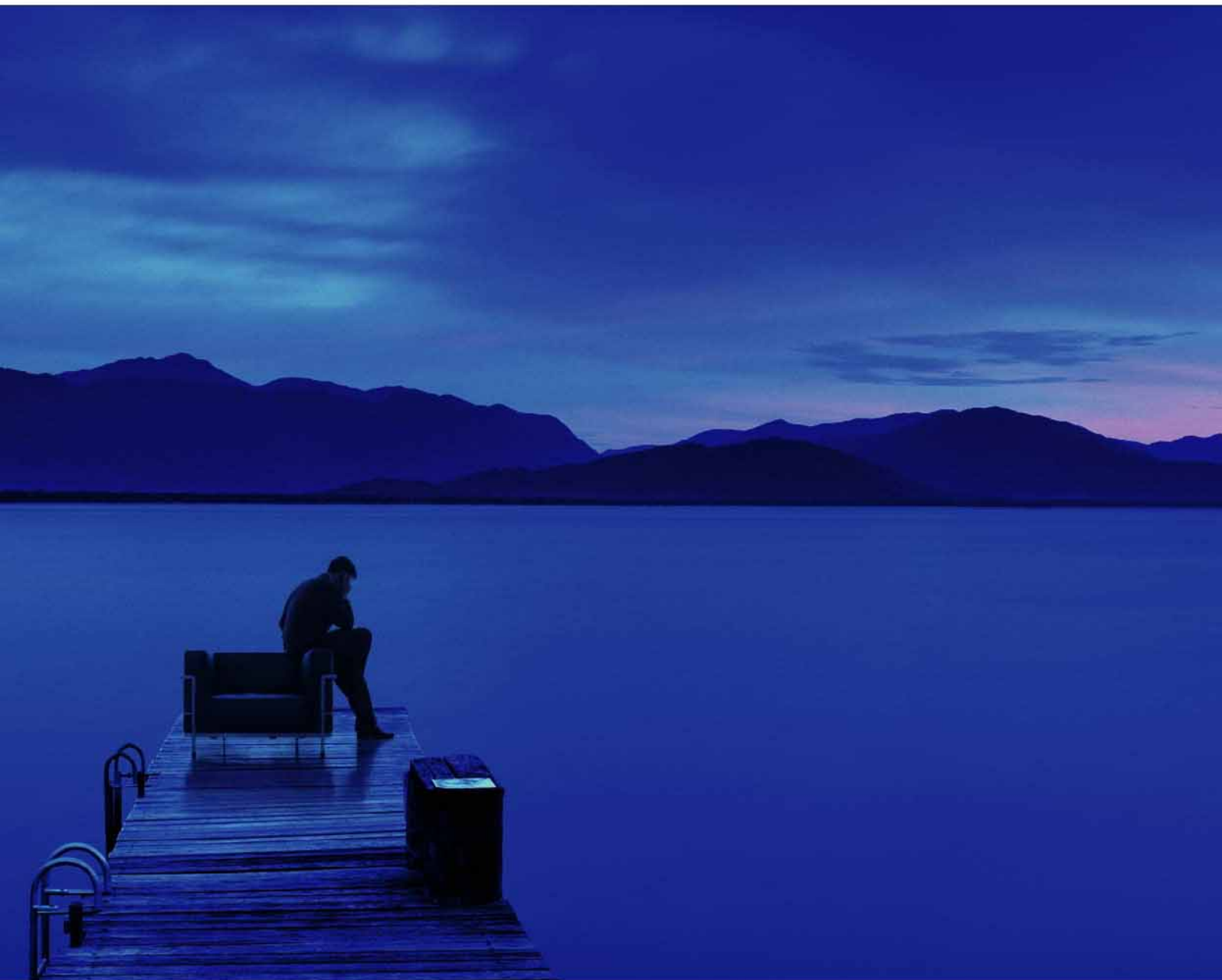


## ANNUAL REPORT 2002



Corporate Website: <http://www.fareastone.com.tw>

Disclosed Information can be found at <http://mops.tse.com.tw>

# Contents

<b>I. Letter to Shareholders</b>	4
<b>II. Company Highlights</b>	
1. Company Profile	7
2. Organization	8
3. Capital and Shares	14
4. Issuance of Corporate Bonds	18
5. Preferred Shares	20
6. Issuance of Depository Receipt	20
7. Employee Stock Options	20
8. Merge and Acquisition, or Given New Shares of Other Companies	20
<b>III. Operational Highlights</b>	
1. Business Activities	22
2. Market and Sales Overview	26
3. Employee Information	30
4. Expenses for Environmental Protection	30
5. Employee Relations	31
6. Important Contracts	32
7. Lawsuits or Non-Litigious Matters	34
8. Significant Property Acquisitions and Dispositions	35
<b>IV. Fund Utilization Plans and Status</b>	
1. Fund Utilization Plans and Implementation Status	37
<b>V. Financial Information</b>	
1. Condensed Financial Statement for the Past 5 Years	39
2. Financial Analysis for the Past 5 Years	40
3. 2002 Supervisors' Report	42
4. Independent Auditors' Report, Financial Statements and Notes	43
5. Audited 2002 Consolidated Financial Statements and Notes	71
6. Financial Condition and Impact of the Company and Affiliates	99
7. Financial Forecast and Results in 2001 and 2002	100
<b>VI. Review and Analysis of the Financial Condition, Operating Performance and Risk Management</b>	
1. Financial Condition	102
2. Operating Performance	102
3. Cash Flow	103
4. Major Capital Expenditure and Source of Capital	104
5. Investment Policy Analysis and Plans for Improvement	104
6. Risk Management Analysis	104
7. Others	107
<b>VII. Special Notes</b>	
1. Affiliates Information	109
2. Internal Control System Execution Status	113
3. Dissenting Comment	114
4. Corporate Governance	115
5. Private Placement Securities	117
6. Far EasTone Shares Held or Disposed of by Subsidiaries	117
7. Major Resolutions of the Shareholders' Meetings and Board Meetings	117
8. Violation of Internal Control Policies by Employees	119
9. Other Supplementary Information	119

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

Telephone: (02)8793-5689

e-mail: PR@fareastone.com.tw

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

Telephone: (02)8793-5000

e-mail: IR@fareastone.com.tw

**Corporate Headquarter:**

Address: 28F, Taipei Metro Tower, 207, Tun Hwa South Road, Sec 2, Taipei, Taiwan, R.O.C.

Telephone: (02)8793-5000

Fax: (02) 8793-5198

**Far EasTone Corporate Website:** [www.fetnet.net](http://www.fetnet.net)

[www.fareastone.com.tw](http://www.fareastone.com.tw)

**Stock Title Transfer: Oriental Securities Corporation**

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

Telephone: (02)2361-8608

Website: [www.osc.com.tw](http://www.osc.com.tw)

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

**Auditing Firm: T N Soong & Co.,**

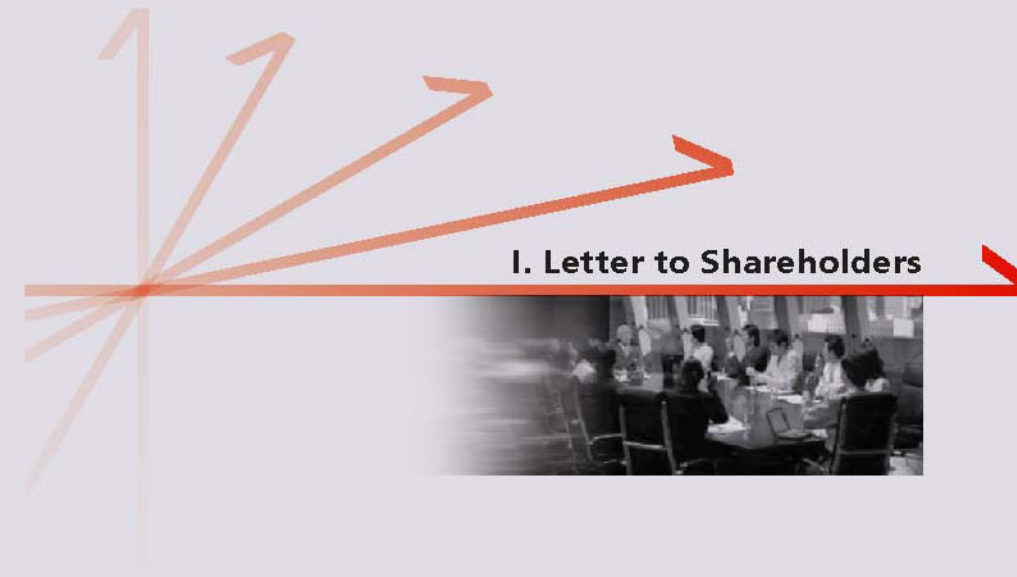
Address: 12F, 156, Min Seng East Road, Sec 3, Taipei, Taiwan, R.O.C.

Telephone: (02)2545-9988

Website: [www.deloitte.com](http://www.deloitte.com)

**Listing of Foreign Securities: Luxembourg Stock Exchange**

Disclosed information can be found at [www.bourse.lu](http://www.bourse.lu)





**Dear Shareholders,**

In spite of Taiwan's overall economic stagnation and the competitive mobile communication services market in 2002, Far EasTone (FET) delivered a solid and much improved performance. FET is in a much stronger position now than it was a year ago.

The financial results for 2002 reflect our commitment to generate stable and improved revenue streams combined with consistent efforts to improve operational efficiency. Service revenue grew 3.42% to NTD 32,845 million, while net income reached NTD 7,808 million, a 17.26% increase from the year before. Revenues from data and multimedia services grew significantly by 66% from 2001. Data revenues of FET in 2002 comprised 5% of the total service revenue, while the market average was only 3%. Meanwhile, revenues from mobile data and image services surged a record 96%.

**2002 Highlights**

- ▶ Since its inception, FET has monitored its brand image and reputation on a regular basis with market surveys. We have consistently fared well in brand recognition, and our brand reputation has steadily improved on the merits of our communication quality and intimate customer service. According to our 2002 survey, the unaided awareness of FET reached 73% and aided almost 100%.
- ▶ In June, we launched our GPRS-based service, Super i-style, which incorporated over 300 services in 12 categories. Within only 7 months, Super i-style accumulated over 130,000 active subscribers. In the end of March 2003, this service acquired over 150,000 active subscribers. Our joint efforts with Sharp Corp. resulted in the successful launch of its GX-i98 color handset with MMS, 3D Java games and camera functions, becoming a market pioneer in Taiwan.
- ▶ Revenues in our corporate segment more than doubled in 2002 as we attracted more than 50 new blue-chip clients, including TSMC, HP, Citibank, P&G, Yang Ming Marine Transport and Cathay Insurance. In February, FET received its second "GSM Association Award", when our Fleet Management solution was named the Best Corporate Wireless Service or Application by the GSM World Congress.
- ▶ FET ended 2002 with a 38% growth in the number of retail stores and FET-branded service stores, which give customers easy access to one-stop services. We have also enhanced our partnership with V@SS franchises through enhanced on-line communication solutions.
- ▶ FET's focus on customer service has paid off with higher overall customer satisfaction levels. Our in-store services and billing format and accuracy won particularly high marks in customer satisfaction surveys.

Underlying our achievements in 2002 is the continuous focus on operational excellence: reducing cost while improving efficiency and effectiveness. Our operating expenses decreased 19% from 2001 to 2002, while efficiency of the core network improved by 20%.

Our stable and consistent performance has been well recognized in the international financial community. On Feb 17, 2003, FET became the first Taiwanese Mobile Communication operator to successfully issue an USD 115 million European convertible bond and list in Luxembourg Stock Exchange. Shortly thereafter, on Feb 27, 2003, S&P assigned FET to a BBB- corporate long-term credit rating.

**Position and outlook for the future**

Looking ahead, we will face significant new challenges in 2003 with new operators entering the market, which will lead to even more intensive competition. We are, however, well positioned to face these challenges and continue to develop our business under sound financial conditions and consistent revenue and profit performance.

We will further differentiate ourselves with exceptional brand and image, distinctive and unique services, scrupulous distribution channel management, excellent customer services and a near perfect network. Launching the "Br@vø service", we are the first in Taiwan to introduce a full and comprehensive multimedia service – an important first step in to the 3<sup>rd</sup> generation of mobile services.

Our customer experience has taught us that they are not interested in the underlying complex technology behind our services. With this in mind, we have designed the "Br@vø service" to be the most comprehensive multimedia service plan available. "Br@vø" offers a wide range of voice, data and image services and tariffs, tailor-made to suit the varying needs of different customer segments.

FET further launched a brand new corporate identity in March 2003, emphasizing the imperatives of being speedy, international and contemporary. These are the qualities that will propel our efforts as we strive to set the standard for the industry and move FET into the next generation of innovation and growth.

In realizing our vision "Anywhere, Anytime Communications Enriching the Lives of People", we are aiming to be the preferred service provider for people who use mobile communications in their everyday life and to provide an innovative environment for superior shareholder value, customer loyalty, employee satisfaction and community involvement.



Douglas Hsu, Chairman



Jan Nilsson, 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 Options
8. Merge and Acquisition, or Given New Shares of Other Companies

7

## II. Company Highlights

### 1. Company Profile

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

#### 1-2 Milestones

- 2003/03 With the advanced technologies such as MMS, MPS and JAVA, FET launched innovative service "Br@vø" that is the first multimedia service plan in Taiwan. The "Br@vø" service plans provide customers a comprehensive offer to enjoy the mobile multimedia life.
- 2003/01 First in launching a voice recognition message service "543 Voice Message" in Taiwan. It automatically translates customers' voice message into text message.
- 2002/12 Launched Java™ Games, canned MMS and colorful mobile contents and Taiwan's first MMS/GPRS/Java clamp-shell handset Sharp GX-i98
- 2002/08 Launched the first "GPRS Mobile Emergency Medical Treatment System" with Far Eastern Memorial Hospital and Oriental Institute of Technology
- 2002/06 Launched Super i-style—"Mobile Internet Service" that maximized the capacities of FET's GPRS network and utilized it's Common Service Platform (CSP) to offer the largest range of innovative data services to customers.
- 2002/06 FET and IBM Successfully Launch First GSM/GPRS Common Service Platform,enabling Mobile e-Business
- 2002/03 Revenue producing customers reached 4 million
- 2002/02 Awarded the Best Corporate Wireless Service or Application by the 3GSM World Congress for its innovative solution-Fleet Management
- 2002/02 Yuan-Ze Telecom, FET's subsidiary, obtained a 3G License in Taiwan
- 2001/12 Listed at Taiwan's OTC Exchange Market (Ticker: 4904)
- 2001/06 Launched the first Ad Sponsor Call "258\*" in Taiwan
- 2001/04 Launched innovative enterprise solution Mobile Information on Demand (MloD). Leading the Trend to Enterprise Mobilization.
- 2000/11 Awarded by "The Directorate of General Communications" as the operator winning the best customer satisfaction three times in a row
- 2000/10 Revenue producing customers reached 3 million
- 2000/07 Launching Mobile Virtual Private Network (MVPN) as the first operator to provide total communications solutions tailor-made for enterprise users
- 2000/02 Received "GSM in the Community Award" from GSM Association for disaster relief efforts after 921 earthquake
- 1999/07 Adopting USSD technology to launch ring tone and logo download service "VOGO player"
- 1999/03 Reached one million revenue-producing customers. Noted by Global Mobile Magazine for being the GSM system operator to do so in the shortest time.
- 1998/11 Prepaid card "IF" launched, acquired 200,000 customers in the first month and became the leading brand
- 1998/01 The first cellular operator in the world to launch an integrated GSM900/1800 dual-band cellular system

**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:**

2003/03/18 China Development Industrial Bank resigned Its Director position

**1-5 Changes in Operations:** None

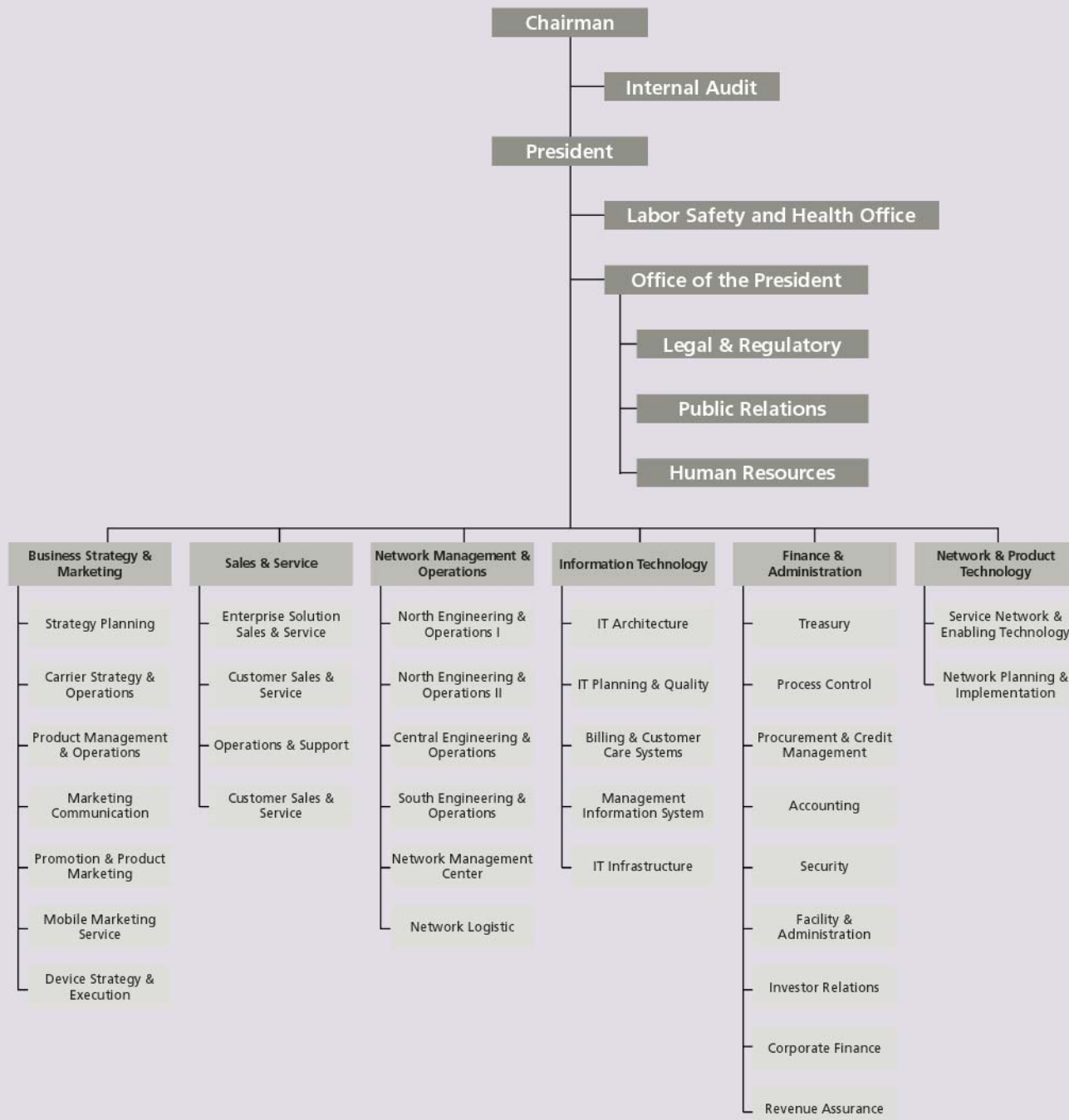
**1-6 Major Items Sufficient to Influence Shareholders' Rights or the Company:** None

## 2. Organization

## 2-1 Organization Structure

## 2-1-1 Organization Chart

2003/03/31



## 2-1-2 Function Description

2003/03/31

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
Labor Safety and Health Office	Responsible for maintaining and ensuring a safe and healthy workplace
Internal Audit	Responsible for auditing internal operations
Network & Product Technology	Responsible for technology development and network planning and integration
Network Management & Operations	Responsible for network maintenance and customer network service support
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 Directors, Supervisors and Executive Management

## 2-2-1 Executive Officer

2003/03/31

Title	Name	Date Elected	Tenure (Year)	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Education & Experience	Current Position with Other Company	Managers are Spouse of Within 2 Degree of Consanguinity to Each Other			Salaries of Directors and Supervisors for 2001
				Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	Douglas Hsu Yuan Ding Investment Co., Ltd.	2000.04.21	3	646,865,566	56.89%	1,153,999,883	50.05%	-	-	Chairman of Far Eastern Textile Ltd.; Master of Economics, Columbia University and Honorary Ph.D. of Management, National Chiao Tung University	Chairman of Far Eastern Textile Ltd.	Chairman	Laurence Yang	Affinity within the second degree	-
Vice Chairman	Laurence Yang Yuan Ding Investment Co., Ltd.	2000.04.21	3	646,865,566	56.89%	1,153,999,883	50.05%	-	-	Vice Chairman of Far Eastern Textile Ltd.; Department of Chemistry, National Taiwan University	Vice Chairman of Far Eastern Textile Ltd.	Chairman	Douglas Hsu	Affinity within the second degree	-
Director	Champion Lee Yuan Ding Investment Co., Ltd.	2000.04.21	3	646,865,566	56.89%	1,153,999,883 #1,722,280	50.05%	664,806	0.03%	Senior VP and CFO of Far Eastern Textile Ltd.; Master of Business Administration, Texas A&M University	Director of Far Eastern Textile Ltd., CFO of Far Eastern Group	-	-	-	-
Director	Peter Hsu Yuan Ding Investment Co., Ltd.	2000.04.21	3	646,865,566	56.89%	1,153,999,883	50.05%	-	-	Vice President of Central Procurement, Far Eastern Textile Ltd.; Master of Operations Research, Stanford University	Supervisor of Far Eastern Textile Ltd.	Chairman	Douglas Hsu	Brother	-
Director	P.Y. Lee	2001.05.15	3	192,000	0.01%	294,264	0.01%	136,926	0.01%	Director of General of the Directorate General of Telecommunications; Bachelor of Electrical Engineering, National Taiwan University	-	-	-	-	-
Director	Jordan Roderick Taiwan Wireless Investments Inc.	2000.12.28	3	145,568,667	10.40%	239,751,594	10.40%	-	-	MBA, Dartmouth College	President, International AT&T Wireless Services, Inc.	-	-	-	-
Director	Robert L. Lewis Taiwan Wireless Investments Inc.	2000.12.28	3	145,568,667	10.40%	239,751,594	10.40%	-	-	Executive MBA, University of Washington	President, International AT&T Wireless Services, Inc.	-	-	-	-
Director	Maria Lu Chiao Tung Bank Co., Ltd.	2000.04.21	3	38,028,783	3.34%	59,411,961 #641	2.58%	-	-	Senior Vice President and 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	Denis Koh CHD Investments Holdings, Inc.	2000.12.28	3	1,000	0.00%	1,647	0.00%	-	-	MBA and Master of Accounting, Washington State University	-	-	-	-	-
Supervisor	Eli Hong Far Eastern International Leasing Corp.	2000.12.28	3	18,561,587	1.33%	25,629,933	1.11%	-	-	Vice President of Citibank Taiwan; Bachelor of Economics, National Chang Hsing University	President of Far Eastern International Bank	-	-	-	-
Supervisor	Jong C. Wang Yue-U Investment Corp.	2000.04.21	3	1,000	0.00%	1,775	0.00%	-	-	Ph.D., Electrical Engineering, University of Pittsburgh	Professor of Yuan-Ze University	-	-	-	-

\*Personal shareholdings

Note: The total amount of the salaries of directors and supervisors for 2001 was NTD 59,934,000 and NTD 47,637,000 of which was already paid in 2002.

The transportation allowance for 2002 was NTD 7,200,000 and NTD 5,400,000 was already paid in 2002.



# 10

## II. Company Highlights

### 2-2-2 Major Shareholders of the Institutional Shareholders

2003/03/31

Institutional Shareholders	Major Shareholders of the Institutional Shareholder
Yuan Ding Investment Co., Ltd.	Far Eastern Textile Ltd.
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.
AT&T Wireless Services of Taiwan, Inc.	AT&T Wireless Service, Inc.

### 2-2-3 Information of Directors and Supervisors

2003/03/31

Condition	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 provide finance, commerce, legal consultation and services to the Company or its affiliated companies within one year.	Not an institutional shareholders or representative pursuant to Article 27 of the Company Law
Name								
Douglas Hsu	✓		✓				✓	
Laurence Yang	✓		✓	✓			✓	
Champion Lee	✓		✓	✓			✓	
Peter Hsu	✓		✓				✓	
P.Y. Lee	✓		✓	✓	✓	✓	✓	✓
Jordarn Roderick	✓	✓	✓	✓		✓	✓	
Robert L. Lewis	✓	✓	✓	✓		✓	✓	
Maria Lu	✓	✓	✓	✓	✓	✓	✓	
Denis Koh	✓	✓	✓	✓		✓	✓	
Eli Hong	✓		✓	✓	✓	✓	✓	
Jong C. Wang	✓		✓	✓	✓	✓	✓	

# 11

## II. Company Highlights

### 2-2-4 Executive Management

Title	Name	Effective Date	Current Shareholding		Spouse & Minor's Shareholding		Shareholdings in the Name of Others		Education & Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within Second Degree to Each Other			Total Amount of Salaries, Performance Incentive, Special Allowance and Bonus Paid to the President and Vice President	Stock Options Obtained by the Management
			Shares	%	Shares	%	Shares	%			Title	Name	Relation		
President	Jan Nilsson	2002.09.01	-	-	-	-	-	-	Master of Industrial and Management Engineering, Unkelping University; Senior Executive Vice President, Satelindo Telecom Indonesia	-	-	-	-	Note	-
Division VR Information Technology	Y.C. Chang	1999.01.01	260,764	0.01%	-	-	-	-	Ph.D of International Business Management, Chinese Culture University; CFO, Yangming Marine Transportation Corp.	-	-	-	-		-
Division VR Finance & Administration	Yvonne Li	2001.09.01	-	-	24,400	0.00%	-	-	Master of Accounting, University of Illinois at Urbana-Champaign; VR, Citibank Taiwan	-	-	-	-		-
Division VR Network & Product Technology	David Clarke	2001.10.15	-	-	-	-	-	-	B.S. of Geology, Phillips University; Enid, Oklahoma; SBC Communications/Mobile SBC Communications/International AT&T Wireless/International, USA; Sr. VP of Technology, TransAsia Telecommunications	-	-	-	-		-
Division VR Network Management & Operation	Jay Shy	1999.08.16	55,985	0.00%	-	-	-	-	Bachelor of Information Engineering and Computer Science, Feng Chia University; Director, DBTEL International Ltd.	-	-	-	-		-
Division VR Sales & Service	Philly Chen	1997.08.11	432,231	0.02%	-	-	-	-	B.S. of Accounting, Northern Arizona University; CFO, Tai Chia Technology Inc.	-	-	-	-		-
Vice President, Legal & Regulatory	Lan Yuh	1999.07.01	214,110	0.01%	-	-	-	-	Double MBA, Pace University; AVR, Citibank	-	-	-	-		-
Vice President, Human Resource	Philip Hsi	2000.02.23	12,200	0.00%	-	-	-	-	Master of Agriculture Engineering, National Taiwan University; VR, Harvard Management Services	-	-	-	-		-
Vice President, Product Management & Operation	Jin-Lin Liang	1997.09.26	188,140	0.01%	-	-	-	-	Master of Communication Science, University of Illinois; GM, J.Walter Thompson Direct Advertising	-	-	-	-		-
Vice President, Service Network & Enabling Technology	Herman Rao	2000.09.15	281,080	0.01%	-	-	-	-	Ph.D of Computer Science, University of Arizona; Principal Technical Staff Member, AT&T Laboratories-Research	-	-	-	-		-
Vice President, ETC Project	Paul Huang	1997.12.15	474,445	0.02%	-	-	-	-	Master of Computer Science, Bradley University; Business Development VR, Hong Kong Telecom	-	-	-	-	-	
Vice President, Billing & Customer Care Systems	Joseph Pabon	2001.05.11	-	-	-	-	-	-	Bachelor of Business Information System, Citrus College California - Business Information System; International Senior Director, AT&T Wireless	-	-	-	-	-	
Vice President, Management Information System	Ten Lee Hwang	2001.08.06	124,858	0.01%	2,440	0.00%	-	-	Ph.D of Computer Science, Harvard University; Senior Manager Accenture	-	-	-	-	-	
Vice President, Strategy Planning	Andrew Wong	1998.04.11	814	0.00%	-	-	-	-	MBA, George Washington University; Manager, MCI COM.	-	-	-	-	-	
Vice President, Enterprise Solution Sales & Service	Michael Lo	2000.08.20	-	-	-	-	-	-	Bachelor of Business Administration, National Chung-Hsin University; Sales Director, Hewlett Packard Taiwan Ltd.	-	-	-	-	-	
Chief Auditor Internal Audit	Rachel Yu	2002.04.11	-	-	-	-	-	-	MBA, State University of New York; Chief Auditor, Sing For Life Insurance Company	-	-	-	-	-	
Director Public Relations	Yvonne Lan	1999.03.01	136,868	0.01%	-	-	-	-	MA, New York Institute of Technology; AVR, PC Channel Inc.	-	-	-	-	-	
Director Network Management & Operation	Paul Lee	1999.04.12	188,941	0.01%	-	-	-	-	Master of Biochemistry & Industrial Engineering & Management, Montana State University; V.P. of R&D and Administration, OPNET Technologies Co., Ltd.	-	-	-	-	-	

(Forward)



## 2-2-4 Executive Management

Title	Name	Effective Date	Current Shareholding		Spouse & Minor's Shareholding		Shareholdings in the Name of Others		Education & Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within Second Degree to Each Other				Total Amount of Salaries, Performance Incentive, Special Allowance and Bonus Paid to the President and Vice President	Stock Options Obtained by the Management
			Shares	%	Shares	%	Shares	%			Title	Name	Relation			
Director, Network Management & Operation	James Wu	1997.08.11	263,041	0.01%	-	-	-	-	Bachelor of Electronic Engineering, Chung Yuan Christian University; Director, Taiwan Telecommunication Network Services	-	-	-	-	-	-	-
Director, Network Management & Operation	S.C. Lee	1997.11.08	80,440	0.00%	-	-	-	-	National Taipei Institute of Technology-Department of Mechanical & Electrical Engineering, Sr. Project Manage, SIEMENS	-	-	-	-	-	-	-
Director, Network Management & Operation	James Lin	2000.03.13	98,820	0.00%	-	-	-	-	Bachelor of Electronics Engineering, National Taiwan University; Director, DBTEL International Ltd.	-	-	-	-	-	-	-
Director, Network Planning & Implementation	Howard Tao	1998.10.22	242,006	0.01%	-	-	-	-	BSEE, Chung-Yuen University; Wireless System R&D Manager, Industrial Technology Research Institute	-	-	-	-	-	-	-
Director, Network Management & Operation	Bruce Yu	1997.11.06	-	-	-	-	-	-	Bachelor of MIS, Chiao Tung University; Manager, HCL Technology Corporation	-	-	-	-	-	-	-
Director, Network Management & Operation	Tony Wang	1999.02.01	-	-	-	-	-	-	Master of Engineering, University of Austin; Manager, Yuan-Ding Const. Co., Ltd.	-	-	-	-	-	-	-
Director, Finance & Administration	David Tsai	1999.09.16	32,940	0.00%	-	-	-	-	EMBA, Yuan Ze University; Manager, U-Ming Marine	-	-	-	-	-	-	-
Director, Finance & Administration	Stephen Tung	1999.10.11	45,257	0.00%	-	-	-	-	MBA of Management Science, Sonoma State University; Deputy Manager of Finance Department, Wakin Lwa Corporation	-	-	-	-	-	-	-
Director, Finance & Administration	Barry Wu	2001.01.02	12,200	0.00%	-	-	-	-	MS of Finance, Northern Illinois University; Director of Finance Department, Jean Co., Ltd.	-	-	-	-	-	-	-
Director, Finance & Administration	Robert Chiu	1998.03.17	168,766	0.01%	-	-	-	-	BS of Finance & Taxation, Feng Chia University; Administration Manager, Honeywell Taiwan Ltd.	-	-	-	-	-	-	-
Director, Finance & Administration	Sonya Wren	1999.07.01	58,820	0.00%	-	-	-	-	MBA, Yale University; Marketing Senior Manager, Fidelity Investment Consulting.	-	-	-	-	-	-	-
Director, Finance & Administration	Doris Wu	2001.06.11	-	-	-	-	-	-	BS of Accounting, California State University; Controller, PSINet Taiwan USA & ROC CPAs	-	-	-	-	-	-	-
Director, Marketing Communication	Les Chen	2000.09.11	-	-	-	-	-	-	Bachelor of Social Work, Soochow University-bachelor, AVR, CITI Bank	-	-	-	-	-	-	-
Director, Carrier Strategy & Operation	Kevin Yu	1998.10.12	20,631	0.00%	-	-	-	-	Bachelor of Automatic Control Engineering, Feng Chia University; Manager, Siemens Telecom. Systems Limited	-	-	-	-	-	-	-
Director, Device Strategy & Execution	C.S. Lin	2000.03.20	200	0.00%	-	-	-	-	Bachelor of E.E., NTOU; Director, Anova Corporation	-	-	-	-	-	-	-
Director, Promotion & Product Marketing	Maxwell Cheng	1998.06.01	232,231	0.01%	-	-	-	-	Master of Materials Science and Engineering, University of Michigan; Brand Manager, Nestle Taiwan Group	-	-	-	-	-	-	-
Director, Customer Sales & Service	Guang Ruey Chiang	1997.12.01	225,291	0.01%	-	-	-	-	Master of Marketing, University of Kansas; Director, LONG CHENG	-	-	-	-	-	-	-
Director, Operations & Support	Jennifer Liu	1997.07.01	248,701	0.01%	-	-	-	-	MBA, New York University; Assistant Manager, Far Eastern Textile Ltd.	-	-	-	-	-	-	-
Director, Customer Service & Sales	Samuel Yuan	2001.07.23	-	-	-	-	-	-	Bachelor of Financial Analysis & Management Information Systems, State University of New York; Director, Alive Networks HK	-	-	-	-	-	-	-

Note: The total amount of salaries, performance incentive, special allowance and bonus paid to the president and vice presidents in 2002 was NTD 119,796.

## 2-3. Shareholding Transferred or Pledged by Directors, Supervisors, Management, or Major Shareholders

## 2-3-1 Shareholding Variation of Directors, Supervisors, Management, or Major Shareholders

Title	Name	2002		2003 (as of March 31)		Remarks
		Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	
Chairman	Douglas Hsu	208,848,913	101,100,000	80,000	113,800,000	On behalf of Yuan-Ding Investment, Co., Ltd.
Vice Chairman	Laurence Yang	208,848,913	101,100,000	80,000	113,800,000	On behalf of Yuan-Ding Investment, Co., Ltd.
Director	Champion Lee	208,848,913	101,100,000	80,000	113,800,000	On behalf of Yuan-Ding Investment, Co., Ltd.
Director	Peter Hsu	208,848,913	101,100,000	80,000	113,800,000	On behalf of Yuan-Ding Investment, Co., Ltd.
Director	Jordan Roderick	43,233,894	-	-	-	On behalf of Taiwan Wireless Investments, Inc.
Director	Robert Lewis	43,233,894	-	-	-	On behalf of Taiwan Wireless Investments, Inc.
Director	Maria Lu	4,659,107	-	(234,000)	-	On behalf of Chiao Tung Bank, replacing the original representative Hsing – Lai Huang from March 4, 2002
Director	P.Y.Lee	35,064	-	-	-	-
Supervisor	Eli Hong	4,621,791	-	-	-	On behalf of Far Eastern International Leasing Corp.
Supervisor	Jong C. Wang	320	-	-	-	On behalf of Yue-Li Investment Corp.
Supervisor	Denis Koh	297	-	-	-	On behalf of CHD Investments Holdings, Inc., replacing the original representative Yukio Morikubo from October 2, 2002
President	Jan Nilsson	-	-	-	-	Started on September 1, 2002
Major Shareholder	AT&T Wireless Services of Taiwan, Inc.	42,790,300	-	-	-	-

2-3-2 Shareholding Transferred: None.

2-3-3 Shareholding Pledged: None.

## 2-4. Shareholdings of Directors, Supervisors, Management, or Major Shareholders and Direct and Indirect Investment of Far EasTone in Affiliated Companies

## 2-4-1 Total Shareholding Percentage

2003/12/31  
Unit: Share; %

Affiliated Company (Note)	Investment of Far EasTone		Direct and Indirect Investment of Far EasTone Directors, Supervisors and Management		Total Investment	
	Shares	%	Shares	%	Shares	%
E. World (Holdings) Ltd.	1,330,000	19.00%	4,684,622	66.92 %	6,014,622	85.92 %
Yuan-Ze Telecommunications	837,000,000	80.71 %	-	-	837,000,000	80.71 %

Note: Long-term investment

## 3. Capital and Shares

## 3-1 History of Capitalization

Month / Year	Par Value	Authorized Capital		Shares Outstanding		Remarks		
		Shares ('000)	Amount (NTD '000)	Shares ('000)	Amount (NTD '000)	Source of Capital	Non-Monetary Capital Expansion	Effective Date & Cert. No.
Jul, 1997	10	900,000	9,000,000	900,000	9,000,000	Cash Founding NTD 9,000,000,000	N/A	-
Mar, 1999	10	1,400,000	14,000,000	1,070,000	10,700,000	Cash Capital Call NTD 1,700,000,000	N/A	Note 1
Oct, 1999	45	1,400,000	14,000,000	1,137,000	11,370,000	Cash Capital Call NTD 670,000,000	N/A	Note 2
Aug, 2000	10	1,400,000	14,000,000	1,225,743	12,257,430	Capitalization of Capital Surplus NTD 887,430,000	N/A	Note 3
Feb, 2001	45	1,400,000	14,000,000	1,400,000	14,000,000	Cash Capital Call NTD 1,742,570,000	N/A	Note 4
Sep, 2001	10	3,360,000	33,600,000	1,890,000	18,900,000	Capitalization of Retained Earning and Capital Surplus NTD 4,900,000,000	N/A	Note 5
Oct, 2002	10	3,360,000	33,600,000	2,305,800	23,058,000	Capitalization of Retained Earning and Capital Surplus NTD 4,158,000,000	N/A	Note 6

Note 1: Ruling Ref. No. (87) Taiwan Finance Securities (I)87084 dated 1998.10.22

Note 2: Ruling Ref. No. (88) Taiwan Finance Securities (I)47451 dated 1999.05.21

Note 3: Ruling Ref. No. (89) Taiwan Finance Securities (I)41536 dated 2000.05.22

Note 4: Ruling Ref. No. (89) Taiwan Finance Securities (I)83771 dated 2000.10.11

Note 5: Ruling Ref. No. (90) Taiwan Finance Securities (I)138249 dated 2001.06.15

Note 6: Ruling Ref. No. (91) Taiwan Finance Securities (I)0910137602 dated 2002.07.09

2003/03/31  
Unit: Share

Type of Stock	Authorized Capital				
	Issued Shares			Un-Issued	Total Shares
	Listed (OTC)	Non-Listed (OTC)	Total		
Common Shares	2,305,800,000	-	2,305,800,000	1,054,200,000	3,360,000,000

## 3-2 Shareholding Structure

2003/03/31

Quantity / Shareholder's Structure	Government Institutions	Financial Institutions	Other Institutional Shareholders	Individual Shareholders	Foreign Institutions and Individual Shareholders	Total
Number	3	24	70	7,755	11	7,863
Shares	1,925,000	245,802,887	1,552,982,952	107,774,685	397,314,476	2,305,800,000
%	0.08%	10.66%	67.35%	4.68%	17.23%	100%

## 3-3 Share Distribution

2003/03/31

Shareholding Level	Number of Shareholders	Shares	%
1~999	1,656	336,570	0.01%
1,000~5,000	3,551	8,472,296	0.37%
5,001~10,000	1,048	8,066,657	0.35%
10,001~15,000	374	4,635,116	0.20%
15,001~20,000	272	5,004,014	0.22%
20,001~30,000	275	6,911,691	0.30%
30,001~50,000	230	9,193,764	0.40%
50,001~100,000	211	15,196,273	0.66%
100,001~200,000	123	16,823,887	0.73%
200,001~400,000	49	14,187,150	0.62%
400,001~600,000	21	9,977,424	0.43%
600,001~800,000	11	7,422,033	0.32%
800,001~1,000,000	2	1,723,500	0.07%
1,000,001 and above	40	2,197,849,625	95.32%
Total	7,863	2,305,800,000	100.00%

## 3-4 Major Shareholders

2003/03/31

Shareholdings	Shares	%
Name of major shareholders		
Yuan-Ding Investment, Co., Ltd.	1,153,999,883	50.05%
Taiwan Wireless Investments, Inc.	239,751,594	10.40%
AT&T Wireless Services of Taiwan, Inc.	237,291,666	10.29%
Cheung Hing Development Ltd.	157,999,699	6.85%
China Development Industrial Bank	151,657,146	6.58%



## 16 II. Company Highlights

### 3-5 Share Price, Net Worth, Earnings, Dividends and Related Information

Item		Year	2003 (as of March 31)	2002	2001
Share Price (Note 1)	High		30.9	46.9	52.50
	Low		25.9	25.5	33.10
	Average		27.64	35.86	44.65
Net Worth per Share	Before distribution		17.22	16.50	17.08
	After distribution (Note 2)		-	(Note 2)	15.99
Earnings per Share	Weighted average outstanding shares		2,305,800,000	2,305,800,000	1,890,000,000
	Earnings per share	Before Adjustment	0.72	3.39	3.52
		After Adjustment	-	(Note 2)	2.89
Dividends per Share (Note 3)	Cash dividends		-	1.00	-
	Stock dividend	Retained earnings	-	2.10	2.50
		Capital surplus (Note 7)	-	0.10	1.00
	Accumulated undistributed dividend		-	-	-
Return on Investment	Price/Earnings Ratio (Note 4)		-	10.58	12.68
	Price/Dividend ratio (Note 5)		-	35.86	-
	Cash dividend yield rate (Note 6)		-	2.79%	-

Note 1: High/Low means the highest/lowest share price of the year.

Note 2: The above distribution amounts are based on Annual General Shareholders' Meeting resolutions in the subsequent year. The earnings allocation for 2002 has not been approved yet.

Note 3: Dividends per share of the prior year.

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

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

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

Note 7: Earnings per share after stock dividend is distributed.

### 3-6 Dividend Policy

#### 1. Dividend Policy under Articles of Incorporation

The cash dividend declared by the Company each fiscal year shall be no less than ten percent (10%) of the total dividends distributed that year. However, depending on whether the Company 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 General Shareholders' Meeting.

#### 2. Proposed Dividend Allocation for the Annual General Shareholders' Meeting

Stock dividend of 170 shares for each 1,000 shares (capitalization of retained earning 169 shares for each 1,000 shares and capitalization of capital surplus 10 shares for each 1,000 shares) and cash dividend of NTD 1.3.

## 17 II. Company Highlights

### 3-7 Impact of Stock dividend distribution of this year on business performance, earnings per share, and return on investment

Item		Year 2003 Forecast
Paid-In Capital (beginning of the year; NTD '000)		\$ 23,058,000
Dividend Plan	Cash dividend (NTD / per share)	\$ 1.30
	Stock dividend from retained earnings (share/per share)	0.169
	Stock dividend from capital surplus (shares/per share)	0.001
Business Performance	Income from operations (NTD '000)	\$ 8,231,125
	% change in income from operations (YoY)	3.98%
	Net Income (NTD '000)	\$ 7,283,566
	% changes in Net Income (YoY)	-6.72%
	Earnings per share (NTD)	\$ 2.70
	% change in EPS (YoY) (Note 1)	-6.57%
	Average return on investment (Note 2)	9.77%
Pro forma EPS & P/E Ratio	If retained earnings distributed in cash dividend	Pro forma earnings per share (NTD) \$ 3.08
		Pro forma average return on investment (Note 2) 11.14%
	If capital surplus not distributed in stock dividend	Pro forma earnings per share (NTD) \$ 2.70
		Pro forma average return on investment (Note 2) 9.77%
	If retained earnings distributed in cash dividend and capital surplus not distributed in stock dividend	Pro forma earnings per share (NTD) \$ 3.08
		Pro forma average return on investment (Note 2) 11.14%

Source for the information used in the above table:

1. Audited Financial Forecast of 2003 dated March 31, 2003

2. The pro forma calculation is based on the tax rates of 25% and the annual lending rate of 6.325% (one-year primary lending rate released by Bank of Taiwan's as of March 2003.)

Note 1: Compared to the adjusted EPS of 2001

Note 2: Average P/E ratio = Average share price / EPS. According to Taiwan's Over-the-Counter Securities Exchange, FET's average share price for the first quarter of 2002 is \$27.64.

### 3-8 Bonus for Employees, Directors and Supervisors

- Description regarding employee bonus system in the Articles of Incorporation: When the annual account balance is positive, the company shall first pay for the tax and make up for the loss of previous years, then allocate 10% of net income as capital surplus if it has not reached the total capital of the company. For the remaining earnings, 2% shall be allocated as bonus to employees and 1% as bonus to directors and supervisors.
- Proposals approved by the Board of Directors regarding bonus to employees:
  - Proposal regarding NTD 140,551,000 cash dividends to employees and NTD 70,276,000 bonus to directors and supervisors
  - Proposal regarding stock dividends to employees and the percentage of retained earnings it accounts for: None
  - Pro forma EPS after bonus to employees and directors and supervisors is paid: NTD 3.29 (2002 after tax EPS was NTD 3.39)



## 3. 2001 Earnings Allocated of the Bonus for Employees, Directors and Supervisors

2001 earnings allocation according to the proposals approved in the Board Meetings on April 4 and June 25, 2002:

Unit: NTD '000

Legal Reserve	665,928
Bonus to Employees	119,867
Bonus to Directors and Supervisors	59,934
Cash Dividend -10%	1,890,000
Stock Dividend -21%	3,969,000

## 3.9 Execution of Treasury Stock: None

## 4. Issuance of Corporate Bonds

## 4-1 Corporate Bonds

	Domestic Secured Bond (I)	Domestic Unsecured Bond (I)	European Convertible Bond	Domestic Unsecured Bond (II)
Issue Date	11/30/2000	02/19/2002 ~ 02/22/2002	02/19/2003	03/28/2002~04/03/2003
Denomination	NTD 1,000,000	NTD 1,000,000	USD 1,000	NTD 1,000,000
Issuance and listing	ROC/NA	OTC Securities Exchange (ROC)	Luxembourg Stock Exchange	OTC Securities Exchange (ROC)
Offering Rate	Par	Par	Par	Par
Total Amount	NTD 2,200,000,000	NTD 4,200,000,000	USD 115,000,000	NTD 1,470,000,000
Coupon Rate	5.6%p.a.	Tranche A: 3.4%p.a. Tranche B: 3.3716%p.a.	0%	1. The annual coupon rate for the first year is 2.6% and is paid every six months based on simple interest. 2. From the second year to maturity the annual coupon rate is 3.2% minus reference rate, of interest, while the annual coupon rate can not be lower than 0%. (Note 2)
Tenor	5-Year Maturity: 11/30/2005	5-Year Maturity: 02/19/2007 ~ 02/22/2007	5-Year Maturity: 02/19/2008 ~ 02/22/2007	5-Year 03/28/2003~04/03/2008
Guarantor	Syndicated Banks (Note 1)	None	None	None
Trustee	Central Trust of China	Taipei Bank	Bank of New York	Trust Department of Chiao Tung Bank
Underwriter	None	None	Morgan Stanley, Fuhwa Securities.	None
Legal Counsel	Mr. Morton Maote Huang	Mr. Morton Maote Huang	Lee & Li	Mr. Morton Maote Huang
Auditor	T N Soong & Co.,	T N Soong & Co.,	T N Soong & Co.,	T N Soong & Co.,
Repayment	From 24th month, repay 14%, 14%, 14%, 14%, 15%, 15% semi-annually	Repay 50%, 50% at 4th and 5th year	Unless there is an early redemption by FET or the bond holders exercise convertible right, at maturity the redemption price is the inciple(?)in USD plus interest compensation (1%). That is, the early redemption price is 05.15% of the denomination.	Paid at maturity.

(Foreware)

Outstanding	NTD 2,200,000,000	NTD 4,200,000,000	USD 115,000,000	NTD 1,470,000,000
Redemption or Early Repayment Clause	None	None	1. Bond holders have the right to ask FET to buy back the bond in USD at denomination plus interest compensation (1%). That is, the early redemption price is 105.01% of the denomination. 2. After three years from issue date if the closing price of FET's common shares at the ROC over-the-counter securities exchange is 130% of the conversion price or above for 20 consecutive trading days, or when the outstanding bond is below 10%, FET has the right to exercise early redemption for all or part of the bond.	None
Covenant	None	None	None	None
Credit Rating	None	Received a rating of "twA" from Taiwan Ratings Corporation on 2001/12/20	Received a rating of BBB- from Standard & Poor on 2003/01/02.	FET's domestic unsecured bond received a rating of "twA+" from Taiwan Ratings Corporation on 2003/03/03
Other Rights of Bond Holders	Amount Converted into (exchanged or subscribed to) Common Shares, ADRs or other Securities	None	None	None
Conversion rights	None	None	Bond holders has the right to convert their bonds into FET's common share or overseas depositary receipt representing FET's common share after 30 days from issue date until 30 days before maturity.	None
Dilution Effect and Other Adverse	None	None	The highest dilution ratio is 4.57% if all of the bond is converted. As the conversion price is higher than market price, if existing shareholders would like to maintain their shareholding percentage, they can buy FET's share from public market at a relatively lower price, therefore, it does not infringe the rights and benefits of the bond holders.	None
Custodian	None	None	Far Eastern International Bank	None

Note 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.

Note 2: The reference rate is defined as the fixing rate of USD 6-month LIBOR shown on Bride Telerate Page 3750 at 11 am London time two business days before each interest period commences.

## 20 II. Company Highlights

### 4-2 Convertible Bonds:

Type of Corporate Bond		Overseas Convertible Bond
Item / Year		As of March 31, 2003
Market Price of the Convertible Bond (Note 1)	Highest	99.9792
	Lowest	97.7031
	Average	99.3750
Conversion Price		NTD 35.955
Issue Date and Conversion Price on Issue Date		Date: 02/19/2002 NTD 35.955
Method for Conversion		Issuance of new share

Note: denomination of the bond.

**4-3 Exchangeable Bond:** None

**4-4 Shelf Registration for Issuing Corporate Bonds:** None

**4-5 Bond with Warrants:** None

### 5. Preferred Shares

**5-1 Preferred Shares:** None

**5-2 Preferred Share with Warrant:** None

### 6. Issuance of Depository Receipt

None

### 7. Employee Stock Options

**7-1 Employee stock option to be disbursed and its impact on shareholders rights and benefits:** None

**7-2 Names of FET's managers or other employees who have obtained employee stock option that entitles him/her to buying FET shares of over NTD 30,000,000 and enough to make/ him/her one of the top ten shareholders:** None

### 8. Merge and Acquisition, or Given New Shares of Other Companies

None



## III. Operational Highlights

1. Business Activities
2. Market and Sales Overview
3. Employee Information
4. Expenses for Environmental Protection
5. Employee Relations
6. Important Contracts
7. Lawsuits or Non-Litigious Matters
8. Significant Property Acquisitions and Dispositions



## 1. Business Activities

## 1-1 Business Scope

## 1-1-1 Major Business Items

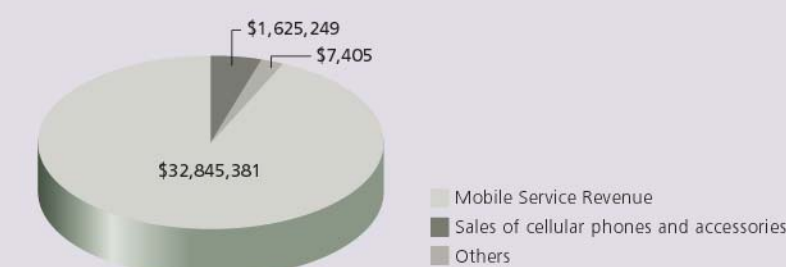
1. To operate mobile telephone business;
2. To conduct installation, maintenance, wholesale and import/export business for electronic and radio communications facilities and components;
3. To conduct purchase and sale, installation, and maintenance business of radio transceivers (limited to land mobile 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 consultation services business ( provide integration & consultation 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 ).

In addition to the above items, the Company may also engage in other businesses not prohibited or restricted by law.

## 1-1-2 Operating Revenue Breakdown

Unit: NTD '000

Item	Year	2002		2001	
		Amount	%	Amount	%
Mobile Service Revenue		\$ 32,845,381	95.27%	\$ 31,760,546	91.93%
Sales of cellular phones and accessories		1,625,249	4.71%	2,760,370	8.00%
Others		7,405	0.02%	23,439	0.07%
Total		\$ 34,478,035	100.00%	\$ 34,544,355	100.00%



## 1-1-3 Existing Product and Services

1. Type I Telecommunication Services: all cellular core and data & multi-media services (including but not limited to content voice, content data, multi-media) and payment options in either postpaid or prepaid.
2. Type II Telecommunication Services: Internet access service (IAS); International Simple Resale (ISR), e-mail; e-commerce, and convergent service of the Internet and cellular services.
3. Sales of wireless communication equipment such as cellular devices and accessories: sales and post-selling repair and maintenance services.

## 1-1-4 Developing Product and Services

In 2003 FET continues to provide enhancing value services such as follows:

1. Video Call Services
2. Video Streaming Services
3. Video Clip Downloading Services
4. Java Application Enhancements
5. MMS Applications Enhancements
6. Enhancement on Super i-style: such as \*147# and 566
7. Messaging Services: such as MSN Messenger, QQ Messenger Services
8. Mobile Data i-style portal
9. Integrated Community Services
10. Color Mobile Internet Portal
11. Multi-Media \*147# Portal
12. Voice Portal



**1-2 Summary of Technology Research and Development****1-2-1 Major R&D Spending and Achievements over the last two years**

Year	Direct Spending of R&D Departments	Ratio to Total Revenue	Major Achievements
2003 (as of March 31)	73,679	0.84%	FET has successfully assisted its subsidiary, Yuan-Ze, in winning a 3G service license. FET has been a leader in technology development by expanding its experimental platform to other research resources of the Far Eastern Group (such as Yuan-Ze University and Oriental Institute of Technology). The Company continued to engage with industrial, academic and governmental R&D energies to enhance its capability of developing data and multi-media services, and quality of services (QoS). FET launched various application services with significant market potential to strengthen its competitive edge, and to further increase market share and total revenue.
2002	274,333	0.80%	
2001	205,909	0.60%	The Company has developed new technologies to assure communication service quality and system reliability, and built up a testing environment and common service platform to ensure service quality and effective development of new products. In continue study and experiment new technologies, FET will sure to play a leader in telecommunications industry.

**2-2 Technology Level of the Services Provided**

The main business of FET is to provide value-adding convergent service and its three major technology sources include:

1. results of FET's R&D team and partnership with system suppliers.
2. projects of working with the academics.
3. achievements of Interacting with the National Telecommunication Research Plan Office (NTPO). FET has established "FET Lab" dedicated to improve wireless telecommunications technology and quality enhancement, including research and development of GSM software and hardware, and applications and technologies of multi-media images through internal or out-sourced projects. Currently the focus of the Company's technology development is to provide stable, speedy and reliable 3G services for voice and image transmission.

**2-3 2002 R&D Plans**

FET's R&D Program includes prioritized projects and efficiently integrated with Far Eastern Group's resources in telecommunication technology development in order to build a solid technology team as the foundation of advanced technology development. To fulfill the market needs for application services, FET focuses on applications development (data and multi-media services) and quality of services (QoS). The purpose is to make the most of Far Eastern Group's resources in telecommunication technology development for FET to create operational values.

**A. Advanced technology development**

This is for the future business operation of FET. The focus of this year is to enhance the partnership with Yuan-Ze University. Yuan-Ze University has established a research team to conduct related studies with the resources of the academics and the results will be provided to FET for future development. In addition, Yuan-Ze also provides FET with R&D resources such as software, hardware, facilities and platforms. With such long-term partnership, FET is able to achieve best results with the least subsidies. To continuously improve R&D capabilities, FET will partner with the academics to compete for outside resources (such as from National Science Council, Ministry of Education and Ministry of Economy Affairs). Such R&D projects can be categorized into two types: The first type is FET's research projects outsourced to Yuan-Ze University. The second is that FET provided its resources to help Yuan-Ze University's projects apply for funds from related government institutes for technology research and education planning, and results of such projects are to be used by FET.

**B. Internal R&D Plans**

The internal R&D plans are to enhance the research and development for the prompt operational needs and application services, which are in charge by the three research labs, one education center and six R&D teams. They are:

1. Wireless Technology Laboratory
2. Network Testing Laboratory
3. Network Architecture and Platform Laboratory
4. Education Center
5. Wireless Terminal Research Team
6. Service Platform Development and Technology Research Team
7. Commercial Integration and Development Research Team
8. Portability of Data and Multi-media Services Research Team
9. Mobile Business Development Research Team
10. System Structure Planning Research Team

**C. Technology Exchange Activities**

FET continues the tradition of hosting seminars and conferences on wireless telecommunications development and publishing FET Journal to stimulate interaction and maintain the leadership in technology development. In response to the trend of globalization, this year FET will further enhance interaction with the academics in China, integrating the resources of Yuan-Ze University, Oriental Institute of Technology, and NCIC to build up its reputation and position in China.



## 2. Market and Sales Overview

### 2-1 Market Analysis

#### 2-1-1 Main Product (Services)

FET has two licenses -GSM 900 for northern Taiwan and GSM 1800 island-wide. The Company provides customers all over Taiwan with superior quality of wireless telecommunication services including SMS, voice and wireless internet. To pursue higher quality of sales service, FET set up FET stores and V@SS franchised stores throughout the island and will continue to strive for the leading position of convergent service providers.

#### 2-1-2 Market Share

Currently the total market share of the top three cellular operators, Chunghwa Telecom (CHT), Taiwan Cellular Corp.(TCC) and FET, has exceeded 80%. As there is little possibility for future service license issuance, it is expected that the market will be further concentrated which means the key players will tend to take more market share. Regional operators will have to seek opportunities for M&A activities or strategic alliance to keep their customer base and service level. As for the top three players, the future success will belong to whoever can offer the most complete package of data & multi-media services.

The following table on revenue market share is based on the information released by each operators in 2002:

Company	CHT	FET	TCC	MBT	KGT	TA	Total
Market Share	35.1%	18.5%	26.5%	2.7%	12.0%	5.2%	100.0%

#### 2-1-3 Growth Potential of the Market

Taiwan's cellular service market has been growing amazingly fast which is unusual in other markets in the world. As of December 2002 the SIM card penetration rate has reached 106.15%. As the market matures, all operators are placing emphasis on developing data & multi-media services to stimulate usage. In anticipation of wireless data and 3G services, mobile phone will further integrate with the internet to provide more convenient and advanced services and product.

#### 2-1-4 Sales Targets

According to the Company forecasted customer growth, market share and customer churn rate, for the relatively mature wireless service market, FET plans to attract and keep high-value customers by launching flexible rate plans bundled with various types of new mobile phones. By doing so, the Company estimate that its customer number will increase from 4,340,000 by the end of 2002 to 4,428,000 in year 2003. In additions, FET will continue to launch various services such as GPRS, wireless data services, Mobile Virtual Private Network (MVPN), International Simple Resale (ISR), etc. expected to effectively increase our service revenue.

#### 2-1-5 Competitive Advantages

- (1) Best voice quality and customer satisfaction:** FET has strived to become a best telecommunication service provider ever since FET launched mobile services. FET's service quality has always been recognized by customers and has been given higher

ratings than its competitors in many service quality evaluations conducted by the Directorate General of Telecommunications, Ministry of Transportation and Communications, and other highly-reputed social groups.

- (2) Visionary marketing strategy:** Targeting young people, FET launched its prepaid service "IF Card" which received significant market response. IF Card not only successfully attracted many young people to become FET's customers but also fulfill their initial needs for cellular services, and many of IF Card users later switched to post-paid service and become long-term loyal customers. The target groups of IF Card were later expanded to include housewives and the elderly. And wireless internet and data services such as i-style are also provided to prepaid customers, which has successfully increased revenues for the Company.

- (3) Excellent Corporate Image:** The partnership with leading international operator AT&T Wireless Services not only provides FET with solid support in advanced technology, it also helps FET build up international reputation and image. In additions, according to the semi-annual customer satisfaction survey, the most important reason for customers to choose FET service is "word of mouth", which shows that FET's service quality and corporate image have been widely recognized by public consumers.

- (4) Solid R&D Team:** To ensure FET's leading position in wireless technology, FET has established "FET Lab" ever since it launched mobile services. Applying its own technology and with the assistance from AT&T Wireless, FET continuously improves the value of its product and services towards the goal of sustainable development.

- (5) Superior Customer Service:** FET's seamless customer service network is supported by its 24-hour customer service representatives and engineers. With high service level requirements and electronic monitoring systems, customers' communication problems can always be taken care of and solved within the shortest possible time.

### 2-1-6 Positive and Negative Factors for Future Competition

#### (1) Positive Factors

- Dual-band system offers superior quality of communication: Currently, there are only two operators in Taiwan, CHT and FET, who possess both GSM900 and GSM1800 licenses. These two different frequencies complement each other in penetration capability and radius reach. Therefore, FET's dual-band network can automatically put or switch customers on the best channel and meanwhile make the most of the limited bandwidth to reduce congestion.
- Professional Management Team and Excellent Corporate Image: With the support from FET's joint venture partners, AT&T Wireless and the Far Eastern Group, in advanced technology and human resources, FET has built up a strong team and superior corporate image and leading position in the market.
- Mobile Phone Price Drop: As many locally-manufactured mobile phones entered the market, prices of mobile phones have been decreasing year by year, which helped create stronger demand for mobile phones especially among young people and also indicates great potential for cellular operators.



4. New Technology Increases Added-Values: New communication technologies not only contribute to the prevalence of home information appliances but also bring about communication technology breakthroughs, for instance, the maturing of the new generation of high-speed data transmission system and wireless communication technology, Internet related services, etc. These will create a lot of opportunities for data & multi-media services on wireless broadband network. Mobile phones will no longer merely be a device for voice communication but will further become a convergent media for various devices of data transmission.

## (2) Negative Factors

1. Vicious competition among operators for SIM card sales: The demands for SIM cards reached its peak two years after the market is deregulated. In the future total SIM card number growth is expected to be stabilized. Therefore, operators tend to increase commission for dealers and handset subsidies in order to stimulate higher SIM card sales. Such vicious competition not only squeezes operators' profit but also in a way encourages SIM cards switch rate.
2. Unfair competition between CHT and private operators: Former monopoly CHT has been taking the lead to offer handset subsidies and discount to stimulate fluctuation of the service rate, which created uncertainty for the profitability of private operators. Moreover, CHT often take advantage of its position of being the only licensed operator for some other telecommunications businesses, which also create unfair competition and obstacles for the service integration of private operators.

## Strategies Against the Negative Factors

- A. Increase the number of cell sites to improve the communication quality.
- B. Enhance customer loyalty with effective marketing strategy and by offering more data & multi-media services.
- C. Integrate wireless communication network and the Internet to offer convergent service.
- D. Offer customers with various choices for super value rate plans

## 2-2 Major Services and Production Processes

### 2-2-1 Purposes of Major Services

Major Services	Purpose
Voice Transmission	GSM900/1800 communication with interconnection with CHT's and other operators' networks
Data Transmission	GSM900/1800 communication with interconnection with CHT's and other operators' networks
GPRS Service	GSM900/1800 packet-switched data transmission service
Short Message Service	GSM900/1800 communication connected with other operators' networks

### 2-2-2 Production Process

FET is a mobile operator, not a manufacturer. Thus there is no production engaged.

### 2-2-3 Supply of Raw Material

FET is a mobile operator, not a manufacturer. Thus there is no raw material engaged.

## 2-4 Top 10 Customer and Suppliers in 2001 and 2002

### 2-4-1 Top 10 Suppliers

2002			2001		
Company	Amount	% of Total Operating Cost	Company	Amount	% of Total Operating Cost
Sharp Electronics	5,056,849	30%	Chunghwa Telecom Co., Ltd.	3,782,340	24%
Chunghwa Telecom Co., Ltd.	3,167,793	19%	Synnex Information Technologies, Inc.	1,602,473	10%
Synnex Information Technologies, Inc.	1,293,777	8%	Aurora Corporation	1,418,433	9%
Taiwan Cellular Corporation	1,020,706	6%	TransAsia Telecom	329,789	2%
Senao International Co., Ltd.	601,453	4%	Nokia Taiwan	323,474	2%
KG Telecom	477,110	3%	Mobitai Communications	164,022	1%
Arcoa Industries, Inc.	293,666	2%	Cellstar Taiwan	158,765	1%
Sony Electronics Inc.	261,687	2%	Taiwan Cellular Corporation	87,847	1%
Systex Co., Ltd.	252,127	2%	Ulvcom Telecommunications Co., Ltd.	83,619	1%
TransAsia Telecom	248,645	1%	Siemens Telecommunication Systems Ltd.	60,338	0%

### 2-4-2 Top Customers

2002			2001		
Company	Amount	% of Total Operating Revenue	Company	Amount	% of Total Operating Revenue
Chunghwa Telecom Co., Ltd.	7,935,692	23%	Chunghwa Telecom Co., Ltd.	7,781,605	23%
Taiwan Cellular Corporation	1,135,666	3%	Synnex Information Technologies, Inc.	670,841	2%
New Centruy InfoCom	683,115	2%	Systex Co., Ltd.	523,512	2%
KG Telecom	607,996	2%	TransAsia Telecom	266,948	1%
Systex Co., Ltd.	358,677	1%	Arcoa Industries, Inc.	234,489	1%
TransAsia Telecom	244,838	1%	Mobitai Communications	166,794	0%
Mobitai Communications	239,472	1%	New Century InfoCom	125,105	0%
Synnex Information Technologies, Inc.	144,625	0%	Taiwan Cellular Corporation	98,933	0%
Eastern Broadband Telecom	138,374	0%	KG Telecom	45,143	0%
First International Telecom (FITEL)	96,083	0%	Yu-feng Communications	13,923	0%

### 2-4-3 Reasons for Major Differences

In December 2001, FET has entered into an interconnection agreement with each of the wireless operators in Taiwan. Thus, other wireless operators became our major customers since 2002.

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



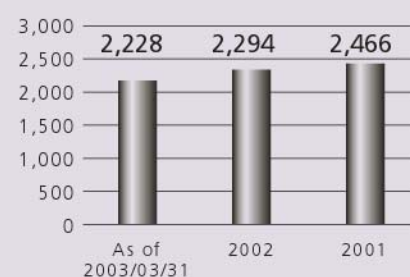
## 2-6 Sales Volumes for the Past Two Years

Year		2002	2001
Item	Net Additions	565,135	364,503
	Accumulated	4,340,514	3,775,379
Mobile Phone		430,207	511,256
Operating Revenue (Unit: NTD '000)	Service Revenue	32,845,381	31,760,546
	Equipment Sales	1,625,249	2,760,370

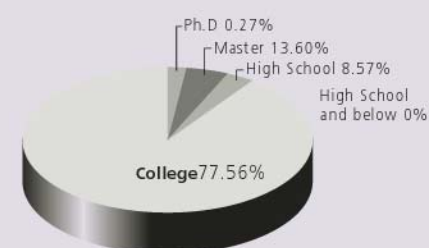
## 3. Employee Information

2003/03/31

Numbers of Employees



Breakdown of Employees' Education Level



Year		2003 (as of 03/31/2003)	2002	2001
Number of Employees		2,228	2,294	2,466
Average Age		31.06	30.78	29.78
Average Years of Service		3.36	3.11	2.28
Percentage by Education (%)	Ph.D	0.27%	0.26%	0.32%
	Master	13.60%	13.56%	13.14%
	College	77.56%	77.72%	78.10%
	High School	8.57%	8.46%	8.43%
	Others	0.00%	0.00%	0.00%

## 4. Expenses for Environmental Protection

**4-1** FET understands concern of the general public regarding Electronic Magnetic (EMF) emitted by base stations of wireless communication network. FET has been implementing and observing the regulations suggested by the international research reports. FET also participated and sponsored

seminars, promotion activities and research projects in conjunction with DGT, media and the academics to help the public understand EMF and eliminate unnecessary concerns. The actions taken and their results are as follows:

1. Participated the production of EMF pamphlets and newspaper promotion.
2. Participated seminars on EMF held by the Commercial Times.
3. Sponsored EMF education promotion events held by Health Department of Taipei City Government.
4. Participated seminars on the legal environment in 3G era held by NTHU
5. Participated EMF related meetings and conferences held by DGT and the academics.
6. Sponsored fun fairs held by DGT for EMF promotion
7. Established a website that provides EMF measurement services.
8. Established an EMF measurement service hot line for inquirers.
9. Formed a work team for EMF promotional activities and communication with the media.
10. Assisted the island-wide EMF Common Measurement Plan held by the Environmental Protection Administration (has accomplished the part of the plan for Taipei, Taichung and Kaohsiung metropolitan areas.)
11. Produced EMF pamphlets and TV promotions in response to the appeal made by the Executive Yuan EMF Promotion Team.

**4-2** FET is a telecom service company, not a manufacturing company, and does not generate sewage and exhaust pollution. Hence, FET does not have any special costs or expenses incurred for controlling environmental pollution.

1. Requirements of Related Environmental Protection Regulations:
  - (1) To apply a Permit for Placing Pollution-Generating Equipment or for Pollution Generation: Not Applicable.
  - (2) To spend the expenditure for controlling environmental pollution: Not Applicable
  - (3) To establish an Environment Protection Unit within the company: Not Applicable
2. Major investments to control environmental pollution and their possible effect: None
3. 2002 capital expenditure for environmental protection as of the publishing date of the Company's annual report: None

## 5. Employee Relations

## 5-1 Employee Welfare

The company provides competitive salary and incentive programs including fixed annual bonus and performance incentives, sales incentives and spot recognition. In addition to the basic welfare required by the Labor Standard Law, FET employees can also enjoy health check, group insurance, in-company clinics, safety and health seminars, company cafeteria, free commuting bus service, mobile phone subsidy and monthly airtime subsidy. The company also instituted an Employee Welfare Committee in 1997 to promote club activities and offer subsidy for domestic and overseas trips, scholarships for employees' children, bonus on various occasions of the employees or their families such as birthdays, weddings, funerals, etc.



### 5-2 Employee Training

To allow employees to stay current with the rapid-changing technology, and ensure all employees has the required competency to help FET stay competitive in the market, since 2001 the company has been providing employees with training courses in four categories for employees of different functions including management, services, sales and technology. There are also trainings for all employees to attend (for instance, orientation for new comers, general work efficiency) and tailor-made trainings for specific groups or purposes. In 2002, totally 728 training classes were delivered with 11,416 trainees attended.

In the second half of 2001, in order to further integrate the Company resources and improve administrative efficiency, FET introduced electronic administrative information system which went on-line in mid-2002. In the meanwhile, an on-line learning system (e-learning) was established and started to offer on-line training programs in April 2002. Moreover, there are eight training rooms and two computer rooms in Taipei, Taichung and Kaohsiung offices that can accommodate totally 500 people to take training classes at the same time.

### 5-3 Employee Communication

The Company recognizes the importance of listening to employees. For continuous improvements, a two-way communication system has been established which include:

1. Employee Opinion Survey is held every six months by contracted third party to identify employees' satisfaction for the company. According to the results, employees' satisfaction rate for the company has exceeded 80% for 3 consecutive years.
2. The opinion box on the intranet is available for all employees to provide suggestions and complaints.
3. Weekly newsletters and Far EasToner Monthly are published on the intranet to keep employees informed of the company's activities and serve as a space for employees to share their thoughts and feelings.
4. Monthly Lantern Meetings are participated by representatives of employees and employers to discuss labor issues.
5. Employee update meetings are held twice a year to provide opportunities for face-to-face communication with the executive management team.

**5-4 Far EasToner's loss caused by labor disputes over the past 2 years: None**

## 6. Important Contracts

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
Procurement	Sharp	2002.10.09~present	Mobile phones procurement	-
Sales and Distribution	Tait & Co	1999.08.03~2002.08.01	Master dealer agreement	-
	Tatung Company	1997.05~2002.05	Promotion and sales agreement for cellular services	-
	Ericsson Taiwan	1996.12.05~present	BTS facilities, hardware, software and installation	-
	Systex	2002.05.15~2003.05.14	Promotion and sales agreement for cellular services	-
	Arcoa	2000.06.21~2005.06.21	Promotion and sales agreement for cellular services	-
	Synnex	2002.05.17~2003.05.16	Promotion and sales agreement for cellular services	-
	7-Eleven	2003.01.01~2003.12.31	Promotion and sales agreement for prepaid IF Cards and recharge cards	-
	OK (Convenient Stores)	2003.01.01~2003.12.31	Promotion and sales agreement for prepaid IF Cards and recharge cards	-

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
Sales and Distribution	Hi-Life (Convenient Stores)	2003.01.01~2003.12.31	Promotion and sales agreement for prepaid IF Cards and recharge cards	-
	Taiwan Tea Corporation	2003.01.01~2003.12.31	Promotion and sales agreement for prepaid IF Cards and recharge cards	-
	CHT	2001.05.29~2002.05.28 Extension being negotiated (Note 1)	Network interconnection	-
Network Interconnection	Taiwan Fixed-Line	2001.06.15~2002.06.14 Extension being negotiated (Note 1)	Network interconnection	-
	NCIC	06/16/2001~06/14/2002 Extension being negotiated (Note 1)	Network interconnection	-
	Eastern Broadband	2001.08.01~2002.07.31 Extension being negotiated (Note 1)	Network interconnection	-
	TCC	2001.12.01~2002.11.30 Extension being negotiated (Note 2)	Voice service interconnection	-
	KGT	2000.07.05~2000.07.04 Extension being negotiated (Note 2)	SMS interconnection	-
		2001.12.01~2002.11.30 Extension being negotiated (Note 2)	Voice service interconnection	-
	KGT	2000.08.11~2001.08.10 Extension being negotiated (Note 2)	SMS interconnection	-
		2001.12.01~2002.11.30 Extension being negotiated (Note 2)	Voice service interconnection	-
	TransAsia	2001.12.1~2002.11.30 Extension being negotiated (Note 2)	Voice service interconnection	-
	Fitel	2002.02.01~2003.01.31 Extension being negotiated (Note 2)	Voice service interconnection	-
		2002.10.17~2003.01.31 Extension being negotiated (Note 2)	SMS interconnection	-
Technical and HR Support	AT&T Wireless Services	1997.01.15~present	Wireless services construction and operations support	60 days prior notice is required for contract termination
HR Support	CSI	1997.01.15~present	Professionals dispatch for wireless service construction and operations support	-
Syndicated Loan	Led by Citibank	1998.02.25 ~2005.01.25	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 submitted to MOTC and DGT as performance bond.	Restrictions are stated on FET's finance standards and shareholding percentage of major shareholders.
Syndicated Loan	Led by Citibank	2000.08.30~2005.08.30	NT\$2.3B 5 years revolving note issuance facility	Restrictions are stated on the shareholding percentage of FET's major shareholders.
		2000.11.30~2005.11.30	NT\$2.2B 5 years bank guarantee secured corporate bond and one year term interest rate guarantee	
		2002.02.24~2007.02.24	NT\$4.3B 5 years revolving credit line	
Warehousing and transportation services	Qiou-Yue Logistics Services	2003.01.01~2003.12.31	Warehousing and transportation services	-
	Hsin-Chu Trans	2001.01.01~2002.12.31	Warehousing and transportation services	-

Note 1: After an interconnection agreement is due, the two parties shall commence negotiation. If consensus is not reached within three months from the date the negotiation commences, the following solutions can be adopted:

(1) If both parties agree to continue negotiation, during the period of negotiation it is to be determined by both parties whether the interconnection agreement remains effective or as else agreed.

(2) If either party seeks arbitration from DGT, before the arbitration results are announced the interconnection agreement shall remain effective.

Note 2: The term of the agreement is one year and automatically extended unless new agreement is signed. Negotiation for a new agreement shall commence two month prior to the agreement due date.



### 7. Lawsuits or Non-litigious Matters

**7-1** The disputed facts, amount of claim, commencing date of litigation, major litigant participants and the progress in the last two years (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 and the cases has been granted a judgment conclusive 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' interest or stock value:

**(1) The Case on Labor Safety**

A security guard from the Company's contracted 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, Banchiao City during the night when a typhoon was raging the city. The investigation conducted by Panchiao Prosecution Authorities was closed on March 7, 2003 and the Company was prosecuted by the Prosecutor for violating the law of labor safety and health. The Company shall await the court's notification for the hearing wherein the Company shall provide grounds to defend itself against the charge.

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

The plaintiff Yue-Shue Yu, claims that the leasehold relation between the Company and the Senseio building management committee does not exist. The first trial was held at the Summary Court of Taichung District Court in January 2002. The Company has won the case base on the court's judgment released in April 2002. Because of discontentment with the judgment the plaintiff later made an appeal which has been rejected by Taichung District Court on March 18, 2003 and the case was thereby closed.

**(3) Request for Payment**

Information service company Superpoll claimed that the Company did not make the final payment of about NT\$430,000 for conducting Taiwan wireless market survey for the Company based on the project agreement. The first trial of the case was held at the Summary Court of Taipei District Court in October 2002. The Company lost the case based on the court's judgment released in February 2003. Because of discontentment with the judgment the Company will make an appeal to Taipei District Court.

**(4) Appeal Case against DGT's Administrative Punishment of an NT\$300,000 Fine**

DGT ordered the Company to pay a fine of NT\$300,000 as an administrative punishment for violating Article 38 of the Wireless Business Management Regulations by setting up a temporary BTS on the main peak of Mt. Hohuan without permit. Because of discontentment with administrative punishment the Company has made an appeal to the Committee of Appeal of the Executive Yuan.

**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 directors, supervisors, president, 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' interest or stock value: None

### 8. Significant Property Acquisitions and Dispositions

Significant Property Acquisitions and Dispositions of the Company and Subsidiaries as of the publishing date of the Company's annual report

#### 8-1 Significant Property Acquisitions

Name of Property	Date of Acquisition (Note 1)	Purchase Price	Seller	Relations	Status
Far EasTone Telecommunications Co., Ltd.					
Yuan-Ze Telecom	2002.03.13	7,170,000	N/A (It was a case of capital increase by cash.)	-	For future business expansion
System Facilities	200204.01	553,787	Ericsson Taiwan	-	For business needs
1 <sup>st</sup> -8 <sup>th</sup> Floor, Nei Hu Headquarter Building	2003.02.26 (Note 2)	1,569,520 (tax included)	Far Eastern International Leasing Corp.	The Company's Supervisor	FET Headquarter Building
Yuan-Ze Telecommunications Co., Ltd.					
System Facilities	2003.01.07	1,365,000	Ericsson Taiwan	-	For business needs

Note 1: Reporting Date

Note 2: Ownership transfer will be completed by the end of April 2003.

#### 8-2 Significant Property Dispositions: None

## IV. Fund Utilization Plans and Status



## 1. Fund Utilization Plans and Implementation Status

## 4-1. Fund Utilization Plans and Implementation Status

Uncompleted bond issues, private placement of securities, completed bond issues or private placement of securities in the last three years whose return of investment has not emerged.

## 4-1-1 Forecast Capital Expenditure for the Euro. Convertible Bond Issued in 2002

Unit: NTD '000

Plan	Expected Completion Date		Forecast Capital Expenditure				Total
			2003				
			Q1	Q2	Q3	Q4	
Network Expansion	2003/12/31	Forecast	923,634	1,325,214	1,325,214	441,738	4,015,800
		Actual	579,843	-	-	-	
	Achievement Rate		63 %	-	-	-	

## 4-1-2 Implementation Status

The progress of the Company's 2003 capital expenditure plan was modified due to the delay of the network expansion completion date, and the achievement rate for the first quarter was only 63%, while it is believed that the plan for the whole year will still be accomplished. Therefore, it shall not cause material impact on the company's fixed assets, operating revenue and profit.



## V. Financial Information



1. Condensed Financial Statement for the Past 5 Years
2. Financial Analysis for the Past 5 Years
3. 2002 Supervisors' Report
4. Independent Auditors' Report, Financial Statements and Notes
5. Audited 2002 Consolidated Financial Statements and Notes
6. Financial Condition and Impact of the Company and Affiliates
7. Financial Forecast and Results in 2001 and 2002

39

## V. Financial Information

### 1. Condensed Financial Statement for the Past 5 Years

#### 5-1-1 Condensed Balance Sheet

Unit: NTD '000

Item	Year (Note 1)	2003 (as of Mar 31)	2002	2001	2000	1999	1998
<b>Current Assets</b>		\$ 11,277,876	\$ 8,537,035	\$ 9,253,268	\$ 11,110,863	\$ 4,145,103	\$ 2,835,659
Investments in Shares of Stock		8,166,078	8,223,198	1,078,952	82,191	-	-
Properties		39,061,705	40,120,073	40,695,530	33,934,139	21,312,982	13,041,692
Other Assets		1,509,537	1,912,536	1,782,827	1,146,872	595,684	872,365
<b>Current Liabilities</b>		8,155,786	9,273,638	8,975,301	9,210,154	4,529,962	3,309,990
Before Distribution		8,155,786	9,273,638	8,975,301	9,210,154	4,529,962	3,309,990
After Distribution		-	(Note 2)	11,045,102	9,213,790	4,779,659	3,309,990
<b>Long-term Liabilities</b>		10,146,199	9,345,839	8,473,620	7,207,678	4,444,549	2,450,957
Other Liabilities		1,999,429	2,122,857	3,078,044	4,232,173	3,086,741	1,646,488
<b>Capital Stocks</b>		23,058,000	23,058,000	18,900,000	14,000,000	11,370,000	10,700,000
<b>Capital Surplus</b>		5,996,658	5,996,658	6,156,572	7,556,572	2,345,000	-
<b>Retained Earnings</b>		10,656,026	8,992,752	7,223,136	4,067,488	277,517	( 1,357,719)
Before Distribution		10,656,026	8,992,752	7,223,136	4,067,488	277,517	( 1,357,719)
After Distribution		-	(Note 2)	1,184,335	563,852	27,820	( 1,357,719)
<b>Cumulative Translation Adjustments</b>		3,098	3,098	3,904	-	-	-
<b>Total Assets</b>		60,015,196	58,792,842	52,810,577	46,274,065	26,053,769	16,749,716
<b>Total Liabilities</b>		20,301,414	20,742,334	20,526,965	20,650,005	12,061,252	7,407,435
Before Distribution		20,301,414	20,742,334	20,526,965	20,650,005	12,061,252	7,407,435
After Distribution		-	(Note 2)	22,596,766	20,653,641	12,310,949	7,407,435
<b>Total Stockholders' Equity</b>		39,713,782	38,050,508	32,283,612	25,624,060	13,992,517	9,342,281
Before Distribution		39,713,782	38,050,508	32,283,612	25,624,060	13,992,517	9,342,281
After Distribution		-	(Note 2)	30,213,811	25,620,424	13,742,820	9,342,281

Note 1: The financial statements for 1998 ~ 2002 have been audited. The financial statements for 1Q 2003 was prepared by the Company and not reviewed.

Note 2: The proposal regarding 2002 earnings distribution has not yet been approved by the board of directors.

#### 5-1-2 Condensed Income Statement

Unit: NTD '000

Item	Year (Note 1)	1Q 2003	2002	2001	2000	1999	1998
<b>Operating Revenues</b>		\$ 8,778,418	\$ 34,478,035	\$ 34,544,355	\$ 32,180,516	\$ 18,618,237	\$ 7,483,843
<b>Operating Costs</b>		4,488,046	16,659,020	15,723,129	13,864,623	9,239,946	4,805,408
<b>Gross Profit</b>		4,290,372	17,819,015	18,821,226	18,315,893	9,378,291	2,678,435
<b>Operating Expenses</b>		2,505,566	9,902,695	12,234,984	14,376,798	7,350,492	4,032,633
<b>Non-Operating Income</b>		48,617	174,313	287,153	215,023	242,317	158,448
<b>Non-Operating Expenses</b>		161,712	416,751	483,665	231,532	266,905	256,253
<b>Income (Loss) Before Income Tax</b>		1,671,711	7,673,882	6,389,730	3,922,586	2,003,211	( 1,452,003)
<b>Net Income (Loss)</b>		1,663,274	7,808,417	6,659,284	4,039,668	1,635,236	( 890,641)
<b>EPS (NTD) (Note 2)</b>		0.72	3.39	2.89	1.98	0.84	( 0.56)
<b>Capitalized Interest</b>		31,513	175,045	324,225	323,311	165,438	132,195

Note 1: The financial statements for 1998 ~ 2002 have been audited. The financial statements for 1Q 2003 was prepared by the Company and not reviewed.

Note 2: Based on weighted average number of outstanding shares after retroactive adjustments to give effect to stock dividends.

#### 5-1-3 Independent Auditor's Name and Auditor's Opinions for the Past Five Years

Year	Audit Firm	Auditors' Name	Opinion
2002	TN Soong & Co.,	Clark C. Chen, Edward Y. Way	Unqualified opinion
2001	TN Soong & Co.,	Clark C. Chen, Edward Y. Way	Unqualified opinion
2000	TN Soong & Co.,	Clark C. Chen, Victor Wang	Unqualified opinion
1999	TN Soong & Co.,	Clark C. Chen, Victor Wang	Unqualified opinion
1998	TN Soong & Co.,	Clark C. Chen, Victor Wang	Unqualified opinion

## 2. Financial Analysis for the Past 5 Years

Item (Note 4)		Year (Note 3)	2003 (as of Mar 31) unreviewed	2002	2001	2000	1999	1998
Financial Structure	Debts to Assets Ratio (%)		33.83	35.28	38.87	44.63	46.29	44.22
	Long-term Funds to Fixed Assets Ratio (%)		127.64	118.14	100.15	96.75	86.51	90.43
Liquidity Analysis	Current Ratio (%)		138.28	92.06	103.10	120.64	91.50	85.67
	Quick Ratio (%)		107.41	66.04	87.12	106.09	75.20	63.68
	Times Interest Earned (times)		19.43	26.23	27.69	31.15	15.13	(17.86)
Operating Performance	Accounts Receivable Turnover (times)		8.85	8.34	5.68	6.53	8.94	8.49
	Average Collection Days		41.23	43.79	64.23	55.93	40.82	42.99
	Inventory Turnover (times)		4.23	2.23	4.72	14.80	7.00	6.85
	Inventory Turnover Days		85.11	163.68	77.26	24.67	52.16	53.28
	Accounts Payable Turnover (times)		52.27	59.91	48.35	44.28	27.33	17.04
	Fixed Assets Turnover Ratio (times)		0.90	0.86	0.85	0.95	0.87	0.57
Profitability Analysis	Total Asset Turnover Ratio (times)		0.59	0.59	0.65	0.70	0.71	0.45
	Return on Assets (%)		11.66	14.40	13.80	11.44	8.14	(6.02)
	Return on Equity (%)		17.11	22.20	23.00	20.39	14.02	(9.97)
	Operating Income Loss to Capital Stock (%)		30.96	34.33	34.85	28.14	17.83	(12.66)
	Income (Loss) Before Income Tax to Capital Stock (%)		29.00	33.28	33.81	28.02	17.62	(13.57)
	Net Income (Loss) Ratio (%)		18.95	22.65	19.28	12.55	8.78	(11.90)
Cash Flow	Earnings per Share (NTD) (Note 2)		0.72	3.39	2.89	1.98	0.84	( 0.56)
	Cash Flow Ratio (%)		-	165.27	146.01	45.99	104.03	(Note 1)
	Cash Flow Equivalent Ratio		-	61.59	41.60	22.46	19.91	(Note 1)
Leverage Ratio	Cash Reinvestment Ratio		-	20.08	23.87	9.25	19.25	(Note 1)
	Operating Leverage		2.20	1.99	2.00	2.29	2.97	(Note 1)
	Financial Leverage		1.05	1.04	1.04	1.03	1.08	0.95

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

Note 2: Based on weighed average number of outstanding shares after retroactive adjustments to give effect to stock dividends.

Note 3: The financial statements for 1998 ~ 2002 have been audited. The financial statements for 1Q 2003 was prepared by the Company and not reviewed.

Note 4: The formulas for the above table:

## 1. Financial Structure

(1) Debts to Assets Ratio = Total Debts / Total Assets

(2) Long-term Funds to Fixed Assets Ratio = (Total Stockholders' Equity + Long-term Liabilities) / Net Fixed Assets

## 2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventory - Prepaid Expense) / Current Liabilities

(3) Times Interest Earned Ratio = (Net Income before Interest Expenses and Taxes) / Interest Expense

## 3. Operating Performance

(1) Accounts Receivable Turnover = Net Sales / Average Accounts Receivable

(2) Average Collection Days = 365 / Accounts Receivable Turnover

(3) Inventory Turnover = Cost of Goods Sold / Average Inventory

(4) Inventory Turnover Days = 365 / Inventory Turnover

(5) Accounts Payable Turnover: Cost of Goods Sold / Average Payable

(6) Fixed Assets Turnover Ratio = Net Sales / Net Fixed Assets

(7) Total Assets Turnover Ratio = Net Sales / Total Assets

## 4. Profitability Analysis

(1) Return on Assets = (Net Income + Interest Expenses x (1-Tax Rate)) / Average Total Assets

(2) Return on Equity = Net Income / Average Stockholders' Equity

(3) Net Income (Loss) Ratio = Net Income / Net Sales

(4) Earnings per Share = (Net Income - Preferred Stock Dividends) / Weighed Average Number of Outstanding Shares

## 5. Cash Flow

(1) Cash Flow Ratio = Cash Flows from Operating Activities / Current Liabilities

(2) Cash Flow Equivalent Ratio = Net Cash Flow from Operating Activities for the past 5 Years / ( Capital Expenditure + Increase in Inventory + Cash Dividends) for the past 5 Years

(3) Cash Reinvestment Ratio = (Cash Flows from Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments in Shares of Stock + Other Assets + Working Capital)

## 6. Leverage Ratio

(1) Operating Leverage = (Net Sales - Variable Operating Costs and Expenses) / Income from Operations

(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)



## 3. 2002 Supervisors' Report

April 8, 2003

The Board of Directors have prepared and submitted to us the Company 's 2002 Business Report, the Proposal for Profit Distribution, and the Financial Statements audited by the CPAs of T N Soong Co. The above reports, proposal, and financial 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.

Supervisors

Eli Hong



Jong C.Wang



Denis Koh



ENGLISH TRANSLATION OF A REPORT ORIGINALLY ISSUED IN CHINESE

## 4. Independent Auditors' Report, Financial Statements and Notes

## 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, 2002 and 2001, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. 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, 2002 and 2001, 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.

Also, we have audited the consolidated financial statements of Far EasTone Telecommunications Co., Ltd. and its subsidiaries as of December 31, 2002 and 2001, and have issued an unqualified opinion.

*T N Soong & Co*

T N Soong & Co  
An Associate Member Firm of Deloitte Touche Tohmatsu  
Taipei, Taiwan  
The Republic of China

February 25, 2003

## 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.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## BALANCE SHEETS

December 31, 2002 and 2001

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

	2002		2001	
	Amount	%	Amount	%
<b>ASSETS</b>				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	\$ 2,238,342	4	\$ 2,807,799	5
Accounts receivable - net of allowance for doubtful accounts of \$328,990 in 2002 and \$612,810 in 2001 (Note 2)	3,216,577	6	4,114,428	8
Inventories - net (Notes 2 and 4)	656,014	1	730,559	2
Prepaid expenses (Notes 2 and 12)	1,756,628	3	703,433	1
Other current assets (Notes 2, 11, 12 and 14)	669,474	1	897,049	2
Total Current Assets	8,537,035	15	9,253,268	18
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 5)	8,223,198	14	1,078,952	2
PROPERTIES (Notes 2, 6 and 12)				
Cost				
Land	153,004	-	148,189	-
Buildings and equipment	640,102	1	592,847	1
Computer equipment	5,525,062	10	4,163,282	8
Operating equipment	45,244,432	77	40,083,085	76
Office equipment	776,534	1	726,454	2
Leasehold improvements	1,687,886	3	1,578,814	3
Miscellaneous equipment	54,802	-	45,853	-
Total cost	54,081,822	92	47,338,524	90
Less - accumulated depreciation	17,386,742	30	11,064,374	21
	36,695,080	62	36,274,150	69
Construction in progress and advances related to acquisitions of equipment	3,424,993	6	4,421,380	8
Net Properties	40,120,073	68	40,695,530	77
OTHER ASSETS				
Properties not currently used in operations net (Note 2)	89,800	-	130,000	-
Refundable deposits (Note 12)	373,279	1	384,436	1
Deferred income taxes (Notes 2 and 11)	1,419,072	2	1,246,904	2
Miscellaneous	30,385	-	21,487	-
Total Other Assets	1,912,536	3	1,782,827	3
<b>TOTAL ASSETS</b>	<b>\$ 58,792,842</b>	<b>100</b>	<b>\$ 52,810,577</b>	<b>100</b>

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

	2002		2001	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
CURRENT LIABILITIES				
Notes payable	\$ 28,944	-	\$ 28,573	-
Accounts payable	589,345	1	504,159	1
Payables to related parties (Note 12)	660,229	1	619,891	1
Income tax payable (Notes 2 and 11)	137,095	-	671,593	1
Accrued expenses	2,928,548	5	2,361,159	4
Payables related to acquisitions of properties	2,120,178	4	1,417,422	3
Unearned revenues (Note 2)	2,050,310	4	1,018,874	2
Current portion of long-term liabilities (Notes 6 and 7)	616,000	1	2,060,000	4
Other current liabilities (Notes 2, 6 and 12)	142,989	-	293,630	1
Total Current Liabilities	9,273,638	16	8,975,301	17
LONG-TERM LIABILITIES				
Long-term bonds payable, net of current portion (Notes 6 and 7)	5,476,000	9	1,892,000	4
Long-term debts, net of current portion (Notes 6 and 7)	3,869,839	7	6,581,620	12
Total Long-term Liabilities	9,345,839	16	8,473,620	16
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 10)	131,130	-	97,314	-
Guarantee deposits received	1,991,727	3	2,966,635	6
Long-term obligations under capital lease (Notes 2 and 6)	-	-	14,095	-
Total Other Liabilities	2,122,857	3	3,078,044	6
Total Liabilities	20,742,334	35	20,526,965	39
STOCKHOLDERS' EQUITY				
Capital stocks - \$10 par value				
Authorized - 3,360,000 thousand shares				
Issued - 2,305,800 thousand shares in 2002 and 1,890,000 thousand shares in 2001	23,058,000	39	18,900,000	36
Capital surplus				
Capital in excess of par value	5,967,572	10	6,156,572	11
From investments in shares of stock	29,086	-	-	-
Total capital surplus	5,996,658	10	6,156,572	11
Retained earnings				
Legal reserve	1,097,646	2	431,718	1
Unappropriated earnings	7,895,106	14	6,791,418	13
Total retained earnings	8,992,752	16	7,223,136	14
Cumulative translation adjustments	3,098	-	3,904	-
Total Stockholders' Equity	38,050,508	65	32,283,612	61
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 58,792,842</b>	<b>100</b>	<b>\$ 52,810,577</b>	<b>100</b>



ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## STATEMENTS OF INCOME

For the Years Ended December 31, 2002 and 2001

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

	2002		2001	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 12)				
Sales of cellular phone equipment and accessories	\$ 1,628,644	5	\$ 2,761,226	8
Less - sales returns and allowances	3,395	-	856	-
Net sales	1,625,249	5	2,760,370	8
Service revenue	32,845,381	95	31,760,546	92
Other	7,405	-	23,439	-
Total Operating Revenues	34,478,035	100	34,544,355	100
OPERATING COSTS (Notes 2 and 12)				
Cost of sales	1,602,210	4	2,772,903	8
Cost of services	15,056,810	44	12,950,226	38
Total Operating Costs	16,659,020	48	15,723,129	46
GROSS PROFIT	17,819,015	52	18,821,226	54
OPERATING EXPENSES (Notes 2 and 12)				
Marketing	6,180,097	18	6,441,147	19
General and administrative	3,448,265	10	5,587,928	16
Research and development	274,333	1	205,909	-
Total Operating Expenses	9,902,695	29	12,234,984	35
INCOME FROM OPERATIONS	7,916,320	23	6,586,242	19
NONOPERATING INCOME				
Reversal of allowance for losses on inventories (Note 2)	33,039	-	31,191	-
Interest	16,841	-	27,290	-
Reversal of allowance for losses on properties not currently used in operations (Note 2)	-	-	68,100	-
Foreign exchange gains - net (Note 2)	-	-	42,421	-
Other (Note 12)	124,433	-	118,151	1
Total Nonoperating Income	174,313	-	287,153	1
NONOPERATING EXPENSES				
Interest (Notes 6 and 14)	304,193	1	239,401	1
Equity in net loss of investee companies (Notes 2 and 5)	54,034	-	166,047	1
Other	58,524	-	78,217	-
Total Nonoperating Expenses	416,751	1	483,665	2
INCOME BEFORE INCOME TAX BENEFIT	7,673,882	22	6,389,730	18
INCOME TAX BENEFIT (Notes 2 and 11)	134,535	1	269,554	1
NET INCOME	\$ 7,808,417	23	\$ 6,659,284	19
EARNINGS PER SHARE (Note 9)				
Primary				
Income before income tax benefit	\$ 3.33		\$ 2.77	
Net income	\$ 3.39		\$ 2.89	

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2002 and 2001

(In Thousands of New Taiwan Dollars)

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS (Notes 2 and 8)		Total	RETAINED EARNINGS (Note 8)		Total	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL STOCKHOLDERS' EQUITY
	Shares (Thousands)	Amount	Paid-in in Excess of Par Value	From Capital Investments in Shares of Stock		Legal Reserve	Unappropriated Earnings			
BALANCE, DECEMBER 31, 2000	1,400,000	\$ 14,000,000	\$ 7,556,572	\$ -	\$ 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 )
Remuneration to directors and supervisors	-	-	-	-	-	-	( 1,818 )	( 1,818 )	-	( 1,818 )
Stock dividend - 25%	350,000	3,500,000	-	-	-	-	( 3,500,000 )	( 3,500,000 )	-	-
Capitalization of capital surplus - 10%	140,000	1,400,000	( 1,400,000 )	-	( 1,400,000 )	-	-	-	-	-
Net income in 2001	-	-	-	-	-	-	6,659,284	6,659,284	-	6,659,284
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	3,904	3,904
BALANCE, DECEMBER 31, 2001	1,890,000	18,900,000	6,156,572	-	6,156,572	431,718	6,791,418	7,223,136	3,904	32,283,612
Appropriations of 2001 earnings										
Legal reserve	-	-	-	-	-	665,928	( 665,928 )	-	-	-
Bonus to employees	-	-	-	-	-	-	( 119,867 )	( 119,867 )	-	( 119,867 )
Remuneration to directors and supervisors	-	-	-	-	-	-	( 59,934 )	( 59,934 )	-	( 59,934 )
Stock dividends - 21%	396,900	3,969,000	-	-	-	-	( 3,969,000 )	( 3,969,000 )	-	-
Cash dividend - 10%	-	-	-	-	-	-	( 1,890,000 )	( 1,890,000 )	-	( 1,890,000 )
Capitalization of capital surplus - 1%	18,900	189,000	( 189,000 )	-	( 189,000 )	-	-	-	-	-
Recognition of effect of change in investment ownership percentage resulting from issuance of capital stock by investee for cash	-	-	-	29,086	29,086	-	-	-	-	29,086
Net income in 2002	-	-	-	-	-	-	7,808,417	7,808,417	-	7,808,417
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	( 806 )	( 806 )
BALANCE, DECEMBER 31, 2002	2,305,800	\$ 23,058,000	\$ 5,967,572	\$ 29,086	\$ 5,996,658	\$ 1,097,646	\$ 7,895,106	\$ 8,992,752	\$ 3,098	\$ 38,050,508

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,808,417	\$ 6,659,284
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,364,881	5,024,674
Provision for doubtful accounts	132,058	1,995,772
Reversal of allowance for losses on inventories	( 33,039 )	( 31,191 )
Equity in net loss of investee companies	54,034	166,047
Reversal of allowance for losses on properties not currently used in operations	-	( 68,100 )
Loss on disposal of properties	40,585	5,651
Loss on disposal of properties not currently used in operations	2,090	-
Accrued pension cost	33,816	37,956
Deferred income taxes	( 77,355 )	( 954,972 )
Others	-	13,941
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts receivable	765,793	775,180
Inventories	102,947	100,291
Prepaid expenses	( 1,062,954 )	( 183,521 )
Other current assets	138,597	384,761
Increase (decrease) in		
Notes payable	371	( 5,416 )
Accounts payable	85,186	( 357,917 )
Payable to related parties	40,338	( 1,724 )
Income tax payable	( 534,498 )	372,521
Accrued expenses	567,389	( 1,277,214 )
Unearned revenues	1,031,436	268,211
Other current liabilities	( 133,259 )	145,380
Net Cash Provided by Operating Activities	15,326,833	13,069,614
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	-	34,800
Acquisitions of investments in shares of stock	( 7,170,000 )	( 1,200,000 )
Return of subscription deposit	-	41,096
Acquisitions of properties	( 5,135,792 )	( 12,007,497 )
Proceeds from sales of properties	1,338	147,652
Proceeds from sales of properties not currently used in operations	1,200	-
Decrease (increase) in refundable deposits	11,157	( 61,770 )
Net Cash Used in Investing Activities	( 12,292,097 )	( 13,045,719 )

(Forward)

	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in long-term debts	( \$ 4,771,781 )	\$ 1,895,942
Proceeds from issuance of long-term bonds	4,200,000	-
Bonus paid to employees and directors	( 167,504 )	( 1,818 )
Cash dividend paid	( 1,890,000 )	-
Decrease in guarantee deposits received	( 974,908 )	( 1,158,490 )
Net Cash Provided by (Used in) Financing Activities	( 3,604,193 )	735,634
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	( 569,457 )	759,529
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,807,799	2,048,270
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,238,342	\$ 2,807,799
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	\$ 182,030	\$ 204,183
Income tax paid	\$ 493,980	\$ 307,596
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 616,000	\$ 2,060,000
CASH PAID FOR ACQUISITIONS OF PROPERTIES		
Increase in properties	\$ 5,794,774	\$ 11,963,390
Decrease (increase) in payables related to acquisitions of properties	( 702,756 )	9,791
Decrease in obligations under capital lease	43,774	34,316
CASH PAID FOR ACQUISITIONS OF PROPERTIES	\$ 5,135,792	\$ 12,007,497
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	\$ 2,536	\$ 184,908
Increase in receivable from properties sold	( 1,198 )	( 37,256 )
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	\$ 1,338	\$ 147,652

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



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

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

**1. GENERAL**

Far Eastone Telecommunications Co., Ltd., (the "Company") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares have been traded and listed on the ROC Over-the-Counter Securities Exchange since December 10, 2001. The Company provides wireless communications, Internet and international simple resale (ISR) services and also sells cellular phone units and accessories. The Company's principal stockholders are Far Eastern Textile Ltd. and its affiliates (the "Far Eastern Group") and the AT&T Wireless Group and its affiliates.

The Company provides wireless communications services by geographical sector under two type I licenses - GSM 900 for the northern sector and GSM 1800 for all other sectors ("GSM" means global system for mobile communications) issued by the Directorate General of Telecommunications (the "DGT") of the Republic of China (ROC). These licenses allow the Company to provide services for 15 years from 1997 as well as entail an annual license fee of 2% of total wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years from 1999 for a fixed annual license fee based on the amount of the Company's capital stock. In addition, the Company provides services under a type II - ISR license for 10 years from December 2001 and pays an annual license fee at 0.5% of ISR service revenues.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Cash equivalents**

Commercial paper purchased under agreements to resell with original maturities of not more than three months are classified as cash equivalents.

**Allowance for doubtful accounts receivable**

An allowance for doubtful accounts receivable is provided on the basis of the estimated collectibility of receivables from subscribers and other parties.

**Inventories**

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined by the weighted average method.

**Investments in shares of stock**

Investments in shares of stock in companies in which the Company exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost. The investment carrying values are then adjusted proportionately to the Company's share in the investee's net income or net loss. An increase in the Company's share in the net assets of its investees resulting from its subscription to additional shares of stock issued by the investee companies at a rate not equal to its current equity in the investees, is credited to capital surplus account. Any decrease in the Company's share in the net asset of its investee companies is debited against the current balance of the corresponding capital surplus account, with the difference debited against unappropriated earnings.

Any cash dividends received are recognized as a 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 are not recognized as investment income. The carrying amount of each share is recalculated on the basis of the total number of shares, including the received stock dividend.

If the current year's financial statements of less than majority-owned investees are not timely available to the Company, the equity in the net income or net loss of these investees is recognized in the succeeding year on the basis of the financial statements of the previous year.

Costs of stocks sold are determined by the weighted-average method.

**Properties**

Properties are stated at cost. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets. Major improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48
Building equipment	5-8
Computer equipment	3-5
Operating equipment	5-8
Office equipment	5
Leasehold improvements	5-48
Miscellaneous equipment	5-8

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

Equipment under capital leases and the related liability are stated at the lower of (1) the fair value of the equipment at the start of the lease or (2) the total present value of future lease payments and the bargain purchase option.



**Properties not currently used in operations**

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

**Pension costs**

Pension costs are recognized on the basis of actuarial calculations. Gains arising from plan curtailment due to pretermination of employees' services are recognized as an adjustment to pension cost in the current year. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service of employees, respectively.

**Income tax**

Deferred tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carry forwards and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent on the basis of the classifications of the related assets and liabilities. A deferred asset or liability that cannot be related to an asset or a liability in the financial statements is classified as current or noncurrent based on the expected realization date of the temporary difference.

The tax credits on investments for certain telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in current year's income tax expense.

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

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

**Revenue recognition**

Revenue from service delivery is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees are accrued every month; and (c) prepaid call and Internet card services are recognized as income based upon customer usage.

The revenues from and expenses for the sale of cellular phone units and accessories are recognized when the products are delivered to and accepted by the customers because the related transaction is considered a separate earnings process from the sale of wireless services.

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

**Promotion expenses**

Commissions and cellular phone unit subsidy costs (other than those pertaining to the bundle contract mentioned above) related to the Company's promotions, are treated as marketing expenses in the year when the service to a 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 settled, are credited or charged to income in the year of 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 cumulative translation adjustments under stockholders' equity; and
- b. Other assets and liabilities - as credits or charges to income.

**Financial derivatives**

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. However, a memorandum entry is made to note the transaction. The amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item on the balance sheet dates and settlement dates.

Forward exchange contracts are entered into as hedges of foreign currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the spot rates on the starting dates of the contracts (the "starting dates"). The premium or discount, which is the amount of the contract multiplied by the difference between the contracted forward rate and the spot rates on the starting dates, is deferred and then recognized as an adjustment to the carrying amounts when the hedged transactions occur. However, if the contract amount is in excess of the foreign currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current year. Also, an amortization of a discount is not deferred if deferral would lead to the recognition of a loss in future years.

On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the contract amounts by the difference between the rates on the starting dates and the balance sheet dates (or the rates last used to measure a gain or loss on that contract for an earlier period), are recognized in the same way used for amortizing the premium or discount described above. Also, the receivables and payables related to the forward contracts are netted out, and the net amount is presented as either an asset or a liability.

**Reclassifications**

Certain accounts in the financial statements as of and for the year ended December 31, 2001 have been reclassified to conform to the financial statement presentation as of, and for the year ended December 31, 2002.



**3. CASH AND CASH EQUIVALENTS**

	December 31	
	2002	2001
Cash		
Cash on hand	\$ 7,221	\$ 8,338
Checking and demand deposits	563,548	406,084
Time deposits - with interest of 1.69%	-	140,814
	<u>570,769</u>	<u>555,236</u>
Cash equivalents		
Commercial paper purchased under agreements to resell - with interest of 1.375% to 1.950% in 2002 and 2.25% to 2.30% in 2001	1,667,573	2,252,563
	<u>\$ 2,238,342</u>	<u>\$ 2,807,799</u>

**4. INVENTORIES**

	December 31	
	2002	2001
SIM cards	\$ 164,348	\$ 512,639
Cellular phone units	493,002	254,045
Cellular phone accessories	7,365	5,615
	<u>664,715</u>	<u>772,299</u>
Less - allowance for losses	8,701	41,740
	<u>\$ 656,014</u>	<u>\$ 730,559</u>

Inventory insurance as of December 31, 2002 amounted to about \$637,606.

**5. INVESTMENT IN SHARES OF STOCK**

	December 31			
	2002		2001	
	Amount	% of Owner-Ship	Amount	% of Owner-Ship
Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)	\$ 8,212,856	80.71	\$ 1,053,769	100.00
E. World (Holdings) Ltd.	10,342	19.00	25,183	19.00
	<u>\$ 8,223,198</u>		<u>\$ 1,078,952</u>	

The Company incorporated Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) as a wholly owned subsidiary in December 2001. Yuan-Ze obtained a 3G (third-generation wireless communications system) license in February 2002 through a bidding process and acquired additional shares of stock with an aggregate par value of \$9,170,000 in March 2002. The Company subscribed to shares of stock with aggregate par value \$7,170,000 only, thus diluting its equity to 80.71%.

The investment in E. World (Holdings) is accounted for by the equity method since the combined equity interests of the Far Eastern Group in E. World (Holdings) allows the Company to exercise significant influence on its operating and financial policy decisions. The amount recognized as equity in the net income or net loss of E. World (Holdings) in 2002 and 2001 is based on the net income or net loss of E. World (Holdings) in 2001 and 2000, as the financial statements of the E. World (Holdings) could not be timely obtained.

The Company has included Yuan-Ze in its consolidated financial statements since the Company has more than 50% ownership interest in Yuan-Ze and the total assets of Yuan-Ze exceeds 10% of the Company's total assets.

The carrying values of the foregoing investments are based on stockholders' equity as disclosed in the most current audited financial statements.

**6. PROPERTIES**

a. Accumulated depreciation consisted of:

	December 31	
	2002	2001
Buildings and equipment	\$ 105,147	\$ 58,019
Computer equipment	2,008,678	1,174,167
Operating equipment	14,392,327	9,261,104
Office equipment	333,993	207,602
Leasehold improvements	507,200	328,489
Miscellaneous equipment	39,397	34,993
	<u>\$ 17,386,742</u>	<u>\$ 11,064,374</u>

Depreciation on properties amounted to \$6,364,020 in 2002 and \$5,023,999 in 2001.

Property insurance as of December 31, 2002 amounted to \$47,035,361.

b. The Company leases Internet equipment with software (included in operating equipment) for three years, with total 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 agreement is more than 90% of the fair value of the leased assets, and (b) the Company has the option to buy all the leased equipment at a bargain price of NT\$1.00 only. The details of the lease as of December 31, 2002 and 2001 were as follows:

	December 31	
	2002	2001
Total future lease payments	\$ 5,452	\$ 50,060
Less - imputed interest expense	4,912	5,746
	540	44,314
Less - lease payable within one year (included in other current liabilities)	540	30,219
Long-term obligations under capital lease	\$ -	\$ 14,095

## c. Capitalized interest on properties was as follows:

	2002	2001
Total interest expense	\$ 479,238	\$ 563,626
Less - interest capitalized - interest at 3.76-4.86% in 2002 and 4.5-6.48% in 2001	175,045	324,225
Interest expense - net of amounts capitalized	\$ 304,193	\$ 239,401

Properties amounting to \$10,288,389 and \$9,108,589 had been pledged or mortgaged as collaterals as December 31, 2002 and 2001, respectively.

## 7. LONG-TERM LIABILITIES

	December 31, 2002		
	Within One Year	Others	Total
Unsecured bonds	\$ -	\$ 4,200,000	\$ 4,200,000
Secured bonds	616,000	1,276,000	1,892,000
Loan -Shin Kong Life Insurance Co.	-	1,470,000	1,470,000
Commercial paper	-	1,599,839	1,599,839
Unsecured bank loans	-	200,000	200,000
Secured bank loans	-	600,000	600,000
	<u>\$ 616,000</u>	<u>\$ 9,345,839</u>	<u>\$ 9,961,839</u>

	December 31, 2002		
	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
Unsecured bank loans	-	300,000	300,000
	<u>\$ 2,060,000</u>	<u>\$ 8,473,620</u>	<u>\$ 10,533,620</u>

## a. Unsecured bonds

These are five-year unsecured domestic bonds issued at par value in February 19, 2002. The total face value of the bonds is \$4,200,000, with each bond having a face value of \$1,000 at 3.4% interest rate annually. Redemption is at a percentage of the face amount of the bond, as follows: Type I bond - 40% in February 2006 and 60% in February 2007; and Type II bond - 60% in February 2006 and 40% on February 2007.

## b. Secured bonds

These are five-year secured domestic bonds issued on November 30, 2000. The total face value of the bonds is \$2,200,000, with each bond having a face value of \$1,000 at an interest rate of 5.06%, compounded semiannually. Starting on December 1, 2002 and every six months thereafter, holders may redeem the bonds for up to 14% to 15% of their face value.

## c. The loan from Shin Kong Life Insurance Co. is secured by a guarantee issued by a bank consortium. The loan interest rates were 4.725% and 5.025% as of December 31, 2002 and 2001, respectively. Loan principal is due on January 25, 2005.

## d. Commercial paper

- 1) Commercial paper amounting to \$999,893 and with one-year maturity were issued at discounts ranging from 1.95% to 2.15% as of December 31, 2002 and 2.22% to 2.57% as of December 31, 2001. Under a revolving note issuance facility, a consortium of banks guaranteed the commercial paper, which will be issued by the Company through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will be decreased by 14% to 15% every six months.
- 2) Commercial paper amounting to \$599,946, with annual interest ranging from 1.5% to 1.7%, is due on January 3, 2003. The Company has obtained a guarantee from a financial institution for the reissuance of the commercial paper until June 25, 2004.

## e. Unsecured bank loans

The Company obtained loans from First Commercial Bank at interest rates ranging from 2.90% to 3.33% as of December 31, 2002 and 3.22% to 3.94% as of December 31, 2001. The loan is repayable in installments starting in 2004 and every six months thereafter, with payments ranging from 16.5% to 17.5% of the principal. The final payment is due on May 17, 2007.

## f. Secured bank loans

The Company obtained a loan from a consortium of banks at 2.641% interest with maturity on January 6, 2003. The loan is guaranteed by a consortium of banks, and the guarantee is effective until February 4, 2007. Starting on August 4, 2004, the maximum amount that the Company can borrow will be decreased by 16% to 17% of the principal every six months.

As of December 31, 2002, the Company had unused long-term and short-term credit lines that are available for long-term and short-term credit facilities of about \$6,918,000 and \$3,990,000, respectively.



On February 19, 2003, the Company issued US\$115,000 thousand five-year overseas zero coupon convertible bonds. The holders have the right to require the Company to convert all or a portion of the bonds at NT\$35.955 per share, which will be subject to adjustments for any dilutive events, or redeem the bonds at 105.114% of their principal in U.S. dollars on February 19, 2008. The Company also has the option at any time on or after February 19, 2006 to redeem the bonds at a specific price. On February 19, 2005, the holders of the bonds have the right to require the Company to redeem all or a portion of the bonds at 102.015% of the principal in U.S. dollars.

## 8. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital in excess of par value can be used to offset a deficit or transferred to capital as stock dividend within prescribed limits only.

The Company's Articles of Incorporation provide that, every year, 10% of net income less income tax and any accumulated deficit should be appropriated as legal reserve. In addition, if the Company decides to distribute dividends, 2% of the remaining balance should be appropriated as bonuses to employees, and 1% of the remaining balance should be appropriated as remuneration to directors and supervisors.

Under the ROC Company Law, the appropriation for legal reserve should 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 the reserve reaches 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 should be at least 10% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures.

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

Under the integrated income tax system, noncorporate ROC-resident stockholders are allowed a tax credit for the income tax paid by the Company on earnings generated from January 1, 1998. Under this system, the Company maintains an imputation credit account (ICA) for the income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the balance shown in the ICA on the date of dividend distribution.

The board of directors and stockholders approved the following appropriations and distributions of the 2001 earnings on April 9 and June 25, 2002, respectively:

Legal reserve	\$ 665,928
Bonus to employees	119,867
Remuneration to directors and supervisors	59,934
Cash dividend - 10%	1,890,000
Stock dividend - 21%	3,969,000

Had the above bonus to employees and directors been distributed in cash and retroactively charged to net income in 2001, the primary earnings per share for 2001 (after tax), based on the weighted-average number of outstanding shares of 1,890,000, would have decreased from \$3.52 to \$3.43.

The appropriations and distributions of the 2002 earnings will be approved by the board of directors and stockholders on the issuance date of the independent auditors' report. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

## 9. EARNINGS PER SHARE

The information for calculating earnings per share is as follows:

	Amount (Numerator)		Capital Stock (Denominator) (In Thousands of Shares)	Earnings Per Share (Dollars)	
	Income Before Income Tax Benefit	Net Income		Income Before Income Tax Benefit	Net Income
For the year ended December 31, 2002					
Net income	\$ 7,673,882	\$ 7,808,417	2,305,800	\$ 3.33	\$ 3.39
For the year ended December 31, 2001					
Net income	\$ 6,389,730	\$ 6,659,284	2,305,800	\$ 2.77	\$ 2.89

For the year ended December 31, 2001, the earnings per share retroactively adjusted for the 2001 stock dividend declared in 2002 decreased from \$3.38 (before tax) to \$2.77 and from \$3.52 (after tax) to \$2.89.

## 10. PENSION PLAN

The Company has a pension plan for all regular employees. Benefits are based on the number of service years and basic pay on the final month before retirement.

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

Certain information related to the pension plan is as follows:

### a. Pension cost consists of:

	2002	2001
Service cost	\$ 61,395	\$ 77,871
Interest cost	8,689	8,909
Expected return on pension assets	( 5,463 )	( 4,739 )
Amortization	676	1,280
Benefit from pension plan curtailment	-	( 11,871 )
Net pension cost	\$ 65,297	\$ 71,450

### b. Reconciliation of the fund status of the plan and accrued pension cost:

	December 31	
	2002	2001
Benefit obligation		
Vested benefit obligation	\$ 2,692	\$ 6,905
Non-vested benefit obligation	123,532	61,576
Accumulated benefit obligation	126,224	68,481
Additional benefits based on projected and future salaries	127,481	105,300
Projected benefit obligation	253,705	173,781
Fair value of plan assets	( 120,163 )	( 93,922 )
Unfunded projected benefit obligation	133,542	79,859
Unrecognized net transition obligation	( 12,125 )	( 13,338 )
Unrecognized pension gain	9,713	30,793
Accrued pension cost	\$ 131,130	\$ 97,314
c. Vested benefits	\$ 3,374	\$ 7,785

**d. Actuarial assumptions:**

	2002	2001
Discount rate used in determining present value	3.5%	5.0%
Future salary increase rate	3.5%	5.0%
Expected rate of return on plan asset	3.5%	5.0%

**e. The changes of the Fund are as follows:**

	2002	2001
Beginning balance	\$ 93,922	\$ 57,445
Contributions	31,481	33,494
Earnings	2,371	2,983
Payments	( 7,611 )	-
Ending balance	<u>\$ 120,163</u>	<u>\$ 93,922</u>

**11. INCOME TAX BENEFIT****a. Reconciliation of imputed income tax on pretax income or loss at statutory rates to current income tax expense:**

	2002	2001
Income tax expense computed at statutory tax rate (25%)	\$ 1,918,470	\$ 1,597,433
Add (deduct) tax effects of		
Permanent differences	( 1,472 )	25
Temporary differences	48,430	521,450
Tax-exempt income	( 1,431,780 )	( 804,737 )
Unappropriated earnings tax	110,001	39,197
Investment tax credits	( 506,131 )	( 676,684 )
Income tax payable	<u>\$ 137,518</u>	<u>\$ 676,684</u>

The balances of income tax payable as of December 31, 2002 and 2001 were net of creditable income taxes of \$423 and \$5,091, respectively.

Net operating incomes generated from the use of switches and cell sites acquired are tax exempt as follows:

- 1) Acquisitions from April 1, 1997 to December 31, 1999 - exemption from January 1, 2000 to December 31, 2004;
- 2) Acquisitions from January 1, 2000 to June 26, 2002 - exemption from June 26, 2002 to June 25, 2007.

**b. Income tax benefit consisted of:**

	2002	2001
Income tax payable - current	\$ 137,518	\$ 676,684
Income tax benefit - deferred	( 267,355 )	( 954,972 )
Prior year's adjustment	( 6,780 )	8,142
Income tax expense on income subjected to a separate flat income tax rate of 20%	2,082	592
Income tax benefit	<u>( \$ 134,535 )</u>	<u>( \$ 269,554 )</u>

**c. Deferred income taxes assets and liabilities as of December 31, 2002 and 2001 consisted of:**

	December 31	
	2002	2001
Current (included in other current assets)		
Deferred income tax assets		
Provision for doubtful accounts	\$ 597,971	\$ 677,822
Employee welfare expense	4,500	9,000
Provision for losses on inventories	2,160	8,185
Unrealized exchange loss	548	4,061
Inventory write-off	16	2,250
Accrued research and development expenses	-	936
	<u>605,195</u>	<u>702,254</u>
Deferred income tax liabilities		
Receivable from insurance company	-	( 2,246 )
	<u>\$ 605,195</u>	<u>\$ 700,008</u>
Noncurrent		
Investment tax credits	\$ 983,597	\$ 911,245
Depreciation resulting from the differences in estimated service lives of properties	348,175	269,776
Cumulative equity in the net loss of investee companies	55,020	41,511
Accrued pension cost	32,280	24,372
	<u>\$ 1,419,072</u>	<u>\$ 1,246,904</u>



**d. Integrated income tax information:**

	December 31	
	2002	2001
Balance of imputation credit account (ICA)	\$ 11,951	\$ 12,402

The estimated ratio of the ICA balance as of December 31, 2002 to unappropriated earnings as of such date was 0.15%. When the dividends from the unappropriated earnings as of December 31, 2001 were distributed in 2002, the actual ratio used was 7.4%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings will be used for allocating tax credits to each stockholder.

Deferred income tax rate for 2002 and 2001 were 25%.

The unused investment tax credits as of December 31, 2002 are summarized as follows:

Relevant Statute	Item	Total Investment Tax Credit	Unused Investment Tax Credit	Year of Expiry
Statute for Upgrading Industries	Research and development expenditures	\$ 1,287,470	\$ 922,425	2005
Statute for Upgrading Industries	Personnel training expenditures	61,172	61,172	2005

Income tax returns through 1999 have been examined and cleared by the tax authorities.

**12. RELATED-PARTY TRANSACTIONS**

The Company's significant business transactions, in addition to those disclosed in Note 13 and Schedule A, with the following related parties are as follows:

Related Party	Nature of Relationship
a. Yuang 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. E. World Ltd. (E. World)	Same chairman as that of the Company
f. Far Eastern Textile Ltd. (FETL)	Parent company of a major stockholder
g. AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder
h. AT&T Corp. (AT&T)	Parent company of AWS
i. Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
j. Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) (formerly Far EasTone 3G Telecommunications Co., Ltd.)	An equity-accounted investee
k. Far Eastern Technology Developmental Foundation (FETTDF)	Company's donation to the foundation's capital over one-third

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

		2002		2001	
		Amount	%	Amount	%
<b>During the year</b>					
Operating revenue	i				
NCIC	ii	\$ 683,115	2	\$ 195,549	1
Other	xv	1,101	-	2,068	-
		<u>\$ 684,216</u>	<u>2</u>	<u>\$ 197,617</u>	<u>1</u>
Operating costs and expenses					
Service cost - NCIC	ii	<u>\$ 3,328</u>	<u>-</u>	<u>\$ 530</u>	<u>-</u>
Rental					
FEILC	iii	\$ 189,063	14	\$ 180,597	14
FETL	iv	56,238	4	52,254	5
YDC	v	2,383	-	2,323	-
Other	vi and xv	5,791	1	7,585	-
		<u>\$ 253,475</u>	<u>19</u>	<u>\$ 242,759</u>	<u>19</u>
Management service fee - AWS	vii	<u>\$ 82,166</u>	<u>100</u>	<u>\$ 90,583</u>	<u>100</u>
Trademark license fee - AT&T	xii	<u>\$ 13,530</u>	<u>100</u>	<u>\$ 33,451</u>	<u>100</u>
Research and development expense - FETTDF	xi	<u>\$ 49,905</u>	<u>84</u>	<u>\$ 16,702</u>	<u>65</u>
Nonoperating income Service revenue - Yuan-Ze	ix	<u>\$ 20,952</u>	<u>17</u>	<u>\$ -</u>	<u>-</u>
Rental revenue NCIC	xiii	<u>\$ 3,887</u>	<u>3</u>	<u>\$ -</u>	<u>-</u>
Purchase of properties from related parties					
FETEC	viii	\$ 780,673	15	\$ 403,886	3
NCIC	xiv	66,528	1	6,666	-
YDC	x	-	-	376	-
Other	xv	28	-	778	-
		<u>\$ 847,229</u>	<u>16</u>	<u>\$ 411,706</u>	<u>3</u>
<b>At end of year</b>					
Other current assets					
Other receivable					
Yuan-Ze	ix	\$ 15,524	3	147,777	16
AWS	vii	8,138	1	-	-
		<u>\$ 23,662</u>	<u>4</u>	<u>147,777</u>	<u>16</u>
Prepaid expenses					
FEILC	iii	\$ 1,078	-	\$ 6,107	1
YDC	v	776	-	1,067	-
FETL	iv	738	-	953	-
FEDS	vi	475	-	1,172	-
Other	xv	618	-	347	-
		<u>\$ 3,685</u>	<u>-</u>	<u>\$ 9,646</u>	<u>1</u>
Refundable deposits					
FEILC	iii	\$ 145,785	39	\$ 145,785	38
YDC	v	832	-	804	-
Other	xv	215	-	-	-
		<u>\$ 146,832</u>	<u>39</u>	<u>\$ 146,589</u>	<u>38</u>
Payables to related parties					
FETEC	viii	\$ 464,438	70	\$ 362,588	58
NCIC	ii and xiv	151,389	23	143,671	23
AT&T	xii	15,014	2	35,206	6
AWS	vii	-	-	68,876	11
Other	xv	29,388	5	9,550	2
		<u>\$ 660,229</u>	<u>100</u>	<u>\$ 619,891</u>	<u>100</u>
Other current liabilities					
Other payable - NCIC	viii	<u>\$ 11,609</u>	<u>8</u>	<u>\$ 58,663</u>	<u>20</u>



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

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

- Operating revenues (such as service revenue and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.
- The transactions between the Company and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC's use of the Company's network. The interconnection fees paid by the Company on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection service provided by NCIC to the Company are included in service cost. The international direct dialing revenue collected by the Company for NCIC is treated as a reduction in service revenue and is included in payables to related parties.
- The Company leased from FEILC the following: (a) its office spaces in Neihu and Kaohsiung from January 2000 to March 2003. On contract expiry, the Company has the option to renew the lease contract for the office spaces in Neihu or buy the office buildings for \$1,569,520; (b) mobile switch centers located in Neihu and Tainan, from January 2000 to February 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, and that for Hsinchu was from March 1, 2001 to three years after the completion of the construction of the switch center. Rental rates and terms are comparable to leases with unrelated parties.
- The Company leased from FETL several parcels of the land and building spaces for the period from May 1997 to November 2014. The properties are located in Yatung Street and Renai Street in Panchao City; Yuanlung Street in Chungli; and Wuku in Taipei County and other locations in Taiwan.
- The Company leased from YDC certain floors at The Mall from November 2001 to December 2002.
- The Company leased from FEDS several parcels of land as well as building spaces from July 1997 to October 2006.
- The Company signed a service agreement with AWS in January 1997 for AWS to provide consulting services on the construction of a wireless network and business operations. The service charges were based on the actual expenses incurred by the AWS consultants and are net of any withholding taxes paid by the Company.
- The Company has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by FETEC. Under the contracts, the Company pays the entire construction cost to FETEC. In addition, the Company recognizes a receivable from NCIC for its share of the cost and vice versa. Moreover, related receivable and payable are settled at net amounts.
- The Company renders management service and gives advances to Yuan-Ze for its daily operating expenditures during its development stage.
- The Company paid a project fee to YDC for constructing retail stores, switch centers and cell sites. The fee was based on actual hours incurred by YDC.
- FETDF researches on telecommunication technology for the Company and communicates its results to employees of the Company.
- On May 22, 1997, the Company signed an agreement with AT&T Corp. to use AT&T's trademark for marketing, advertising and promotion purposes in the Republic of China. The trademark fee is US\$1,000 thousand if the Company has negative net cash flow from operations before payment of the trademark fee and after deduction of capital expenditure. Otherwise, the fee is 1% of the net service revenues from wireless and Internet businesses, up to US\$4,500 thousand. This agreement expired on May 21, 2002.
- The Company leased NCIC's mobile switch centers. Rental rates and terms are comparable to leases with unrelated non-related parties.

- The Company bought NCIC's telecommunications network and backbone network facilities.
- Accounts of other related parties are less than 5% of respective accounts.

### 13. COMMITMENTS AS OF DECEMBER 31, 2002

- The Company had outstanding contracts amounting to \$1,027,304 for the acquisition of telecommunications and other equipment.
- The rentals of land, buildings and cell sites for the next five years are summarized as follows:

Year	Amount
2003	\$ 1,248,253
2004	1,296,013
2005	1,345,618
2006	1,397,140
2007	1,450,654

- The Company's outstanding letters of credit amounted to ¥1,444,814 thousand (equivalent to \$423,331).

### 14. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Commission with respect to the Company and its investees for 2002:

- Financing provided (please see Schedule A);
- Marketable securities held (please see Schedule B);
- 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 C);
- Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital (please see Schedule D);
- Names, locations, and related information of investees on which the Company exercises significant influence (please see Schedule E);
- Derivative financial transactions

The information on derivative financial contracts entered into by the Company is as follows:

#### 1) Open contracts and credit risk

Type of Transaction	December 31, 2001				
	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

There was no outstanding interest rate swap contract as of December 31, 2002.

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates.

Interest expenses on these swap contracts for the years ended December 31, 2002 and 2001 were \$36,674 and \$43,442, respectively.



Type of Transaction	December 31, 2002			
	Notional Amount (Thousand)	Market Value	Credit Risk	Maturity
Forward contracts (buying JPY, selling TW\$)	¥ 372,980	\$ 109,209	\$ 4,637	January 6, 2003

There was no outstanding forward contract as of December 31, 2001.

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The realized exchange loss and gain for the years ended December 31, 2002 and 2001 were \$5,390 and \$4,662, respectively.

The Company placed an order for cell phones amounting to ¥1,444,814 in 2002. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into Japanese yen forward contracts. The unrealized gain of \$4,637 on this commitment was deferred.

The Company is exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, the Company transacts only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

## 2) Market risk

The Company is exposed to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts.

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. Therefore, the market risk is not material.

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

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. The forward exchange rates are determined in advance and no additional material cash is required. Management believes that the Company has sufficient operating capital to meet cash demand.

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

The Company uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves the Company's paying interests at a fixed rate and receiving interests based on market rates. The Company entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The overall purpose of these contracts is to hedge the Company's exposure to cash flow risk. The Company periodically evaluates the effectiveness of the instruments.

## 5) Financial statement presentation

Forward Contracts (Buying JPY, Selling TWD)	December 31, 2002
Forward contracts receivable - foreign currencies	\$ 109,171
Premium on forward contracts	112
Forward contracts payable	( 104,646 )
Net on forward contracts (included in other current assets)	\$ 4,637

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

	December 31			
	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative financial instruments</u>				
Financial assets				
Cash and cash equivalents	\$ 2,238,342	\$ 2,238,342	\$ 2,807,799	\$ 2,807,799
Accounts receivable - net	3,216,577	3,216,577	4,114,428	4,114,428
Investments in shares of stocks	8,223,198	8,223,198	1,078,952	1,078,952
Refundable deposits	373,279	365,848	384,436	368,884
Financial liabilities				
Notes payable	28,944	28,944	28,573	28,573
Accounts payable	589,345	589,345	504,159	504,159
Payables to related parties	660,229	660,229	619,891	619,891
Income tax payable	137,095	137,095	671,593	671,593
Payables related to acquisitions of properties	2,120,178	2,120,178	1,417,422	1,417,422
Long-term bonds payable (including within one year)	6,092,000	6,511,069	2,200,000	2,319,749
Long-term debts (including within one year)	3,869,839	3,863,072	8,333,620	8,334,576
Guarantee deposits received	1,991,727	1,991,727	2,966,635	2,966,635
<u>Derivative financial instruments</u>				
Forward contract	4,637	4,637	-	-
Interest rate swap	-	-	-	( 41,247 )

The bases for estimating fair values of derivative financial instruments were as follows:

- Cash and cash equivalents, accounts receivable, notes payable, accounts payable, payables to related parties, income tax payable and payables related to acquisitions of properties - carrying values reported in the balance sheets because of the short maturity of these instruments;
- Investments in shares of stock - market prices or, if market prices are unavailable, the equity in the net assets of the investee;
- Long-term bonds payable and long-term debts - market prices. If market prices are unavailable, estimates of fair values are made through discounted cash flow analyses, with the discount rate based on rate of bank loans obtained under conditions (e.g. maturity date) similar to those of the instruments.
- Refundable deposits and guarantee deposits received - present values of future payments or receipts.
- Fair values of derivative financial instruments - quoted market prices obtained from foreign banks and Reuters.



## 15. INDUSTRY SEGMENT INFORMATION

## a. Industry

The Company provides wireless communications, Internet and international simple resale (ISR) service. 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 ROC.

## c. Foreign revenues

The Company has no foreign revenues.

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

	2002		2001	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue(%)
Company A	\$ 7,935,692	23	\$ 7,781,605	23

## SCHEDULE A - NOTE 14

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## FINANCING PROVIDED

For the Year Ended December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

No.	0
Financier	Far EasTone Telecommunications Co., Ltd.
Counterparty	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)
Financial Statement Account	Receivables from related parties
Highest Balance for the Year	\$ 2,074,000
Ending Balance for the Year	\$ -
Interest Rate	4.2%
Interest Revenue	\$ 454
Nature of Financing	Short-term financing
Transaction Amount	\$ -
Short-term Financing Reasons	Payment for 3G license fee
Allowance for Bad Debt	-
Collateral	Item Value
Maximum Allowable Financing that Can be Provided by the Financier to Individual Counterparty	\$ 3,228,361
Maximum Allowable Amount of Financing that Can be Provided by the Financier	\$ 4,842,542

Note: The "Guideline for Lending of Capital to Others" (as amended) of the Company, the total short-term financing that can be provided by the financier shall not exceed 15% of the financier's net assets as shown in its latest audited or reviewed financial statements. The short-term financing to individual counterparties shall not exceed 10% of the financier's net assets as shown in its latest audited or reviewed financial statements.

## SCHEDULE B - NOTE 14

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## MARKETABLE SECURITIES HELD December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecom-munications Co., Ltd.	Stocks E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	1,330	\$ 10,342	19.00	\$ 10,342	Note A
	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications	Equity-method investee	Investments in shares of stock	837,000	8,212,856	80.71	8,212,856	Note B

Notes: A. The Company was unable to obtain the investee's financial statements and recognized a 2001 net loss in 2002.  
B. Calculation was based on audited 2002 financial statements.

## SCHEDULE C- NOTE 14

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## 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, 2002

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance <sup>1</sup>		Acquisition		Disposal		Decrease Under Equity Method (Note A)		Beginning Balance	
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Far EasTone Telecom-munications Co., Ltd.	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)	Investments in shares of stock	Issuance of capital stock	-	120,000	\$1,053,769	717,000	\$7,170,000	-	\$ -	-	-	837,000	\$ 8,212,856

Note: The net decrease in carrying amount under the equity method includes an increase of \$29,086 for the recognition of the effect of percentage change in ownership resulting from the issuance of capital stock by investee in cash and a decrease of \$39,999 in its equity due to the investee's net loss.



## SCHEDULE D- NOTE 14

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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, 2002

(Amounts in Thousands of New Taiwan Dollars)

Transaction Party	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 Telecomm-unications Co., Ltd.	New Century InfoComm Tech Co., Ltd. (NCIC)	The same chairman as that of the Company	Operating revenue	(\$683,115)	(2)	30 days	-	-	(\$88,096)	(13)

Note: The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of wireless service revenue.

## SCHEDULE E - TO NOTE 14

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY  
EXERCISES SIGNIFICANT INFLUENCE

For the Year Ended December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2002			Net Loss of the Investee	Equity in Net Loss	Note
				December 31, 2002	December 31, 2001	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecomm-unications Co., Ltd.	E. World (Holdings) Ltd.	British Cayman Island	Investment	\$ 41,095	\$ 41,095	1,330	19.00	\$ 10,342	\$ 73,875	\$ 14,035	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)	Taiwan	Wireless telecomm-unications and the wholesaler/retail sale of telecom equipment	8,370,000	1,200,000	837,000	80.71	8,212,856	49,708	39,999	Notes C, D and E

Notes: A. Equity method investee of the Company  
 B. The equity in net loss recognized in 2002 was based on the net income of the investee in 2001 because the audited 2002 financial statements of the investee were not timely available.  
 C. Subsidiary.  
 D. Calculation based on audited financial statements as of December 31, 2002.

ENGLISH TRANSLATION OF A REPORT ORIGINALLY ISSUED IN CHINESE

## 5. Audited 2002 Consolidated Financial Statements and Notes

## Independent Auditors' Report

The Board of Directors and Stockholders

Far EasTone Telecommunications Co., Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated 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 the Regulations for Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Far EasTone Telecommunications Co., Ltd. and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their 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.

T N Soong &amp; Co.,

An Associate Member Firm of Deloitte Touche Tohmatsu

Taipei, Taiwan

The Republic of China

February 25, 2003

## 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.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

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

	2002		2001	
	Amount	%	Amount	%
<b>ASSETS</b>				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 2,253,173	4	\$ 3,009,003	6
Accounts receivable - net of allowance for doubtful accounts of \$328,990 in 2002 and \$612,810 in 2001 (Note 2)	3,216,577	5	4,114,428	9
Inventories - net (Notes 2 and 5)	656,014	1	730,559	1
Prepaid expenses (Notes 2 and 14)	1,756,628	3	703,433	1
Other current assets (Notes 2, 8, 13, 14 and 16)	655,988	1	1,749,314	3
Total Current Assets	8,538,380	14	10,306,737	20
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 6)	10,342	-	25,183	-
PROPERTIES (Notes 2, 7 and 14)				
Cost				
Land	153,004	-	148,189	-
Buildings and equipment	640,102	1	592,847	1
Computer equipment	5,525,062	9	4,163,282	8
Operating equipment	45,244,432	75	40,083,085	76
Office equipment	776,534	1	726,454	2
Leasehold improvements	1,687,886	3	1,578,814	3
Miscellaneous equipment	54,802	-	45,853	-
Total cost	54,081,822	89	47,338,524	90
Less - accumulated depreciation	17,386,742	29	11,064,374	21
	36,695,080	60	36,274,150	69
Construction in progress and advances related to acquisitions of properties	3,425,143	6	4,421,380	8
Net Properties	40,120,223	66	40,695,530	77
INTANGIBLE ASSETS				
3G license fee (Notes 2 and 8)	10,169,000	17	-	-
OTHER ASSETS				
Properties not currently used in operations - net (Note 2)	89,800	-	130,000	-
Refundable deposits (Note 14)	373,363	1	384,436	1
Deferred income taxes (Notes 2 and 13)	1,419,072	2	1,246,904	2
Miscellaneous	34,016	-	21,947	-
Total Other Assets	1,916,251	3	1,783,287	3
<b>TOTAL ASSETS</b>	<b>\$ 60,754,196</b>	<b>100</b>	<b>\$ 52,810,737</b>	<b>100</b>

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

	2002		2001	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
CURRENT LIABILITIES				
Notes payable	\$ 28,944	-	\$ 28,573	-
Accounts payable	589,345	1	504,159	1
Payables to related parties (Note 14)	660,229	1	619,891	1
Income tax payable (Notes 2 and 13)	137,095	-	671,593	1
Accrued expenses	2,928,698	5	2,361,319	4
Payables related to acquisitions of properties	2,120,178	4	1,417,422	3
Unearned revenues (Note 2)	2,050,310	3	1,018,874	2
Current portion of long-term liabilities (Notes 7 and 9)	616,000	1	2,060,000	4
Other current liabilities (Notes 2, 7 and 14)	142,989	-	293,630	1
Total Current Liabilities	9,273,788	15	8,975,461	17
LONG-TERM LIABILITIES				
Long-term bonds payable, net of current portion (Notes 7 and 9)	5,476,000	9	1,892,000	4
Long-term debts, net of current portion (Notes 7 and 9)	3,869,839	6	6,581,620	12
Total Long-term Liabilities	9,345,839	15	8,473,620	16
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 12)	131,130	-	97,314	-
Guarantee deposits received	1,991,727	4	2,966,635	6
Minority interest	1,961,204	3	-	-
Long-term obligations under capital lease (Notes 2 and 7)	-	-	14,095	-
Total Other Liabilities	4,084,061	7	3,078,044	6
Total Liabilities	22,703,688	37	20,527,125	39
<b>STOCKHOLDERS' EQUITY</b>				
Capital stocks - \$10 par value				
Authorized - 3,360,000 thousand shares				
Issued - 2,305,800 thousand shares in 2002 and 1,890,000 thousand shares in 2001	23,058,000	38	18,900,000	36
Capital surplus				
Capital in excess of par value	5,967,572	10	6,156,572	11
From investments in shares of stock	29,086	-	-	-
Total capital surplus	5,996,658	10	6,156,572	11
Retained earnings				
Legal reserve	1,097,646	2	431,718	1
Unappropriated earnings	7,895,106	13	6,791,418	13
Total retained earnings	8,992,752	15	7,223,136	14
Cumulative translation adjustments	3,098	-	3,904	-
Total Stockholders' Equity	38,050,508	63	32,283,612	61
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 60,754,196</b>	<b>100</b>	<b>\$ 52,810,737</b>	<b>100</b>



ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

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

## CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2002 and 2001

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

	2002		2001	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 14)				
Sales of cellular phone equipment and accessories	\$ 1,628,644	5	\$ 2,761,226	8
Less - sales returns and allowances	3,395	-	856	-
Net sales	1,625,249	5	2,760,370	8
Service revenue	32,845,381	95	31,760,546	92
Other	7,405	-	23,439	-
Total Operating Revenues	34,478,035	100	34,544,355	100
OPERATING COSTS (Notes 2 and 14)				
Cost of sales	1,602,210	4	2,772,903	8
Cost of services	15,056,810	44	12,950,226	38
Total Operating Costs	16,659,020	48	15,723,129	46
GROSS PROFIT	17,819,015	52	18,821,226	54
OPERATING EXPENSES (Notes 2 and 14)				
Marketing	6,180,097	18	6,441,147	19
General and administrative	3,482,341	10	5,735,605	17
Research and development	274,333	1	205,909	-
Total Operating Expenses	9,936,771	29	12,382,661	36
INCOME FROM OPERATIONS	7,882,244	23	6,438,565	18
NONOPERATING INCOME				
Reversal of allowance for losses on inventories (Note 2)	33,039	-	31,191	-
Interest	22,290	-	28,736	-
Reversal of allowance for losses on properties not currently used in operations (Note 2)	-	-	68,100	-
Foreign exchange gains - net (Note 2)	-	-	42,421	-
Other (Note 14)	103,481	-	118,151	1
Total Nonoperating Income	158,810	-	288,599	1
NONOPERATING EXPENSES				
Interest (Notes 7 and 16)	304,193	1	239,401	1
Equity in net loss of investee companies (Notes 2 and 6)	14,035	-	19,816	-
Other	58,524	-	78,217	-
Total Nonoperating Expenses	376,752	1	337,434	1
CONSOLIDATED INCOME BEFORE INCOME TAX BENEFIT	7,664,302	22	6,389,730	18
INCOME TAX BENEFIT (Notes 2 and 13)	134,405	1	269,554	1
CONSOLIDATED INCOME BEFORE MINORITY INTEREST	7,798,707	23	6,659,284	19
MINORITY INTEREST	9,710	-	-	-
CONSOLIDATED NET INCOME	\$ 7,808,417	23	\$ 6,659,284	19
CONSOLIDATED EARNINGS PER SHARE (Note 11)				
Primary				
Income before income tax benefit	\$3.33		\$2.77	
Consolidated net income	\$3.39		\$2.89	

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2002 and 2001

(In Thousands of New Taiwan Dollars)

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS (Notes 2 and 10)			RETAINED EARNINGS (Note 10)			CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL STOCKHOLDERS' EQUITY
	Shares (Thousands)	Amount	Capital in Excess of Par Value	From Investments in Shares of Stock	Total	Legal Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2001	1,400,000	\$ 14,000,000	\$ 7,556,572	\$ -	\$ 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 )
Remuneration to directors and supervisors	-	-	-	-	-	-	( 1,818 )	( 1,818 )	-	( 1,818 )
Stock dividend - 25%	350,000	3,500,000	-	-	-	-	( 3,500,000 )	( 3,500,000 )	-	-
Capitalization of capital surplus- 10%	140,000	1,400,000	( 1,400,000 )	-	( 1,400,000 )	-	-	-	-	-
Consolidated net income in 2001	-	-	-	-	-	-	6,659,284	6,659,284	-	6,659,284
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	3,904	3,904
BALANCE, DECEMBER 31, 2001	1,890,000	18,900,000	6,156,572	-	6,156,572	431,718	6,791,418	7,223,136	3,904	32,283,612
Appropriations of 2001 earnings										
Legal reserve	-	-	-	-	-	665,928	( 665,928 )	-	-	-
Bonus to employees	-	-	-	-	-	-	( 119,867 )	( 119,867 )	-	( 119,867 )
Remuneration to directors and supervisors	-	-	-	-	-	-	( 59,934 )	( 59,934 )	-	( 59,934 )
Stock dividends - 21%	396,900	3,969,000	-	-	-	-	( 3,969,000 )	( 3,969,000 )	-	-
Cash dividend - 10%	-	-	-	-	-	-	( 1,890,000 )	( 1,890,000 )	-	( 1,890,000 )
Capitalization of capital surplus - 1%	18,900	189,000	( 189,000 )	-	( 189,000 )	-	-	-	-	-
Recognition of effect of change in investment ownership percentage resulting from issuance of capital stock by investee for cash	-	-	-	29,086	29,086	-	-	-	-	29,086
Consolidated net income in 2002	-	-	-	-	-	-	7,808,417	7,808,417	-	7,808,417
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	( 806 )	( 806 )
BALANCE, DECEMBER 31, 2002	2,305,800	\$ 23,058,000	\$ 5,967,572	\$ 29,086	\$ 5,996,658	\$ 1,097,646	\$ 7,895,106	\$ 8,992,752	\$ 3,098	\$ 38,050,508

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousands of New Taiwan Dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 7,808,417	\$ 6,659,284
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest	( 9,710 )	-
Depreciation and amortization	6,366,498	5,024,674
Provision for doubtful accounts	132,058	1,995,772
Reversal of allowance for losses on inventories	( 33,039 )	( 31,191 )
Equity in net loss of investee companies	14,035	19,816
Reversal of allowance for losses on properties not currently used in operations	-	( 68,100 )
Loss on disposal of properties	40,585	5,651
Loss on disposal of properties not currently used in operations	2,090	-
Accrued pension cost	33,816	37,956
Deferred income taxes	( 77,355 )	( 954,972 )
Others	-	13,941
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts receivable	765,793	775,180
Inventories	102,947	100,291
Prepaid expenses	( 1,062,954 )	( 183,521 )
Other current assets	4,348	( 467,504 )
Increase (decrease) in		
Notes payable	371	( 5,416 )
Accounts payable	85,186	( 357,917 )
Payable to related parties	40,338	( 1,724 )
Income tax payable	( 534,498 )	372,521
Accrued expenses	567,379	( 1,277,054 )
Unearned revenues	1,031,436	268,211
Other current liabilities	( 133,259 )	145,380
Net Cash Provided by Operating Activities	15,144,482	12,071,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	-	34,800
Return of subscription deposit	-	41,096
Acquisitions of properties	( 5,135,942 )	( 12,007,497 )
Proceeds from sales of properties	1,338	147,652
Acquisitions of 3G license	( 9,169,000 )	-
Proceeds from sales of properties not currently used in operations	1,200	-
Decrease (increase) in refundable deposits	11,073	( 61,770 )
Increase in other assets	( 4,788 )	( 460 )
Net Cash Used in Investing Activities	( 14,296,119 )	( 11,846,179 )

(Forward)

	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in long-term debts	( \$ 4,771,781 )	\$ 1,895,942
Proceeds from issuance of long-term bonds	4,200,000	-
Bonus paid to employees and directors	( 167,504 )	( 1,818 )
Cash dividend paid	( 1,890,000 )	-
Decrease in guarantee deposits received	( 974,908 )	( 1,158,490 )
Increase in minority interest	2,000,000	-
Net Cash Provided by (Used in) Financing Activities	( 1,604,193 )	735,634
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	( 755,830 )	960,733
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,009,003	2,048,270
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,253,173	\$ 3,009,003
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	\$ 182,030	\$ 204,183
Income tax paid	\$ 494,175	\$ 307,638
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 616,000	\$ 2,060,000
CASH PAID FOR ACQUISITIONS OF PROPERTIES		
Increase in properties	\$ 5,794,774	\$ 11,963,390
Decrease (increase) in payables related to acquisitions of properties	( 702,756 )	9,791
Decrease in obligations under capital lease	43,774	34,316
CASH PAID FOR ACQUISITIONS OF PROPERTIES	\$ 5,135,792	\$ 12,007,497
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	\$ 2,536	\$ 184,908
Increase in receivable from properties sold	( 1,198 )	( 37,256 )
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	\$ 1,338	\$ 147,652
CASH PAID FOR 3G LICENSE ACQUISITION		
Increase in 3G license	\$ 10,169,000	\$ -
Decrease in other current assets	( 1,000,000 )	-
CASH PAID FOR 3G LICENSE ACQUISITION	\$ 9,169,000	\$ -

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



ENGLISH TRANSLATION OF A REPORT ORIGINALLY ISSUED IN CHINESE

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

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

**1. GENERAL**

Far Eastone Telecommunications Co., Ltd., ("Far Eastone") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. Far Eastone's shares have been traded and listed on the ROC Over-the-Counter Securities Exchange since December 10, 2001. Far Eastone provides wireless communications, Internet and international simple resale (ISR) services and also sells cellular phone units and accessories. Far Eastone's principal stockholders are Far Eastern Textile Ltd. and its affiliates (the "Far Eastern Group") and the AT&T Wireless Group and its affiliates.

Far Eastone provides wireless communications services by geographical sector under two type I licenses for global system for mobile communications: GSM 900 for the northern sector and GSM 1800 for all other sectors. These licenses were issued by the Directorate General of Telecommunications (the "DGT") of the Republic of China (ROC) and expire in 2012. The annual license fee is 2% of total wireless communications service revenues.

The DGT also issued to Far Eastone a type II license, allowing it to provide Internet services through 2009 for a fixed annual license fee based on the amount of Far Eastone's capital stock. In addition, Far Eastone provides services under a type II - ISR license for 10 years from December 2001 and pays an annual license fee at 0.5% of ISR service revenues.

Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) started preparing for its establishment on January 1, 2001 and was incorporated in the ROC on December 5, 2001 as Far Eastone's wholly owned subsidiary. Yuan-Ze obtained a 3G (third - generation wireless communications system) license to start its preparatory activities for the construction of 3G network on March 15, 2002. In March 2002, Yuan-Ze acquired additional shares of stock of \$9,170,000 for cash and Far Eastone subscribed to only a portion of the shares of stock, thus diluting its equity from 100% to 80.71%. Yuan-Ze engages in providing wireless communications and sale of telecommunications equipment.

As of December 31, 2002, Yuan-Ze was still in its development stage.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of Far Eastone and Yuan-Ze (the "Group"), which conform to accounting principles generally accepted in the ROC, are summarized as follows:

**Consolidation**

The consolidated financial statements include the accounts of Far Eastone and its direct and indirect subsidiaries with individual total assets or total operating revenues exceeding 10% of the unconsolidated total assets or operating revenues of Far Eastone. Other subsidiaries are also consolidated if their combined total assets or operating revenues are 30% of the unconsolidated total assets or operating revenues of Far Eastone but are individually 3% of those of Far Eastone. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements as of and for the year ended December 31, 2002 include the accounts of Far Eastone and Yuan-Ze. The accounts of Yuan-Ze as of and for the year ended December 31, 2001 were not included in the consolidated financial statements because its total assets or operating revenues were less than 10% of those of Far Eastone. For comparison purposes, the accounts of Yuan-Ze as of and for the year ended December 31, 2001 are presented in the accompanying consolidated financial statements.

The entities in consolidated financial statements of Far Eastone and affiliates are the same as those in consolidated financial statements; thus, no consolidated financial statements of Far Eastone and affiliates will be compiled. The information needed in consolidated financial statements of Far Eastone and affiliates is enclosed in consolidated financial statements.

**Cash equivalents**

Bonds and commercial paper purchased under agreements to resell with original maturities of not more than three months are classified as cash equivalents.

**Allowance for doubtful accounts receivable**

An allowance for doubtful accounts receivable is provided on the basis of the estimated collectibility of receivables from subscribers and other parties.

**Inventories**

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined by the weighted average method.

**Investments in shares of stock**

Investments in shares of stock in companies in which the Group exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost. The investment carrying values are then adjusted proportionately to the Group's share in the investee's net income or net loss. An increase in the Group's share in the net assets of its investees resulting from its subscription to additional shares of stock issued by the investee companies at a rate not equal to its current equity in the investees, is credited to capital surplus account. Any decrease in the Group's share in the net asset of its investee companies is debited against the current balance of the corresponding capital surplus account, with the difference debited against unappropriated earnings.

Any cash dividends received are recognized as a 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 are not recognized as investment income. The carrying amount of each share is recalculated on the basis of the total number of shares, including the received stock dividend.

If the current year's financial statements of less than majority-owned investees are not timely available to the Group, the equity in the net income or net loss of these investees is recognized in the succeeding year on the basis of the financial statements of the previous year.

Costs of stocks sold are determined by the weighted-average method.

**Properties**

Properties are stated at cost. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets. Major improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Useful lives are estimated as follows:

	Useful Life Years		Useful Life Years
Buildings	48	Operating equipment	5-8
Building equipment	5-8	Office equipment	5
Computer equipment	3-5	Leasehold improvements	5-48
		Miscellaneous equipment	5-8

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

Equipment under capital leases and the related liability are stated at the lower of (1) the fair value of the equipment at the start of the lease or (2) the total present value of future lease payments and the bargain purchase option.

**3G license fee**

The 3G license fee is amortized using the straight-line method over the validity period of the permitted license after the license is obtained from the DGT.

**Properties not currently used in operations**

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

**Pension costs**

Pension costs are recognized on the basis of actuarial calculations. Gains arising from plan curtailment due to pretermination of employees' services are recognized as an adjustment to pension cost in the current year. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service years of employees, respectively.



**Income tax**

Deferred tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carry forwards and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent on the basis of the classifications of the related assets and liabilities. A deferred asset or liability that cannot be related to an asset or a liability in the financial statements is classified as current or noncurrent based on the expected realization date of the temporary difference.

The tax credits on investments for certain telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in current years income tax expense.

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

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

**Revenue recognition**

Revenue is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees are accrued every month; and (c) prepaid call and Internet card services are recognized as income based upon customer usage.

The revenues from and expenses for the sale of cellular phone units and accessories are recognized when the products are delivered to and accepted by the customers because the related transaction is considered a separate earnings process from the sale of wireless services.

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

**Promotion expenses**

Commissions and cellular phone unit subsidy costs (other than those pertaining to the bundle contract mentioned above) related to the Group's promotions, are treated as marketing expenses in the year when the service to a subscriber is activated.

**Foreign currency transactions**

Foreign currency transactions (except financial derivatives) 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 settled, are credited or charged to income in the year of 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:

- Equity-accounted investments - as cumulative translation adjustments under stockholders' equity; and
- Other assets and liabilities - as credits or charges to income.

**Financial derivatives**

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. The amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item on the balance sheet dates and settlement dates.

Forward exchange contracts are entered into as hedges of foreign currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the spot rates on the starting dates of the contracts (the "starting dates"). The premium or discount, which is the amount of the contract multiplied by the difference between the contracted forward rates and the spot rates on the starting dates, is deferred and then recognized as an adjustment to the carrying amounts when the hedged transactions occur. However, if the contract amount is in excess of the foreign currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current year. Also, an amortization of a discount is not deferred if deferral would lead to the recognition of a loss in future years.

On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the contract amounts by the difference between the rates on the starting dates and the balance sheet dates (or the rates last used to measure a gain or loss on that contract for an earlier period), are recognized in the same way used for amortizing the premium or discount described above. Also, the receivables and payables related to the forward contracts are netted out, and the net amount is presented as either an asset or a liability.

**3. ELIMINATED MATERIAL INTERCOMPANY TRANSACTIONS**

Company	Eliminated Account	Amount	Parties
<b>2002</b>			
Far EasTone	Other current assets	\$ 15,524	Yuan-Ze
	Interest income	454	Yuan-Ze
	Service revenue	20,952	Yuan-Ze
Yuan-Ze	Payable to related parties	15,524	Far EasTone
	Interest expense	454	Far EasTone
	Management service fee	20,952	Far EasTone

**4. CASH AND CASH EQUIVALENTS**

	December 31	
	2002	2001
<b>Cash</b>		
Cash on hand	\$ 7,221	\$ 8,338
Checking and demand deposits	568,266	407,142
Time deposits - interest of 1.69%	-	140,814
	<u>575,487</u>	<u>556,294</u>
<b>Cash equivalents</b>		
Commercial paper purchased under agreements to resell - interest of 1.375% to 1.950% in 2002 and 2.25% to 2.30% in 2001	1,667,573	2,252,563
Bonds purchased under agreements to resell - interest of 5.125% in 2002 and 8.25% in 2001	10,113	200,146
	<u>1,677,686</u>	<u>2,452,709</u>
	<u>\$ 2,253,173</u>	<u>\$ 3,009,003</u>



**5. INVENTORIES**

	December 31	
	2002	2001
SIM cards	\$ 164,348	\$ 512,639
Cellular phone units	493,002	254,045
Cellular phone accessories	7,365	5,615
Less - allowance for losses	664,715	772,299
	8,701	41,740
	<u>\$ 656,014</u>	<u>\$ 730,559</u>

Inventory insurance as of December 31, 2002 amounted to approximately \$637,606.

**6. INVESTMENT IN SHARES OF STOCK**

	December 31			
	2002		2001	
	% of		% of	
	Owner-		Owner-	
	Amount	Ship	Amount	Ship
E. World (Holdings) Ltd.	<u>\$ 10,342</u>	<u>19.00</u>	<u>\$ 25,183</u>	<u>19.00</u>

The investment in E. World (Holdings) is accounted for by the equity method since the combined equity interests of the Far Eastern Group in E. World (Holdings) allows Far EastTone to exercise significant influence on its operating and financial policy decisions. The amount recognized as equity in the net income or net loss of E. World (Holdings) in 2002 and 2001 were based on the net income or net loss of E. World (Holdings) in 2001 and 2000, as the financial statements of the E. World (Holdings) could not be timely obtained.

The carrying values of the foregoing investments are based on share ownership of Far EastTone's equity as disclosed in the most current audited financial statements.

**7. PROPERTIES**

a. Accumulated depreciation consisted of:

	December 31	
	2002	2001
Buildings and equipment	\$ 105,147	\$ 58,019
Computer equipment	2,008,678	1,174,167
Operating equipment	14,392,327	9,261,104
Office equipment	333,993	207,602
Leasehold improvements	507,200	328,489
Miscellaneous equipment	39,397	34,993
	<u>\$ 17,386,742</u>	<u>\$ 11,064,374</u>

Depreciation on properties amounted to \$6,364,020 in 2002 and \$5,023,999 in 2001.

Property insurance as of December 31, 2002 amounted to \$47,035,361.

b. Far EastTone leases Internet equipment with software (included in operating equipment) for three years, with total 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 agreement is more than 90% of the fair value of the leased assets, and (b) Far EastTone has the option to buy all the leased equipment at a bargain price of \$1.00 dollar only. The details of the lease as of December 31, 2002 and 2001 were as follows:

	December 31	
	2002	2001
Total future lease payments	\$ 5,452	\$ 50,060
Less-imputed interest expense	4,912	5,746
	540	44,314
Less-lease payable within one year (included in other current liabilities)	540	30,219
Long-term obligations under capital lease	<u>\$ -</u>	<u>\$ 14,095</u>

c. Capitalized interest on properties was as follows:

	2002	2001
Total interest expense	\$ 479,238	\$ 563,626
Less-interest capitalized-interest at 3.76%-4.86% in 2002 and 4.50%-6.48% in 2001	175,045	324,225
Interest expense-net of amounts capitalized	<u>\$ 304,193</u>	<u>\$ 239,401</u>

d. Properties amounting to \$10,288,389 and \$9,108,589 were pledged or mortgaged as collateral at December 31, 2002 and 2001, respectively.

**8. 3G LICENSE FEE**

Yuan-Ze paid guarantee deposits of \$1,000,000 (included in other current assets) to bid for the third-generation wireless communications license (3G license) in 2001. The guarantee deposits were treated as part of the license fee on March 11, 2002 when the bidding process for the 3G license was completed. Thereafter, Yuan-Ze obtained 3G license on March 15, 2002 to start its preparatory activities for the construction of 3G network. Upon the completion of 3G network construction, Yuan-Ze will get the approval from the DGT to start commercial operation of 3G business. Yuan-Ze plans to amortize the 3G license fee using the straight-line method over the validity period until December 31, 2018 after the permitted license is obtained from the DGT.

**9. LONG-TERM LIABILITIES**

	December 31, 2002		
	Due Within One Year	Due Thereafter	Total
Unsecured bonds	\$ -	\$ 4,200,000	\$ 4,200,000
Secured bonds	616,000	1,276,000	1,892,000
Secured loan	-	1,470,000	1,470,000
Commercial paper	-	1,599,839	1,599,839
Unsecured bank loans	-	200,000	200,000
Secured bank loans	-	600,000	600,000
	<u>\$ 616,000</u>	<u>\$ 9,345,839</u>	<u>\$ 9,961,839</u>



	December 31, 2001		
	Due Within One Year	Due Thereafter	Total
Secured bonds	\$ 308,000	\$ 1,892,000	\$ 2,200,000
Secured loan	-	1,470,000	1,470,000
Commercial paper	1,752,000	4,811,620	6,563,620
Unsecured bank loans	-	300,000	300,000
	<u>\$ 2,060,000</u>	<u>\$ 8,473,620</u>	<u>\$10,533,620</u>

a. Unsecured bonds

These are five-year unsecured domestic bonds issued at par value on February 19, 2002. The total face value of the bonds is \$4,200,000, with each bond having a face value of \$1,000 at 3.4% interest rate annually. Redemption is at a percentage of the face amount of the bond, as follows: Type I bond - 40% in February 2006 and 60% in February 2007; and Type II bond - 60% in February 2006 and 40% in February 2007.

b. Secured bonds

These are five-year secured domestic bonds issued on November 30, 2000. The total face value of the bonds is \$2,200,000, with each bond having a face value of \$1,000 at 5.06% interest rate semiannually. Starting on December 1, 2002 and every six months thereafter, Far EastOne should redeem the bonds for up to 14% to 15% of their face value.

c. Secured loan

This is the loan from Shin Kong Life Insurance Co., which is secured by a guarantee issued by a bank consortium. The loan interest rates were 4.725% and 5.025% as of December 31, 2002 and 2001, respectively. Loan principal is due on January 25, 2005.

d. Commercial paper

1) Commercial paper amounting to \$999,893 and with one-year maturity were issued at discounts ranging from 1.95% to 2.15% as of December 31, 2002 and 2.22% to 2.57% as of December 31, 2001. Under a revolving note issuance facility, a consortium of banks guaranteed the commercial paper, which will be issued by Far EastOne through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will be decreased by 14% to 15% every six months.

2) Commercial paper amounting to \$599,946, with annual interest ranging from 1.5% to 1.7%, is due on January 3, 2003. Far EastOne has obtained guarantees from the financial institutions for the reissuance of the commercial paper until June 25, 2004.

e. Unsecured bank loans

Far EastOne obtained loans from the bank at interest rates ranging from 2.90% to 3.33% as of December 31, 2002 and 3.22% to 3.94% as of December 31, 2001. The loans are repayable in installments beginning in 2004 and every six months thereafter, with payments ranging from 16.5% to 17.5% of the principal. The final payment is due on May 17, 2007.

f. Secured bank loans

Far EastOne obtained a loan from a consortium of banks at 2.641% interest, with maturity on January 6, 2003. The loan is guaranteed by a consortium of banks, and the guarantee is effective until February 4, 2007. Starting on August 4, 2004, the maximum amount that Far EastOne can borrow will be decreased by 16% to 17% of the principal every six months.

As of December 31, 2002, Far EastOne had unused long-term and short-term credit lines that are available for long-term and short-term credit facilities of approximately \$6,918,000 and \$3,990,000, respectively.

On February 19, 2003, Far EastOne issued US\$115,000 thousand five-year overseas zero coupon convertible bonds. Holders have the right to require Far EastOne to convert all or a portion of the bonds at NT\$35.955 dollars per share, which will be subject to adjustments for any dilutive events, or redeem the bonds at 105.114% of their principal in U.S. dollars on February 19, 2008. On February 19, 2005, the holders of the bonds have the right to require Far EastOne to redeem all or a portion of the bonds at 102.015% of the principal in U.S. dollars. Far EastOne also has the option at any time on or after February 19, 2006 to redeem the bonds at a specific price.

# 10. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital in excess of par value can be used to offset a deficit or transferred to capital as stock dividend within prescribed limits only.

Far EastOne's Articles of Incorporation provide that, every year, 10% of net income less income tax and any accumulated deficit should be appropriated as legal reserve. In addition, if Far EastOne decides to distribute dividends, 2% of the remainder should be appropriated as bonuses to employees, and 1% of the remainder should be appropriated as remuneration to directors and supervisors.

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

The cash dividend should be at least 10% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures.

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

Under the integrated income tax system, ROC-resident stockholders are allowed a tax credit for the income tax paid by Far EastOne on earnings generated from January 1, 1998. Under this system, Far EastOne maintains an Imputation Credit Account (ICA) for the income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the balance shown in the ICA on the date of dividend distribution.

The board of directors and stockholders of Far EastOne approved the following appropriations and

distributions of the 2001 earnings on April 9 and June 25, 2002, respectively:

Legal reserve
Bonus to employees
Remuneration to directors and supervisors
Cash dividend - 10%
Stock dividend - 21%

Had the above bonus to employees and directors been distributed in cash and retroactively charged to net income in 2001, the primary earnings per share for 2001 (after tax), based on the weighted-average number of outstanding shares of 1,890,000 thousand, would have decreased from \$3.52 to \$3.43.



The appropriations and distributions of the 2002 earnings of Far EastOne have not been approved by the board of directors and stockholders on the issuance date of the independent auditors' report. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

#### 11. CONSOLIDATED EARNINGS PER SHARE

The information for calculating earnings per share is as follows:

	Amount (Numerator)			Earnings Per Share (Dollars)	
				Income	
	Income Before Income Tax Benefit	Net Income	Capital Stock (Denominator) (In Thousands of Shares)	Before Income Tax Benefit	Net Income
For the year ended December 31, 2002					
Consolidated net income	\$ 7,673,882	\$ 7,808,417	2,305,800	\$3.33	\$3.39
For the year ended December 31, 2001					
Consolidated net income	\$ 6,389,730	\$ 6,659,284	2,305,800	\$2.77	\$2.89

For the year ended December 31, 2001, the consolidated earnings per share retroactively adjusted for the 2001 stock dividend issued in 2002 decreased from \$3.38 (before tax) to \$2.77 and from \$3.52 (after tax) to \$2.89.

#### 12. PENSION PLAN

Far EastOne has a pension plan for all regular employees. Benefits are based on the number of service years and basic pay on the final month before retirement. Yuan-Ze has no pension plan.

Far EastOne makes a monthly contribution, at amounts equal 2% of salaries and wages, to a pension fund, which is administered by a pension plan committee and deposited in the Committee's name in the Central Trust of China.

Certain information related to the pension plan is as follows:

##### a. Pension cost consisted of:

	2002	2001
Service cost	\$ 61,395	\$ 77,871
Interest cost	8,689	8,909
Expected return on pension assets	( 5,463)	( 4,739)
Amortization	676	1,280
Benefit from pension plan curtailment	-	( 11,871)
Net pension cost	\$ 65,297	\$ 71,450

#### b. Reconciliation of the fund status of the plan and accrued pension cost:

	December 31	
	2002	2001
Benefit obligation		
Vested benefit obligation	\$ 2,692	\$ 6,905
Non-vested benefit obligation	123,532	61,576
Accumulated benefit obligation	126,224	68,481
Additional benefits based on projected and future salaries	127,481	105,300
Projected benefit obligation	253,705	173,781
Fair value of plan assets	( 120,163)	( 93,922)
Unfunded projected benefit obligation	133,542	79,859
Unrecognized net transition obligation	( 12,125)	( 13,338)
Unrecognized pension gain	9,713	30,793
Accrued pension cost	\$ 131,130	\$ 97,314
c. Vested benefits	\$ 3,374	\$ 7,785
d. Actuarial assumptions:		
	2002	2001
Discount rate used in determining present value	3.5%	5.0%
Future salary increase rate	3.5%	5.0%
Expected rate of return on plan asset	3.5%	5.0%
e. The changes of the Fund are as follows:		
	2002	2001
Beginning balance	\$ 93,922	\$ 57,445
Contributions	31,481	33,494
Earnings	2,371	2,983
	( 7,611)	-
	\$ 120,163	\$ 93,922

#### 13. INCOME TAX BENEFIT

##### a. Reconciliation of imputed income tax on pretax income of Far EastOne at statutory rates to current income tax payable:

	2002	2001
Income tax expense of Far EastOne computed at statutory tax rate (25%)	\$ 1,918,470	\$ 1,597,433
Add (deduct) tax effects of		
Permanent differences	( 1,472)	25
Temporary differences	48,430	521,450
Tax-exempt income	( 1,431,780)	( 804,737)

(Forward)

Unappropriated earnings tax	110,001	39,197
Investment tax credits	( 506,131 )	( 676,684 )
Income tax payable - current	<u>\$ 137,518</u>	<u>\$676,684</u>

The balances of income tax payable as of December 31, 2002 and 2001 were net of creditable income taxes of \$423 and \$5,091, respectively.

Yuan-Ze generated net losses in 2002 and 2001 and has no taxable income.

Net operating income generated from the use of switches and cell sites acquired by Far EasTone were tax-exempt as follows:

1) Acquisitions from April 1, 1997 to December 31, 1999 - exemption from January 1, 2000 to December 31, 2004;

2) Acquisitions from January 1, 2000 to June 26, 2002 - exemption from June 26, 2002 to June 25, 2007.

b. The Group's income tax benefit consisted of:

	2002	2001
Income tax payable - current	\$ 137,518	\$ 676,684
Income tax benefit - deferred	( 267,355 )	( 954,972 )
Prior year's adjustment	6,780	8,142
Income tax expense on income subjected to a separate flat income tax rate of 20%	<u>2,212</u>	<u>592</u>
Income tax benefit	<u>( \$ 134,405 )</u>	<u>( \$ 269,554 )</u>

c. Deferred income taxes assets and liabilities as of December 31, 2002 and 2001 consisted of:

	December 31	
	2002	2001
Current (included in other current assets)		
Deferred income tax assets		
Provision for doubtful accounts	\$ 597,971	\$ 677,822
Employee welfare expense	4,500	9,000
Provision for losses on inventories	2,160	8,185
Unrealized exchange loss	548	4,061
Inventory write-off	16	2,250
Accrued research and development expenses	-	936
	<u>\$ 605,195</u>	<u>\$ 702,254</u>
Deferred income tax liabilities		
Receivable from insurance company	-	( 2,246 )
	<u>\$ 605,195</u>	<u>\$ 700,008</u>

(Forward)

Noncurrent		
Investment tax credits	\$ 983,597	\$ 911,245
Depreciation resulting from the differences in estimated service lives of properties	348,175	269,776
Cumulative equity in the net loss of investee companies	55,020	41,511
Accrued pension cost	32,280	24,372
Organization cost	92	-
Loss carryforwards	<u>46,250</u>	<u>36,110</u>
	1,465,414	1,283,014
Less: Valuation allowance	( 46,342 )	( 36,110 )
	<u>\$ 1,419,072</u>	<u>\$ 1,246,904</u>

d. Integrated income tax information:

	December 31	
	2002	2001
Balance of imputation credit account (ICA)		
Far EasTone	<u>\$ 12,402</u>	<u>\$ 11,951</u>
Yuan-Ze	<u>\$ 130</u>	<u>\$ -</u>

The estimated ratio of the ICA balance as of December 31, 2002 to unappropriated earnings as of such date was 0.15%. When dividends from the unappropriated earnings as of December 31, 2001 were distributed by Far EasTone in 2002, the actual ratio used was 7.4%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings will be used by Far EasTone for allocating tax credits to each stockholder.

Deferred income tax rate for 2002 and 2001 of the Group was 25%.

The unused investment tax credits of Far EasTone and loss carryforwards of Yuan-Ze as of December 31, 2002 are summarized as follows:

Far EasTone		Total	Unused	
Relevant Statute	Item	Investment Tax Credits	Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Research and development expenditures	\$ 922,425	\$ 1,287,470	2005
Statute for Upgrading Industries	Personnel training expenditures	61,172	61,172	2005
Yuan-Ze				
Year of Expiry		Loss Carryforwards		
2006		\$ 36,132		
2007		10,118		



Income tax returns of Yuan-Ze for 2001 had not been examined by the tax authorities.

#### 14. RELATED-PARTY TRANSACTIONS

The Group had significant business transactions with the following related parties:

Related Party	Nature of Relationship
a. Yang Ding Co. (YDC)	Same chairman as that of Far EastOne
b. New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman as that of Far EastOne
c. Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EastOne
d. Far Eastern Department Stores (FEDS)	Same chairman as that of Far EastOne
e. E. World Ltd. (E. World)	Same chairman as that of Far EastOne
f. Far Eastern Textile Ltd. (FETL)	Parent company of a major stockholder
g. AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder
h. AT&T Corp. (AT&T)	Parent company of AWS
i. Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
j. Far Eastern Technology Developmental Foundation (FETTDF)	Company's donation to the foundation's capital is over one-third

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

		2002		2001	
During the year		Amount	%	Amount	%
Operating revenue	<i>				
NCIC	<ii>	\$ 683,115	2	\$ 195,549	1
Other	<xiv>	1,101	-	2,068	-
		<u>\$ 684,216</u>	<u>2</u>	<u>\$ 197,617</u>	<u>1</u>
Operating costs and expenses					
Service cost-NCIC	<ii>	<u>\$ 3,328</u>	<u>-</u>	<u>\$ 530</u>	<u>-</u>
Rental					
FEILC	<iii>	\$ 189,063	14	\$ 180,597	14
FETL	<iv>	56,238	4	52,254	5
YDC	<v>	2,405	-	2,323	-
Other	<vi and xiv>	<u>5,791</u>	<u>1</u>	<u>7,585</u>	<u>-</u>
		<u>\$ 253,497</u>	<u>19</u>	<u>\$ 242,759</u>	<u>19</u>

(Forward)

		2002		2001	
		Amount	%	Amount	%
Management service fee–					
AWS	<vii>	<u>\$ 82,166</u>	<u>100</u>	<u>\$ 90,583</u>	<u>100</u>
Trademark license fee–					
AT&T	<xi>	<u>\$ 13,530</u>	<u>100</u>	<u>\$ 33,451</u>	<u>100</u>
Research and development expense					
FETTDF	<x>	<u>\$ 49,905</u>	<u>84</u>	<u>\$ 16,702</u>	<u>65</u>
Rental revenue–					
NCIC	<xii>	<u>\$ 3,887</u>	<u>4</u>	<u>\$ -</u>	<u>-</u>
Purchase of properties from related parties					
FETEC	<viii>	\$ 780,673	14	\$ 403,886	3
YDC	<ix>	-	-	376	-
NCIC	<xiii>	66,528	1	6,666	-
Other	<xiv>	28	-	778	-
		<u>\$ 847,229</u>	<u>15</u>	<u>\$ 411,706</u>	<u>3</u>
<u>At end of year</u>					
<u>Other current assets</u>					
Other receivable					
AWS	<vii>	<u>\$ 8,138</u>	<u>1</u>	<u>\$ -</u>	<u>-</u>
(Forward)					
Prepaid expenses					
FEILC	<iii>	\$ 1,078	-	\$ 6,107	1
YDC	<v>	776	-	1,067	-
FETL	<iv>	738	-	953	-
FEDS	<vi>	475	-	1,172	-
Other	<xiv>	618	-	347	-
		<u>\$ 3,685</u>	<u>-</u>	<u>\$ 9,646</u>	<u>1</u>
Refundable deposits					
FEILC	<iii>	\$ 145,785	39	\$ 145,785	38
YDC	<v>	841	-	804	-
Other	<xiv>	215	-	-	-
		<u>\$146,841</u>	<u>39</u>	<u>\$ 146,589</u>	<u>38</u>

(Forward)

		2002		2001	
		Amount	%	Amount	%
Payables to related parties					
FETEC	<viii>	\$464,438	70	\$ 362,588	58
NCIC	<ii and xiii>	151,389	23	143,671	23
AT&T	<xi>	15,014	2	35,206	6
AWS	<vii>		-	68,876	11
Other	<xiv>	29,388	5	9,550	2
		<u>\$660,229</u>	<u>100</u>	<u>\$ 619,891</u>	<u>100</u>
Other current liabilities					
Other payable-NCIC	<viii>	<u>\$ 11,609</u>	<u>8</u>	<u>\$ 58,663</u>	<u>20</u>
Disposal of Properties	Sales	Cost	Book Value	Gain/ Loss on Disposal	
2001					
E. World	\$ 1,494	\$ 1,686	\$ 1,494	\$ -	

The transactions with the above related parties were as follows:

- i. Operating revenues (such as service revenue and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.
- ii. The transactions between Far EasTone and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC's use of Far EasTone's network. The interconnection fees paid by Far EasTone on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection service provided by NCIC to Far EasTone are included in service cost. The international direct dialing revenue collected by Far EasTone for NCIC is treated as a reduction in service revenue and is included in payables to related parties.
- iii. Far EasTone leased from FEILC the following: (a) its office spaces in Neihu and Kaohsiung from January 2000 to March 2003. On contract expiry, Far EasTone has the option to renew the lease contract for the office spaces in Neihu or buy the office buildings for \$1,569,520 (including 5% sales tax); (b) mobile switch centers located in Neihu and Tainan, from January 2000 to February 2003; (c) 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, and that for Hsinchu was from March 1, 2001 to three years after the completion of the construction of the switch center. Rental rates and terms are comparable to leases with third parties.
- iv. Far EasTone leased from FETL several parcels of the land and building spaces for the period from May 1997 to November 2014. The properties are located on Yatung Street and Renai Street in Panchao City; Yuantung Street in Chungli; and Wuku in Taipei County and other locations in Taiwan.
- v. The Group leased from YDC some floors of The Mall from November 2001 to December 2005.
- vi. Far EasTone leased from FEDS several parcels of land as well as building spaces from July 1997 to October 2006.

- vii. Far EasTone signed a service agreement with AWS in January 1997 for AWS to provide consulting services on the construction of a wireless network and business operations. The service charges were based on the actual expenses incurred by the AWS consultants and are net of any withholding taxes paid by Far EasTone.
- viii. Far EasTone has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by FETEC.
- ix. Far EasTone paid a project fee to YDC for constructing retail stores, switch centers and cell sites. The fee was based on actual hours incurred by YDC.
- x. FETTDF researches on telecommunication technology for Far EasTone and communicates its results to employees of Far EasTone.
- xi. On May 22, 1997, Far EasTone signed an agreement with AT&T Corp. to use AT&T's trademark for marketing, advertising and promotion purposes in the Republic of China. The trademark fee is US\$1,000 thousand if Far EasTone has negative net cash flow from operations before payment of the trademark fee and after deduction of capital expenditure. Otherwise, the fee is 1% of the net service revenues from wireless and Internet businesses, up to US\$4,500 thousand. This agreement expired on May 21, 2002.
- xii. Far EasTone leased its mobile switch centers to NCIC. Rental rates and terms are comparable to leases with third parties.
- xiii. Far EasTone bought NCIC's telecommunications network and backbone network facilities.
- xiv. Accounts of other related parties were less than 5% of respective accounts.

#### 15. COMMITMENTS AS OF DECEMBER 31, 2002

- a. Far EasTone had outstanding contracts amounting to \$1,027,304 for the acquisition of telecommunications and other equipment.
- b. The Group's rentals of land, buildings and cell sites for the next five years are summarized as follows:

Year	2003	2004	2005	2006	2007
Amount	\$ 1,248,890	\$ 1,296,650	\$ 1,346,255	\$ 1,397,740	\$ 1,451,254

- c. Far EasTone's outstanding letters of credit amounted to ¥1,444,814 thousand (equivalent to \$423,331). On January 7, 2003, Yuan-Ze signed a memorandum for the acquisition of equipment from Ericsson
- d. (Taiwan) for \$1,353,842 (including 5% sales tax).

#### 16. ADDITIONAL DISCLOSURES



a. Following are the additional disclosures required by the Securities and Futures Commission with respect to the Group and its investees for 2002:

- 1) Financing provided (please see Schedule A);
- 2) Marketable securities held (please see Schedule B);
- 3) 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 C);
- 4) Total purchase from or sale to 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 Group exercises significant influence

b. Derivative financial transactions

Yuan-Ze did not enter into any derivative financial contracts in 2002 and 2001.

The information on derivative financial contracts entered into by Far EasTone is as follows:

1) Open contracts and credit risk

Type of Transaction	December 31, 2001				
	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

There was no outstanding interest rate swap contract of Far EasTone as of December 31, 2002. Far EasTone entered into interest rate swap contracts to hedge fluctuations on interest rates.

Interest expenses on Far EasTone's swap contracts for the years ended December 31, 2002 and 2001 were \$36,674 and \$43,442 respectively.

Type of Transaction	December 31, 2002			
	Notional Amount (Thousand)	Market Value	Credit Risk	Maturity
Forward contracts (buying JPY, selling TW\$)	¥ 372,980	\$ 109,209	\$ 4,637	January 6, 2003

Far EasTone entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The realized exchange loss and gain for the years ended December 31, 2002 and 2001 were \$5,390 and \$4,662 and, respectively.

Far EasTone placed an order for cellular phones amounting to ¥1,444,814 thousand in 2002. To hedge the effect of exchange rate fluctuations on this commitment, Far EasTone entered into Japanese yen forward contracts. The unrealized gain of \$4,637 as of December 31, 2002 on this commitment was deferred.

Far EasTone is exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, Far EasTone transacts only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

2) Market risk

Far EasTone is exposed to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts.

Far EasTone entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. Therefore, the market risk is not material.

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

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. The forward exchange rates are determined in advance and no additional material cash is required. Management believes that Far EasTone has sufficient operating capital to meet cash demand.

4) The purpose of derivative financial instruments held or issued/the strategies to meet the purpose Far EasTone uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves Far EasTone's paying interests at a fixed rate and receiving interests based on market rates. Far EasTone has entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The overall purpose of these contracts is to hedge Far EasTone's exposure to cash flow risk. Far EasTone periodically evaluates the effectiveness of hedging instruments.

#### 5) Financial statement presentation

Forward Contracts (Buying JPY, Selling TW\$)	December 31, 2002
Forward contracts receivable—foreign currencies	\$ 109,171
Premium on forward contracts	112
Forward contracts payable	( 104,646)
Net on forward contracts (included in other current assets)	\$ 4,637

6) The estimated fair values of consolidated financial instruments are as follows:

	December 31			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	\$ 2,253,173	\$ 2,253,173	\$ 3,009,003	\$ 3,009,003
Accounts receivable-net	3,216,577	3,216,577	4,114,428	4,114,428
Investments in shares of stocks	10,342	10,342	25,183	25,183
Refundable deposits	373,363	365,932	384,436	368,884
Financial liabilities				
Notes payable	28,944	28,944	28,573	28,573
Accounts payable	589,345	589,345	504,159	504,159
Payables to related parties	660,229	660,229	619,891	619,891
Income tax payable	137,095	137,095	671,593	671,593
Payables related to acquisitions of properties	2,120,178	2,120,178	1,417,422	1,417,422
Long-term bonds payable (including within one year)	6,092,000	6,511,069	2,200,000	2,319,749
Long-term debts (including within one year)	3,869,839	3,863,072	8,333,620	8,334,576
Guarantee deposits received	1,991,727	1,991,727	2,966,635	2,966,635
Derivative financial instruments				
Forward contract	4,637	4,637	-	-
Interest rate swap	-	-	-	( 41,247 )

The bases for estimating fair values of financial instruments were as follows:

- Cash and cash equivalents, accounts receivable, notes payable, accounts payable, payables to related parties, income tax payable and payables related to acquisitions of properties - carrying values reported in the balance sheets because of the short maturity of these instruments;
- Investments in shares of stock - market prices or, if market prices are unavailable, the equity in the investee's net assets;
- Long-term bonds payable and long-term debts - market prices. If market prices are unavailable, estimates of fair values are made through discounted cash flow analyses, with the discount rate based on rate of bank loans obtained under conditions (e.g. maturity date) similar to those of the instruments.
- Refundable deposits and guarantee deposits received - present values of future payments or receipts.
- Fair values of derivative financial instruments - quoted market prices obtained from foreign banks or Reuters.

## 17. INDUSTRY SEGMENT INFORMATION

### a. Industry

The Group provides wireless communications, Internet, international simple resale (ISR) service and sale

of telecommunications equipment. No segment information is provided since the revenues from wireless communications services account for more than 90% of the Group's total revenues.

### b. Foreign operations.

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

### c. Foreign revenues

d. The Group has no foreign revenues.

Net operating revenue from customers representing at least 10% of the Group's total net operating revenue as follows:

	2002		2001	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	\$ 7,935,692	23	\$ 7,781,605	23

## SCHEDULE A - NOTE 16

### Far EasTone Telecommunications Co., Ltd. and Subsidiaries

#### FINANCING PROVIDED

#### For the Year Ended December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

No.	0
Financier	Far EasTone Telecommunications Co., Ltd.
Counterparty	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)
Financial Statement Account	Receivables from related parties
Highest Balance for the Year	\$2,074,000
Ending Balance for the Year	\$ -
Interest Rate	4.2%
Interest Revenue(Note B)	\$ 454
Nature of Financing	Short-term financing
Transaction Amount	\$ -
Short-term Financing Reasons	Payment for 3G license fee
Allowance for Bad Debt	-
Collateral	Item
	Value
	-
Maximum Allowable Financing that Can be Provided by the Financier to Individual Counterparty (Note A)	\$3,228,361
Maximum Allowable Amount of Financing that Can be Provided by the Financier (Note A)	\$4,842,542



Note A: The "Guideline for Lending of Capital to Others" (as amended) of Far EasTone, the total short-term financing that can be provided by the financier shall not exceed 15% of the financier's net assets as shown in its latest audited or reviewed financial statements. The short-term financing to individual counterparties shall not exceed 10% of the financier's net assets as shown in its latest audited or reviewed financial statements.

Note B: The intercompany accounts have been eliminated in consolidation.

#### SCHEDULE B - NOTE 16

##### Far EasTone Telecommunications Co., Ltd. and Subsidiaries

##### MARKETABLE SECURITIES HELD

December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	1,330	\$ 10,342	19.00	\$ 10,342	Note A
	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications)	Equity-method investee	Investments in shares of stock	837,000	8,212,856	80.71	8,212,856	Note B

Note A: Far EasTone was unable to obtain the investee's financial statements and recognized a 2001 net loss in 2002.

Note B: Calculation was based on audited 2002 financial statements.

#### SCHEDULE C - NOTE 16

##### Far EasTone Telecommunications Co., Ltd. and Subsidiaries

##### MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Year Ended December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Decrease Under Equity Method (Note A)		Beginning Balance	
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Far EasTone Telecommunications Co., Ltd.	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)	Investments in shares of stock	Issuance of capital stock	-	120,000	\$1,053,769	717,000	\$7,170,000	-	\$-	-	-	837,000	\$8,212,856

Note A: The net decrease in carrying amount under the equity method includes an increase of \$29,086 for the recognition of the effect of percentage change in ownership resulting from the issuance of capital stock by investee in cash and a decrease of \$39,999 in its equity due to the investee's net loss.

Note B: Intercompany accounts and transactions related to the carrying value of investments in shares of stock, investment loss recognized under equity method and the investee's net assets have been eliminated in consolidation.

#### SCHEDULE D- NOTE 16

##### Far EasTone Telecommunications Co., Ltd. and Subsidiaries

##### TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Year Ended December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

Transaction Party	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 as that of the Company	Operating revenue	(\$683,115)	(2)	30 days	-	-	(\$88,096)	(13)

Note: The international direct dialing revenue collected by Far EasTone for NCIC was treated as a reduction of wireless service revenue.

#### SCHEDULE E - TO NOTE 16

##### Far EasTone Telecommunications Co., Ltd. and Subsidiaries

##### NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

For the Year Ended December 31, 2002

(Amounts in Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2002		Net Loss of the Investee	Equity in Net Loss	Note
				December 31, 2002	December 31, 2001	Shares (Thousands)	Percentage of Ownership (%)			
Far EasTone Telecommunications Co., Ltd.	E. World (Holdings) Ltd.	British Cayman Island	Investment	\$ 41,095	\$ 41,095	1,330	19.00	\$ 10,342	\$ 73,875	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)	Taiwan	Wireless telecommunications and the wholesale/retail sale of telecom equipment	8,370,000	1,200,000	837,000	80.71	8,212,856	49,708	Notes C, D and E

Note A: Equity method investee of Far EasTone

Note B: The equity in net loss recognized in 2002 was based on the net income of the investee in 2001 because the audited 2002 financial statements of the investee were not timely available. Subsidiary.

Note C: Calculation based on audited financial statements as of December 31, 2002.

Note D: Intercompany accounts and transactions related to the carrying value of investments in shares

Note E: of stock, investment loss recognized under equity method and the investee's net assets have been eliminated in consolidation.

### 6. Financial Condition and Impact of the Company and Affiliates

The Company and Affiliates have not confronted any material financial difficulties as of the publishing date of the Annual Report.



## 7. Financial Forecast and Results from 2001 to 2002

7-1 Financial Forecast and Results from 2001 to 2002

Unit: NTD '000

Operating Revenues	2001 Forecast Reviewed by Certified Public Accountants		Financial Report of 2001 (Audited by Certified Public Accountants)			2002 Forecast Reviewed by Certified Public Accountants	Financial Report of 2001 (Audited by Certified Public Accountants)		2003 Forecast
	Original Forecast	Revised Forecast	Actual	% Achieved (Original Forecast)	% Achieved (Revised Forecast)		Actual	% Achieved	
Operating Cost	\$44,007,275	\$34,523,080	\$34,544,355	78%	100%	\$37,500,000	\$34,478,035	92%	\$36,755,585
Gross Profit	20,843,295	15,956,873	15,723,129	75%	99%	17,798,121	16,659,020	94%	18,763,164
Operating Expenses	23,163,980	18,566,207	18,821,226	81%	101%	19,701,879	17,819,015	90%	17,992,421
Income From Operations	13,929,165	12,260,166	12,234,984	88%	100%	11,613,978	9,902,695	85%	9,761,296
Non-Operating Income	9,234,815	6,306,041	6,586,242	71%	104%	8,087,901	7,916,320	98%	8,231,125
Non-Operating Expenses	173,956	272,325	287,153	165%	105%	21,126	174,313	825%	24,347
Income Before Income Tax	830,287	356,202	483,665	58%	136%	376,142	416,751	111%	930,898
Net Income	8,578,484	6,222,164	6,389,730	74%	103%	7,732,885	7,673,882	99%	7,324,574
Operating Cost	\$ 7,473,484	\$ 6,492,164	\$ 6,659,284	89%	103%	\$ 7,100,000	\$ 7,808,417	110%	\$ 7,283,566

Note: Up until the publishing date of the 2002 annual report the 2003 forecast have not been released.

## 7-2 Major Reasons for Updating 2001 Financial Forecast

## (1) Major Reasons for Updating Financial Forecast

## 1. Operating Revenue

As the mobile voice market is getting mature and the development of 2.5G wireless service is slowing down, the growth of customer number is also slower than the original forecast. Therefore, the updated revenue-producing customer number 3,682,000 is lower than forecast. Secondly, due to market recession, the average minutes of usage (MOU) per customer has decreased in 2001 thus the revised service revenue forecast is lower than the original forecast.

## 2. Operating Cost

As CHT lowered the interconnection fee and an updated forecast of revenue-producing customer and MOU, the operating cost is adjusted down accordingly.

## 3. Operating Expense

As the slower growth of the wireless telecommunication market and the delay in 2.5G development, the company's operating expenses have also been reduced with lower handset subsidy, advertising, commission and enhanced cost control.

## (2) Explanations for Variances

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.

## 7-3 Explanations for Differencies of the 2002 Financial Forecasts:

As being granted a second five-year tax holiday, The Company's net income was higher than the original forecast.

## VI. Review and Analysis of the Financial Condition, Operating Performance and Risk Management



1. Financial Condition
2. Operating Performance
3. Cash Flow
4. Major Capital Expenditure and Source of Capital
5. Investment Policy Analysis and Plans for Improvement
6. Risk Management Analysis
7. Others



## 1. Financial Condition

## 1-1. Financial Condition Review and Analysis

Unit: NTD '000

Item	Year	2002	2001	Variance	
				Amount	%
Current Assets	\$	8,537,035	\$ 9,253,268	( \$ 716,233)	( 8)
Fixed-Assets		40,120,073	40,695,530	( 575,457)	( 1)
Other Assets		1,912,536	1,782,827	129,709	7
Total Assets		58,792,842	52,810,577	5,982,265	11
Current Liabilities		9,273,638	8,975,301	298,337	3
Long-term Liabilities		9,345,839	8,473,620	872,219	10
Total Liabilities		20,742,334	20,526,965	215,369	1
Capital Stocks		23,058,000	18,900,000	4,158,000	22
Capital Surplus		5,996,658	6,156,572	( 159,914)	( 3)
Retained Earnings		8,992,752	7,223,136	1,769,616	24
Total Shareholders Equity		38,050,508	32,283,612	5,766,896	18

1. The increase in current liabilities resulted from the increased unearned revenue from bundled sales. The decrease in current position of long-term liabilities resulted from the decrease in commercial papers payable and increase in bonds payable. The Company plans to raise funds by issuing overseas convertible bonds, common corporate bonds, or taking bank loans, depending on the capital market conditions and interest rate movement.
2. The increase in Capital stocks mainly resulted from stock dividends and capitalization of capital surplus.
3. The increase in retained earnings mainly comes from 2002 net income.

## 2. Operating Performance

## 2-1. Operating Performance Analysis

Unit: NTD '000

	2002		2001		Variance	(%)
	Subtotal	Total	Subtotal	Total		
Operating Revenues		\$34,478,035		\$34,544,355	(\$ 66,320)	-
Operating costs expenses		26,561,715		27,958,113	( 1,396,398)	( 5)
Net Income from Operations		7,916,320		6,586,242	1,330,078	20
Non-operating Income						
Reversal of allowance for losses on inventories						
Interest	\$33,039		\$31,191		1,848	6
Reversal of allowance for losses on properties not currently used in operations	16,841		27,290		( 10,449)	( 38)
Foreign exchange gains	-		68,100		( 68,100)	( 100)
Other	124,433	174,313	118,151		6,282	5
				287,153	( 112,840)	( 39)
Non-operating Expenses						
Interest	304,193		239,401		64,792	27
Equity in net loss of investee companies	54,034		166,047		( 112,013)	( 67)
Other	58,524		78,217		( 19,693)	( 25)
		416,751		483,665	( 66,914)	( 14)
Income before income tax benefit		7,673,882		6,389,730	1,284,152	20
Income tax benefit		134,535		269,554	( 135,019)	( 50)
Net income		\$7,808,417		\$6,659,284	\$1,149,133	17

## Explanations for Variance

1. 2002 net income was higher than that of 2001 mainly because of the lower total cost and expenses in 2002 which was a result of more effective cost control and more aggressive collection policy.
2. 2002 foreign exchange gains were lower than that of 2001 mainly because that due to the continuous appreciation of USD in 2001 the company's USD purchased at a lower price were used to pay off its foreign currency debt.
3. 2002 interest revenues were lower than that of 2001 mainly because the Company purchased more USD deposit in 2001 which results in higher interest revenues in 2001.
4. The reversal of allowance for losses on properties not currently used in operations was due to the decrease of idle assets in 2001, resulting from the previously idle towers to be used for constructing large BTS.
5. The increase of interest expense was mainly because of the higher average loan balance resulting from the increase of investment in Yuan-Ze Telecommunications Co., Ltd. and expansion of wireless network.
6. The decrease of equity in net loss of investee companies resulted from the lower investment loss of the investee companies - E. World (Holdings) Ltd. and Yuan-Ze Telecommunications Co., Ltd.
7. The decrease of income tax benefit was mainly because of the lower investment tax credits from procuring facilities, R&D, and personnel training.

**2003 Forecast Presumption:** The forecast of 2003 operating revenues is mainly based on the forecast number of revenue-producing customers, sales volume and the Company's operating strategies with the consideration of the trend of telecommunication industry development and analysis of various business categories.

## 2-2. Gross Profit Variance Analysis: None

## 3. Cash Flow

## 3-1. 2002 Cash Flow Analysis

Unit: NTD '000

Cash and cash equivalents, beginning of the year (1)	Total cash flows from operating activities (2)	Total outflows of cash and cash equivalents (3)	Balance of cash and cash equivalents (1)+(2)-(3)	Remedies for negative balance of cash and cash	
				Investment Plans	Financial
\$ 2,807,799	\$ 15,326,833	\$ 20,109,985	( \$ 1,975,353)	13,695	\$ 4,200,000

## 3-2. Plans for remedies in case of a negative balance of cash and cash equivalents

Issuing European Convertible bond, corporate bond, or taking bank loans.

## 3-3. 2003 cash flow analysis

Unit: NTD '000

Cash and cash equivalents, beginning of the year (1)	Total cash flow from operating activities (2)	Total outflows of cash and cash equivalents (3)	Balance of cash and cash equivalents (1)+(2)-(3)	Remedies for negative balance of cash and cash	
				Investment Plans	Financial
\$ 2,238,342	\$ 13,341,633	\$ 16,677,892	( \$ 1,097,917)	-	\$ 4,454,000



## 4. Major Capital Expenditure and Source of Capital

## 4-1. Major Capital Expenditure and Source of Capital Analysis

Unit: NTD '000

Plan Item	Actual or Estimated Source of Capital	Actual or Estimated Completion Date	Total Capital Needed	Actual or Estimated Fund Utilization Schedule				
				2001	2002	2003	2004	2005
Expansion of network	Benefit capital stocks and bank loans	2005	32,587,749	12,007,497	5,135,792	8,444,460	4,000,000	3,000,000

## 4-2. Forecast Effect

## Projected Sales and Gross Profit

Unit: NTD '000

Year	Item	Sales	Gross Profit
2003	Expansion of network	36,755,585	17,992,330
2004	Expansion of network	41,000,000	20,000,000
2005	Expansion of network	50,000,000	24,000,000

## 5. Investment Policy Analysis and Plans for Improvement

## Investment Analysis

	Amount (Note)	Policy	Main reasons for profit/loss	Plans for Improvement	Future Investment Plans
Yuan-Ze Telecommunications Co., Ltd.	\$ 8,370,000	Investment in 3G Wireless Telecommunications Business	The investee company has not started its commercial operation.	The investee company will start its commercial operation and generate revenues in the near term.	none

Note: 2002 total investment amount was over 5% of the paid-in capital.

## 6. Risk Management Analysis

## 6-1. Impact of Interest Rate and Exchange Rate Fluctuation and Inflation on the Company

## 1. Interest Rate Analysis

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates. Interest expense on these swap contracts for the years ended December 31, 2002 was NTD 36,674 thousand.

To hedge fluctuations on interest rates of the Company's second unsecured domestic bond of NTD 1,470,000 thousand the Company has entered into interest rate swap contracts.

Every 0.25% increase/decrease of the interest rate will represent NTD 7,137 thousand interest expenses increase / decrease in 2003.

## 2. Exchange Rate Analysis

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The realized exchange loss for the years ended December 31, 2002 was NTD 5,390 thousand. In additions, the Company placed an order for cell phones amounting to ¥1,444,814 thousand in 2002. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into Japanese yen forward contracts. The unrealized gain of NTD 4,637 thousand on this commitment was deferred.

Based on the exchange rate NTD/USD 34.8, every 1% of the exchange rate appreciation/depreciation will represent NTD 36,327 thousand increase/decrease on the Company's net income for the year 2003.

## 3. Inflation

The Company has not been significantly impacted by inflation in recent years. Taiwan's annual inflation rate from 1999 to 2002 was 0.17%, 1.26%, -0.01%, and -0.02% respectively.

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates and entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The Company's hedging strategy is to hedge the Company's exposure to cash flow risk and the strategy is subject to regular evaluation.

## 6-2. Policies for High Risk or high Leveraged Investment, Financing Provided, Endorsement, Derivative Financial Instruments, and Main Reasons for Gains or Loss

1. Policies for high risk or high leveraged investment, derivative financial instruments: guided by the company's Guidelines for Handling Acquisition and Disposal of Assets.

Policies for lending of capital to others: guided by the Company's Guideline for Lending of Capital.

Policies for endorsement: guided by the Company's Guidelines for Endorsements and Guarantees.

2. High risk or high leveraged investment: None

3. Utilization of derivative financial instruments:

Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading purposes

The Company placed an order for cell phones amounting to ¥1,444,814 thousand in 2002. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into Japanese yen forward contracts of ¥372,980 thousand. The unrealized gain of NTD 4,637 thousand on this commitment as of December 31, 2002 was deferred. In additions, the Company entered into interest rate swap contracts to hedge fluctuations on interest rates. Loss on these swap contracts for the years ended December 31, 2002 was NTD36,674 thousand.

4. Loans to Others

The Company made a loan to Yuan-Ze Telecommunications Co., Ltd. in early 2002. The loan was for Yuan-Ze to pay its 3G license fee and has been settled within two days.



Unit: NTD '000

Loanee	Yuan-Ze Telecommunications Co., Ltd.	
Highest Balance Amount in 2002	\$2,074,000	
Balance As of 12/31/2002	-	
Interest Rate Interval	4.2%	
Total Interest Revenue	\$ 454	
Nature of Financing	Short-term financing	
Short-term Financing Reasons	Payment for 3G license fee	
Allowance for bad debt	-	
Collateral	Item	-
	Value	-
Maximun Allowable Financing that can be Provided by the Financier to Individual Counterparty	\$3,228,361	
Maximun Allowable Amount of Financing that can be Provided by the Financier	\$4,842,542	

**6-3. R&D Projects (need further confirmation)**

The five on-going R&D projects have reached their milestones.

- \* Establishment of campus GSM experimental system : The connection between the GSM experimental network and the core cable network is under construction. The testing procedures of application services are also being established. The GSM experimental network will be completed as the 3G experimental network is built.
- \* iSMS service network development environment : The platform is going to be completed and the results will be passed to FET SMS application service development team.
- \* Prototypes development of wireless disaster prevention sensors : The sensor prototype has been completed. Once it passed the tests the results will be passed to FET for follow-up research. With the integration with 3G network in the future, disaster prevention sensor can also be commercialized and added to the application service pool of 3G network.
- \* The development of critical patient's information delivery system by utilizing the FarEasTone wireless communication system: The prototype has been completed. The feasibility of making it an application service on FET network and the potential to raise FET's network utilization rate and production value are being studied.
- \* The implications of Taiwan's accession to the WTO for its telecommunications services industry: This project involved research of the market and WTO regulations and was already completed. The results have been used for employee training and in the future will be incorporated with other trainings organized by Human Resources Department.

**6-4. Material Changes of Policies and Regulations in Taiwan and Foreign Countries and Impact on the Company**

1. The government issued five 3G licenses in February, 2002 through auction. As 3G is deemed the trend of future telecommunications development, FET invested in and established Yuan-Ze Telecommunications to join the license bidding and won a 3G license.
2. In June 2002 Taiwan's Legislative Yuan passed amendments to the Telecommunications Law. The limit on direct foreign ownership in a local Type I telecom service operator was increased from 20% to 49% and the limit on the total direct and indirect foreign ownership remains at 60%. The amendments also abrogated the requirement that a majority of directors and the supervisors of the Type I company shall be Taiwan nationals. The increase of the limit on direct foreign ownership in a local Type I telecom service operator allows FET more flexible financing and makes more room for fund raising from foreign investors such as ADR issuance.
3. After telecom market deregulation universal telecom service was implemented for the first time in Taiwan. After lots of communication and negotiation the forecast cost of universal telecom service for the year 2003 was lowered from the original NT\$4.94 billion to NT\$1.96 billion, easing the pressure on operators who are to share the cost. Meanwhile, Regulations on Telecommunications Universal Service amendment is being urged.

**6-5. Technology Development and Impact on the Company**

The major trend of technology development in recent years was the prevalence of Wireless LAN (WLAN) and 3G. Eyeing the trend Far EasTone has invested enormous capital to obtain a 3G license in order to effectively expand the Company's business model and increase the Company's revenue and market share.

Currently WLAN has been employed in data service applications and the technology will be deemed by Far EasTone as a complementary opportunity in its business operations: 3G applications will focus on the high mobility and wide coverage, while WLAN applications will focus on static high speed transmission. These two technologies target different market segments and can be integrated and complemented by each other. In the future Far EasTone will make the most of its competitive advantage and experiences in GSM, 3G and internet services integrating with WLAN to offer broad band convergent services that meet various needs.

**6-6. Corporate Image Change and Impact on the Company's Crisis Management: None****7. Others** None

## VII. Special Notes



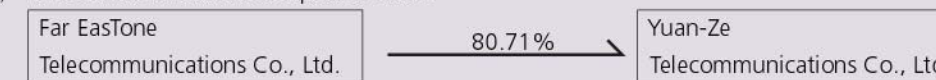
1. Affiliates Information
2. Internal Control System Execution Status
3. Dissenting Comment
4. Corporate Governance
5. Private Placement Securities
6. Far EasTone Shares Held or Disposed of by Subsidiaries
7. Major Resolutions of the Shareholders' Meetings and Board Meetings
8. Violation of Internal Control Policies by Employees
9. Other Supplementary Information

### 1. Affiliates Information

#### 1-1 Consolidated Business Report of Affiliates

2002/12/31

##### (1) Far EasTone Affiliated Companies Chart



##### (2) General Information of Far EasTone Affiliated Companies

Unit: NTD '000

Company	Date of Incorporation	Place of Registration	Paid-in Capital	Major Business Activities
Far EasTone Telecommunications Co., Ltd	Apr. 11, 1997	28th Floor, 207, Sec. 2, Tun-Hwa S. Rd. Taipei	23,058,000	Wireless telecommunications service, ISR and Internet services
Yuan-Ze Telecommunications Co., Ltd	Dec. 5, 2001	28th Floor, 207, Sec. 2, Tun-Hwa S. Rd. Taipei	10,370,000	Third generation wireless telecommunications 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 telecommunications service, Internet service, and International Simple Resale (ISR) Service.

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

Unit: Number of Shares; %

Company	Title	Name or Representative	Shareholding	
			Share	%
Far EasTone Telecommunications Co., Ltd	Chairman	Yuan Ding Investment Co., Ltd. Douglas Hsu	1,153,919,883	50.04%
	Vice Chairman	Yuan Ding Investment Co., Ltd. Laurence Yang	1,153,919,883	50.04%
	Director	Yuan Ding Investment Co., Ltd. Champion Lee	1,153,919,883	50.04%
	Director	Yuan Ding Investment Co., Ltd. Peter Hsu	1,153,919,883	50.04%
	Director	P.Y. Lee	294,264	-
	Director	Taiwan Wireless Investments, Inc. Jordan Roderick	239,751,594	10.40%
	Director	Taiwan Wireless Investments, Inc. Robert Lewis	239,751,594	10.40%
	Director	Chiao Tung Bank Co., Ltd. Maria Lu	59,645,961	2.59%
	Director	China Development Industrial Bank Chin Lin	153,557,146	6.66%
	Supervisor	Far Eastern International Leasing Co., Ltd. Eli Hong	25,629,933	1.11%
	Supervisor	CHD Investments Holdings, Inc. Denis Koh	1,647	-
	Supervisor	Yue-Li Investment Co., Ltd. Jong C. Wang	1,775	-
Yuan-Ze Telecommunications Co., Ltd	President	Jan Nilsson	-	-
	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	837,000,000	80.71%
	Director	Far EasTone Telecommunications Co., Ltd. Laurence Yang	837,000,000	80.71%
	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee	837,000,000	80.71%
	Director	Far EasTone Telecommunications Co., Ltd. Jordan Roderick	837,000,000	80.71%
	Supervisor	Far EasTone Telecommunications Co., Ltd. Peter Hsu	837,000,000	80.71%



## (6) Operational Highlights of Far EasTone Affiliated Companies

Unit: NTD '000 except EPS

Company	Paid-in Capital	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Loss)	EPS (NTD)
Far EasTone Telecommunications Co., Ltd.	23,058,000	58,792,842	20,742,334	38,050,508	34,478,035	7,916,320	7,808,417	3.39
Yuan-Ze Telecommunications Co., Ltd.	10,370,000	10,189,734	15,674	10,174,060	-	(55,026)	(49,709)	(0.06)

## 1-2 Declaration for the Consolidated Financial Statements of the Company and Affiliates

February 25, 2003

We hereby declare that the consolidated financial statements of affiliated enterprises as of and for the year ended 2002 had been prepared in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" and the entities in consolidated financial statements of affiliated enterprises are the same as those in consolidated financial statements in accordance with the "Guidelines for Securities Issuers' Financial Reporting for Public Company" and Statements of Financial Accounting Standards No. 7 "Consolidated Financial Statements". Besides, the information needed in consolidated financial statements of affiliated enterprises is enclosed in consolidated financial statements. Therefore, no consolidated financial statements of affiliated enterprises will be compiled.

Far EasTone Telecommunications Co., Ltd.



Douglas Hsu, Chairman

## 1-3 Report of Business Relations

## 1-3-1 Independent Auditors' Report .

To: Far EasTone Telecommunications Co., Ltd.

Subject: The Opinion for Your 2002 Affiliation Report

Remark:

1. According to your declaration, your 2002 Affiliation Report dated Feb.25, 2003 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, 2002 ("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 2002 Affiliation Report and the Criteria and the Notes.

T N Soong &amp; Co.

## 1-3-2 Declaration for the Affiliation Report of Far EasTone Telecommunications Co., Ltd.

February 25, 2003

We hereby declare that the Affiliation Report of 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" 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, 2002.

Far EasTone Telecommunications Co., Ltd.



Douglas Hsu, Chairman



## 1-3-3 The Relationship between the Affiliated Company and the Parent Company

2002/12/31

Unit: Share; %

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 Far EasTone's outstanding voting shares	1,153,919,883	50.04	101,100,000	Chairman	Douglas Hsu
					Vice Chairman	Laurence Yang
					Director	Champion Lee
Far Eastern Textiles Ltd.	Indirectly control over the Management of the personnel, financial or business operation of Far EasTone	-	-	-	Director	Peter Hsu
					-	-

## 1-3-4 Asset Leasing between the Affiliated Company and the Parent Company:

For the Year 2002

Unit: Share; %

Transaction	Target Asset		Period	Type	Rental Deciding Factor	Payment Method	Comparing to Normal Rental	Rental for this Period	Other Engagement
	Name	Address							
Leasing	BTS1355	No 252, Sec 1, Chung-Shan Rd., Kuan-Yi Hsiang, Tao-Yuan County	06.15.1997-06.15.2012	Operating	Same as normal leasing	Bank Remittance	Same	308	None
Leasing	BTS1522	No 180, Tu-Ti-Kung-Pu, Wen-Shan Li, Hsin-Pu Chen, Hsin-Chu County	07.15.1997-07.15.2012	Operating	Same as normal leasing	Bank Remittance	Same	230	None
Leasing	BTS1200	No 1 & 3, Alley 81, Yuan-Tung Rd, Chung-Li, Tao-Yuan County	11.15.1997-11.15.2012	Operating	Same as normal leasing	Bank Remittance	Same	391	None
Leasing	BTS1637	No 216, Sec Ming-Hsin, Mei-Kung Rd, Hua-Lien County	11.15.1998-11.15.2013	Operating	Same as normal leasing	Bank Remittance	Same	192	None
Leasing	BTS5341, 5841	No 3, King-Chen 6th, Rd, Kuan-Yin, Industrial Area, Kuan-Yin Hsiang, Tao-Yuan County	11.15.1999-11.14.2014	Operating	Same as normal leasing	Bank Remittance	Same	188	None
Leasing	Warehouse for Tower	No 20, Mei-Kung Rd, Hua-Lien County	04.23.2001-04.30.2002	Operating	Same as normal leasing	Bank Remittance	Same	841	None
Leasing	Pan-Chiao Office	No 334, Sec 1, Hsi-Chuan Rd., Pan-Chiao, Taipei County	05.01.1997-08.31.2009	Operating	Same as normal leasing	Bank Remittance	Same	49,660	None
Leasing	Wu-Ku MSC	3rd fl, No 99 Sec 1, Cheng-Tai Rd, Wu-Ku Hsiang, Taipei County	08.01.1998-07.31.2003	Operating	Same as normal leasing	Bank Remittance	Same	1,411	None
Leasing	Nei-Li MSC	No 80, Yuan-Tung Rd, Nei-Li, Tao-Yuan County	05.01.1997-04.30.2002	Operating	Same as normal leasing	Bank Remittance	Same	2,398	None
Leasing	BTS1588	No 2, Alley 266, Fu-Hsin Rd, Hu-Kuo, Hsin-Chu County	11.15.2000-11.14.2005	Operating	Same as normal leasing	Bank Remittance	Same	184	None
Leasing	BTS1722	No 100, Yu-Shih Tuan, Chiao-Hsi Hsiang, Yi-Lan County	02.15.1998-02.14.2013	Operating	Same as normal leasing	Bank Remittance	Same	435	None
Total								56,238	

1-3-5 Purchasing and Selling Transactions between the Affiliated Company and the Parent Company: None

1-3-6 Property Transactions between the Affiliated Company and the Parent Company: None

1-3-7 Lending &amp; Borrowing between the Affiliated Company and the Parent Company: None

1-3-8 Endorsement and Guarantee between the Affiliated Company and the Parent Company: None

## 2. Internal Control System Execution Status

## The Declaration of the effectiveness of internal control system


March 20, 2003

As required by the regulations, Far EasTone Telecommunications Co., Ltd. ("the Company") conducted a self-evaluation of its internal controls in 2002. Accordingly, the company declared the followings:

- 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:
  - The efficiency of business operations (including earnings, operating performance, and safeguard of company assets)
  - The reliability of the financial reports
  - The compliance of the relevant laws/regulations
- 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.
- 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.
- The Company has examined the effectiveness of each area in the internal control system in accordance with the Governing rules set forth by SFC.
- The exam result indicated that the Company internal control system has effectively assured the following events have been reasonably achieved during the assessing period:
  - The efficiency of business operations
  - The reliability of the financial reports
  - The compliance of the relevant laws/regulations
- 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.
- The board of directors has approved the Declaration of the effectiveness of internal control system in the board meeting held on February 25, 2003, attended by 9 directors.

Far EasTone Telecommunications Co., Ltd.

Douglas Hsu, Chairman



Jan Nilsson, 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 2002 or the period from January 1, 2003 to March 31, 2003.

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

**Discussion Proposal I:** For investment in Yuan-Ze Telecommunications Co., Ltd.(Yuan-Ze) by subscription of new shares of Yuan-Ze 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 major shareholders with regard to the corporate governance of Yuan-Ze.)

- (2) The 19<sup>th</sup> Meeting of the 2<sup>nd</sup> 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 Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) and for authorizing the Chairman of the board with full power of making loans to Yuan-Ze of the amount up to NT\$2,074,000,000 whenever 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 Yuan-Ze needs to be further addressed. However, they would abstain from voting against funding the rights issue of Yuan-Ze since they did not believe the best interests of the Company would be served by voting against the proposed action.

Note: Far EasTone has totally nine Directors, and all nine directors were present in the above mentioned two meetings.

- (3) The 27<sup>th</sup> Meeting of the 2<sup>nd</sup> Term of of Board of Directors of Far EasTone Telecommunications Co., Ltd. (Date: April 2, 2003)

**Discussion Proposal XI:** For matters relating to sponsoring the issuance of Global Depository Receipts ("GDR") through the sale of no more than 379,601,224 common shares of the Company by the shareholder of the Company (the "Selling Shareholder").

**Resolved:** Six attending Directors voted for deferring this Proposal until professional opinions from financial consulting services are available and which recommend the capital market is suitable for GDR issuance. Two Directors, i.e., Messrs. Jordan Roderick and Robert Lewis, voted for the approval of this Proposal.

Note: FET originally had totally nine Directors. The institutional shareholder China Development Industrial Bank resigned from the Company's board of directors with a written notice and the reelection will be held with time lag. Therefore, only eight directors were present in the above meeting.

## 4. Corporate Governance

Item	Already Executed	Execution Status	Reasons for no execution	Improvement Plan	Remark
<b>1. Corporate governance framework structure and rules</b>					
a. The Company has established a sound corporate governance system based on the major principles.	Yes	For details see following descriptions			
b. The Company has established a comprehensive internal control system and implemented it effectively	Yes	The Company has established a comprehensive internal control system in writing based on the Guidelines for Establishment of Internal Control Systems by Public Companies. The system is subject to modified according to the Company's operational conditions. The effectiveness of the system are ensured through self-evaluations, internal audit system, CPA reviews, supervision of the Company's directors and supervisors, etc.			
<b>2. Ownership structure and shareholders' equity</b>					
a. The Company has established rules of procedure of shareholders' meetings.	Yes	Annual shareholders' meetings are all convened according to the guideline.			
b. The Company has dedicated personnel to take care of shareholders' suggestions, inquiries or disputes.	Yes	Suggestions or questions are being taken care by the Company's spokesperson, deputy spokesperson, and contracted stock title transfer agent Oriental Securities Co. Ltd.			
c. The Company always has the information of the identities of major shareholders or their ultimate control persons who have actual control over the company.	Yes	The Finance and Administration Division always has the information of the identities of major shareholders or their ultimate control persons who have actual control over the company. And the information is disclosed within one month after annual shareholders' meeting as required by Article 3 of the Regulations Governing Information Reporting by OTC Companies.			
d. The Company discloses material information about its major shareholders such as relating to pledge, increase or decrease of shares.	Yes	The Company discloses such information as required by Article 25 of the Securities Exchange Law. The Company's financial information released to the public also includes such information.			
e. Risk control mechanism and firewalls have been established between the Company and its affiliated companies.	Yes	FET and its affiliated companies are all independent companies in financial and business operations. Operating procedures for transactions between companies of the Group, specific companies and related parties have been drafted. Risk control mechanism and firewalls have been established between the Company and its affiliated companies.			
<b>3. Structure and independence of board of directors</b>					
a. The Company has more than 2 independent directors.	No		Legal basis not established.	Will do accordingly once its legal basis is established.	
b. The Board of Directors has set up an audit committee.	No		Need to have independent directors in place first.	Will do accordingly after independent directors are elected.	
c. The posts of the Company's chairman and president are held by different persons and they are not spouses or consanguinity within the first degree of consanguinity.	Yes	The posts of the Company's chairman and president are held by different persons and they are not spouses or relatives within one degree of consanguinity.			



Item	Already Executed	Execution Status	Reasons for no execution	Improvement Plan	Remark
d. The Company's Directors always abstain from voting on proposals submitted to the board of directors when the director's personal interest is involved.	Yes	The Company's Directors always abstain from voting on proposals submitted to the board of directors when the director's personal interest is involved.			
<b>4. Responsibility of the board of directors and managerial personnel</b>					
a. The Company has established rules of procedure of board meetings.	No		The Company's board meetings are convened and processed according to the Company Law, Articles of Incorporation, and related regulations.	The rules of procedure of board meetings are being drafted.	
b. The Company has established regulations governing the exercise of the power and duty of all special committees.	No		Related committees are yet to be established.	Will do accordingly once the related committees are established.	
c. The independence of the Company's CPA is regularly evaluated.	Yes	The independence of the Company's CPA is regularly evaluated.			
d. The Company has purchased liability insurance for its directors.	No		The content and necessity of such insurance policies are being studied and evaluated.	Will be discussed and resolved by the board of directors after the evaluation is completed.	
e. The Company has established a training system for the directors.	No		No related guidelines provided by the competent authority.	Information of finance, accounting and related regulations is being collected regularly for directors and as preparation for the establishment of the training system.	
f. The Company has established and executed a risk management policy and risk measurement criteria.	N/A				Applicable for securities firms.
<b>5. Composition, duties and independence of supervisors</b>					
a. The Company has more than one independent supervisor.	No		Legal basis not established.	Will do accordingly once its legal basis is established.	
b. The Company has established communication channels between the supervisors and the Company's employees, shareholders, and stakeholders.	Yes	The Company's employees, shareholders, and stakeholders can communicate with the supervisors any time.			
c. The Company has established a supervisor meeting and its meeting rules of procedure.	No		By law, supervisors are free to attend board meetings to exercise its independence and duties. Therefore, there is no need to establish supervisor meeting, rules of procedure.		

Item	Already Executed	Execution Status	Reasons for no execution	Improvement Plan	Remark
d. The Company has purchased liability insurance for its supervisors.	No		The content and necessity of such insurance policies are being studied and evaluated.	Will be discussed and resolved by the board of directors after the evaluation is completed.	
e. The Company has established a training system for the supervisors.	No		No related guidelines provided by the competent authority.	Information of finance, accounting and related regulation is being collected regularly for supervisors and as preparation for the establishment of the training system.	
<b>6. Shareholders' rights and relationship</b>					
a. The Company has established communication channels with the Company's stakeholders.	Yes	Suggestions or questions from the Company's stakeholders are being taken care by the Company's spokesperson, deputy spokesperson, and contracted stock title transfer agent Oriental Securities Co. Ltd.			
b. The Company has high regard for social responsibilities.	Yes	The Company established related charity foundations and has long been engaged in charity and disaster relief activities.			
c. The Company has established policies to protect consumers or customers, and the execution status has been evaluated regularly.	N/A				Applicable for securities firms.
<b>7. Information disclosure required by law and regulations</b>					
a. The Company has designated personnel to gather and disclose the information required by law.	Yes	The Company's Investor Relations and Public Relations teams periodically disclose related information at the Market Observation Post System of the Taiwan Stock Exchange and the Company's corporate website.			
b. The Company has established a spokesperson system.	Yes	The Company has established a spokesperson system.			
c. The Company has established a website to disclose financial, operational and corporate governance related information.	Yes	www.fareastone.com.tw			
<b>8. Disclosure of other information regarding corporate governance: None</b>					

## 5. Private Placement Securities None

## 6. Far EasTone Shares Held or Disposed of by Subsidiaries None

## 7. Major resolutions of Shareholders' Meetings and Board Meetings

2002/01/07	Based on Item 8.2 of the Article 369 of the Company Law, Yuan Ding Investment Co., Ltd. owns more than half of the Company's shares and a notification for shareholding change of shareholding was received.
2002/02/27	The investment of the Company in Yuan-Ze Telecommunications Co., Ltd. exceeds 80% of the Company's paid-in capital. The Company disclosed the information regarding the acquisition of the common shares of as required by Item 2.2 of the Article 36 of the Securities Exchange Law.
2002/03/11	The Company's Board of Directors approved the credit limit of NT\$2,074,000 thousand for loans to its subsidiary company Yuan-Ze Telecommunications Co., Ltd.



- 2002/04/09 2002 shareholders' meeting was held and the dividend plan was announced.  
 a. Cash dividend: NT\$1 per outstanding share  
 b. Stock dividend: NT\$2.2 per outstanding share (NT\$2.1 from retained earnings and NT\$0.1 from capital surplus)  
 c. 04/03/2002 Released audited financial forecast
- 2002/05/03 The Company announced the change of representative from institutional shareholder Chiao Tung Bank Co., Ltd.
- 2002/06/25 The Company announced the proposals resolved at the 2002 Annual Shareholders' Meeting:

**Matters to be reported**

- (1) Business report of 2001
- (2) Financial report of 2001
- (3) Review of the 2001 closing report by Supervisors
- (4) Update on the Issuance of corporate bond in 2002
- (5) Update on the acquisition of the common shares of Yuan-Ze Telecommunications Co., Ltd.
- (6) Amendment of the Operating Procedure for Making Loans to Others"

**Matters to be approved**

- (1) Approval of 2001 closing report
- (2) Approval of the proposal regarding 2001 earnings allocation: NT\$3.2 per outstanding share, including cash dividend NT\$1.0 and stock dividend NT\$2.2 (NT\$2.1 from retained earnings and NT\$0.1 from capital surplus).

**Matters to be discussed**

- (1) Approval of the amendment to the Company's Articles of Incorporation
- (2) Approval of proposal for capitalization of retained earnings and capital surplus: allocate a total of NT\$4,158,000,000 (NT\$3,969,000,000 from the retained earnings of 2001 and NT\$189,000,000 from capital surplus) for the issuance of 415,800,000 new shares at face value NT\$10 and distribute to shareholders according to their shareholding ratio. NT\$2.2 per outstanding share, i.e., 220 shares for each thousand shares.
- (3) Approval of the amendment to the Rules of Procedure of shareholders' meetings
- (4) Approval of the amendment to the Directors and Supervisors Election Guidelines"

- 2002/07/17 The Company announced the appointment of Jan Nilsson as the President of FET, effective September 1st 2002.
- 2002/07/19 The Company announced the ex-cash and ex-stock dividend record date of August, 13, 2002.
- 2002/10/04 The Company announced the change of representative from CHD Investments Holdings, Inc, supervisor and on behalf of the institutional shareholder Taiwan Wireless Investment, Inc
- 2002/10/04 The Board approved the proposal regarding the issuance of Euro. Convertible Bond and GDRs.
- 2002/10/04 On behalf of its subsidiary Yuan-Ze Telecommunications Co., Ltd, the Company announced that Yuan-Ze had entered into a letter of intent with Ericsson Taiwan for facility procurement.

- 2003/01/08 The Company announced the change of representative from institutional shareholder China Development Industrial Bank
- 2003/01/28 Pricing of the Company's first issuance of Euro. Convertible Bond completed on January 27, 2003
- 2003/02/16 The amount of the Company's first issuance of Euro. Convertible Bond increased from NT\$100,000,000 to NT\$115,000,000.
- 2003/02/26 The Board of Directors announced the call for the 2003 Annual Shareholders' Meeting
- 2003/02/26 The Board of Directors approved the proposal regarding the issuance of the second domestic secured bond of NT\$1,470,000,000.
- 2003/02/26 The Board of Directors approved the proposal regarding procuring the 1<sup>st</sup>- 8<sup>th</sup> Floor, Nei Hu headquarter building which is currently leased by the Company.
- 2003/02/26 The Company announced that the Board of Directors had approved to extend the GDRs issuance for three months.
- 2003/03/20 The Company's institutional shareholder China Development Industrial Bank resigned from the board of directors.
- 2003/04/02 The Company announced its dividend plan  
 a. Cash dividend: NT\$1.3 per outstanding share  
 b. Stock dividend from retained earnings: NT\$1.69 per outstanding share (NT\$2.1 from retained earnings and NT\$0.1 from capital surplus)  
 c. Stock dividend from capital surplus: NT\$0.01
- 2003/04/02 The Board of Directors approved the proposal regarding procuring the 1<sup>st</sup>- 8<sup>th</sup> Floor, Nei Hu headquarter building which is currently leased by the Company. (This had been already announced on February 26, 2003 and today's announcement was only providing the information that the total transaction amount had included business tax of the building.

The above information is posted on <http://mops.tse.com.tw>

**8. Violation of Internal Control Policies by Employees** None**9. Other Supplementary Information** None

**Far EastTone Telecommunications Co., Ltd.**

28F, 207, Tun Hwa S. Road, Sec. 2, Taipei, Taiwan

TEL : 886-2-8793 5000

FAX : 886-2-8793 5198

<http://www.fareastone.com.tw>

<http://www.fetnet.net>