual-band Cellular Radio Network Overlaid with the Low-Tiered DECT Systems |
| 2 | Dept. of Electronic Eng., Oriental Institute of Technology(OIT) | Measurement and Simulation on Characteristics of the Indoor Wireless Propagation Channels |
| 3 | Dept. of Electrical Eng., National Taiwan University (NTU). | Quality of Service for the All-IP Core Network in Next Generation Cellular Networks |
| 4 | College of Electrical and Information Eng., National Taiwan University of Science and Technology (NTUST) | The Study of Broadcast Mechanism in Supporting Power-Conserving Mobile Stations |
| 5 | Dept. of Electronic Eng., I-Shu University (ISU) | Security and Related Schemes for Residential Gateway |

The major research task forces focus on the development of advanced core technologies that will impact the future telecommunication networks including many important items. NTUST studies the future trend of the communication protocols and their related technologies. NTU develops the technologies to improve the quality of service (QoS) in the communication network. In particular, the increasingly popular all-IP networks are examined and evaluated for the services. ISU focuses on the extension of network services that will become a potential new service model by integrating the telecommunication network and internet with the home local network so that intelligent controls on the house equipments can be realized. Smart interface for this integration will be developed. YZU studies the possibility and potential technologies to integrate a variety of wireless network from low tiered to high tiered networks, which will become particularly important in the future development of integrated network. It is noted that the network beyond 3G (B3G) expects to integrate existing networks to provide appropriate bandwidth and services. On the other hand, with the increasing utilization of wireless technologies, the number of base stations has dramatically increased. It not only incurs concerns of health issues from public, but also raises the difficulty to construct so many base stations. OIT's research intends to establish appropriate propagation models that can be employed to establish optimized cell-planning and potentially reduce the required number of base stations. It is also noted that an optimized planning of base stations can not only assure the quality of communications, but also reduce the cost of the business operations. The development of those technologies is all important core technologies in order to

assure FET's long term operations on the telecommunication business, and will lead FET into new era of business.

b. FET Outsourced Researches with Major Universities

FET has identified several research projects that are interesting and can be extended into the day to day operations of FET improving its service quality and values. The execution of those research items is done in cooperation with major universities in Taiwan, and consists of five major research projects as summarized in the following table.

| Item | Leading Universities | Project Title |
|------|---|--|
| 1 | Inst. of Technological Law, National Tsing-Hua University (NTHU) | The Influence of Taiwan's Joint into WTO to the Telecommunication Market |
| 2 | Dept. of Information Eng., National Chiao-Tung University (NCTU) | Development of ISMS Service Platform |
| 3 | Dept. of Electrical Eng., Yuan-Ze University (YZU) | Campus Experimental GSM Network |
| 4 | Dept. of Electronic Eng., Oriental Institute of Technology (OIT) | Real-time Emergent Medical Information Transmission System through the Utilization of Mobile Communications |
| 5 | Dept. of Civil Eng., National Taiwan University (NTU) | Development of Natural Disaster Prevention System through the Utilization of Wireless Communications |

The major achievements of these projects will benefit FET in several aspects. In particular, the development of potential service types intends to create and increase FET revenues in the market. The projects leaded by NTU and OIT in the development of disaster monitoring system and real time emergent medical information transmission system, respectively, utilize the advantages of mobility provided by the mobile communications to create two new service types that will impact the future lives. These types of services will become potentially essential in the coming services of 3G mobile communications with high speed data transmission rates. The research projects will develop pro-types of the system. NCTU leads a research project to establish a common service platform in order to extend the service values of ISMS (internet short message services) and integrate it with a variety of internet applications. This will potentially open a new era of mobile services with sufficient support from the internet services. In another word, all the internet services will be realized with mobile capability and enrich users' lives.

Campus integrated network is another new type of service network that will potentially create tremendous revenue. It is noted that thousands of school campus exist in Taiwan with characteristics of community. Its service characteristics will integrate various network types. The establishment of campus integrated networks potentially foresees the network styles beyond 3G. In another word, B3G network styles are expected to be realized in the school campus. With this in mind, YZU is leading a research project to establish a campus wireless network by integrating with FET's testing GSM networks. The major objectives are the following. First of all, it will extend FET's testing network to YZU and integrate with YZU's testing network. A complete network testing bed can be formed and utilized by FET to validate its services in a more complete fashion. Secondly, it provides a test and experimental network for YZU's development of unique communication technologies and value-added services. YZU's research power can be effectively integrated into FET's need in the development of new technologies. Thirdly, the success of this new network type will become FET's new service models to extend its services into campuses. Finally, the YZU experimental networks will open to the related industries and universities for research purposes. The development of new equipments and services models will be accelerated, which will eventually reflect to our revenues.

Due to the internationalization of telecommunication markets, the domestic market will be impacted after Taiwan's joint into WTO. NTHU is leading a research to assist FET in the preparation of service internationalized and operation strategies to face the upcoming challenges. In the era of rapid changing in telecommunication market, FET will be ready to compete with worldwide leading company and retain its leadership.

c. FET Internal R&D Plans

FET internal research plans are executed by its three major research laboratories and education center. Major tasks are summarized in the following:

1. Advanced Wireless Technology Laboratory:

Continuously develop location-based technologies to provide better service quality and enrich the service



types and contents. The optimization of propagation models to assure optimized cell planning and base station establishments is under studied. The objective is to develop a set of optimized propagation models based on field measurements island-wide that can be integrated into cell planning tools for further planning and evaluation of base station arrangements. In addition to improve the communication quality of current networks by optimizing the base stations as well as their electromagnetic wave radiations, the major goal is to prepare for the 3G network implementations that are expected to require more intensive base station establishment. The goal is to minimize the number of base station while in the mean time maximize the system quality.

2. Network Reliability Testing Laboratory:

The objective of this laboratory is to assure the equipments' compatibility before they are actually integrated into commercial systems for real-time services. It is an important step to assure the quality, and thus important to retain the testing network up-to-date. In this year the GPRS functions will be integrated into the original 2G GSM system so that the testing system is able to provide on system testing of new services and equipments. Furthermore, a standard testing procedure and evaluation criterions to assure the fundamental quality of FET network services will be established in this year so that each FET providing service will experience a strict examination of service quality.

3. Network Architecture and Platform Laboratory:

Common service platform and its related technologies are continuously developed to establish FET's capability to integrate a variety of new services and assure their timing to the market. Most importantly, all services developed under the common platform will accelerate FET's development on the new services and reduce FET's cost in the development and maintenance. Also the common service platform allows FET to integrate industrial R&D energy to develop new services since a common platform can be followed.

4. Education Center:

EC continues to strengthen the vocational training for FET employees to provide better services to the public. The focus of this year' training intends to prepare employees' skill and knowledge for the incoming 3G implementations, operations and business. In the mean time, an E-learning environment that allows FET employees to receive on-time training with no restriction of time and places will be established in this year. Exchange of training courses and establishment of training instructor data base are also on-going in this year's schedule.

d. Technology Exchange Activities

Hosting of the conference on the "Next Generation of Wireless Communications" has become FET's important tradition and yearly event. It is an important occasion to gather worldwide well-known experts together, and allow FET to be kept noticed and aware on the developing trend of advanced technologies and market needs in the world. FET can be therefore well prepared to face the future challenges and retain its leadership in the telecommunication business. In the mean time, the issuing of FET Journal has allowed the nation to be aware of FET's progress on the development of advanced technologies. FET's view on the telecommunication market can be also properly expressed through the Journal. This year following the old tradition will strengthen the roles of the conference and journal. In particular, cross-strait dialog with experts from China in the opinion of telecommunication development will be this year's focus since China is considered as the largest telecommunication market in the world. It is important to understand their idea and viewpoints.

2. Market & Sales Overview

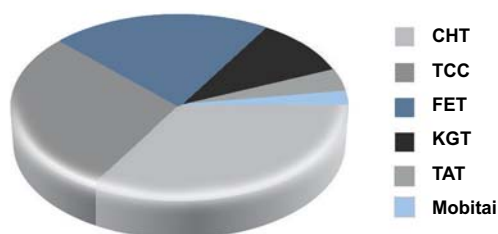
2-1 Market Analysis

(1) Main products (Services)

Far EasTone has two licenses - GSM 900 for northern Taiwan and GSM 1800 island-wide. Far EasTone is the first operator to build an integrated dual-band network and provides the best mobile services to the Taiwan market such as voice, short messages (SMS) and mobile Internet. FET's sales network covers the entire island. Far EasTone also offers the convenience by building out it's FET-owned and franchised - V@SS Stores throughout Taiwan.

(2) Market Share

Based on 2001 financial reports published by the various operators, the table lists the market shares of all GSM operators:



| Operator | CHT | TCC | FET | KGT | TAT | Mobitai | Total |
|----------|-------|-------|-------|------|------|---------|--------|
| Share(%) | 34.5% | 29.6% | 19.3% | 9.3% | 4.4% | 2.9% | 100.0% |

(3) Market Future and Growth

The pace of growth experienced by the mobile industry in the past 4 years is probably the quickest around the world. Mobile penetration climbed from a mere 7% in 1997 and reached 96% at the end of 2001. As the market matures, all operators are putting emphasis on developing value-added services to stimulate customer usage. In anticipation of wireless data and 3G, mobile telephony will converge with Internet to bring about innovative and convenient products and services to the society.

(4) Sales Target

After 4 years of hyper growth, mobile telephony is saturated at 96% penetration. Value added services are now the key and the focus for the future revenue growth. This would slow declining voice revenue. To satisfy customer's need and demand on value-added services and to deliver higher returns to the shareholders, FET has been and will continue to develop customer-oriented services. Below is a list of some of Far EasTone's 2002 new product roadmap:

- ◀ Revenue from value-added services will account for 6% of total service revenue.
- ◀ Value-Added Service penetration will reach 45% or above of FET's customer base.

(5) Positive and Negative Factors to FET Competitiveness and Vision

Positive Factors

1. Fixed-line deregulation has lowered interconnection costs. Before the deregulation, CHT monopolized the fixed-line market. Therefore mobile operators have paid higher interconnection fees to connect to PSTN lines as well as higher leased-line fees in connecting the mobile network cell-sites and switches. As the market was de-regulated, private fixed-line operators brought in more competition, wired-line tariffs were decreased. This price competition accelerated in the reduction of interconnect cost and thus allowed for a better profit margin.
2. Dual-band network offers better quality of telecommunication services. FET holds both GSM900 and DCS1800 licenses. Because GSM900 and DCS1800 complement each other in in-building penetration and radius reach, customers can enjoy the best coverage, mobility and quality from FET's unique dual-band network. And because less network congestion, FET can deliver more calls and thus higher traffic and revenue.
3. FET has a very strong and professional management team and a superior brand. FET establishes a strong leading position from the beginning with assistance from its investor and one of the largest global wireless service providers - AT&T Wireless - who provides assistances in technology know-how, operation experience, and personnel training.
4. The decrease in the prices of mobile phones has fueled strong demand on buying of mobile services. Lower prices on mobile phone and service have allowed younger consumers to afford these services, thus expanding the market potential.

5. Advanced technologies will facilitate faster development of many value added services. Related technologies from information appliances, new wireless technology (such as Blue-tooth), fast wireless broadband and mobile Internet have given the mobile operators a better opportunity to provide more advanced value-added services. Mobile phone is not only a mean of telecommunication but also a media for any other information transfer.
6. As telecommunication technology continues to advance, it brings forth better development of wireless broadband and value-added service investment. Consequently, as the services improve, user would also increase the frequency and dependability of the services.
7. Comparing to Internet, broadband mobile Internet is easier to create a “user paid” business model because of its location and timeliness capability, which can facilitate development of better value-added services. It thus provides a win-win proposition for the mobile operators, value-added services providers, and customers.
8. FET is the only private operator that has both GSM900 and DCS1800 licenses.

Negative Factors

1. Fierce competition among the mobile operators has resulted to a saturated and slow growth market.

Possible Action:

- ◀ Add more cell sites to provide better coverage and communication quality.
- ◀ Provide more value added services through effective marketing programs to create new revenue streams and customer loyalty.
- ◀ Offer convergent mobile Internet service.

2. Tariff reduction and heavy handset subsidy have intensified competition

Possible Action:

- ◀ Offer more choices of tariff plans and valuable services for individual segment.
- ◀ “Dual Per Second Billing” and comprehensive value-added services to increase customer interest.
- ◀ Reward customer for high usage.

2-2 Major Services and Production Processes

(1) Purposes of Major Services

| Major Services | Purpose |
|-----------------------|---|
| Voice Communication | GSM1800 circuit switching voice, connect with CHT network |
| Data Communication | GSM1800 circuit switching data, connect with CHT network |
| GPRS Service | GSM1800 packet switching data communication service |
| Short Message Service | GSM1800 circuit switching, connect with other operators' networks |

(2) Production Process

The company is a mobile service provider, not a mobile equipment manufacturer and thus has no production process.

2-3 Supply of Raw Material

The company is a mobile service provider, not a mobile equipment manufacturer and thus no need for raw material.

2-4 Major Customers and Suppliers over the Past Two Years

(1) Major Customers

The company's core business is to provide wireless telecommunication service and the sales of wireless telecommunication equipment. Among which, wireless telecommunication service accounts for over 90% of total revenue. The customers for wireless telecommunication service include a great number of consumers with no single customer consumed over 0.01% of the company's total revenue. That is, the service is provided to a wide range of consumers and not limited to some specific customer groups. As to sales of wireless telecommunication equipment, the major customers are Synnex and Systex both in 2000 and 2001.

Unit: NT\$000

| Customer | 2000 | | 2001 | |
|----------|------------|--------------------------|------------|--------------------------|
| | Amount | % to net equipment sales | Amount | % to net equipment sales |
| Synnex | \$ 670,841 | 19% | \$ 465,812 | 17% |
| Systex | \$ 523,512 | 15% | \$ 212,820 | 8% |

(2) Major Suppliers

Major suppliers include the supplier for costs of wireless telecommunication service and the supplier providing wireless telecommunication equipment.

1. Wireless Telecommunication Service - Cost of Goods Sold

This cost is paid primarily to Chung-hwa Telecommunications (CHT) based on the Interconnection Contract agreed and signed by both CHT and FET. The cost for 2000 and 2001 is as the following table:

Unit: NT\$000

| Supplier \ Year | 2000 | | 2001 (Note1) | |
|-----------------|--|-----|--|-----|
| | To total wireless telecommunication service cost | | To total wireless telecommunication service cost | |
| | Amount | % | Amount | % |
| CHT | \$ 3,782,340 | 36% | \$ 2,905,837 | 22% |

Note 1: According to the Interconnection Contract between FET & CHT, the costs that FET has to pay to CHT include lease line expense, interconnect fee, and interconnect fee for connecting with other mobile operators through CHT.

2. Wireless Telecommunication Equipment

This is mainly the cost for handsets and accessories bundled with mobile subscription. Since all handset manufacturers sell handsets through several large dealers, we always maintain stable relationship with these dealers.

Unit: NT\$000

| Supplier \ Year | 2000 | 2001 |
|--|--------------|------------|
| | Amount | Amount |
| Synnex Technology International Corp. | \$ 1,602,473 | \$ 573,269 |
| Aurora Corporation | \$ 1,418,433 | \$ 578,301 |
| Nokia Taiwan Co., Ltd | \$ 323,474 | \$ 571,917 |
| Cellstart Telecom. Taiwan Co., Ltd. | \$ 158,765 | \$ - |
| Siemens Telecommunication Systems Ltd. | \$ 60,338 | \$ 76 |
| Arcoa Communication Co., Ltd. | \$ 16,000 | \$ 456,295 |
| Tecom Co., Ltd | \$ 10,164 | \$ 250,201 |
| Ulycom Technology Corp. Ltd. | \$ 83,619 | \$ 297,544 |

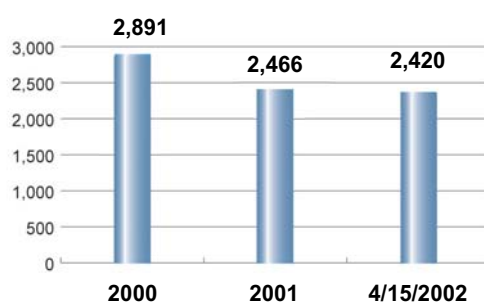
2-5 Production Volume for the Past Two Years: Not applicable

2-6 Sales Volume for the Past Two Years

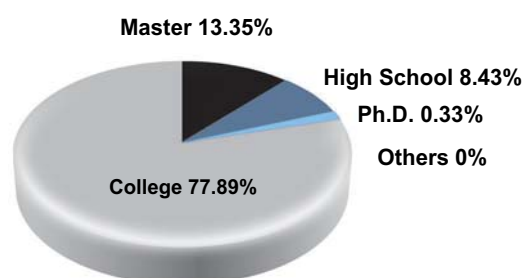
| Year | | 2000 | 2001 |
|--------------------------------------|-------------------------|------------|------------|
| Item | | | |
| Customers | Net additions | 1,703,150 | 364,503 |
| | Accumulated | 3,410,876 | 3,775,379 |
| Operating Revenue (Unit: NT\$000) | Service revenue | 28,651,010 | 31,760,546 |
| | Number of handsets sold | 872,793 | 511,256 |
| | Equipment revenue | 3,529,506 | 2,760,370 |

3. Employee Information for 2000 and 2001

Number of Employees



Percentage by Education (%)



Personnel Growth over the Past Two Years

Apr. 15, 2002

| Year | | 2000 | 2001 | 4/15/2002 |
|-----------------------------|-------------|--------|--------|-----------|
| Number of Employees | | 2,891 | 2,466 | 2,420 |
| Average Age | | 28.51 | 29.78 | 30.10 |
| Average Years of Service | | 1.38 | 2.28 | 2.55 |
| Percentage by Education (%) | Ph.D. | 0.24% | 0.32% | 0.33% |
| | Master | 10.79% | 13.14% | 13.35% |
| | College | 79.14% | 78.10% | 77.89% |
| | High School | 9.82% | 8.43% | 8.43% |
| | Others | 0 | 0 | 0 |

4. Environmental Protection Measures

4-1 Far EasTone understands the concern that the general public has regarding Electronic Magnetic Field (EMF) issues caused by base station. Far EasTone has been following the activities and global researches related to EMF. Far EasTone has been implementing and observing the rules suggested by these research reports and World Health guidelines. Far EasTone also participated and sponsored seminars, promotion activities and research projects in conjunction with DGT, media and schools so that the community at large is able to understand the issues surrounding EMF.

1. Participate EMF pamphlet design and EMF newspaper promotion
2. Participate EMF discussion seminar held by Commercial Times
3. Sponsor EMF education promotion events held by Health Department of Taipei City
4. Participate “ 3G seminar ” held by NTHU
5. Participate EMF related meeting discussions held by DGT
6. Sponsor EMF promotion in Telecom Festival held by DGT
7. Establish EMF website
8. Establish EMF measurement service lines for inquirer
9. Establish “ delegate team ” for EMF promotion activities and communication with media
10. Assist EMF Common Measurement Plan by EPA (accomplished Great Taipei, Great Taichung and Great Kaohsiung)

4-2 FET is a telecom service company, not a manufacturing company, which does not generate air or water pollution. Hence, the company does not have any special costs or expenses incurred for controlling environmental pollution.

1. Environmental Protection According to Regulation:
 - (a) To apply the Permit for Placing Pollution-Generating Equipment or the Permit for Pollution Generation: Not Applicable.
 - (b) To spend the expenditure for controlling environmental pollution: Not Applicable
 - (c) To establish an Environment Protection Unit within the company: Not Applicable
2. Major investments to control environmental pollution and their possible benefits: None
3. Future 3-year projected capital expenditure for environmental protection: None

5. Employee Relations

The company provides competitive salary and various incentives such as guaranteed annual bonus, performance incentives, sales incentives and spot recognition. Far EasTone provides employee benefits based on LSL (Labor Standard Law), to help employees balance both work and life. Far EasTone also provides employee bi-annual physical check-up, group insurance, clinics, safety and health forums, employee cafeteria, free shuttle bus, employee handset subsidy. The company also instituted EWC (Employee Welfare Committee) since 1997 to promote club activities, support employee outings, offer scholarships, birthday bonus and holiday bonus, to list a few.

To allow employees to stay current with the ever-changing technology, the company has introduced technology classes for both technical and non-technical personnel. Attendance to these technology classes has been incorporated as part of the employees' core competency since 2001. Other core competencies include attendance to management, sales, and service courses. Far EasTone also provides orientation programs for new colleagues; other classes including personal effective programs for all employees, and tailor-made trainings for specific group, addressing on specific issues. In 2001, totally 400 training activates (classes) were implemented, 7000 trainees attended.

In 2nd half of 2001, Far EasTone consolidated its training courses and enhanced the efficiency of administration. FET will introduce an e-Training system, which will come online in mid 2002. E-learning, on the other hand, is under development; the first e-course will also be launched in April 2002. The company has been working hard for "Learning without distance, and growth without limit."

Moreover, 8 modern training rooms and 2 computer rooms, totally with 500 seats, have been built up in Taipei, Taichung and Kaohsiung offices, providing employees with professional learning environments.

The Company recognizes the importance of listening to employees and a two-way communication system has been established. The following channels for continuous improvements are:

- (1). Employee Opinion Survey / twice a year: the employees' satisfaction rate of being a FETer has been rated 80% and above for the last 3 years.
- (2). Intranet : providing different channels for improvement.
- (3). eNewsletter, ePaper, eExpress: a monthly, weekly and occasionally electronic communication channel to address management and employee issues.
- (4). Lantern-Legend Meeting: monthly offering communication opportunity for representatives of employees and management to promote harmonious relations and better communications.
- (5). Employee Update Meeting / twice a year: providing two-way communication channel for employees and executive team.

There is no loss caused by labor-management dispute for the past 2 years.

6. Important Contracts

| Contract Type | Counter Party | Contracting Date | Major Content | Limitation Clause |
|---|------------------------|--|---|--|
| Purchase | Lucent | Dec. 14, 1999 ~ acceptance test is completed | Billing system purchase | |
| | Nokia | Dec. 23, 1998 ~ current | Handsets purchase | |
| | Ericsson | Dec. 05, 1996 ~ current | Hardware and software purchase of base station equipment | |
| Distribution | Tait & Co. | Aug. 03, 1999 ~ Aug. 01, 2002 | Distribution agreement | |
| | Systex | May 1997 ~ May 14, 2002 | Promotion and distribution of mobile telecom services | |
| | Tatung | May 1997 ~ May 2002 | Promotion and distribution of mobile telecom services | |
| | Arcoa | Jun. 21, 2000 ~ Jun. 21, 2005 | Promotion and distribution of mobile telecom services | |
| | Synnex | May 17, 1997 ~ May 16, 2002 | Promotion and distribution of mobile telecom services | |
| Interconnection | Chunghwa Telecom | Mar. 01, 2001 ~ Mar. 31, 2002 | Interconnection Agreement | |
| Technical support | AT&T Wireless Services | Jan. 15, 1997 ~ current | Wireless services and operations support | 60 days prior notice is required for contract termination |
| Syndication loan | Led by Citibank | Feb. 25, 1998 ~ Jan. 25, 2005 | Total committed credit line is NT\$8.86B; of which \$1.5B is letter of credit line, \$5B is revolving note issuance facility and \$2.36B is handed over to MOTC and DGT as performance bond | Certain limitations on the Company's finance standards and shareholding percentage of major shareholders |
| | | Aug. 30, 2000 ~ Aug. 30, 2005 | NT\$2.3B 5 years revolving note issuance facility | Certain limitations on the shareholding percentage of major shareholders |
| | | Nov. 30, 2000 ~ Nov. 30, 2005 | NT\$2.2B 5 years bank guarantee secured corporate bond and one year term interest rate guarantee | Certain limitations on the shareholding percentage of major shareholders |
| | | Feb. 04, 2002 ~ Feb. 04, 2007 | NT\$4.3B 5 years revolving credit line | Certain limitations on the shareholding percentage of major shareholders |
| Warehousing and transportation services | Hsin Chu Trans | Jan. 01, 2001 ~ Dec. 31, 2002 | Warehousing and transportation services | |

7. Lawsuits or Non-litigious Matters

7-1 The disputed facts, amount of claim, commencing date of litigation, major litigant participants and the progress, as of the publishing date of the Company's annual report, on handling of any material litigation, non-litigation or administrative action matters, to which the Company is a party, which has been granted a judgment conclusive in the latest year and as of the publishing date of the Company's annual report or is still pending as of the publishing date of the Company's annual report, and which might have any material adverse impact on its shareholders' equity interest or stock value:

(1) The Case of Labor Safety

[Cheng-Chi Lee], a security guard of Securicor Security Company, fell into the drain and consequently died when he was on duty at the Company's office located in No. 334, Sichuan Road, Section 1, Banchiau City during the night when a typhoon was raging the city. The Banchiau Prosecution Authorities have commenced the investigation proceedings against the Company on the ground that the Company violates the regulations and rules of labor safety and health. Due to the related matters require further clarification, it is hard to determine whether the Company will be indicted and to evaluate its impact thereon.

(2) The Action for Confirmation on the Existence of Leasehold Relation

The plaintiff, Yuay-Shuay Yu, claims that the leasehold relation between the Company and the Senseio building management committee does not exist. Such case has been submitted to the Summary Court of Taichung District Court for trial, the judgment of which should not have a result adversely affecting the Company.

(3) Request for Payment of Rent

The plaintiffs, [May-Yue Sheng] and [Chu-Nan Sheng], assert a claim against the Company to request for the additional rental payment for a mobile base station jointly built by Far EasTone, Taiwan Cellular, KG and Mobitai. Such case has been submitted to the Summary Court of Nanto District Court for trial, the impact of which might be minimal according to the Company's estimation.

7-2 The disputed facts, amount of claim, commencing date of litigation, major litigant participants and the progress, as of the publishing date of the Company's annual report, on handling of any material litigation, non-litigation or administrative action matters, to which any of the Company's director, supervisor, general manager, actual responsible person, major shareholder of more than 10% shareholding and subordinate company is a party, which has been granted a judgment conclusive in the latest year and as of the publishing date of the Company's annual report or is still pending as of the publishing date of the Company's annual report, and which might have material adverse impact on its shareholders' equity interest or stock value: None

8. Significant Property Acquisitions and Dispositions

Significant Property Acquisitions and Dispositions of Company and Subsidiaries up to Date of Printing:

8-1 Significant Property Acquisitions

Date: May 31, 2002

Unit: NT\$000

| Name of Property | Date of Acquisition | Purchase Price | Seller | Relationship | Status |
|--|-----------------------|----------------|--|--|---------------|
| Network Equipment | 01.01.2001~03.21.2001 | NT\$ 944,484 | Ericsson Taiwan Ltd. | Not affiliated company | For operation |
| Network Equipment | 03.22.2001~04.25.2001 | NT\$ 523,974 | Ericsson Taiwan Ltd. | Not affiliated company | For operation |
| Network Equipment | 04.26.2001~05.10.2001 | NT\$ 1,869,534 | Ericsson Taiwan Ltd. | Not affiliated company | For operation |
| Network Equipment | 05.11.2001~12.05.2001 | NT\$ 510,463 | Ericsson Taiwan Ltd. | Not affiliated company | For operation |
| Yuan-Ze Telecommunications Co., Ltd. Common Shares | 11.22.2001~03.13.2002 | NT\$ 8,370,000 | Not applicable due to this transaction as initial subscription | An affiliated company with 80.71% shares owned | - |

8-2 Significant Property Dispositions: None

IV. Fund Utilization Plans and Status

1. Fund Utilization Plans and Implementation Status



“Ever since Formosa Plastics Transport implemented FET's Fleet Management, transportation cost has been reduced by over 60%”

Seiko S. K. Chen,
Vice President
Formosa Plastics Transport Corp.



1. Fund Utilization Plans and Implementation Status

The analysis of previous bonds' issue or private placement of securities of uncompleted plans, or completed plans but non-performed expected utility for last three years: None

V. Financial Information

1. Condensed Financial Statements for the Past 5 Years
2. Financial Analysis for the Past 5 Years
3. Supervisors' Report
4. Financial Statements as of December 31, 2001 and 2000
Together with Independent Auditors' Report
5. Audited 2001 Consolidated Financial Statements
6. Review and Analysis of Financial Status and Operating Results
7. Financial Forecast and Results from 2000 to 2001



FAREASTONE

1. Condensed Financial Statements for the Past 5 Years

1-1 Condensed Balance Sheet

Unit: NT\$000

| Item / Year | | 1997 | 1998 | 1999 | 2000 | 2001 | Q1 2002 |
|------------------------------------|---------------------|------------|-------------|------------|------------|------------|------------|
| Current Assets | | 4,035,308 | 2,835,659 | 4,145,103 | 11,110,863 | 9,273,622 | 9,170,974 |
| Investments in shares of stock | | - | - | - | 82,191 | 1,078,952 | 8,254,002 |
| Property and equipment | | 6,608,139 | 13,041,692 | 21,312,982 | 33,934,139 | 40,695,530 | 40,336,932 |
| Other Assets | | 262,441 | 872,385 | 595,684 | 1,146,872 | 1,762,473 | 1,698,445 |
| Current Liabilities | Before Distribution | 2,359,425 | 3,309,990 | 4,529,962 | 9,210,154 | 8,975,301 | 8,349,900 |
| | After Distribution | 2,359,425 | 3,309,990 | 4,779,659 | 9,213,790 | - | - |
| Long-term Liabilities | | - | 2,450,957 | 4,444,549 | 7,207,678 | 8,473,620 | 14,113,002 |
| Other Liabilities | | 13,541 | 1,646,488 | 3,086,741 | 4,232,173 | 3,078,044 | 2,845,063 |
| Capital Stocks | | 9,000,000 | 10,700,000 | 11,370,000 | 14,000,000 | 18,900,000 | 18,900,000 |
| Capital Surplus | | - | - | 2,345,000 | 7,556,572 | 6,156,572 | 6,185,658 |
| Retained Earnings (Deficit) | Before Distribution | (467,078) | (1,357,719) | 277,517 | 4,067,488 | 7,223,136 | 9,063,631 |
| | After Distribution | (467,078) | (1,357,719) | 27,820 | 563,852 | - | - |
| Cumulative Translation Adjustments | | - | - | - | - | 3,904 | 3,099 |
| Total Assets | | 10,905,888 | 16,749,716 | 26,053,769 | 46,274,065 | 52,810,577 | 59,460,353 |
| Total Liabilities | Before Distribution | 2,372,966 | 7,407,435 | 12,061,252 | 20,650,005 | 20,526,965 | 25,307,965 |
| | After Distribution | 2,372,966 | 7,407,435 | 12,310,949 | 20,653,641 | - | - |
| Total Stockholders' Equity | Before Distribution | 8,532,922 | 9,342,281 | 13,992,517 | 25,624,060 | 32,283,612 | 34,152,388 |
| | After Distribution | 8,532,922 | 9,342,281 | 13,742,820 | 25,620,424 | - | - |

Note: The financial statements for 1997 ~ 2001 have been audited. The financial statement for Q1 2002 has been reviewed by independent auditors.

1-2 Condensed Income Statement

Unit: NT\$000

| Item / Year | 1997 | 1998 | 1999 | 2000 | 2001 | Q1 2002 |
|------------------------------------|-----------|-------------|------------|------------|------------|-----------|
| Operating Revenues | - | 7,483,843 | 18,618,237 | 32,180,516 | 34,544,355 | 8,212,240 |
| Operating Cost | - | 4,805,408 | 9,239,946 | 13,864,623 | 15,723,129 | 3,959,407 |
| Gross Profit | - | 2,678,435 | 9,378,291 | 18,315,893 | 18,821,226 | 4,252,833 |
| Operating Expenses | 1,060,050 | 4,032,633 | 7,350,492 | 14,376,798 | 12,234,984 | 2,157,533 |
| Non-operating Income | 447,223 | 158,448 | 242,317 | 215,023 | 287,153 | 34,978 |
| Non-operating Expenses | 21,551 | 256,253 | 266,905 | 231,532 | 483,665 | 85,128 |
| Income (loss) before Income Tax | (634,378) | (1,452,003) | 2,003,211 | 3,922,586 | 6,389,730 | 2,045,150 |
| Net Income (loss) | (467,078) | (890,641) | 1,635,236 | 4,039,668 | 6,659,284 | 1,840,495 |
| EPS (NT\$) (Note 1) | (0.36) | (0.68) | 1.02 | 2.42 | 3.52 | 0.97 |
| Capitalized Interest | - | 132,195 | 165,438 | 323,311 | 330,165 | 60,539 |

Note 1: Based on weighted average number of outstanding shares.

Note 2: The financial statements for 1997 ~ 2001 have been audited. The financial statement for Q1 2002 has been reviewed by independent auditors.

1-3 Independent Auditors' Name and Audit Opinions for the Past Five Years

| Year | Audit Firm | Auditors' Name | Opinion |
|------|----------------|--------------------------------|------------------------|
| 1997 | T N Soong & Co | Clark C. Chen Victor Wang | An unqualified opinion |
| 1998 | T N Soong & Co | Clark C. Chen Victor Wang | An unqualified opinion |
| 1999 | T N Soong & Co | Clark C. Chen Victor Wang | An unqualified opinion |
| 2000 | T N Soong & Co | Clark C. Chen Victor Wang | An unqualified opinion |
| 2001 | T N Soong & Co | Clark C. Chen Edward Y. Way | An unqualified opinion |

2. Financial Analysis for the Past 5 Years

| Item / Year | | Financial Analysis for the Past 5 Years | | | | | |
|------------------------|--|---|---------|--------|--------|--------|---------|
| | | 1997 | 1998 | 1999 | 2000 | 2001 | Q1 2002 |
| Financial Structure | Debt to asset ratio (%) | 21.75 | 44.22 | 46.29 | 44.63 | 38.87 | 42.56 |
| | Ratio of long-term funds to fixed assets (%) | 129.13 | 90.43 | 86.51 | 96.75 | 100.15 | 119.66 |
| Liquidity Analysis | Current ratio (%) | 171.03 | 85.67 | 91.5 | 120.64 | 103.32 | 109.83 |
| | Quick ratio (%) | 157.62 | 63.68 | 75.2 | 106.09 | 87.12 | 86.63 |
| | Times interest earned (times) | (35.76) | (17.86) | 15.13 | 31.15 | 27.69 | 34.06 |
| Operating Performance | Accounts receivable turnover (times) | - | 8.49 | 8.94 | 6.53 | 5.68 | 6.91 |
| | Average collection days | - | 42.99 | 40.82 | 55.93 | 64.23 | 52.82 |
| | Inventory turnover (times) | - | 6.85 | 7.00 | 14.80 | 8.39 | 4.28 |
| | Inventory turnover days | - | 53.28 | 52.16 | 24.67 | 43.52 | 85.28 |
| | Fixed assets turnover ratio (times) | - | 0.57 | 0.87 | 0.95 | 0.85 | 0.81 |
| | Total asset turnover ratio (times) | - | 0.45 | 0.71 | 0.70 | 0.65 | 0.55 |
| Profitability Analysis | Return on assets (%) | (8.33) | (6.02) | 8.14 | 11.44 | 13.80 | 13.45 |
| | Return on Equity (%) | (10.95) | (9.97) | 14.02 | 20.39 | 23.00 | 22.16 |
| | Operating income to capital stock (%) | (11.78) | (12.66) | 17.83 | 28.14 | 34.85 | 44.34 |
| | Profit before tax to capital stock (%) | (5.19) | (13.57) | 17.62 | 28.02 | 33.81 | 43.28 |
| | Net profit ratio (%) | - | (11.90) | 8.78 | 12.55 | 19.28 | 22.41 |
| | Earnings per share (NT\$) (Note 2) | (0.36) | (0.68) | 1.02 | 2.42 | 3.52 | 0.97 |
| Cash Flow | Cash flow ratio | Note 1 | Note 1 | 104.03 | 45.99 | 146.01 | 38.86 |
| | Cash flow equivalent ratio | Note 1 | Note 1 | 12.69 | 18.17 | 38.38 | - |
| | Cash reinvestment rate | Note 1 | Note 1 | 19.25 | 9.25 | 23.87 | 5.10 |
| Leverage Ratio | Operating leverage | Note 1 | Note 1 | 2.97 | 2.29 | 2.00 | 1.74 |
| | Financial leverage | Note 1 | 0.95 | 1.08 | 1.03 | 1.04 | 1.03 |

Note 1: Cash flow from operating activities and the operating income are both negative.

Note 2: Based on weighed average number of outstanding shares.

Note 3: All the financial information prior to year 2002 has been audited.

The financial information for Q1 2002 has been reviewed by the independent auditors.

Note 4: The formulas for the above table:

1. Financial Structure

$$(1) \text{ Debt to Asset Ratio} = \text{Total Debt} / \text{Total Assets}$$

$$(2) \text{ Long-term Funds to Fixed Asset Ratio} = \text{Net Shareholder Value} / \text{Net Fixed Assets Value}$$

2. Liquidity Analysis

$$(1) \text{ Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

$$(2) \text{ Quick Ratio} = (\text{Current Assets} - \text{Inventory} - \text{Prepaid Expense}) / \text{Current Liabilities}$$

$$(3) \text{ Times Interest Earned Ratio} = (\text{Net Income before Interest Expenses and Taxes}) / \text{Interest Expense}$$

3. Operating Performance

$$(1) \text{ Accounts Receivable Turnover} = \text{Net Sales} / \text{Average Accounts Receivable Balance}$$

$$(2) \text{ Average Collection Days} = 365 / \text{Accounts Receivable Turnover}$$

$$(3) \text{ Inventory Turnover} = \text{Cost of Goods Sold} / \text{Average Inventory Balance}$$

$$(4) \text{ Inventory Turnover Days} = 365 / \text{Inventory Turnover}$$

$$(5) \text{ Fixed Asset Turnover Ratio} = \text{Net Sales} / \text{Fixed Assets}$$

$$(6) \text{ Total Asset Turnover Ratio} = \text{Net Sales} / \text{Total Assets}$$

4. Profitability Analysis

$$(1) \text{ Return on Asset} = (\text{Net Income} + \text{Interest Expense} \times (1 - \text{Tax Rate})) / \text{Average Total Assets}$$

$$(2) \text{ Return on Equity} = \text{Net Income} / \text{Average Shareholders' Equity}$$

$$(3) \text{ Net Profit Ratio} = \text{Net Income} / \text{Net Sales}$$

$$(4) \text{ Earnings per Share} = (\text{Net Income} - \text{Preferred Stock Dividend}) / \text{Weighed Average Outstanding Shares}$$

5. Cash Flow

$$(1) \text{ Cash Flow Ratio} = \text{Cash Flow from Operating Activities} / \text{Current Liabilities}$$

$$(2) \text{ Cash Flow Equivalent Ratio} = \text{Net Cash Flow from Operating Activities of the Latest 5 Years} / (\text{Capital Expenditure} + \text{Increase in Inventory} + \text{Cash Dividend}) \text{ of the Latest 5 Years}$$

$$(3) \text{ Cash Reinvestment Rate} = (\text{Cash Flow from Operating Activities} - \text{Cash Dividend}) / (\text{Gross Assets} + \text{Long-term Investments} + \text{Other Assets} + \text{Working Capital})$$

6. Leverage Ratio

$$(1) \text{ Operating Leverage} = (\text{Net Sales} - \text{Variable Operating Expenses}) / \text{Income from Operations}$$

$$(2) \text{ Financial Leverage} = \text{Income from Operations} / (\text{Income from Operations} - \text{Interest Expenses})$$

3. Supervisors' Report

Apr. 9, 2002

The Board of Directors have prepared and submitted to us the Company's 2001 Business Report, the Proposal for Allocating Profit, and the Financial Statements audited by the CPAs of T N Soong & Co. The above reports, proposals, and statements have been further examined as being correct and accurate by the undersigned, Supervisors of Far EasTone Telecommunications Co., Ltd. According to Article 219 of the Company Law, we hereby submit this report.

Supervisor

Eli Hung



Jong C. Wang



Yukio Morikubo



4. Financial Statements as of December 31, 2001 and 2000 Together with Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Far EasTone Telecommunications Co., Ltd. as of December 31, 2001 and 2000, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far EasTone Telecommunications Co., Ltd. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines for Securities Issuers' Financial Reporting for Public Company and accounting principles generally accepted in the Republic of China.

7 N Soong & CO

February 11, 2002

Notice to Readers

The accompanying 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.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS

December 31, 2001 and 2000

| ASSETS | 2001 | | 2000 | |
|---|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 3) | \$ 2,807,799 | 5 | \$ 2,048,270 | 4 |
| Short-term investments (Notes 2, 4 and 13) | - | - | 34,800 | - |
| Accounts receivable - net of allowance for doubtful accounts of \$612,810 in 2001 and \$573,894 in 2000 (Note 2) | 4,114,428 | 8 | 6,885,380 | 15 |
| Inventories - net (Notes 2 and 5) | 229,907 | 1 | 337,703 | 1 |
| Prepaid expenses (Note 12) | 1,224,439 | 2 | 1,002,222 | 2 |
| Other current assets (Notes 2, 11 and 12) | 897,049 | 2 | 802,488 | 2 |
| Total Current Assets | 9,273,622 | 18 | 11,110,863 | 24 |
| INVESTMENTS IN SHARES OF STOCK (Notes 2 and 6) | 1,078,952 | 2 | 82,191 | - |
| PROPERTY AND EQUIPMENT (Notes 2, 7, 12, 13 and 14) | | | | |
| Cost | | | | |
| Land | 148,189 | - | 106,308 | - |
| Buildings and equipment | 592,847 | 1 | 346,640 | 1 |
| Computer equipment | 4,163,282 | 8 | 2,437,847 | 5 |
| Operating equipment | 40,083,085 | 76 | 28,420,790 | 62 |
| Office equipment | 726,454 | 2 | 476,815 | 1 |
| Leasehold improvement | 1,578,814 | 3 | 1,076,172 | 2 |
| Miscellaneous equipment | 45,853 | - | 50,233 | - |
| Total cost | 47,338,524 | 90 | 32,914,805 | 71 |
| Less - accumulated depreciation | 11,064,374 | 21 | 6,050,951 | 13 |
| | 36,274,150 | 69 | 26,863,854 | 58 |
| Construction in progress and advances related to acquisitions of equipment | 4,421,380 | 8 | 7,070,285 | 15 |
| Net Property and Equipment | 40,695,530 | 77 | 33,934,139 | 73 |
| OTHER ASSETS | | | | |
| Properties not currently used in operations - net (Note 2) | 130,000 | - | 88,400 | - |
| Refundable deposits (Note 12) | 384,436 | 1 | 322,666 | 1 |
| Deferred income taxes (Notes 2 and 11) | 1,246,904 | 2 | 733,998 | 2 |
| Miscellaneous | 1,133 | - | 1,808 | - |
| Total Other Assets | 1,762,473 | 3 | 1,146,872 | 3 |
| TOTAL ASSETS | \$ 52,810,577 | 100 | \$ 46,274,065 | 100 |

(In Thousands of New Taiwan Dollars, Except Par Value)

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2001 | | 2000 | |
|--|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT LIABILITIES | | | | |
| Notes payable | \$ 28,573 | - | \$ 33,989 | - |
| Accounts payable | 504,159 | 1 | 862,076 | 2 |
| Payables to related parties (Note 12) | 619,891 | 1 | 621,615 | 1 |
| Income tax payable (Notes 2 and 11) | 671,593 | 1 | 299,072 | 1 |
| Accrued expenses | 2,361,159 | 4 | 3,636,555 | 8 |
| Payables related to acquisitions of property and equipment | 1,417,422 | 3 | 1,427,213 | 3 |
| Unearned revenue (Note 2) | 1,018,874 | 2 | 750,663 | 2 |
| Current portion of long-term liabilities (Notes 8 and 13) | 2,060,000 | 4 | 1,430,000 | 3 |
| Other current liabilities (Notes 2, 7 and 12) | 293,630 | 1 | 148,971 | - |
| Total Current Liabilities | 8,975,301 | 17 | 9,210,154 | 20 |
| LONG-TERM LIABILITIES | | | | |
| Long-term bonds payable, net of current portion (Notes 8 and 13) | 1,892,000 | 4 | 2,200,000 | 5 |
| Long-term debts, net of current portion (Notes 8 and 13) | 6,581,620 | 12 | 5,007,678 | 11 |
| Total Long-Term Liabilities | 8,473,620 | 16 | 7,207,678 | 16 |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 10) | 97,314 | - | 59,358 | - |
| Guarantee deposits | 2,966,635 | 6 | 4,125,125 | 9 |
| Long-term obligations under capital lease (Notes 2 and 7) | 14,095 | - | 47,690 | - |
| Total Other Liabilities | 3,078,044 | 6 | 4,232,173 | 9 |
| Total Liabilities | 20,526,965 | 39 | 20,650,005 | 45 |
| STOCKHOLDERS' EQUITY | | | | |
| Capital stocks - \$10 par value | | | | |
| Authorized - 3,360,000 thousand shares in 2001 and 1,400,000 thousand shares in 2000 | | | | |
| Issued - 1,890,000 thousand shares in 2001 and 1,400,000 thousand shares in 2000 | 18,900,000 | 36 | 14,000,000 | 30 |
| Capital surplus | 6,156,572 | 11 | 7,556,572 | 16 |
| Retained earnings | | | | |
| Legal reserve | 431,718 | 1 | 27,752 | - |
| Unappropriated earnings | 6,791,418 | 13 | 4,039,736 | 9 |
| Total retained earnings | 7,223,136 | 14 | 4,067,488 | 9 |
| Translation adjustments | 3,904 | - | - | - |
| Total Stockholders' Equity | 32,283,612 | 61 | 25,624,060 | 55 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 52,810,577 | 100 | \$ 46,274,065 | 100 |

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

STATEMENTS OF INCOME

For the Years Ended December 31, 2001 and 2000

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2001 | | 2000 | |
|---|--------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| OPERATING REVENUES (Notes 2 and 12) | | | | |
| Sales of cellular phone equipment and accessories | \$ 2,761,226 | 8 | \$ 3,536,303 | 11 |
| Less - sales returns and allowances | 856 | - | 6,797 | - |
| Net sales | 2,760,370 | 8 | 3,529,506 | 11 |
| Service revenue | 31,760,546 | 92 | 28,651,010 | 89 |
| Other (Note 12) | 23,439 | - | | |
| Total Operating Revenues | 34,544,355 | 100 | 32,180,516 | 100 |
| OPERATING COST (Notes 2 and 12) | | | | |
| Cost of sales | 2,772,903 | 8 | 3,443,230 | 11 |
| Cost of services | 12,950,226 | 38 | 10,421,393 | 32 |
| Total Operating Cost | 15,723,129 | 46 | 13,864,623 | 43 |
| GROSS PROFIT | 18,821,226 | 54 | 18,315,893 | 57 |
| OPERATING EXPENSES (Notes 2, 12 and 14) | | | | |
| Marketing | 6,441,147 | 19 | 10,369,948 | 32 |
| General and administrative | 5,587,928 | 16 | 3,859,844 | 12 |
| Research and development | 205,909 | - | 147,006 | 1 |
| Total Operating Expenses | 12,234,984 | 35 | 14,376,798 | 45 |
| INCOME FROM OPERATIONS | 6,586,242 | 19 | 3,939,095 | 12 |
| NON-OPERATING INCOME | | | | |
| Foreign exchange gains - net (Note 2) | 42,421 | - | - | - |
| Reversal of allowance for losses on inventories (Notes 2 and 5) | 34,178 | - | - | - |
| Interest | 27,290 | - | 29,088 | - |
| Reversal of allowance for losses on properties not currently used in operations (Note 2) | 68,100 | - | 106,750 | 1 |
| Other (Note 12) | 115,164 | 1 | 79,185 | - |
| Total Non-Operating Income | 287,153 | 1 | 215,023 | |
| NON-OPERATING EXPENSES | | | | |
| Interest (Note 7) | 239,401 | 1 | 130,082 | 1 |
| Equity in net loss of investees (Notes 2 and 6) | 166,047 | 1 | - | - |
| Foreign exchange losses - net (Note 2) | - | - | 39,206 | - |
| Provision for losses on inventories | - | - | 45,931 | - |
| Other | 78,217 | - | 16,313 | - |
| Total Non-Operating Expenses | 483,665 | 2 | 231,532 | 1 |
| INCOME BEFORE INCOME TAX | 6,389,730 | 18 | 3,922,586 | 12 |
| INCOME TAX BENEFIT (Notes 2 and 11) | 269,554 | 1 | 117,082 | 1 |
| NET INCOME | \$ 6,659,284 | 19 | \$ 4,039,668 | 13 |
| EARNINGS PER SHARE | | | | |
| Based on weighted average number of outstanding shares of 1,890,000 thousand in 2001 and 1,236,724 thousand in 2000 | \$ 3.52 | | \$ 3.27 | |
| Based on 1,669,577 thousand shares - based on weighted average number of shares outstanding in 2000 retroactively adjusted for stock dividends issued in 2001 | | | \$ 2.42 | |

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2001 and 2000

(In Thousands of New Taiwan Dollars, Except Price Per Share)

| | CAPITAL STOCK ISSUED | | CAPITAL SURPLUS | RETAINED EARNINGS (Note 9) | | | CUMULATIVE TRANSLATION ADJUSTMENTS | TOTAL STOCKHOLDERS' EQUITY |
|---|----------------------|---------------|---|----------------------------|----------------|---------------|------------------------------------|----------------------------|
| | Shares (Thousands) | Amount | Paid-in Capital in Excess of Par Value (Note 9) | Legal Reserve | Unappropriated | Total | (Notes 2 and 6) | |
| BALANCE, | | | | | | | | |
| JANUARY 1, 2000 | 1,137,000 | \$ 11,370,000 | \$2,345,000 | \$ - | \$ 277,517 | \$ 277,517 | \$ - | \$13,992,517 |
| Appropriations of 1999 earnings | | | | | | | | |
| Legal reserve | - | - | - | 27,752 | (27,752) | - | - | - |
| Bonus to employees | - | - | - | - | (125) | (125) | - | (125) |
| Cash dividend - 2.195% | - | - | - | - | (249,572) | (249,572) | - | (249,572) |
| Issuance of common stocks from capital surplus - 7.805% | 88,743 | 887,430 | (887,430) | - | - | - | - | - |
| Issuance of common stocks for cash- | | | | | | | | |
| December 8, 2000, \$45 per share | 174,257 | 1,742,570 | 6,099,002 | - | - | - | - | 7,841,572 |
| Net income in 2000 | - | - | - | - | 4,039,668 | 4,039,668 | - | 4,039,668 |
| BALANCE, | | | | | | | | |
| DECEMBER 31, 2000 | 1,400,000 | 14,000,000 | 7,556,572 | 27,752 | 4,039,736 | 4,067,488 | - | 25,624,060 |
| Appropriations of 2000 earnings | | | | | | | | |
| Legal reserve | - | - | - | 403,966 | (403,966) | - | - | - |
| Bonus to employees | - | - | - | - | (1,818) | (1,818) | - | (1,818) |
| Bonus to directors and supervisors | - | - | - | - | (1,818) | (1,818) | - | (1,818) |
| Stock dividend - 25% | 350,000 | 3,500,000 | - | - | (3,500,000) | (3,500,000) | - | - |
| Issuance of common stocks from capital surplus - 10% | 140,000 | 1,400,000 | (1,400,000) | - | - | - | - | - |
| Net income in 2001 | - | - | - | - | 6,659,284 | 6,659,284 | - | 6,659,284 |
| Translation adjustments on long-term investment | - | - | - | - | - | - | 3,904 | 3,904 |
| BALANCE, | | | | | | | | |
| DECEMBER 31, 2001 | 1,890,000 | \$ 18,900,000 | \$6,156,572 | \$ 431,718 | \$6,791,418 | \$ 7,223,136 | \$ 3,904 | \$32,283,612 |

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

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000

(In Thousands of New Taiwan Dollars)

| | 2001 | 2000 |
|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 6,659,284 | \$ 4,039,668 |
| Adjustments to reconcile net income to net cash | | |
| provided by operating activities | | |
| Depreciation and amortization | 5,024,674 | 3,107,349 |
| Provision for doubtful accounts | 1,995,772 | 718,458 |
| Provision (reversal of allowance) for losses on inventories | (34,178) | 45,931 |
| Equity in net loss of investees | 166,047 | - |
| Reversal of allowance for losses on properties not currently | | |
| used in operations | (68,100) | (106,750) |
| Loss on disposal of property and equipment | 5,651 | - |
| Accrued pension cost | 37,956 | 38,086 |
| Deferred income taxes | (954,972) | (418,403) |
| Others | 13,941 | 35,845 |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in | | |
| Short-term investments | 34,800 | 83,616 |
| Accounts receivable | 775,180 | (5,458,825) |
| Inventories | 141,974 | (339,674) |
| Prepaid expenses | (222,217) | (309,505) |
| Other current assets | 384,761 | (311,623) |
| Increase (decrease) in | | |
| Notes payable | (5,416) | 18,157 |
| Accounts payable | (357,917) | 488,270 |
| Payable to related parties | (1,724) | 532,016 |
| Income tax payable | 372,521 | 153,493 |
| Accrued expenses | (1,277,214) | 1,791,275 |
| Unearned revenue | 268,211 | 48,241 |
| Other current liabilities | 145,380 | 80,394 |
| Net Cash Provided by Operating Activities | 13,104,414 | 4,236,019 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of investments in shares of stock | (1,200,000) | (82,191) |
| Return of deposit on subscription | 41,096 | - |
| Acquisitions of property and equipment | (12,007,497) | (15,503,296) |
| Proceeds from sales of property and equipment | 147,652 | 700 |
| Increase in other assets | (61,770) | (182,000) |
| Net Cash Used in Investing Activities | (13,080,519) | (15,766,787) |

(Forward)

| | | |
|---|---------------------|---------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debts | \$ 1,895,942 | \$ 1,993,129 |
| Proceeds from issuance of long-term bonds | - | 2,200,000 |
| Increase (decrease) in guarantee deposits | (1,158,490) | 1,059,656 |
| Proceeds from issuance of common stock | - | 7,841,572 |
| Cash dividend paid | - | (249,572) |
| Bonus paid to employees | (1,818) | (125) |
| Net Cash Provided by Financing Activities | 735,634 | 12,844,660 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 759,529 | 1,313,892 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 2,048,270 | 734,378 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 2,807,799 | \$ 2,048,270 |
| SUPPLEMENTARY INFORMATION | | |
| Interest paid (excluding capitalized interest) | \$ 204,183 | \$ 127,677 |
| Income tax paid | \$ 307,596 | \$ 150,086 |
| NON-CASH FINANCING ACTIVITIES | | |
| Long-term liabilities - within one year | \$ 2,060,000 | \$ 1,430,000 |
| CASH PAID FOR ACQUISITIONS OF PROPERTY AND EQUIPMENT | | |
| Increase in property and equipment | \$ 11,963,390 | \$ 15,689,331 |
| Decrease (increase) in payables related to acquisitions of property and equipment | 9,791 | (107,405) |
| Decrease (increase) in long-term obligations under capital leases | 34,316 | (78,630) |
| Actual Cash Paid for Acquisitions of Property and Equipment | \$ 12,007,497 | \$ 15,503,296 |
| PROCEEDS FROM DISPOSAL OF PROPERTIES | | |
| Total amount of property and equipment sold | \$ 184,908 | \$ 1,207 |
| Increase in other receivables | (37,256) | - |
| Increase in receivable from properties sold | - | (507) |
| Actual Cash Received from Disposal of Property and Equipment | \$ 147,652 | \$ 700 |

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.**NOTES TO FINANCIAL STATEMENTS**

(Express in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

Far EasTone Telecommunications Co., Ltd., (the "Company") was incorporated in Republic of China on April 11, 1997, and began commercial operations on January 20, 1998. The Company's stocks are listed and traded in R.O.C. Over-the-Counter Securities Exchange since December 10, 2001. The Company's principal shareholders are Far Eastern Textile Ltd. and its affiliates (the "Far Eastern Group"), and AT&T Wireless Group and its affiliates.

The Company provides wireless communications services pursuant two type I licenses (GSM 900 for Northern Sector and GSM 1800 for all sectors) that were issued by the Directorate General of Telecommunications (the "DGT") of the Republic of China ("ROC"). The Company is, under those licenses, allowed to provide those services for a period of 15 years commencing in 1997 and pays an annual license fee amounting to 2% of total service revenue.

The Company also holds a type II license issued by the DGT under which it is allowed to provide internet services for a period of 10 years commencing in 1999 for a fixed annual license fee calculated by reference to the amount of the Company's capital stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company, which conform to accounting principles generally accepted in the ROC, are summarized as follows:

Cash equivalents

Cash and cash equivalents include purchases of treasury bills with original maturities.

Short-term investments

Investments in government bonds are carried at the lower of aggregate cost or market value. An allowance for losses is provided when the carrying value of the investments exceeds the total market value. The allowance is charged to income for the current year. Any recovery of the market value to the extent of the original carrying value is recognized as income.

The costs of short-term investments sold or those investments that matured are determined using the specific identification method.

Allowance for doubtful accounts receivable

An allowance for doubtful accounts receivable is provided based on the estimated collectibility of amount receivables from subscribers.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average method, while market value represents net realizable value.

Investments in shares of stock

Investments in shares of stock in companies wherein the Company exercises significant influence over their operating and financial policy decisions are accounted for using the equity method. Under this method the investment is initially carried at cost. The investment carrying values are then subsequently adjusted with the Company's proportionate share in the investee company's net income and net loss.

Any cash dividends received are recognized as reduction in the carrying value of the investments. Stock dividends received are accounted for only as an increase in the number of shares held but not recognized as investment income. The cost of each share is recalculated based on the total shares including the received stock dividend.

If the available influence in invested companies are no more than 50% and the financial statements of investees, the equity in net income or loss is recognized in the succeeding year based on the ownership interests at the latest balance sheet date.

Costs of stocks sold are determined using the weighted average method.

The unrealized profits on sales by the Company to majority owned subsidiaries are deferred in full while only the Company's equity in those profits are deferred when the counter party is other than majority owned. The amounts deferred in respect to other than majority owned subsidiaries are shown as part of other current liability. The Company defers its proportionate share in unrealized profits recognized by investees on sales to the Company. The intercompany profits are recognized upon sale to outside entities.

Property and equipment

Property and equipment are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major renewals and substantial betterment, and interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

The estimated useful lives are as follows:

| Useful Life | Years |
|------------------------------|-------|
| Building | 48 |
| Other equipment of buildings | 5-8 |
| Computer equipment | 3-5 |
| Operating equipment | 5-8 |
| Office equipment | 5 |
| Leasehold improvements | 5-48 |
| Miscellaneous equipment | 5-8 |

Upon sale or disposal of items of properties, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income.

Equipment under capital leases and the related liability are stated at the lower of (1) the fair value of the equipment at the inception of the lease or (2) each payment of rental and the present value of the bargain purchase option.

Properties not currently used in operations

Properties not currently used in operations, such as telecommunication towers, are stated at the lower of cost or net realizable value.

Pension costs

Pension costs are recognized based on actuarial calculations. When the defined benefit pension plan becomes downsized and settled, the related gain or loss is recognized as annual pension costs at the current year. Unrecognized net transition obligations and unrecognized pension plan gains or losses are amortized using the straight-line method over 15 years and average remaining service life of employees, respectively.

Income tax

The tax effects of deductible temporary difference, unused operating loss carry forwards and unused investment tax credits are recognized as deferred income tax assets, and the tax effects of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is recognized for deferred income tax assets of which the realization is not certain. Deferred tax assets and liabilities are classified as current or noncurrent according to the classifications of the related assets and liabilities. However, if a deferred asset or liability can not be related to an asset or a liability in the financial statements, then it is classified as current or non-current based on the expected reversal date of the temporary difference.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders have resolved that the earnings shall be retained.



Revenue and cost

Revenue is recognized when the earning process is completed or virtually complete and the revenue is measurable. The related costs of providing services are recognized as incurred. Usage revenues (in excess of minutes of traffic included in the access fees) from cellular services, internet and data services and inter-connection minutes of traffic, net of any applicable discount, are billed in arrears and are recognized based upon minutes of traffic processed. One-time subscriber connection fees are recognized in full when activate services; access fees are accrued every month; prepaid calling card services are recognized as income based upon usage by customers, and revenues and related expenses associated with the sale of cellular phone units and accessories are recognized when products are delivered and accepted by the customers, as this is considered to be a separate earning process from the sale of wireless services.

The amount received at inception of a contract (which covers both the purchase price of a cellular phone and service fees for an equivalent equal number of minutes of traffic each month throughout the validity period of the contract) is recognized as revenue over the validity period stated in the contract using the straight-line method. The excess of the sum of the cost of the cellular phone and the related commission paid (the "customer acquisition cost") over the amount received at inception of the contract is charged to marketing expense while the portion of the customer acquisition cost equivalent to the amount received at inception of the contract is deferred and amortized as cost of services over the validity period stated in the contract using the straight-line method.

Promotion expenses

Commissions and mobile phone units subsidy costs (other than those mobile phone units sold together with the SIM cards), related to promotion programs of the Company, are treated as marketing expenses in the year the service to the subscriber is activated.

Foreign currency transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses, resulting from the application of different foreign exchange rates when foreign currency assets and liabilities are converted or settled, are credited or charged to income in the year of conversion or settlement.

At the balance sheet dates, the balances of foreign-currency denominated assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as follows:

- a. Equity-accounted investments - as foreign exchange transaction adjustments under stockholders' equity; and
- b. Other assets and liabilities - credited or charged to income.

Financial derivatives - interest rate swap

The notional amounts of interest rate swap agreements are not recognized in the financial statements and only recorded as memorandum because the agreements do not require the settlement of such notional amounts. The amounts receivable or payable under the agreements resulting from the differences in the interest rates are accrued as interest income or interest expense at the balance sheet dates and at settlement dates.

Reclassifications

Certain accounts in the financial statement as of and for the year ended December 31, 2000 have been reclassified to conform to financial statement as of and for the year ended December 31, 2001.

3. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|--------------|--------------|
| | 2001 | 2000 |
| Cash | | |
| Cash on hand | \$ 8,338 | \$ 6,870 |
| Checking and demand deposits | 406,084 | 1,814,257 |
| Time deposits - with interest of 1.69% in 2001 and 5.8% to 6.07% in 2000 | 140,814 | 227,143 |
| | 555,236 | 2,048,270 |
| Cash equivalents | | |
| Treasury bills purchased under agreements to resell - with interest of 2.25% to 2.30% | 2,252,563 | - |
| | \$ 2,807,799 | \$ 2,048,270 |

4. SHORT-TERM INVESTMENTS

| | December 31, 2000 |
|---|-------------------|
| Certificates of deposit - with interest of 6.4% | \$ 1,200 |
| Government bonds - with interest of 7.3% to 7.75% | 33,600 |
| | \$ 34,800 |

5. INVENTORIES

| | December 31 | |
|-----------------------------|-------------|------------|
| | 2001 | 2000 |
| Cellular phone equipment | \$ 254,045 | \$ 399,070 |
| Cellular phone accessories | 5,615 | 2,564 |
| | 259,660 | 401,634 |
| Less - allowance for losses | 29,753 | 63,931 |
| | \$ 229,907 | \$ 337,703 |

The insurance coverage on inventories as of December 31, 2001 amounts to about \$260,000.

6. INVESTMENT IN SHARES OF STOCK

| | December 31 | | | |
|--------------------------------------|--------------|----------------|-----------|----------------|
| | 2001 | | 2000 | |
| | Amount | % of Ownership | Amount | % of Ownership |
| E. World (Holdings) Ltd. | \$ 25,183 | 19 | \$ 82,191 | 19 |
| Yuan-Ze Telecommunications Co., Ltd. | 1,053,769 | 100 | - | - |
| | \$ 1,078,952 | | \$ 82,191 | |

The Company incorporated Yuan-Ze Telecommunications Co., Ltd. in December 2001 with capitalization of \$1,200,000. The total assets and total operating revenues of Yuan-Ze Telecommunications Co., Ltd. are less than 10% of the Company's total assets and total operating revenues. Accordingly, its financial statements were not consolidated into the Company.

The equity interest in E. World (Holdings) Ltd. [E. World] was acquired in 2000. Since the combined equity interest of the Far Eastern Group in E. World allows it to exercise significant influence on its operating and financial policy decisions, this investment is accounted for using the equity method. As permitted, the Company deferred the recognition of equity in net income or net loss for one fiscal year from the date of acquisition because the investee's financial statement could not be obtained.

The carrying values of the foregoing investments are based on audited financial statements.

7. PROPERTY AND EQUIPMENT

Accumulated depreciation consists of:

| | December 31 | |
|-------------------------|----------------------|---------------------|
| | 2001 | 2000 |
| Buildings and equipment | \$ 58,019 | \$ 26,607 |
| Computer equipment | 1,174,167 | 676,725 |
| Operating equipment | 9,261,104 | 5,008,218 |
| Office equipment | 207,602 | 114,933 |
| Leasehold improvement | 328,489 | 195,532 |
| Miscellaneous equipment | 34,993 | 28,936 |
| | \$ 11,064,374 | \$ 6,050,951 |

The Company leases Internet equipment (including software) for a period of three years with the total annual lease payments amounting to \$35,686. The lease agreements qualify as capital leases since: (a) the present value of the future lease payments under the agreements is more than 90% of the fair value of the leased assets, and (b) the Company has the option to purchase all the leased equipment at a bargain purchase price of \$1 dollar. The details of these leases as of December 31, 2001 are as follows:

| | December 31 | |
|---|------------------|------------------|
| | 2001 | 2000 |
| Total future lease payments | \$ 50,060 | \$ 85,746 |
| Less - imputed interest expense | 5,746 | 7,116 |
| | 44,314 | 78,630 |
| Less - lease payable within one year (included in other current liabilities) | 30,219 | 30,940 |
| Long-term lease obligations | \$ 14,095 | \$ 47,690 |

Depreciation on property and equipment amounted to \$5,023,999 in 2001 and \$3,082,784 in 2000, respectively.

Costs of property and equipment include capitalized interest of \$330,165 in 2001 and \$323,311 in 2000. The capitalized interest rate were 3.75% to 5.40% in 2001 and 6.13% to 6.56% in 2000, respectively.

Insurance coverage on property and equipment as of December 31, 2001 amounted to \$48,445,000.

8. LONG-TERM LIABILITIES

| | December 31, 2001 | | |
|-------------------------------------|---------------------|---------------------|----------------------|
| | Within One Year | Others | Total |
| Secured bonds | \$ 308,000 | \$ 1,892,000 | \$ 2,200,000 |
| Loan - Shin Kong Life Insurance Co. | - | 1,470,000 | 1,470,000 |
| Commercial paper | 1,752,000 | 4,811,620 | 6,563,620 |
| Bank loans | - | 300,000 | 300,000 |
| | \$ 2,060,000 | \$ 8,473,620 | \$ 10,533,620 |

| December 31, 2000 | | | |
|-------------------------------------|-----------------|--------------|--------------|
| | Within One Year | Others | Total |
| Secured bonds | \$ - | \$ 2,200,000 | \$ 2,200,000 |
| Loan - Shin Kong Life Insurance Co. | - | 1,470,000 | 1,470,000 |
| Commercial paper | 1,430,000 | 3,537,678 | 4,967,678 |
| | \$ 1,430,000 | \$ 7,207,678 | \$ 8,637,678 |

On November 30, 2000, the Company issued five-year domestic secured bonds (see Note 13) totaling \$2,200,000; with each unit having a face value of \$1,000 and bearing 5.06% interest compounded semiannually. The holders, starting on December 1, 2002 and every six months thereafter, may redeem the bonds up to an amount equivalent to 14% to 15% of their face value each time.

Long-term debts are used to finance the construction of cellular phone communication network facilities. The terms of these debts are as follows:

- The loan with Shin Kong Life Insurance Co. is guaranteed by a bank consortium and bears interest rate at 5.025% in 2001 and 7.825% in 2000. The principal and interest payments on the loan are due on January 25, 2005.
- Commercial paper bears variable interest rates ranging from 2.22% to 2.57% as of December 31, 2001 and 4.79% to 6.55% as of December 31, 2000, and matures within one year. A consortium of banks, under a revolving credit arrangement, guarantees the commercial paper to be issued by the Company through August 30, 2005. Starting 2001, the maximum amount of commercial paper that can be issued under the agreement will be decreased by 11% to 15% every six months.
- The Company took a loan from First Commercial Bank in 2001 amounting to \$100,000. The loan is payable, starting in 2004 and every six months thereafter, at an amount that is equal to 16.50% to 17.00% of the principal each time with the final payment due on or before December 28, 2006. The interest rate on the balance as of December 31, 2001 was 3.94%.

In addition, the Company took a loan amounting to \$200,000 from BNP Paribas. The related agreement is a revolving loan agreement that allows the Company to borrow the maximum amount of \$200,000 until May 23, 2004. The interest on the loan was 3.22% as of December 31, 2001.

As of December 31, 2001, the Company has unused long-term and short-term credit lines that are available for long-term and short-term credits of about \$1,600,000 and \$4,570,000, respectively.

The Company is planning to issue unsecured bond in the amount of \$4,200,000 with interest rate at 3.3716% to 3.4%. The Securities and Futures Commission and the Ministry of Finance had approved such plan in January 9, 2002.

9. STOCKHOLDERS' EQUITY

Under the regulations: (a) capital surplus can only be used to offset a deficit or capitalized; and (b) the paid-in capital in excess of par value can only be transferred to capital as stock dividend once a year and only at prescribed limits.

The Company's Articles of Incorporation provide that 10% of net income every year shall be appropriated as legal reserve after paying the income tax and offsetting any accumulated deficit. In addition, in cases where the Company decides to distribute dividend, 2% of the remaining balance shall be appropriated as bonuses to employees and 1% of the remaining balance shall be appropriated as bonuses to directors and supervisors. The disposition of the remaining distributable earnings shall be determined by the stockholders.

Under the ROC Company Law, the foregoing appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the Company's outstanding capital stock. This reserve can only be used to offset a deficit, or when reaching 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% of the reserve can be distributed as stock dividend.

The cash dividends shall be at least 10% of total dividends declared. Such percentage can be adjusted and approved by the stockholders depending on the cash requirement of any significant future capital expenditures plans.

A regulation issued by the Securities and Futures Commission provides that, a special reserve equivalent to the debit balance of any account shown in the stockholders' equity, other than the deficit, shall be made from unappropriated retained earnings. The special reserve shall be adjusted accordingly based on the debit balance of such accounts at year-end.

These appropriations and other allocations of earnings shall be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Non-corporate shareholders are allowed a tax credit for the income tax paid by the Company on earnings under the Integrated Income Tax System. An Imputation Credit Account (ICA) is maintained by the Company for such income taxes and the tax credits allocated to each shareholder except foreign shareholders. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

10. PENSION PLAN

The Company has a defined benefit pension plan covering all regular employees which provides benefits based on length of service provided and basic pay on the final month of employment.

The Company makes a monthly contribution, at 2% of salaries and wages, to a pension fund (the " Fund "). The Fund is administered by a pension plan committee and deposited in the Company's name with the Central Trust of China.

The Company's contributions to the Fund were \$33,494 and \$26,114 in 2001 and 2000, respectively. The balances of Fund were \$93,922 and \$54,823 in 2001 and 2000, respectively.

Certain information related to the pension plan is as follows:

a. Pension cost consists of:

| | 2001 | 2000 |
|---------------------------------------|------------|-----------|
| Service cost | \$ 77,871 | \$ 60,147 |
| Interest cost | 8,909 | 5,233 |
| Expected return on pension assets | (4,739) | (2,672) |
| Amortization | 1,280 | 1,492 |
| Benefit from pension plan curtailment | (11,871) | - |
| Net pension cost | \$ 71,450 | \$ 64,200 |

b. Accrued pension cost

| | December 31 | |
|--|-------------|------------|
| | 2001 | 2000 |
| Benefit obligation | | |
| Vested benefit obligation | \$ 6,903 | \$ 4,283 |
| Non-vested benefit obligation | 68,481 | 41,976 |
| Accumulated benefit obligation | 75,384 | 46,259 |
| Additional benefits based on projected and future salaries | 98,397 | 99,516 |
| Projected benefit obligation | 173,781 | 145,775 |
| Fair value of plan assets | (93,922) | (57,445) |
| Unfunded projected benefit obligation | 79,859 | 88,330 |
| Unrecognized net transition obligation | (13,338) | (15,522) |
| Unrecognized pension gain (loss) | 30,793 | (13,450) |
| Accrued pension cost | \$ 97,314 | \$ 59,358 |
| c. Vested benefits | \$ 7,785 | \$ 5,157 |

d. Actuarial assumptions

| | 2001 | 2000 |
|---|------|------|
| Discount rate used in determining present value | 5.0% | 6.0% |
| Future salary increase rate | 5.0% | 6.0% |
| Expected rate of return on plan asset | 5.0% | 6.0% |

11. INCOME TAX

a. The reconciliation of the income tax expense calculated based on income before income tax at statutory income tax rate and income tax expense - current is as follows:

| | 2001 | 2000 |
|---|--------------|-------------|
| Amount computed at statutory tax rate (25%) | \$ 1,597,433 | \$ 980,646 |
| Add (deduct) tax effects of | | |
| Permanent differences | 25 | (334) |
| Temporary differences | 521,450 | 126,401 |
| Tax-exempt income | (804,737) | (605,762) |
| Unappropriated earnings tax | 39,197 | 97,193 |
| Investment tax credits | (676,684) | (299,072) |
| Income tax expense - current | \$ 676,684 | \$ 299,072 |

The balance of income tax payable on December 31, 2001 was net of creditable income tax of \$5,091.

Net operating incomes generated from the use switches and cell sites acquired during the period from April 1, 1997 to December 31, 1999 are exempt from income tax for the period from January 1, 2000 to December 31, 2004.

b. Income tax benefit consisted of:

| | 2001 | 2000 |
|--|----------------|----------------|
| Income tax expense - current | \$ 676,684 | \$ 299,072 |
| Income tax benefit - deferred | (954,972) | (418,403) |
| Prior year's adjustment | 8,142 | (117) |
| Income subject to a separate rate of 20% | 592 | 2,366 |
| Income tax benefit | (\$ 269,554) | (\$ 117,082) |

c. Deferred income taxes assets and liabilities as of December 31, 2001 and 2000 consist of:

| | December 31 | |
|---|--------------|------------|
| | 2001 | 2000 |
| Deferred income tax assets - current (included in other current assets) | | |
| Deferred income tax assets | | |
| Provision for doubtful account | \$ 677,822 | \$ 229,912 |
| Employee welfare expense | 9,000 | 13,500 |
| Provision for loss on inventories | 8,185 | 15,983 |
| Unrealized exchange loss | 4,061 | 966 |
| Inventories write-off | 2,250 | 2,250 |
| Accrued research and development expenses | 936 | 15,331 |
| | 702,254 | 277,942 |
| Deferred income tax liabilities -insurance claim | (2,246) | (20,000) |
| | \$ 700,008 | \$ 257,942 |
| Deferred income tax assets - noncurrent | | |
| Investment tax credits | \$ 911,245 | \$ 489,388 |
| Differences in estimated service lives of property and equipment | 269,776 | 199,810 |
| Cumulative equity in net loss of investee companies | 41,511 | - |
| Pension | 24,372 | 14,883 |
| Impairment loss on properties not currently used in operations | - | 17,025 |
| Preoperating expenses | - | 12,892 |
| | \$ 1,246,904 | \$ 733,998 |

d. Integrated income tax information:

| | | |
|--|-----------|-----------|
| Balance of Imputation credit account (ICA) | \$ 12,402 | \$ 72,982 |
|--|-----------|-----------|

The balance of the ICA as of December 31, 2001 is equivalent to 0.21% of the unappropriated earnings as of such date and the ratio of the balance of the ICA, on the date the dividend were distributed in 2001, to the balance of the undistributed earnings as of 2000 was 9.43%.

The tax rate used in calculating deferred income tax is about 25%.

As of December 31, 2001, the unused tax credits are summarized as follows:

| Expired Year | NT\$ |
|--------------|------------|
| 2002 | \$ 184,306 |
| 2003 | 66,516 |
| 2004 | 660,423 |

Income tax returns through 1997 have been examined by the tax authorities.

12. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Company, in addition to those disclosed in Note 14, engages in business transactions with the following related parties:

| Related Party | Nature of Relationship |
|--|---|
| a. Yang Ding Co. (YDC) | Same chairman as that of the Company |
| b. New Century InfoComm Tech Co., Ltd. (NCIC) | Same chairman as that of the Company |
| c. Far Eastern International Leasing Corp. (FEILC) | Supervisor of the Company |
| d. Far Eastern Department Stores (FEDS) | Same chairman as that of the Company |
| e. Far Eastern Enterprise Ltd. (FEEL) | Same chairman as that of the Company |
| f. Far Eastern Continent Company (FECC) | Same chairman as that of the Company |
| g. E. World Ltd. (E. World) | Same chairman as that of the Company |
| h. Far Eastern Textile Ltd. (FETL) | Parent company of a major stockholder |
| i. AT&T Wireless Service Inc. (AWS) | Parent company of a major stockholder |
| j. AT&T Corp. (AT&T) | Parent company of AWS |
| k. Far Eastern consulting Engineers Corp. (FETCEC) | Investee of YDC |
| l. Yuan-Ze Telecommunications, Co., Ltd.(FET3G) | Equity-accounted investee |
| m. Far Eastern Technology Developmental Foundation(FETTDF) | Donation of the foundation over one-third |

The significant transactions with the aforementioned parties are summarized as follows:

| Years Ended December 31 | | | | | |
|-----------------------------|-------------|------------|----|------------|----|
| | | 2001 | | 2000 | |
| | | NT\$ | % | NT\$ | % |
| During the period | | | | | |
| Operating revenue | i | | | | |
| NCIC | ii | \$ 195,549 | 1 | \$ 3,579 | - |
| FETL | | - | - | 1,575 | - |
| YDC | | - | - | 883 | - |
| Other | xiii | 2,068 | - | 2,424 | - |
| | | \$ 197,617 | 1 | \$ 8,461 | - |
| Operating cost and expenses | | | | | |
| Service cost - NCIC | ii | \$ 530 | - | \$ - | - |
| Rental | | | | | |
| FEILC | iii | \$ 180,597 | 14 | \$ 201,447 | 21 |
| FETL | iv | 52,254 | 5 | 46,760 | 5 |
| YDC | v | 2,323 | - | 24,194 | 2 |
| Other | vi and xiii | 7,585 | - | 14,562 | 1 |
| | | \$ 242,759 | 19 | \$ 286,963 | 29 |

(Forward)

| | | | | | |
|--|------------------|------------|-----|------------|-----|
| Management service fee - AWS | vii | \$ 90,583 | 100 | \$ 56,876 | 100 |
| Trademark license fee - AT&T | Note 14 | \$ 33,451 | 100 | \$ 31,898 | 100 |
| Research and development expense | | | | | |
| FETTDF | iii | \$ 16,702 | 65 | \$ - | - |
| Non-operating income - service revenue | | | | | |
| E.World | x | \$ - | - | \$ 12,966 | 64 |
| NCIC | viii | - | - | 7,426 | 36 |
| | | \$ - | - | \$ 20,392 | 100 |
| Purchase property and equipment | | | | | |
| from related parties | | | | | |
| FETCEC | viii and Note 14 | \$ 410,552 | 1 | \$ 451,634 | 1 |
| YDC | ix | 376 | - | 8,044 | - |
| Other | xiii | 778 | - | - | - |
| | | \$ 411,706 | 1 | \$ 459,678 | 1 |
| <u>At end of period</u> | | | | | |
| Other current assets | | | | | |
| Other receivable | | | | | |
| FET3G | xi | \$ 147,777 | 16 | \$ - | - |
| E. World | x | - | - | 100,566 | 13 |
| NCIC | viii and Note 14 | - | - | 130,019 | 16 |
| | | \$ 147,777 | 16 | \$ 230,585 | 29 |
| Prepaid expense | | | | | |
| FEILC | iii | \$ 6,107 | 1 | \$ 32,642 | 3 |
| FEDS | vi | 1,172 | - | 1,013 | - |
| YDC | v | 1,067 | - | 1,255 | - |
| FETL | iv | 953 | - | 1,782 | - |
| Other | xiii | 347 | - | 825 | - |
| | | \$ 9,646 | 1 | \$ 37,517 | 3 |
| Refund deposits | | | | | |
| FEILC | iii | \$ 145,785 | 38 | \$ 107,985 | 33 |
| YDC | v | 804 | - | 702 | - |
| Other | xiii | - | - | 80 | - |
| | | \$ 146,589 | 38 | \$ 108,767 | 33 |
| Accounts payable | | | | | |
| FETCEC | viii and Note 14 | \$ 362,588 | 58 | \$ 494,504 | 80 |
| NCIC | ii | 143,671 | 23 | - | - |
| AWS | vii | 68,876 | 11 | 58,437 | 10 |
| AT&T | Note 14 | 35,206 | 6 | 64,898 | 10 |
| Other | xiii | 9,550 | 2 | 3,776 | - |
| | | \$ 619,891 | 100 | \$ 621,615 | 100 |
| Other current liabilities | | | | | |
| Other payable - NCIC | viii and Note 14 | \$ 58,663 | 20 | \$ - | - |

| Disposal of Properties | Sales | Cost | Book Value | Gain/ Loss on Disposal |
|------------------------|----------|----------|------------|------------------------------|
| 2001 | | | | |
| E. World | \$ 1,494 | \$ 1,686 | \$ 1,494 | \$ - |
| 2000 | | | | |
| E. World | 3,127 | 3,440 | 3,127 | - |

The descriptions of the transactions with related parties are as follows:

- i. Operating revenue, including service revenue and revenues from sales of mobile phones and accessories from related parties, is based on normal service charge fees, selling prices and collection terms.
- ii. The transactions between the Company and NCIC consisted of sales of mobile phones and accessories and interconnection fees revenues related to the use NCIC's fixed-line network. The related interconnection fees paid by the Company and billing processing costs attributable to the interconnection service provided by NCIC to the Company are charge to service cost. In 2001, the international direct dialing revenue collected by the Company for NCIC is treated as deduction of service revenue.
- iii. The Company leased from FEILC the following: (a) its office spaces in Neihsu from February 2000 to January 2003; (b) mobile switch centers located in Neihsu, Tainan and Kaohsiung from January 2000 to December 2003; (c) the land and mobile switch centers located in Taichung and Hsinchu; and (d) vehicles. The term of the lease for the land and the mobile switch center located in Taichung is from May 2000 to three years after the operating license is received for the switch center while that in Hsinchu was from March 1, 2001 to three years after the completion of the construction of switch center. Rentals are in accordance with underlying contracts.
- iv. The Company leased from FETL several parcels of the land and building spaces from May 1997 to November 2014 located in Yatung Street and Renai Street in Panchao City; Yuantung Street in Chungli; and Wuku in Taipei County and other locations in Taiwan.
- v. The Company leased certain floors at The Mall from November 2001 to December 2002 from YDC.
- vi. The trade accounts receivable from FEEL, FEDS and FECC represents proceeds from sales of SIM cards and mobile phones to customers in the kiosks owned by those entities less commissions paid. The commission paid is accounted for as rental expense. Those arrangements were all terminated in 2000.
- vii. The Company signed a Service Agreement with AWS in January 1997. AWS, pursuant to the Agreement, provides consulting services related to the construction of a wireless network and business operations. The service charges are based on the actual expenses incurred by the AWS consultants.
- viii. The Company has contracts with NCIC for the construction and joint use of telecommunications network and backbone networks facilities. Those facilities were constructed by FETCEC. The related payable or receivable is based on agreements. The service revenue from NCIC arose from management service provided in connection with such construction project.
- ix. The Company paid construction project fee (the "Fee") to YDC for the construction of retail stores, switch centers and cell sites. The Fee is based on actual hours incurred.
- x. The Company provided E. World management service and advances for day-to day operations related expenditures.
- xi. The Company provided FET3G management service and advances for day- to day operations related expenditure during the development stage.
- xii. The Company commissioned FETTDF to undertake research on telecommunication technology and communicate its results to employees of the Company.
- xiii. Accounts of other related parties are less than 5% of respective accounts.

13. ASSETS PLEDGED OR MORTGAGED

The following assets have been pledged or mortgaged as collateral or security for a lease contract on a telecommunications transmission line and credit lines:

| | December 31 | |
|------------------------------|--------------|--------------|
| | 2001 | 2000 |
| Short-term investments | \$ - | \$ 1,200 |
| Property and equipment - net | 7,446,493 | 8,687,909 |
| | \$ 7,446,493 | \$ 8,689,109 |

14. COMMITMENTS AS OF DECEMBER 31, 2001

a. The Company has outstanding contracts for acquisition of telecommunications and other equipment for about \$1,752,198.

b. The rentals for the following five years are summarized as follows:

| Year | NT\$ |
|------|--------------|
| 2002 | \$ 1,408,500 |
| 2003 | 1,089,144 |
| 2004 | 1,131,375 |
| 2005 | 1,175,256 |
| 2006 | 1,220,850 |

c. The Company signed a Memorandum of Understanding with NCIC for the construction, joint use and sharing portion of the costs of a telecommunications network and backbone network that is being constructed by Far Eastern Telecom Engineers Corp. As of December 31, 2001, the construction costs of outstanding contracts are about \$74,184.

d. The Company signed an agreement with AT&T Corp. to use the trademark of AT&T for the purposes of marketing, advertising and promotion outside the licensed territory. Under the agreement, if the Company's net cash flow from operations before payments of the trademark fee under the agreement and before capital expenditure is negative, the Company pays trademark license fees at an amount of US\$1,000 every year. However, if the Company's net cash flow from operations before payments under the agreement and before capital expenditure is positive, the Company pays trademark license fees equivalent to 1% of the net service revenues from cellular and internet business up to a maximum amount of US\$4,500.

15. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the SFC in respect to the Company and its investees:

- (1) Marketable securities held (please see Schedule A);
- (2) Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital (please see Schedule B);
- (3) Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital (please see Schedule C);
- (4) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital (please see Schedule D);
- (5) Names, locations, and related information of investees on which the Company exercises significant influence (please see Schedule E);

b. Derivative financial transactions

The information on interest risk swap contracts entered into by the Company is as follows:

(1) Outstanding contracts and credit risk

| December 31, 2001 | | | | | |
|---------------------|-----------------|-------------|-------------|-----------------|------------------------------|
| Type of Transaction | Notional Amount | Fixed Rate | Market Rate | Settlement Date | Maturity |
| Interest rate swap | \$2,000,000 | 6.085%-6.2% | 2.5% | Quarterly | May 21, 2002 to July 2, 2002 |

| December 31, 2000 | | | | | |
|---------------------|-----------------|-------------|-------------|-----------------|------------------------------|
| Type of Transaction | Notional Amount | Fixed Rate | Market Rate | Settlement Date | Maturity |
| Interest rate swap | \$2,000,000 | 6.085%-6.2% | 5.15% | Quarterly | May 21, 2002 to July 2, 2002 |

Interest expenses on these swap contracts for the years ended December 31, 2001 and 2000 were \$43,442 and \$23,947, respectively.

The Company is exposed to credit risk in the event of nonperformance by the counterparties of their contractual obligations. To manage this risk, the Company transacts only with selected financial institutions with good credit ratings. Thus, no material losses resulting from counter party defaults are anticipated.

(2) Market risk

The Company is exposed to market risks in respect to interest rate fluctuations on its obligations that bear variable interest rates.

(3) Liquidity risk, cash-flow risk and future cash demand

The interest rate swap contracts are settled by net amount and the expected cash demand is not significant. Management believes that the Company has enough operating capital to meet cash demand.

(4) The purpose of derivative financial instruments held or issued/the strategies to meet the purpose

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates and not for purpose of trading for profit. The purpose of hedging strategies is to hedge the Company's exposure to cash-flow risk. The Company has designated fixed interest rate swap with the hedged item and periodically evaluates the effectiveness of the instruments.

(5) The estimated fair values of financial instruments are as follows:

| | December 31 | | | |
|---|----------------|-------------|----------------|-------------|
| | 2001 | | 2000 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents | \$2,807,799 | \$2,807,799 | \$2,048,270 | \$2,048,270 |
| Short-term investments | - | - | 34,800 | 37,830 |
| Accounts receivable - net | 4,114,428 | 4,114,428 | 6,885,380 | 6,885,380 |
| Investment in shares of stocks | 1,078,952 | 1,078,952 | 82,191 | 82,191 |
| Refundable deposits | 384,436 | 384,436 | 322,666 | 322,666 |
| Financial liabilities | | | | |
| Notes payable | 28,573 | 28,573 | 33,989 | 33,989 |
| Accounts payable | 504,159 | 504,159 | 862,076 | 862,076 |
| Payable to related parties | 619,891 | 619,891 | 621,615 | 621,615 |
| Payables for property and equipment | 1,417,422 | 1,417,422 | 1,427,213 | 1,427,213 |
| Bonds payable (including within one year) | 2,200,000 | 2,200,000 | 2,200,000 | 2,200,000 |
| Long-term debts (including within one year) | 8,333,620 | 8,333,620 | 6,437,678 | 6,437,678 |
| Guarantee deposits | 2,966,635 | 2,966,635 | 4,125,125 | 4,125,125 |
| Derivative financial instruments | | | | |
| Interest rate swap | - | (41,247) | - | (27,504) |

(a) The carrying values of cash and cash equivalents, notes receivable, accounts receivable, receivable from related parties, notes payable, accounts payable, payable to related parties, payables to contractors and equipment suppliers reported in the balance sheets approximate the fair values because of the short maturity of these instruments.

(b) Fair values of short-term investments are based on market prices or, if market prices are unavailable, upon the cost of investments. The fair values of long-term investment is based on market prices or, if market prices are unavailable, upon the book values or net stockholder equity of the investee.

(c) Fair values of bonds payable and long-term debts are based on market prices or, if market prices are unavailable, upon present value of expected cash outflows. Discount rate is determined by rate of bank loans, which the Company can obtain in similar conditions (similar maturity date).

(d) The values of refundable deposits and guarantee deposits are based on the book value.

(e) Fair values of derivative financial instruments are based on quoted market prices obtained from the respective counterparties.

16. INDUSTRY SEGMENT INFORMATION

a. Industry

The Company is primarily a wireless communication service provider. No segment information is provided since the revenues from wireless communications services account for more than 90% of the Company's total revenues.

b. Foreign Operations.

The Company has no revenue-generating unit that operates outside the R.O.C.

c. Foreign revenues

The Company has no foreign revenues.

d. Net sales to the customers representing at least 10% of the Company's total net sales are as follows:

| | 2001 | | 2000 | |
|-----------|--------------|---------------------------------|--------------|---------------------------------|
| | Amount | Percentage of Operating Revenue | Amount | Percentage of Operating Revenue |
| Company A | \$ 7,781,605 | 23 | \$ 6,320,424 | 20 |

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
MARKETABLE SECURITIES HELD
December 31, 2001

SCHEDULE A TO NOTE 15

(Amount in Thousand New Taiwan Dollars, Except Shares/Units Information)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2001 | | | | |
|--|--------------------------------------|-------------------------------------|-----------------------------|-------------------|----------------|-------------------------|---------------------------------|--------|
| | | | | Shares (Thousand) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value | Note |
| Far EasTone Telecommunications Co., Ltd. | Stocks | Investee accounted by equity method | Long-term investment | 1,330 | \$ 25,183 | 19 | \$ 25,183 | Note A |
| | E. World (Holdings) Ltd. | | | | | | | |
| | Yuan-Ze Telecommunications Co., Ltd. | Investee accounted by equity method | Long-term investment | 120,000 | 1,053,769 | 100 | 1,053,769 | Note B |

Notes: A.The Company was unable to obtain the financial statements and recognized 2000 net loss in 2001.

B.Calculated by audited financial report in 2001.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

SCHEDULE B TO NOTE 15

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
For the Year Ended December 31, 2001

(Amounts in Thousand New Taiwan Dollars, Except Shares Information)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter -Party Relationship | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Under Equity | | Ending Balance | |
|--|--------------------------------------|-------------------------------|-----------------------------|-------------------------------------|-------------------|--------|-------------------|-------------|----------|--------|----------------|-------------------------|--------------------|-------------------|----------------|--------|
| | | | | | Shares | Amount | Shares (Thousand) | Amount | Shares | Amount | Carrying Value | Gain (Loss) on Disposal | Method Gain (Loss) | Shares (Thousand) | Amount | Amount |
| Far EasTone Telecommunications Co., Ltd. | Yuan-Ze Telecommunications Co., Ltd. | Investment in shares of stock | Issuance of capital stock | Investee accounted by equity method | - | \$ - | 120,000 | \$1,200,000 | - | \$ - | - | - | (\$146,231) | 120,000 | \$1,053,769 | |

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

SCHEDULE C TO NOTE 15

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
For the Year Ended December 31, 2001

(Amounts in Thousand New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | | Note/Accounts Receivable or (Payable) | |
|--|--|------------------------|---------------------|------------|------------|---------------|----------------------|---------------|---------------------------------------|------------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total |
| Far Eastone Telecommunications Co., Ltd. | New Century InfoComm Tech Co., Ltd. (NCIC) | The same chairman | Operating revenue | \$ 195,549 | - | 30 days | - | - | (\$ 143,671) | 23% |

Note: The international direct dialing revenue collected by the Company for NCIC is treated as a deduction of mobile service revenue.

SCHEDULE D TO NOTE 15

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
December 31, 2001

(Amount in Thousand New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance (Note) | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|--|--------------------------------------|-------------------------------------|-----------------------|---------------|---------|--------------|---------------------------------------|-------------------------|
| | | | | | Amount | Action Taken | | |
| Far EasTone Telecommunications Co., Ltd. | Yuan-Ze Telecommunications Co., Ltd. | Investee accounted by equity method | \$147,777 | - | \$ - | - | \$ - | \$ - |

Note: Treated as other current assets.

SCHEDULE E TO NOTE 15

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
For the Year Ended 2001

(Amount in Thousand New Taiwan Dollars, Except Shares)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2001 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note |
|--|--------------------------------------|-----------------------|--|----------------------------|-------------------|---------------------------------|-------------------------|----------------|-----------------------------------|------------------------|-------------------|
| | | | | December 31, 2001 | December 31, 2000 | Shares (Thousand) | Percentage of Ownership | Carrying Value | | | |
| Far EasTone Telecommunications Co., Ltd. | E. World (Holdings) Ltd. | British Cayman Island | Investment | \$ 41,095 | \$ 82,191 | 1,330 | 19 | \$ 25,183 | \$ 104,293 | \$ 19,816 | Note A and Note C |
| | Yuan-Ze Telecommunications Co., Ltd. | Taiwan | Wireless telecommunication and the wholesale/retail of telecom equipment | 1,200,000 | - | 120,000 | 100 | 1,053,769 | 146,231 | 146,231 | Note B |

Notes: A. Investee of the Company accounted by equity method.

B. Subsidiary.

C. The Company was unable to obtain the financial statements and recognized 2000 net loss in 2001.

5. Audited 2001 Consolidated Financial Statements

Not Applicable

6. Review and Analysis of Financial Status and Operating Results

6-1 Major Capital Expenditure Plan and Source of Funding Analysis

(1) Major Capital Expenditure Plan and Source of Funding

Unit: NT\$000

| Project Item | Actual / Estimated Fund Source | Actual / Estimated Completion Date | Estimated Capital Required | Actual or Estimated Fund Utilization Schedule | | | | |
|----------------------------|--------------------------------|------------------------------------|----------------------------|---|------------|------------|------------|------------|
| | | | | 1999 | 2000 | 2001 | 2002 | 2003 |
| Network Capacity Expansion | Capital base and bank loan | 2003 | 58,310,184 | 10,657,463 | 15,689,331 | 11,963,390 | 10,000,000 | 10,000,000 |

(2) Potential Benefits:

1. Projected Sales & Gross Profit

| Year | Item | Sales Value | Gross Profit |
|------|----------------------------|-------------|--------------|
| 2002 | Network Capacity Expansion | 43,000,000 | 25,000,000 |
| 2003 | Network Capacity Expansion | 50,000,000 | 29,000,000 |

6-2 Liquidity Analysis

(1) Liquidity Analysis for the Past 2 Years

| Year Item | 2001 | 2000 | Variation % |
|----------------------------------|--------|-------|-------------|
| Cash Flow Ratio (%) | 146.01 | 45.99 | 217.48 |
| Cash Flow Equivalent Ratio (%) | 38.38 | 18.17 | 111.23 |
| Cash Flow Reinvestment Ratio (%) | 23.87 | 9.25 | 158.05 |

Analysis of reason for variation:

1. The increase in cash flow ratio is mainly due to growth in operation, which brings increase in revenue. In addition, the company's policy for accounts receivable were conservative. In 2001, there were fewer marketing promotions and promotions that involved heavy handset subsidy, hence the company's customer acquisition cost were lower. All these activities lead to the increase in cash flow from operating activities.
2. The increase in cash flow equivalent ratio is primarily attributable to the growth in mobile telecommunication service, which brings steady growth in revenue and ultimately leads to increase in cash flow from operating activities.
3. The increase in cash flow reinvestment ratio is mainly due to increase in cash flow from operating activities and stable capital expenditure comparing to prior years.

(2) Cash and Equivalent Liquidity Analysis for the Following Year

Unit: NT\$000

| Beginning Cash Balance (1) | Estimated Total Cash Inflow from Operating Activities (2) | Estimated Total Cash OutFlow (3) | Estimated remaining Fund (1)+(2)-(3) | Estimated Funding Source | |
|----------------------------|---|----------------------------------|--------------------------------------|--------------------------|----------------|
| | | | | Investment Plan | Financing Plan |
| 2,807,799 | 10,762,028 | 12,995,845 | 573,982 | - | - |

6-3 Operating Analysis

(1) Operating Results Analysis and Comparison

Unit: NT\$000

| | 2001 | | 2000 | | Variation | Variation % |
|---|-----------|---------------|-----------|---------------|--------------|-------------|
| | Sub-total | Total | Sub-total | Total | | |
| Operating Revenue | | \$ 34,544,355 | | \$ 32,180,516 | \$ 2,363,839 | 7 |
| Operating Costs and Expenses | | 27,958,113 | | 28,241,421 | (283,308) | (1) |
| Income from Operations | | 6,586,242 | | 3,939,095 | 2,647,147 | 67 |
| Non-operating Income | | | | | | |
| Foreign exchange gains - net | \$ 42,421 | | \$ - | | 42,421 | 100 |
| Reversal of allowance for losses on inventories | 34,178 | | - | | 34,178 | 100 |
| Interest | 27,290 | | 29,088 | | (1,798) | (6) |
| Reversal of allowance for losses on properties not currently used in operations | 68,100 | | 106,750 | | (38,650) | (36) |
| Other | 115,164 | | 79,185 | | 35,979 | 45 |
| | | 287,153 | | 215,023 | 72,130 | 34 |
| Non-operating Expenses | | | | | | |
| Interest | 239,401 | | 130,082 | | 109,319 | 84 |
| Investment losses under equity method | 166,047 | | - | | 166,047 | 100 |
| Foreign exchange losses - net | - | | 39,206 | | (39,206) | (100) |
| Provision for losses on inventories | - | | 45,931 | | (45,931) | (100) |
| Other | 78,217 | | 16,313 | | 61,904 | 379 |
| | | 483,665 | | 231,532 | 252,133 | 109 |
| Income before Taxes | | 6,389,730 | | 3,922,586 | 2,467,144 | 63 |
| Income Tax Benefit | | 269,554 | | 117,082 | 152,472 | 130 |
| Net Income | | \$ 6,659,284 | | \$ 4,039,668 | \$ 2,619,616 | 65 |

Variance Analysis:

1. Because of the stable growth of mobile telecommunication service and effective control over marketing expenses such as handset subsidy, the income from operations for 2001 increased markedly from 2000.
2. Increase in foreign exchange gains is resulting from the appreciation of US dollar, which encourage the company to use US dollar acquired at lower cost in the past to do foreign currency debt repayment.

3. Increase in reversal of allowance for losses on inventories is mainly due to fewer promotions bundled with handset, which lead to fewer handset inventories. Additionally, the market price of the inventory appreciated at the year-end inventory evaluation.
4. The increase in other non-operating income is primarily attributable to the reversal of accrual R&D expense which did not happen in prior years.
5. The increase in interest expense is resulting from higher debt balance in 2001. The increase in debt balance is primarily for network expansion.
6. The increase in investment losses under equity method is to recognize the investment losses in E. World (Holdings) Ltd. and Yuan-Ze Telecommunications Co., Ltd.
7. The increase in income tax benefit is mainly due to 5-year tax holiday and investment tax credits for tax capital expenditure, R&D expenditure, training and e-business investments.

(2) Variance Analysis for Gross Profit: Not applicable.

7. Financial Forecast and Results from 2000 to 2001

| (in thousand \$NT) | 2001 Forecast (Reviewed by Certified Public Accountants) | | Financial Report of 2001 (Audited by Certified Public Accountants) | | | 2002 Forecast (Reviewed by Certified Public Accountants) |
|--------------------------|--|---------------------|--|-----------------------------------|----------------------------------|---|
| | Original Forecast | Revised Forecast | Actual | % Achieved (Original Forecast) | % Achieved (Revised Forecast) | |
| Operating Revenues | 44,007,275 | 34,523,080 | 34,544,355 | 78.50 | 100.06 | 37,500,000 |
| Operating Cost | 20,843,295 | 15,956,873 | 15,723,129 | 75.43 | 98.54 | 17,798,121 |
| Gross Profit | 23,163,980 | 18,566,207 | 18,821,226 | 81.25 | 101.37 | 19,701,879 |
| Operating Expenses | 13,929,165 | 12,260,166 | 12,234,984 | 87.84 | 99.79 | 11,613,978 |
| Income From Operations | 9,234,815 | 6,306,041 | 6,586,242 | 71.32 | 104.44 | 8,087,901 |
| Non-Operating Income | 173,956 | 272,325 | 287,153 | 165.07 | 105.44 | 21,126 |
| Non-Operating Expenses | 830,287 | 356,202 | 483,665 | 58.25 | 135.78 | 376,142 |
| Income Before Income Tax | 8,578,484 | 6,222,164 | 6,389,730 | 74.49 | 102.69 | 7,732,885 |
| Net Income | 7,473,484 | 6,492,164 | 6,659,284 | 89.11 | 102.57 | 7,100,000 |

Major reasons to update financial forecast

1. Operating Revenue

As the mobile voice market is getting more mature and the growth of 2.5G mobile communication market is expected to come later than original forecasted date; the growth of customer number is slower than original forecast. The effective customer number of 3,682,000 represents a lower forecast.

Secondly, due to the business recession, the average minutes of usage per customer (MOU/ customer) has decreased in 2001. After revision, the service revenue is lower than originally forecast. However, the company expected that average minutes of usage per customer (MOU/ customer) would rise when market recovers from the recession in 2002.

2. Operating Cost

With lower updated effective customer number, average minutes of usage (MOU) and lower inter-connect charges from CHT, operating cost is adjusted down after revision.

3. Operating Expense

As the slower growth of the mobile market and the delay in 2.5G technology, the company's marketing activities have also been reduced. With this positive impact on the company's handset subsidy, advertising, commission, and the implementation of cost controls, the company successfully pushed down operating expenses. After revision, the operating expense is lower than original forecast by \$NT 1,669 million dollars.

Reasons of variance

Actual financial achievement rates of FET in year 2001 are shown below:

| | |
|--------------------------|---------|
| Operating Revenue | 100.06% |
| Gross Profit | 101.37% |
| Income From Operations | 104.44% |
| Income Before Income Tax | 102.69% |

Basically, actual operating revenue ties to updated financial forecast. Since actual cost of good sold of handsets and accessories is lower than forecast, actual gross profit is better than updated forecast. With successful cost control, actual income from operations is better than updated forecast. Due to recognition of investment loss on Yuan-Ze Telecommunications Co., Ltd, the actual non-operating expense is higher than updated forecast.

VI. Specific Notes

1. Affiliates Information
2. Internal Control System Execution Status
3. Dissenting Comment
4. Private Placement Securities
5. Disposed of and Held by Subsidiaries
6. Other Necessary Supplement
7. Significant Items

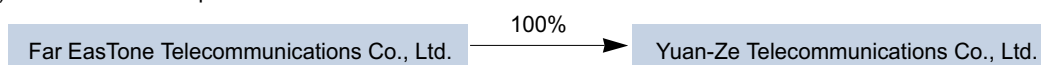


FAREASTONE

1. Affiliates Information

1-1 Consolidated Business Report of Affiliates

(1) FET Affiliated Companies Chart



(2) General Information of FET Affiliated Companies

Unit: NT\$000

| Company | Date of Incorporation | Place of Registration | Paid-in Capital | Major Business Activities |
|---|-----------------------|---|-----------------|---|
| Far EasTone Telecommunications Co., Ltd | Apr. 11, 1997 | F28, 207, Sec. 2, Tun-Hwa S. Rd. Taipei | \$ 18,900,000 | Wireless telecommunication service |
| Yuan-Ze Telecommunications Co., Ltd | Dec. 5, 2001 | F28, 207, Sec. 2, Tun-Hwa S. Rd. Taipei | \$ 1,200,000 | Third generation wireless telecommunication service |

(3) FET's Affiliated Companies according to Article 369-3 of Company Law: None

(4) Business Scope of FET and Its Affiliated Companies:

FET and its affiliated companies provide wireless telecommunication service and Internet service.

(5) Roster of Directors, Supervisors, and Presidents of FET Affiliated Companies

Unit: NT\$000; Number of Shares; %

| Company | Title | Name or Representative | Shareholding | |
|---|---------------|--|--------------|----------|
| | | | Share | % |
| Far EasTone Telecommunications Co., Ltd | Chairman | Yuan Ding Investment Co., Ltd. Douglas Hsu | 945,070,970 | 50.00 % |
| | Vice Chairman | Yuan Ding Investment Co., Ltd. Laurence Yang | 945,070,970 | 50.00 % |
| | Director | Yuan Ding Investment Co., Ltd. Champion Lee | 945,070,970 | 50.00 % |
| | Director | Yuan Ding Investment Co., Ltd. Peter Hsu | 945,070,970 | 50.00 % |
| | Director | P.Y. Lee | 259,200 | - |
| | Director | Taiwan Wireless Investments, Inc. Jordan Roderick | 196,517,700 | 10.40 % |
| | Director | Taiwan Wireless Investments, Inc. Robert Lewis | 196,517,700 | 10.40 % |
| | Director | Chiao Tung Bank Co., Ltd. Hsing-Lai Huang (Note) | 54,986,854 | 2.91 % |
| | Director | China Development Industrial Bank Chin Lin | 128,669,300 | 6.81 % |
| | Supervisor | Far Eastern International Leasing Co., Ltd. Eli Hung | 21,008,142 | 1.11 % |
| | Supervisor | CHD Investments Holdings, Inc. Yukio Morikubo | 1,350 | - |
| | Supervisor | Yue-Li Investment Co., Ltd. Jong C. Wang | 1,455 | - |
| | President | Joseph O'konek | 148,606 | 0.01 % |
| Yuan-Ze Telecommunications Co., Ltd | Chairman | Far EasTone Telecommunications Co., Ltd. Douglas Hsu | 120,000,000 | 100.00 % |
| | Director | Far EasTone Telecommunications Co., Ltd. Laurence Yang | 120,000,000 | 100.00% |
| | Director | Far EasTone Telecommunications Co., Ltd. Champion Lee | 120,000,000 | 100.00% |
| | Director | Far EasTone Telecommunications Co., Ltd. Jordan Roderick | 120,000,000 | 100.00% |
| | Supervisor | Far EasTone Telecommunications Co., Ltd. Peter Hsu | 120,000,000 | 100.00% |

Note: Chiao Tung Bank Co., Ltd. sent a letter dated Mar. 04, 2002 to change its representative to Ms. Maria Lu.

(6) Operational Highlights of FET Affiliated Companies

Unit: NT\$000 except EPS

| Company | Paid-in Capital | Assets | Liabilities | Net Worth | Net Sales | Income (Loss) from Operation | Net Income (Net Loss) (Net of Tax) | EPS (Net of Tax) |
|--|-----------------|---------------|---------------|---------------|---------------|------------------------------|------------------------------------|------------------|
| Far EasTone Telecommunications Co., Ltd. | \$ 18,900,000 | \$ 52,810,577 | \$ 20,526,965 | \$ 32,283,612 | \$ 34,544,355 | \$ 6,586,242 | \$ 6,659,284 | \$ 3.52 |
| Yuan-Ze Telecommunications Co., Ltd. | 1,200,000 | 1,201,706 | 147,937 | 1,053,769 | - | (147,677) | (146,231) | (1.22) |

1-2 Affiliation Report

(1) Independent Auditors' Report for the Affiliation Report of Far EasTone Telecommunications Co., Ltd.

To: Far EasTone Telecommunications Co., Ltd.

Subject: The Opinion for Your 2001 Affiliation Report

Remark:

1. According to your declaration, your 2001 Affiliation Report dated Feb.11, 2002 had been prepared according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises of Securities and Futures Commission in the Republic of China (" the Criteria ")" and the information in the above report has no significant inconsistency from the Notes to the Financial Statements as of and for the year ended December 31, 2001 (" the Notes "). The declaration is shown on the next page.
2. We have examined your Affiliation Report against the Criteria and the Notes. As stated in the above declaration, there was no significant inconsistency found between your 2001 Affiliation Report and the Criteria and the Notes.

T N Soong & Co.

T N Soong & Co

(2) Declaration for the Affiliation Report of Far EasTone Telecommunications Co., Ltd.

Feb.11, 2002

We hereby declare that the Affiliation Report of 2001 had been prepared according to the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises of Securities and Futures Commission in the Republic of China” and the information in the above report has no significant inconsistency from the Notes to the Financial Statements as of and for the year ended December 31, 2001.

Far EasTone Telecommunications Co., Ltd.**Douglas Hsu, Chairman**

(3) The Relationship between the Affiliated Company and the Parent Company

Unit: Share; %

| Dec. 31, 2001 | | | | | | |
|--------------------------------|---|---|--------|---------------|--|---------------|
| Parent Company | Controlling Reason | Parent Company's Shareholding Information | | | Parent Company Assigned Directors, Supervisors or Managers | |
| | | Shareholding | % | Share Pledged | Title | Name |
| Yuan Ding Investment Co., Ltd. | Holds over 50% of FET's outstanding voting shares | 945,070,970 | 50.00% | - | Chairman | Douglas Hsu |
| | | | | | Vice Chairman | Laurence Yang |
| | | | | | Director | Champion Lee |
| | | | | | Director | Peter Hsu |
| Far Eastern Textiles Ltd. | Indirectly control over the management of the personnel, financial or business operation of FET | - | - | - | | |

(4) Purchasing and Selling Transactions between the Affiliated Company and the Parent Company: None

(5) Property Transactions between the Affiliated Company and the Parent Company: None

(6) Lending & Borrowing between the Affiliated Company and the Parent Company: None

(7) Endorsement and Guarantee between the Affiliated Company and the Parent Company: None

(8) Asset Leasing between the Affiliated Company and the Parent Company:

Year 2001

Unit: NT\$000

| Transaction | Target Asset | Period | Type | Rental Deciding Factor | Payment Method | Comparing to Normal Rental | Rental for this Period | Other Engagement | |
|---------------------------|------------------------|---|---------------------------|------------------------|------------------------------|----------------------------|------------------------|------------------|------|
| | Name | Address | | | | | | | |
| Far Eastern Textiles Ltd. | | | | | | | | | |
| Leasing | BTS1355 | No 252 Sec 1 Chung-Shan Rd. Kuan-Yi Hsiang, Tao-Yuan | 06.15.1997- 06.15.2012 | Operating | Same as normal leasing | Bank Remittance | Same | \$ 302 | None |
| Leasing | BTS1100 | No 95 Sec 1 Cheng-Tai Rd. Wu-Ku, Taipei Hsien | 07.15.1997- 07.15.2012 | Operating | Same as normal leasing | Bank Remittance | Same | 537 | None |
| Leasing | BTS1522 | No 180, Tu-Ti-Kung-Pu, Wen-Shan Li, Hsin-Pu Chen, Hsin-Chu Hsien | 07.15.1997- 07.15.2012 | Operating | Same as normal leasing | Bank Remittance | Same | 225 | None |
| Leasing | BTS1200 | No 1 & 3, Alley 81, Yuan-Tung Rd, Chung-Li, Tao-Yuan Hsien | 11.15.1997- 11.15.2012 | Operating | Same as normal leasing | Bank Remittance | Same | 383 | None |
| Leasing | BTS1637 | No 216, Sec Ming-Hsin, Mei-Kung Rd, Hua-Lien | 11.15.1998- 11.15.2013 | Operating | Same as normal leasing | Bank Remittance | Same | 187 | None |
| Leasing | BTS5341, 5841 | No 3, King-Chen 6th, Rd, Kuan-Yin Industrial Area, Kuan-Yin Hsiang, Tao-Yuan Hsien | 11.15.1999- 11.15.2014 | Operating | Same as normal leasing | Bank Remittance | Same | 184 | None |
| Leasing | Warehouse for Tower | No 20, Mei-Kung Rd. Hua-Lien | 04.23.2001- 04.30.2002 | Operating | Same as normal leasing | Bank Remittance | Same | 854 | None |
| Leasing | Pan-Chiao Office | No 334 Sec1 Hsi-Chuan Rd. Pan-Chiao, Taipei Hsien | 05.01.1997- 08.31.2009 | Operating | Same as normal leasing | Bank Remittance | Same | 45,242 | None |
| Leasing | Wu-Ku MSC | F3 No 99 Sec 1 Cheng-Tai Rd Wu-Ku Hsiang, Taipei Hsien | 08.01.1998- 07.31.2003 | Operating | Same as normal leasing | Bank Remittance | Same | 1,421 | None |
| Leasing | Nei-Li MSC | No 80 Yuan-Tung Rd Nei-Li, Tao-Yuan Hsien | 05.01.1997- 04.30.2002 | Operating | Same as normal leasing | Bank Remittance | Same | 2,312 | None |
| Leasing | BTS1588 | No 2 Alley 266 Fu-Hsin Rd, Hu-Kuo, Hsin-Chu Hsien | 11.15.2000- 11.14.2005 | Operating | Same as normal leasing | Bank Remittance | Same | 181 | None |
| Leasing | BTS1722 | No 100, Yu-Shih Tuan, Chiao-Hsi Hsiang, Yi-Lan Hsien | 02.15.1998- 02.14.2013 | Operating | Same as normal leasing | Bank Remittance | Same | 426 | None |
| Total | | | | | | | \$52,254 | | |

2. Internal Control System Execution Status

The Declaration of the effectiveness of internal control system

Date : April 26, 2002

As required by the regulations, Far EasTone Telecommunications Co., Ltd. ("the Company") conducted a self - evaluation of its internal controls in 2001. Accordingly, the company declared the followings:

1. The Company's board of directors and management understand their responsibilities of developing, implementing and maintaining the Company's internal control system and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following events:
 - (1) The efficiency of business operations (including earnings, operating performance, and safeguard of company assets)
 - (2) The reliability of the financial reports
 - (3) The compliance of the relevant laws/regulations
2. Due to the innate limitation in designing a faultless internal control system, this system can only assure that the reasonableness of the above three events has been fairly achieved. In addition, the internal control system should be amended at anytime to manage business environmental or situation changes. Since the Company's internal control system has included self-evaluation capability, the Company will make immediate corrections when errors are detected.
3. The evaluation of effectiveness of the internal control system design and implementation is made in accordance with "Governing rules of establishing internal control system for a public company" (Governing Rule) set forth by the ROC Security and Future Commission (SFC). The Governing rule is made to exam the following areas during the internal control process: (1) Environment Control, (2) Risk Management, (3) Control Operation, (4) Information and Communication, and (5) Supervision. Details of each exam area can be found in the Governing rules.
4. The Company has examined the effectiveness of each area in the internal control system in accordance with the Governing rules set forth by SFC.
5. The exam result indicated that the Company internal control system has effectively assured the following events have been reasonably achieved during the assessing period:
 - (1) The efficiency of business operations
 - (2) The reliability of the financial reports
 - (3) The compliance of the relevant laws/regulations
6. This Declaration is a significant item in the Company annual report and prospectus available to the general public. If it contains false information or omits any material contents, the Company is in violation of Article 20, Article 32, Article 171 and Article 174 set forth in the ROC Security and Exchange Law.
7. The board of directors has approved the Declaration of the effectiveness of internal control system in the board meeting held on April 9, 2002.

Far EasTone Telecommunications Co., Ltd.

Chairman:



President:



3. Dissenting Comment

Major contents of record or written statements made by any director or supervisor indicating his/her dissent to important resolutions passed by the Board of Directors during the year of 2001 or the period from January 1, 2002 to May 31, 2002:

- (1) The 17th Meeting of the 2nd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd.
(Date: December 20, 2001)

Extemporaneous Motion: Approval for matters relating to the participation in the bidding by Far EasTone (3G) that was reinvested and incorporated by this Company to bid for the third generation mobile telecommunications business special license.

Resolved: Seven Directors granted their affirmative vote to approve the participation in the bid for the third generation mobile telecommunication business special license by reinvesting and incorporating Far EasTone (3G) to bid. Two Directors dissented in objection. The dissenting Directors, i.e., Directors Messrs. Jordan Roderick (by proxy to Mr. Robert Lewis) and Robert Lewis objected on the grounds that AWS had yet to achieve a consensus with the other shareholders of this Company regarding certain provisions on the governance rights and powers with respect to Far EasTone (3G).

- (2) The 18th Meeting of the 2nd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd.
(Date: February 26, 2002)

Discussion Proposal I: For investment in Far EasTone (3G) Telecommunications Co., Ltd. ("Netco") by subscription of new shares of Netco and matters relating to the consolidation of telecom business with local regional operators.

Resolved: The proposal described is approved by seven Directors.

(Two Directors dissented in objection. The dissenting Directors, i.e., Directors Messrs. Jordan Roderick and Robert Lewis, despite of their objection, expressed that they supported the idea of the Company's being in 3G business, and the movements undertaken in pursuing the consolidation with other operators. They further expressed that they objected the proposal on the grounds that AWS has yet to reach agreement with the major shareholder with regard to the corporate governance of Netco.)

- (3) The 19th Meeting of the 2nd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd.
(Date: March 8, 2002)

Discussion Proposal I: For matters relating to the investment in Far EasTone (3G) Telecommunications Co., Ltd. ("Netco") and for authorizing the Chairman of the board with full power to lend the funds up to NT\$2,074,000,000 to Netco as necessary.

Resolved: The proposal is approved by seven Directors. Two Directors, i.e., Messrs. Jordan Roderick (by proxy to Mr. Laurence Yang) and Robert Lewis (by proxy to Mr. P. Y. Lee) abstained from the votes against the proposal. The two Directors who abstained from the votes stated in writing that these unresolved issues between AT&T Wireless and Far Eastern Group regarding the formation and funding of Netco needs to be further addressed. However, they would abstain from voting against funding the rights issue of Netco since they did not believe the best interests of the Company would be served by voting against the proposed action.

Note 1: FET has total nine Directors, and all nine directors were present in the above mentioned three meetings.

Note 2: Far EasTone (3G) Telecommunications Co., Ltd. is also known as Yuan-Ze Telecommunications Co., Ltd.



4. Private Placement Securities

None

5. Disposed of and Held by Subsidiaries

None

6. Other Necessary Supplement

None

7. Significant Items

None

Received 2002 GSM Association Award
" Best Corporate Wireless Service or Application "



Formosa Plastics Transport Corp., Tait, Shuttle Service Co., and other well known corporations have all chosen FET's Fleet Management for upgrading their operational efficiency.

- | | |
|------------------|---|
| Feb. 2000 | Received "GSM in the Community Award" from GSM Association for disaster relief effort after 921 earthquake |
| Feb. 2002 | Awarded the "Best Corporate Wireless Service or Application" by the 3GSM World Congress for its innovative solution-Fleet Management |

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