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I. Letter to Shareholders

Dear Shareholders:

Far EasTone (FET) signed a merger agreement with KG Telecom on Oct. 7, 2003, which will allow it to realize greater economies of scale while also strengthening its overall competitiveness. The merger officially took effect on January 1, 2004 and with it the new entity inherited a large and loyal combined customer base, a positive business image, innovative multifunctional products and top-notch employees. The entire two-phase merger process has now been successfully concluded. In the first half of this year FET successfully implemented: a new integrated Intranet and corporate infrastructure, SOPs, as well as consolidated its points of sales and back-end support systems. The second half of this year will see the implementation of a converged billing system and the integration of customer care systems. This merger is the largest the Taiwan telecom industry has ever seen and makes the much larger and stronger FET the leader among the Big 3 Taiwan telecom companies.

The new FET's sales figures continue to rise. In 2003 total revenue and service revenue were respectively NT$37.067 billion and NT$34.515 billion compared with growth in 2002 of respectively 7.5% and 5.1%; net income reached 8.188 billion -- 112.42% of the forecasted amount. The EPS was NT$3.04. Moreover, FET continued to be the leading Taiwan provider of mobile data services. Mobile data revenue grew 24.4% in 2003 compared with 2002 figures and represented 5.8% of overall service revenue for 2003. The industry average for this figure was 3.7%.

2003 Operation Highlights and Results

- Strong brand value - To solidify and revitalize FET's product positioning and brand image, we have successfully introduced to the public a new Corporate Identity and Brand Identity. Moreover, we have aligned them closely to our shared corporate values of innovation, responsiveness, trustworthiness, and internationalization, to maintain our edge as the industry trend-setter. In addition, the company is redesigning the interior floor space of both its retail and franchised outlets in order to create more eye-pleasing, comfortable spaces for its customers while maintaining a consistent quality of services.
- High Quality Customer Focus-In accordance with the results of the company's research on market segmentation and customer attributes, FET has focused its sales efforts on its high-usage customers by designing tailor-made service solutions to attract this type of customer to its service as well as increase loyalty among its own heavy users. As a result, in 2003 the ARPU rose by 7.5% or NT$952 compared with 2002 figures.

  Expand Direct Channel-In order to gain a first mover advantage for its 3G-multimedia service, FET has aggressively expanded its direct sales channels by 46% from 163 to 238 new points of sale/service dramatically raising its penetration rate across the island.
- Service Excellence-According to the results of an independent customer satisfaction survey conducted by an outside vendor in 2003, FET is rated number one in Class A among all private telecom operators. The company's efforts to pursue service excellence were reflected in its customers' very high satisfaction rate.
- Investment & Consolidation-FET and KGT's successful merger allowed for better economies of scale, increased market share, and coordinated synergy realization. It made FET the new leader of the Taiwan Big 3 mobile service operators.
- Enterprise Segment-FET has focused on the nation's top 2000 enterprises by creating a suite of tailor-made integrated service solutions. With these tailor-made solutions FET has successfully helped hundreds of clients in the transportation, financial, insurance, technology, manufacturing, distribution and medical industries to implement mobile data services. In addition, FET has won over enterprise clients by working closely with them to raise both their operating efficiency and competitiveness.

2004 Current Status & Onward Strategic Initiatives

Achieving "New FET, New Era, Taiwan Top One" is the goal for each and every new FET employee. After the merger, the unified team demonstrated a seamless cooperation reflected in the following performance indices: operating efficiency, network optimization, product/service innovation, quality customer retention, and customer satisfaction. This year operations will focus on the following factors:

- Optimization for performance: Organization-wise, 1+1=1; we are a unified team. However, performance-wise, 1+1>2; the synergy this new FET team creates is more than double its original value. In the first half of 2004, we have already completed the integration of the organization, corporate Intranet and information systems, SOPs, frontline retail and franchised stores, and backend support systems. The second half of this year, we will focus on billing system and customer care service system implementation and integration.
- Technology for Effectiveness: FET has opened the dual-network two-way roaming. It already owns a seamless island-wide service coverage and the largest capacity network of any major carrier. Not only was FET among the first in the world to offer a GSM/GPRS Common Service Platform, but also, through a strategic alliance with NTT DoCoMo , FET can integrate NTT DoCoMo's i-mode platform into its 3G services. FET will also learn from the experiences of NTT DoCoMo's mobile data service and 3G rollout in order to introduce an international caliber of technology and service in Taiwan. This in turn will solidify FET's leading position in this market.
- Product for Everyone: By aggressively exploring ways to integrate its marketing activities and service offerings to develop various innovative products and services, FET has been able to meet each customer segment's core needs. The Cross Net 365 service, an island wide super value package, is one example of such an offering. At the same time, New FET is providing i-mode mobile service to old FET customers. As a result, both former KGT and FET customers can enjoy data services based on i-mode technology. FET is also cooperating with international handset manufacturers to develop branded multimedia handsets and devices.
- Service for Excellence: We will continue to integrate the direct-control channel and enhance the frontline staff training. Thus, all our customers will be able to experience delicate and personalized services. In key metropolitan locations brand-new concept stores called, FET Towns, are being introduced. They are updated retail stores that emphasize multimedia services. A demonstration of the NTT DoCoMo FOMA 3G handsets and their applications will give customers first-hand experience of the future of communication technology. Moreover, the Mobile Promotion Van, will allow us to reach high traffic areas with our products and service where customers are most likely to see them.

FET has formed a partnership with TECO, Systex, and MiTac to establish the Far Eastern Electronic Toll Collection (FETC) and together it successfully won the "Electronic Toll Collection B.O.T. Project" subcontracted by the Taiwan Area National Freeway Bureau (TANFB). After passing a strict review process and testing period a contract was officially signed with the TANFB in April of this year and the project is slated to become operational in January 2006. In the future FET will expand its customized service packages for and wireless communication technology to different customers and different industries. Services such as its Electronic Toll Collection System, Fleet Management, Vehicle Positioning System, Location Base Service, E-Wallet service, and ITS/ETTM services will allow customers to enjoy the convenience of a mobile life anywhere, anytime.

In the first quarter of this year, FET's year-to-date combined revenue reached NT$16.166 billion making it the largest private telecom provider in Taiwan and proving the merger synergy's are being fulfilled. The synergies will continue to be realized and the competitive advantage will also be solidified and expanded. FET will become the undisputed Top Mobile Service Operator in Taiwan.

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

1. Company Profile

1-1 Date of Incorporation: Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated on April 11, 1997 and started the operation on January 20, 1998.

1-2 Milestone of the Company

1-2-1 Milestones:

2004/4	Grand opening of FET Town and it's Taiwan's first ever venue that provides consumers with first-hand experience of comprehensive mobile communications for the future
2004/4	The Company's subscribers are able to enjoy i-mode® service, the world's most popular mobile internet service provided by NTT DoCoMo
2004/2	Innovative launched FET Smart Club Card offering the combination of both mobile services and exclusive, value-added reward plan
2004/1	The merger and acquisition with KGT has been approved by Fair Trade Commission, Executive Yuan. The Company officially merged KGT and the consolidated total revenue for January 2004 totaled NT$5,656 million, creating Taiwan's largest mobile operator in the private sector.
2003/4	Made Taiwan's first live 3G video call on the commercial 3G network, marking a significant step forward in the evolution and development of multimedia services
2003/3	With the advanced technologies such as MMS, MPS and JAVA, the Company launched innovative service Br@vø, the first multimedia service plan in Taiwan. The Br@vø service plans provide customers a comprehensive offer to enjoy the mobile multimedia life.
2002/12	Launched Java™ Games, canned MMS and colorful mobile contents and Taiwan's first MMS/GPRS/Java clamp-shell handset Sharp GX-i98
2002/8	Launched the first 'GPRS Mobile Emergency Medical Treatment System' with Far Eastern Memorial Hospital and Oriental Institute of Technology
2002/6	Launched Super i-style-"Mobile Internet Service" that maximized the capacities of the Company's GPRS network and utilized it's Common Service Platform (CSP) to offer the largest range of innovative data services to customers
2002/3	The Company and IBM successfully launch first GSM/GPRS CSP, enabling Mobile e-Business.
2002/2	Awarded the Best Corporate Wireless Service or Application by the 3GSM World Congress for its innovative solution-Fleet Management
2002/2	Yuan-Ze Telecom, the Company's's subsidiary, obtained a 3G License in Taiwan
2001/12	Listed at Taiwan's OTC Exchange Market (Ticker Number: 4904)
2001/4	Launched innovative enterprise solution Mobile Information on Demand (MIoD) and led 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
2000/7	Launching Mobile Virtual Private Network (MVPN) as the first operator to provide total communications solutions tailor-made for enterprise users
2000/2	Received "GSM in the Community Award" from GSM Association for disaster relief efforts after 921 earthquake
1999/3	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
1998/1	The first cellular operator in the world to launch an integrated GSM900/1800 dual-band cellular system

1-2-2 Status of Acquisitions

(1) In order to expand the market share and to raise the operational efficiency, the Company and its 100% owned subsidiary, Yuan Ho Telecommunications Co., Ltd. ("Yuan Ho") held a broad meeting on October 7, 2003 to approve a two-stage merger and acquisition with KG Telecommunications Co., Ltd. ("former KGT"). The aforementioned parties also executed a Master Agreement related to such transaction on October 7, 2003 (the "Agreement") .

The consideration of the whole transaction includes cash payment and the shares of the Company. The whole process of this transaction is complicated and time consuming. Therefore, the whole transaction is breakdown in two stages to reduce the impact on former KGT customers. The first stage is to merge the former KGT with Yuan Ho (a 100% owned subsidiary of the Company established for the sole purpose of this transaction), with Yuan Ho as the surviving company and assume all former KGT legal rights and obligations as well as maintain all former KGT business and operation. After this first-stage merger, the Company diluted its ownership of Yuan Ho from 100% down to 39.49% and former KGT stockholders then hold 60.51% ownership of Yuan Ho (some of former KGT shares cashed out at the same time). The fist-step merger was closed on January 1, 2004. At the closing date of the first-step merger, Yuan Ho also changed its name to KG Telecommunications Co., Ltd. (the "new KGT").

On second stage, the Company issued 693,523,145 common shares in exchange of former KGT stockholders' whole ownership of Yuan Ho shares (i.e. new KGT shares). After such share swap, new KGT becomes 100% owned by the Company and former KGT stockholders will then become the stockholders of the Company as well.

(2) The exchange ratio of the first stage transaction between former KGT shares and new KGT shares (i.e. Yuan Ho shares) is: For each former KGT share, it will get NT$6.72 in cash and 0.46332 in new KGT common share. The second stage share exchange ratio between new KGT common share and the Company common share is 1:1.

1-2-3 Changes in Directors, Supervisors, Shareholders with Greater than 10% Shareholding or Their Selling of a Large Number of Shares:

(1) China Development Industrial Bank resigned its director position on 2003/03/18.
(2) Re-election of directors and supervisors in the Shareholders' Meeting on 2003/05/23.
(3) Taiwan Wireless Investments resigned 2 director positions on 2003/10/16
(4) CHD Investments Holdings, Inc. resigned its supervisor position on 2003/10/16.
(5) Changes of shareholders with greater than 10% shareholding:

Seller	*Date*	*Number of Shares*	*Price (NT$)*	*Buyer*
Taiwan Wireless Investments, Inc.	2003/10/22	3,161,168	18.400308716	Yuan Tong Investment Co., Ltd.
Taiwan Wireless Investments, Inc.	2003/10/22	146,957,000	18.400308716	An Ho Garment Co., Ltd.
Taiwan Wireless Investments, Inc.	2003/10/22	57,586,529	18.400308716	Bai Yang Investment Co., Ltd.
Taiwan Wireless Investments, Inc.	2003/10/24	72,804,667	18.400308716	Kai Yuan International Investment Co., Ltd.
AT&T Wireless Services of Taiwan, Inc.	2003/10/22	205,593,323	18.400308716	Yuan Tong Investment Co., Ltd.
AT&T Wireless Services of Taiwan, Inc.	2003/10/24	72,037,926	18.400308716	Kai Yuan International Investment Co., Ltd.

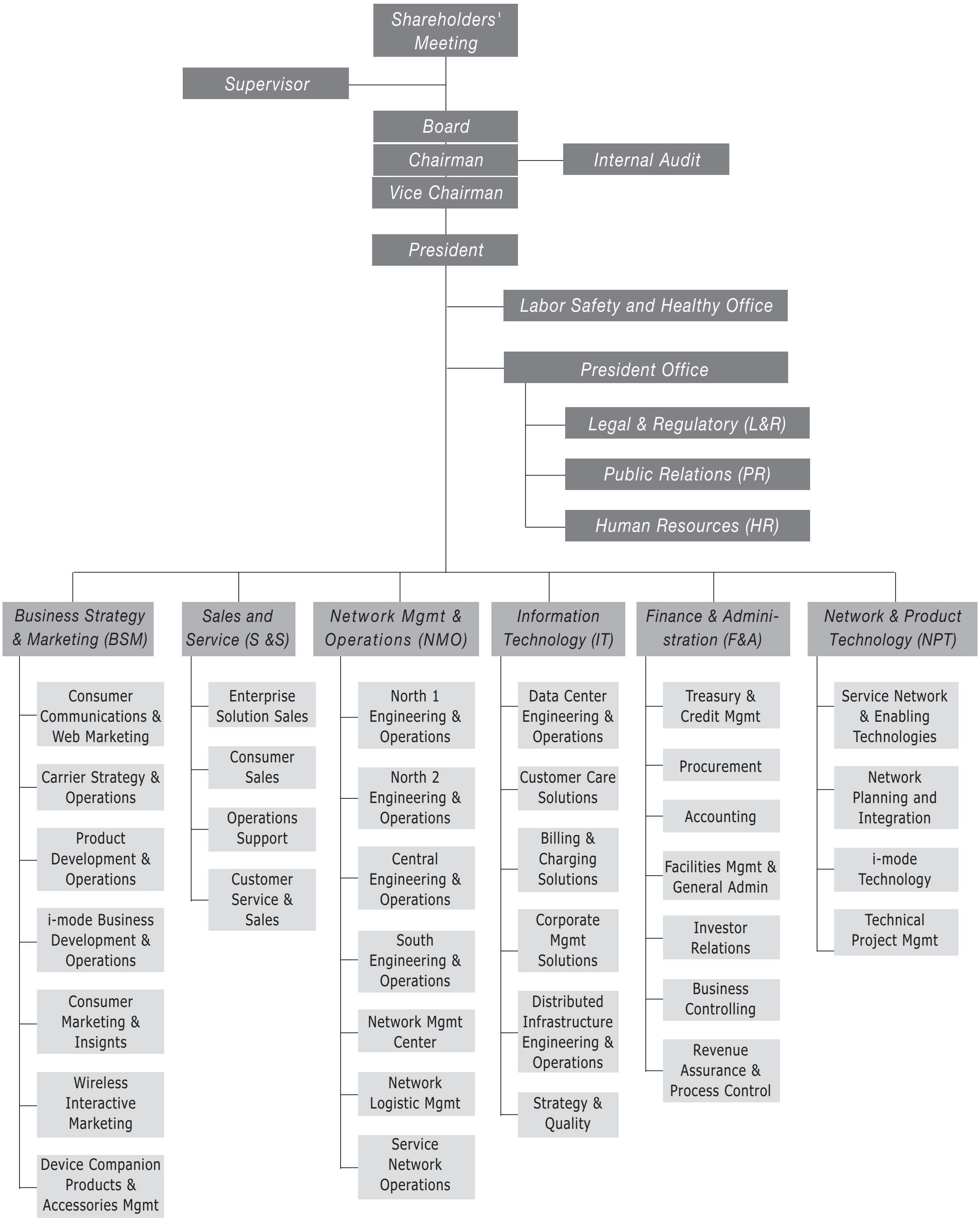
1-2-4 Changes in Operations: None.

1-2-5. Major Items Sufficient to Influence Shareholders' Rights or the Company: None.

2. Organization

2-1 Organization Structure

2-1-1 Organization Chart



2-1-2 Function Description

Division Name	Function Description
President Office	Responsible for cross-departmental and external issues
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 Directors and Supervisors

2004/4/30

Title	Name	First Election Date	Election Date	Tenure (year)	Shareholding when elected		Current Shareholding		Spouse and Minor Children Shareholding		Share-holding in the Name of Others		Major Education & Experience	Current Position with Other Company	Manager are Spouses of within 2 degrees of consanguinity to each other			2002 Salaries of Directors and Supervisors
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co. Ltd.	1997/04/11	2003/05/23	3	1,153,999,883	50.05%	1,350,179,863	39.81%	--	--	--	--	Chairman of Far Eastern Textile Ltd.; master's degree in economics from Columbia University; honorary Ph.D degree in management from National Chiao Tung University.	Chairman of Far Eastern Textile Ltd.	Vice Chairman Director	Laurence Yang Peter Hsu	Affinity within 2nd degree Brother	
Vice Chairman	Laurence M. Yang, Representative of Yuang Ding Investment Co. Ltd.	1997/04/11	2003/05/23	3	1,153,999,883	50.05%	1,350,179,863	39.81%	--	--	--	--	Vice Chairman of Far Eastern Textile Ltd.; bachelor's degree in chemistry from National Taiwan University	Vice Chairman of Far Eastern Textile Ltd.	Chairman Vice Chairman	Douglas Hsu Peter Hsu	Affinity within 2nd degree Brother	NT$ 77,476 thousands
Director	Champion Lee, Representative of Yuang Ding Investment Co. Ltd.	1997/04/11	2003/05/23	3	1,153,999,883	50.05%	1,350,179,863 *2,015,067	39.81% 0.06%	-- 77,823	-- 0.02%	--	--	Senior VP and CFO of Far Eastern Textile Ltd.; master's degree in business administration from Texas A&I University	Director of Far Eastern Textile Ltd; Senior VP and CFO of Far Eastern Textile Ltd.;	--	--	--	
Director	Peter Hsu, Representative of Yue-Li Investment Corp.	2003/05/23	2003/05/23	3	1,775	0.00%	2,076	0.00%	--	--	--	--	vice president of central procurement in Far Eastern Textile Ltd.; master's degree in operations research from Stanford University	Supervisor of Far Eastern Textile Ltd; vice president of central procurement in Far Eastern Textile Ltd.	Chairman Vice Chairman	Douglas Hsu Laurence Yang	Brother Affinity within 2nd degree	
Director	Hsing-Yi Chen, Representative of Far Eastern Memorial Foundation	2003/05/23	2003/05/23	3	1,631,140	0.07%	1,908,433	0.06%	--	--	--	--	Ph.D. in electrical engineering from the University of Utah	Dean of the Engineering College of the Yuan-Ze University	--	--	--	
Director	Jan Nilsson, Representative of Yue Ding Industry Co., Ltd.	2003/05/23	2003/05/23	3	11,823	0.00%	113,832 *242,000	0.00% 0.01%	--	--	--	--	Sr. Executive VP in Satelindo Telecom Indonesia; master's degree in industrial and management engineering in Linkoping University	President of Far EasTone Telecom	--	--	--	
Director	Eugene Hsu, Representative of Yuan Ding Co., Ltd.	2003/05/23	2003/05/23	3	2,325,000	0.10%	4,684,680	0.14%	--	--	--	--	attorney in the New York State; attorney and patent attorney in the ROC; LL.M. degree from the Cornell Law School	General Legal Counsel at Micro-Star International Co., Ltd	--	--	--	
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	2000/12/28	2003/05/23	3	25,629,933	1.11%	29,987,021	0.88%	--	--	--	--	Vice president of Citibank; bachelor's degree in economics from National Chung Hsing University	President of Far Eastern International Bank	--	--	--	
Supervisor	Charles Wang, Representative of Asia Investment Corporation	2003/05/23	2003/05/23	3	823,500	0.04%	963,495	0.03%	--	--	--	--	Consultant to the Far Eastern Group; partner of Excellence & Co., Certified Public Accountants Master's degree in Economics from the Sydney University	Consultant to the Far Eastern Group; partner of Excellence & Co., Certified Public Accountants	--	--	--	

* represents personal shareholdings

2-2-2. Major Shareholders of the Institutional Shareholders

2004/04/30

Institutional Shareholders	*Major Shareholders of the Institutional Shareholders*
Yuang Ding Investment Co., Ltd.	Far Eastern Textile Ltd.
Yue-Li Investment Corp.	U-Ming Marine Transport Corp.
Far Eastern Memorial Foundation	--
Yue Ding Industry Co., Ltd.	Yu-Ching Company、Da Jun Fiber Corporation、Fu-Da Transportation Co. Ltd., An Ho Garment Co., Ltd.、Yu-Ming Trading Co. Ltd.、Ya-Li Precast & Prestressed Concrete Industries Corp
Yuan Ding Co., Ltd.	Yuan Ding Investment Co., Ltd., Asia Cement Co. Ltd., Far Eastern Textile Ltd.、Der-Ching Investment Co. Ltd.
Far Eastern International Leasing Corp.	Far Eastern International Bank, Yuan Ding Investment Co., Ltd., Kai Yuan International Investment Co., Ltd.
Asia Investment Corporation	Asia Cement Co. Ltd.、Der-Ching Investment Co. Ltd.、Asia Cement (Singapore) Pte. Ltd.

2-2-3. Institutional Shareholder Representatives for Major Shareholders of the Institutional Shareholders

2004/04/30

Institutional Shareholders	*Major Shareholders of the Institutional Shareholders*
Far Eastern Textile Ltd.	Asia Cement Co. Ltd.
U-Ming Marine Transport Corp.	Asia Cement Co. Ltd.
Yu-Ching Company	Yuan Ding Co., Ltd.
Da Jun Fiber Corporation	Yuang Ding Investment Co., Ltd.
Fu-Da Transportation Co. Ltd.	Fu-Ming Transportation Co. Ltd.
An Ho Garment Co., Ltd.	Far Eastern Textile Ltd.
Yu-Ming Trading Co. Ltd.	Yuang Ding Investment Co., Ltd., Bai Ding Investment Co., Ltd.
Ya-Li Precast & Prestressed Concrete Industries Corp	Asia Cement Co. Ltd., Far Eastern General Contractor Company
Yuang Ding Investment Co., Ltd.	Far Eastern Textile Ltd.
Asia Cement Co. Ltd.	Far Eastern Textile Ltd.
Far Eastern International Bank	Far Eastern Textile Ltd.
Kai Yuan International Investment Co., Ltd.	Far Eastern Textile Ltd.
Der-Ching Investement Co. Ltd.	Asia Cement Co. Ltd.
Asia Cement (Singapore) Pte. Ltd.	Asia Cement Co. Ltd.

2-2-4 Information of Directors and Supervisors

Condition / Name	Conform to Independence								
	With experience for more than 5 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 2 degrees of lineal consanguinity with any person specified in column 2 and 3	Not a director, supervisor or employee of the institutional shareholder directly or indirectly owning more than 5% of the Company's outstanding shares or Top 5 institutional shareholders' director, supervisor or employee	Not a director, supervisor, manager or shareholder with holding more than 5% of the outstanding shares of certain companies or institutions which have financial or business relations with the Company	Not an owner, partner, director, supervisor, manager of any sole proprietor, partnership, company or institution and his/her spouse, or the professions and his/her spouse, who provide consultation services to the Company or its affiliated companies within 1 year	Not an institutional shareholders or representative pursuant to Article 27 of the Company Law	Remarks
Douglas Hsu	v		v				v		
Laurence Yang	v		v	v			v		
Champion Lee	v			v			v		
Peter Hsu	v		v				v		
Hsing-Yi Chen	v		v	v	v	v	v		
Jan Nilsson	v		v	v	v	v	v		
Eugene Hsu	v		v	v	v	v	v		
Eli Hong	v		v	v	v	v	v		
Charles Wang	v		v	v	v	v	v		

2-2-5 Executive Management

2004/4/30

Title	Name	Effective Date	Current Shareholding		Spouse & Minor Children's Shareholding		Share-holding in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd 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 Manage-ment
			Shares	%	Shares	%	Shares	%			Title	Name	Relation		
President & Chief Operating Officer	Jan Nilsson	2002.09.01	242,000	0.01%	--	--	--	--	Sr. Executive VP in Satelindo Telecom Indonesia; master's degree in industrial and management engineering in Linkoping University	--	--	--	--	Note	--
Executive VP, F&A & Chief Financial Officer	Yvonne Li	2001.09.01	--	--	28,548	0.00%	--	--	VP in Citibank Taiwan; Master of Accounting, University of Illinois at Urbana-Champaign	--	--	--	--		--
Executive VP, NPT	Jay Shy	1999.08.16	65,443	0.00%	--	--	--	--	Director of DBTEL International Ltd.; Bachelor of Information Engineering and Computer Science in Fang Chia University	--	--	--	--		--
Executive VP, BSM	Benjamin Ho	2003.06.01	--	--	--	--	--	--	Chief Marketing Office at Motorola Asia Pacific Ltd., diploma in business and marketing studies from Stamford College/UK Institute of Marketing.	--	--	--	--		--
Executive VP, S&S	Philby Chen	1997.08.11	505,710	0.02%	--	--	--	--	CFO in Tai Chia Technology Inc.; B.S., Accounting, Northern Arizona University	--	--	--	--		--
Executive VP, IT	Eton Shu	2004.01.01	--	--	--	--	--	--	VP of information technology in KG Telecom; computer science master degree from enterprise graduate class of National Taiwan University	--	--	--	--		--
Executive VP, NMO	Jeffery Gee	2004.01.01	9,633	0.00%	--	--	--	--	MS Mathematics, Missouri State University, MS Computer Science, New York State University; Vice President, KG Telecom	--	--	--	--		--
VP, L&R	Lan Yuh	1999.07.01	250,508	0.01%	--	--	--	--	AVP in Citibank Taiwan, Double MBA in Pace University	--	--	--	--		--
VP, HR	Philip Hsi	2000.02.23	14,274	0.00%	--	--	--	--	VP of Harvard Management Services; Master of Agriculture Engineering in National Taiwan University	--	--	--	--		--
VP, S&S	Michael Lo	2000.03.20	--	--	--	--	--	--	B.S., Business Administration, National Chung-Hsin University ; Sales Director, Hewlett Packard Taiwan Ltd.	--	--	--	--		--
VP, NPT	Herman Rao	2000.09.15	319,863	0.01%	--	--	--	--	Director in AT&T Wireless; Ph.D. of Computer Science in University of Arizona	--	--	--	--		--
VP, BSM	Ten-Lee Hwang	2001.08.06	146,083	0.00%	2,854	0.00%	--	--	Technologies Chief Operating Officer in Netempower Software; Ph.D. of Computer Science in Harvard University	--	--	--	--		--
VP, BSM	Maxwell Cheng	2004.05.01	431,710	0.01%	--	--	--	--	Brand Manager in Nestle Taiwan Group; Master of Material Science and Engineering, University of Michigan	--	--	--	--		--
VP, S&S	Jennifer Liu	2004.05.01	10,180	0.00%	--	--	--	--	Special Assistant to Chairman, Far Eeastern Textile Ltd., MBA in New York University	--	--	--	--		--
VP, S&S	Guang Ruey Chiang	2004.05.01	269,440	0.01%	--	--	--	--	Director in LONG CHENG; M.S. in Marketing from University of Kansas	--	--	--	--		--
VP, Customer Service	Samuel Yuan	2004.05.01	--	--	--	--	--	--	Director in Alive Networks HK; B.S. in Financial Analysis & Management Information Systems, State University of New York	--	--	--	--		--
Chief Auditor, Internal Audit	Doris Wu	2004.06.01	--	--	--	--	--	--	Controller of PSINET Taiwan, BS of Accounting in California State University	--	--	--	--		--
Director, IT	Daryl Hsieh	1997.07.01	280	0.00%	--	--	--	--	Alcatel Taisel IT supervisor , Master degree in MIS, National ChengChi University	--	--	--	--		--
Director, NMO	James Wu	1997.08.11	307,757	0.01%	--	--	--	--	Director of TTN; BS Electronic Engineering, Chung Yuan University	--	--	--	--		--

Title	Name	Effective Date	Current Shareholding		Spouse & Minor Children's Shareholding		Share-holding in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd 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 Manage-ment
			Shares	%	Shares	%	Shares	%			Title	Name	Relation		
Director, NPT	S. C. Lee	1997.11.03	94,114	0.00%	--	--	--	--	Sr. Project Manager in SIRMENS; Mechanical & Electrical Engineering Dept in National Taipei Institute of Technology	--	--	--	--		--
Director, BSM	Sharon Chao	1997.11.03	164	0.00%	--	--	--	--	Account director in Lintas Taiwan; Bachelor degree in English Literature in Tamkang University.	--	--	--	--		--
Director, NMO	Bruce Yu	1997.11.06	--	--	--	--	--	--	BS Information Engineering, National Chiao Tung University; Manager, HCL Technology	--	--	--	--		--
Director, F&A	Robert Chu	1998.03.17	197,456	0.01%	--	--	--	--	Admin Manager in Honeywell Taiwan Ltd.; BS of Finance and Taxation in Fung Chia University	--	--	--	--		--
Director, NPT	Howard Tsao	1998.10.22	7	0.00%	--	--	--	--	Wireless System R&D Manager in Industrial Technology Research Institute; BSEE in Chung-Yuen University	--	--	--	--		--
Director, IT	Michelle Peng	1999.01.04	671	0.00%	--	--	--	--	Software development Manager in Vondelon International Corp.; Electronic data process in Ming-Chung college	--	--	--	--		--
Director, NMO	Tony Wang	1999.02.01	--	--	--	--	--	--	MS Engineering, University of Texas at Austin; Manager, Yuan Ting Construction	--	--	--	--		--
Director, PR	Yvonne Lan	1999.03.01	160,135	0.00%	--	--	--	--	AVP of PC Channel Inc, MA in New York Institute of Technology	--	--	--	--		--
Director, F&A	David Tsai	1999.09.16	38,539	0.00%	--	--	--	--	Manager in U-Ming Marine, EMBA in Yuan-Ze University	--	--	--	--		--
Director, F&A	Stephen Tung	1999.10.11	0	0.00%	--	--	--	--	Deputy Manager of Finance Dept in Walsin Liwa Corp; MBA of Management Science in Sonoma State University	--	--	--	--		--
Director, IT	Jessica Sung	1999.10.25	79,934	0.00%	--	--	--	--	MIS Manager in Janssen Cilag Taiwan, a Johnson& Johnson company; EMBA of National Taiwan University; Certified Public Accountant of California, USA	--	--	--	--		--
Director, NMO	James Lin	2000.03.13	115,619	0.00%	--	--	--	--	Director in Dialer & Business; B.S. Electronic Engineering, National Taiwan University of Science and Technology	--	--	--	--		--
Director, F&A	Robert Lee	2002.05.29	--	--	--	--	--	--	Director of iAsia Works Taiwan Ltd.; Master of Engineering in Computer Science and Engineering, University of Texas at Arlington	--	--	--	--		--
Director, NMO	Paul Chang	2004.01.01	216,417	0.01%	--	--	--	--	MS Automatic Control Engineering, Feng Chia University; KG Telecom Director	--	--	--	--		--
Director, BSM	Roger Chen	2004.01.01	--	--	--	--	--	--	KG Telecom. Director; Master of Mechanical Engineering, National Taiwan University	--	--	--	--		--
Director, NMO	James Lee	2004.01.01	16,216	0.00%	--	--	--	--	BS Electrical Engineering, Feng Chia University; International EMBA, National Sun Yat-Sen University; KG Telecom Director	--	--	--	--		--
Director, NPT	Jonathan Ou	2004.01.01	90,347	0.00%	416,988	0.01%	--	--	Director in KG Telecom.; Master of Computer Science in New York University	--	--	--	--		--
Director, NMO	Brian Shean	2004.01.01	307,692	0.01%	--	--	--	--	KG Telecom Director; BS Electrical Engineering, Feng Chia University	--	--	--	--		--
Director, BSM	Ronald Yu	2004.01.01	--	--	--	--	--	--	KG Telecom Director; Master of Business, Tam Kang University	--	--	--	--		--

Note: In 2003, the total amount of salaries, performance incentive and bonus paid to the president was NT$9,456,000, housing rental was NT$1,560,000 and car rental was NT$ 823,000. The total amount of salaries, performance incentive and bonus paid to the vice presidents was NT$28,685,000, and car rental was NT$1,250,000 and housing rental was NT$280,000. The amount paid to the vice president include that of David Clarke, a resigned vice president, who resigned on 2003.10.14.

2-2-6 Shareholding Transferred or Pledged by Directors, Supervisors, and Management, or Major Shareholders:

(1) Shareholding Variation:

Title	*Name*	*2003*		*2004/04/30*		*Remarks*
		Shares Increased (Decreased)	*Pledged Shares Increased (Decreased*	*Shares Increased (Decreased)*	*Pledged Shares Increased (Decreased*	
Chairman	Douglas Hsu	196,259,980	165,500,000	--	1,200,000	On behalf of Yuan Ding Investments Co., Ltd (re-elected on 2003/05/23)
Vice Chairman	Laurence Yang	196,259,980	165,500,000	--	1,200,000	On behalf of Yuan Ding Investments Co., Ltd (re-elected on 2003/05/23)
Director	Champion Lee	196,259,980	165,500,000	--	1,200,000	On behalf of Yuan Ding Investments Co., Ltd (re-elected on 2003/05/23)
Director	Peter Hsu	301	--	--	--	On behalf of Yue-Li Investments Co., Ltd (re-elected on 2003/05/23)
Director	Jordan Roderick	(239,751,594)	--	--	--	Originally on behalf of Taiwan Wireless Investments, Inc. (resigned on 2003/10/16)
Director	Robert Lewis	(239,751,594)	--	--	--	Originally on behalf of Taiwan Wireless Investments, Inc. (resigned on 2003/10/16)
Director	Maria Lu	(420,000)	--	--	--	Originally on behalf of Chiao Tung Bank (completed the duty on 2003/05/23)
Director	Tze-Kaing Yang	(190,000)	--	--	--	Originally on behalf of China Development Industrial Bank (resigned on 2003/03/18)
Director	P. Y. Lee	--	--	--	--	Completed the duty on 2003/05/23
Director	Jan Nilsson	2,009	--	100,000	--	On behalf of Yue Ding Industry Co., Ltd. (re-elected on 2003/05/23)
Director	Hsing-Yi Chen	277,293	--	--	--	On behalf of Far Eastern Memorial Foundation (re-elected on 2003/05/23)
Director	Eugene Hsu	2,359,680	--	--	--	On behalf of Yuan Ding Co., Ltd (re-elected on 2003/05/23)
Supervisor	Eli Hong	4,357,088	--	--	--	On behalf of Far Eastern International Leasing Corp. (re-elected on 2003/05/23)
Supervisor	Jong C. Wang	301	--	--	--	Originally on behalf of Yue-Li Investment Co. (completed the duty on 2003/05/23)
Supervisor	Denis Koh	(1,647)	--	--	--	On behalf of CHD Investments Holdings, Inc. (resigned on 2003/10/16)
Supervisor	Charles Wang	139,995	--	--	--	On behalf of Asia Investments Co., Ltd (re-elected on 2003/05/23)
President	Jan Nilsson	136,000	--	106,000	--	The definition of Management is based on the regulation of SFC.
Executive VP	Yvonne Li	--	--	--	--	
Executive VP	Jay Shy	9,508	--	--	--	
Executive VP	Benjamin Ho	--	--	--	--	
Executive VP	Philby Chen	73,479	--	--	--	
Executive VP	Eton Shu	--	--	--	--	
Executive VP	Jeffery Gee	--	--	9,633	--	
VP	Lan Yuh	36,398	--	--	--	
VP	Philip Hsi	2,074	--	--	--	
VP	Michael Lo	--	--	--	--	
VP	Herman Rao	47,783	--	(9,000)	--	
VP	Ten-Lee Hwang	21,225	--	--	--	
VP	Maxwell Cheng	39,479	--	160,000	--	
VP	Jennifer Liu	(238,521)	--	--	--	
VP	Guang Ruey Chiang	44,149	--	--	--	
VP	Samuel Yuan	--	--	--	--	
Chief Auditor, Internal Audit	Doris Wu	--	--	--	--	
Director	Daryl Hsieh	--	--	--	--	
Director	James Wu	44,716	--	--	--	
Director	S. C. Lee	13,674	--	--	--	
Director	Sharon Chao	--	--	--	--	

Title	Name	2003 Shares Increased (Decreased)	2003 Pledged Shares Increased (Decreased	2004/04/30 Shares Increased (Decreased)	2004/04/30 Pledged Shares Increased (Decreased	Remarks
Director	Bruce Yu	--	--	--	--	
Director	Robert Chu	28,690	--	--	--	
Director	Howard Tsao	(242,000)	--	--	--	
Director	Michelle Peng	--	--	--	--	
Director	Tony Wang	--	--	--	--	
Director	Yvonne Lan	23,267	--	--	--	
Director	David Tsai	5,599	--	--	--	
Director	Stephen Tung	7,693	--	(52,950)	--	
Director	Jessica Sung	--	--	--	--	
Director	James Lin	16,799	--	--	--	
Director	Robert Lee	--	--	--	--	
Director	Paul Chang	--	--	216,417	--	
Director	Roger Chen	--	--	--	--	
Director	James Lee	--	--	16,216	--	
Director	Jonathan Ou	--	--	90,347	--	
Director	Brian Shean	--	--	307,692	--	
Director	Ronald Yu	--	--	--	--	
Major Shareholder	AT&T Wireless Services of Taiwan, Inc.	(237,291,666)	--	--	--	No longer a major shareholder since it sold out 205,593,323 and 72,037,926 on 2003/10/22 and 2003/10/24, respectively.

(2) Shareholding Transferred:

Seller	Reason of Share Transfer	Date	Buyer	Buyer's Relationship with the Company's Director, Supervisor or Major Shareholder with more than 10% shareholding	Number of Shares	Trading Price (NT$)
Taiwan Wireless Investments, Inc.	Disposition	2003.10.22	Yuan Tong Investment Co., Ltd.	Same major shareholders	3,161,168	18.400308716
Taiwan Wireless Investments, Inc.	Disposition	2003.10.22	An Ho Garment Co., Ltd.	Same major shareholders	146,957,000	18.400308716
Taiwan Wireless Investments, Inc.	Disposition	2003.10.22	Bai Yang Investment Co., Ltd.	Its chairman is the relative within 2 degrees of lineal consanguinity of the Company	57,586,529	18.400308716
Taiwan Wireless Investments, Inc.	Disposition	2003.10.24	Kai Yuan International Co., Ltd.	Same major shareholders	72,804,667	18.400308716
AT&T Wireless Services of Taiwan, Inc.	Disposition	2003.10.22	Yuan Tong Investment Co., Ltd.	Same major shareholders	205,593,323	18.400308716
AT&T Wireless Services of Taiwan, Inc.	Disposition	2003.10.24	Kai Yuan International Investment Co., Ltd.	Same major shareholders	72,037,926	18.400308716

(3) Shareholding Pledged: None.

2-2-7 Shareholdings of Directors, Supervisors, Management, or Major Shareholders and Direct and Indirect Investments of the Company in Affiliated Companies

(1) Total Shareholding Percentage

Unit: Share; %
2004/04/30

Affiliated Company (Note)	Investment of Far EasTone		Direct and Indirect Investment of Far EasTone's Directors, Supervisors and Management		Total Investment	
	Shares	%	Shares	%	Shares	%
Yun-Ze Telecommunications Co., Ltd.	1,037,000,000	100%	--	--	1,037,000,000	100%
KG Telecommunications Co., Ltd.	1,332,997,916	100%	--	--	1,332,997,916	100%
E. World (Holdings) Ltd.	1,330,000	19%	--	--	1,330,000	19%

Note: Long-term investment

3. Capital and Shares

3-1 History of Capitalization

2004/4/30

Year. Month	Par Value (NT$)	Authorized Capital Shares ('000)	Authorized Capital Amount (NT$'000)	Shares Outstanding Shares ('000)	Shares Outstanding Amount (NT$'000)	Remarks: Source of Capital	Remarks: Non-Monetary Capital Expansion	Remarks: Effective Date & Cert. No.
1997.04	10	900,000	9,000,000	900,000	9,000,000	Cash Founding NT$9,000,000,000	N/A	--
1998.12	10	1,400,000	14,000,000	1,070,000	10,700,000	Cash capital call NT$1,700,000,000	N/A	(Note 1)
1999.09	10	1,400,000	14,000,000	1,137,000	11,370,000	Cash capital call NT$670,000	N/A	(Note 2)
2000.07	10	1,400,000	14,000,000	1,225,743	12,257,430	Capitalization of capital surplus NT$887,430,000	N/A	(Note 3)
2000.10	10	1,400,000	14,000,000	1,400,000	14,000,000	Cash capital call NT$1,742,570,000	N/A	(Note 4)
2001.07	10	3,360,000	33,600,000	1,890,000	18,900,000	Capitalization of retained earning and capital surplus NT$4,900,000,000 4,900,000仟元	N/A	(Note 5)
2002.08	10	3,360,000	33,600,000	2,305,800	23,058,000	Capitalization of retained earning and capital surplus NT$4,158,000,000	N/A	(Note 6)
2003.07	10	3,360,000	33,600,000	2,697,786	26,977,860	Capitalization of retained earning and capital surplus NT$3,919,860,000	N/A	(Note 7)
2004.05	10	3,360,000	33,600,000	2,698,348	26,983,482	Increasing from ECB conversion of NT$5,622,000	N/A	(Note 8)
2004.05	10	3,504,353	35,043,531	3,391,871	33,918,714	Increasing from share swap of NT$6,935,232,000	N/A	(Note 9)

Note 1: 1998.10.22 (87)Taiwan Finance Securities (I)Ruling Ref. No.87084
Note 2: 1999.05.21 (88)Taiwan Finance Securities (I)Ruling Ref. No.47451
Note 3: 2000.05.22 (89)Taiwan Finance Securities (I)Ruling Ref. No.41536
Note 4: 2000.10.11 (89)Taiwan Finance Securities (I)Ruling Ref. No.83771
Note 5: 2001.06.15 (90)Taiwan Finance Securities (I)Ruling Ref. No.138249
Note 6: 2002.07.09 (91)Taiwan Finance Securities (I)Ruling Ref. No.0910137602
Note 7: 2003.06.10 (92)Taiwan Finance Securities (I)Ruling Ref. No.0920125457
Note 8: 2004.03.05 (93) OTC Ruling Ref. No.05082
Note 9: 2004.04.08 (93) Taiwan Finance Securities (I)Ruling Ref. No.0930112339

2004/4/30
Unit:'000 Shares

Type of Stock	Authorized Capital: Listed on OTC	Authorized Capital: Un-issued	Authorized Capital: Total	Note
Common Shares	3,391,871	112,482	3,504,353	The shares have been listed on the ROC Over-the-Counter Securities Exchange since Dec. 10, 2001.

3-2 Shareholding Structure

2004/4/30

Shareholder / Structure	Government Institutions	Financial Institutions	Other Institutional Shareholders	Individual Shareholders	Foreign Institutions and Individual Shareholders	Total
Number	4	18	175	16,735	57	16,989
Shares	16,138,025	268,201,819	2,566,465,302	241,640,485	299,425,733	3,391,871,364
%	0.48%	7.91%	75.66%	7.12%	8.83%	100%

3-3 Share Distribution

Par Value: NT$10

2004/4/30

Level	Number of shareholders	Shares	%
1 - 999	3,942	1,198,197	0.04%
1, 000 - 5,000	7,363	18,106,999	0.53%
5, 001 - 10,000	2,187	17,476,509	0.52%
10, 001 - 15,000	787	9,967,454	0.29%
15, 001 - 20,000	538	9,822,825	0.29%
20, 001 - 30,000	624	15,615,419	0.46%
30, 001 - 50,000	560	22,818,779	0.67%
50, 001 - 100,000	440	32,727,653	0.96%
100, 001 - 200,000	240	34,195,394	1.01%
200, 001 - 400,000	115	32,233,962	0.95%
400, 001 - 600,000	47	22,752,597	0.67%
600, 001 - 800,000	16	11,266,899	0.33%
800, 001 - 1,000,000	13	11,596,303	0.34%
1,000,001 and above	117	3,152,092,374	92.93%
Total	16,989	3,391,871,364	100.00%

3-4 Top 10 Major Shareholders

2004/4/30

Shares / Major Shareholders	Shares	%
Yuang Ding Investment Co., Ltd.	1,350,179,863	39.81%
Yuan Tong Investment Co., Ltd.	208,754,491	6.15%
China Development Industrial Bank	161,197,522	4.75%
An Ho Garment Co., Ltd.	146,957,000	4.33%
Kai Yuan International Investment Co., Ltd.	145,631,003	4.29%
Taiwan Cement Corp.	133,050,165	3.92%
DCM Capital TWN (UK) Ltd.	106,038,656	3.13%
Top Year Ltd.	101,673,865	3.00%
Taiwan DoCoMo Ltd.	66,724,222	1.97%
HKC Investment Corp.	40,209,508	1.19%

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

Unit: NT$; shares

Item		Year	2002	2003	2004 (as of March 31)
Share price (Note 1)	High		46.9	30.90	33.30
	Low		25.5	21.90	25.80
	Average		35.86	25.30	29.81
Net Value per share	Before distribution		16.50	15.95	17.97
	After distribution (Note 2)		12.92	--	--
Earning per share	Weighted-average outstanding shares		2,305,800,000	2,697,786,000	3,391,309,200
	Earning per share	Before adjustment	2.89	3.04	0.98
		After adjustment (Note 7)	2.89	--	--
Dividend per share (Note 3)	Cash dividend		1.00	1.30	--
	Stock dividend	Retained earning	2.10	1.69	--
		Capital surplus	0.10	0.01	--
	Accumulated un-distributed dividend		--	--	
Return on Investment	Price/Earning Ratio (Note 4)		12.41	8.32	--
	Price/Dividend Ratio (Note 5)		35.86	19.46	--
	Cash dividend yield rate (Note 6)		2.79%	5.14%	--

Note 1: High/Low means the highest/lowest share price for the period.

Note 2: The above mentioned distribution amounts are based on the Annual Shareholders' Meetig resolutions in the subsequent year. The earning allocation for 2003 has not been approved yet.

Note 3: Dividend per share pf the prior year

Note 4: Price/Earning Ratio = Average closing share price of the period / Earning per share

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

Note 6: Cash dividend yield = Cash dividend per share / average closing price of that 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 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 % of cash dividend may be raised or lowered by a resolution adopted at the Annual Shareholders' Meeting.

2. Proposed Dividend Allocation for the Annual Shareholders' Meeting

   Stock dividend of 100 shares for each 1,000 shares (capitalization of retained earning 46 shares for each 1,000 shares and capitalization of capital surplus 54 shares for each 1,000 shares) and cash dividend of NT$1.4

3-7 Impact of Stock Dividend Distribution on Business Performance, EPS and Return on Investment:

Item			*Year 2004 Forecast*
Paid-in Capital (beginning of the year, NT$'000)			$ 26,977,860
Dividend Plan	Cash Dividend (NT$ / per share)		$1.40
	Stock Dividend from Retained Earnings (share / per share)		0.046
	Stock Dividend from Capital Surplus (share / per share)		0.054
Business Performance	Operating Income (NT$'000)		$ 9,878,451
	YoY % Change in Operating Income		16.9%
	Net Income (NT$'000)		$ 11,799,482
	EPS (NT$)		$ 3.16
	YoY % Change in EPS		14.5%
	Average Return on Investment		10.61%
Pro Forma EPS and P/E Ratio	If Retained Earnings Distributed in Cash Dividend	Pro Forma EPS (NT$)	$ 3.28
		Pro Forma Average Return on Investment	11.01%
	If Capital Surplus Not Distributed in Stock Dividend	Pro Forma EPS (NT$)	$ 3.33
		Pro Forma Average Return on Investment	11.16%
	If Retained Earnings Distributed in Cash Dividend and Capital Surplus Not Distributed in Stock Dividend	Pro Forma EPS (NT$)	$ 3.46
		Pro Forma Average Return on Investment	11.60%

3-8 Bonus for Employees, Directors and Supervisors

3-8-1 Description regarding employee bonus 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 remaining earnings, 2% shall be allocated as bonus to employees and 1% as bonus to directors and supervisors.

3-8-2 Proposals approved by the Board of Directors regarding bonus to employees:

(1) Proposal regarding NT$147,387 thousand to employees and NT$73,694 thousand to directors and supervisors.

(2) Proposal regarding stock dividends to employees and the percentage of retained earnings it accounts for: None.

(3) Pro forma EPS after bonus to employees, directors and supervisors is paid: 2002 Post-tax primary EPS was NT$3.04, diluted EPS including the effect of diluted potential common stock was NT$2.95.

3-8-3. 2002 Earnings Allocated as Bonus to Employees, Directors and Supervisors

According to the proposals approved in the board meeting and shareholders' meeting on April 12, 2003 and May 23, 2003, respectively, 2002 earnings allocation was as following:

3-9 Execution of Treasury stock:

Unit: NT$'000

Item / *Status*	*Bonus to Employees*	*Bonus to Directors and Supervisors*
Proposed Distribution	140,551	70,276
Actual Distribution	140,551	70,276

2004/05/31

Repurchase	*1st time*
Purpose	Dissent shareholder
Period	2004/04/26
Price Range	NT$29.5
Types and Quantity	113,044,000 Common Shares
Total Value	NT$3,334,798,000
Number of shares retired or resold	Resold shares: 113,044,000 shares
Total Treasury Stock Holdings	0
Total Treasury Stock Holdings as % of Total Shares Issued	0%

4. Issuance of Corporate Bonds

4-1 Corporate Bonds

Corporate Bond Type	*Domestic Secured Bond (I)*	*Domestic Unsecured Bond (I)*	*European Convertible Bond*	*Domestic Unsecured Bond (II)*	*Domestic Unsecured Bond (III)*
Issue Date	2000.11.30	2002.02.19~2002.02.22	2003.02.19	2003.03.28~2003.04.03	2003.12.12~2003.12.19
Denomination	NT$ 1,000,000	NT$ 1,000,000	US$1,000	NT$ 1,000,000	NT$ 5,000,000
Issuance and Listing	N/A	OTC Securities Exchange (ROC)	Luxemburg Stock Exchange	OTC Securities Exchange (ROC)	OTC Securities Exchange (ROC)
Offering Rate	Par	Par	Par	Par	Par
Total Amount	NT$ 2,200,000,000	NT$ 4,200,000,000	US$115,000,000	NT$ 1,470,000,000	NT$ 3,000,000,000
Coupon Rate	5.06% p.a.	* Tranche A: 3.4% p.a * Tranche B: 3.3716% p.a.	0%	* The annual coupon rate for the 1st year is 2.6% and is paid every 6 months based on simple interest rate * From 2nd 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)	* Tranche A: 1.83% * Tranche B: 1.92% * Tranche C: 6 month Libor +1% if 6M Libor < 1.05%; 5.2% - 6M Libor if 6M Libor>= 1.05%, while the annual coupon rate can not be lower than 0%. (Note 2)
Tenor	5 year Maturity: 2005.11.30	5 year Maturity: 2007.02.19~ 2007.02.22	5 year Maturity: 2008.02.19	5 year Maturity: 2008.03.28~ 2008.04.03	* Tranche A: 3 year; Maturity: 2006.12.12~2006.12.16 * Tranche B: 4 year; Maturity: 2007.12.12~2007.12.16 * Tranche C: 5 year; Maturity: 2008.12.12~2008.12.19
Guarantor	Syndicated Banks (Note 1)	None	None	None	None
Trustee	Central Trust of China	Taipei Bank	Bank of New York	Trust Department of Chiao Tung Bank	Chinatrust Commercial Bank
Underwriter	None	None	Morgan Stanley, Fuhwa Securities	None	None
Legal Counsel	Mr. Morton Maote Huang	Mr. Morton Maote Huang	Lee & Li	Mr. Morton Maote Huang	Mr. Morton Maote Huang
Auditor	T N Soong & Co.	T N Soong & Co.	T N Soong & Co.	T N Soong & Co.	Deloitte & Touche
Repayment	From 24th month, repay 14%, 14%, 14%, 14%, 14%, 15%, 15% semi-annually	* Tranche A: repay 40%, 60% at 4th and 5th year * Tranche B: repay 60%, 40% at 4th and 5th year	Unless there is an early redemption by FET or the bond holders exercise the convertible right, at maturity the redemption price is the principal US$ plus interest compensation (1%). That is, the early redemption price is 105.114% the denomination.	Paid at maturity	* Tranche A: paid at maturity * Tranche B: paid at maturity * Tranche C: paid at maturity
Outstanding Amount	NT$ 1,276,000,000	NT$ 4,200,000,000	US$ 114,500,000	NT$ 1,470,000,000	NT$ 3,000,000,000
Corporate	*Domestic*	*Domestic Unsecured*	*European Convertible*	*Domestic Unsecured*	*Domestic Unsecured*

Bond Type		*Secured Bond (I)*	*Bond (I)*	*Bond*	*Bond (II)*	*Bond (III)*
Redemption or Early Repayment Clause		None	None	* Bond holders have the right to ask the Company to buy back the bond in US$ at denomination plus interest compensation (1%). That is, the early redemption price is 102.015% of the denomination. * After 3 years from issue date if the closing price of the Company's common shares at the ROC OTC Securities Exchange is 130% of the conversion price or above for 20 consecutive trading days, or when the outstanding bond is below 10%, the Company has the right to exercise early redemption for all or part of the bond.	None	None
Covenant		Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Crediting Rating		None	Received a rating of "twA" from Taiwan Ratings Corp. on 2001.12.19	Received a rating of BBB- from Standard& Poor on 2003.01.27	Received a rating of "twA+" from Taiwan Ratings Corp. on 2003.03.03	Received a rating of "twA" from Taiwan Ratings Corp. on 2003.11.07
Other Rights of Bond Holders	Amount Converted into, exchanged or subscribed to Common Shares, ADRs or other securities	Not applicable	Not applicable	562,219 shares	Not applicable	Not applicable
	Conversion Rights	Not applicable	Not applicable	Bond holder has the right to convert their bonds into the Company's common share or global depositary receipt representing the Company's common share after 30 days from issue date until 30 days before maturity.	Not applicable	Not applicable
Dilution Effect and Other Adverse		Not applicable	Not applicable	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 the Company's share from public market at a relatively lower price, therefore, it does not infringe the rights and benefits of the shareholders.	Not applicable	Not applicable
Custodian		Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Note 1: Syndicated banks including: Citibank N.A., Grand Commercial Bank, Cathay United Bank, Chinatrust Commercial Bank, The Shanghai Commercial & Savings Bank, Hsin-Chu Int'l Bank, Cathy Commercial Bank, Taiwan Industrial Bank, Tainan Bank, Taipei Bank, Hau-Tai Commercial Bank, Sunny Bank, Mizuho Corporate Bank, Bank of Panshin International Commercial, Int'l Bank of Taipei, Hua-Nan Commercial Bank.

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

4-2 Convertible Bonds

Type of Corporate Bond		European Convertible Bond		
Item / Year		2002	2003	2004 (as of April 30, 2004)
Market Price of the Convertible Bond (Note)	High	--	103.50	114.88
	Low	--	98.38	102.88
	Average	--	100.73	109.17
Conversion Price		--	NT$30.73	NT$30.73
Issue Date and Conversion Price on Issue Date		--	Date:2003/02/19 NT$35.955	
Method for Conversion		--	Issuance of new shares	

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: None.

6. Issuance of Depository Receipt

Shareholders of the Company ("Selling Shareholders") proposed to sponsor the issuance of Global Depositary Receipts ("GDRs") through the sale of no more than 150,000,000 common shares of the Company to foreign investors. This proposal has been approved in the board meeting on April 12, 2004 and the applications have been approved by the Central bank of China (CBC) and Securities and Futures Commission (SFC) on May 21, 2004 and June 1, 2004, respectively. The progress will continuously be posted on M.O.P.S. (Market Observation Post System) of Taiwan Stock Exchange website for investors' reference.

7. Employee Stock Options: None.

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

8-1 Completed Share Swap Transaction

Company		*KG Telecommunications Co., Ltd. (former Yuan-Ho Telecommunications Co., Ltd.")*
Address		28F, 207, Sec 2, Tun Hwa South Road, Taipei
Owner		Douglas Hsu
Capital		NT$13,329,979,160
Business Item		(1) F204020 retail business of ready-made clothes (2) F204050 retail business of accessories (3) CC01070 wireless communications equipment and facilities manufacturing business; (4) I301020 data processing service business; (5) IZ11010 overdue receivables management service business; (6) F201070 retail business of flowers; (7) F204030 retail business of shoes; (8) F204040 retail business of purses, handbags and suitcases; (9) F209010 retail business of books and stationery; (10) F209030 retail business of toys and recreational articles; (11) F213030 retail business of office-automation machinery and equipment; (12) F218010 retail business of information software; (13) IZ12010 manpower outsourcing business; (14) JZ99050 brokerage business; (15) I301030 electronic information provision service business; (16) I401010 general advertising service business; (17) IZ99990 other services business (ticketing services); (18) I601010 leasing business; (19) IE01010 processing mobile subscription business; (20) CC01060 wire communications equipment and facilities manufacturing business; (21) F113070 Telecommunications equipment wholesale business; (22) F213060 Telecommunications equipment retail business; (23) G901011 Type I Telecommunications Business (24)Beside permit businesses, the Company allows to operate businesses without legal restrictions.
Main Service		Wireless communications services
2003 Financials	Total Assets	NT$11,777,446 thousand
	Total Liabilities	NT$72,434 thousand
	Total Shareholders' Equity	NT$11,705,012 thousand
	Operating Revenue	NT$0 (note)
	Gross Profit	NT$0 (note)
	Operating Income	NT$0 (note)
	Net Income	NT$6,550 thousand
	EPS	-

Note: The above company has not started to operate in 2003.

1. Opinions of the underwriter: The issuance of new shares for capital increase relating to the merger was approved by SFC with certification of "Taiwan Finance Securities (I) Ruling Ref. No. 0930112339" on April 8, 2004. Upon the publishing date of the Annual Report, the underwriter has not issue 1st opinion. (planned opinion issue date: 2004/07/05).
2. Implementation Status: The issuance of new shares for capital increase relating to the merger was approved by MOEA with certification of (I) Ruling Ref. No. 09301079370 on May 20, 2004, and also listed on the ROC Over-the-Counter Securities Exchange on May 28, 2004.

8-2 Uncompleted Merge and Acquisition

The Company is planning to merge with its 100% owned subsidiary Yuan-Ze Telecommunications Co., Ltd. (YZT)

1. Purpose: To maximize the Company's and YZT's shareholders' benefits, to integrate

telecommunications business and to operate more effectively.

2. Expected benefits after merger: Reduce operating cost and build-up more effective operations.
3. Share exchange ratio and calculations basis: As YZT is 100% owned by the Company, YZT's total shares will be combined into the Company on the date of the merger. Thus, there is no share exchange.
4. Proposed Date: The proposed date was May 10, 2004, which be adjusted depending on the approvals of DGT and SFC.
5. Impacts on net value per share and EPS: To merge with 100% owned subsidiary, the Company will not increase its capital, and will be able to integrate resources and increase management efficiency. It will create positive impacts on net value per share and EPS.
6. Rights and obligations undertaking: Upon the date of merger, the Company will be undertaking the assets and liabilities of YZT.
7. Information of the company to be merged:

Company		*Yuan-Ze Telecommunications Co., Ltd.*
Address		28F, 207, Sec 2, Tun Hwa South Road, Taipei
Owner		Douglas Hsu
Capital		NT$10,370,000,000
Business Item		(1) F204020 retail business of ready-made clothes (2) F204050 retail business of accessories (3) CC01070 wireless communications equipment and facilities manufacturing business; (4) I301020 data processing service business; (5) IZ11010 overdue receivables management service business; (6) F201070 retail business of flowers; (7) F204030 retail business of shoes; (8) F204040 retail business of purses, handbags and suitcases; (9) F209010 retail business of books and stationery; (10) F209030 retail business of toys and recreational articles; (11) F213030 retail business of office-automation machinery and equipment; (12) F218010 retail business of information software; (13) IZ12010 manpower outsourcing business; (14) JZ99050 brokerage business; (15) I301030 electronic information provision service business; (16) I401010 general advertising service business; (17) IZ99990 other services business (ticketing services); (18) I601010 leasing business; (19) IE01010 processing mobile subscription business; (20) CC01060 wire communications equipment and facilities manufacturing business; (21) F113070 Telecommunications equipment wholesale business; (22) F213060 Telecommunications equipment retail business; (23) G901011 Type I Telecommunications Business; (24) Beside permit businesses, the Company allows to operate businesses without legal restrictions
Main Service		Third Generation Telecommunications Business
2003 Financials	Total Assets	NT$ 11,991,447 thousand
	Total Liabilities	NT$ 2,123,184 thousand
	Total Shareholders' Equity	NT$ 9,868,263 thousand
	Operating Revenue	NT$ 0 (note)
	Gross Profit	NT$ 0 (note)
	Operating Income	NT$ 0 (note)
	Net Income	NT$ 305,797 thousand
	EPS	-

Note: YZT has not started to operate in 2003.

8. Implementation status until the previous quarter of the publishing date: The Company's Board of Directors approved the merger of the Company with YZT, with the Company as the surviving company, on December 22, 2003. However, the implementation is not complete yet.

III | *Operational Highlights*

1. Business Activities
2. Market and Sales Overview
3. Employee Information
4. Environmental Protection Expenditure
5. Employee Relations
6. Major Contracts
7. Lawsuits and Disputes
8. Asset Acquisitions and Dispositions

1. Business Activities

1-1 Business Scope

1-1-1 Major Business Items:

- mobile telephone business;
- installation, maintenance, wholesale and import/export business for electronic and radio communications equipments and its components;
- purchase, sale, installation, and maintenance of radio transceivers (limited to land mobile wireless telephones, and cordless telephones);
- purchase, sale, installation and maintenance of radio receivers (limited to pagers);
- installation, maintenance, import/export, wholesale for all component parts of the above mentioned products;
- general import/export trading (with exception of items requiring special permit);
- To handle price quotations and tender applications on behalf of local or foreign companies with regard to the above mentioned products;
- F204020 retail business of ready-made clothes;
- F204050 retail business of accessories;
- CC01070 manufacturing business of wireless communications equipment;
- G901011 Type I Telecommunications Business;
- G902011 Type II Telecommunications Business;
- I301020 data processing service business;
- IZ11010 overdue receivables management service business;
- F201070 retail business of flowers;
- F204030 retail business of shoes;
- F204040 retail business of purses, handbags and suitcases;
- F209010 retail business of books and stationery;
- F209030 retail business of toys and recreational articles;
- F213030 retail business of office-automation equipment;
- F218010 retail business of computer software;
- IZ12010 manpower outsourcing business;
- JZ99050 brokerage business;
- I301030 electronic information service business;
- I401010 general advertising service business;
- IZ99990 other services business (ticketing services);
- I601010 leasing business;
- I199990 other consultation services business (integration & consulting service on telecommunication equipment/ facilities);
- IE 01010 mobile subscription business;
- JA02990 other repair business (maintenance & repair services for telecommunication equipment).

In addition to permitted businesses, the Company may operate any business which are not prohibited or restricted by law.

1-1-2 Operating Revenue Breakdown

Unit: NT$'000

Item \ Year	2002 Amount	2002 %	2003 Amount	2003 %
Mobile Service Revenue	32,845,381	95.27%	34,515,474	93.12%
Sales of Cellular Phones and Accessories	1,625,249	4.71%	2,545,751	6.87%
Others	7,405	0.02%	5,938	0.01%
Total	34,478,035	100.00%	37,067,163	100.00%

1-1-3 Existing Products and Services

A. Mobile Service Revenue:

(1) Type I Telecommunication Services: provide wireless communications and wireless multi-media data services, the revenues are categorized as monthly subscription (postpaid) and prepaid services according to the payment method; and telecommunication leased-circuit rental revenue which relates to domestic leased data circuit services.

(2) Type II Telecommunication Services: Internet access service (IAS), simple voice resale (ISR), e-mail; e-commerce, and integrated internet and wireless services.

B. Sales of Cellular Phones and Accessories: mobile phone sets sales and its accessories.

1-1-4 New Products and Services Under Development

In 2004, in addition to existing value addition products and services, the Company plans to develop various new products, including the following major items:

- Mobile video services (i.e. video on demand, video streaming, video call, and video mail, etc.);
- Enhanced mobile MMS services;
- 3G multimedia content and applications;
- Upgraded WAP gateway to support open TCP/IP standards;
- Migrate existing GSM/GPRS services onto 3G services platform;
- Enhanced JAVA content platform (i.e. On-line Java gaming, Java community platform, etc.)
- Intelligent network service applications development (i.e. prepaid real-time call control...etc.)
- Intelligent voice activated dialing service
- Mobile search engine services

1-2 Industry Overviews

1-2-1 Overview

Taiwan' telecommunications market is characterized by the following factors, among others:

A. High penetration rate

Taiwan has become one of the most developed markets for telecommunications in the world, particularly in terms of fixed-line and wireless penetration. Based on statistics compiled by the Directorate General of Telecommunications (the "DGT"), an agency under the Ministry of Transportation and Communications (the "MOTC") of the ROC government, as of March 31, 2004, the cellular penetration rate, which is calculated by dividing the total number of reported SIM cards by the population of Taiwan, was 104.5%. The wireless mobile device penetration rate peaked in August 2003 at 112.1%.

B. Larger number of operators

Taiwan currently has six GSM networks operated by four separate operator groups; one PHS operator; and five prospective 3G operators. Two of these prospective 3G operators are new entrants in the wireless market, while the remaining three are existing GSM operators. The country also has four fixed-line operators, including Chunghwa Telecom, the incumbent operator of telephone services. Competition among these operators is expected to remain intense for the foreseeable future.

C. Demand for bandwidth

The ROC government is promoting broadband technologies through the liberalization of fixed-line services. New fixed-line operators are expected to provide broadband technologies through their existing cable or fiber optic networks, or through the deployment of newer technologies. Their efforts are driven by the ROC government's aim to develop e-commerce and to lead Taiwan to become one of the region's Internet hubs.

D. Active market alliances and consolidation as well as foreign participation

Operators across all sectors have been seeking partnerships, alliances, as well as mergers and acquisitions to strengthen their market position, increase geographic reach and expand their service portfolio. Foreign operating companies have also invested and formed alliances in the basic services, wireless and data communications markets.

1-2-2 Industry Transition

Historically, the telecommunications sector in Taiwan consisted of only one telecommunications service provider owned and controlled by the ROC government: the DGT. Until July 1996, the DGT held the dual role of regulator and provider of telecommunication services. In July 1996, Chunghwa Telecom assumed the operational and service functions of the DGT. The DGT now acts solely as a regulatory body under the authority of the MOTC.

In February 1996, as part of efforts to reorganize and introduce competition to the telecommunications industry, the ROC government passed the "Three Telecom Acts," providing guidelines for restructuring the government's supervisory and operational roles in the telecommunications industry. The legislation also divided telecommunications services into two categories:

A. Type I: Type I services include fixed-line services such as local, domestic long distance and international long distance; leased-line services; and wireless services such as wireless voice, paging, wireless data, satellite communication and trunked radio, or shared two-way radio, services.

B. Type II: Type II services include Internet access, online information exchange, managed data services, electronic mail and electronic commerce services.

Wireless services were deregulated first. Prior to 1997, Chunghwa Telecom, which was then wholly owned and controlled by the ROC government, was the only GSM operator in Taiwan. In January 1997, the government awarded other GSM licenses to six privately owned operators. Of these six privately owned operators, two operators subsequently merged, a third operator subsequently acquired a majority interest in another operator and we combined our and KG Telecom's businesses. As a result, there are currently four GSM operator groups, including Chunghwa Telecom. These four operator groups include us and our wholly owned subsidiary KG Telecom as well as two other operators that are affiliated companies. GSM, or Global System for Mobile, is a standard for second generation, or 2G, wireless communications. In contrast to the first generation wireless communications, which is based on analog technology and supports only simple voice telephony, a GSM network is based on digital technology and provides additional data facilities ranging from short messaging services to narrow band data, but cannot support high resolution video or multimedia applications.

In November 1999, the government awarded two low power cordless phone licenses to two privately owned operators. One licensee commenced operations using PHS technology in May 2001, and the other one has never commenced its operations. PHS, or Personal Handphone System, is a digital cordless phone system that operates on a digitalized microcell network. PHS base stations are small and easy to install, and PHS handsets may be used outside the home or office. As a result, PHS services can easily be provided in buildings and underground passages. However, in fast moving automobiles or trains, PHS users do not enjoy the same reception as regular wireless users do. PHS handsets look like GSM handsets, but with the exception of dual mode handsets that function on both GSM and PHS networks, PHS handsets cannot utilize the GSM networks.

In March 2000, the government awarded new integrated fixed-line service licenses to three privately owned operators. The licenses cover local, domestic, long distance, and international voice, data and leased-line services, including Internet and broadband applications. These licensees commenced operations in 2001.

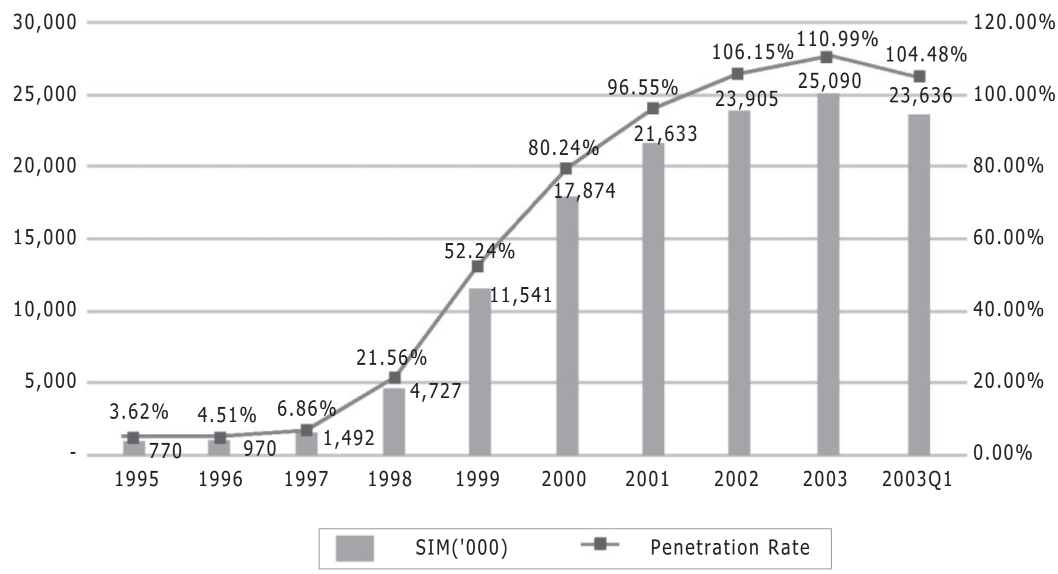
In February and December 2000, the market for local and long-distance leased-circuit land cable service and the market for international submarine cable leased-circuit service were deregulated, respectively. In July 2001, the market for wholesale and resale of international and domestic long distance services as well as voice over Internet protocol services was also deregulated.

In January 2002, the government staged an auction for the award of five 3G licenses. The licensees will have the right to launch their 3G services upon their satisfaction with certain roll-out requirements. 3G networks are expected to closely resemble fixed-line networks in terms of data transmission capabilities. After 180 rounds, five of the six local bidders were awarded the licenses.

1-2-3 Wireless Services

Chunghwa Telecom, the incumbent telecommunications operator, launched Taiwan's first wireless network based on AMPS in 1989 and a island-wide GSM network six years later. The award of wireless licenses in January 1997 to privately owned operators has led to increased service innovation, creative marketing and the introduction of various value-added services. The introduction of tariff reductions, handset subsidies, cash-based payment plans and wireless Internet access has triggered an increase in the number of reported SIM cards. The following table shows historical information with respect to the number of reported SIM cards and growth rates in Taiwan.

Mobile SIM Card Growth in Taiwan

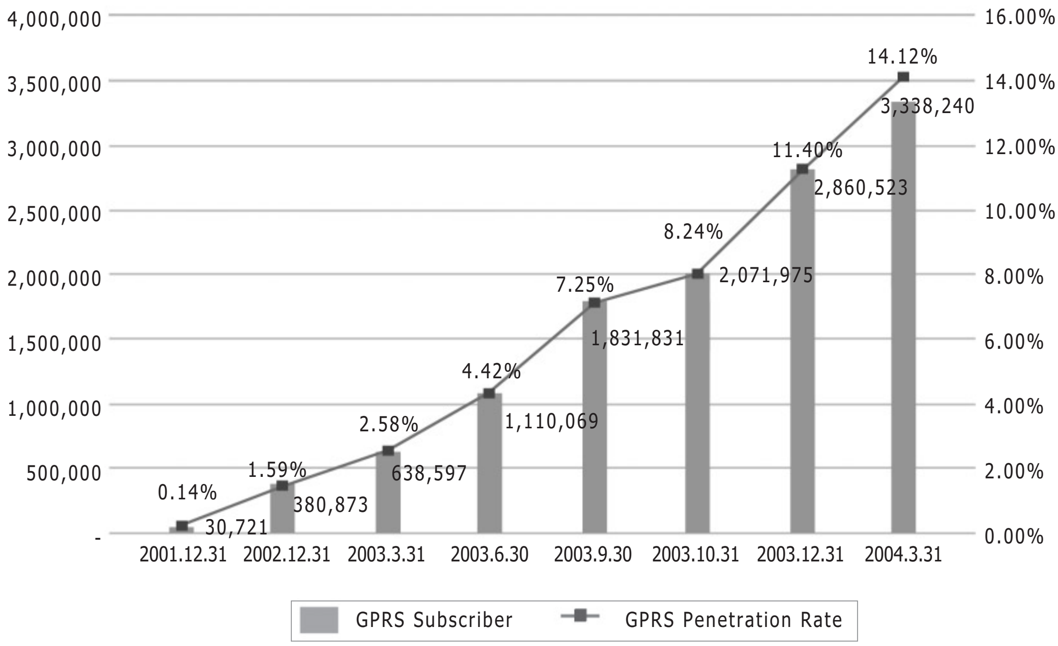


Source: Directorate General of Telecommunication, Ministry of Transportation and Communications

Since the deregulation of the wireless market in 1997, the major source of growth for wireless communications operators has come from new subscribers. Operators have placed a strong focus on market positioning, branding and technology options, all factors that play a significant role in determining their success.

With the incorporation of the GPRS technology, wireless data communication services have been offered with higher speed and richer content. GPRS, or General Packet Radio Service, is a technology that increases the speed and efficiency of existing GSM networks, thereby enabling some network operators to deliver multimedia and broadband services before 3G wireless communications become available. For this reason, a GSM network that uses GPRS technology is also known as a 2.5G network. GPRS was launched GPRS during the end of 2001 and mid 2002. By the end of 2003, there were about 3.34 million GPRS subscribers. The GPRS penetration rate had now reached 14.12% from 1.59% in December of 2002. This rapid growth rate indicated the potentials for wireless data services.

GPRS Subscriber Growth in Taiwan



Source: Directorate General of Telecommunication, Ministry of Transportation and Communications

1-2-4 Leased-Line Services

The growth of the Internet, the wider adoption of multimedia applications and the increase in network usage by businesses have created an increasing demand for bandwidth and data services. Leased-line demand has increased as a result of demand from Internet service providers and from wireless operators for interconnection services relating to wireless call traffic.

The following table shows historical information with respect to leased lines and growth rates in Taiwan.

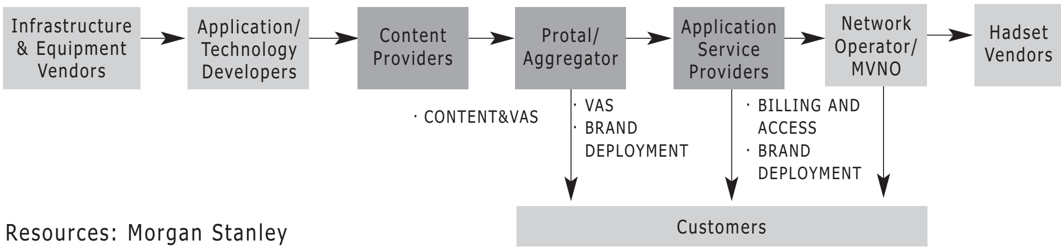
	March 31, 2004					
	1999	*2000*	*2001*	*2002*	*2003*	*March 31, 2004*
Leased lines (in thousands, expect percentages)	114.0	130.5	147.0	151.9	153.3	155.0
Growth rate (compared to previous year)	16.3%	14.5%	12.6%	3.3%	0.9%	1.1%

Source: DGT

The demand for data communications has increased since new fixed-line operators began providing services in 2001, partly because these operators focused on this market segment as their market entry point. Data traffic is also expected to increase as demand for Internet, frame relay, ATM and IP-based services expand as Taiwan embarks on its path to develop e-commerce.

1-2-5 Industry Value Chain

MOBILE DATA VALUE CHAIN



Resources: Morgan Stanley

1-3 Technology Development Overviews

1-3-1 Current Business Technology

One of the core services provided by the Company is integrated telecommunication services. And the three main sources of technologies to support the core service include: (A) technology developed by the Company's R&D center and its vendors, (B) know-how developed by inter-academic and industry cooperation, and (C) academic exchange programs with National Telecomm Planning Office (NPTO). The Company has also established FarEasTone Telecommunications Research Laboratories to research advanced technologies related to mobile communications and their quality enhancement. In addition to studies in the hard/software applications on conventional GSM system, attention has also been given on the development of technologies and services related to multimedia video applications, for which researches are conducted by either internal R&D departments or outsourced to third parties. Currently focus is on the development of technologies in the applications of 3G mobile communications with the intention to provide customers with the most efficient and stable voice and data communication quality.

1-3-2 Research and Development

The Company adopts a focused R&D strategy and integrates relevant available resources within the Far Eastern Group and transforms them into the Company's technology development base. The goal is to establish a R&D team which will become the basis in bringing the Company to the forefront of its technology developments. In order to fulfill market requirements, current R&D plans have been focusing on the development of service applications, i.e., data and multimedia services, and technologies to enhance quality of service. The strategy is to obtain the best R&D achievements through an optimized subdivision of work and fully utilizing the resources and research strengths of all the R&D units within Far Eastern Group. The Company will fully utilize these research achievements to support its operations and create business revenues.

A. Development of Advanced Technologies

The purpose of developing advanced technologies is to fulfill the Company's future operational needs. To accomplish this purpose, the Company is strengthening the cooperation relationships with Yuan Ze University (YZU). An R&D team is organized by YZU to perform researches with its academic resources. The cooperation not only allows the Company to utilize the developed technologies by YZU, but also to utilize the R&D facilities and YZU's capability in hardware/software equipments and know-how to support its needs in operational and R&D work. The Company expects to maximize the R&D results with minimum expense through this long-term collaboration. In addition, to continuously expand R&D ability, the Company and academic organizations will support one another to jointly seek for external R&D research resources, such as funding from National Science Council, Ministry of Educational Affairs or Ministry of Economic Affairs. This would also maximize accomplishments in technology development and educational training. This type of collaboration are divided into two categories: (1) the Company directly outsources to YZU for certain research projects; and (2) the Company assists YZU to apply for research and educational funding from governmental authorities for R&D projects, under the conditions that the Company has the rights to the research outcomes.

B. The Company's Internal R&D Plan

Three major research laboratories of the Company (R&D laboratory, education training center and six major R&D groups) are created to fulfill the Company's immediate operational needs and services expansion requirements (data and multimedia services). The following laboratories and areas are being focused:

(1) Wirelees Technology Development Laboratory
(2) Network Experiment and Testing Laboratory
(3) Application Platform Laboratory
(4) Education Training Center
(5) Wireless communication system and handset devices integration research team
(6) Service platform and technology developing research team
(7) Integration and development of commercialized products research team
(8) Data and multimedia research team
(9) Mobile commerce development research team
(10) System structure planning research team

C. Technology Exchange

The Company will continue the tradition of holding next generation wireless communications conferences and publish FarEasTone Journal to carry on the technology exchange. This year the Company plans to extend the exchange activities with academic organizations in Mainland China. The goal is to integrate the resources of YZU, Oriental Institute of Technology and New Century InfoComm to establish academic exchanges with major organizations in Mainland China (such as Beijing University of Postal and Telecommunications), furthermore, to establish the Company's reputation in Mainland China. This is also to prepare for the globalization of the communication industry and to enable the Company to play an important role in the market.

1-3-3 R&D Personnel and Experience

The Company currently has 85 R&D staff. 44 of them are with master's degree, 41 with bachelor's degree. Majority of them have extensive experience in telecommunication business and possess high qualifications.

1-3-4 Major R&D Expense in Recent Years

Unit: in NT thousand

Year / Item	2002	2003	Up to 2004 Q1
R&D Expense	274,333	317,452	73,964
Total Operating Revenue	34,478,035	37,067,163	9,813,028
R&D Expense as percentage of Total Operating Revenue	0.80%	0.86%	0.75%

1-3-5 Developed Products / Services in Recent Years

The Company's goal is to provide its customers with multi-media service via converging information and technology resources to meet communication demands. The following are products developed in recent years:

Year	Item	Content
2002	Super i-Style Service	New generation Mobile Internet Services based on GPRS technology. Used with GPRS cellular phones, facilitating one's true mobile life on the go.
	Micro Payment	New generation mobile E-commerce platform, under which telecommunication certificate mechanism is integrated to allow users to make payments in small amounts over wireless internet, and by which the payment is combined with the total mobile service bill.
	MMS Service	A new multi-media message service which combines graphics, sounds, video and text The relevant products including MMS DIY, MMS e-paper, MMS 147...etc
	Java Service	With Java technology and a Java enabled handset, users are able to download many services such as Java Game, Java Video etc.
	IVR 566	Offers the latest information in fashion, entertainment, games...etc.
2003	Br@vø	This is a mobile rate plan combining "SMS", "MMS", GPRS and Voice services.
	900 Call Me Ring	Replaces the traditional connecting sound with other audio features such as symphony, pop song, ring tone, or even jokes.
	Mobile Video	Featured video download via handsets
	Mobile Kara OK	MV downloading. Enjoy Kara OK service anytime, anywhere

1-4 Long-term & Short-term Sales and Marketing Plan

The Company's goal is to become the leading and most innovative wireless operator and the preferred services provider for wireless communications in Taiwan, with a continuing focus on revenue growth and profitability. The Company plans to continue to grow our business profitably by capitalizing on our core strengths in branding, innovation and distribution; by taking advantage of the business scale and market position that the combination with KG Telecom now gives us; by enhancing our range of products and services; and by continuing to improve our operational efficiency. We believe that we are well positioned to compete effectively in Taiwan's wireless communications market based on our product breadth and differentiation, our continual business innovation and our service quality.

1-4-1 Sales & Marketing Strategies

The principal elements of our strategy include:

A. Taking advantage of our new scale to pursue growth opportunities profitably

We intend to take advantage of the growth opportunities that we believe our scale and innovation capabilities will give us, while maintaining our focus on profitability. We plan to:

(1) Expand the breadth of our mobile voice and data services, as well as our pricing plans, so that we can target a broader range of customer segments in the wireless market in Taiwan based on the lifestyles, needs, usage patterns and pricing considerations of individual customers in those segments.

(2) Continue to focus on increasing usage and acceptance of our service offerings, particularly those which rely on the increased speed and capacity available through 3G networks, as technological advances enable a greater variety of wireless solutions for individual and corporate customers.

(3) Continue to focus on leveraging our technology investments, such as our recently adopted convergent billing system, in an effort to maximize the effectiveness and acceptance of our service offerings.

(4) Leverage our success to date with corporate customers and aggressively pursue the enterprise segment in Taiwan by continuing to combine various technologies to provide corporate customers with productivity-enhancing services, such as MVPNs, end-to-end data management services, data and voice broadcasting services, location-based services and mobile information on demand services.

(5) Leverage our marketing and technology skills to expand our business scope beyond wireless voice and data services and become Taiwan's leading provider of emerging and future wireless communications solutions that can be delivered through increasingly ubiquitous wireless

communications devices, including person-to- person, person-to-machine and machine-to-machine communications solutions that are based on wireless LAN and telemetry applications.

B. Continue to focus on enhancing customer service and experience

We plan to continue to focus on increasing usage of our services by giving our customers responsive care and personalized attention through our [market-leading] network of direct-controlled outlets in Taiwan. We also intend to give customers the "First hand" opportunity to experience our new data service offerings, by allowing them to sample these service offerings in our new concept stores and our new mobile vans.

C. Maximize our operational efficiency across a larger organization

We intend to focus on maximizing our operational efficiency by consolidating our network operations, call center operations, billing and collections systems and information technology systems across our recently expanded business organization. We also plan to take advantage of our increased size to negotiate better terms in the areas of network interconnection, logistics and procurement.

D. Brand-Building

We believe that our brand is built on our three core values: innovation, responsiveness and trustworthiness. We use two advertising agencies, Ogilvy & Mather and Mindshare, to manage our advertising campaigns and to build and enhance our brand. Our advertising campaign has won the top awards in the 10th Times International Chinese Advertising Awards in 2003. In May 2004, we were awarded "Super Brand 2004" by the Reader's Digest, we also started our first advertising campaign as a fully integrated business which included new product offerings to our combined customer base. We are gradually adopting a common signage for all of our stores and intend to complete this process by the end of 2004. Our product and service brands are designed to appeal to different consumer segments, responding to their different lifestyles and core communication needs.

E. Targeted Marketing

We offer a variety of promotions that are targeted at both dealers and potential new customers, such as subsidized handset upgrades, airtime, trials of value-added services and installment plans for handset purchases. Our customer relationship system is integrated with our billing system. Our analysis of customer usage allows us to target service offerings and promotions more effectively. We target customer segments that share common characteristics, which include usage, social group or any other distinctive measure, and conduct extensive market research to understand the needs and preferences of these individual groups. We target groups whom we believe will be attracted to wireless communications solutions by combining rate plans, product promotions and features that meet the needs of that particular customer segment. For example, we sell special "IF" card packages to foreign workers through convenience stores catering to this customer segment. As a result of our business combination with KG Telecom, we have an increased customer base and distribution network in southern and central Taiwan and intend to further increase the visibility of our combined brand portfolio in these areas.

1-4-2 Services and Products

We offer a broad range of wireless communications services in Taiwan, including:

A. Wireless voice services;

B. Wireless multi-media services; and

C. Tailor-made integrated wireless communications solutions for corporate users.

We offer a wide selection of handsets, ranging from voice centric devices to high end multimedia devices to our credit-based and cash-based customers.

We were the first wireless operator in Taiwan to offer comprehensive wireless multi-media services and have built a reputation for providing high quality wireless voice and data communications services. Our wireless communications service offerings include services and products for a broad spectrum of consumer segments, ranging from tailor made solutions for corporate customers to lifestyle and entertainment oriented services for consumer customers.

We offer our services in Taiwan using a digital network based on GSM technology. We are currently constructing a 3G network and expect to offer 3G based services by the end of 2004. We expect to further enhance our range of service offerings with applications that utilize the capabilities of the 3G network.

1-4-3 Wireless Voice Services

We offer domestic and international wireless voice services throughout Taiwan. Our basic voice services include a variety of enhanced features such as call divert, call waiting, caller identification, conference calling and basic voice mail. Customers may choose other calling features, such as detailed billing, enhanced voice mail and personal ring-back tone, as optional supplements to our basic voice services.

In addition to the use of our wireless network in Taiwan, our credit-based customers can also automatically make and receive calls while away from Taiwan using the wireless networks of foreign operators with whom we have reciprocal roaming arrangements. As of March 31, 2004, our automatic international roaming service covered 196 networks in 119 countries and territories. Most of our reciprocal roaming agreements are with operators of GSM systems. We have also arranged for AMPS and TDMA roaming in North America and PDC roaming in Japan.

1-4-4 Pricing and Payment Arrangements

Our strategy is to have a payment policy that is simple and reflects our principle that "customers pay for what they use." Our goal is to attract loyal customers who value our innovative products and services, the quality of our network and our high level of customer support, rather than simply to attract customers who are looking for short-term bargains. Accordingly, although we do not attempt to match each promotion introduced by our competitors, we do seek to offer the best value available in the market.

1-4-5 Tariffs

A. Tariffs for Voice Communications Services.

Our credit-based customers choose a rate plan that is commensurate with their expected monthly airtime usage, effectively creating a minimum usage incentive. The monthly fee serves as a credit toward a fixed amount of airtime usage by the customer. Customers are charged for additional airtime beyond this fixed amount at the same rates. Airtime not used during a month may not be credited toward airtime usage in the following month. Our cash-based customers pay only for airtime usage.

We offer a variety of credit-based and cash-based payment plans at varying rates. These plans include basic usage plans for ordinary usage, off-peak usage, mid-range and heavy usage plans. In addition, we offer various discounts, including discounts for corporate users, long-term customer discounts and heavy-volume discounts. Tariffs within a payment plan also vary according to the time of call and the network at which it terminates. Calls terminating outside our network during peak hours are billed at a higher rate than calls terminating within our network during off-peak hours.

We do not charge customers separately for enhanced calling features that are bundled with our basic voice service, such as call waiting and caller identification. We charge nominal monthly fees for other calling features, such as enhanced voice mail, which customers elect to add to our bundled service plans.

B. Tariffs for Multi-Media Services.

Our multi-media services are available only to customers of our voice services. We seek to devise pricing schemes that are simple and easy to understand. We also seek to set prices at levels that are competitive in the market but at the same time attractive to our content and service providers. For each type of multi-media service, customers have the option to pay either a transaction fee every time they use the service or a flat monthly

1-4-6 Enterprise Solutions

We offer our corporate customers tailor-made wireless communications solutions that integrate voice and data communications. We develop and administer complex telecommunications networks for our corporate customers and offer them related consultation, implementation, management and maintenance services. We have acquired many reference accounts in different industries, including Hewlett-Packard, Citibank, D-Link, 7-Eleven, Formosa Oil, Agilent Technologies and Cathay Life Insurance. Our corporate customers tend to be the most sophisticated users of wireless communications services and early adopters of new service offerings. Our enterprise solutions segment provides us with important feedback on our most advanced service offerings, thereby enabling us to develop new service offerings that respond to our customer needs and to further enhance the quality of our services.

1-4-7 Devices

We offer a wide selection of devices, ranging from voice-centric devices to high-end multimedia devices, in order to meet the needs of our customers. Our main suppliers of GSM devices are Nokia, Motorola, Samsung, Sharp, NEC and Sony Ericsson. We offer customized devices, such as the Sharp GXi-98, Gx-21 and the Sharp GX-31, as well as generic phones, such as the high-end NEC N590i that includes a digital camera with a built-in flash and features digital zooming. We generally provide a device subsidy to our credit-based customers. Customers who receive a device subsidy are generally required to enter into a service contract with us.

We sell devices to our customers directly through our own stores and franchised stores and indirectly through our third-party distributors. Dealers in our direct distribution network purchase devices from us and resell them to our customers, while dealers in our indirect distribution network purchase devices directly from agents of device manufacturers, except for devices that are bundled with our promotional offers.

Given the wide acceptance of the GSM standard and the large number of manufacturers that are able to supply devices, we do not believe that we are dependent upon any one supplier or that there will be a shortage in the supply of GSM devices. Demand for certain models, however, may at times exceed supply due to their popularity.

2. Market and Sales Overview

2-1 Market Analysis

2-1-1 Main Products / Services

We are a leading wireless communications services provider in Taiwan. As a result of our recently completed combination with KG Telecom, we had a market share of 32.2% of total wireless operating revenues in Taiwan for the three months ended March 31, 2004 as reported to the DGT, making us the leading private sector wireless operator in Taiwan for that period based on reported wireless revenues.

We provide wireless voice and data services throughout Taiwan using a digital network based on GSM technology. We own two island-wide GSM 1800 licenses and a regional GSM 900 license covering the northern region of Taiwan, which includes Taipei. We also own one of the five island-wide 3G licenses that were awarded by the ROC government in February 2002. This license gives us the right to offer multimedia services across Taiwan using our 3G network. We have invested, and will continue to invest, in building our 3G network infrastructure, and we expect to begin offering multimedia services using our 3G network in selected areas of Taiwan by late 2004 or early 2005.

Our consolidated financial condition and results of operations fully reflect the combination with KG Telecom effective as of January 1, 2004. For the three months ended March 31, 2004, we had consolidated total operating revenues of NT$16,539 million, consolidated EBITDA of NT$7,130 million and consolidated net income of NT$3,331 million.

2-1-2 Market Share

According to the operating performances of all the telecommunication providers, Chunghwa Telecom (CHT), Taiwan Cellular Corp. (TCC) and the Company together have a total market share of over 80%. Given the high entry barrier, the market is expected to become even more concentrated; hence, key players will tend to dominate the market. Regional operators will thus need to seek either merger and acquisition or strategic alliance opportunities to retain customer bases and service levels. The respective market shares of the top three players will then depend on their ability to provide comprehensive value added services.

Based on information released by the operators as of end 2003, the following table gives an overview of the respective market shares of each operator:

Company		*CHT*	*TCC*	*FET*	*KGT*	*TAT*	*MBT*	*Total*
Market	Annual Revenue	34.66%	24.65%	19.54%	12.73%	5.96%	2.46%	100.00%
Share (%)	SIM accounts	32.95%	23.16%	17.66%	14.63%	8.77%	2.83%	100.00%

Source: The Directorate General of Telecommunications, Ministry of Transportation and Communication

2-1-3 Future Market Demands and Potential

Until March 31, 2004, the wireless communications market has expanded rapidly in Taiwan, the SIM card penetration rate reached 104.5% which is unseen in other areas of the world. However, as the market matures, operators will emphasize in providing data and multi-media services to stimulate usage. With the availability of wireless data and 3G services, mobile phone will further integrate with the Internet to provide more convenient and advanced services.

2-1-4 Competitive Advantages

Since our first fiscal year of operation in 1999, we have consistently achieved growth in service revenues, net income and EBITDA margins in Taiwan's highly competitive wireless communications services market. We believe that our demonstrated success is primarily due to our ability to capitalize on the following key strengths:

A. *Strong brand and leading reputation in Taiwan's wireless market.* We believe that we have established strong awareness of the Far EasTone corporate brand in the Taiwan wireless market and that we have a leading reputation among wireless operators in Taiwan. We believe that our brand strength and leading reputation are attributable to providing high-quality services and for being known as innovative, responsive and trustworthy. We believe that we have achieved strong brand recognition not only for our Far EasTone corporate brand, but also for our individual products and services such as Bravo, Hala, VIP, i-mode® and the IF pre-paid card. We believe that having a strong corporate brand enhances our ability to introduce new products and services that will be accepted by customers, thereby enhancing our competitive position and profitability.

B. *Largest, high-quality customer base.* Our recent combination with KG Telecom has resulted in our having more than 7.2 million SIM cards as of March 31, 2004, based on monthly statistics that we report to the Directorate General of Telecommunications, or DGT, which is the telecommunications regulator in Taiwan. Approximately 21.5% of those SIM cards were attributable to premium service plans, such as our "VIP 888" and "Hala 900" plans, which involve high monthly minimum payments and minimum contract periods. Our customers have also demonstrated that they are fast adopters of multi-media services such as mobile data services, which was the fastest growing segment of the wireless market in Taiwan in the year ended December 31, 2003. Our service revenues from mobile data services represented 6.7% of our total wireless service revenues for the three months ended March 31, 2004, which was the highest such percentage among all wireless operators in Taiwan for that period, and we had Taiwan's highest growth rate in service revenues from mobile data services in the year ended December 31, 2003 as compared to the year ended December 31, 2002.

C. *Demonstrated track record as a leading innovator.* We believe that we have a demonstrated track record for innovation in wireless communications services in Taiwan. For example, we were the first wireless operator in Taiwan to offer a wireless Internet access service that is integrated with wireless voice services in terms of billing, customer support and other service features. We have been a leader in introducing Chinese-language enabled applications and services to our customers, most of whom are native Chinese speakers, and we were the first wireless operator in Taiwan to introduce Chinese-language Java-enabled SIM cards. We were also the first wireless operator in Taiwan to introduce cash-based payment plans that offer substantially the same services and features as credit-based payment plans, and we believe that our "IF card" is now the most widely-recognized cash-based card in the Taiwan market.

D. *Strong financial profile.* Our financial profile is characterized by demonstrated growth in service EBITDA margins, consistent profit margins and a solid balance sheet. For the years ended December 31, 2001, 2002 and 2003, our service EBITDA margin, which equals net income before interest, taxes, depreciation and amortization divided by total operating revenues, was 37.7%, 44.9% and 45.4%, respectively, and our profit margin, which equals net income divided by total operating revenues, was 19.3%, 22.6% and 22.1%, respectively. Our service EBITDA margin and profit margin for the three months ended March 31, 2004, which reflect our combination with KG Telecom, were 47.6% and 20.1%, respectively. With total stockholders’ equity of NT$60,957 million as of March 31, 2004, we believe that we have one of the strongest capital bases among all wireless operators in Taiwan.

E. *Seasoned and professional senior management team.* We believe that our senior management team has the mix of skills and multi-national experience necessary to continue to grow a wireless communications services provider in a highly competitive environment. Virtually all of our senior managers have previously worked for multi-national corporations in and outside of Taiwan and we believe this experience has enabled us to introduce international-standard management innovations to our operations. We also believe the caliber of our management has enabled us to recruit and retain a highly qualified workforce in the local market, thereby allowing us to adapt better to changing market dynamics.

2-1-5. Advantages and Disadvantages of Future Developments and Proposed Strategies

A. Advantages

(1) Dual-band system offers superior communication quality

Currently, there are only two operators in Taiwan, Chunghwa Telecommunications and the Company to have both GSM 900 and GSM 1800 licenses. As the two frequencies complement each other in penetration capability and radius reach, operators of dual band systems can search for best quality through the automatic frequency switch mechanism and increase communication capacity through maximizing band with between the two frequencies to reduce congestion.

(2) Professional Management Team and Outstanding Corporate Image

With human resource and technical support from Far Eastern Group and the professionalism of the management team, the Company has been able to maintain an excellent image based on combinations of strong technology, professionalism, and human resources to achieve a leading position in the market.

(3) Lower Wireless Device Costs

With more local wireless device vendors engaging in R&D and mass production, price competition has been the main factor for a sizeable total addressable market (TAM). The reduced cost of wireless device has indirectly increased consumer demands, making the mobile service more popular. Also the trend shows that the average user掇 age is getting younger. With the mobile phones becoming a part of the daily consumer pattern, the market for the mobile services operators has also increased substantially.

(4) Increased Added Value Due to Technology Advancement

Advanced communication technologies not only contribute to the prevalence of home information appliances but also bring about communication technology breakthroughs. The maturing new generation high-speed data transmission system and wireless communication technology (blue tooth), combined with Internet related services, will benefit operators in providing wireless broadband network and other value added services. Mobile phones will not only be a device for voice communication but also an integrated media for various information transmissions, which will increase its added value.

B. Disadvantages

(1) Pricing Right and Revenue Ownership of Fixed-to-Mobile calls

Under regulations promulgated by the DGT, a wireless operator has the right to collect airtime charges from customers for calls originating from a fixed-line network and the power to set the level of such charges. Such regulations could change at any time, depending on the progress of Fixed-line Local Loop Unbundling, in a manner that would immediately and substantially decrease our revenues.

(2) Mobile Number Portability

We could experience enhanced competition after the government put new regulations that require wireless operators, from Jan. 1st, 2005, to enable customers to keep their telephone numbers when changing service providers into practice.

(3) Directory Number Usages and Administration Fee

Taiwan government might levy Directory Number Usage and Administration Fee from Y2005; additional NT$ 38.25 million cost for FET, KGT and Yuan-Ze is expected.

Proposed Strategies:

(1) Increase the number of base station sites to improve communication quality

(2) Increase customer loyalty through effective marketing strategies and more diversified value added services and brand efficiency

(3) Integrate mobile communication with the Internet to provide integrated mobile internet services

(4) Offer a variety of favorable rate plans for customer to choose

2-2 Main Features and Production Process of Major Products

2-2-1 Main Features of Major Services

Major Service	Main features
Voice Transmission	GSM900/1800 communications; interconnection with CHT and other operators' networks
Data Transmission	GSM900/1800 communications; interconnection with CHT and other operators' networks
GPRS Service	GSM900/1800 packet-switch data transmission service
Short Message Service	GSM900/1800 communication; interconnection with CHT and other operators' networks

2-2-2 Manufacture Procedure:

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

2-2-3 Supply of Raw Material

The Company is a mobile operator, not a manufacturer. Thus there is no raw material.2-2- Major Customers and Suppliers in 2002 and 2003

1. Major Suppliers

Unit: NT$'000, %

Year / Item	2002				2003			
	Company	Amount	% of Total Operating Cost	Relations with the Company	Company	Amount	% of Total Operating Cost	Relations with the Company
1	Sharp Electronics	5,056,849	29.43%	None	Chunghwa Telecom	2,760,692	14.83%	None
2	Chunghwa Telecom	3,167,793	18.44%	None	Sharp Electronics	1,104,385	5.93%	None

2. Major Customers

Unit: NT$'000, %

Year / Item	2002				2003			
	Company	Amount	% of Total Operating Revenue	Relations with the Company	Company	Amount	% of Total Operating Revenue	Relations with the Company
1	Chunghwa Telecom Co., Ltd.	7,935,692	23.02	None	Chunghwa Telecom	7,139,284	19.26	None

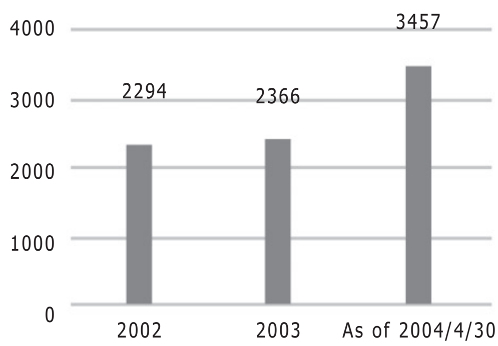
2-2-5 Production Volume for 2002 and 2003: Not applicable.

2-2-6 Sales Volumes for 2002 and 2003

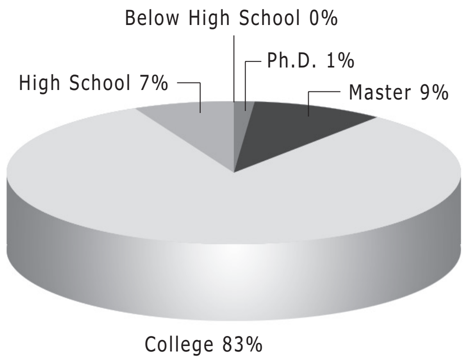
Item / Year		2002	2003
SIM Cards	Net Additions	565,135	90,703
	Accumulated	4,340,514	4,431,217
Number of Cellular Phone (s)		430,207	522,515
Operating Revenue (Unit: NT$ '000)	Service Revenue	32,845,381	34,515,474
	Equipment Sales	1,625,249	2,545,751
	Other Revenue	7,405	5,938

3. Employee Information

Number of Employees



Breakdown of Employees' Education Level



	Year	2002	2003	2004 (as of 04/30/2004)
Number of Employees	Manager and above	278	272	323
	Technical staff	512	521	857
	Customer care staff	816	855	1,081
	General staff	688	718	1,196
	Total	2,294	2,366	3,457
Average Age		31.05	31.02	31.08
Average Years of Service		3.11	3.54	2.61
Breakdown of Education Level (%)	Ph.D.	0.26	0.30	1.40
	Master	13.56	12.00	9.40
	College	77.72	79.40	81.89
	High School	8.46	8.30	7.31
	Below High School	0.00	0.00	0.00

4. Environmental Protection Expenditure

4-1 The Company pays great attention to concerns of the general public in regards to the Electronic Magnetic (EMF) emitted by the wireless communication base stations. In addition to closely following the relevant research publications on this matter, the Company vigilantly complies with the relevant regulations to ensure the safety and well being of the public. On the other hand, the Company actively takes part in and sponsors seminars, promotional activities and research projects with the Directorate General of Communications, the media and academic organizations to help the public understand EMF and help to eliminate unnecessary concerns. In 2001, the Company together with other mobile operators set up a "Mobile Communication Service Cooperation Task Force" to promote the understanding on EMF safety. Actions taken by the Company in 2003 include: press conferences, special reports, distribution of free pamphlets on EMF safety, production of a television program, holding seminars, speeches, offer prizes and free EMF inspections for mobile phones. The intention is that through the information provided through public media and face to face communications, the public will have better understanding on base station EMF, hence reduce base station protests.

4-2 The Company is a telecommunications service provider, not a manufacturing company, therefore, does not generate sewage and exhaust pollution and does not bear any special costs or expenses for controlling environmental pollution.

4-2-1 Environmental protection regulations requires the application of a permit for placing pollution-generating equipment or for pollution generation; and to incur expenditures for controlling environmental pollution: Not Applicable.

4-2-2 Principal equipments for controlling environmental pollution and possible effects: None.

4-2-3 In the recent two years until the publishing date of the Company's Annual Report, any consequence of improving environmental pollution or handing dispute: None.

4-2-4 In recent two years until the publishing date of the Company's annual report, any loss, disposed expense or possible expenditure for future environmental protection actions: None.

4-2-5 Recent polluted condition and its impact on Company's earning, competitive position and capital expenditure, and estimated capital expenditure for the next two years for environment protection actions: None.

5. Employee Relations

5-1 Description of Policies and Programs on Welfare, Learning, Training and Retirement of Employees, As Well As Various Protection of Employee Rights and Benefits.

5-1-1 Employee Welfare

A. Compensation and Benefit

The Company provides competitive salary, guaranteed annual bonus, performance incentives, sales incentives and special performance bonuses. In addition to complying with the Labor Standard Laws, the Company provides additional benefits to better the health and lifestyle of employees, such as physical check ups, group insurance, clinic service, safety and health forums, cafeteria, free shuttle bus, and employee handset subsidy. Moreover, an employee welfare committee was founded in 1997 to promote employee social activities, and subsidize employee outings, scholarships for employee's children, birthday gift and holiday bonus, etc.

B. Training

To keep up with the ever changing and advancing technology in the telecommunications industry, continued training for employees is one of the key factors to maintain the Company's leading position. Based on the core competencies identified, the Company provides four categories of training programs: management, service, selling, and technology. Others trainings include, orientation program for newcomers, personal effectiveness program for all employees, and tailored training for specific teams addressing specific requirements. 728 training courses were conducted for 11,416 employees in 2003.

C. Two-ways Communications

The Company recognizes the importance of listening to the voice of employees, and keeps a two-way communication channel through the following communication channels:

- Employee Opinion Survey: to understand and reflect employees' opinions for references for improvement, an outsourced employee satisfaction survey is conducted each year, and the satisfaction rate has been over 80% for the last three years.
- Employees are also able to voice their opinions or complaints through Employee Suggestion Box or Appealing Box on the Intranet.
- Monthly e-Newsletter and weekly e-Express are issued electronically to assist employees in

understanding company events, at the same time, to express their opinions.

- A quarterly Lantern-Legend Meeting is held for labor and management representatives to get together and discuss matters on hand, and foster a harmonious relations and better understanding.
- Employee update meetings are held twice a year to provide opportunities for employees to communicate with the executive team directly.

5-1-2 Retirement

The Company offers retirement benefits for permanent employees according to the Labor Standard Laws. An equivalent of 2% of employee's monthly base salary is allotted to the employee's retirement reserve, which is managed by its own supervisory committee, and deposited into the Central Trust Bureau under the name of FarEasTone Employee Retirement Fund Committee.

5-1-3 Labor negotiations and protection of employee benefits

The Company has always complied with the related labor laws and maintained good relations with its employees. Any amendments or additions concerning employee benefits only take place after thorough discussion and communication with the employees. Therefore there have not been any major disputes in recent years. The Company established the Lantern-Legend Meeting and Employee Suggestion Box and Appealing Box on the Intranet to keep efficient communication channels and better protect the rights of employees.

5-2 Losses caused by labor disputes in the past 2 years: None.

6. Major Contracts

Contract Type	*Counter Party*	*Terms of the Contract*	*Description*	*Restriction Clauses*
Purchase	Sharp Corporation	Oct. 09, 2002 ~ present	Mobile handset purchase	--
	AMDOC Development Ltd.	July 09, 2003	Convergence Billing System	--
	Shung-Li Technology	Jan. 08, 2005	Hardware for Convergence Billing System	--
Sales and Distribution	Arcoa Communication Co. Ltd.	Jun. 21, 2000 ~ Jun. 20, 2005	Promotion and distribution of mobile services	--
	Tecom Co. Ltd.	Dec. 01, 2002 ~ Jun. 30, 2005	Promotion and distribution of mobile services	--
	Cellstar Telecom	Sept. 01 2003 ~ Aug. 31, 2005	Promotion and distribution of mobile services	--
	Aurora Corporation Ltd.	Jun. 30, 2003 ~ Jun. 30, 2005	Promotion and distribution of mobile services	--
	Systex Corporation Ltd.	May 18, 2003 ~ Jun. 30, 2005	Promotion and distribution of mobile services	--
	Synnex Corporation Ltd.	May 15, 2003 ~ Jun. 30, 2005	Promotion and distribution of mobile services	--
	President Chain Store Corp.	Jan. 01, 2004 ~ Dec. 31, 2004	Promotion and sales for prepaid IF Cards and recharge cards	--
	Taiwan Familymart Corporation Ltd.	Jan. 01, 2004 ~ Dec. 31, 2004	Promotion and sales for prepaid IF Cards and recharge cards	--
	Hi-Life International Co. Ltd.	Jan. 01, 2004 ~ Dec. 31, 2004	Promotion and sales for prepaid IF Cards and recharge cards	--
	Circle K Convenience Store (Taiwan) Ltd.	Jan. 01, 2004 ~ Dec. 31, 2004	Promotion and sales for prepaid IF Cards and recharge cards	--
Network Inter-connection	Chunghwa Telecomm unications	May 29, 2001 ~ negotiating for extension (Note 1)	Network Interconnection	--
	Taiwan Fixed-Line	Jun. 15, 2001 ~ negotiating for extension (Note 1)	Network Interconnection	--
	New Century InfoComm	Jun. 15, 2001 ~ negotiating for extension (Note 1)	Network Interconnection	--

Contract Type	*Counter Party*	*Terms of the Contract*	*Description*	*Restriction Clauses*
	Eastern Broadband	Aug. 1, 2001 ~ negotiating for extension (Note 1)	Network Interconnection	--
	Taiwan Cellular Corporation	Feb. 10, 2004 ~ Feb. 10, 2005	Network Interconnection	--
	KG Telecommunications	Feb. 5, 2004 ~ Feb. 5, 2005	Network Interconnection	--
	MOBITAI Telecommunications	Dec. 01, 2001 ~ negotiating for extension (Note 1)	Voice Services Interconnection	--
	TransAsia Telecommunications	Dec. 01, 2001 ~ Automatically renewed (Note 2)	Voice Services Interconnection	--
	Asia Pacific Broadband Wireless	July 17, 2003 ~ July 16, 2004	Network Interconnection	--
	First International Telecom Corporation	Feb. 01, 2002 ~ Automatically renewed (Note 2)	Voice Services Interconnection	--
		Oct. 17, 2002 ~ Automatically renewed (Note 2)	Short Message Services Interconnection	--
Syndicated Loan	Led by Citibank	Aug. 30, 2000 ~ Aug. 30, 2006	NT$2.3B; 5 year term revolving note issuance facility	Restrictions are stated on shareholding percentage of FET's major shareholders
		Nov. 30, 2000 ~ Nov. 30, 2005	NT$2.2B; 5 year term bank guarantee secured corporate bond and one year term interest rate guarantee	
		Feb. 24, 2003 ~ Feb. 24, 2007	NT$4.3B; 5 years term revolving credit line	
Alliance Agreement	TECO Corp., Systex Corporation, Mitac Inc.	Nov. 07, 2003	Alliance to join the bidding of electronic toll collection BOT bidding	
Euro Convertible Zero Coupon Bonds	Led by Morgan Stanley	Feb. 19, 2003 ~ Feb. 18, 2008	1. Issuance of up to US$115M Euro Convertible Zero Coupon Bonds Due 2007 on Luxembourg Stock Exchange. 2. Securities holder shall have the right to redeem the securities on the 2nd anniversary of the issue date, at 100% of the principal amount plus yield to put, namely approximately 102.5% to 105.1% of face value of the securities.	1. The bonds may be converted into FET shares or GDRs issued by FET. 2. FET may redeem the securities at any time after 3 years from the issue date at a price equal to the early redemption amount, provided that the closing price for each of the 20 consecutive business days of the shares is at least 130% of the prevailing conversion price.
Acquisition	KG Telecommunications	Oct. 07, 2003	The subsidiary of the Company merged old KGT on Jan. 1, 2004, with new KGT as the surviving company.	--
Share Exchange	New KG Telecommunications	Apr. 29, 2004	The Company and new KGT swapped shares to allow the new KGT to become a wholly owned subsidiary of the Company.	--

Note 1: When an interconnection agreement expires and the parties cannot reach an agreement for extension within three months, the following solutions are adopted:

* If both parties intend to continue the negotiation, during the negotiation period, terms and conditions of the interconnection agreement shall remain effective, or the parties may agree other terms to be followed.
* If one party seeks DGT's ruling, the interconnection agreement shall remain effective until the ruling results are announced; and the ruling should be followed once announced.

Note 2: When the term of the agreement is one year, the parties shall start to negotiate the new agreement two month prior to the expiration date. If the parties cannot reach an agreement upon expiration date, the agreement shall remain effective until a new agreement is signed.

7. Lawsuits and Disputes

7-1 Litigations, non-litigations or administrative actions in the recent two years until the publishing date of the Company's Annual Report are disclosed as follows:

7-1-1 Labor Safety Case

During a typhoon in early 2002, an employee of the contracted company (Yi-Ho Security Company) fell into the gutter of one of the Company's office at No. 334, Sui-Chain Road, Sec.1, Bain Chai Cityand while on duty and died. On March 7, 2003 the Bain Chai Public Prosecutors Office closed the criminal investigation and a public prosecution was initiated against the Company in accordance with the provision of the Labor Safety and Sanitation Law. On September 17, 2003, the Bain Chai District Court rendered a decision adverse to the Company with a fine of NT$30,000 upon which the Company appealed on September 30, 2003. On January 13, 2004, the Taiwan High Court dismissed the appeal and the case is thus final without recourse to the Supreme Court.

7-1-2 Case on Declaratory Existence of Leasehold

Plaintiff Yui Ye Shai claimed that the legal relationship of leasehold for a base station between the Company and the Building Administration Commission of Shing Shei Yui does not exist. This case began hearing by the Taichung District Summary Forum in January 2002, and a judgment was rendered in favor of the Company in April of the same year. The plaintiff then filed an appeal against the judgment, and on March 18, 2003 Taichung District Court dismissed the plaintiff's appeal. This case has thus becomes final without recourse to the Supreme Court.

7-1-3 Payment Claims

Superpoll, an information service company, claimed the Company failed to pay the balance of NT$433,650 for the commissioned project "Taiwan Wireless Market Survey" and brought a civil action with the Taipei District Court Summary Forum in September 2002. In January 2003, the said Forum rendered a judgment adverse to the Company. An appeal was filed with the District Court but was then dismissed on June 17, 2003. This case is therefore finalized. The Company paid Superpoll the claimed balance plus interest thereon (counting from August 6, 2002 to June 17, 2003, at the annual rate of 5%), totaling NT$452,362, and bearing the cost of court litigation and the necessary postage totaling NT$5,111.

7-1-4 Administrative Appeal against DGT's Administrative Fine of NT$300,000

DGT ordered the Company to pay a fine of NT$300,000 for violating Article 38 of the Wireless Business Management Regulations for setting up a temporary base station on the main peak of Mt. Hohuan without prior permission. The Company filed an appeal with the Appeal Committee of the Executive Yuan. However, this appeal was dismissed on June 20, 2003.

7-1-5 Administrative Action Against a Fine For Violation of Smoking Harm Prevention Law

Because a "non smoking" sign was not posted at the Company's integrated store at Chungshia Road, the Company was imposed a fine of NT$100,000 on January 6, 2003 by the Bureau of Sanitation of the Taipei City Government for violation of the sub-paragraph 2 of Article 13 of the Smoking Harm Prevention Law. As result of a legal study, it is found that the said store does not fall into the category of Telecommunication Bureau set forth in the 7th Item of the Paragraph 1 of Article 13 under the Smoking Harm Prevention Law. Therefore an administrative appeal was filed. On May 8, 2003 the appeal was dismissed by the Administrative Appeal Committee of the Taipei City Government and an administrative action was thus brought on May 29, 2003 with the Taipei Higher Administrative Court. A judgment was rendered in favor of the Company by invalidating both the original order and the administrative decision.

7-1-6 Criminal Accusation For Threatening and Sabotage

The telephone services of the accused, Mr. Shau, was disconnected due to failure to pay phone bills. Mr. Shau then sabotaged several of the Company's stores in Kaoshiung City, and also threaten and blackmail the Company. The Company reported the instance to the Kauishung Police Station. On August 7, 2003, criminal information was filed with the Public Prosecutors Office of the Kaoishiung District Court. The Summary Forum of the Kaoshiung District Court ruled on October 1, 2003 that Mr. Shau be fined NT$10,000 for illegal interference with the Company's business establishments. Other parts of the criminal offence are still under investigation.

7-1-7 Kai Yeh Company's Claim for Payment for Service Rendered

Under the "MioD USSD Service Agreement" between Kai Yeh and the Company, the Company will share and settle accounts received each month with Kai Yeh according to the total volume of MioD message services used by customers. However, a Company staff discovered that most customers who used Kai Yeh's MioD message service were the prepaid IF cards users who largely utilized the MioD service because of the Company's old system of "first use and later pay". However, such cards always became minus after the said system had completed withholding, and thus customers would not continue to add card value, and terminate usage of the IF card number. In order to reduce losses, the Company stopped the services of sharing the accounts with Kai Yeh. However, Kai Yeh and the Company could not reach an agreement on this dispute, and Kai Yeh brought action claiming for the payment of NT$7,413,488. This claim has been recorded for hearing under file no. 92 Chun Sue-Tzu 1262.

7-1-8 Claim for Debt Payment due by Tung Shin Telecommunications Co. Ltd.

During the period from December 2001 to October 2003 Tung Shin Telecommunications Co. Ltd. (Tung Shin) provided the Company false settlement statement on the number of actual minutes used through the Chunghwa backup line. This caused shortages of voice air time payments from Tung Shin to the Company. The Company has claimed for recovery plus damages in an amount of NT$ 59,664,140 from Tung Shin.

7-2 Legal Disputes of Major Shareholders or Subsidiaries are disclosed as follows:

With regards to the Company's director, supervisor, general manager, actual responsible person, major shareholder of more than 10% shareholding, and subordinate companies who have been, in the recent two years and as of the publishing date of the Company's annual report, involved in major litigation, non-litigation or administrative action which have been finally decided or are still pending, and their result may cause material adverse impact on the Company's shareholders' interest or stock value: None.

8. Asset Acquisitions and Dispositions

8-1 Significant Asset Acquisitions and Dispositions of the Company and Subsidiaries

8-1-1 Significant Asset Acquisitions

(1) Far EasTone Telecommunications Co., Ltd.

As of 2004/04/30
Unit: NT$'000

Name of Asset	Date of Acquisition (Note 1)	Purchase Price	Seller	Relations with the Company	Status
1st-8th Floor, Neihu Headquarter Building (Note 2)	2003.04.03	1,569,520	Far Eastern International Leasing Corp.	The Company's Supervisor	FET headquarter building
System Facilities	2003.05.06	568,144	Ericsson Taiwan	--	For business needs
Yuan-Ho Telecom shares	2003.10.07	11,697,462	N/A (it was a case of capital increase by cash)	--	For merger with KG Telecom
Yuan-Ze Telecom Shares	2003.12.15	2,000,000	Teco Electric and Machinery Co., Ltd. Opto-Electronics Technology Co., Ltd. TECOM Co., Ltd.	--	For future business expansion
Far Eastern Electronic Toll Collection Co., Ltd	2003.8.29~ 2004.3.24	540,000	N/A (it was a case of capital increase by cash)	--	For future business expansion
KG Telecom	2004.04.29	17,930,678	N/A (it was a case of share swap for merger)	--	For merger with KG Telecom

(2) Yuan-Ze Telecommunications Co., Ltd.

As of 2004/04/30
Unit: NT$'000

Name of Asset	Date of Acquisition (Note 1)	Purchase Price	Seller	Relations with the Company	Status
System Facilities	2003.01.07	1,365,000	Ericsson Taiwan	--	For business needs
Switch Centers	2003.12.08	2,448,055	Ericsson Taiwan	--	For business needs

Note 1: Reporting date
Note 2: Ownership transfer completed by April 2003

8-2 Significant Asset Dispositions

As of 2004/04/30
KG Telecommunications Co., Ltd. (former Yuan-Ho)
Unit: NT$ '000

Name of Asset	Date of Acquisition	Date of Disposition	Dispose Price	Dispose Profit / Loss	Buyer	Relation with the Company
Sheng Hua 1699 Bond Fund	2004.1.1	2004.2.18~ 2004.3.23	336,616	1,353	N/A (sold in the market)	None
Entrust Phoenix Bond Fund	2004.1.1	2004.2.4~ 2004.3.22	759,803	2,908	N/A (sold in the market)	None
Entrust KIRIN Bond Fund	2004.1.1	2004.3.19	256,642	1,179	N/A (sold in the market)	None
Sheng Hua 5599 Bond Fund	2004.1.1	2004.2.13	293,494	632	N/A (sold in the market)	None
Prudential We-2 Fund	2004.1.1	2004.1.29~ 2004.2.4	264,261	375	N/A (sold in the market)	None
United Investment Bond Fund	2004.1.1	2004.1.9~ 2004.2.4	147,687	95	N/A (sold in the market)	None
President Home Run Fund	2004.1.1	2004.1.29	132,351	193	N/A (sold in the market)	None
Fuh-Hwa Bond Fund	2004.1.1	2004.3.23~ 2004.4.19	155,336	818	N/A (sold in the market)	None

IV | Fund Utilization Plans and Status

1. Plan
2. Implementation Status

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

European Convertible Bond issued in 2003

4-1 Plan

4-1-1 Government Approval Date and Document Number: Securities and Futures Commission Document Number 0910156720 dated 2002/11/28

4-1-2 Capital Required: NT$4,015,800,000

4-1-3 Purpose: For the use of network expansion

4-1-4 Plan and Progress:

Unit: NT$' 000

Plan	*Expected Completion Date*	*Capital Required*	*Forecasted Capital Expenditure 2003*			
			Q1	*Q2*	*Q3*	*Q4*
Network Expansion	2003/12/31	4,015,800	923,634	1,325,214	1,325,214	441,738

4-1-5 Date of disclosing the information onto M.O.P.S (Market Observation Post System) of Taiwan Security Exchange website: January 28, 2003

4-2 Implementation Status

Unit: NT$' 000

Plan	*Implementation Status (Up to 2004 Q1)*			*Reasons for schedule ahead / behind and adjustment plan*
Network Expansion	Capital Expenditure	Forecast	4,015,800	The capital expenditure plan and network completion date were modified due to the delay of the network construction progress.
		Actual	2,248,846	
	Progress (%)	Forecast	100.00%	
		Actual	56.00%	

V | *Financial Information*

1. Condensed Financial Statement for the Past 5 Years
2. Financial Analysis for the Recent Years
3. 2003 Supervisors' Report
4. 2003 Independent Auditors' Report, Financial Statements and Notes
5. 2003 Independent Auditors' Report, Consolidated Financial Statements and Notes
6. Financial Condition and Impact of the Company and Affiliates
7. Financial Forecast and Achievements in 2002 and 2003

1. Condensed Financial Statement for the Past 5 Years

1-1 Condensed Balance Sheet

Unit: NT$'000

Item / Year		Financial Information In Recent Years (Note 1)					
		1999	2000	2001	2002	2003	2004 Q1
Current Assets		4,145,103	11,110,863	9,253,268	8,537,035	10,767,793	10,560,793
Investments in Shares of Stock		--	82,191	1,078,952	8,223,198	21,641,987	41,074,391
Properties		21,312,982	33,934,139	40,695,530	40,120,073	37,796,898	36,014,277
Other Assets		595,684	1,146,872	1,782,827	1,912,536	1,225,601	1,422,099
Total Assets		26,053,769	46,274,065	52,810,577	58,792,842	71,432,279	89,071,560
Current Liabilities	Before Distribution	4,529,962	9,210,154	8,975,301	9,273,638	10,624,554	18,203,987
	After Distribution	4,779,659	9,213,790	11,045,102	12,482,005	(note 2)	-
Long-term Liabilities		4,444,549	7,207,678	8,473,620	9,345,839	17,557,378	9,674,572
Other Liabilities		3,086,741	4,232,173	3,078,044	2,122,857	220,119	236,500
Total Liabilities	Before Distribution	12,061,252	20,650,005	20,526,965	20,742,334	28,402,051	28,115,059
	After Distribution	12,310,949	20,653,641	22,596,766	23,950,701	(note 2)	-
Capital Stocks		11,370,000	14,000,000	18,900,000	23,058,000	26,977,860	26,977,860
Capital Surplus		2,345,000	7,556,572	6,156,572	5,996,658	5,973,600	14,455,981
Retained Earnings	Before Distribution	277,517	4,067,488	7,223,136	8,992,752	10,075,716	12,584,483
	After Distribution	27,820	563,852	1,184,335	1,887,583	(note 2)	-
Cumulative Translation Adjustment		--	--	3,904	3,098	3,052	2,945
Total Share-holders' Equity	Before Distribution	13,992,517	25,624,060	32,283,612	38,050,508	43,030,228	60,956,501
	After Distribution	13,742,820	25,620,424	30,213,811	34,842,141	(note 2)	-

Note 1: The financial Statements for 1999-2003 have been audited. The one for the first quarter of 2004 have been reviewed.

Note 2: The proposal of 2003 earning distribution has not been approved in the shareholders' meeting.

1-2 Condensed Income Statement

Unit: NT$'000

Item / Year	Financial Information In Recent Years (Note 1)					
	1999	2000	2001	2002	2003	2004 Q1
Operating Revenues	18,618,237	32,180,516	34,544,355	34,478,035	37,067,163	9,813,028
Gross Profit	9,378,291	18,315,893	18,821,226	17,296,689	18,456,708	4,976,136
Operating Income	2,027,799	3,939,095	6,586,242	7,916,320	8,450,666	2,375,813
Non-operating Income	242,317	215,023	287,153	174,313	303,918	1,198,834
Non-operating Expenses and Losses	266,905	231,532	483,665	416,751	665,481	123,352
Income before Income Tax from Operating business	2,003,211	3,922,586	6,389,730	7,673,882	8,089,103	3,451,295
Net Income from Operating business	1,635,236	4,039,668	6,659,284	7,808,417	8,188,133	3,330,500
Net Income from Discontinued Business	--	--	--	--	--	--
Abnormal Net Income	--	--	--	--	--	--
Accumulated number from accounting policy changes	--	--	--	--	--	--
Net Income	1,635,236	4,039,668	6,659,284	7,808,417	8,188,133	3,330,500
Earning per Share in NT$ (Note 2)	0.72	1.69	2.47	2.89	3.04	0.98

Note 1: The financial Statements for 1999-2003 have been audited. The one for the first quarter of 2004 have been reviewed.

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

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

Year	*Audit Firm*	*Auditors' Name*	*Opinion*
1999	TN Soong & Co.	Clark C. Chen, Victor Wang	Unqualified opinion
2000	TN Soong & Co.	Clark C. Chen, Victor Wang	Unqualified opinion
2001	TN Soong & Co.	Clark C. Chen, Edward Y. Way	Unqualified opinion
2002	TN Soong & Co.	Clark C. Chen, Edward Y. Way	Unqualified opinion
2003	Deloitte and Touche Co.	Clark C. Chen, Edward Y. Way	Unqualified opinion

Reason of Auditor change: Due to the internal job adjustment and arrangement in TN Soong & Co. in June 2001, auditor Victor Wang was placed with Edward Y. Way.

2. Financial Analysis for the Recent Years

Item (Note 3)		*Year*	*Financial Information In Recent Years (Note 1)*					
			1999	*2000*	*2001*	*2002*	*2003*	*2004 Q1*
Financial Structure	Debt to Asset Ratio (%)		46.29	44.63	38.87	35.28	39.76	31.56
	Long-term Funds to Fixed Assets Ratio (%)		86.51	96.75	100.15	118.14	160.30	196.12
Liquidity Analysis	Current Ratio (%)		91.50	120.64	103.10	92.06	101.35	58.01
	Quick Ratio (%)		75.20	106.09	87.12	66.04	78.10	41.35
	Times Interest Earned (times)		15.13	31.15	27.69	26.23	26.59	38.90
Operating Perfor-mance	Accounts Payable Turnover (times)		8.94	6.53	5.68	8.34	9.42	9.93
	Average Collection Days (days)		40.82	55.93	64.23	43.79	38.74	36.74
	Inventory Turnover (times)		7.00	14.80	4.72	2.23	3.82	3.91
	Inventory Turnover Days		52.16	24.67	77.26	163.68	95.64	93.37
	Accounts Payable Turnover (times)		3.13	5.36	3.88	2.61	3.19	2.76
	Fixed Assets Turnover (times)		0.87	0.95	0.85	0.86	0.98	1.09
	Total Assets Turnover (times)		0.71	0.70	0.65	0.59	0.52	0.44
Profi-tability Analysis	Return on Assets (%)		8.14	11.44	13.80	14.40	12.94	16.94
	Return on Equity (%)		14.02	20.39	23.00	22.20	20.20	25.62
	As % of Capital Stock	Operating Income	17.83	28.14	34.85	34.33	31.32	35.23
		Income before Income Tax	17.62	28.02	33.81	33.28	29.98	51.17
	Net Income Ratio (%)		8.78	12.55	19.28	22.65	22.09	33.94
	EPS in NT$ (Note 2)		0.72	1.69	2.47	2.89	3.04	0.98
Cash Flow	Cash Flow Ratio (%)		104.03	45.99	146.01	165.27	134.26	80.67
	Cash Flow Equivalent Ratio (%)		45.14	33.62	55.38	69.20	67.88	80.02
	Cash Reinvestment Ratio (%)		19.25	9.25	23.87	20.08	13.23	11.35
Leverage Ratio	Operating Leverage (times)		2.97	2.29	2.00	1.99	3.08	1.92
	Financial Leverage (times)		1.08	1.03	1.04	1.04	1.04	1.04

Note 1: The financial Statements for 1999-2003 have been audited. The one for the first quarter of 2004 have been reviewed.

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

Note 3: The formulas for the above table:

1. Financial Structure

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

(2) Long-term Funds to Fixed Assets Ratio = (Total Shareholders' 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 Income Tax and Interest Expenses) / Interest Expense

3. Operating Performance

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

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

(3) Inventory Turnover = Costs of Good Sold / Average Turnover

(4) Inventory Turnover Days = 365 / Inventory Turnover

(5) Accounts Payable Turnover = Costs of Good 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 Expense × (1－Tax Rate)]/Average Total Assets

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

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

(4) Earning per Share = (Net Income－Preferred Stock Dividend) / 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 Flow from Operating Activities －Cash Dividends) / (Gross Fixed Assets ＋Long-term Investment＋Other Assets＋Working Capital)

6. Leverage Ratio

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

(2) Financial Leverage = Operating Income / (Operating Income－Interest Expenses)

3. 2003 Supervisors' Report

Apr. 12, 2004

The Board of Director have prepared and submitted to us the Company's 2003 Business Report, the Proposal for Profit Distribution, and the Financial Statements audited by the CPAs of Deloitte & Touche 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

4. 2003 Independent Auditors' Report, Financial Statements and Notes

English Translation of a Report Originally Issued in Chinese

Independent Auditor's 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, 2003 and 2002 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 Rules Governing Auditing and Certification 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 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Also, we have audited the consolidated financial statements of Far EasTone Telecommunications Co., Ltd. and subsidiaries as of December 31, 2003 and 2002 and have issued an unqualified opinion.

February 3, 2004

Notice to Readers

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

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

	2003		2002	
ASSETS	*Amount*	%	*Amount*	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 2,868,156	4	$ 2,238,342	4
Accounts receivable-net of allowance for doubtful accounts of $586,957 in 2003 and $328,990 in 2002 (Note 2)	3,735,277	5	3,216,577	6
Inventories-net (Notes 2 and 4)	801,100	1	656,014	1
Prepaid expenses (Notes 2 and 14)	1,668,992	2	1,756,628	3
Other receivables-related parties (Note 14)	258,144	1	23,662	-
Deferred income tax assets-current (Notes 2 and 13)	1,392,724	2	605,195	1
Other current assets (Note 16)	43,400	-	40,617	-
Total current assets	10,767,793	15	8,537,035	15
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 5)				
Equity method	21,576,987	30	8,223,198	14
Prepayment for investments	65,000	-	-	-
	21,641,987	30	8,223,198	14
PROPERTIES (Notes 2, 6 and 14)				
Cost				
Land	952,504	1	153,004	-
Buildings and equipment	1,698,803	3	640,102	1
Computer equipment	6,284,316	9	5,525,062	10
Operating equipment	48,644,499	68	45,244,432	77
Office equipment	772,482	1	776,534	1
Leasehold improvements	1,331,900	2	1,687,886	3
Miscellaneous equipment	54,834	-	54,802	-
Total cost	59,739,338	84	54,081,822	92
Less-accumulated depreciation	24,388,503	34	17,386,742	30
	35,350,835	50	36,695,080	62
Construction in progress and advances related to acquisition of equipment	2,446,063	3	3,424,993	6
Net properties	37,796,898	53	40,120,073	68
OTHER ASSETS				
Properties not currently used in operations-net (Note 2)	87,500	-	89,800	-
Refundable deposits (Note 14)	241,718	1	373,279	1
Deferred income tax assets-noncurrent (Notes 2 and 13)	813,904	1	1,419,072	2
Miscellaneous (Note 2)	82,479	-	30,385	-
Total other assets	1,225,601	2	1,912,536	3
TOTAL ASSETS	$ 71,432,279	100	$ 58,792,842	100

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

		2003			2002	
LIABILITIES AND STOCKHOLDERS' EQUITY		*Amount*	%		*Amount*	%
CURRENT LIABILITIES						
Short-term debts (Note 7)	$	100,000	-	$	-	-
Notes payable		30,670	-		28,944	-
Accounts payable		1,043,206	1		665,068	1
Payables to related parties (Note 14)		224,639	-		660,229	1
Income tax payable (Notes 2 and 13)		24,083	-		137,095	-
Accrued expenses		2,635,127	4		2,852,825	5
Payables related to acquisition of properties		1,808,776	3		2,120,178	4
Guarantee deposits received-current		1,502,750	2		-	-
Unearned revenues (Note 2)		1,859,688	3		2,050,310	4
Current portion of long-term liabilities (Notes 6 and 8)		1,226,000	2		616,000	1
Other current liabilities (Notes 2, 6 and 14)		169,615	-		142,989	-
Total current liabilities		10,624,554	15		9,273,638	16
LONG-TERM LIABILITIES-NET OF CURRENT PORTION						
2410 Long-term bonds payable (Notes 2, 6 and 8)		13,270,436	19		5,476,000	9
Long-term debts payable (Notes 6 and 8)		4,286,942	6		3,869,839	7
Total long-term liabilities		17,557,378	25		9,345,839	16
OTHER LIABILITIES						
Accrued pension cost (Notes 2 and 11)		169,278	-		131,130	-
Guarantee deposits received-noncurrent		50,841	-		1,991,727	3
Total other liabilities		220,119	-		2,122,857	3
Total liabilities		28,402,051	40		20,742,334	35
STOCKHOLDERS' EQUITY						
Capital stocks-$10 par value Authorized-3,360,000 thousand shares						
Issued-2,697,786 thousand shares in 2003 and 2,305,800 thousand shares in 2002		26,977,860	38		23,058,000	39
Capital surplus						
Paid-in capital in excess of par value		5,944,514	8		5,967,572	10
From investments in shares of stock		29,086	-		29,086	-
Total capital surplus		5,973,600	8		5,996,658	10
Retained earnings						
Legal reserve		1,878,488	3		1,097,646	2
Unappropriated earnings		8,197,228	11		7,895,106	14
Total retained earnings		10,075,716	14		8,992,752	16
Cumulative translation adjustments		3,052	-		3,098	-
Total stockholders' equity		43,030,228	60		38,050,508	65
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	71,432,279	100	$	58,792,842	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

	2003		2002	
	Amount	*%*	*Amount*	*%*
OPERATING REVENUES (Notes 2 and 14)				
Sales of cellular phone equipment and accessories	$ 2,597,873	7	$ 1,628,644	5
Less-sales returns and allowances	52,122	-	3,395	-
Net sales	2,545,751	7	1,625,249	5
Service revenues	34,515,474	93	32,845,381	95
Other	5,938	-	7,405	-
Total operating revenues	37,067,163	100	34,478,035	100
OPERATING COSTS (Notes 2, 11 and 14)				
Cost of sales	2,822,662	8	2,124,536	6
Cost of services	15,787,793	42	15,056,810	44
Total operating costs	18,610,455	50	17,181,346	50
GROSS PROFIT	18,456,708	50	17,296,689	50
OPERATING EXPENSES (Notes 2, 11 and 14)				
Marketing	6,106,191	16	5,657,771	16
General and administrative	3,582,399	10	3,448,265	10
Research and development	317,452	1	274,333	1
Total operating expenses	10,006,042	27	9,380,369	27
OPERATING INCOME	8,450,666	23	7,916,320	23
NONOPERATING INCOME				
Management service revenue (Note 14)	181,996	1	20,952	-
Interest (Note 14)	42,920	-	16,841	-
Foreign exchange gains-net (Note 2)	38,469	-	-	-
Reversal of allowance for losses on inventories (Note 2)	-	-	33,039	-
Other (Note 14)	40,533	-	103,481	-
Total nonoperating income	303,918	1	174,313	-
NONOPERATING EXPENSES AND LOSSES				
Equity in investees' net losses (Notes 2 and 5)	344,626	1	54,034	-
Interest (Notes 2, 6 and 16)	316,164	1	304,193	1
Other	4,691	-	58,524	-
Total nonoperating expenses losses	665,481	2	416,751	1
INCOME BEFORE INCOME TAX BENEFIT	8,089,103	22	7,673,882	22
INCOME TAX BENEFIT (Notes 2 and 13)	99,030	-	134,535	1
NET INCOME	$ 8,188,133	22	$ 7,808,417	23

	Income Before Income Tax	*Net Income*	*Income Before Income Tax*	*Net Income*
EARNINGS PER SHARE (Note 10)				
Primary	$ 3.00	$ 3.04	$ 2.84	$ 2.89
Diluted	$ 2.92	$ 2.95	$ 2.84	$ 2.89

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars)

	Capital Stock Issued		*Capital Surplus (Notes 2 and 9)*			*Retained Earnings (Note 9)*				
	Shares (thousands)	*Amount*	*Paid-in capital in excess of par value*	*From investments in shares of stock*	*total*	*Legal reserve*	*Unappropriated earnings*	*total*	*Cumulative Translation Adjustments (Note 2)*	*Total Stockholders' Equity*
BALANCE, JANUARY 1, 2002	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
Appropriation 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 dividends-10%	-	-	-	-	-	-	(1,890,000)	(1,890,000)	-	(1,890,000)
Capitalization of capital surplus-1%	18,900	189,000	(189,000)	-	(189,000)	-	-	-	-	-
Effect of change in ownership percentage due to investee's issuance of capital stock for cash	-	-	-	29,086	29,086	-	-	-	-	29,086
Net income in 2002	-	-	-	-	-	-	7,808,417	7,808,417	-	7,808,417
Translation adjustments	-	-	-	-	-	-	-	-	(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
Appropriation of 2002 earnings										
Legal reserve	-	-	-	-	-	780,842	(780,842)	-	-	-
Bonus to employees	-	-	-	-	-	-	(140,551)	(140,551)	-	(140,551)
Remuneration to directors and supervisors	-	-	-	-	-	-	(70,276)	(70,276)	-	(70,276)
Cash dividends-13%	-	-	-	-	-	-	(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividends-16.9%	389,680	3,896,802	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus-0.1%	2,306	23,058	(23,058)	-	(23,058)	-	-	-	-	-
Net income in 2003	-	-	-	-	-	-	8,188,133	8,188,133	-	8,188,133
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, DECEMBER 31, 2003	2,697,786	$ 26,977,860	$ 5,944,514	$ 29,086	$ 5,973,600	$ 1,878,488	$ 8,197,228	$ 10,075,716	$ 3,052	$ 43,030,228

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	2003	*2002*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,188,133	$ 7,808,417
Adjustments to reconcile net income to net		
cash provided by operating activities		
Depreciation and amortization	7,070,353	6,364,881
Provision for doubtful accounts	416,689	132,058
Provision (reversal of allowance) for losses on inventories	4,691	(33,039)
Equity in investees' net losses	344,626	54,034
Loss (gain) on disposal of properties-net	(8,379)	42,675
Accrued pension cost	38,148	33,816
Deferred income taxes	(182,361)	(77,355)
Interest premium on convertible bonds	33,886	-
Amortization of issuance cost of convertible bonds	43,329	-
Changes in operating assets and liabilities		
Decrease (increase) in Accounts receivable	(935,389)	765,793
Inventories	(149,777)	102,947
Prepaid expenses	87,636	(1,062,954)
Other receivables-related parties	(157,066)	124,115
Other current assets	(2,791)	14,482
Increase (decrease) in Notes payable	1,726	371
Accounts payable	378,138	160,909
Payables to related parties	(435,590)	40,338
Income tax payable	(113,012)	(534,498)
Accrued expenses	(217,698)	491,666
Unearned revenues	(190,622)	1,031,436
Other current liabilities	41,280	(133,259)
Net cash provided by operating activities	14,255,950	15,326,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	(13,698,461)	(7,170,000)
Prepayment for investments	(65,000)	-
Acquisition of properties	(5,222,208)	(5,135,792)
Proceeds from sale of properties	96,570	2,538
Decrease in refundable deposits	131,561	11,157
Increase in other assets	(95,634)	-
Net cash used in investing activities	(18,853,172)	(12,292,097)

(Continued)

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debts	$ 100,000	$ -
Increase (decrease) in long-term debts	1,027,103	(4,771,781)
Proceeds from issuance of long-term bonds	7,760,550	4,200,000
Bonus paid to employees and directors	(224,941)	(167,504)
Cash dividends paid	(2,997,540)	(1,890,000)
Decrease in guarantee deposits received	(438,136)	(974,908)
Net cash provided by (used in) financing activities	5,227,036	(3,604,193)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	629,814	(569,457)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,238,342	2,807,799
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,868,156	$ 2,238,342
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	$ 219,524	$ 182,030
Income tax paid	$ 196,343	$ 493,980
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 1,226,000	$ 616,000
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 4,910,266	$ 5,794,774
Decrease (increase) in payables related to acquisitions of prperties	311,402	(702,756)
Decrease in capital lease obligations	540	43,774
CASH PAID FOR ACQUISITION OF PROPERTIES	$ 5,222,208	$ 5,135,792
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	$ 173,978	$ 3,736
Increase in receivables from properties sold	(77,408)	(1,198)
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	$ 96,570	$ 2,538

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND OPERATIONS

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 (now known as GreTai Securities Market) since December 10, 2001. The Company provides wireless communications, leased-circuit services, 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"). In October 2002, other principal stockholders, the AT&T Wireless Group and its affiliates transferred to third parties all the Company stocks they owned.

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 (DGT) of the Republic of China (ROC). These licenses allow the Company to provide services for 15 years from 1997, with an annual license fee at 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 paid-in capital. 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. In addition, the Company is licensed to provide type I-local/domestic long-distance land cable leased-circuit services for 15 years from January 2003, with an annual license fee at 1% of leased circuit service revenues.

The Company had 2,366 and 2,294 employees as of December 31, 2003 and 2002, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC.

The Company uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, depreciation, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

The Company's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include non-restricted cash or cash equivalent as well as items expected to be converted into cash or used within one year. Current liabilities are obligations expected to be settled within one year. All other assets and liabilities are classified as noncurrent.

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

An allowance for doubtful accounts is provided on the basis of a review of the 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 moving-weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in which the Company owns at least 20% of investees' common stocks or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately to the Company's share in the investee's net income or net loss. If an investee issues additional shares and the Company acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Company's equity in its investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Any cash dividends received are recognized as a reduction of 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.

The carrying values of the investments with no quoted market price is reduced to recognize the other than temporary decline in its value, with the corresponding losses charged to current income.

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. Properties still being used beyond their service lives are depreciated over their newly estimated service lives.

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.

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
Miscellaneous equipment	5-8

Upon retirement or other 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.

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.

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, international simple resale services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees and leased-circuit service revenues 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. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the start of the contract, the excess is charged to marketing expense. 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.

Operating revenues are measured at fair values based on the prices negotiated between the Company and the customers. Since the future values of operating revenues resulting from receivables within one year approximate the fair value of these receivables, the fair values are not recalculated based on the pro forma interest rate 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.

Pension Costs

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

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.

Convertible Bonds

The Company issued overseas convertible bonds at par value and without any discount or premium. The Company gave the bondholders the right to redeem the convertible bonds in cash at par value plus the interest-premium on a specific date. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized by using the interest method and should be recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. The direct and necessary costs (included in other assets-miscellaneous) of issuing convertible bonds should be amortized using the straight-line method over the same period as interest-premium.

When the bondholder exercises the conversion option, the Company uses the book-value approach. The Company should write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The amount of the common stock exchange certificate (capital stock) should be valued as the net written-off carrying amount, and the amount in excess of the par value of the common stock exchange certificate (capital stock) should be recognized as additional paid-in capital.

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carry forwards and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred income tax assets that are not certain to be realized. Deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the 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 according to the expected realization date of the temporary difference.

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

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

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

Foreign-currency Transactions

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

On 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-method 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. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

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 commitment when the hedged transactions occur. But if the contract amount exceeds the foreign-currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current year.

On the balance sheet 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 an asset or a liability.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2003.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2003	2002
Cash		
Cash on hand	$ 7,334	$ 7,221
Checking and demand deposits	1,312,659	563,548
Time deposits-interest of 0.65% to 1.12%	1,548,163	-
	2,868,156	570,769
Cash equivalents		
Commercial paper purchased under agreements to resell-interest of 1.375% to 1.950%	-	1,667,573
	$ 2,868,156	$ 2,238,342

4. INVENTORIES-NET

	December 31	
	2003	2002
Cellular phone units	$ 754,715	$ 493,002
SIM cards	47,827	164,348
Cellular phone accessories	11,950	7,365
	814,492	664,715
Less: Allowance for losses	13,392	8,701
	$ 801,100	$ 656,014

Inventory insurance as of December 31, 2003 amounted to about $525,478.

5. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2003		2002	
	Carrying Value	% of OwnerShip	Carrying Value	% of OwnerShip
Equity method				
Yuan-Ho Telecommunications Co., Ltd.	$ 11,698,382	100.00	$ -	-
Yuan-Ze Telecommunications Co., Ltd.	9,870,087	100.00	8,212,856	80.71
E. World (Holdings) Ltd.	8,518	19.00	10,342	19.00
	21,576,987		8,223,198	
Prepayment for investments				
Far Eastern Electronic Toll Collection Co., Ltd.- Preparatory Office	65,000		-	
	$ 21,641,987		$ 8,223,198	

On October 7, 2003, the Company signed a merger agreement with Yuan-Ho Telecommunications Co., Ltd. (it obtained approval from the Department of Commerce under the Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. (the "new KGT") on January 19, 2004) and KG Telecommunications Co., Ltd. (the "former KGT"). The agreement was approved by the three companies' stockholders on November 25, 2003. The merger involves two steps. The first step is to merge the former KGT with the new KGT, with the new KGT as the surviving company. On January 1, 2004, the new KGT paid $11,698,461 in cash and issued 806,567 thousands of new shares to the stockholders of the former KGT. (In 2003, the Company incorporated the new KGT as a wholly owned subsidiary, and the new KGT issued 526,431 thousand shares amounting to $11,698,461 for the purpose of merger with the former KGT.) After the first-step merger, the capital of the new KGT increased to $13,329,979 and the equity of the new KGT owned by the Company will be temporarily diluted to 39.49%. Another principal stockholders of the new KGT will be the original stockholders of the former KGT with ownership of 60.51% as of January 1, 2004. The issuance of new shares for capital increase relating to the merger was approved by MOEA on January 19, 2004.

The second step is for the Company to swap shares with the new KGT. Then, the stockholders of the new KGT will exchange 1 share of the Company for 1 share of the new KGT. The share swap agreement will be submitted to the special stockholders' meetings of the Company and of the new KGT on February 18, 2004 and the proposed date of the share swap is April 29, 2004.

After the completion of the two-step merger, the new KGT will be a wholly owned subsidiary of the Company.

Under the merger agreement, the Company and the new KGT delivered all the 526,431 thousand shares and the cash consideration of $11,698,461 on January 1, 2004 to the specified custodian to ensure the implementation of the two-step merger. On the date of the share swap, these shares and cash proceeds will be returned to the Company and the stockholders of the former KGT, respectively.

In March 2002, a subsidiary, Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze), obtained a 3G (third-generation wireless communications system) concession in February 2002 through a bidding process and acquired additional shares of stock with an aggregate par value of $9,170,000. The Company subscribed for a portion of these shares (aggregate par value of $7,170,000), thus diluting its equity to 80.71%. For the integration of the telecommunications business and operation efficiency, the Company bought all the other shares of Yuan-Ze from other stockholders for $2,000,000 on December 16, 2003. Thus, Yuan-Ze became a wholly owned subsidiary of the Company.

On December 22, 2003, the Company's Board of Directors approved the merger of the Company with Yuan-Ze, with the Company as the surviving company. The proposed date for the merger is May 10, 2004.

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 amounts recognized as equity in the net income or net loss of E. World (Holdings) in 2003 and 2002 were based on the net income or net loss of E. World (Holdings) in 2002 and 2001, respectively, because the financial statements of E. World (Holdings) could not be timely obtained.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, the Company and third parties will incorporate a joint venture, named Far Eastern Electronic Toll Collection Co., Ltd. Under the joint venture agreement, the Company contributed capital of $65,000, recorded as prepayment for investments in 2003.

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

6. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2003	*2002*
Buildings and equipment	$ 237,761	$ 105,147
Computer equipment	3,063,835	2,008,678
Operating equipment	20,015,576	14,392,327
Office equipment	449,549	333,993
Leasehold improvements	$ 578,898	$ 507,200
Miscellaneous equipment	42,884	39,397
	$ 24,388,503	$ 17,386,742

Depreciation amounted to $7,070,142 in 2003 and $6,364,020 in 2002.

Property insurance as of December 31, 2003 amounted to about $32,768,259.

b. The Company leased internet equipment with software (included in operating equipment) for three years, with total lease payments amounting to $35,686. The lease agreement qualified as a capital lease since (a) the value in 2000 of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) the Company had the option to buy all the leased equipment at a bargain price of NT$1.00 dollar only. The details of the lease as of December 31, 2002 are as follows:

	December 31, 2002
Total future lease payments	$ 5,452
Less-imputed interest expense	4,912
Less-current portion of leasepayable (included in other current liabilities)	540
Long-term obligations under capital lease	540
	$ -

The Company bought the internet equipment with software at the bargain price when the agreement expired in 2003.

c. Capitalized interest on properties was as follows:

	December 31	
	2003	*2002*
Total interest expense	$ 409,856	$ 479,238
Less-interest capitalized-interest at 2.48%-3.91% in 2003 and 3.76%-4.86% in 2002	93,692	175,045
Interest expense-net of amounts capitalized	$ 316,164	$ 304,193

d. Properties amounting to $4,669,921 and $10,288,389 had been pledged or mortgaged as collaterals as of December 31, 2003 and 2002, respectively.

7. SHORT-TERM DEBTS

The Company took unsecured bank loans at 1.4% interest, which are due in July 2004.

8. LONG-TERM LIABILITIES

	December 31, 2003		
	Due Within One Year	*Due after One Year*	*Total*
Bonds			
Overseas unsecured convertible bonds	$ -	$ 3,906,550	$ 3,906,550
Interest premium-overseas unsecured convertible bonds	-	33,886	33,886
Domestic secured bonds	616,000	660,000	1,276,000
Domestic unsecured bonds-1st	-	4,200,000	4,200,000
Domestic unsecured bonds-2nd	-	1,470,000	1,470,000
Domestic unsecured bonds-3rd	-	3,000,000	3,000,000
	616,000	13,270,436	13,886,436
Long-tem debts			
Commercial paper	610,000	686,942	1,296,942
Unsecured bank loans	-	300,000	300,000
Secured bank loans	-	3,300,000	3,300,000
	610,000	4,286,942	4,896,942
	$ 1,226,000	$ 17,557,378	$ 18,783,378

	December 31, 2002		
	Due Within One Year	Due after One Year	Total
Bonds			
Domestic unsecured bonds	$ -	$ 4,200,000	$ 4,200,000
Domestic secured bonds	616,000	1,276,000	1,892,000
	616,000	5,476,000	6,092,000
Long-term debts			
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
	-	3,869,839	3,869,839
	$ 616,000	$ 9,345,839	$ 9,961,839

a. Overseas unsecured convertible bonds

Five-year unsecured zero coupon convertible bonds, with total face value of US$115,000 thousand, were issued on February 19, 2003. The bonds are listed on the Luxembourg Stock Exchange. The repayment or conversion terms of the bonds are as follows:

1) Company's redemption of the bonds upon maturity at 105.114% of their face value;
2) Redemption at the option of the bondholder at 102.015% of their face value on February 19, 2005;
3) The right of each bondholder to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The conversion price on December 31, 2003 was NT$30.73, subject to adjustment for shares change. As of December 31, 2003, no bonds had been converted into shares.
4) Redemption at the Company's option, at a specific price under certain conditions, starting February 19, 2006.

b. Domestic secured bonds

Five-year domestic secured bonds were issued at par value on November 30, 2000. The total face value of the bonds is $2,200,000, with face value of $1,000 and 5.06% interest, compounded semiannually. Starting on December 1, 2002 and every six months thereafter, the Company should redeem the bonds for up to 14% to 15% of their face value.

c. Domestic unsecured bonds-1st

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

d. Domestic unsecured bonds-2nd

Five-year domestic unsecured bonds were issued at par value on March 28, 2003. The total face value of the bonds is $1,470,000, with face value of $1,000 and interest rate of 2.6% in the first year and 3.2% minus USD six-month LIBOR rate from the second year to maturity, payable semiannually. The Company should redeem the full amount when the bonds become due in 2008.

e. Domestic unsecured bonds-3rd

Three-year, four-year and five-year domestic unsecured bonds were issued at par value on December 12, 2003. The total face value of the bonds is $3,000,000, with face value of $5,000 and annual interest rates of 1.83% (three-year bonds) and 1.92% (four-year bonds). The interest rate for five-year bonds is 5.2% minus USD six-month LIBOR rate if the LIBOR rate is greater than 1.05%; otherwise, the interest is at the LIBOR rate plus 1%, payable semiannually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

f. Commercial paper

1) Commercial paper within one-year maturity bears variable interest rates ranging from (a) 0.90% to 0.95%, which amounted to $1,296,942 as of December 31, 2003, and (b) 1.95% to 2.15%, which amounted to $999,893 as of December 31, 2002. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by the Company through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will decrease by 14% to 15% every six months.

2) Commercial paper amounting to $599,946, with interest of 1.5% to 1.7% as of December 31, 2002, was repaid in January 2003. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by the Company through June 25, 2004.

g. Domestic unsecured bank loans

As of December 31, 2003, the Company had a $300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

As of December 31, 2002, the Company had bank loans of $200,000 at 2.90% to 3.33% interest. The loan is repayable starting in 2004 and every six months thereafter, with each payment equal to 16.5% to 17.0% of the principal; the final payment is due on May 17, 2007. The Company repaid this loan in March 2003.

h. Domestic secured bank loans

The Company had a loan from a consortium of banks, with interest rates at 1.982% and 2.641% as of December 31, 2003 and 2002, respectively. 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.

i. The loan from Shin Kong Life Insurance Co. was secured by a guarantee issued by a bank consortium. The interest rate on the loan was 4.725% as of December 31, 2002. The principal and accumulated interests on the loan will be due on January 25, 2005. The Company repaid the loan on March 21, 2003 and paid a compensation charge of $23,559 for early settlement.

As of December 31, 2003, the Company had unused long-term and short-term credit lines of about $1,034,000 and $12,100,000, respectively, which are available for long-term and short-term credit facilities.

9. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, paid-in capital in excess of par value may 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, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. The reserve can only be used to offset a deficit, or when the reserve reaches 50% of the Company's paid-in capital 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 appropriation of the 2002 and 2001 earnings was approved by the stockholders on May 23, 2003 and June 25, 2002, respectively.

	Appropriation		*Divident Per Share (Dollars)*	
	2002	*2001*	*2002*	*2001*
Legal reserve	$ 780,842	$ 665,928		
Bonus to employees-cash	140,551	119,867		
Remuneration to directors and supervisors-cash	70,276	59,934		
Cash dividend	2,997,540	1,890,000	$ 1.30	$ 1.00
Stock dividend	3,896,802	3,969,000	1.69	2.10

Had the above bonus to employees and directors been charged to net income in 2002 and 2001, the primary earnings per share for 2002 and 2001 (after tax), based on the weighted-average number of outstanding shares of 2,305,800 and 1,890,000 thousand, respectively, would have decreased from NT$3.39 to NT$3.29 and from NT$3.52 to NT$3.43, respectively.

The appropriation of the 2003 earnings of the Company had not been approved by the board of directors and stockholders as of February 3, 2004, 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.

10. EARNINGS PER SHARE

The numerators and denominators used in earnings per share (EPS) calculation were as follows:

	Amount (Numerator)		*Capital Stock (Denominator) (in Thousand Shares)*	*Earnings Per Share (Dollars)*	
	Income Before Income Tax	*Net Income*		*Income Before Income Tax*	*Income*
For the year ended December 31, 2003					
Primary EPS					
Net income	$ 8,089,103	$ 8,188,133	2,697,786	$ 3.00	$ 3.04
Effect of dilutive potential common stocks					
Convertible bonds	77,215	78,160	101,323		
Diluted EPS					
Net income, including the effect of dilutive potential common stocks	$ 8,166,318	$ 8,266,293	2,799,109	$ 2.92	$ 2.95
For the year ended December 31, 2002					
Primary and diluted EPS					
Net income	$ 7,673,882	$ 7,808,417	2,697,786	$ 2.84	$ 2.89

For the year ended December 31, 2002, the earnings per share retroactively adjusted for the 2002 stock dividend declared in 2003 decreased from $3.33 (before tax) to $2.84 and from $3.39 (after tax) to $2.89.

11. PENSION PLAN

The Company makes monthly contributions, 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 on the pension plan is as follows:

a. Pension cost consisted of:

	2003	2002
Service cost	$ 63,200	$ 61,395
Interest cost	8,880	8,689
Expected return on pension assets	(4,752)	(5,463)
Amortization	1,213	676
Net pension cost	$ 68,541	$ 65,297

b. Net pension costs of 2003 and 2002 were as follows:

	2003	2002
Actuarial net pension cost	$ 68,541	$ 65,297
Less: Included in properties	2,501	2,775
Included in other receivables-related parties	346	231
Net pension cost (included in operating costs and expenses)	$ 65,694	$ 62,291

c. Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	December 31	
	2003	2002
Benefit obligation		
Vested benefit obligation	$ 2,915	$ 2,692
Non-vested benefit obligation	172,459	123,532
Accumulated benefit obligation	175,374	126,224
Additional benefits based on projected and future salaries	153,442	127,481
Projected benefit obligation	328,816	253,705
Fair value of plan assets	(152,469)	(120,163)
Unfunded projected benefit obligation	176,347	133,542
Unrecognized net transition obligation	(10,912)	(12,125)
Unrecognized pension gain	3,843	9,713
Accrued pension cost	$ 169,278	$ 131,130

d. Vested benefit amounts were as follows:	$ 3,507	$ 3,374

e. Actuarial assumptions were as follows:

	December 31	
	2003	2002
Discount rate used in determining present value	3.25%	3.5%
Future salary increase rate	3.25%	3.5%
Expected rate of return on plan asset	3.25%	3.5%

f. Fund changes were as follows:

	December 31 2003	December 31 2002
Beginning balance	$ 120,163	$ 93,922
Contributions	30,393	31,481
Earnings	1,913	2,371
Payments	-	(7,611)
Ending balance	$ 152,469	$ 120,163

12. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	2003		
	Operating Costs	*Operating Expenses*	*Total*
Employee expenses			
Salaries	$ 231,995	$ 1,305,637	$ 1,537,632
Insurance	15,200	94,395	109,595
Pension	3,571	62,123	65,694
Miscellaneous	10,432	102,982	113,414
Depreciation	5,935,882	1,134,260	7,070,142
Amortization	-	211	211
	$ 6,197,080	$ 2,699,608	$ 8,896,688

13. INCOME TAX BENEFIT

a. Reconciliation of imputed income tax on pretax income at statutory rates to current income tax payable is as follows:

	2003	*2002*
Income tax expense computed at statutory tax rate (25%)	$ 2,022,276	$ 1,918,470
Add (deduct) tax effects of		
Permanent differences	87,356	(1,472)
Temporary differences	119,342	48,430
Tax-exempt income	(2,060,530)	(1,431,780)
Unappropriated earnings tax	17,460	110,001
Investment tax credits	(159,264)	(506,131)
Income tax payable	$ 26,640	$ 137,518

The balances of income tax payable as of December 31, 2003 and 2002 were net of creditable income taxes of $2,557 and $423, respectively.

Net operating income 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:

	2003	2002
Income tax payable-current	$ 26,640	$ 137,518
Income tax benefit-deferred	(133,954)	(267,355)
Prior year's adjustment	5,214	(6,780)
Income tax expense on income subjected to a separate flat income Tax rate of 20%	3,070	2,082
Income tax benefit	($ 99,030)	($ 134,535)

c. Deferred income tax assets and liabilities as of December 31, 2003 and 2002 consisted of:

	December 31	
	2003	2002
Current		
Investment tax credits	$ 937,424	$ -
Provision for doubtful accounts	718,225	597,971
Employee welfare expense	-	4,500
Provision for losses on inventories	3,348	2,160
Unrealized exchange loss (gain)	(22,802)	548
Other	-	16
	1,636,195	605,195
Valuation allowance	(243,471)	-
	$ 1,392,724	$ 605,195
Noncurrent		
Investment tax credits	$ 321,421	$ 983,597
Depreciation resulting from the differences in estimated service lives of properties	432,008	348,175
Accrued pension cost	42,986	32,280
Accrued interest premium	8,562	-
Cumulative equity in the net loss of investees	8,927	55,020
	$ 813,904	$ 1,419,072

d. Integrated income tax information is as follows:

	December 31	
	2003	2002
Balance of imputation credit account (ICA)	$ 3,534	$ 11,951

The estimated ratio of the ICA balance as of December 31, 2003 to unappropriated earnings as of such date was 0.04%. When the dividends from the unappropriated earnings as of December 31, 2002 were distributed in 2003, the actual ratio used was 2.58%.

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 based on the prevailing ICA balance will be used for allocating tax credits to each stockholder.

Deferred income tax rate for 2003 and 2002 was 25%.

The unused investment tax credits as of December 31, 2003 are summarized as follows:

Statutes	*Items*	*Total Investment Tax Credits*	*Unused Investment Tax Credits*	*Year of Expiry*
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 582,722	$ 196,348	2004
		267,455	149,060	2005
		57,442	57,442	2007
Statute for Upgrading Industries	Research and development expenditures	699,533	699,533	2004
		587,938	43,592	2005
		304,206	39,660	2006
Statute for Upgrading Industries	Personnel training expenditures	41,543	41,543	2004
		19,629	19,629	2005
		12,038	12,038	2006
		$ 2,572,506	$ 1,258,845	

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

14. RELATED-PARTY TRANSACTIONS

The Company's related parties and relationships are as follows:

Related Party	*Nature of Relationship*
Yuan Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern International Leasing Corp. (FEILC)	Supervisor of the Company
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Far Eastern Textile Co., Ltd. (FETL)	Parent company of a major stockholder
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
AT&T Corp. (AT&T)	Parent company of AWS and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
Yuan-Ho Telecommunications Co., Ltd. (Yuan-Ho)	Subsidiary
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze)	Subsidiary
Far Eastern Technology Developmental Foundation (FETTDF)	Company's donation to the foundation's capital is over one third
Far Eastern Electronic Toll Collection Co., Ltd.-Preparatory Office (FETETC)	Will be an equity-method investee after it is established
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same major stockholder as that of the Company
Far Eastern International Bank	Same chairman
Asia Cement Co., Ltd.	Same chairman
Oriental Union Chemical Corporation	Same chairman
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd.	Same chairman
Oriental Institute of Technology	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same major stockholder as that of the Company

(Continued)

Related Party	*Nature of Relationship*
Ding Ding Hotel Co., Ltd.	Same chairman
Liquid Air Far East Co., Ltd.	Its chairman is the relative of the Company's chairman
Far Eastern Apparel Co., Ltd.	Same major stockholder as that of the Company
Yuan Ding Leasing Corp.	Same major stockholder as that of the Company
E.World (Holdings) Ltd.	Equity-method investee
Taipei Metro Properties Management	Same major stockholder as that of the Company

The Company's significant business transactions with the above parties are summarized as follows:

		2003		*2002*	
		Amount	*%*	*Amount*	*%*
During the year					
Operating revenues	a				
NCIC	b	$ 695,687	2	$ 683,115	2
Other	s	8,845	-	1,101	-
		$ 704,532	2	$ 684,216	2
Operating costs and expenses					
Service cost					
NCIC	b	$ 53,824	-	$ 3,328	-
Rental					
FEILC	c	$ 91,305	7	$ 189,063	14
FETL	d	54,895	4	56,238	4
YDC	e	2,092	-	2,383	-
FEDS	o	1,917	-	1,820	-
Other	s	3,639	-	3,971	1
		$ 153,848	11	$ 253,475	19
Management service fee					
AWS	f	$ 59,215	100	$ 82,166	100
Trademark license fee					
AT&T	g	$ -	-	$ 13,530	100
Research and development expense					
FETTDF	h	$ 22,971	66	$ 49,905	84
Service fee					
FETI	i	$ 66,418	99	$ -	-
Nonoperating income Management service revenue					
Yuan-Ze	j	$ 181,996	100	$ 20,952	100
Interest income					
Yuan-Ze	j	$ -	-	$ 454	1
Gain on disposal of properties					
NCIC	k	$ 64,646	772	$ -	-
Rental revenue					
NCIC	l	$ 3,663	9	$ 3,887	3
Other income					
NCIC	k	$ 7,400	18	$ -	-

(Continued)

		2003		2002	
		Amount	%	Amount	%
Acquisition of properties					
FEILC	c	$ 1,532,506	31	$ -	-
FETEC	m	73,576	1	780,673	14
NCIC	n	-	-	66,528	1
Other	s	-	-	28	-
		$ 1,606,082	32	$ 847,229	15
At end of year					
Prepaid expenses					
FEDS	o	$ 1,159	-	$ 475	-
YDC	e	1,030	-	776	-
FETL	d	753	-	738	-
FEILC	c	-	-	1,078	-
Other	s	1,339	-	618	-
		$ 4,281	-	$ 3,685	-
Other receivables-related parties					
Yuan-Ze	j	$ 70,838	27	$ 15,524	66
NCIC	k and p	87,768	34	-	-
FETI	i	17,410	7	-	-
Yuan-Ho	q	70,777	28	-	-
FETETC	r	11,189	4	-	-
AWS	f	-	-	8,138	34
Other	s	162	-	-	-
		$ 258,144	100	$ 23,662	100
Refundable deposits					
FEILC	c	$ 6,390	3	$ 145,785	39
YDC	e	908	-	832	-
Other	s	219	-	215	-
		$ 7,517	3	$ 146,832	39
Payables to related parties					
FETEC	m	$ 169,986	76	$ 464,438	70
NCIC	b	24,864	11	151,389	23
FETL	d	14,508	6	-	-
AT&T	g	-	-	15,014	2
Other	s	15,281	7	29,388	5
		$ 224,639	100	$ 660,229	100
Other current liabilities					
Other payable					
NCIC	p	$ -	-	$ 11,609	8

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

a. Operating revenues (such as service revenues and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.
b. 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 of service revenue and is included in payables to related parties.
c. Under operating lease agreements, the Company rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung under a contract with a term from February 2000 to June 2004; (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu from November 1999 to June 2004; and (c) vehicles.

   When the related contracts expire, the Company may either renew the contracts or buy the buildings or land at the following prices:

	Purchase Price
Neihu switch center	$ 130,000
Taichung land for switch center	106,050
Tainan office space	78,000
Kaohsiung office space	45,900
Xinzhu land for switch center	120,000

   The contract on renting office spaces in Neihu expired in April 2003. The board of directors approved the purchase of the land and buildings in Neihu for use as the Company's headquarters. The purchase amounting to $1,532,382 (without sales tax) was determined based on the appraisal report from real estate brokers on February 26, 2003. The title to the land and buildings was transferred to the Company by the end of April 2003.
d. The Company leases from FETL several parcels of the land and building spaces under contracts with terms 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.
e. The Company leased certain floors at The Mall from September 1999 to December 2005 from YDC.
f. 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.
g. The Company signed an agreement with AT&T Corp. in June 1997 to use AT&T's trademark for marketing, advertising and promotion purposes in the ROC. 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 in June 2002.
h. FETTDF researches telecommunications technology for the Company.
i. The Company signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed on with the Company. The advances to FETI were treated as other receivable and were collected depending on FETI's financial status.
j. The Company renders management service and gives advances to Yuan-Ze for its daily operating expenditures during its development stage. In addition, the Company provided short-term financing to Yuan-Ze for its 3G license fee payment. The related details are as follows:

	2002		
Highest Balance	Balance as of December 31	Interest Rate	Total Interest Income
$ 2,074,000	$ -	4.2%	$ 454

k. The board of directors approved to sell HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC. The selling price of the HUB and related operating equipment was $154,805 and related service charge was $7,770, with both amounts including sales tax. As of December 31, 2003, the Company still had a receivable of $77,416 from NCIC. The gains on disposal of properties and service charge for the management of the building were $64,646 and $7,400, respectively, which were treated as nonoperating income.

l. NCIC leases the Company's telecommunication switch centers under an agreement starting from January 2002 and expiring in March 2004.

m. The Company has contracts with FETEC for constructing telecommunications network and backbone network facilities.

n. The Company bought NCIC's telecommunications network and backbone network facilities.

o. The Company leases from FEDS several parcels of land as well as building spaces under contracts starting from July 1997 and expiring in October 2006.

p. In 2002, the Company has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by third parties.

q. The Company gives advances to Yuan-Ho for its daily operating expenditures during its preparatory stage. The advances will be collected depending on Yuan-Ho's financial status.

r. The Company gives advances to FETETC for its daily operating expenditures during its development stage. The advances will be collected depending on FETETC's financial status.

s. Accounts of other related parties were less than 5% of respective accounts.

All the above rental rates and terms are comparable to leases with third parties.

15. COMMITMENTS AS OF DECEMBER 31, 2003

a. The Company has outstanding contracts to acquire properties for $652,516.

b. Under operating lease agreements, the minimum rentals for land, office spaces and mobile switch centers for the next five years are summarized as follows:

Year	Amount
2004	$ 1,220,044
2005	1,268,446
2006	1,318,141
2007	1,369,792
2008	1,423,478

c. The Company's outstanding letters of credit amounted to ¥1,206,567 thousand (equivalent to $383,447).

16. ADDITIONAL DISCLOSURES

A. Important transactions and B. Related information of the Company's investees.

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities and investments in shares of stock held: Schedule A.

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: Schedule B.

e. Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: Schedule C.

f. Disposal of individual real estate at prices of at least NT$100 million or 20% of the paid-in capital: None.
g. Total purchase from or sale to related parties amounting to at least $100 million or 20% of the paid-in capital: Schedule D.
h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.
i. Names, locations, and related information of investees on which the Company exercises significant influence: Schedule E;
j. Derivative financial transactions

The Company used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2003 and 2002. All these transactions were for nontrading purposes.

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

1) Open contracts and credit risk

Following are the Company's outstanding interest rate swap contracts as of December 31, 2003:

	December 31, 2003				
Type of Transaction	*Notional Amount*	*Fixed Rate*	*Market Rate*	*Settlement Date*	*Maturity*
Interest rate swap	$ 370,000	1.25%	2.60%	Half year	March 28, 2008
	300,000	1.25%	2.60%	Half year	March 31, 2008
	300,000	1.25%	2.60%	Half year	April 1, 2008
	300,000	1.25%	2.60%	Half year	April 2, 2008
	200,000	1.25%	2.60%	Half year	April 3, 2008
	200,000	1.91%	3.96%	Half year	December 12, 2008
	200,000	1.91%	3.97%	Half year	December 15, 2008
	200,000	1.91%	3.98%	Half year	December 16, 2008
	200,000	1.91%	3.98%	Half year	December 17, 2008
	200,000	1.91%	3.98%	Half year	December 18, 2008
	200,000	1.91%	3.98%	Half year	December 19, 2008

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

The related gains and losses (recorded as reductions of interest expenses and interest expenses, respectively) on these swap contracts for the years ended December 31, 2003 and 2002 were $9,420 and $36,674, respectively.

	December 31, 2002			
Type of Transaction	*Notional Amount (Thousands)*	*Market Value*	*Credit Risk*	*Maturity*
Forward contracts (buying yen, selling New Taiwan dollar)	¥ 372,980	$ 109,209	$ 4,637	January 6, 2003

There was no outstanding forward contract as of December 31, 2003.

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The realized exchange loss for the year ended December 31, 2002 was $5,390.

In 2002, the Company placed an order for cell phones amounting to ¥1,444,814 thousand. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into Japanese yen forward contracts. The forward contract was due on January 6, 2003, and the realized gain of $4,103 on this commitment was recognized as reduction of inventory.

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 entered into interest rate swap contract to hedge its exposure to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

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, particularly, for 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 receivable on forward contracts (included in other current assets)	$ 4,637

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

	December 31			
	2003		*2002*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 2,868,156	$ 2,868,156	$ 2,238,342	$ 2,238,342
Accounts receivable-net	3,735,277	3,735,277	3,216,577	3,216,577
Other receivables-related parties	258,144	258,144	23,662	23,662
Investments in shares of stocks	21,641,987	21,641,987	8,223,198	8,223,198
Refundable deposits	241,718	240,218	373,279	365,848
Financial liabilities				
Short-term debts	100,000	100,000	-	-
Notes payable	30,670	30,670	28,944	28,944
Accounts payable	1,043,206	1,043,206	665,068	665,068
Payables to related parties	224,639	224,639	660,229	660,229
Nonderivative financial instruments				
Payables related to acquisitions of properties	1,808,776	1,808,776	2,120,178	2,120,178
Guarantee deposits received-current	1,502,750	1,502,750	-	-
Long-term bonds payable (including current portion)	13,886,436	14,116,574	6,092,000	6,511,069
Long-term debts (including current portion)	4,896,942	4,896,942	3,869,839	3,863,072
Guarantee deposits received-noncurrent	50,841	50,841	1,991,727	1,991,727
Derivative financial instruments				
Forward contract	-	-	4,637	4,637
Interest rate swap	-	19,723	-	-

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

a) The carrying values of cash and cash equivalents, accounts receivable, other receivables-related parties, short-term debts, notes payable, accounts payable, payables to related parties and payables related to acquisitions of properties-carrying values reported in the balance sheets because of the short maturity of these instruments;
b) The fair value of investments in shares of stock-the equity in the investees' net assets;
c) Long-term bonds payable and long-term debts-market prices or, if market prices are unavailable, upon present value of expected cash outflows, which is discounted at the interest rates for bank loans or corporate bonds with similar maturity dates.
d) Refundable deposits and guarantee deposits received-present values of future payments or receipts.
e) Fair values of derivative financial instruments-quoted market prices obtained from foreign banks and Reuters.

C. Investment in Mainland China: None.

17. INDUSTRY SEGMENT INFORMATION

a. Industry

The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services. 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 were as follows:

	2003		*2002*	
	Amount	*Percentage of Operating Revenue (%)*	*Amount*	*Percentage of Operating Revenue (%)*
Company A	$ 7,139,284	19	$ 7,935,692	23

SCHEDULE A-NOTE 16

MARKETABLE SECURITIES HELD

DECEMBER 31, 2003

(Amount in Thousands of New Taiwan Dollars, Except Share Information)

Company Name	*Type and Name of Securities*	*Relationship with the Company*	*Financial Statement Account*	*December 31, 2003*				*Note*
				Shares (Thousands)	*Carrying Value*	*Percentage of Ownership (%)*	*Market Value or Net Asset Value*	
Far EasTone Telecommunications Co., Ltd.	*Stocks*							
	Yuan-Ho Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	526,431	$ 11,698,382	100.00	$ 11,698,382	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000	$ 9,870,087	100.00	$ 9,870,087	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	1,330	$ 8,518	19.00	$ 8,518	Note B

Notes: A. Calculation was based on audited 2003 financial statements.

B. The Company could not obtain timely the investee's financial statements and recognized a 2002 net loss in 2003 based on 2002 audited financial statements.

SCHEDULE B-NOTE 16

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, 2003
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Type and Name of Securities	Financial Statement Account	Counter-party	Nature of RelationShip	Beginning Balance		Acquisition		Disposal		Investment Loss Under Equity Method	Ending Balance		Gain (Loss) on Disposal
					Shares (thousand)	Amount	Shares (thousand)	Amount	Shares	Amount		Shares (Thousands)	Amount	
Far EasTone Telecommunications Co., Ltd.	Yuan-Ho Telecommunications Co., Ltd.	Investments in shares of stock	Issuance of capital stock (for cash)	-	-	$ -	526,431	$ 11,698,461	-	$ -	($ 79)	526,431	$ 11,698,382	$ -
	Yuan-Ze Telecommunications Co., Ltd.	Investments in shares of stock	Teco Electric and Machinery Co., Ltd. Opto-Electronics Technology Co., Ltd. TECOM Co., Ltd.	-	837,000	8,212,856	200,000	2,000,000	-	-	(342,769)	1,037,000	9,870,087	-

SCHEDULE C-NOTE 16

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2003
(Expressed in Thousands of New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transaction Date	Amount			
Far EasTone Telecommunications Co., Ltd.	Land and office spaces in Neihu	Feb. 26, 2003 (Note)	$1,532,382 (without sales tax)	Fully Paid	Far Eastern International Leasing Corp.	Supervisor of the Company	Land-Zhao Teng Xiong Building-Metropolitan Construction	–	December 31, 1999	$1,532,530	Appraisal reports: - Debenham Tie Leung $1,500,678 - China Credit Information Service, Ltd. $1,470,897	Headquarters of the Company.	–

Note: The date of the board of directors' approval to buy the land and buildings in Neihu.

SCHEDULE D-NOTE 16

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, 2003
(Amounts in Thousands of New Taiwan Dollars)

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
New Century InfoComm Tech Co., Ltd. (NCIC)	The same chairman as that of the Company	Operating revenue	($ 695,687)	(2%)	30 days	–	–	($ 24,864)	(11%)

Note: The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of wireless service revenue and was included in payables to related parties.

SCHEDULE E-NOTE 16

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2003
(Amounts in Thousands of New Taiwan Dollars, Except Share Information)

Investor Company	Investee Company	Location	Main businesses and Products	Original Investment Amount		Balance as of December 31, 2003			Net Loss of the Investee	Equity in Net Loss	Note
				December 31, 2003	December 31, 2002	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	Yuan-Ho Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	$ 11,698,461	$ -	526,431	100.00	$ 11,698,382	$ 79	$ 79	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	10,370,000	8,370,000	1,037,000	100.00	9,870,087	305,797	342,769	Note A
	E. World (Holdings) Ltd.	British Cayman Island	Investment	41,095	41,095	1,330	19.00	8,518	9,359	1,778	Notes B and C

Notes: A. Subsidiary.
B. Equity method investee of the Company
C. The equity in net loss recognized in 2003 was based on the net loss of the investee in 2002 because the audited 2003 financial statements of the investee were not timely available.

5. 2003 Independent Auditors' Report, Consolidated Financial Statements and Notes

English Translation of a Report Originally Issued in Chinese

Independent Auditor's 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, 2003 and 2002 and the related consolidated 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 the Rules Governing Auditing and Certification 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, 2003 and 2002 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Deloitte & Touche

February 3, 2004

Notice to Readers

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

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

	2003		2002	
ASSETS	*Amount*	%	*Amount*	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 14,568,654	20	$ 2,253,173	4
Accounts receivable-net of allowance for doubtful accounts of $586,957 in 2003 and $328,990 in 2002 (Note 2)	3,735,277	5	3,216,577	5
Inventories-net (Notes 2 and 5)	801,100	1	656,014	1
Prepaid expenses (Notes 2 and 17)	1,754,644	2	1,756,628	3
Other receivables-related parties (Note 17)	116,529	-	8,138	-
Deferred income tax assets-current (Notes 2 and 16)	1,392,724	2	605,195	1
Other current assets (Notes 2 and 19)	68,554	-	42,655	-
Total current assets	22,437,482	30	8,538,380	14
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 6)				
Equity method	8,518	-	10,342	-
Prepayment for investments	65,000	-	-	-
	73,518	-	10,342	-
PROPERTIES (Notes 2, 7 and 17)				
Cost				
Land	952,504	1	153,004	-
Buildings and equipment	1,698,803	2	640,102	1
Computer equipment	6,284,316	9	5,525,062	9
Operating equipment	48,644,499	66	45,244,432	75
Office equipment	772,482	1	776,534	1
Leasehold improvements	1,331,900	2	1,687,886	3
Miscellaneous equipment	54,834	-	54,802	-
Total cost	59,739,338	81	54,081,822	89
Less-accumulated depreciation	24,388,503	33	17,386,742	29
	35,350,835	48	36,695,080	60
Construction in progress and advances related to acquisition of equipment	4,221,737	6	3,425,143	6
Net properties	39,572,572	54	40,120,223	66
INTANGIBLE ASSETS				
3G concession (Notes 2 and 8)	10,169,000	14	10,169,000	17
OTHER ASSETS				
Properties not currently used in operations—net (Note 2)	87,500	-	89,800	-
Refundable deposits (Note 17)	241,736	1	373,363	1
Deferred income tax assets-noncurrent (Notes 2 and 16)	813,904	1	1,419,072	2
Miscellaneous (Note 2)	88,913	-	34,016	-
Total other assets	1,232,053	2	1,916,251	3
TOTAL ASSETS	$ 73,484,625	100	$ 60,754,196	100

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2003 Amount	2003 %	2002 Amount	2002 %
CURRENT LIABILITIES				
Short-term debts (Note 9)	$ 100,000	-	$ -	-
Commercial paper payable (Note 10)	489,587	1	-	-
Notes payable	30,670	-	28,944	-
Accounts payable	1,043,206	1	665,068	1
Payables to related parties (Note 17)	226,534	-	660,229	1
Income tax payable (Notes 2 and 16)	24,083	-	137,095	-
Accrued expenses	2,637,837	4	2,852,975	5
Payables related to acquisition of properties	2,716,930	4	2,120,178	4
Guarantee deposits received-current	1,502,750	2	-	-
Unearned revenues (Note 2)	1,859,688	2	2,050,310	3
Current portion of long-term liabilities (Notes 7 and 11)	1,226,000	2	616,000	1
Other current liabilities (Notes 2, 7 and 17)	169,615	-	142,989	-
Total current liabilities	12,026,900	16	9,273,788	15
LONG-TERM LIABILITIES-Net of current portion				
Long-term bonds payable (Notes 2, 7 and 11)	13,270,436	18	5,476,000	9
Long-term debts payable (Notes 7 and 11)	4,936,942	7	3,869,839	6
Total long-term liabilities	18,207,378	25	9,345,839	15
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 14)	169,278	-	131,130	-
Guarantee deposits received-noncurrent	50,841	-	1,991,727	4
Minority interest	-	-	1,961,204	3
Total other liabilities	220,119	-	4,084,061	7
Total liabilities	30,454,397	41	22,703,688	37
STOCKHOLDERS' EQUITY				
Capital stocks—$10 par value Authorized—3,360,000 thousand shares Issued—2,697,786 thousand shares in 2003 and 2,305,800 thousand shares in 2002	26,977,860	37	23,058,000	38
Capital surplus				
Paid-in capital in excess of par value	5,944,514	8	5,967,572	10
From investments in shares of stock	29,086	-	29,086	-
Total capital surplus	5,973,600	8	5,996,658	10
Retained earnings				
Legal reserve	1,878,488	3	1,097,646	2
Unappropriated earnings	8,197,228	11	7,895,106	13
Total retained earnings	10,075,716	14	8,992,752	15
Cumulative translation adjustments	3,052	-	3,098	-
Total stockholders' equity	43,030,228	59	38,050,508	63
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 73,484,625	100	$ 60,754,196	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

	2003		2002	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 17)				
Sales of cellular phone equipment and accessories	$ 2,597,873	7	$ 1,628,644	5
Less-sales returns and allowances	52,122	-	3,395	-
Net sales	2,545,751	7	1,625,249	5
Service revenue	34,515,474	93	32,845,381	95
Other	5,938	-	7,405	-
Total operating revenues	37,067,163	100	34,478,035	100
OPERATING COSTS (Notes 2, 14 and 17)				
Cost of sales	2,822,662	7	2,124,536	6
Cost of services	15,892,163	43	15,056,810	44
Total operating costs	18,714,825	50	17,181,346	50
GROSS PROFIT	18,352,338	50	17,296,689	50
OPERATING EXPENSES (Notes 2, 14 and 17)				
Marketing	6,106,191	16	5,657,771	16
General and administrative	3,601,813	10	3,482,341	10
Research and development	317,452	1	274,333	1
Total operating expenses	10,025,456	27	9,414,445	27
OPERATING INCOME	8,326,882	23	7,882,244	23
NONOPERATING INCOME				
Interest	43,006	-	22,290	-
Foreign exchange gains-net (Note 2)	38,469	-	-	-
Reversal of allowance for losses on inventories (Note 2)	-	-	33,039	-
Other (Note 17)	40,533	-	103,481	-
Total nonoperating income	122,008	-	158,810	-
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 7 and 19)	316,344	1	304,193	1
Equity in investees' net losses (Notes 2 and 6)	1,778	-	14,035	-
Other	4,691	-	58,524	-
Total nonoperating expenses and losses	322,813	1	376,752	1
CONSOLIDATED INCOME BEFORE INCOME TAX BENEFIT	8,126,077	22	7,664,302	22
INCOME TAX BENEFIT (Notes 2 and 16)	99,028	-	134,405	1
CONSOLIDATED INCOME BEFORE MINORITY INTEREST	8,225,105	22	7,798,707	23
MINORITY INTEREST	(36,972)	-	9,710	-
CONSOLIDATED NET INCOME	8,188,133	22	7,808,417	23

	2003		2002	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED EARNINGS PER SHARE (Note 13)				
Primary	$ 3.00	$ 3.04	$ 2.84	$ 2.89
Diluted	$ 2.92	$ 2.95	$ 2.84	$ 2.89

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued		Capital Surplus (Notes 2 and 12)			Retained Earnings (Note 9)			Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
	Shares (thousands)	Amount	Paid-in capital in excess of par value	From investments in shares of stock	total	Legal reserve	Unappro-priated earnings	total		
BALANCE, JANUARY 1, 2002	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
Appropriation 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 dividend－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)	-	-	-	-	-
Effect of change in ownership percentage due to investee's issuance of capital stock for cash	-	-	-	29,086	29,086	-	-	-	-	29,086
Consolidated net income in 2002	-	-	-	-	-	-	7,808,417	7,808,417	-	7,808,417
Translation adjustments	-	-	-	-	-	-	-	-	(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
Appropriation of 2002 earnings										
Legal reserve	-	-	-	-	-	780,842	(780,842)	-	-	-
Bonus to employees	-	-	-	-	-	-	(140,551)	(140,551)	-	(140,551)
Remuneration to directors and supervisors	-	-	-	-	-	-	(70,276)	(70,276)	-	(70,276)
Cash dividend-13%	-	-	-	-	-	-	(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividend-16.9%	389,680	3,896,802	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus-0.1%	2,306	23,058	(23,058)	-	(23,058)	-	-	-	-	-
Consolidated net income in 2003	-	-	-	-	-	-	8,188,133	8,188,133	-	8,188,133
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, DECEMBER 31, 2003	2,697,786	$ 26,977,860	$ 5,944,514	$ 29,086	$ 5,973,600	$ 1,878,488	$ 8,197,228	$ 10,075,716	$ 3,052	$ 43,030,228

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 8,188,133	$ 7,808,417
Adjustments to reconcile net income to net cash provided by		
operating activities	36,972	(9,710)
Minority interest	7,071,949	6,366,498
Depreciation and amortization	416,689	132,058
Provision for doubtful accounts		
Provision (reversal of allowance) for losses on inventories	4,691	(33,039)
Equity in investees' net losses	1,778	14,035
Loss (gain) on disposal of properties—net	(8,379)	42,675
Accrued pension cost	38,148	33,816
Deferred income taxes	(182,361)	(77,355)
Interest premium on convertible bonds	33,886	-
Amortization of issuance cost of convertible bonds	43,329	-
Changes in operating assets and liabilities		
Decrease (increase) in Accounts receivable	(935,389)	765,793
Inventories	(149,777)	102,947
Prepaid expenses	(1,984)	(1,062,954)
Other receivables-related parties	(30,975)	(8,138)
Other current assets	(20,115)	12,486
Increase (decrease) in Notes payable	1,726	371
Accounts payable	378,138	160,909
Payables to related parties	(433,695)	40,338
Income tax payable	(113,012)	(534,498)
Accrued expenses	(215,138)	491,656
Unearned revenues	(190,622)	1,031,436
Other current liabilities	41,280	(133,259)
Net cash provided by operating activities	13,975,272	15,144,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Prepayment for investments	(65,000)	-
Acquisition of properties	(6,089,578)	(5,135,942)
Proceeds from sales of properties	96,570	2,538
Acquisition of 3G concession	-	(9,169,000)
Decrease in refundable deposits	131,627	11,073
Increase in other assets	(100,033)	(4,788)
Net cash used in investing activities	(6,026,414)	(14,296,119)

(Continued)

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debts	$ 100,000	$ -
Increase in commercial paper payable	489,587	-
Increase (decrease) in long-term debts	1,677,103	(4,771,781)
Proceeds from issuance of long-term bonds	7,760,550	4,200,000
Bonus paid to employees and directors	(224,941)	(167,504)
Cash dividends paid	(2,997,540)	(1,890,000)
Decrease in guarantee deposits received	(438,136)	(974,908)
Increase (decrease) in minority interest	(2,000,000)	2,000,000
Net cash provided by (used in) financing activities	4,366,623	(1,604,193)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,315,481	(755,830)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,253,173	3,009,003
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,568,654	$ 2,253,173
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	$ 219,704	$ 182,030
Income tax paid	$ 196,347	$ 494,175
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 1,226,000	$ 616,000
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 6,685,790	$ 5,794,924
Increase in payables related to acquisition of properties	(596,752)	(702,756)
Decrease in capital lease obligations	540	43,774
CASH PAID FOR ACQUISITION OF PROPERTIES	$ 6,089,578	$ 5,135,942
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	$ 173,978	$ 3,736
Increase in receivables from properties sold	(77,408)	(1,198)
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	$ 96,570	$ 2,538
CASH PAID FOR 3G CONCESSION ACQUISITION		
Increase in 3G concession	$ -	$ 10,169,000
Decrease in other current assts	-	(1,000,000)
CASH PAID FOR 3G CONCESSION ACQUISITION	$ -	$ 9,169,000

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND OPERATIONS

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 (now known as GreTai Securities Market) since December 10, 2001. Far EasTone provides wireless communications, leased-circuit services, 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"). In October 2003, other principal stockholders, the AT&T Wireless Group and its affiliates, transferred to third parties all Far EasTone stocks they owned.

Far EasTone 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 Far EasTone to provide services for 15 years from 1997, with an annual license fee at 2% of total wireless communications service revenues.

The DGT also issued to Far EasTone a type II license, allowing it to provide internet services for 10 years from 1999 for a fixed annual license fee based on the amount of Far EasTone's paid-in capital. In addition, Far EasTone provides services under a type II-ISR license for 10 years from December 2001 and pays an annual license fee at 0.5% of ISR service revenues. In addition, Far EasTone is licensed to provide local/domestic long distance land cable leased-circuit services for 15 years from January 2003, with an annual license fee at 1% of leased-circuit 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 got the permission from the DGT to start its preparatory activities for the construction of 3G (third—generation wireless communications system) 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 for a portion of these shares (aggregate par value of $7,170,000), thus diluting its equity to 80.71%. For the purpose of integration of the telecommunications business and operation efficiency, Far EasTone bought all the other shares of Yuan-Ze from other stockholders for $2,000,000 on December 16, 2003. Thus, Yuan-Ze became a wholly owned subsidiary of Far EasTone.

On December 22, 2003, the Boards of Directors of both companies approved the merger of Far EasTone with Yuan-Ze, with Far EasTone as the surviving company. The proposed date for the merger is on May 10, 2003. Yuan-Ze engages in providing wireless communications and sale of telecommunications equipment.

Yuan-Ho Telecommunications Co., Ltd. (Yuan-Ho) started preparing for its establishment on September 18, 2003 and was incorporated in the ROC on September 25, 2003 as Far EasTone's wholly owned subsidiary. Yuan-Ho Telecommunications Co., Ltd. engages in providing wireless communications and sale of telecommunications equipment. Yuan-Ho Telecommunications Co., Ltd. obtained approval from Department of Commerce, Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. (the "new KGT") on January 19, 2004.

On October 7, 2003, Far EasTone signed a Merger Agreement with the new KGT and KG Telecommunications Co., Ltd. (the "former KGT"). The Agreement was approved by the three companies' stockholders on

November 25, 2003. The merger involves two steps. The first step is to merge the former KGT with the new KGT, with the new KGT as the surviving company. On January 1, 2004, the new KGT paid $11,698,461 in cash and issued 806,567 thousands of new shares to the stockholders of the former KGT. (In 2003, Far EasTone incorporated the new KGT as a wholly owned subsidiary, and the new KGT issued 526,431 thousand shares amounting to $11,698,461 for the purpose of merger with the former KGT.) After the first-step merger, the capital of the new KGT increased to $13,329,979 and the equity of the new KGT owned by Far EasTone will be temporarily diluted to 39.49%. Another principal stockholders of the new KGT will be original stockholders of the former KGT with ownership of 60.51% as of January 1, 2004. The issuance of new shares for capital increase relating to the merger was approved by MOEA on January 19, 2004.

The second step is for Far EasTone to swap shares with the new KGT, then the stockholders of the new KGT will exchange 1 share of Far EasTone for 1 share of the new KGT. The share swap agreement will be submitted to the special stockholders' meetings of Far EasTone and of the new KGT on February 18, 2004, and the proposed date of the share swap is April 29, 2004.

After the completion of the two-step merger, the new KGT will be a wholly owned subsidiary of Far EasTone.

Under the Merger Agreement, Far EasTone and the new KGT delivered all the 526,431 thousand shares and the cash consideration of $11,698,461 on January 1, 2004 to the specified custodian to ensure the implementation of the two-step merger. On the date of the share swap, these shares and cash proceeds will be returned to Far EasTone and the stockholders of the former KGT, respectively.

As of December 31, 2003, Yuan-Ze and the new KGT was still in its development stage.

Far EasTone, Yuan-Ze and the new KGT (the "Group") had 2,366 and 2,294 employees as of December 31, 2003 and 2002, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC.

The Group uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, depreciation, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

The significant accounting policies of the Group 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 exceeds 30% of the unconsolidated total assets or operating revenues of Far EasTone but individually exceeds 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, 2003 include the accounts of Far EasTone, Yuan-Ze and the New KGT. The consolidated financial statements as of and for the year ended December 31, 2002 include the accounts of Far EasTone and Yuan-Ze.

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.

Current and Noncurrent Assets and Liabilities.

Current assets include non-restricted cash or cash equivalent as well as items expected to be converted into cash or used within one year. Current liabilities are obligations expected to be settled within one year. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

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

Allowance for Doubtful Accounts

An allowance for doubtful accounts 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 moving-weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in which the Group owns at least 20% of investees' common stocks or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately to the Group's share in the investee's net income or net loss. If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Group's equity in its investee's net assets is credited to capital surplus. Any decrease in the Group's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to 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.

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. Properties still being used beyond their service life years are depreciated over their newly estimated service lives.

Equipment under capital leases and the related liability are stated at the lower (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.

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
Miscellaneous equipment	5-8

Upon retirement or other 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.

3G Concession

The 3G concession will be amortized on a straight-line basis from the date operations commence through the date the license expires.

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.

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, international simple resale services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees and leased-circuit service revenues 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. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the start of the contract, the excess is charged to marketing expense. 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.

Operating revenues are measured at fair values based on the prices negotiated between the Group and the customers. Since the future values of operating revenues resulting from receivables within one year approximate the fair values of these receivables, the fair values are not recalculated based on the pro forma interest rate 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.

Pension Costs

Far EasTone has a defined benefit 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 and Yuan-Ho have no pension plan.

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.

Convertible Bonds

The Group issued overseas convertible bonds at par value and without any discount or premium. The Group gave the bondholders the right to redeem the convertible bonds in cash at par value plus the interest-premium on a specific date. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized by using the interest method and should be recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. The direct and necessary costs (included in other assets—miscellaneous) of issuing convertible bonds should be amortized using the straight-line method over the same period as interest-premium.

When the bondholder exercises the conversion option, the Group uses the book-value approach. The Group should write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The amount of the common stock exchange certificate (capital stock) should be valued as the net written-off carrying amount, and the amount in excess of the par value of the common stock exchange certificate (capital stock) should be recognized as additional paid-in capital.

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carry forwards and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred income tax assets that are not certain to be realized. Deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the 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 according to the expected realization date of the temporary difference.

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

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

Foreign Currency Transactions

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

On 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-method 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. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

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 commitment when the hedged transactions occur. But, if the contract amount exceeds the foreign-currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current year.

On the balance sheet 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 an asset or a liability.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2003.

3. ELIMINATED MATERIAL INTERCOMPANY TRANSACTIONS

Company	*Eliminated Account*	*Amount*	*Parties*
2003			
Far EasTone	Other receivables-related parties	$ 70,838	Yuan-Ze
	Other receivables-related parties	70,777	The new KGT
	Management service revenue	181,996	Yuan-Ze
Yuan-Ze	Payables to related parties	70,838	Far EasTone
	Management service fee	181,996	Far EasTone
The new KGT	Payables to related parties	70,777	Far EasTone

4. CASH AND CASH EQUIVALENTS

	December 31	
	2003	*2002*
Cash		
Cash on hand	$ 7,334	$ 7,221
Checking and demand deposits	1,315,157	568,266
Time deposits-interest of 0.65% to 1.12%	1,548,163	-
Negotiable certificate of deposits-interest of 0.5%	11,698,000	-
	14,568,654	575,487
Cash equivalents		
Commercial paper purchased under agreements to resell-interest of 1.375% to 1.950%	-	1,667,573
Bonds purchased under agreements to resell—interest of 5.125%	-	10,113
	-	1,677,686
	$ 14,568,654	$ 2,253,173

5. INVENTORIES—NET

	December 31	
	2003	*2002*
Cellular phone units	$ 754,715	$ 493,002
SIM cards	47,827	164,348
Cellular phone accessories	11,950	7,365
	814,492	664,715
Less-allowance for losses	13,392	8,701
	$ 801,100	$ 656,014

Inventory insurance as of December 31, 2003 amounted to about $525,478.

6. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2003		2002	
	Carrying Value	% of Ownership	Carrying Value	% of Owneship
Equity method				
E. World (Holdings) Ltd.	$ 8,518	19.00	$ 10,342	19.00
Prepayment for investments				
Far Eastern Electronic Toll Collection	65,000		-	
Co., Ltd.-Preparatory Office	$ 73,518		$ 10,342	

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 EasTone to exercise significant influence on its operating and financial policy decisions. The amounts recognized as equity in the net income or net loss of E. World (Holdings) in 2003 and 2002 were based on the net income or net loss of E. World (Holdings) in 2002 and 2001, respectively, because the financial statements of E. World (Holdings) could not be timely obtained.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications (the "MOTC") has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, Far EasTone and third parties will incorporate a joint venture, named Far Eastern Electronic Toll Collection Co., Ltd. Under the joint venture agreement, Far EasTone contributed capital of $65,000 in 2003, recorded as prepayment for investments.

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

7. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2003	2002
Buildings and equipment	$ 237,761	$ 105,147
Computer equipment	3,063,835	2,008,678
Operating equipment	20,015,576	14,392,327
Office equipment	449,549	333,993
Leasehold improvements	578,898	507,200
Miscellaneous equipment	42,884	39,397
	$ 24,388,503	$ 17,386,742

Depreciation amounted to $7,070,142 in 2003 and $6,364,020 in 2002.

Property insurance as of December 31, 2003 amounted to about $33,570,595.

b. Far EasTone leased internet equipment with software (included in operating equipment) for three years, with total lease payments amounting to $35,686. The lease agreement qualified as a capital lease since (a) the value in 2000 of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) Far EasTone had the option to buy all the leased equipment at a bargain price of NT$1.00 dollar only. The details of the lease as of December 31, 2002 are as follows:

	December 31, 2002
Total future lease payments	$ 5,452
Less-imputed interest expense	4,912
	540
Less-current portion of lease payable (included in other current liabilities)	540
Long-term obligations under capital lease	$ -

Far EasTone bought the internet equipment with software at the bargain price when the agreement expired in 2003.

c. Capitalized interest on properties was as follows:

	2003	2002
Total interest expense	$ 416,893	$ 479,238
Less-interest capitalized—interest at 1.35%-6.10% in 2003 and 3.76%-4.86% in 2002	100,549	175,045
Interest expense—net of amounts capitalized	$ 316,344	$ 304,193

d. Properties amounting to $5,629,157 and $10,288,389 had been pledged or mortgaged as collaterals as of December 31, 2003 and 2002, respectively.

8. 3G CONCESSION

Yuan-Ze paid guarantee deposits of $1,000,000 to bid for the third-generation wireless communications concession (3G concession) in 2001. The guarantee deposits were treated as part of the 3G concession on March 11, 2002 when the bidding process for the 3G concession was completed. Thereafter, Yuan-Ze got the 3G concession from the DGT on March 15, 2002. Yuan-Ze must then obtain a network construction permit from the DGT. Once the network construction is complete, it may apply for a 3G license from the MOTC. The 3G license is valid through December 31, 2018. Yuan-Ze will amortize the 3G concession on a straight-line basis from the date of operations commence through the date the license expires.

9. SHORT-TERM DEBTS

Far EasTone took unsecured bank loans at 1.4% interest, which are due in July 2004.

10. COMMERCIAL PAPER PAYABLE

Yuan-Ze issued commercial paper guaranteed by financial institutions, which will be due within one year. The obligation was discounted at the rate of 1.1% to 1.3%, and repaid on January 30, 2004.

11. LONG-TERM LIABILITIES

	December 31, 2003		
	Due Within One Year	Eue After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ -	$ 3,906,550	$ 3,906,550
Interest premium-overseas unsecured convertible bonds	-	33,886	33,886
Domestic secured bonds	616,000	660,000	1,276,000
Domestic unsecured bonds-1st	-	4,200,000	4,200,000
Domestic unsecured bonds-2nd	-	1,470,000	1,470,000
Domestic unsecured bonds-3rd	-	3,000,000	3,000,000
	616,000	13,270,436	13,886,436

Long-tem debts			
Commercial paper	610,000	686,942	1,296,942
Unsecured bank loans	-	300,000	300,000
Secured bank loans	-	3,950,000	3,950,000
	610,000	4,936,942	5,546,942
	$ 1,226,000	$ 18,207,378	$ 19,433,378

	December 31, 2002		
	Due Within One Year	*Eue After One Year*	*Total*
Bonds			
Domestic unsecured bonds	$ -	$ 4,200,000	$ 4,200,000
Domestic secured bonds	616,000	1,276,000	1,892,000
	616,000	5,476,000	6,092,000
Long-term debts			
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
	-	3,869,839	3,869,839
	$ 616,000	$ 9,345,839	$ 9,961,839

a. Overseas unsecured convertible bonds

Five-year unsecured zero coupon convertible bonds, with total face value of US$115,000 thousand, were issued on February 19, 2003. The bonds are listed on the Luxembourg Stock Exchange. The repayment or conversion terms of the bonds are as follows:

1) Far EasTone's redemption of the bonds upon maturity at 105.114% of their face value;
2) Redemption at the option of the bondholder at 102.015% of their face value on February 19, 2005;
3) The right of each bondholder to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The conversion price on December 31, 2003 was NT$30.73, subject to adjustment for shares change. As of December 31, 2003, no bonds had been converted into shares.
4) Redemption at Far EasTone's option, at a specific price under certain conditions, starting February 19, 2006.

b. Domestic secured bonds

Five-year domestic secured bonds were issued at par value on November 30, 2000. The total face value of the bonds is $2,200,000, with face value of $1,000 and 5.06% interest, compounded 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. Domestic unsecured bonds-1st

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

d. Domestic unsecured bonds-2nd

Five-year domestic unsecured bonds were issued at par value on March 28, 2003. The total face value of the bonds is $1,470,000, with face value of $1,000 and interest rate of 2.6% in the first year and 3.2% minus USD six-month LIBOR rate from the second year to maturity, payable semiannually. Far EasTone should redeem the full amount when the bonds become due in 2008.

e. Domestic unsecured bonds-3rd

Three-year, four-year and five-year domestic unsecured bonds were issued at par value on December 12, 2003. The total face value of the bonds is $3,000,000, with face value of $5,000 and annual interest rates of 1.83% (three-year bonds) and 1.92% (four-year bonds). The interest rate for five-year bonds is 5.2% minus USD six-month LIBOR rate if the LIBOR rate is greater than 1.05%; otherwise, the interest is at the LIBOR rate plus 1%, payable semiannually. Far EasTone should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

f. Commercial paper

1) Commercial paper within one-year maturity bears variable interest rates ranging from (a) 0.90% to 0.95%, which amounted to $1,296,942 as of December 31, 2003, and (b) 1.95% to 2.15%, which amounted to $999,893 as of December 31, 2002. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by Far EasTone through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will decrease by 14% to 15% every six months.

2) Commercial paper amounting to $599,946, with interest of 1.5% to 1.7% as of December 31, 2002, was repaid in January 2003. Under a revolving credit agreement, a consortium of banks guarantees the commercial paper to be reissued by Far EasTone until June 25, 2004.

g. Domestic unsecured bank loans

As of December 31, 2003, Far EasTone had $300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

As of December 31, 2002, Far EasTone had bank loans of $200,000 at 2.90% to 3.33% interest. The loan is payable, starting in 2004 and every six months thereafter, at a amount that is equal to 16.5% to 17.0% of the principal; the final payment is due on May 17, 2007. Far EasTone repaid this loan in March 2003.

h. Domestic secured bank loans

1) Far EasTone had a loan amounting to $3,300,000 from a consortium of banks with interest rates at 1.982% and 2.641% as of December 31, 2003 and 2002, respectively. 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.

2) Yuan-Ze obtained a loan amounting to $650,000 from a consortium of banks at 1.96%-2.00% interest rate as of December 31, 2003. The loan will be due on January 28, 2004. The loan is guaranteed by a consortium of banks and the guarantee is effective until April 16, 2006.

i. The loan from Shin Kong Life Insurance Co. was secured by a guarantee issued by a bank consortium. The interest rate on the loan was 4.725% as of December 31, 2002. The principal and accumulated interests on the loan will be due on January 25, 2005. Far EasTone repaid the loan on March 21, 2003 and paid a compensation charge of $23,559 for early settlement.

As of December 31, 2003, the Group had unused long-term and short-term credit lines of about $3,884,000 and $12,310,000, respectively, which are available for long-term and short-term credit facilities.

12. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, paid-in capital in excess of par value may 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, legal reserve should be appropriated until the accumulated reserve equals Far EasTone's paid-in capital. This reserve can only be used to offset a deficit, or when the reserve reaches 50% of Far EasTone's paid-in capital, 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, non-corporate 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 appropriation of the 2002 and 2001 earnings was approved by the stockholders on May 23, 2003 and June 25, 2002, respectively:

	Appropriation		*Dividend Per Share (Dollars)*	
	2002	*2001*	*2002*	*2001*
Legal reserve	$ 780,842	$ 665,928		
Bonus to employees-cash	140,551	119,867		
Remuneration to directors and supervisors-cash	70,276	59,934		
Cash dividend	2,997,540	1,890,000	$ 1.30	$ 1.00
Stock dividend	3,896,802	3,969,000	1.69	2.10

Had the above bonus to employees and directors been charged to net income in 2002 and 2001, the primary earnings per share for 2002 and 2001 (after tax), based on the weighted-average number of outstanding shares of 2,305,800 and 1,890,000 thousand, respectively, would have decreased from NT$3.39 to NT$3.29 and from NT$3.52 to NT$3.43, respectively.

The appropriation of the 2003 earnings of Far EasTone had not been approved by the board of directors and stockholders as of February 3, 2004, 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.

13. CONSOLIDATED EARNINGS PER SHARE

The numerators and denominators used in consolidated earnings per share (EPS) calculation were as follows:

	Amount (Numerator)		Capital Stock	Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
For the year ended December 31, 2003					
Consolidated primary EPS					
Consolidated net income	$ 8,089,103	$ 8,188,133	2,697,786	$ 3.00	$ 3.04
Effect of dilutive potential common stocks					
Convertible bonds	77,215	78,160	101,323		
Consolidated diluted EPS					
Consolidated net income including the effect of dilutive potential common stocks	$ 8,166,318	$ 8,266,293	2,799,109	$ 2.92	$ 2.95
For the year ended December 31, 2002					
Consolidated primary and diluted EPS					
Consolidated net income	$ 7,673,882	$ 7,808,417	2,697,786	$ 2.84	$ 2.89

For the year ended December 31, 2002, the consolidated primary earnings per share retroactively adjusted for the 2002 stock dividend declared in 2003 decreased from $3.33 (before tax) to $2.84 and from $3.39 (after tax) to $2.89.

14. PENSION PLAN

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

As of December 31, 2003, Yuan-Ze and the new KGT have no regular employees and pension plan.

Certain information on the pension plan of Far EasTone is as follows:

a. Pension cost consisted of:

	2003	2002
Service cost	$ 63,200	$ 61,395
Interest cost	8,880	8,689
Expected return on pension assets	(4,752)	(5,463)
Amortization	1,213	676
Net pension cost	$ 68,541	$ 65,297

b. Net pension cost of Far EasTone were as follows:

	2003	2002
Actuarial net pension cost	$ 68,541	$ 65,297
Less: Included in properties	2,501	2,775
Included in other receivables—related parties	346	231
Net pension cost (included in operating costs and expenses)	$ 65,694	$ 62,291

c. Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	December 31	
	2003	*2002*
Benefit obligation		
Vested benefit obligation	$ 2,915	$ 2,692
Non-vested benefit obligation	172,459	123,532
Accumulated benefit obligation	175,374	126,224
Additional benefits based on projected and future salaries	153,442	127,481
Projected benefit obligation	328,816	253,705
Fair value of plan assets	(152,469)	(120,163)
Unfunded projected benefit obligation	176,347	133,542
Unrecognized net transition obligation	(10,912)	(12,125)
Unrecognized pension gain	3,843	9,713
Accrued pension cost	$ 169,278	$ 131,130

d. Vested benefit amounts were as follows:

	$ 3,507	$ 3,374

e. Actuarial assumptions were as follows:

	2003	*2002*
Discount rate used in determining present value	3.25%	3.50%
Future salary increase rate	3.25%	3.50%
Expected rate of return on plan asset	3.25%	3.50%

f. Fund changes were as follows:

	2003	*2002*
Beginning balance	$ 120,163	$ 93,922
Contributions	30,393	31,481
Earnings	1,913	2,371
Payments	-	(7,611)
Ending balance	$ 152,469	$ 120,163

15. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	2003		
	Operating Costs	*Operating Expenses*	*Total*
Employee expenses			
Salaries	$ 231,995	$ 1,307,253	$ 1,539,248
Insurance	15,200	94,395	109,595
Pension	3,571	62,123	65,694
Miscellaneous	10,432	105,003	115,435
Depreciation	5,935,882	1,134,260	7,070,142
Amortization	-	1,807	1,807
	$ 6,197,080	$ 2,704,841	$ 8,901,921

16. INCOME TAX BENEFIT

a. Reconciliation of imputed income tax on pretax income of Far EasTone at statutory rates to current income tax payable is as follows:

	2003	2002
Income tax expense of Far EasTone computed at statutory tax rate (25%)	$ 2,022,276	$ 1,918,470
Add (deduct) tax effects of		
Permanent differences	87,356	(1,472)
Temporary differences	119,342	48,430
Tax-exempt income	(2,060,530)	(1,431,780)
Unappropriated earnings tax	17,460	110,001
Investment tax credits	(159,264)	(506,131)
Income tax payable	$ 26,640	$ 137,518

Yuan-Ze and Yuan-Ho generated net losses for the years ended 2003 and 2002 and had no taxable income. The balances of income tax payable as of December 31, 2003 and 2002 were net of creditable income taxes of $2,557 and $423, respectively.

Net operating income generated from the use of switches and cell sites acquired by Far EasTone 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. The Group's income tax benefit consisted of:

	2003	2002
Income tax payable-current	$ 26,640	$ 137,518
Income tax benefit-deferred	(133,954)	(267,355)
Prior year's adjustment	5,214	(6,780)
Income tax expense on income subjected to a separate flat income tax rate of 20%	3,072	2,212
Income tax benefit	($ 99,028)	($ 134,405)

c. Deferred income taxes assets and liabilities as of December 31, 2003 and 2002 consisted of:

	December 31	
	2003	2002
Current		
Investment tax credits	$ 937,424	$ -
Provision for doubtful accounts	718,225	597,971
Provision for losses on inventories	3,348	2,160
Unrealized exchange loss (gain)	(22,802)	548
Employee welfare expense	-	4,500
Other	-	16
	1,636,195	605,195
Valuation allowance	(243,471)	-
	$ 1,392,724	$ 605,195
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 432,008	$ 348,175
Investment tax credits	321,817	983,597
Loss carryforwards	122,678	46,250
Accrued pension cost	42,986	32,280
Cumulative equity in the net loss of investees	8,927	55,020
Accrued interest premium	8,562	-
Organization cost	69	92
	937,047	1,465,414
Valuation allowance	123,143	46,342
	$ 813,904	$ 1,419,072

d. Integrated income tax information is as follows:

	December 31 2003	December 31 2002
Far EasTone	$ 3,534	$ 11,951
Yuan-Ze	$ 132	$ 130
The new KGT	$ -	$ -

The estimated ratio of the ICA balance as of December 31, 2003 to unappropriated earnings as of such date was 0.04%. When the dividends from the unappropriated earnings as of December 31, 2002 were distributed by Far EasTone in 2003, the actual ratio used was 2.58%.

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 based on the prevailing ICA balance will be used by Far EasTone for allocating tax credits to each Far EasTone's stockholder. Yuan-Ze and the new KGT have no unappropriated earnings as of December 31, 2003. Therefore, the ICA balance of the two companies will be accumulated until the date of dividend distribution in the future.

Deferred income tax rate for 2003 and 2002 of the Group was 25%.

The unused investment tax credits and loss carryforwards of the Group as of December 31, 2003 are summarized as follows:

Far EasTone

Statutes	*Items*	*Total Investment Tax Credits*	*Unused Investment Tax Credits*	*Year of Expiry*
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 582,722	$ 196,348	2004
		267,455	149,060	2005
		57,442	57,442	2007
Statute for Upgrading Industries	Research and development expenditures	699,533	699,533	2004
		587,938	43,592	2005
		304,206	39,660	2006
Statute for Upgrading Industries	Personnel training expenditures	41,543	41,543	2004
		19,629	19,629	2005
		12,038	12,038	2006
		$ 2,572,506	$ 1,258,845	

Yuan-Ze

Statutes	*Items*	*Total Investment Tax Credits*	*Unused Investment Tax Credits*	*Year of Expiry*
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 396	$ 396	2007

Year of Expirty	*Loss Carrvforwards*
2006	$ 36,132
2007	10,118
2008	76,408
	$ 122,658

Yuan-Ho

Year of Expirty	*Loss Carrvforwards*
2008	$ 20

Income tax returns through 1999 of Far EasTone had been examined and cleared by the tax authorities.

Income tax returns through 2001 of Yuan-Ze had been examined and cleared by the tax authorities.

17. RELATED-PARTY TRANSACTIONS

The Group's related parties and relationships are as follows:

Related Party	*Nature of Relationship*
Yuan Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EasTone
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Far Eastern Textile Co., Ltd. (FETL)	Parent company of a major stockholder
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
AT&T Corp. (AT&T)	Parent company of AWS and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
Far Eastern Technology Developmental Foundation (FETTDF)	Far EasTone's donation to the foundation's capital over one-third
Far Eastern Electronic Toll Collection Co., Ltd.-Preparatory Office (FETETC)	Will be an equity method investee after it is established
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same major stockholder as that of the Group
Far Eastern International Bank	Same chairman
Asia Cement Co., Ltd.	Same chairman
Oriental Union Chemical Corporation	Same chairman
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd.	Same chairman
Oriental Institute of Technology	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same major stockholder as that of the Group
Ding Ding Hotel Co., Ltd.	Same chairman
Liquid Air Far East Co., Ltd.	Its chairman is the relative of Far EasTone's chairman
Far Eastern Apparel Co., Ltd.	Same major stockholder as that of the Group
Yuan Ding Leasing Corp.	Same major stockholder as that of the Group
E.World (Holdings) Ltd.	Equity-method investee by Far EasTone
Taipei Metro Properties Management	Same major stockholder as that of the Group

The Group's significant business transactions with the above parties are summarized as follows:

		2003		*2002*	
		Amount	*%*	*Amount*	*%*
During the year					
Operating revenue	a				
NCIC	b	$ 695,687	2	$ 683,115	2
Other	q	8,845	-	1,101	-
		$ 704,532	2	$ 684,216	2
Operating costs and expenses Service cost					
NCIC	b	$ 53,824	-	$ 3,328	-
Rental					
FEILC	c	$ 91,305	7	$ 189,063	14
FETL	d	54,895	4	56,238	4
YDC	e	2,140	-	2,405	-
FEDS	n	1,917	-	1,820	-
Other	q	3,639	-	3,971	1
		$ 153,896	11	$ 253,497	19

(Continued)

		2003		2002	
		Amount	%	Amount	%
Management service fee					
AWS	f	$ 59,215	100	$ 82,166	100
Trademark license fee					
AT&T	g	$ -	-	$ 13,530	100
Research and development expense					
FETTDF	h	$ 22,971	66	$ 49,905	84
Service fee					
FETI	i	$ 66,418	99	$ -	-
Nonoperating income					
Gain on disposal of properties					
NCIC	j	$ 64,646	772	$ -	-
Rental revenue					
NCIC	k	$ 3,663	9	$ 3,887	3
Other income					
NCIC	j	$ 7,400	18	$ -	-
Acquisition of properties					
FEILC	c	$ 1,532,506	23	$ -	-
FETEC	l	77,682	1	780,673	14
NCIC	m	-	-	66,528	1
Other	q	-	-	28	-
		$ 1,610,188	24	$ 847,229	15
At end of year					
Prepaid expenses					
FEDS	n	$ 1,159	-	$ 475	-
YDC	e	1,030	-	776	-
FETL	d	753	-	738	-
FEILC	c	-	-	1,078	-
Other	q	1,339	-	618	-
		$ 4,281	-	$ 3,685	-
Other receivables-related parties					
NCIC	j and o	$ 87,768	75	$ -	-
FETI	i	17,410	15	-	-
FETETC	p	11,189	10	-	-
AWS	f	-	-	8,138	100
Other	q	162	-	-	-
		$ 116,529	100	$ 8,138	100
Refundable deposits					
FEILC	c	$ 6,390	3	$ 145,785	39
YDC	e	926	-	841	-
Other	q	219	-	215	-
		$ 7,535	3	$ 146,841	39
Payables to related parties					
FETEC	l	$ 171,881	76	$ 464,438	70
NCIC	b	24,864	11	151,389	23
FETL	d	14,508	6	-	-
AT&T	g	-	-	15,014	2
Other	q	15,281	7	29,388	5
		$ 226,534	100	$ 660,229	100
Other current liabilities					
Other payable					
NCIC	o	$ -	-	$ 11,609	8

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

a. Operating revenues (such as service revenues and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.
b. 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 of service revenue and is included in payables to related parties.
c. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung under a contract with a term from February 2000 to June 2004; (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu from November 1999 to June 2004; and (c) vehicles.

   When the related contracts expire, Far EasTone may either renew the contracts or buy the buildings or land at the following prices:

	Purchase Price
Neihu switch center	$ 130,000
Taichung land for switch center	106,050
Tainan office space	78,000
Kaohsiung office space	45,900
Xinzhu land for switch center	120,000

   The lease contract on renting office spaces in Neihu expired in April 2003. The board of directors approved the purchase of the land and buildings in Neihu for use as Far EasTone's headquarters. The purchase amounting to $1,532,382 (without sales tax) was determined based on the appraisal report from real estate brokers on February 26, 2003. The title to the land and buildings was transferred to Far EasTone by the end of April 2003.
d. Far EasTone leases from FETL several parcels of the land and building spaces under contracts with term from May 1997 to November 2014. The properties are located in Yatung Street and Renai Street in Panchao City; Yuantung Street in Chungli; and Wuku in Taipei County and other locations in Taiwan.
e. The Group leased certain floors at The Mall from September 1999 to December 2005 from YDC.
f. 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.
g. Far EasTone signed an agreement with AT&T Corp. in June 1997 to use AT&T's trademark for marketing, advertising and promotion purposes in the ROC. 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 in June 2002.
h. FETTDF researches telecommunications technology for Far EasTone.
i. Far EasTone signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed on with Far EasTone. The advances to FETI were treated as other receivable, and were collected depending on FETI's financial status.
j. Far EasTone's board of directors approved to sell HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC. The selling price of HUB and related operating equipment was $154,805 and related service charge was $7,770 with both amounts including sales tax. As of December 31, 2003, Far EasTone still had a receivable of $77,416 from NCIC. The gains on disposal of properties and service

charge for management of the building were $64,646 and $7,400, respectively, which were treated as nonoperating income.

k. NCIC leases Far EasTone's telecommunication switch centers under an agreement starting from January 2002 and expiring in March 2004.

l. Far EasTone and Yuan-Ze have contracts with FETEC for constructing telecommunications network and backbone network facilities.

m. In 2002, Far EasTone bought NCIC's telecommunications network and backbone network facilities.

n. Far EasTone leases from FEDS several parcels of land as well as building spaces under contracts starting from July 1997 and expiring in October 2006.

o. Far EasTone has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by third parties.

p. Far EasTone gives advances to FETETC for its daily operating expenditures during its preparatory stage. The advances will be collected depending on FETETC's financial status.

q. Accounts of other related parties were less than 5% of respective accounts.

All the above rental rates and terms are comparable to leases with third parties.

18. COMMITMENTS AS OF DECEMBER 31, 2003

a. The Group has outstanding contracts to acquire properties for $810,055.

b. Under operating lease agreements, the minimum rentals of the Group for land, office spaces and mobile switch centers for the next five years are summarized as follows:

Year	*Amount*
2004	$ 1,291,274
2005	1,342,523
2006	1,395,142
2007	1,449,873
2008	1,506,762

c. Far EasTone's outstanding letters of credit amounted to ￥1,206,567 thousand (equivalent to $383,447).

19. ADDITIONAL DISCLOSURES

A. Important transactions and B. Related information of the Group's investees.

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities and investments in shares of stock held: Schedule A.

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: Schedule B.

e. Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: Schedule C.

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

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

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.

i. Names, locations, and related information of investees on which the Group exercises significant influence: Schedule E;

j. Derivative financial transactions

Far EasTone used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2003 and 2002. All these transactions were for nontrading purposes. Yuan-Ze and Yuan-Ho did not enter into any derivative financial contracts for the years ended December 31, 2003 and 2002.

The information on interest rate swap contracts entered into by Far EasTone is as follows:

1) Open contracts and credit risk

Following are Far EasTone's outstanding interest rate swap contracts as of December 31, 2003:

		December 31, 2003			
Type of Transaction	*Notional Amount*	*Fixed Rate*	*Market Rate*	*Settlement Date*	*Maturity*
Interest rate swap	$ 370,000	1.25%	2.60%	Half year	March 28, 2008
	300,000	1.25%	2.60%	Half year	March 31, 2008
	300,000	1.25%	2.60%	Half year	April 1, 2008
	300,000	1.25%	2.60%	Half year	April 2, 2008
	200,000	1.25%	2.60%	Half year	April 3, 2008
	200,000	1.91%	3.96%	Half year	December 12, 2008
	200,000	1.91%	3.97%	Half year	December 15, 2008
	200,000	1.91%	3.98%	Half year	December 16, 2008
	200,000	1.91%	3.98%	Half year	December 17, 2008
	200,000	1.91%	3.98%	Half year	December 18, 2008
	200,000	1.91%	3.98%	Half year	December 19, 2008

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

The related gains and losses (recorded as reductions of interest expenses and interest expenses, respectively) on these swap contracts for the years ended December 31, 2003 and 2002 were $9,420 and $36,674, respectively.

	December 31, 2002			
Type of Transaction	*Notional Amount (Thousands)*	*Market Value*	*Credit Risk*	*Maturity*
Forward contracts (buying yen, selling New Taiwan dollar)	¥ 372,980	$ 109,209	$ 4,637	January 6, 2003

There was no outstanding forward contract of Far EasTone as of December 31, 2003.

Far EasTone 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 $5,390.

In 2002, Far EasTone placed an order for cell phones amounting to ¥1,444,814 thousand. To hedge the effect of exchange rate fluctuations on this commitment, Far EasTone entered into Japanese yen forward contracts. The forward contract was due on January 6, 2003, and the realized gain of $4,103 on this commitment was recognized as reduction of inventory.

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 entered into interest rate swap contract to hedge its exposure to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

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 entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments particularly for Far EasTone's exposure to cash flow risk. Far EasTone 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 receivable on forward contracts (included in other current assets)	$ 4,637

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

	December 31			
	2003		*2002*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	$ 14,568,654	$ 14,568,654	$ 2,253,173	$ 2,253,173
Accounts receivable-net	3,735,277	3,735,277	3,216,577	3,216,577
Other receivables-related parties	116,529	116,529	8,138	8,138
Investments in shares of stocks	73,518	73,518	10,342	10,342
Refundable deposits	241,736	240,236	373,363	365,932
Financial liabilities				
Short-term debts	100,000	100,000	-	-
Commercial paper payable	489,587	489,587	-	-
Notes payable	30,670	30,670	28,944	28,944
Accounts payable	1,043,206	1,043,206	665,068	665,068
Payables to related parties	226,534	226,534	660,229	660,229
Payables related to acquisitions of properties	2,716,930	2,716,930	2,120,178	2,120,178
Guarantee deposits received-current	1,502,750	1,502,750	-	-
Long-term bonds payable (including current portion)	13,886,436	14,116,574	6,092,000	6,511,069
Long-term debts (including current portion)	5,546,942	5,546,942	3,869,839	3,863,072
Guarantee deposits received-noncurrent	50,841	50,841	1,991,727	1,991,727
Derivative financial instruments				
Forward contract	-	-	4,637	4,637
Interest rate swap	-	19,723	-	-

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

a) The carrying values of cash and cash equivalents, accounts receivable, other receivables-related parties, short-term debts, notes payable, accounts payable, payables to related parties and payables related to acquisitions of properties-carrying values reported in the balance sheets because of the short maturity of these instruments;
b) The fair value of investments in shares of stock-the equity in the investees' net assets;
c) Long-term bonds payable and long-term debts—market prices or, if market prices are unavailable, upon present value of expected cash outflows, which is discounted at the interest rates for bank loans or corporate bonds with similar maturity dates.
d) Refundable deposits and guarantee deposits received-present values of future payments or receipts.
e) Fair values of derivative financial instruments-quoted market prices obtained from foreign banks and Reuters.

C. Investment in Mainland China: None.

20. INDUSTRY SEGMENT INFORMATION

a. Industry

The Group provides wireless communications, leased circuit, Internet and international simple resale (ISR) services. 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

The Group has no foreign revenues.

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

	2003		*2002*	
	Amount	*Percentage of Operating Revenue (%)*	*Amount*	*Percentage of Operating Revenue (%)*
Company A	$ 7,139,284	19	$ 7,935,692	23

SCHEDULE A-NOTE 19

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
DECEMBER 31, 2003
(Amount in Thousands of New Taiwan Dollars, Except Share Information)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	*Stocks*							
	Yuan-Ho Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	526,431	$ 11,698,382	100.00	$ 11,698,382	Note A and B
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000	$ 9,870,087	100.00	$ 9,870,087	Note A and B
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	1,330	$ 8,518	19.00	$ 8,518	Note C

Notes: A. Calculation was based on audited 2003 financial statements.
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.
C. Far EasTone could not obtain timely the investee's financial statements and recognized a 2002 net loss in 2003 based on 2002 audited financial statements.

SCHEDULE B-NOTE 19

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, 2003
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Type and Name of Securities	Financial Statement Account	Counter-party	Nature of RelationShip	Beginning Balance		Acquisition		Disposal		Investment Loss Under Equity Method	Ending Balance		Gain (Loss) on Disposal
					Shares (thousand)	Amount	Shares (thousand)	Amount	Shares	Amount		Shares (Thousands)	Amount	
Far EasTone Telecommunications Co., Ltd.	Yuan-Ho Telecommunications Co., Ltd.	Investments in shares of stock	Issuance of capital stock (for cash)	-	-	$ -	526,431	$ 11,698,461	-	$ -	($ 79)	526,431	$ 11,698,382	$ -
	Yuan-Ze Telecommunications Co., Ltd.	Investments in shares of stock	Teco Electric and Machinery Co., Ltd. Opto-Electronics Technology Co., Ltd. TECOM Co., Ltd.	-	837,000	8,212,856	200,000	2,000,000	-	-	(342,769)	1,037,000	9,870,087	-

Note: 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 C-NOTE 19

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2003
(Expressed in Thousands of New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transaction Date	Amount			
Far EasTone Telecommunications Co., Ltd.	Land and office spaces in Neihu	Feb. 26, 2003 (Note)	$1,532,382 (without sales tax)	Fully Paid	Far Eastern International Leasing Corp.	Supervisor of the Company	Land-Zhao Teng Xiong Building-Metropolitan Construction	–	December 31, 1999	$1,532,530	Appraisal reports: - Debenham Tie Leung $1,500,678 - China Credit Information Service, Ltd. $1,470,897	Headquarters of the Company.	–

Note: The date of the board of directors' approval to buy the land and buildings in Neihu.

SCHEDULE D-NOTE 19

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, 2003
(Amounts in Thousands of New Taiwan Dollars)

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
New Century InfoComm Tech Co., Ltd. (NCIC)	The same chairman as that of the Company	Operating revenue	($ 695,687)	(2)	30 days	–	–	($ 24,864)	(11)

Note: The international direct dialing revenue collected by Far EasTone for NCIC was treated as a reduction of wireless service revenue and was included in payables to related parties.

SCHEDULE E-NOTE 19

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE GROUP EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2003

Investor Company	Investee Company	Location	Main businesses and Products	Original Investment Amount		Balance as of December 31, 2003			Net Loss of the Investee	Equity in Net Loss	Note
				December 31, 2003	December 31, 2002	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
FarEasTone Telecommunications Co., Ltd.	Yuan-Ho Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	$ 11,698,461	$ -	526,431	100.00	$ 11,698,382	$ 79	$ 79	Note A and D
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	Development-stage company intending to provide wireless telecommunications services and the wholesale/retail sale of telecom equipment	10,370,000	8,370,000	1,037,000	100.00	9,870,087	305,797	342,769	Note A and D
	E. World (Holdings) Ltd.	British Cayman Island	Investment	41,095	41,095	1,330	19.00	8,518	9,359	1,778	Notes B and C

Notes: A. Subsidiary.
B. Equity method investee of Far EasTone.
C. The equity in net loss recognized in 2003 was based on the net loss of the investee in 2002 because the audited 2003 financial statements of the investee were not timely available.
D. 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.

(Amounts in Thousands of New Taiwan Dollars, Except Share Information)

6. Financial Condition and Impact of the Company and Affiliates

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

7. Financial Forecast and Achievements in 2002 and 2003

7-1 Financial Forecast and Achievements in 2002 and 2003

Unit: NT$ '000

Item	2003 Reviewed Financial Forecast	2003 Audited Financial Report Actual	2003 Audited Financial Report % Achieved	2002 Reviewed Financial Forecast	2002 Audited Financial Report Actual	2002 Audited Financial Report % Achieved	2004 Reviewed Financial Forecast
Operating Revenue	$ 36,755,585	$ 37,067,163	101%	$ 37,500,000	$ 34,478,035	92%	$ 40,670,518
Operating Cost	18,763,164	18,610,455	99%	17,798,121	17,181,346	97%	21,230,864
Gross Profit	17,992,421	18,456,708	103%	19,701,879	17,296,689	88%	19,439,654
Operating Expense	9,761,296	10,006,042	103%	11,613,978	9,380,369	81%	9,561,203
Income from Operations	8,231,125	8,450,666	103%	8,087,901	7,916,320	98%	9,878,451
Non-operating Income	24,347	303,918	1248%	21,126	174,313	825%	2,811,111
Non-operating Expense	930,898	665,481	71%	376,142	416,751	111%	528,080
Income before Income Tax	7,324,574	8,089,103	110%	7,732,885	7,673,882	99%	12,161,482
Net Income	$ 7,283,566	$ 8,188,133	112%	$ 7,100,000	$ 7,808,417	110%	$ 11,799,482

7-2 Major Reasons for Differences of 2002 and 2003 Financial Forecasts

7-2-1. Major reasons for differences of 2002 financial forecasts

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

7-2-2 Major reasons for differences of 2003 financial forecasts

Due to the increase of cellular phone sales, effective control related expenditure and actively collection, the incremental revenue was higher than incremental expense. Thus, the company's income before income tax exceeded NT$764,529 thousand than the forecast and the achievement rate was 110.44%.

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

1. Financial Condition

Financial Condition Review and Analysis

Unit: NTD'000

Item \ Year	2003	2002	Variance Amount	Variance %
Current Assets	$ 10,767,793	$ 8,537,035	$ 2,230,758	26
Long-term Investment	21,641,987	8,223,198	13,418,789	163
Fixed Assets	37,796,898	40,120,073	(2,323,175)	(6)
Other Assets	1,225,601	1,912,536	(686,935)	(36)
Total Assets	71,432,279	58,792,842	12,639,437	21
Current Liabilities	10,624,554	9,273,638	1,350,916	15
Long -term Liabilities	17,557,378	9,345,839	8,211,539	88
Other Liabilities	220,119	2,122,857	(1,902,738)	(90)
Total Liabilities	28,402,051	20,742,334	7,659,717	37
Capital Stocks	26,977,860	23,058,000	3,919,860	17
Capital Surplus	5,973,600	5,996,658	(23,058)	-
Retained Earnings	10,075,716	8,992,752	1,082,964	12
Other Shareholders' Equity Item	3,052	3,098	(46)	(1)
Total Shareholders' Equity	43,030,228	38,050,508	4,979,720	13

Reasons for the increase/reduction and the action plan:

1. The increase in current asset was due to the increases of account receivable and inventory under stable operation and reclassification of deferred income tax assets as current asset.
2. The increase of long-term investments and long-term interest bearing debts were due to the integration of the telecommunication business, operation efficiency and market share expansion. In 2003, the increase of long-term interest bearing debt was due to the issue of domestic unsecured bonds and bank loans which were used to invest in Yuan-Ho Telecommunications Co., Ltd. (YHT) and Yuan-Ze Telecommunications Co., Ltd. (YZT)
3. The decrease in other assets was due to the reclassification of deferred income tax assets as current asset.
4. The decrease in other liabilities was due to launch of deposit refund plans, which reclassified guarantee deposits received from non-current to current liabilities.

2. Operational Performance

2-1 Operational Performance Analysis

Unit: NTD '000

	2003		2002		Variance	(%)
	Subtotal	Total	Subtotal	total		
Operating Revenue		$ 37,067,163		$ 34,478,035	$ 2,589,128	7
Operating Costs and Expenses		28,616,497		26,561,715	2,054,782	8
Income from Operations		8,450,666		7,916,320	534,346	7
Non-Operating Income						
Management service revenue	$ 181,996		$ 20,952		161,044	768
Interest	42,920		16,841		26,079	155
Foreign exchange gains - net	38,469		-		38,469	100
Reversal of allowance for losses on inventories	-		33,039		(33,039)	(100)
Other	40,533		103,481		(62,948)	(61)
		303,918		174,313	129,605	74
Non-Operating Expenses and Losses						
Equity in investees' net losses	344,626		54,034		290,592	538
Interest	316,164		304,193		11,971	4
Other	4,691		58,524		(53,833)	(92)
		665,481		416,751	248,730	60
Income before Income Tax Benefit		8,089,103		7,673,882	415,221	5
Income Tax Benefit		(99,030)		(134,535)	(35,505)	(26)
Net Income		$ 8,188,133		$ 7,808,417	$ 379,716	5

Analysis of the changes increase/decrease ratio:

1. The increase in operating income from 2002 to 2003 was due to an increase in handset revenue and a decrease in cost and expense, which were mainly from effective expense control and aggressive collection policy.
2. The increase in management service revenue was due to an increase of the management service revenue from YZT . YZT has begun to devote great effort in the 3G business in 2003, consequently, the management services revenue increased.
3. The increase in interest revenue was due to higher interests from un-used fund raised from the issuance of ECB and domestic unsecured bonds.
4. The increase in foreign exchange gains was due to the continuous appreciation of NT dollar in 2003.
5. The decrease in reversal of allowance for losses on inventories was due to the losses from inventory price drop resulting from the saturated cellular phone market and fluctuating cellular phone prices.
6. The decrease in non-operating revenue - others was due to the higher revenues from call record checks and increased revenue from converting un-cashed checks.
7. The increase in equity in investees' net losses was due to an investment loss of the Company's wholly owned subsidiary, YZT. YZT has built some base stations but not started the commercial operations.
8. The decrease in non-operating expenses and losses-others was due to higher net losses from the disposals of non-current assets in 2002.
9. The decrease in tax benefit was due to a decrease in investment tax credit from purchase of automated equipment or technology, research and development expenditure and personnel training expenditures.

2-2 Gross Profit Variance Analysis: Not applicable.

3. Cash Flow

3-1 2003 Cash Flow Analysis

Unit: NT$ '000

Cash and cash equivalents in the beginning of 2003 (1)	Total cash flows from operating activities (2)	Total cash outflows (3)	Balance of cash and cash equivalents (1) + (2) - (3)	Remedies for negative balance of cash and cash equivalents	
				Investment Plan	Financial Plan
2,238,342	14,255,950	22,741,920	(6,247,628)	228,131	8,887,653

Cash flow analysis:

1. The decrease in net cash provided by operating activities was due to an decrease in accounts payable.
2. The increase in net cash used in investing activities was due to the investments in YZT and YHT.
3. The increase in net cash provided by financing activities was attributable to the issuance of corporate bonds for financing.

3-2 Plans for remedies in case of negative balance of cash and cash equivalents: Issuing corporate bond or taking bank loans

3-3 2004 Estimated Cash Flow Analysis

Unit: NT$ '000

Cash and cash equivalents in the beginning of 2004 (1)	Total cash flows from operating activities (2)	Total cash outflows (3)	Balance of cash and cash equivalents (1) + (2) - (3)	Remedies for negative balance of cash and cash equivalents	
				Investment Plan	Financial Plan
2,868,156	16,308,579	10,816,000	8,796,866	--	--

Cash flow analysis:

1. Cash flows from Operating Activities:
   As the telecommunications market is getting stable, it is estimated that the cash flows from operating activities shall not vary too much from that of 2003.
2. Cash flows from Investing Activities:
   Higher capital expenditure is expected in 2004 resulting from telecommunications equipment investment, network expansion, business integration with investees, and construction of 3G telecommunications network.
3. Cash flow from Financing Activities:
   To pay out the short-term loan and increase operating fund, it is expected that the Company will have bank loans and corporate bond issuance in 2004.

4. Major Capital Expenditure and Source of Capital

4-1 Major Capital Expenditure and Source of Capital Analysis

Unit: NT$ '000

Plan Item	Actual or Estimated Source of Capital	Actual or Estimated Completion Date	Total Capital Needed	Actual or Estimated Fund Utilization Schedule						
				2002	2003	2004	2005	2006	2007	2008
Network Expansion	Capital Stocks and Bank Loans	2008	44,158,000	5,135,792	5,222,208	8,000,000	8,000,000	8,000,000	5,000,000	4,800,000

4-2 Expected Benefit

Projected Sales and Gross Profit

Unit: NT$'000

Year	*Item*	*Sales*	*Gross Profit*
2004	Network Expansion	37,096,527	18,095,867
2005	Network Expansion	40,075,978	19,236,469
2006	Network Expansion	42,997,945	20,639,014
2007	Network Expansion	46,138,828	22,146,637
2008	Network Expansion	49,509,144	23,764,389

5. Investment Project Analysis and Plans for Improvement

Unit: NT$'000

Explanation / *Item*	*Amount*[1]	*Project*	*Main Reasons for Profit/Loss*	*Plans for Improvement*	*Future Investment Plans*
Yuan-Ze Telecommunications Co., Ltd.	10,370,000	Investment in 3G business	The investee company has not started its commercial operation	Expected to launch commercial operation soon and start to generate revenue shortly	--
KG Telecommunications Co., Ltd. (the "new KGT")	11,698,462	For the purpose of merger with the former KGT	--	--	--

6. Risk Management Analysis

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

6-1-1 Interest Rate Analysis

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates. Interest gains on these swap contacts for 2003 was NT$9,420,000.

In 2003, the Company has entered into interest rate swap contracts to hedge fluctuations on the interest rates of the Company's 2nd and 3rd unsecured domestic bond of NT$1,470,000 thousand and NT$1,200,000 thousand

6-1-2 Exchange Rate Analysis

The Company placed an purchase order for mobile handsets in the amount of ￥1,444,814,000 in 2002. To hedge again exchange rate fluctuations, the Company entered into a Japanese yen forward contract. The contract was due on January 06, 2003 and the realized gain of NT$4,103,000 on this commitment was recognized s a reduction of inventory.

6-1-3 Inflation Analysis

Taiwan's annual inflation rates from 1999 to 2003 were 0.17%, 1.26%, 0.01%, 0.20% and 0.28%, respectively. The Company has not been significantly impacted by inflation in recent years.

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

6-2 Policies for High Risk or High Leveraged Investments, Lending, Endorsement, Derivative Financial Instruments, and Main Reasons for Gains or Losses

6-2-1 *A. Policy for high risk or high leveraged investment and derivatives:* guided by the Company's "Assets Acquisition or Disposition Procedures".

B. Policy for making loans to others: guided by the Company's "Procedure for Making Loans to Others"

C. Policy for making endorsements and guarantees: guided by the Company's "Procedure for Making Endorsements and Guarantees"

6-2-2 Situation of high risk or high leveraged investment: None.

6-2-3 Situation of making loans to others: None.

6-2-4 Situation of making endorsements and guarantees: None.

6-2-5 Purpose of derivative financial instruments held or issued

The Company uses financial derivative instruments for purposes to hedge against interest rate and currency fluctuations, which are categorized under activities of non-trading purposes.

The Company placed a purchase order for mobile handsets in the amount of ￥1,444,814,000 in 2002. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into a Japanese yen forward contract. The contract was due in January 6, 2003 and realized gain of NT$4,103,000 was booked. In addition, the Company entered into interest rate swap contracts to hedge against fluctuation on interest rates. Gains on these swap contracts for 2003 was NT$9,420,000.

6-3 Recent R&D Plans; Progress of Future R&D Plans; Estimated R&D Expenses, Mass Production Schedule, and Key Factors For Success of the Developments

It has been five years since the Company was established and started to push and execute a variety of R&D plans. In the mean time National Telecomm Planning Office (NTPO) was established by the government to start the first stage technology R&D tasks. The Company and NTPO signed a collaboration memorandum of understanding. The R&D plan of 2003 has completed the Company's initial R&D stage and lead the Company into the second stage of R&D planning and promulgation. 2003 is the evolution year of second and third generations mobile telecommunications, and the year's R&D plans served the purpose to provide a smooth transition for the Company's R&D missions. The R&D plan is separated into two major scopes: (1) R&D to fulfill the current needs in the operation of GPRS business including network system evaluations and optimizations, and also potential value-added services; (2) R&D of advanced technologies that are expected to become the major stream of near future network system. Each of the R&D scopes is composed of four research projects, which are expected to complete by the end of February, 2004. Currently all R&D projects are executed according to the schedules and the planned targets are gradually achieved as expected.

The first research scope intends to study and evaluate the strategies of network integration with WLAN based on a core GPRS network for data communications. It is the mainstream in the mobile business operation. It is consisted by four research projects including (1) propagation models and system evaluations for mobile data communication system, (2) antenna applications and optimization of cell planning in mobile communications, (3) evaluation of integration WLAN into GPRS network system, and (4) wireless multimedia transmission and its integration in the video monitoring applications. The first project is based on the Company's experimental network architectures in the data transmission, and studies and evaluates the current GPRS network efficiency and resource distributions. The second project utilizes the Company's current available base stations and RF resources to perform a field study and measurement in order to evaluate the communication quality and optimize the cell planning of base station distributions. The third project studies the potential difficulties of network efficiency that expects to occur in the integration of WLAN and GPRS network in the coming years. The fourth project develops value-added services based on MMS and intends to integrate with video image identifications, which has great potentials in the wireless security systems, campus auto sign-in systems and so on. The outcomes of those studies will assist the Company in the optimization of its current network and development of new value-added services. The related researches expect to be completed by the end of February, 2004, and will start to transfer the developed technologies and achievements.

The second R&D scope also consists of four projects that particularly focus on the studies of advanced technologies for the applications in the next generations of mobile communication networks. They intend to fulfill the needs of FET's operation in the next generation (especially in 3G) of mobile networks including (1) development of key technologies for the applications in the next generation of fiber communication networks, (2) advanced technologies to enhance the information security of mobile communications, (3) studies on the key technologies in the next generation of mobile communications, (4) network management system for the next generation of mobile communications. The first project focuses on the studies in the backbone network, where fibers will become a major stream and a mass data transmission expects to occur in the applications of multimedia. The second project considers the increasing public concern on the security of data transmission, which becomes particularly important when personal as well as financial information and services have become a part of mobile network services. Technologies to assure the security should be developed and evaluated. The third project intends to study and evaluate the technology bottleneck that the Company will face in the implementation of next generation of mobile networks. Solutions and strategies are pursued. The fourth project studies the network management problems that the Company will face in the implementation of next network systems, where integrated system of WLAN, GSM, GPRS and 3G will occur. Its potential problems in network management should be discovered and resolved in advanced in order to assure service qualities. These researches also expect to be completed by the end of February 2004 and assist the Company in the implementation of 3G network. Up to date, all researches are performed as scheduled.

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

6-4-1 Pricing Right and Revenue Ownership of Fixed-to-Mobile Calls

Under regulations promulgated by the Directorate of General Communication (DGT), a mobile business operator has the right to collect airtime charges from customers for calls originating from a fixed-line network and the power to set the level of such charges. Such regulations could change at any time, depending on the progress of fixed-line local loop unbundling, in a manner that would immediately and substantially decrease revenues.

6-4-2 Mobile Number Portability

Taiwan mobile business operators might experience enhanced competition after the government put new regulations that require mobile business operators, from January 1st, 2005, to enable customers to keep their telephone numbers when changing service providers into practice.

6-4-3 Directory Number Usages and Administration Fee

Taiwan government might levy Directory Number Usage and Administration Fee beginning from 2005. This policy will increase all operators' operating cost. The Company currently possesses seven million numbers, Koo's Group Telecommunications owns give million and Yuan-Ze Telecommunications (YZT) has 0.5 million numbers. If the government starts to charge NT$5.1 per number, the Company will increase cost for around NT$35,700,000 (or NT$38,250,000 if including YZT).

6-4-4 Additional 3G Spectrum Auction

Ministry Of Transportations and Communications and DGT intend to auction an additional 2X5MHz spectrum in the 1.9 GHz frequency for 3G use by the middle of 2004. Only the five 3G license bid winners (i.e. YZT, Vibo, TCC, CHT, APBW) are qualified to attend this 3G additional spectrum auction. The reserved price and the detailed frequency allocation will soon be promulgated by the government.

6-5 Technology Development and Impact on the Company

The competition between Taiwan's mobile business operations is fierce. In addition to searching for the most efficient 2G and 3G network infrastructure, the Company also needs to take on the challenging of the ever changing advanced technologies. As Chairman Mr. Douglas Hsu had once mentioned, , "We will do our best to become the first telecommunications operator in Taiwan provide customers with the most comprehensive multimedia service." And the commitment becomes the Company's most important goal and vision.

The following is the reports on the development of advanced telecommunications technologies:

All IP: All IP is gradually becoming a dominating transport technology thanks to recent advances in optics and routing technology and the impact that these have had on price reduction and performance improvement. When combined with other key technologies, such as IP-based virtual private networks (VPN), IP enables a new generation of advanced multi-service networks. The use of a common infrastructure based on a single technology simplifies network implementation and operation and helps reduce costs. The Company already introduce MPLS backbone in existing network, and constantly enhance network performance and prepare smoothly migrate toward All IP domain. And in the future the Company will expect to reduce the operating cost of the network more effectively and offer customer the best network performance.

IMS: IMS based Service represents the migration of voice services from circuit-switched network to IP-based multimedia network, fully capable of interoperating with the Internet and joining the "All-IP" world. The transparency and integration of this service gives customers greater ease of use in multimedia enhanced mobile communications, ultimately resulting in greater user satisfaction and higher service adoption. The service not only allows enterprise customers to integrate mobile networks with other IP-based networks easily but also improves their communications and workflows, translating into more productivity and cost savings. The Company is aggressively involving in IMS development, and position it as future business. By the way of expansion of 3G and multimedia service, in the future the Company will expect to enhance the incomes and market share more effectively, and also provide the best multimedia service for customer.

ViG: Anyone who uses a telephone can easily relate to occasions when they would dearly love to see, and be seen by, the person they are talking to. Not every time, not even most of the time, at first: but in certain circumstances where one wants more intimate and communicative contact, such as with close family and friends; or more efficient communications with contacts and work colleagues where the ability to show as well as tell can greatly enhance effectiveness. The facility to use video telephony on these occasions, when it is important, is widely recognized as a valuable and desirable service that people are happy to pay a reasonable premium for when compared to a simple mobile voice call. At this point Video Telephony will be a truly mass-market service and it will continue to command a significant price premium over simple voice communication. The Company is planned to introduce Video Telephony Service in the coming 3G service to offer customer a high quality communication environment and enhance the incomes and market share at the same time.

HSS: The Home Subscriber Server (HSS), is the master database for GSM and WCDMA users. It provides support for user security, authorization, mobility management, roaming, identification and service provisioning for existing Circuit Switched (CS) domain, for Packet Switched (PS) domain, for WLAN access to WCDMA and for the IP Multimedia subsystem. HSS will simply network architecture, offer central user management, ease operation and maintenance, and further reduce operational cost. The Company will keep an eye on the trend of HSS, and actively participate HSS progress in order to provide customer a friendly user environment for the development of diversified services in the future. To integrate voice and packet service with one network is the target for Telecom and Datacom operator. The Company aware this trend and start to develop the MPLS tech. in IP backbone. It can make the IP network more efficiency, flexibility to fulfill the marketing demand. By implement MPLS, the Company can deliver the better and quicker service to our customer. High data rate access will be a big demand for future to support multi-media new era. People may access anywhere, anytime without any limit - will be a goal for Broadband Wireless Access Network (BWAN). WiMAX is a new technology which can provide a broadband access and limited mobility in Wireless. The Company will watch and choose a right time to implement the WiMAX for our customer to have seamless upgrade and enjoy to surf in the the Company's network.

HSDPA: Compared to 2G systems, one of the most important aspects of 3G mobile systems is enhanced packet-data access. WCDMA Release 99 provides data rates of 384 kbit/s for wide area coverage and up to 2 Mbit/s for hot-spot areas, which is sufficient for most existing packet-data applications. However, as the use of packet data services increases and new services are introduced, greater capacity will be required. WCDMA Release 5 extends the specification with, among other things, a new downlink transport channel that enhances support for interactive, background, and to some extent, streaming services, yielding a considerable increase in capacity compared to Release 99. It also significantly reduces delay and provides peak data rates of up to 14 Mbit/s. This is HSDPA (High-speed downlink packet access). The enhancements of HSDPA can be grouped into two categories: improved application performance and increased system throughput. Initially, high-speed services will be offered in a small part of the network, for example, in areas with heavy traffic, such as city centers, office areas and airports. The Company will pay attention on the state of art on HSDPA and the market requirement on high-speed data service and application. The Company will implement HSDPA at a good time in order to create a integrated service which is diversified and can fulfill different requirement.

i-mode: Telecom operators now turn their business focus from the saturated market of voice communication service to the market of mobile multimedia service and Internet Service Provider (ISP) due to more and more operators start 3G services and availability of mobile multimedia services recently. NTT DoCoMo, the most successful telecom operator on providing mobile multimedia services and ISP in the world, has i-mode service penetrating everyplace in subscribers' daily life and is heading to be as Social Infrastructure. In addition to infrared remote control of intelligent home appliances and 2-D code reader on mobile terminal, built-in contactless IC card technology FeliCa® will be introduced in mid of year 2004. FeliCa services can turn a mobile phone into a wallet, ticket envelope, ID card, and much more. That is, mobile terminals will serve subscribers as junction to the world by taking the mobility merits of mobile terminals, the function of mobile multimedia service and Internet connection, and use of services on mobile terminals in daily life. By defining mobile terminals in such way, telecom operator becomes more important than before to fulfill subscriber needs in controversy 3G services. More importantly, this new definition of mobile terminals is irreplaceable as well as "Churn Rate" will decrease dramatically and therefore minimize the impact of "Mobile Number Portability" (MNP). After with the acquisition of Koo's Group Telecommunications, the Company is in partnership with NTT DoCoMo to provide i-mode service and 3G Network service. According to the new technology trend addressed in previous paragraph as well as existing advantages of combination of the Company and Far East Groups, more and more new services will be provided to expand the number of i-mode subscribers, to build 2.5G and 3G customer foundation, to boost the relationship of i-mode service and business partners, and therefore to make i-mode service being as social infrastructure to penetrate everyplace in subscribers' daily life.

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

7. Others: None.

VII | Corporate Governance

Item	*Execution Status*	*Deviations from "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies" and Its Reasons*
1. Ownership structure and shareholders' equity		
1-1 Handling of shareholder's suggestions or disputes.	Shareholder's suggestions or inquiries are handled by the Company's spokesperson, acting spokesperson, or the contracted stock title transfer agent, Oriental Securities Co. Ltd.	
1-2 Identifying major shareholders and/ or their ultimate controlling parties	The Finance and Administration Division is responsible for collecting the updated information of major shareholders and/or their ultimate controlling parties . This information is disclosed within one month after the annual shareholders' meeting as required by Article 3 of the Regulations Governing Information Reporting by OTC Companies.	
1-3 Risk control mechanism and firewalls established between the Company and its affiliated companies	The Company and its affiliated companies are all independent entities in respect of their financial and business operations. Operating procedures are established for "transactions between companies of the Group, specific companies and related parties". Risk control mechanism and firewall procedures have been properly established.	
2. Structure and duties of the board of directors		
2-1 Status of appointing independent directors	In progress.	Pending specific regulatory requirements prior to proceed further.
2-2 Evaluation of the independence of the Company's appointed CPA	Regularly reviewed.	
3. Structure and duties of supervisors		
3-1 Status of appointing independent supervisors	In progress.	Pending specific regulatory requirements prior to proceed further.
3-2 Communications between supervisors and the Company's employees and shareholders	The Company's employees and shareholders have adequate access to the supervisors for this purpose.	
4. Communication with the stakeholders	Suggestions or disputes by stakeholders are handled by the Company's spokesperson, acting spokesperson, and contracted stock title transfer agent Oriental Securities Co.	

Item	*Execution Status*	*Deviations from "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies" and Its Reasons*
5. Information disclosure		
5-1 The Company website discloses financial, operational and corporate governance related information	The Company's corporate website address is: www.fareastone.com.tw	
5-2 Other disclosure channels (i.e. English web site; designated personnel in charge of company information collection and disclosure; establishment of a spokesperson policy; disclose process of institutional investors meeting; information on company web site.	The Company has established the positions of spokesperson and acting spokesperson. The Investor Relations and Public Relations teams also disclose related information via the corporate website and/ or M.O.P.S. (Market Observation Post System) of Taiwan Stock Exchange via http://mops.tse.com.tw from time to time.	
6. Establishment of an audit committee	Not established yet	The audit committee will be established following appointment of independent directors

7. If the company has set up the principles based on "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies", please illustrate the implementation progress and any differences: None.

8. Other material information that helps to explain the implementation of corporate governance:

8-1 Training for board of directors and supervisors: Information relating to finance, accounting and regulatory is collected regularly for board of directors and supervisors. The policy for "Implementation Principles of Training for board of directors and supervisors" is also under preparation.

8-2 Attendance of board of directors and supervisors in board meetings: complied with the procedure of Section 4 of "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies".

8-3 Implementation of risk management policy and risk evaluation standard: Not applicable.

8-4 Implementation of consumer or customer protection policy: Not applicable.

8-5 Company's directors abstaining from voting on proposals which involved conflict of interests: The directors have abstained from voting on proposals which involve conflict of interests.

8-6 Directors and supervisors liability insurance: The content and necessity of such insurance policies are under review, and following which will be presented to the board for approval.

8-7 Emphasis on corporate social responsibilities: The Company has established related charity foundations which engage in charity activities, and participates in disaster relief activities.

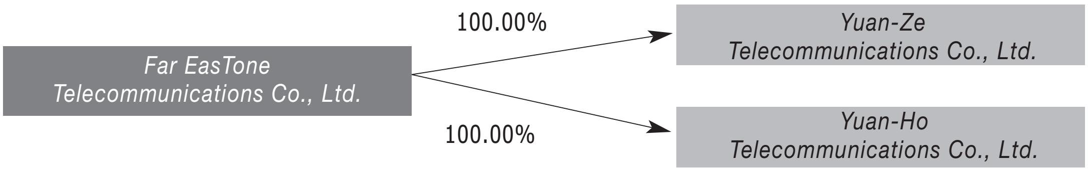
VIII | Special Notes

1. Affiliates Information
2. Internal Control System Execution Status
3. Dissenting Comments
4. Private Placement Securities
5. The Company's Shares Held or Disposed by Subsidiaries
6. Major Resolutions of Shareholders' Meetings and Board Meetings
7. Violation of Internal Control Policies by Employees
8. Other Supplementary Information
9. In Recent Years until the Annual Report being Published, any Material Event Impacted on Shareholders' Equity or Share Price

1. Affiliates Information

1-1 Consolidated Business Report of Affiliates

(1) Organizational chart of the affiliates



(2) General information of the Company and its subordinate

Unit: NT$'000

Company	Date of Incorporation	Place of Registration	Paid-in Capital	Major Business Activities
Far EasTone Telecommunications Co., Ltd.	April 11, 1997	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei	$ 26,977,860	Wireless telecommunications service, leased-circuit service, ISR and internet services
Yuan-Ze Telecommunications Co., Ltd.	December 5, 2001	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei	10,370,000	Third generation wireless telecommunications service
Yuan-Ho Telecommunications Co., Ltd.	September 25, 2003	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei	5,264,308	Wireless telecommunications services and sale of cellular phone units

(3) Companies presumed to have a control or subordinate relationship with the Company and its subordinate companies under Article 369-3 of the Company Law: None.

(4) Businesses covered by the affiliates as a whole:
The Company and its subordinate companies provide wireless telecommunications service, leased-circuit service, International Simple Resale services and internet services.

(5) Roster of directors, supervisors, and general managers of the Company and its subordinate companies

Unit: Number of Shares; %

Company	Title	Name of Representative	Shareholding	
			Share	%
Far EasTone Telecommunications Co., Ltd	Chairman	Yuang Ding Investment Co., Ltd Douglas Hsu	1,350,179,863	50.05
	Vice chairman	Yuang Ding Investment Co., Ltd. Laurence Yang	1,350,179,863	50.05
	Director	Yuang Ding Investment Co., Ltd. Champion Lee	1,350,179,863	50.05
	Director	Yue-Li Investment Corporation Peter Hsu	2,076	-
	Director	Yue Ding Industry Co., Ltd. Jan Nilsson	13,832	-
	Director	Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation Hsing-Yi Chen	1,908,433	0.07
	Director	Yuan Ding Co. Eugene Hsu	4,684,680	0.17

Company	Title	Name of Representative	Shareholding	
			Share	%
	Supervisor	Far Eastern International Leasing Co., Ltd. Eli Hong	29,987,021	1.11
	Supervisor	Asia Investment Corporation Charles Wang	963,495	0.04
	General manager	Jan Nilsson	136,000	0.01
Yuan-Ze Telecommunications Co., Ltd.	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	1,037,000,000	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Laurence Yang	1,037,000,000	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee	1,037,000,000	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Jan Nilsson	1,037,000,000	100.00
	Supervisor	Far EasTone Telecommunications Co., Ltd. Peter Hsu	1,037,000,000	100.00
Yuan-Ho Telecommunications Co., Ltd.	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	526,430,771	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Laurence Yang	526,430,771	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee	526,430,771	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Leslie Koo	526,430,771	100.00
	Supervisor	Far EasTone Telecommunications Co., Ltd. Yvonne Li	526,430,771	100.00

(6) The overview of operation of the Company and its subordinate companies

Unit: NT$'000, Except EPS

Company	Capital stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Loss)	EPS (NT$)
Far EasTone Telecommunications Co., Ltd.	$ 26,977,860	$ 71,432,279	$ 28,402,051	$ 43,030,228	$ 37,067,163	$ 8,450,666	$ 8,188,133	$ 3.04
Yuan-Ze Telecommunications Co., Ltd.	10,370,000	11,991,447	2,123,184	9,868,263	-	(305,701)	(305,797)	(0.29)
Yuan-Ho Telecommunications Co., Ltd.	5,264,308	11,777,446	72,434	11,705,012	-	6,550	6,550	-

1-2 Declaration for the Consolidated Financial Statements of Affiliated Enterprises of the Company

February 3, 2004

We hereby declare that the consolidated financial statements of affiliated enterprises as of and for the year ended 2003 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.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By

DOUGLAS HSU
Chairman

1-3 Affiliation Report

(1) Independent Auditor's Report

To: Far EasTone Telecommunications Co., Ltd.

According to the declaration of Far EasTone Telecommunications Co., Ltd. (the Company), the Affiliation Report of 2003 dated February 3, 2004 had been prepared according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates 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, 2003 ("the Notes"). The declaration is shown on the next page.

We have examined the Affiliation Report of the Company against the Criteria and the Notes. As stated in the above declaration, there was no significant inconsistency found between your 2003 Affiliation Report and the Criteria and the Notes for the year ended December 31, 2003.

Deloitte & Touche

(2) Declaration for the Affiliation Report of the Company

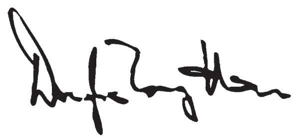
February 3, 2004

We hereby declare that the Affiliation Report of 2003 had been prepared according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates 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, 2003.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By



DOUGLAS HSU
Chairman

(3) The relationships between the subordinate company and the parent company:

THE RELATIONSHIPS BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY
DECEMBER 31, 2003

(Unit: Share, %)

Parent Company	*For the Control Reason*	*Parent Company's Shareholding Information*			*Parent Company Appointed Directors, Supervisors or Managerial Officer*	
		Shareholding	*%*	*Share Pledged*	*Title*	*Name*
Yuang Ding Investment Co., Ltd.	Holds over 50% of Far EasTone's outstanding voting shares	1,350,179,863	50.05	266,600,000	Chairman Vice chairman Director	Douglas Hsu Laurence Yang Champion Lee
Far Eastern Textile Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	-	-	-	-	-
Yuan Tong Investment Co., Ltd.	Over 50% outstanding voting shares of Far Eastern and Yuan Tong are held by the same ultimate stockholders	208,754,491	7.74	-	-	-
An Ho Garment Co., Ltd.	Over 50% outstanding voting shares of Far Eastern and An Ho are held by the same ultimate stockholders	146,957,000	5.45	-	-	-
Kai Yuan International Investment Co., Ltd.	Over 50% outstanding voting shares of Far Eastern and Kai Yuan are held by the same ultimate stockholders	145,631,003	5.40	-		- -

(4) Purchase (sale) of goods between the subordinate company and the parent company: None.

(5) Property transactions between the subordinate company and the parent company: None.

(6) Financing between the subordinate company and the parent company: None.

(7) Asset leasing between the subordinate company and the parent company:

ASSET LEASING BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY FOR THE YEAR ENDED DECEMBER 31, 2003

Unit: NT$'000

Transaction	Target Asset		Period	Type	Rental Terms	Payment Method	Comparison with Ordinary Leasing Price Level	Rental for This Period	Other Special Stipulations
	Name	Location Lease							
Far Eastern Textile Co., Ltd.									
Leasing	BTS1355	No. 252, Chung-Shan Rd., Sec. 1, Kuan-Yi Hsiang, Tao-Yuan County	06.15.1997-06.14.2012	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	$ 314	None
Leasing	BTS1522	No. 180, Tu-Ti-Kung-Pu, Wen-Shan Li, Hsin-Pu Chen, Hsin-Chu County	07.15.1997-07.14.2012	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	234	None
Leasing	BTS1200	No. 1 and 3, Alley 81, Yuan-Tung Rd., Chung-Li, Tao-Yuan County	11.15.1997-11.14.2012	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	399	None
Leasing	BTS1637	No. 216, Sec Ming-Hsin, Mei-Kung Rd., Hua-Lien County	11.15.1998-11.14.2013	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	195	None
Leasing	BTS5341	No. 3, King-Chen 6th Rd., Kuan-Ying, Industrial Area, Kuan-Yin Hsiang, Tao-Yuan County	11.15.1999-11.14.2014	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	192	None
Leasing	Warehouse for tower	No. 20, Mei-Kung Rd., Hua-Lien County	04.23.2001-01.31.2003	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	70	None
Leasing	Pan-Chiao office	No. 334, Hsi-Chuan Rd., Sec. 1, Pan-Chiao, Taipei County	05.01.2002-04.30.2007	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	49,089	None
Leasing	Wu-Ku MSC	3rd Fl., No. 99, Cheng-Tai Rd., Sec. 1, Wu-Ku Hsiang, Taipei County	08.01.1998-07.31.2003	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	1,388	None
Leasing	Nei-Li MSC	No. 80, Yuan-Tung Rd., Nei-Li, Tao-Yuan Country	05.01.2002-04.30.2007	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	2,382	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 monthly or annually	Same	188	None
Leasing	BTS1722	No. 100, Yu-Shih Tuan, Chia-Hsi Hsiang, Yi-Lan County	02.15.1998-02.14.2013	Operating	Same as normal leasing	Bank Remittance monthly or annually	Same	444	None
								$ 54,895	

(8) Endorsements and guarantees between the subordinate company and the parent company: None.

2. Internal Control System Execution Status

Far EasTone Telecommunications Co., Ltd.
The Declaration of Internal Control System

Date: February 19, 2004

Based on the self-examination results of the internal control system for January 1, 2003 to December 31, 2003, Far EasTone Telecommunications Co., Ltd. (the Company) therefore declares the following:

I. The Company's board of directors and management understand their responsibilities of developing, implementing and maintaining the Company internal control system and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following events:
   1. The efficiency of business operation (including earnings, operating performance, and safeguard of company assets)
   2. The reliability of the financial reports
   3. The compliance of the relevant laws/regulations

II. Due to the innate limitation in designing a faultless internal control system, this system can only assure the reasonableness of the above three events have been fairly achieved. In addition, the internal control system should be amended at anytime to cope with business environmental or situation changes. Since the Company internal control system has included self-examination capability, the Company will make immediate corrections when errors are detected.

III. The evaluation of effectiveness of the internal control system design and implementation is made in accordance with "Guidelines for the Establishment of Internal Control Systems by Public Companies" (the Guidelines) set forth by the ROC Security and Future Commission (SFC). The Guidelines are made to exam the following areas during the internal control process: (1) Control environment, (2) Risk Management, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. Details of each exam area can be found in the Guidelines.

IV. The Company has examined the effectiveness of each respected area in the internal control system based on the governing rules set forth by SFC.

V. The exam result indicated that the Company internal control system (including subsidiary governance) has effectively assured the following events have been reasonably achieved during the assessing period:
   1. The degree that effectiveness and efficiency of business operation achieved
   2. The reliability of the financial reports
   3. The compliance of the relevant laws/regulations

VI. 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.

VII. The board of directors has approved the Declaration of Internal Control System in the board meeting held on February 19, 2004.

Far EasTone Telecommunications Co., Ltd.

Douglas Hsu, Chairman *Jan Nilsson, President*

3. Dissenting Comments

Major contents of record or written documents made by any director or supervisor indicating his/ her dissent to important resolutions passed by the Board of Directors during the year of 2003

1. The 27th Meeting of the 2nd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd. (Date: 2003.04.02)

Discussion Proposal (II): Approval of proposal for sponsoring the issue of Global Depositary Receipts ("GDRs") 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: Considering the poor capital market nowadays, six attending Directors voted for deferring this Proposal until the financial consulting institutions provide their objective and professional opinions stating that the capital market is suitable for raising capital by issuing GDRs. Two Directors voted for the approval of this Proposal.

2. The 4th Meeting of the 3rd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd. (Date: 2003.07.17)

Discussion Proposal (I): For matters relating to the combination of telecom business with another local telecom operator.

Resolved: Seven attending Directors approved without objection. Two attending Directors (Jordan Roderick and Robert Lewis) abstained in the vote on this proposal.

3. The 4th Meeting of the 3rd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd. (Date: 2003.07.17)

Ratification Proposal (II): Review and approve the incorporation and establishment of a subsidiary.

Resolved: Seven attending Directors approved without objection. Two Directors (Robert Lewis and Jordan Roderick) voted against this proposal because they are not given enough time to review the proposal and consult their counsel.

4. The 6th Meeting of the 3rd Term of Board of Directors of Far EasTone Telecommunications Co., Ltd. (Date: 2003.10.14)

Discussion Proposal (I): To discuss and approve the documents to be publicly announced and reported by the Company in accordance with Article 14 of the "Regulations Governing Tender Offer for Purchase of the Securities of a Public Company", in response to the tender offer filed by Yuan Tong Investment Corporation, An-Ho Garment Corp., Bai-Yang Investment Co., and Kai Yuan International Investment Corp. for the common shares of the Company

Resolved: Seven attending Directors approve without objection the following recommendation for the shareholders of the Company: "The price per share proposed by Yuan Tong Investment Corporation, An-Ho Garment Corp., Bai-Yang Investment Co., and Kai Yuan International Investment Corp. is NTD

18.400308716. This price is 17.84% lower than the closing price of the 30 trading day average, which is NT$ 22.39667 per share; and 17.80% lower than that of the 60 trading day average, which is NT$22.385. The shareholders should decide whether to tender their shares after carefully reviewing the tender offer announcement and the prospectus." Directors Mr. Jordan Roderick and Mr. Robert Lewis abstained from voting on this proposal.

4. Private Placement Securities: None.

5. The Company's Shares Held or Disposed by Subsidiaries: None.

6. Major Resolutions of Shareholders' Meetings and Board Meetings

Date	*Resolutions of Shareholders' Meetings*
2003.05.23	*Resolutions in the 2003 Annual Shareholders' Meeting:* *Matters to be reported* ■ Business report of 2002 ■ Financial report of 2002 ■ Review of the 2002 closing report by Supervisors ■ Update on the Issuance of corporate bond in 2003 *Matters to be approved* ■ Approval of 2002 closing report ■ Approval of the proposal regarding 2002 earnings allocation: NT$3.0 per outstanding share, including cash dividend NT$1.3 and stock dividend NT$1.7 (NT$1.69 from retained earnings and NT$0.01 from capital surplus) *Matters to be discussed* ■ Approval of proposal for capitalization of retained earnings and capital surplus: allocate a total of NT$3,919,860,000 (NT$3,896,802,000 from the retained earnings of 2002 and NT$23,058,000 from capital surplus) for the issuance of 391,986,000 new shares at face value NT$10 and distribute to shareholders according to their shareholding ratio. NT$1.7 per outstanding share, i.e., 170 shares for each thousand shares. ■ Approval of the amendment to the Company's Articles of Incorporation ■ Approval of the amendment to the articles of "Procedure for Making Endorsements and Guarantees" ■ Approval of the amendment to "Procedure for Making Loans to Others" ■ Approval of the amendment to the articles of "Assets Acquisition or Disposition Procedures".
2003.11.25	*Resolutions in the 2003 1st Special Shareholders' Meeting:* *Matters to be discussed* ■ Approve the execution of the amendment to the Master Agreement with KG Telecommunications Co., Ltd. and Yuan Ho Telecommunications Co., Ltd. (YHT). It is proposed to amend paragraph 6, Article 2 of the Master Agreement as: "As of the Merger Date, (a) the succeeded company shall be named as 'Yuan Ho Telecommunications Co., Ltd. or other name approved by the Board of Directors of Yuan Ho...", and paragraph 4, Article 1 of the attachment of the Master Agreement and the Merger Agreement shall also be revised accordingly. The rest remains unchanged. ■ Approval of the amendment to the articles of "Assets Acquisition or Disposition Procedures".

Date	*Resolutions of Shareholders' Meetings*
2004.02.18	*Resolutions in the 2004 1st Special Shareholders' Meeting:* *Matters to be discussed* ■ Approve the execution of the "Share Exchange Agreement" with YHT (YHT will rename to KG Telecommunications Co., Ltd. after the merger between YHT and the old KGT on Jan. 1 2004). ■ Approval of the amendment to the Company's Articles of Incorporation

Date	*Major Resolutions of Board Meetings*
2003.01.07	■ Announced on behalf of subsidiary Yuan-Ze Telecom the equipment purchase agreement with Ericsson
2003.01.08	■ Announced the change of representative from institutional shareholder China Development Industrial Bank
2003.01.28	■ Pricing of the Company's first issuance of European Convertible Bond completed on Jan. 27, 2003
2003.02.16	■ The amount of the Company's 1st issuance of European Convertible Bond increased from US$100,000,000 to US$115,000,000
2003.02.26	■ Announced the call for 2003 Annual Shareholders' Meeting ■ Approved the proposal regarding the issuance of the 2nd domestic secured bond of NT$1,470,000,000 ■ Approved the proposal regarding procuring the 1st-8th floor, Neihu headquarter building which was currently leased by the Company ■ Approved to extend the GDRs issuance for 3 months
2003.03.20	■ The Directors of the Company (China Development Industrial Bank) resigned its position as a Directors in the Company
2003.04.02	■ Announced its dividend plan for 2002 ■ Cash dividend: NT$1.3 per outstanding share ■ Stock dividend: NT 1.7 per outstanding share (NT$1.69 from retained earnings and NT$0.1 from capital surplus)
2003.04.02	■ The Board approved the proposal regarding procuring the 1st-8th floor, Neihu headquarter building which was currently leased by the Company. (It had been announced on Feb. 26, 2003 and this one was to provide that total transaction amount included business tax)
2003.06.18	■ Fixed the record dates of the ex-cash and ex-stock dividend of FY2002 as July 25, 2003, and to make adjustment to the Conversion Price of the European Convertible Bond from NT$35.955 to NT$30.73 starting from the ex-stock dividend date. ■ Approved the formation of consortium with TECO Electric & Machinery Co., Ltd.; SYSTEX Corporation and MITAC Inc. to bid for the Electronic Toll Collection System
2003.07.17	■ Approved 2003 1st half Audited Financial Report
2003.10.07	■ Approved the execution of the Merger Agreement with KG Telecommunications Co., Ltd. and Yuan Ho Telecommunications Co., Ltd. ■ Approved the increase of investment in Yuan Ho Telecommunications Co., Ltd. ■ Approved the convention of a special shareholders' meeting and the date and agenda thereof ■ Approved the issuance of domestic 3rd unsecured corporate bond not exceed NT$ 3.5 billion
2003.10.13	■ Approved the documents to be publicly announced and reported by the Company in accordance with Article 14 of the "Regulations Governing Tender Offer for Purchase of the Securities of a Public Company", in response to the tender offer filed by Yuan Tong Investment Corporation, An-Ho Garment Corp., Bai-Yang Investment Co., and Kai Yuan International Investment Corp. for the common shares of the Company

Date	Resolutions of Board Meetings
2003.11.14	■ The Directors of the Company (two seats from Taiwan Wireless Investments, Inc.) and Supervisor (one seat from CHD Investments holdings, Inc.) resigned its position as Directors and Supervisor in the Company ■ Approved the change of the name of Company's subsidiary Yuan Ho Telecommunications Co., Ltd to KGT Telecommunications Co., Ltd.
2003.12.22	■ Reported the closing date of the merger between KG Telecommunications Co., Ltd. and the Company's subsidiary, Yuan-Ho Telecommunications Co., Ltd. (YHT) and the record date of the capital increase for such merger ■ Approved the date and agenda of the 1st special Shareholders' Meeting of 2004 ■ Approved the execution of the "Share Exchange Agreement" with YHT (YHT will rename to KG Telecommunications Co., Ltd. after the merger between YHT and old KGT) ■ Appointed Leslie Koo as one of the representatives of Directors in Yuan-Ho Telecommunications Co., Ltd. on behalf of the Company ■ Approve the execution of the Merger Agreement with Yuan-Ze Telecommunications Co., Ltd. ■ Approved the proposal for distribution of Directors & Supervisors' compensation for the year 2002. ■ To acquire Yuan-Ze Telecommunications Co., Ltd. long-term equity.
2004.02.19	■ Determine the numbers of shares to be issued for share exchange between the Company and KG Telecom ■ Reviewed and approved the financial report of year 2003
2004.04.12	■ Determined the share record date and other related issues between the Company and KG Telecommunications Co., Ltd. ■ Approved the record date of the capital increase for Euro-Convertible Bond ("ECB") ■ Approved the proposal for sponsoring the issuance of Global Depositary Receipts ("GDRs") ■ Approved the Company's financial forecast of year 2004 ■ Approved of proposal for 2003 retained earnings distribution ■ Approved the proposal for capitalization of retained earnings and capitalization of surplus

7. Violation of Internal Control Policies by Employees: None.

8. Other Supplementary Information: None.

9. In Recent Years until the Annual Report being Published, any Material Event Impacted on Shareholders' Equity or Share Price: None.